

Women in leadership

Engaging Australian business



Leadership diversity: a strategy – not an issue

Despite an undeniable body of evidence that companies with higher percentages of women in their leadership perform better financially, the upper echelons of corporate Australia remain a largely male domain. Frustrated that business will not put its own house in order, the ASX Corporate Governance Council has recently introduced new recommendations for Australian listed entities to set measurable objectives for, and report on, gender diversity. This report examines the strategic advantages of an enterprise-wide diversity agenda, the reasons behind Australia's failure to promote female leaders and the changes business must make – not just to comply with the new recommendations, but to leverage female talent to create a competitive advantage.

Why do you need women on your leadership team?

The ASX Corporate Governance Council's new recommendations are not driven by political correctness – but by hard economic and demographic facts. Gender diversity is proven to improve business results. The Council believes lifting Australia's performance in this area will boost our national economic competitiveness.

Improved financial performance

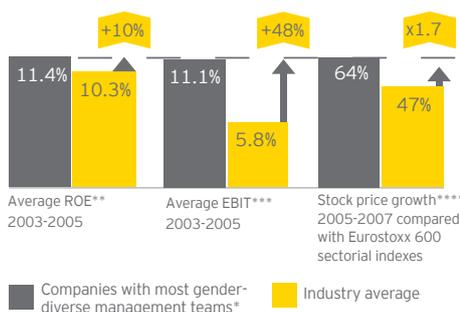
A 2007 Catalyst report¹, found that, on average, Fortune 500 companies with more women on their boards turned in better financial performances than those with fewer female directors. And three's the minimum number. At companies with three or more women board directors, return on equity was 16.7% compared to the average of 11.5%; return on sales was 16.8%, compared to the average of 11.5%; and return on invested capital was 10.9% compared to an average of 6.2%. The correlation between gender diversity on boards and corporate performance also held up across

industries, from healthcare to finance to information technology.

Similarly, a 2007 McKinsey study² showed that companies with three or more women in senior management functions performed better than companies with no women at the top. The companies with gender diversity outperformed their sector in terms of return on equity, operating result and stock price growth (see Figure 1). The report concluded: "These statistically significant studies show that companies with a higher proportion of women on their management committees are also the companies that have the best performance."

Figure 1: Companies with a higher proportion of women in their top management perform better financially

Economic performance of the companies with the most gender-diverse management teams compared with their industry average (European analysis*)



- * 89 companies, identified with the scoring system developed by Amazone Euro Fund
- ** 87 companies, data not available for two companies
- *** 73 companies, financial sector not included
- **** Of the 89 most gender diverse companies, 44 have a market capitalisation greater than 2 billion euros.

Source: "Women Matter", McKinsey & Company 2007

1 "The Bottom Line: Corporate Performance and Women's Representation on Boards", Catalyst, 2007

2 "Women Matter", McKinsey & Company, 2007



High performing teams

Divergent views promote creativity and innovation, as well as encouraging greater diligence in decision-making and risk management. Academic research³ has established that diverse groups outperform homogenous groups in the business environment. According to economist, Professor Scott Page, diversity needs to be considered in the same way that you'd think of any other strategic variable. "It's not about morality or fairness or doing the right thing. It's about honing a competitive weapon. Diversity is strategy," says Page.

Increased capability

According to executive recruitment firms, unlike men, women are less likely to express interest in leadership or executive roles unless they can see their ability to demonstrate every aspect of the job. But, as skills shortages become more pronounced, these 'passive' candidates will become increasingly important in the sourcing process. You can't afford to exclude women from your talent pool – at a leadership, or any other level. It's too risky to rely on a narrow talent base.

An influencer of women's buying power

Women influence or make 80% of purchasing decisions⁴. Now it is recommended that ASX companies disclose their gender diversity, business have an opportunity to tap into this important buying group. Many businesses, who already recognise women's buying power in their branding, relationship management and products and services will see the value of involving women in the operations of their business and the implementation of their business plan.

³ "Diversity and Optimality", Lu Hong and Scott E. Page, Loyola University (Chicago) and University of Michigan (Ann Arbor), 2002.

⁴ "CEO Kit", Chief Executive Women Australia, 2010

Introducing new compliance recommendations

From 1 January 2011, it is advised through the ASX Corporate Governance Principles and Recommendations that Australian listed entities will comply with recommendations in the area of diversity and disclose certain aspects of their diversity initiatives.

Diversity policy

On an "if not, why not?" basis, ASX listed entities must adopt and disclose a diversity policy. Whilst it is acknowledged that diversity includes gender, age, ethnicity and cultural background, the policy includes measurable objectives for achieving gender diversity.

The guidance suggests the diversity policy should:

- ▶ Articulate the corporate benefits arising from employee and board diversity
- ▶ Identify ways to promote a corporate culture which embraces diversity and recognises that employees at all levels of the company may have domestic responsibilities
- ▶ Identify factors that should be taken into account in selection processes and whether professional intermediaries should be used to identify candidates
- ▶ Identify programs to develop a broader pool of skilled and experienced board candidates

Action required

Although specifically aimed at publicly listed entities, every organisation would benefit from adapting the ASX guidelines for gender diversity, through the development of and adherence to a meaningful, measurable diversity policy.

New gender disclosure requirements

Annual reports must disclose, on an "if not, why not?" basis, the:

- ▶ Extent to which the board's gender objectives have been achieved
- ▶ Proportion of women employed throughout the whole organisation, in senior executive positions and serving on the board

New responsibilities for your board nominations committee

Board nominations committee should:

- ▶ Formulate strategies on board diversity in general, including gender diversity
- ▶ Regularly review, and report to the board about, the proportion of women at all levels in the company
- ▶ Include considerations of diversity in board succession planning

These amendments do not currently require ASX listed companies to meet mandatory quotas for the number of women at various levels within the company, as has been proposed in many quarters. However, Elizabeth Broderick, the Commonwealth Sex Discrimination Commissioner, said that if the above recommendations do not have the desired effect of increasing female participation on boards, then the introduction of mandatory quotas should be reconsidered.⁵

⁵ "Mandatory quotas may be needed on boards", Australian Financial Review, page 63, 8 April 2010.

Assessing Australia's diversity performance

For many years, conventional wisdom said that women didn't make it into corporate leadership because they were underqualified. Indeed, from the late 1940s until the mid 1960s, female graduate enrolments comprised less than a quarter of the total. However in 1985, over 50% of Australian graduates were women⁶. With these women now in their 40s, we would expect to see them taking their place among the leadership of corporate Australia. Instead, the executive ranks of the nation's major companies contain less than 15% of women.

This is not because women are dropping out of the workforce. Last year, female workforce participation had grown to 58.7%⁷. Instead, the big beneficiary of this 'glass ceiling' has been the small end of town, where over half a million women now operate small businesses⁸. We might assume that at least some of these female business owners could have made the cut in the 1,700 executive positions available in ASX 200 companies – had they been given the opportunity or believed attaining such a position was realistic.

ASX 200 companies' scorecard 2009

Female board members	8%
Female CEOs	2%
Female executive directors	11%

Gender pay gap 17% and growing

Despite Australia legislating that women should receive "equal pay for work of equal value" in 1969, over 40 years later, the gap between men and women's pay is currently at 17%⁹, up from 15% in 2005. This is even more apparent at the executive level, with female CEOs earning two thirds the median wage of male CEOs and female chief financial officers and chief operating officers earn just half the median wage of their male equivalent. According to the National Centre of Social and Economic modelling, this wage gap deters women from joining the workforce, to the detriment of \$93 billion or 8.5% of GDP each year.

Uncompetitive global position

Perhaps of even more concern, Australia is falling behind compared to other countries. According to the 2009 World Economic Forum Gender Gap Index, while Australia rates 19th in female economic participation, we rank an astounding 60th in wage equality for similar work performed by both men and women.

Country and companies measured	% female board members	% Companies with at least 1 female board member	Executive managers who are female
Australian ASX 200 (2008)	8.3%	49.0%	10.7%
United States Fortune 500 (2007)	14.3%	88.2%	15.4%
Canadian fp500 (2007)	13.0%	56.8%	15.1%
United Kingdom ftse100 (2007)	11.0%	76.0%	12.2%
South Africa jse	14.3%	62.4%	25.3%

6 Ian Dobson, "Women, disadvantage and access to higher education", *People and Place*, Volume 4, Issue 2, 1996.

7 "Current status of women in Australian workplaces", *Department of Families, Housing, Community Services and Indigenous Affairs website*, www.fahcsia.gov.au/sa/women/pubs/general_equal_opp_review/pages/p2.aspx, accessed June 2010.

8 "Characteristics of small business", *Australian Bureau of Statistics*, 2008.

9 "The impact of a sustained gender wage gap on the Australian economy", *National Centre of Social and Economic Modelling*, 2010.

Why aren't there more women in Australia's boardrooms?

Corporate Australia as a whole may have good intentions to attract and retain female directors, however the failure to improve female representation on individual boards has causes ranging from poor talent pool management through to actual discrimination. Many well intentioned organisations with mature diversity policies are still seeing their female executive metrics going backwards. Typically, the reason for this is at the intersection of some or all of the following issues.

Unearned advantages of the majority group

For decades, researchers have tracked a phenomenon called "the majority advantage". This is the idea that people in the majority benefit from a number of unearned privileges – the "legitimacy and power that such a social status automatically bestows"¹⁰.

This perpetuates a "process of privilege", where people in the majority assume that their personal qualities merit their superior status, and that those individuals who are different must, by definition, be inept, incompetent or incapable.

According to diversity specialist, Dr JoAnn Moody, this presumption of competence boosts individual success¹¹. She also believes that people in the majority benefit from "natural" mentoring, inside information and valuable contacts, which speed along professional achievement. In addition, as the majority usually control recruitment and promotion decisions, they follow the human tendency to recruit and promote people "like us". This ensures the minority remains just that.

Mateship in the culture of Australian business conduct

The AFL's first female Commissioner and former IAG executive, Sam Mostyn, has experienced Australia's business leadership culture across the private, public and non-government sectors. She says the concept of mateship has a very different outcome between the genders, leading to men furthering their mates' careers.

"When men define a relationship as mateship, women tend to define as friendship. Mateship is like a contract to care for, look after and, in the business environment, recruit and promote those like you. Women's concept of friendship is more of providing emotional support and not so involved in outward demonstrations of support."

She believes this plays out in senior appointments to the extent that, unless women are on interview panels, men will tend to choose the male candidate. "We need to ensure that not only are there women candidates on short lists, but women are interviewing and being part of the decision process."

Biased recruitment practices

According to research conducted in 2009, men with friends in high places get preferential treatment when it comes to board appointments in Australia¹². The study revealed that women say the board recruitment process is largely inequitable, as it lacks transparency, fails to articulate clearly defined and realistic criteria and is advertised to a selective group.

Sam Mostyn agrees: "At board level, recruitment agencies will tend to ring a select group who are willing to recommend usually those they are already working with, going to dinner with, socially interacting with etc. There is currently little incentive for those agencies to look wider, and potential women candidates for roles are just not being put forward. This structural imbalance creates further imbalance. There needs to be a circuit breaker."

¹⁰ Peggy McIntosh, "Unpacking the Invisible Knapsack of Privilege", *working paper 189*, 1988.

¹¹ Dr. JoAnn Moody, "Faculty Diversity, Problems and Solutions", 2004.

¹² "Women Getting Into Boards", *Australian Centre for Leadership for Women*, 2009.



Limited availability of quality childcare options and flexible workforce practices

The 2010 Annual Child Care and Workforce Participation survey¹³ reveals Australian parents feeling increasing pressure in terms of affordability of child care and the financial viability of returning to the workforce. They are also stressed due to the difficulty in finding appropriate care and the lack of support by employers; and disillusioned over statutory paid maternity leave.

All this translates to the fact that, during peak childbearing years, Australia's female workforce participation reduces by a greater amount than in other leading industrialised countries. The average age of new mothers has continued to climb toward the early to mid thirties, which corresponds to the time when individuals are building their careers. When women try to return to the workforce, inflexible workforce practices often prevent them from resuming full time or senior positions.

Once back in paid work, on average, it is women who struggle most to balance their personal and professional roles. The Canadian Vanier Institute found "it is women who are more likely to experience the 'time crunch' and to experience significantly higher levels of stress. Obviously, lone parents are even more likely to find the tensions between their jobs and their family responsibilities to be stressful because they have to do it all on their own."¹⁴

13 "5th Annual Child Care and Workforce Participation survey", Careforkids.com.au, 2010

14 "Working for Love or and Money", Vanier Institute, 2005.



What can industry and government do?

Industry groups have already responded to mounting evidence of the benefits of gender diversity in organisations, including recent analysis from Goldman Sachs JBWere that argued closing the gap between male and female employment rates would boost Australia's GDP by 11%.

Both the Business Council of Australia and the Australian Institute of Company Directors have launched mentoring programs to improve women's participation onto company boards.

In addition, the government has opportunities to:

- ▶ **Continue funding and support for the work of the Discrimination Commissioner and the Equal Opportunity for Women in the Workplace Agency (EOWA)**

Until EOWA has sufficient teeth to take noncompliant companies to task, Australian businesses will continue to flout equal opportunities legislation. Additional funding is also required to sponsor debate on whether Australia is ready for action, such as quotas as a way of addressing women in leadership.

- ▶ **Introduce its planned Paid Parental Leave Scheme**

The details of how the scheme will work, when it comes into effect on 1 January 2011, are still scant and yet to be tested. It is important to factor in the costs of education around the scheme, administration and reporting to ensure this long awaited incentive becomes effective and available to eligible working parents.

- ▶ **Fund an inquiry into the child care system in Australia**

Good quality, financially viable childcare is crucial not only to the development of future generations, but also to the level of engagement in the workforce of the parent/s. We need solutions that cover:

- ▶ Childcare funding
- ▶ Appropriate access to childcare options
- ▶ Appropriate operating regulations at childcare facilities
- ▶ Tax deductibility of all formal childcare arrangements
- ▶ Personal childcare arrangements (i.e., nannying), the cash economy, PAYG tax and superannuation benefits

An inquiry should be held and practical recommendations formulated, legislated and adopted.

- ▶ **Develop an apprenticeship-like scheme for qualified people returning to the workforce after extended periods of leave**

There is an implicit cost of training to an employer willing to take on candidates who have had a significant break from the workforce. Similar to an apprenticeship, a scheme that provides financial incentives to the employer for agreeing to provide this training, may be the key to enabling more parents to return to work after a gap to care for their children.

- ▶ **Lead by example by appointing more women into Board positions**

In its Women Getting Into Boards Report¹⁵, the Australian Centre for Leadership for Women recommended the following steps for government to lead in the required step change of engaging women on boards:

- ▶ Advertise positions openly and widely with clear, realistic criteria that is merit based and recognises the transferability of skills, experience and knowledge
- ▶ Actively promote and seek more women to apply for board positions and acknowledge and reinforce their achievement in all sectors, including the not-for-profit sector
- ▶ Set the example, by having more women on public boards and set incentives for private boards to follow
- ▶ Ensure gender equality, equity and diversity on boards by making boards accountable
- ▶ Provide specific assistance of funding, mentoring, training, networking, developing effective registers
- ▶ Place quotas for gender balance on boards

15 "Women getting into Boards", Australian Centre for Leadership for Women, 2009.

What can organisations do?

Responding effectively to establishing good corporate governance, particularly in reference to the new amendments to the ASX Corporate Governance Principles and Recommendations requires many Australian listed organisations to rethink their approach to diversity. Developing an effective diversity policy is not just another HR initiative. Its success will depend on buy-in and leadership from the board, CEO and executive team and the creation of a robust business case for change.

Recommended diversity initiatives

The new amendments to the ASX Corporate Governance Principles and Recommendations will be key in driving many Australian listed organisations to rethink their approach to diversity. In order to ensure compliance, drive and sustain real change and potentially derive competitive advantage, two core elements need to be in place; engaged and accountable leaders who are working with an evidence-based gender diversity plan and a supportive systematic approach to embedding the change, establishing program governance, tracking against key metrics and implementing a framework of continuous improvement.

In our experience, companies with the most successful diversity policies, implement a range of the following initiatives including the following:

1. Remove gender bias from recruitment, pipeline development and succession planning – across four areas including recruitment, performance culture, leadership and job design.

In 2004, John McFarlane, then Chief Executive Officer of the ANZ Bank indicated, “there is a tendency for men to recruit 90/10 in favour of men – while women tend to show no gender bias in their recruitment decisions”. The study in which this is quoted¹⁶ indicated that participants referred to the unconscious male subjectivity or ‘like attracts like’ dynamic, influencing

Chief Executive Women CEO Kit – building a business case for diversity

Recognising the need to better support the attraction and retention of female talent in organisations, Chief Executive Women (CEW), an organisation of over 150 women leaders across Australia, has developed the CEO Kit.

The CEO Kit was developed to help you build a business case for diversity and devising a strategy to attract and retain female talent. To this end, it:

- ▶ Provides diagnostic method and tools for responding to the ASX guideline requirements
- ▶ Combines academic research, practical examples and possible explanations to the issues organisations face
- ▶ Suggests 120 analyses to narrow down the possible causes of issues
- ▶ Digs under the surface of broad averages to highlight problem areas and identify ways to make ‘soft issues’ such as organisational culture measurable and manageable through analyses
- ▶ Defines behaviours that help or hinder efforts to attract and retain women
- ▶ Provides hundreds of ideas for immediate action
- ▶ Describes lessons learned by other organisations tackling the same issues

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recruitment and promotion decisions in their organisations. To address this issue, you may need to:

- ▶ Promote board positions openly and actively encourage women to apply
- ▶ Create and foster a female talent pool
- ▶ Put at least one woman on every executive succession bench
- ▶ Include women on any recruitment panel
- ▶ Require external recruitment services to provide a balance of talented men and women

- ▶ Ensure recruitment protocols and techniques are geared to source talented women in the market
- ▶ Introduce a mentoring program to assist women to understand the unspoken networks and success strategies within the organisation
- ▶ Include and support women to participate in the ‘mainstream’ business events – make them part of the organisation, not just a special interest group
- ▶ Identify and develop career plans for high performing women

¹⁶ Hannah Piterman, “Women in management: the leadership challenge”, 2008.



2. Set diversity targets and include in performance criteria

Set targets for employing, retaining and progressing women within the organisation, and include them with management and executive performance indicators relating to remuneration or bonuses. This is usually what drives real business change. If a key component of executive and management performance evaluation is improving their diversity metrics, those metrics quickly improve. If it isn't, they won't. It's that simple.

3. Broaden your performance assessment criteria

According to leadership research¹⁷, organisations achieve a high performing culture when they include the following nine leadership behaviours in performance assessment:

- 1 Participative decision making – building a team atmosphere in which everyone is encouraged to participate in decision making
- 2 Role modeling – being a role model, focusing on building respect and considering the ethical consequences of decisions
- 3 Inspiration – presenting a compelling vision of the future and inspiring optimism about its implementation
- 4 Expectations and rewards – defining expectations and responsibilities clearly and rewarding achievement of target
- 5 People development – spending time teaching, mentoring, and listening to individual needs and concerns

6 Efficient communication – communicating in a convincing way and with charisma

7 Intellectual stimulation – challenging assumptions and encouraging risk taking and creativity

8 Individualistic decision making – preferring to make decisions alone and engaging others in executing them

9 Control and corrective action – monitoring individual performance including errors and gaps against objectives, and taking corrective action when needed

These leadership behaviours significantly extends the way most modern management systems assess performance, which usually only measure the bottom three – where points 8 and 9 are practiced more regularly by men than women. McKinsey found that women typically score higher than men on points 1-5. There was no difference in gender on applying points 6 and 7.

4. Adopt an output and deliverables model for job design and supporting workforce practices

You will also attract more women if you abandon the industrial “face-time” model of job descriptions, and instead design roles based on their required business outcomes. In these roles, performance is measured based on outputs, values, and behaviours not inputs (hours spent in the office).

Output-related roles lend themselves to the flexible work practices women need. These include:

- ▶ Job sharing at executive level
- ▶ Senior part-time work
- ▶ Work from home
- ▶ Flexible work hours

5. Proactively support parents

Family friendly workplaces offer paid parental leave and generous carers leave to support parents in balancing their paid and unpaid work. People on parental leave should be supported in keeping on their career track with voluntary involvement in activities whilst on leave, and accelerated training to “catch” up on any technical developments that have occurred in their absence.

¹⁷ “Women Matter 2: Female leadership, a competitive edge for the future”, *McKinsey & Company*, 2008.

Some organisations on the right path

Woolworths

With women making up 55% of Woolworths' employees, the company says it is "serious about appointing, developing and promoting women."¹⁸ Initiatives to support talented women include:

- ▶ Part-time and job sharing roles
- ▶ Support while on maternity leave
- ▶ Flexible re-integration back into the workplace after maternity leave
- ▶ Networking and mentoring opportunities
- ▶ Participating in the Chief Executive Women (CEW) mentoring and development program

At Woolworths, women currently make up 30% of the board, 19% of executives and 24% senior management.

ANZ Bank

The ANZ considers it a "business imperative to attract, develop, promote and retain senior women"¹⁹ and has recently launched a Gender Diversity Taskforce to activate diversity awareness. Some of its key programs to support its diversity goals include:

- ▶ Remuneration review: the ANZ factors gender pay information into its remuneration review, resulting in the pay gap between men and women decreasing in favour of women at senior executive, senior manager and manager levels.
- ▶ ANZ Women's Network: a global network to help ANZ women achieve greater performance, greater business success and greater recognition for their achievements.
- ▶ Mentoring and career development: coaching, mentoring and networking are offered through various ANZ programs to help women succeed.
- ▶ Family friendly policies and flexible work arrangements designed to help women succeed in business.

In 2008/09, women made up: 25.7% of executives, up from 19% in 2005; and 40.3% of managers, up from 36% in 2005. With four female members, the ANZ's management board has the highest proportion of women of any bank in Australia.



¹⁸ "Our People", Woolworths Limited website, www.woolworthscrrog.reportonline.com.au/diversity_&_equal_opportunity.php, accessed June 2010.

¹⁹ "Gender", ANZ Website, www.anz.com/about-us/corporate-responsibility/employees/diversity-culture/diversity/gender/, accessed June 2010.

As a result, women make up 24% of IBM's executives and 30% of its managers – unusually high metrics for a traditionally male-dominated industry.



IBM Australia and New Zealand

An EOWA Employer of Choice for women for seven years running, IBM is a vocal proponent of workplace diversity and has had a Diversity Council, with an executive champion, since 1996. The company sets gender targets for recruitment and retention that are part of managers' performance indicators. According to its web site²⁰, IBM's "ultimate measurement is for women employees, particularly working mothers, to aspire to both an executive life and a family in Australia." IBM supports this aspiration with:

- ▶ Individualised work schedules
- ▶ Flexible working weeks
- ▶ Part-time work at senior levels
- ▶ Job sharing to executive level
- ▶ Telecommuting

Conclusion

The facts are clear, in terms of female executive engagement Australia lags behind its global competitors and is failing to optimise the economic benefits of engaged diversity.

There are solutions that both government and industry can implement to help address these issues, but the first step needs to be a personal commitment to address diversity by those with the ability to influence executive appointments and assist with success.

The recent ASX Corporate Governance announcement will help focus this issues with many who had not previously considered it a priority. Making diversity a priority should not only be driven by a sense of compliance, but rather a recognition that leveraging female talent creates a competitive advantage.

If Australia wants to maintain its competitiveness on the world stage, now is the time for action.

²⁰ "Advancing Women", IBM Australia website, www.07.ibm.com/employment/au/diversity/women.html, accessed June 2010



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