30% Club
GROWTH THROUGH DIVERSITY

INVESTOR TOOLKIT FOR ENGAGING BOARDS ON DIVERSITY

The 30% Club believes that gender balance on boards not only promotes better leadership and governance, but further contributes to better all-round board performance, and ultimately increased corporate performance.

PURPOSE

This toolkit has been developed by the 30% Club to help investors, and those representing them, more effectively engage with boards of directors on this important issue.

THE BOARD'S ROLE IN DIVERSITY

Companies that value diversity of thought, and the associated benefits of an engaged, thriving, innovative and productive workforce, are committed to fostering an environment that enables that diversity to permeate and define the culture. This commitment begins at the board level – setting the tone from the top – and extends throughout all levels of the organisation.

A board that embraces its role in governing diversity and culture throughout the company is more likely to accelerate progress and reap the benefits a diverse workplace can bring.

We believe diversity is first driven by a well-considered and disclosed strategy that articulates why this issue matters to a company and how it is implemented by management and monitored by the board.

WHY DIVERSITY MATTERS

It has been shown that groups comprised of diverse individuals can make superior decisions in relation to complex problems when they are able to leverage the full extent of the insights and thought processes of their members. Diversity matters because it can help companies attract, retain and motivate quality staff, particularly when company culture is inclusive and people feel valued – not only for what they can contribute, but also for who they are. How a company deploys its human capital contributes to its ability to innovate, meet customer expectations, increase discretionary effort and manage risk.

The extent to which a board can effectively govern and guide the company's talent management efforts is reflected in its appreciation of the company's diversity challenges and opportunities.

Diversity can mean many things and it is agreed that discussions around diversity should not focus solely on gender. However, as women make up more than half the population and university graduates, and control most of the household budget, the 30% Club argues that gender is a good place to start conversations around diversity. The low representation of women in senior management and board positions reflects a range of structural and cultural barriers faced by women throughout their careers.

PREPARING FOR COMPANY ENGAGEMENT

Disclosures on corporate governance issues can be a litmus test for the board's overall attitude to an issue.

Analysts should be familiar with disclosure requirements and review a company's compliance with those requirements prior to an engagement meeting. Many Corporate Governance Codes require listed companies to set and disclose, on an 'if not, why not' basis, a diversity policy that includes measurable objectives for achieving gender diversity and also to disclose progress towards those objectives annually.

Compliance with these standards is a starting point, but we encourage companies to articulate a clear and meaningful strategy (and progress towards that strategy) on this issue and refrain from boiler plate explanations. Meaningful disclosure on corporate governance issues demonstrates a firm understanding of those issues. Nevertheless, there are limitations to how much information can be gleaned from public disclosures, and investors can engage with boards to gain a better understanding of how diversity at board level and below plays out in practice, especially where there are indicators that diversity might be an issue, i.e. a low rate of women on the board or in senior management.

Regardless of whether the engagement is with the board chair, chair of the nomination committee or CEO, a review of the below issues will indicate if there is a positive culture of diversity and assist the analyst to frame relevant questions accordingly.

The company's disclosures on diversity, which should be in the annual report as well as on its website, should give the investor a clear understanding of the policy and the board's attitude to diversity. A well-structured and disclosed policy will provide investors with a clear understanding of the following:

- Why the board believes the diversity policy is beneficial to the company, that is, an articulation of a compelling business case for gender diversity in the entity as part of the business strategy, and whether there are internal procedures to review the effectiveness of the diversity policy;
- The governance structure i.e. where responsibility lies with management and how it is reported to and monitored by the board;
- The percentage of women on the board and whether the board sets any measurable targets for increasing the number of women on the board;
- The percentage of women in senior executive roles and whether the board sets any measurable targets for increasing gender diversity at senior management;
- Initiatives the company has in place (if any) to address diversity in senior executive positions and whether those initiatives are measured and evaluated.

Initiatives might include tracking turnover/promotion rates by gender and digging into related issues, as well as part-time/flexible working and return from parental leave policies; and

- Any work undertaken or policies in place to address pay equity.
- Engagement by institutional investors on diversity sends a strong message to boards that diversity matters. Where a "disclosure gap" exists and the board's approach to diversity is unclear, investors should challenge the board chair, chair of the nomination committee or independent director about the policy and encourage more transparent disclosure.

The points below may assist investors prepare for an engagement on the issue of diversity:

1. COMMITMENT TO DIVERSITY (*BOARD AND MANAGEMENT*)

The annual report should contain a statement relating to the company's commitment to diversity and more importantly why the company believes that diversity is "good for business". Where disclosure is boiler plate or minimal it may be an indication that the board's attitude to diversity is tokenistic.

Where disclosure is poor, questions could relate to the company's commitment to diversity and inclusion. A review of statistics should be made and raised in the meeting if the board's views on diversity appear tokenistic.

2. GOVERNANCE OF THE DIVERSITY POLICY (*BOARD AND MANAGEMENT*)

The board is responsible for setting and disclosing its own approach to diversity, including awareness of potential biases in recruitment. Typically, the chair and/or the chair of the nomination committee will lead diversity efforts. Shareholders can monitor this through reviewing those disclosures, as well as in engagement, especially for boards with fewer than 30% women on the board.

Ideally the responsibility for the implementation of the company-wide diversity policy rests with the CEO who is accountable to the board, and it is a red flag if responsibility sits solely with HR. Where this has not been addressed in disclosures, questions should focus on where the responsibility lies.

Questions should be focussed around the accountability of the CEO and inclusion of progress as part of the KPIs to determine the CEO's performance pay.

3. USE OF EXTERNAL CONSULTANTS (*BOARD AND MANAGEMENT*)

External consultants can work with the nomination committee to seek a wide slate of director nominees, which may include candidates unknown to incumbent board members. Companies can also request that a certain percentage of candidates are women.

Does the company disclose that it uses external consultants? If not, why not? As you do not use external consultants, what process does the company use to ensure that the board comprises competent directors with a diverse range of skills and experience? In our view it appears that the lack of process has led to a board that lacks gender diversity – do you agree?

4. FOR COMPANIES WITH NO WOMEN ON THE BOARD (*BOARD ONLY*)

What factors have contributed to the male only structure of your board? Do you plan on changing your nomination processes? Do you believe the current gender make up of your board reflects customer, staff, shareholders and other stakeholders?

If the response has been unsatisfactory, then a discussion about voting against the re-election of the board chair, as well as the chair of the nomination committee could take place.

5. PAY EQUITY (*BOARD AND MANAGEMENT*)

Investors expect companies to undertake an annual pay equity audit. While disclosure of results is not expected, the questioning should be focused around what the board has done to address the issues raised by the audit.
Check for disclosure on pay equity. If there is no disclosure consider the following questions:

We could not find disclosure

regarding pay equity audits. Why hasn't the board undertaken a gender pay audit recently? We believe there is a risk that when pay equity issues are not addressed there could be a departure of talented women and this represents a cost to the company.

6. PROGRAMS TO IMPROVE DIVERSITY AT SENIOR EXECUTIVE RANKS (*BOARD AND MANAGEMENT*)

An indicator of companies which take diversity and inclusion seriously i.e. it is part of their DNA, is having comprehensive programs aimed at identifying and progressing high potential women. Such programs in time increase the pool of talented women available for listed company boards.

Check for disclosure on programs for the advancement of senior executive women as well as the disclosed statistics.

If there is no disclosure consider the following questions and comments:

We could not find disclosure on programs to advance high potential women in your company. There is considerable research regarding the importance of diversity at senior executive ranks. What is limiting the company in implementing such programs? There may be further questions if the reported statistics to percentage of women in senior management has not changed.

KEEP ASKING AND MONITOR PROGRESS

We recommend investors record their engagements with investee companies and track progress in order to hold companies accountable year-on-year. The dialogue about diversity should not be a one-off; ideally the conversations should be ongoing and mature over time.

Where there continues to be no evidence of board diversity, and engagement with the board has not led to any satisfactory outcome, investors should consider voting against the re-election of the chair of the board or nomination committee.

FOR MORE INFORMATION

There is a wealth of information available on both the benefits of increased diversity and the strategies that can be used to improve it.

Further information, including the growing body of research demonstrating a link between diversity and company performance can be found on the 30% Club's website.
http://30percentclub.org/resources/research-articles