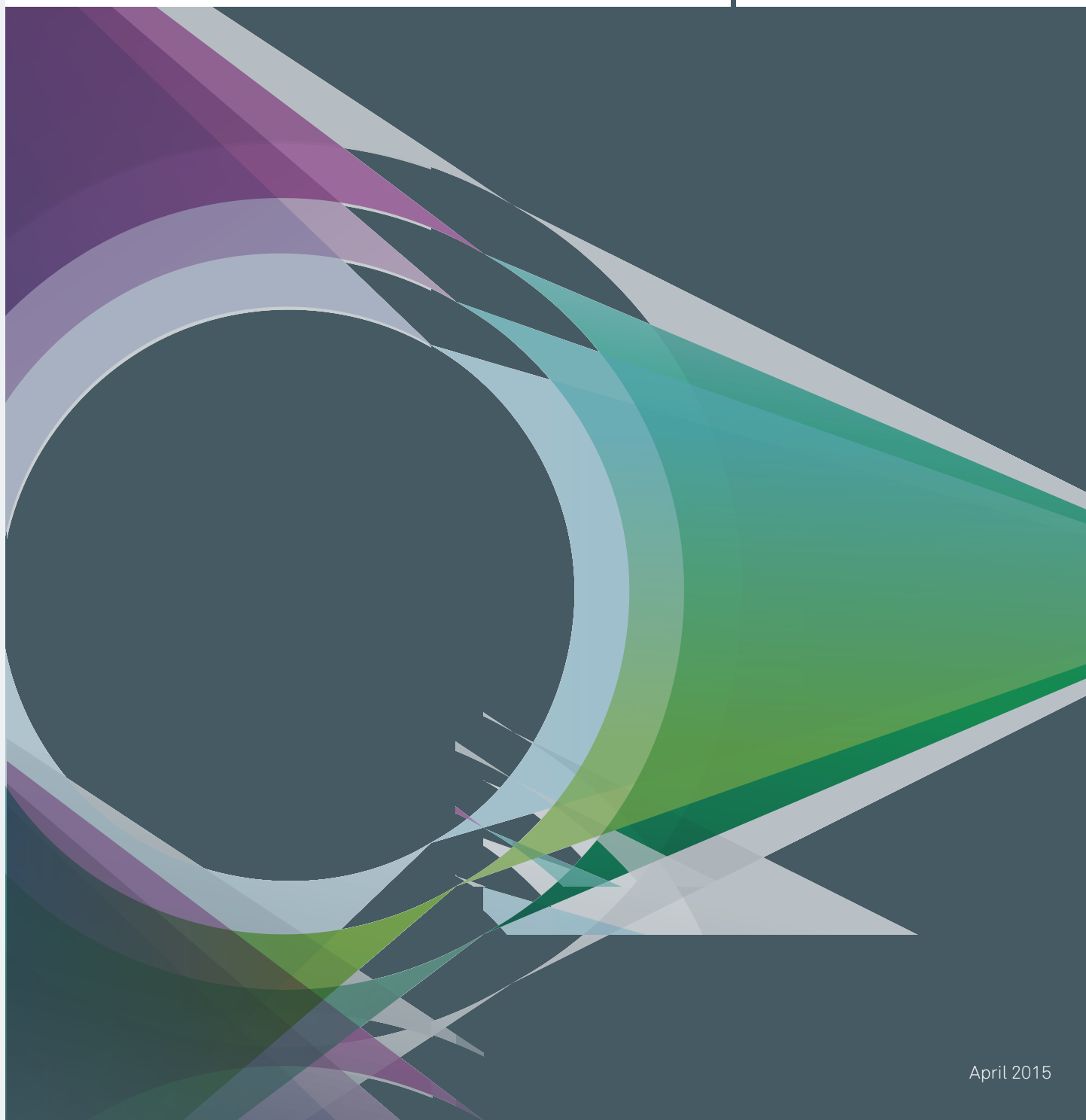


ACHIEVING GENDER DIVERSITY IN AUSTRALIA:
THE UGLY, THE BAD AND THE GOOD

BLACKROCK[®]



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SUMMARY: THE UGLY, THE BAD AND THE GOOD



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Wanted: Senior female executives

There is a growing disconnect between the proportion of women on boards and the proportion of women in senior management in Australian listed companies. Whether it's because the focus has been on achieving a particular target for boards, or whether it's because it may be more difficult to effect management change than board change, we view this as a major problem.

While the debate surrounding the issue of more women on boards is no longer focused around "if" but "when" 30 per cent will be achieved, women are still underrepresented at the Key Management Personnel (KMP) level in ASX 200 companies.

This is an issue that needs concentrated focus on the part of business leaders. It is a problem for several reasons. Effecting lasting changes in values, culture and decision-making comes from senior management and trickles down the organisational hierarchy; and having women in management as role models is important as "women can't be what they can't see".

The low representation of women at KMP level is also a reflection of poor talent management given that for a long period of time the majority of graduates from Australian universities have been women. If companies are to "win" the war on talent the issue of talent management must be given priority.

Pay equity is another problematic issue, with women continuing to be paid less than men when performing the same roles. Sound remuneration policies promote the attraction, retention and reward of key talent. This is most likely to be addressed if there are more women in management ranks.

Also significant and impacting the boardrooms of corporate Australia is that the majority of non-executive directors (NEDs) appointed to ASX 200 boards are drawn from the senior management level of Australian companies. Two thirds of director appointments came from these ranks in 2014, yet women only make up 13 per cent of ASX 200 KMPs.

A smaller cohort to draw from means less choice and has resulted in more multiple directorships being held by women than men.

We believe that increasing the pool of women in executive ranks would be beneficial for boards and companies and thus investors.

Reward: 30% of board positions in reach and Improved disclosure

While increasing the proportion of women at senior executive ranks remains a challenge, there have been noteworthy achievements in the area of gender diversity in the four years that BlackRock has been analysing the policies of ASX-listed companies. There have been significant improvements in disclosure by ASX 200 companies of their policies to increase diversity at senior levels, and the aim of filling 30 per cent of board positions by women is achievable – at least for larger companies during 2017.

Our research has shown that since 2011 the percentage of female non-executive directors on ASX 200 boards has increased from 14.4 per cent to 22.3 per cent. At the same time, the number of boards with no women has decreased from 87¹ to 35 (as at 31 December 2014). Only four ASX100 boards and two ASX 50 boards have no female directors, and every company in the ASX 20 has at least one female director. These are clearly steps in the right direction.

This trend is apparent not just in Australia but also around the world. There are numerous examples of programs designed to raise awareness of the issue, and attempts to address it. These include the 30% Club (a UK initiative with branches in Hong Kong, the US, Ireland, Southern Africa, East Africa and, from May 2015, Australia and Canada), as well as the Male Champions of Change Group in Australia, and initiatives such as those from the Australian Institute of Company Directors (AICD), and the Australian Council of Superannuation Investors (ACSI). The majority of these aim to increase the number of women on boards, usually with a target of 30 per cent.

So, while there are tangible rewards for the effort and focus that have been placed on gender diversity issues in ASX 200 companies, improvement is still needed in executive ranks – particularly as these ranks provide the pipeline for future director appointments.

1. AICD Diversity Key Facts 2015.

THE UGLY AND THE BAD

Key findings

1. There has been little improvement in the gender diversity levels of senior management ranks
2. Pay equity between men and women has not improved

1. The gap between women in the boardroom and women in management remains high

Unfortunately, the gap between boardroom and executive ranks for women remains substantial.

As highlighted in Table 1, women are still seriously under-represented at the KMP (and executive director) level in ASX 200 companies. The proportion of women KMPs has increased from 8 per cent to 13 per cent between 2011 and 2014, while at the same time the proportion of women NEDs has reached over 22 per cent and is on track to reach 30 per cent in the next few years.

Table 1 – Women as key management personnel (KMP), executive directors and NEDs

| Annual report released | Women as % of KMPs | Women as % of executive directors | Women as % of NEDs |
|------------------------|--------------------|-----------------------------------|--------------------|
| 2011 | 8% | 2.6% | 14.4% |
| 2012 | 8% | 3.8% | 17.8% |
| 2013 | 10% | 5.6% | 21.0% |
| 2014 | 13% | 5.2% | 22.3% |

Source: BlackRock

We believe the business case for diversity is actually stronger at the senior executive management level than at board level, as management has more influence over the overall performance of a company and also the company's culture, values and decision making.

2. www.graduatecareers.com.au/research

3. www.abs.gov.au "Australian Social Trends, July 2013"

4. Credit Suisse, "The CS Gender 3000: women in senior management", 2014.

Are companies managing their talent optimally?

The lack of gender diversity in the senior executive ranks of ASX 200 companies suggests poor talent management when the graduation rates of women from Australian universities are considered. Women continue to outnumber men as graduates from Australian universities. Data from Graduate Careers Australia² shows that female graduates dominated in the fields of accounting, economics and law, comprising 53.2 per cent, 62.0 per cent and 60.8 per cent of graduates respectively.

The predominance of women graduates is well established. According to the Australian Bureau of Statistics³ the participation of women in higher education in the 15-24 year age group has outnumbered men since 1989.

Logic suggests that companies that manage their talent well should outperform their peers, and one of the key elements of managing talent is ensuring that a full range of skills and abilities are available and utilised effectively throughout an organisation.

This can include encouraging women to take more operational roles. Research from Credit Suisse⁴ suggests that women are more likely to hold what is described as "shared services" senior management roles – including human resources, information technology, legal and communications – rather than typical KMP roles such as CEO, CFO, strategy or operations roles, where potential board members are more likely to be sourced.

Another problem that stems from a lack of women in senior management roles (see BlackRock 2013 gender diversity report "*Glacial change in diversity at ASX200 companies*") is the issue of role models. **Women can't be what they can't see.**

Do quotas and targets work?

There have been valid questions raised about the usefulness of having targets and quotas. If women are being appointed to positions simply to meet a government- or industry-mandated target or quota, how comfortable can shareholders, customers, management and other board members be that such directors have the skills, knowledge and experience for the job?

Are men who are better qualified being left out because of these quotas? Or do we argue that the pool from which boards have traditionally been drawn has only represented 50 per cent of the population?

Is an argument to be made that quotas have always existed, they just excluded women?

What quotas and targets ultimately achieve is to force companies to review their process for choosing board members, and consider a wider pool of candidates than those they traditionally canvassed.

First and foremost from an investor perspective, boards must have competent directors, hence the bigger the pool the higher the prospect of selecting the best. We believe there is no substitute for a robust nomination process that is focussed on competent directors who have a mix of skills that will enhance shareholder value.

Impact on the pool for NEDS

Given the majority of directors are sourced from senior management ranks, a lot more needs to be done to help women progress into senior management roles in order to ensure that there is an appropriate pool of experienced and qualified women available to take on board positions.

We reviewed the backgrounds of the new appointments to ASX 200 boards and found a significant portion (nearly 67 per cent) had backgrounds as executives in ASX 200 companies and equivalent. This data confirms that further attention to the representation of women at senior executive levels is needed if a pipeline of women moving onto boards is to be achieved.

Table 2 – Experience of new board appointees in 2014

| Background | Men | Women | Total | % of Total | Men (%) | Women (%) |
|---|-----------|-----------|-----------|------------|-------------|-------------|
| Former senior executive of an operating company | 30 | 22 | 52 | 66.7 | 57.7 | 42.3 |
| Investment banking/ advisory | 5 | 6 | 11 | 14.1 | 45.5 | 54.5 |
| Big 4 accounting firms | 3 | 3 | 6 | 7.7 | 50.0 | 50.0 |
| Law firms | 1 | 2 | 3 | 3.9 | 33.3 | 66.7 |
| Former politicians | 2 | 0 | 2 | 2.5 | 100.0 | 0.0 |
| Start ups | 2 | 0 | 2 | 2.5 | 100.0 | 0.0 |
| Public service | 1 | 0 | 1 | 1.3 | 100.0 | 0.0 |
| Sports administration | 1 | 0 | 1 | 1.3 | 100.0 | 0.0 |
| Total | 45 | 33 | 78 | 100 | 57.7 | 42.3 |

Source: BlackRock

Smaller pool, multiple board positions

The relatively small pool of women in senior management positions means there is less choice for boards seeking NEDs and also contributes to women being more likely to hold multiple board roles than men. Further in the future, as the women currently on boards retire as part of normal succession planning, there needs to be an adequate pool to replace them.

A total of 18 per cent of women on boards hold multiple board positions, compared to only 11 per cent of men. This supports the concern that the number of individual women holding board positions isn't actually increasing as fast as the statistics suggest – instead, the same women are taking on more board positions.

Table 3 – ASX 200 number of board positions held by men and women

| Number of board positions held | Men | Women |
|--|------------|------------|
| 5 | 1 | 0 |
| 4 | 3 | 5 |
| 3 | 30 | 18 |
| 2 | 90 | 53 |
| Total | 124 | 76 |
| % of board population with more than one board seat | 11% | 18% |

Source: BlackRock

Cultural issues need to be addressed

As discussed in last year's paper, gender policies need to be wound into a company's DNA. A recent McKinsey⁵ survey found that a favourable environment and cultural factors weighed twice as heavily as individual factors in determining how confident women felt about reaching top management.

2. Pay equity has not improved

Pay inequity can act as a barrier to the advancement of women into senior executive roles. A study of 43 countries found that countries with a higher proportion of women on boards were more likely to have women in senior management and a smaller gender pay gap⁶. We believe that having a greater proportion of women on boards and in senior management ranks may go a long way towards achieving pay equity.

Australian men, overwhelmingly, continue to earn more than their female counterparts. Data released in February 2015 by the Workplace Gender Equality Agency (WGEA) showed that women in management ranks are paid less than their male peers⁷. The largest gender pay gap was at KMP level where the gap was 28.9 per cent (based on full-time total remuneration). This is followed by other executives / general managers (27.5 per cent), other managers (24.6 per cent) and senior managers (23.5 per cent).

Based on BlackRock research, less than 50% of ASX 200 companies disclose details of pay equity. It is a concern to us that some boards may not even know whether the issue exists within their company.

5. McKinsey Quarterly April 2014 "Why gender diversity at the top remains a challenge".

6. Siri Terjesen and Val Singh, "Female Presence on Corporate Boards: A Multi-Country Study of Environmental Context," Journal of Business Ethics, vol. 83, no. 1 (2008).

7. www.wgea.gov.au

THE GOOD

Key findings

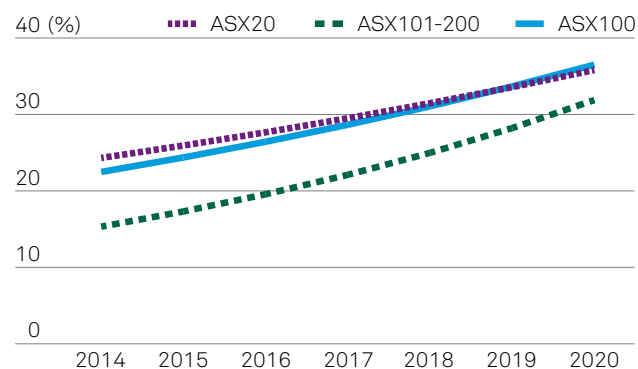
1. Achieving the target of 30 per cent of board positions in ASX 200 companies is possible within a few years
2. Year on year, there are more women being appointed to Australian boards
3. Disclosure by listed companies of their diversity policies is improving

1. The 30 per cent target is achievable

The good news for achieving improved gender diversity at board level in Australia is that the goal of 30 per cent women on boards should be attainable within the next few years.

BlackRock's research, which takes into account both appointments to and resignations from boards, suggests that the proportion of women on ASX 20 companies should reach the target by 2017. ASX100 companies should meet the goal in 2018, and ASX101-200 companies in 2019.

Figure 1 – Projected growth



Source: BlackRock⁸

While larger companies will reach the target quicker than their smaller counterparts, overall we are pleasantly surprised by the speed at which the target should be reached by ASX 200 companies.

Table 4 – Percentage of women on boards (WOB) based on market capitalisation

| Index | Average board size | No. of companies with no WOB | No. of companies with 30% WOB | Average % of WOB | Average no. of WOB |
|-------------|--------------------|------------------------------|-------------------------------|------------------|--------------------|
| ASX 20 | 9.7 | 0 | 7 | 24 | 2.3 |
| ASX 21-50 | 8.6 | 2 | 4 | 21 | 1.8 |
| ASX 51-100 | 8.2 | 4 | 11 | 23 | 1.9 |
| ASX 101-200 | 6.7 | 29 | 8 | 15 | 1.0 |

Source: BlackRock

In total, 30 companies in the ASX 200 have already achieved the target of 30 per cent of women on boards. However, 35 still have no women at board level.

8. Based on appointment and resignation rates for men and women in 2013 and 2014.

Australia ranks above global average

According to a Credit Suisse⁴ survey of public company boards in 43 countries, Australia ranks above the average in terms of the percentage of women on boards. It also compares favourably to countries such as the USA, Canada and Hong Kong.

Percentage of women on boards by country

| | 2013 | 2012 | 2011 | 2010 |
|-----------------------|-------------|-------------|-------------|-------------|
| Global average | 12.7 | 11.3 | 10.3 | 9.6 |
| Norway | 39.7 | 37.2 | 38.7 | 36.6 |
| Germany | 23.0 | 18.5 | 14.0 | 11.8 |
| New Zealand | 19.6 | 21.3 | 19.6 | 15.6 |
| UK | 17.9 | 15.5 | 11.9 | 10.1 |
| Australia | 17.5 | 15.5 | 13.7 | 10.8 |
| Canada | 15.9 | 14.9 | 13.5 | 12.5 |
| USA | 13.7 | 13.3 | 12.8 | 12.7 |
| Hong Kong | 10.8 | 9.7 | 9.3 | 8.9 |

Source: Credit Suisse

2. More women are being appointed to boards

Our research shows that more women were appointed to Australian boards in 2014 than in 2013.

Table 5 – Appointments to boards

| Index | 2013 | | | | 2014 | | | |
|--------------|-----------|------------|---------------------|-----------------------|------------|------------|---------------------|-----------------------|
| | # of men | # of women | Men as a % of appts | Women as a % of appts | # of men | # of women | Men as a % of appts | Women as a % of appts |
| ASX20 | 10 | 5 | 67 | 33 | 20 | 10 | 67 | 33 |
| ASX21-50 | 11 | 7 | 61 | 39 | 16 | 8 | 67 | 33 |
| ASX51-100 | 35 | 13 | 73 | 27 | 20 | 22 | 47 | 53 |
| ASX101-200 | 42 | 9 | 82 | 18 | 53 | 15 | 75 | 22 |
| Total | 98 | 34 | 74 | 26 | 109 | 55 | 66 | 34 |

Source: BlackRock

The most significant increase is in the proportion of women appointed to the boards of ASX 51-100 companies. There was also some improvement in ASX 101-200 companies.

Resignations have more impact than appointments

In projecting when ASX 200 companies will reach 30 per cent women on boards, our research took into account the resignation rates as well as the appointment rates. Given that significantly more men resign from boards than women, this has a much bigger impact on the extrapolation to determine when the 30 per cent benchmark will be achieved.

As proportionally more men than women are retiring from board positions, this will have a major impact on the gender composition of boards. In 2013, 91 per cent of resignations of non-executive directors (NEDs) were men and in 2014 the percentage was 82 per cent.

We looked behind the data to see why directors were resigning. Most resignations were in fact part of the normal board renewal process for men (86 per cent) and women (52 per cent). The data relating to women was impacted by the small absolute number of female NED resignations of 24 compared to male (113).

A closer look at the reasons for the women resigning showed that 10 were the result of expected retirement (tenure of eight years or more), four took on full time executive roles, one resigned to take on another NED role, one (resigned from two boards) took on a government appointment, one resigned due to a conflict of interest, two resigned from one board due to a significant change in shareholder structure, two resigned as part of an announced renewal of the board, and two resignation announcements contain insufficient information to understand the reason for the resignation.

Table 6 – Resignations from boards

| Index | 2013 | | | | 2014 | | | |
|--------------|-----------|------------|-----------|------------|------------|------------|-----------|------------|
| | # of men | # of women | % of men | % of women | # of men | # of women | % of men | % of women |
| ASX20 | 13 | 4 | 76 | 24 | 17 | 8 | 68 | 32 |
| ASX21-50 | 16 | 1 | 94 | 6 | 19 | 2 | 90 | 10 |
| ASX51-100 | 25 | 3 | 89 | 11 | 26 | 5 | 84 | 16 |
| ASX101-200 | 42 | 2 | 95 | 5 | 51 | 9 | 85 | 15 |
| Total | 96 | 10 | 91 | 9 | 113 | 24 | 82 | 18 |

Source: BlackRock

3. Disclosure is improving

The quality and disclosure levels of diversity reports by listed companies in Australia are improving, with a significant jump in quality between 2013 and 2014.

To assess quality, we measure the reporting by listed companies on how the benefits of diversity are articulated, what programs are in place to address diversity at senior executive ranks, governance of diversity policies (ie where the accountability lies) and pay equity.

BlackRock's analysis rated over 40 per cent of diversity reports to the ASX in 2014 as either excellent or good, up from 22 per cent in 2013.

Table 7 – Quality of diversity reports

| Rating | Number of companies | | Percentage of companies | |
|----------------|---------------------|------|-------------------------|------|
| | 2013 | 2014 | 2013 | 2014 |
| Excellent | 6 | 11 | 3% | 6% |
| Good | 38 | 75 | 19% | 38% |
| Perfunctory | 89 | 65 | 46% | 33% |
| Poor | 33 | 24 | 17% | 12% |
| If Not Why Not | 7 | 11 | 4% | 7% |
| Non-complying | 22 | 12 | 11% | 5% |

Source: BlackRock

Those companies that we rated as excellent increased from six in 2013 to 11 in 2014. They are:

- ▶ Boral Limited
- ▶ Caltex Australia Limited
- ▶ Mirvac Group
- ▶ Macquarie Group Limited
- ▶ Perpetual Limited
- ▶ Oz Minerals Limited
- ▶ Seek Limited
- ▶ Santos Limited
- ▶ Telstra Corporation Limited
- ▶ Westpac Banking Corporation Limited
- ▶ Westfield Corporation

In addition, the number of non-complying reports almost halved over the same period.

This progress in disclosure is in line with improvements we have seen over the years in disclosures of corporate governance policies and remuneration reports.

While the results are yet to translate, there has been a material improvement in the number of companies that have programs to increase diversity at senior executive levels.

Table 8 – Disclosure of programs to increase diversity at senior levels

| Annual report released | Companies with programs |
|------------------------|-------------------------|
| 2011 | 52% |
| 2012 | 51% |
| 2013 | 63% |

Source: BlackRock

Less encouraging was a slight increase in the “If Not Why Not” reporting, which is of concern. The rationales given by the 11 companies in this category varied. Some stated that the number of employees was too low to justify a full policy (in one case total employees were only 23). A number of companies had recently listed and were yet to determine their measurable objectives. One stated that due to the high number of women in senior management positions there was no need to set measurable objectives.

Ignoring the “If Not, Why Not”, 36 companies in the ASX 200, were either non-complying, or ranked poorly on their diversity report in 2014. While still of concern, this is an improvement on 2013 when the total was 55 companies.

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