

# Parity of women's board remuneration still a long way off

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In 2005, in this journal, an article discussed the underrepresentation of women on boards and strategies for addressing the risk that this imbalance poses to Australian companies.<sup>1</sup>

Three years on, we look at events since 2005 that have affected women's chances of becoming ASX200 directors, examine a number of recent research papers on the benefits of having more women on boards and suggest strategies that chairs, directors and their advisers could adopt to improve the gender diversity at board and senior management levels.

## Developments since 2005

### 1. Changing composition of the ASX200

Resource companies are returning in numbers to the ASX200 since losing prominence in the 1990s. As these companies have fewer (if any) female directors, this has led to a reduction in the overall number of women on the boards of ASX200 companies. This situation is unlikely to change in coming years as the resources juggernaut continues. More effort and work is going to be required to rectify this backwards slide. See Tables 1 to 5.

**Table 1: Companies with at least one female director**

Year	Percentage
2008	49.0%
2006	50.0%
2004	50.3%
2003	51.5%

Source: EOWA

**Table 2: Percentage of female directors on ASX-listed companies**

Year	Percentage
2008	8.3%
2006	8.7%
2004	8.2%
2003	8.2%

Source: EOWA

**Table 3: Companies with at least one female executive manager**

Year	Percentage
2008	54.5%
2006	60.5%
2004	59.4%
2003	51.5%

Source: EOWA

**Table 4: Percentage of female executive managers on ASX-listed companies**

Year	Percentage
2008	10.7%
2006	12.0%
2004	11.4%
2003	10.0%

Source: EOWA

**Table 5: Percentages of females in labour force, 2006 EOWA Survey**

ASX200 chairs	2.0%
ASX200 CEOs	3.0%
ASX200 board directors	8.7%
ASX200 executive managers	12.0%
University vice-chancellors	21.1%
Federal and state politicians	30.3%
Managerial and professional positions	44.2%
Australian labour force	44.8%

### 2. Government initiatives

The Rudd Federal Government has initiated inquiries that particularly affect women in the workplace and as carers. There are inquiries into paid maternity leave, pay equity, after-school care, the *Sex Discrimination Act 1984* and the adequacy of Australia's pension system to name a few. This is a positive sign that the numerous structural and social policy issues that affect women's careers are being acknowledged. Women on Boards adopts the position taken by the National Foundation for Australian Women<sup>2</sup> on these issues and supports

its lobbying efforts with a five per cent donation of our total annual revenue.

There is also some indication that Ministers in several governments have an understanding beyond the superficial of these issues and are prepared to make some strong statements.

In June at the Rural Women's Summit, Tony Burke, Federal Minister for Agriculture, Fisheries and Forestry said:

The key sources of advice that come to me as a Minister are through an extraordinary number of boards ... I do have a very, very strong belief that those boards, if I'm going to go and get the best advice, have to be boards that are chosen on merit and are filled with the best people.

When boards keep appearing before me with about 20 to 25 per cent female representation, I find it really hard to believe that the selection has been done purely on merit. I am not interested in imposing formal quotas on selection committees, but at the same time, I've got to say, it's time — and I want to take the opportunity with you this morning, what I've done privately in letters to each of the selection committees — that selection on merit simply cannot be occurring when women are so consistently and so blatantly underrepresented on almost every single board that is meant to be advising me. It just can't be right.<sup>3</sup>

Further, at the July meeting of the Council of Australian Governments, Rob Hulls, Victorian Attorney-General said:

Achieving diversity at board level is about making a deliberate policy choice to encourage an inclusive culture, and recognising it is not about lowering standards but redefining appropriate experience.

Both interventions are examples of Ministers in powerful portfolios being prepared to use their influence to put pressure on the system to change. And like any good corporation, when the chair and/or CEO start talking about something in public, it's a strong signal for the rest of the company to start doing something to implement their vision. Women on Boards predicts that stronger measures in future will emerge from government, such as the 'Norwegian model'.

In 2002, only 7.1 per cent of non-executive directors of the Norwegian ASA (publicly listed companies over a certain size) were female. After several years of voluntary compliance had failed to lead to a sufficient number of female board members, ASAs were told to change the composition of their boards or risk dissolution. When they introduced the 40 per cent quota, the government had expected a widespread rebellion, but by the final deadline for compliance — 22 February 2008 — only a handful of companies had failed to meet it.

While female participation on ASX200 company boards has remained largely unchanged since the inaugural 2003 EOWA Australian Census of Women

in Leadership, the numbers of women in leadership roles in academia and the public sector have shown steady increases. Governments are making successful efforts to increase the participation of women on government boards and committees. Across Australia, the figure is 38 per cent female participation on government boards and committees.

### What the latest research tells us

There is a body of research into the benefits of having women on boards. A number of recent articles articulate in detail the corporate governance and bottom line benefits.

#### 1. The business case for women

McKinsey concluded that the gender gap isn't just an image problem. Its research study concluded that it can have real implications for company performance.

Companies that hire and retain more women not only are doing the right thing but can also gain a competitive edge. These companies will be able to draw from a broader pool of talent in an era of talent shortages. What's more, research shows a correlation between high numbers of female senior executives and stronger financial performance.<sup>4</sup>

#### 2. Top earners in ASX200 companies

This was released by the Equal Opportunity for Women in the Workplace Agency (EOWA) and is a most telling piece of recent Australian material. The study found that women top earners of ASX200 companies earn 58 per cent of the top earnings of males for comparable roles. This compares with women earning 84 per cent of full-time average weekly earnings during 2007.<sup>5</sup> More interestingly, while women represent seven per cent of the total top earners in the ASX200 companies, in companies with more than two women on their boards, females represent 13 per cent of top earners. See Table 6.<sup>6</sup>

#### 3. Impact of three or more women on corporate boards — 'the magic of three'

Yet more recent research involved conversations with 50 Fortune 1000 female directors and CEOs, with additional contributions from male CEOs. In addition to the fieldwork the researchers applied social science theory and research into conformity and majority opinion to analyse the interview comments and so explain the behaviours identified by the interviewees.

They looked at the impact of one, two and three women in the boardroom. The comments made led them to conclude that a lone woman can and often does have a significant impact on a board but that two women are better than one and three women on a board makes a defining difference. This is consistent with the social science research.

**Table 6: Top earners and women on boards**

Women board directors	Female top earners	Male top earners	Total top earners
0 (n=88)	29 (5%)	513 (95%)	542
1 (n=65)	28 (7%)	384 (93%)	412
2+ (n=27)	23 (13%)	159 (87%)	182
Total	80 (7%)	1,056 (93%)	1,136

Source: EOWA

Many male and female directors in Australia have said that the value-add from having a woman on a board is that she brings a different and valuable perspective to issues. The comments in this paper add a deeper perspective to this view.

Some comments from participants reported in the article were as follows.

If you are the only one, it is clear you are not part of the club.

With three women their perspectives get a serious hearing as they raise topics that are critical to the business but which men may not raise, such as issues concerning employees, the community, organisational diversity and inclusiveness, or the company's reputation.

This willingness to raise a broader set of issues helps a board to move beyond short-term financial numbers and to focus on factors that will sustain performance in the longer term.

There is more transparency with diversity. You don't assume people will think in a certain way, and people express opinions in a clearer way. Hence, diversity around the table forces both management and directors to express their ideas more clearly and logically, which enhances the quality of decision-making.

The dynamics of being someone who hasn't had the same experiences are that one asks different questions. One of the most valuable things in the boardroom is the questions asked. I see this increasingly on the dynamics on compensation. There was difficulty on setting limits by those who have benefited from the non-limits of the past former CEOs. 'I don't want them to question mine; I won't question yours.' Most women and minorities have not been CEOs and bring different perspectives to corporate compensation.<sup>7</sup>

### Five suggestions for improving diversity on boards

The figures for women on ASX boards suggest that not a lot is being done to address the issue at the top level. As chairs play the key role in determining board composition, perhaps the time has come for them to prioritise improving director diversity.

Women on Boards specialises in providing practical 'can do' interventions to improve the participation of women in leadership roles. Five

interventions for chairs and their advisers are as follows.

#### 1. Actively seek out women who are future directors

Establish arrangements that will expand the pool of female candidates that are personally known to chairs and directors, so they become available for selection when opportunities arise. A means of doing this is to adopt an 'active looking plan', rather than the 'bumped into a mate' approach. Seek input from other sources, (for example, Women on Boards and industry associations) and require that search consultants provide a list of emerging women directors and emerging senior executives as part of any recruitment process. With a database of 6,000 aspirant directors, Women on Boards has just launched its new Director Search Service.

#### 2. Encourage and support women who are potential future directors

There are many ways to do this but an easy way is to invite women to events and activities that will assist them into the networks that matter, such as corporate boxes at sporting events. Once they attend, be a good host, look after them and introduce them around. Another idea is for chairs to host an annual 'emerging leaders' event to which external and company women are invited.

At the company level, open subsidiary and joint venture directorships to a transparent/open process and earmark some of the directorships for women.

#### 3. Ensure a transparent selection process

Ensure the director selection process is formal and transparent by:

- reviewing the selection process and the selection criteria to remove any bias. Consider using external assistance
- supporting the need for more women by requiring that a serious female candidate be present on every short list.

#### 4. Gender reporting

To ensure senior women are being treated equitably within the company, institute a top-level pay audit and report the results by gender as well as level. Give additional focus to this matter by

having at least one woman on the remuneration committee.

### 5. Enhanced KPI reporting

Add diversity indicators to senior management KPIs to ensure the issue gets traction. Some suggested indicators are:

- the proportion of women in a company business unit at each level of employment
- pay levels and attrition rates of men and women in comparable positions
- remuneration of female top earners compared to male top earners.

### Conclusion

There are increasingly stronger arguments for chairs, directors and companies to pay diversity the same level of attention as financial and other operational matters receive. This has been further strengthened by the recent global turmoil from which a new world order might emerge to address some of the practices which have led to the collapse. Looking outside of the box in which the system has been operating to include a more diverse range of professionals in the decision-making process would seem an intelligent approach for a forward-looking organisation.

*Women on Boards (WOB) works with the corporate, government and not-for-profit sectors to provide practical strategies for addressing the imbalance of women and diversity on Australian boards.*

See <<http://www.womenonboards.org.au>>

### Notes

- 1 C Braund 'Where is the next generation of directors coming from?' *Keeping good companies*, Vol 57 No 7, pp 400–402
- 2 See <<http://www.nfaw.org.au>> [27 October 2008]
- 3 See <[http://www.maff.gov.au/transcripts/transcripts/2008/june\\_2008/rural\\_womens\\_summit](http://www.maff.gov.au/transcripts/transcripts/2008/june_2008/rural_womens_summit)> [27 October 2008]
- 4 G Desvaux, S Devillard-Hoellinger and MC Meaney, 'A business case for women', *McKinsey Quarterly*, September 2008
- 5 Australian Bureau of Statistics (2008) Year Book Australia 2008, Cat No 1301.0
- 6 For some explanation of the factors influencing these patterns, see H Riley Bowles and KL McGinn (2008) Gender in Job Negotiations: A Two-Level Game, Harvard Business School Working Paper No 08–095
- 7 AM Konrad, V Kramer and S Erkut (2008) 'The Impact of Three or More Women on Corporate Boards', *Organizational Dynamics*, Vol 37 No 2, pp 145–164 ●

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