



30% Club

GROWTH THROUGH DIVERSITY

RECRUITING FOR SUCCESS: DIVERSITY IN THE BOARDROOM

Follow us on twitter @30pctAustralia

Recruiting to increase board diversity can be a difficult process, particularly when a board does not have access to diverse candidates through their networks, established relationships with search consultants or is under pressure to recruit in a short period of time. A rigorous independent process is considered best practice for all board searches. It increases the likelihood of finding diverse candidates, including those that may not have significant public profiles or might reside in broader geographic locations.

This resource is aimed at providing some areas for consideration for ASX 300 chairs and boards seeking new female directors. Although it can be applied to searches for diverse candidates in a broader sense, there are unique challenges that apply to particular target groups that should be considered.

PRE-RECRUITMENT

STEP 1: BOARD SKILLS MATRIX AND IDENTIFICATION OF SKILLS GAPS

Your organisation likely has a skills matrix mapping the skills of sitting directors, and this should be used to ascertain any gaps, and therefore the desirable skills of future directors.

The Australian Institute of Company Directors' (AICD) Board Competency Framework divides these skills into industry, technical, governance and behavioural.¹ Each competency should be considered in the skills matrix developed by the board. The lifecycle of the company is also a key consideration and will inform whether an individual with experience in capital raising or rapid change is preferable over someone with deep governance expertise in established businesses.

The determination of the essential and desirable skills the board is seeking to recruit in a new director should be accompanied by a conversation on how flexible or willing the board is to compromise if a credentialled or high-quality director that is lateral to the brief becomes available.

Boards should also consider diversity in terms of: experience, style, thought, gender, age, geography and culture. Balancing the technical skills required by the board and diversity considerations can be challenging. To achieve the best outcome the board may be required to engage in a more extensive director search requiring more time and consideration.



When we recruited Linda Jenkinson to our board at Eclipx, her appointment not only stepped up the level of diversity on our board (which was an important but not the sole objective), she also brought some unique skills to the board that we needed and valued, fulfilling both objectives of the recruitment exercise. As the Chair of the Remuneration Committee, I worked with Kerry Roxburgh, the board Chair, to prioritise the gaps in the board skills matrix and to brief the Search Partner. We agreed on a strong preference for female candidates but not an exclusive one, and most importantly we sought a candidate with a strong entrepreneurial track record in digital business models.

By aligning the need to address the gaps in the board skills matrix with increasing the level of diversity on the board, with the search process we achieved a terrific outcome. In hindsight, it isn't surprising that candidates who bring non-traditional, newer skills to the board are often from a diverse background and add a different dimension and way of thinking and framing discussions around the board table.

Gail Pemberton AO NED, Eclipx, Sydney Metro & Chair Prospa

¹ <https://aicd.companydirectors.com.au/resources/director-tools/practical-tools-for-directors/board-composition/board-recruitment>

STEP 2: THE BOARD'S MINDSET

Before commencing the search process a board that is not gender diverse should have an honest conversation about their recruitment and induction processes and whether incumbent directors will embrace someone who is different to them. A chair who fosters an open and inclusive boardroom environment will attract candidates that can offer different viewpoints and perspectives. If the incumbent directors are not supportive of this approach, the value the diverse director provides will be compromised. 30 per cent is the figure widely agreed to mark the stage at which contributions of the minority group cease being representative of that particular group and start to be judged on their own merit – in other words, critical mass is achieved. The 30% Club believes that once a minimum of 30 per cent is reached, the culture and practices of the board will have changed significantly and as a consequence, further progress towards true balance will naturally follow.²

The board should also review the provisions in the organisation's board charter, which may impact the selection of directors, and the constitution, which will outline appointment procedures. Assessment of the culture of the organisation and whether the organisation fosters an inclusive environment is also beneficial in the pre-recruitment stage. It is important directors work well with management and feel the executive leadership team is responsive to their questions and contributions. This can be difficult if the executive leadership team does not believe that diversity is a priority or vital to the progression of the company.

“ I was appointed to the FlexiGroup board in January 2017. FlexiGroup was one of the few remaining companies that had been revealed by ACSI, the AICD and others in the media as having no women on their board. At the time there was a growing recognition within FlexiGroup that having a diverse board was important in ensuring robust conversations around strategy and the competitive operating environment as well as contributing to the financial performance of the company. The board believed that a female director would offer insights and foresights currently missing on the board, such as digital marketing, consumer credit risk and cyber risk. I did extensive diligence before joining the board as I did have concerns of being stigmatised as a “quota woman” on that board, particularly after intense media focus on the company's lack of female directors. Within a very short period of time, there was a recognition by the Chair and the other directors that different questions were being asked, leading to more

robust, intra board deliberations. It was clear that the dialogue had been enhanced with a female voice. There was also strong recognition of the value of dissent that a diverse voice brought to the table. Regardless of whether the recalibration of the board had disturbed FlexiGroup's more traditional order of board governance and dislocated the established hierarchies, it has led to far more constructive board dialogues and most importantly a turnaround of the company's financial performance. If you look at the composition of FlexiGroup today, we have three women on the board and a female CEO, so this is a clear reflection of the beneficial impact of appointing female directors. Adding female directors definitely changes the dynamics of the board in a positive way, leading to significant strategic and financial outcomes.

Christine Christian Deputy Chair, FlexiGroup

² <https://30percentclub.org/resources/faqs>

QUESTIONS FOR THE BOARD TO CONSIDER PRE-RECRUITMENT:

1. Is the current composition of the board attractive to female candidates? What would ensure the board can attract female candidates?
2. Does the board or company have a considered diversity policy, including numeric targets for women on the board and in senior leadership positions? (The ASX Corporate Governance Principles and Recommendations require listed companies to have and disclose a diversity policy and set measurable objectives to achieve gender diversity).
3. Has the Chair facilitated a discussion with the board on the need to increase board diversity? Do the directors support increased board diversity and a recruitment approach to identify female directors?
4. If the board has engaged in a search in the past specifically looking for a female director and have found it difficult to appoint one, why? Were there reasons that pertained to the composition of the board or board practices?
5. Does the board have sufficient networks to undertake its own search for female candidates or would the board benefit from independent advice and a broader search?



Diversity of all kinds ensures high performing teams that deliver better outcomes. As a Chair I strive to have a diverse board, including gender diversity. In our recent board searches we have mapped out the skillsets and experience requirements in priority of criticality to the board, with the view to appointing a female director. You need to have 2 - 3 excellent candidates at the end, which does make it very hard to choose one. I avoid a process where I have one clearly outstanding candidate. If I encounter this situation I will ask the recruiter to throw the net wider to include additional quality candidates (both male and female), to sense check the process and ensure the outstanding candidate compares favourably with a wider group of directors. The female candidates we have selected have been exceptional and often better than the wider group used for comparison.

Steve Sargent Chair, OFX

STEP 3: SOURCING STRATEGY

Historically a reliance on the network or professional connections of the chair and fellow directors has been a major reason for the lack of diversity on the boards of ASX companies.

In today's market, boards can't rely on their personal networks to cover all the skills required by the board. Although some chairs do engage in regular talent identification, they cannot be across all potential and emerging candidates, particularly those with lower public profiles.

Most chairs will agree a good professional search firm is required to identify candidates from further afield, to supplement an existing list and referrals provided by current board members and to ensure that all candidates are assessed on a 'level playing field'.

The board must actively manage the involvement of the search firm in the process. A board needs to feel confident that they have conducted an extensive search that provided a list of candidates that would add value to the board and meet their selection criteria.

“ *Oil Search, being a 90-year-old Papua New Guinea (PNG) company, has always been conscious of the importance of board representation for PNG citizens. Oil Search is PNG's largest company, tax payer, private sector employer and only oil producer. Its business model requires the company to be deeply embedded in the PNG highland communities where we operate, working as we do alongside oil and gas majors in world class projects.*

The board has always been diverse, but not gender diverse, although we have had female directors from time to time. The challenge identified almost a decade ago when I became Chair as part of a process of board renewal was to further diversify. Like many other chairs at the time, I received a letter from the AICD identifying the challenge and seeking support in meeting diversity objectives. The process we adopted was conventional - review board skills, identify gaps, develop a board succession plan, engage search consultants and incorporate in the mandates a requirement, indeed a preference, for female candidates with appropriate credentials and experience to be included in "long lists".

Directors added their own suggestions to consultants' lists. The result after the usual interviews, assessments and debates around the board table was what I think must be the most diverse board on the ASX - one third female, six nationalities, four geographies, four time zones and deep oil and gas industry, corporate, financial, PNG and governance experience. We have also added two independent members to each of our board committees. These six "ICMs" are younger but well credentialed PNG citizens, three female and three male, who aspire to a director career. They are our pipeline and PNG's future.

All new directors and "ICMs" benefit from an induction process, site visits, regular engagement with management and director education. We encourage and value all contributions, important in PNG where citizens are often reticent to speak up. Oil Search now operates in Alaska as well as PNG. We are preparing to extend our learnings from operating in challenging highland environments to the communities and resources of the Alaskan North Slope within the Arctic Circle.

Rick Lee Chair, Oil Search & Ruralco Holdings Limited

QUESTIONS FOR THE BOARD TO CONSIDER ABOUT THEIR SOURCING STRATEGY:

1. How well does the board source candidates, particularly diverse candidates?
2. Can the board compare searches conducted internally versus those involving search consultants? What have been the outcomes?
3. Are there other stakeholders that could be key in the decision-making process, such as investment bankers or investors that are involved in the process or could influence the process?
4. If there are time constraints, how can the board ensure the search process is rigorous in the allocated time?
5. How will the board go about finding the right search consultant? Some questions to consider when sourcing a search consultant are:
 - Does the search firm specialise in recruiting in certain industries or sectors?
 - Do individual consultants have a bias towards candidates they tend to recommend?
 - What networks does the consultancy have and where are their areas of expertise?
 - Does the consultancy have a local, regional, global presence if relevant to the search?
6. Is the board aligned when speaking to search consultants and their networks as to the type of director they are looking for, i.e. are they using a skills matrix or agreed director profile to describe the desirable and essential skills?
7. Has the identification of the criteria and skills required for the board been done as objectively as possible, limiting the impact of each directors' unconscious bias or view of 'merit'?
8. How much is the board willing to move away from the skills matrix to source interesting or experienced directors who don't fulfil all the essential or desirable criteria?

DURING RECRUITMENT

STEP 1: WHO WILL MANAGE THE PROCESS

Recruiting a new director can typically take between 3 - 6 months. Boards either use a nominations committee, or nominate a group of directors to conduct and manage the search process. Additional challenges exist for companies with newly formed boards or those in the IPO stage. These can include a shorter search period, the perceived risks for candidates in being a director of a company going through an IPO and the influence of external stakeholders, such as investors.

Nominations committees are useful in managing the succession planning process for the board. They may engage in continuous talent identification, ensuring there is always a list of potential candidates that can be included in a search process when the board is actively recruiting.

Some chairs involve the full board in reducing the shortlist to three to five candidates to interview in addition to making the final decision. Ultimately the whole board should be involved in the selection of the final candidate and should not delegate this decision to the nominations committee.

STEP 2: THE INTERVIEW PROCESS AND EVALUATION OF CANDIDATES AGAINST KEY CRITERIA

It is important the nominations committee of the board has a system for assessing candidates that considers unconscious bias and the views and preferences of the directors interviewing shortlisted candidates. Unconscious bias can be pertinent for female directors with families, particularly if the board regularly travels for meetings and site visits. For example, perceptions do exist that women with families will not be able to meet their board responsibilities - this can impact on candidate selection.

Determining a consistent approach to the assessment of candidates, such as common interview questions, a checklist against the key criteria and a format for evaluating all candidates as a nominations committee or board, assists in the keeping the process on track.

Boards and nominations committees can mitigate unconscious bias by debriefing after each interview, outlining their reasons for and against each candidate in relation to the key selection criteria and discussing and challenging each other's views. During this process the board should also review their meeting schedules and locations to ascertain whether they present any barriers to potential candidates.

Ultimately boards need to be able to articulate the reasons for appointing their chosen candidate to their investors and the broader market. A formal and rigorous process provides confidence to investors that a suitable candidate was appointed and will provide value to the board and the company.

STEP 3: REFERENCE CHECKING AND DIRECTOR CHECKS

Either the board or the search firm should engage in formal reference checking and director checks to ensure they are confident they have obtained a broad view of the candidate's background, qualifications, experience and personal style, as per the fourth edition of the ASX Corporate Governance Principles and Recommendations (Recommendation 1.2), which outlines appropriate reference checks including external checks as to the person's character, experience, education, criminal record and bankruptcy history.³

QUESTIONS FOR THE BOARD TO CONSIDER DURING THE RECRUITMENT STAGE:

1. Will a nominations committee or group of directors manage the search process?
2. How will the interviews be conducted? Will the nominations committee manage the interviews and report back to the board or will the full board interview the shortlist of candidates?
3. Will a common set of questions be asked, or will the questions depend on the candidate? If the latter, how will candidates be assessed against each other, so the process is fair?
4. Does the board understand unconscious bias and where their personal views may impact on the process?
5. Has the board reviewed current process, the board charter and constitution to ensure there are no barriers to potential candidates?
6. If using a search firm, how will this relationship be managed and assessed for effectiveness?
7. How can the board ensure its directors are aligned throughout the recruitment process?

³ <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf>

POST APPOINTMENT

STEP 1: CANDIDATE INDUCTION

Once a candidate is selected, there are a series of steps boards can take to ensure they are inducted properly, welcomed on to the board and given the best possible platform to make a strong contribution to the board. This is particularly relevant for chairs who are appointing the first female director to their boards. The induction process typically encompasses both the provision of historic company information and processes, and also insights into the style and operations of the board.

The induction process should be continuous for the first year and include regular conversations with the new director to ensure they are comfortable providing their views at board meetings. Many chairs adopt a mentoring type relationship with new directors to ensure their success.

“ Ray Horsburgh was a fantastic mentor when I joined the Board of Toll Holdings. I was the first woman to join the Board and Ray guided me through the first six months. He talked to me before board meetings about issues and what he would be asking for my opinion on, which I thought was a really nice way of easing me in, while making it clear to the board during meetings that my opinion on various matters was important. I feel very privileged to have had Ray as my first chairman on a listed board.”

Nicola Wakefield Evans NED, Lendlease & Macquarie Group⁴

QUESTIONS FOR CHAIRS TO CONSIDER INCLUDE:

1. Have I given a clear view to the new director about my expectations of her early engagement in the boardroom? Is it “look and listen” initially or “give attention to these issues and make an early impact”?
2. Is the female directors’ voice being heard at the meetings? Are her contributions considered on par with the male directors?
3. Am I briefing the female director in prior to the meeting as to questions I may ask her and how she can contribute?
4. Are the other directors welcoming of the female director, ensuring she is across current processes and past board decisions?
5. Have I provided enough access to the executive leadership team and key documents for her to understand how the company operates? How will I manage this process in the future?
6. Are we assuming our job is done and not planning on appointing more female directors to the board in the future?
7. Am I giving and receiving feedback to/from the new director?

⁴ This quote is from a 2014 Korn Ferry report called “Beyond if not, why not: The pathway to directorship for women in leadership” <https://www.kornferry.com/institute/787-beyond-if-not-why-not-the-pathway-to-directorship-for-women-in-leadership>

STEP 2: BOARD EFFECTIVENESS REVIEWS

It is deemed good practice for boards to engage in regular board effectiveness reviews. This ensures individual directors have the opportunity to communicate their views on the board's decision-making processes and board dynamics. A good board culture should enable female directors to highlight any issues or concerns with the chair immediately, rather than waiting for an internal or externally conducted board review. The ultimate goal for chairs is to harness the diverse perspectives around the table to ensure the best decisions are being made for the future prosperity of the company.

For additional resources on recruitment visit the AICD website at www.aicd.com.au.

Jennifer Horrigan on the Chair Geoff Brunsdon's induction of her as a new director to the APN Funds Management board in 2012.

REAL ACTION

Geoff identified the best board workstreams/task forces for me to contribute to, that leveraged my prior executive experience. In the early months, this allowed me to demonstrate my capability and therefore establish rapport and credibility with other board members and the management team.

Geoff backed my appointment to concrete roles - Chair of certain Board Sub-Committees. These roles gave me an opportunity to demonstrate my competency and accelerate my integration with the board and management teams.

MODELLED THE 'CRAFT' OF BEING A DIRECTOR

Even if you have worked with or presented to boards extensively during your executive career, there is still a huge learning curve for any new director in getting up to speed quickly on the conduct, decision making process and board meeting rhythm and structure. I remember learning a lot from the way Geoff clearly outlined the discussion, the issues, the board's decision-making framework, correct record keeping, management of resolutions and many other board processes. Geoff mentored and coached me (and other directors) through these important skill sets. These steps or processes ensured I was inducted well and able to contribute fully as a director.



Follow us on twitter @30pctAustralia