AUSTRALIAN INSTITUTE
of COMPANY DIRECTORS

HEIDRICK & STRUGGLES

2018

Beyond 200

A study of gender diversity in ASX 201-500 companies

ABOUT US

The Australian Institute of Company Directors is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 40,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

www.companydirectors.com.au

ABOUT HEIDRICK & STRUGGLES

Heidrick & Struggles (Nasdaq: HSII) serves the senior-level talent and leadership needs of the world's top organisations as a trusted advisor across executive search, leadership assessment and development, organisation and team effectiveness, and culture shaping services. Heidrick & Struggles pioneered the profession of executive search more than 60 years ago. Today, the firm provides integrated leadership solutions to help our clients change the world, one leadership team at a time.®

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A message from Elizabeth Proust AO FAICD

For many years the discussion of gender diversity on boards has largely been confined to Australia's largest organisations — the ASX 200. Companies further down the ASX have received very little attention. This is despite the fact they contribute significantly to the Australian economy and our governance landscape.

Of course, it's important to acknowledge there are differences between the ASX 200 and the lower reaches of the ASX 500. Boards beyond the ASX 200 tend to be smaller, with a lower rate of turnover. And cost is more likely to be a limiting factor, both in terms of remunerating independent directors and employing professional search firms to provide a balanced list of candidates for a board position.

Given these differences, I believe we need to take a more nuanced approach to achieving greater gender diversity in the ASX 201-500 — but that doesn't mean progress can't be made.

This report has confirmed our expectations. There are relatively few women on ASX 201-500 boards.

We need to consider what can be done to increase female representation on these boards from the current figure of 15.8 per cent. This research presents an opportunity for the Australian Institute of Company Directors (AICD), the 30% Club and other interested groups to explore gender diversity on the boards of small cap companies.

For example, direct advocacy such as having chairs talk about the benefits of diversity on their boards, has been very effective and should continue. The AICD must also look to ensure the mentoring program we run for talented board-ready women gives appropriate consideration to both small and large cap boards.

We expect to see a growing number of female entrepreneurs floating their own companies and we look forward to generational change as millennials, who have grown up with diversity, take over as the dominant group in the workplace.

This report represents an important step forward by shining a light on some of the issues that have previously gone unremarked. We would like to thank Heidrick & Struggles for their support in helping to bring it to fruition.

Elizabeth Proust AO FAICD
Chairman
Australian Institute of Company Directors

Contents

A message from Heidrick & Struggles

Heidrick & Struggles is delighted to support the AICD's *Beyond 200* study. We thank AICD for working with us to take a closer look at gender diversity on ASX 201-500 boards.

The study reveals that female representation on ASX 201-500 boards stands at just 15.8 per cent — significantly lower than the 27.9 per cent found on ASX 200 boards. Along with the statistics, this report considers why this is the case and the steps we can take to help aspiring female directors obtain these roles.

As a global leadership advisory firm, diversity and inclusion are at the heart of what we do. We have a responsibility to guide boards and senior leadership teams towards hiring decisions that will produce the best outcomes, and we believe that diversity is fundamental to this goal.

Research has shown that a board needs a minimum of 30 per cent female representation to gain the full benefits of diversity such as enhanced decision making, better governance and improved financial performance. Today's board members also have to navigate environments where survival can depend on an organisation's ability to innovate and anticipate disruption. Boards are most likely to flourish when true diversity brings together a range of perspectives, experiences and skills.

This report suggests that many small cap companies are missing out on the benefits of diversity, but there are also signs of positive change. The ASX Corporate Governance Council has recently suggested enhancements that will require ASX 300 companies to join larger companies in committing to diversity initiatives. Younger companies — those that listed within the past five years — have a higher percentage of women on their boards. And millennials will soon dominate the workforce — a demographic that has grown up accepting diversity as the norm rather than an aspirational goal.

In the meantime, Heidrick & Struggles will continue to support the global diversity campaign, the 30% Club. Many of our offices have signed a voluntary code of conduct committing to the Club's objectives. We will also continue to draw on our 30 years of experience in Australia, and our deep understanding of how diversity and outstanding leadership drive high-performing organisations, to provide Australian companies in search of a new board member or senior executive with a diverse and balanced slate of candidates. We firmly believe that diversity and inclusion can help companies of all sizes to gain a competitive edge and thrive at home and internationally.

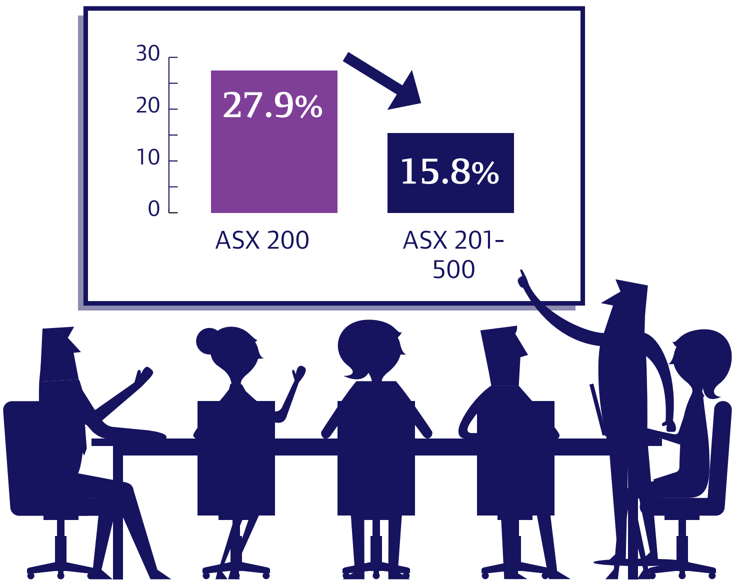
We hope this report will take us a step closer to gender diversity in the ASX 201-500 and that you find it both interesting and informative.

Karen Fifer
Managing Partner, Regional Consumer Practice, Australia
Heidrick & Struggles

Guy Farrow
Managing Partner
Australia
Heidrick & Struggles

Key findings

Female representation on company boards
GREATLY DECLINES
beyond ASX 200



Only **16%**
of ASX 201-500
boards have ACHIEVED or
SURPASSED the **30%** target

Over **50%**
of ASX 201-500 boards comprise

5 DIRECTORS OR FEWER

Companies listed in the past five years show GREATER gender diversity

83

Number of companies **under** five years old

25.3% have **30%** or more women

32.5% have **ZERO** women

214

Number of companies **over** five years old

13% have **30%** or more women

39.7% have **ZERO** women

ASX 200 chairs drive gender diversity on their ASX 201-500 boards

23 chairs on both ASX 200 and 201-500 boards

22.9%

Female representation on ASX 201-500 boards chaired by ASX 200 chair

15.8%

Female representation on ASX 201-500 boards

Gender diversity challenge for small cap boards in male-dominated industries*

ASX 200

74 Female directors

24.1% Female representation

ASX 201-500

45 Female directors

10.3% Female representation

**Figures represent combined construction, electricity, gas, water and waste services and mining industries*

Executive summary

It is now widely accepted that diversity in the boardroom supports good governance. Over the past few years there has been a particularly strong focus on the benefits gender diversity can bring to board performance.

It is now widely accepted that diversity in the boardroom supports good governance. Over the past few years there has been a particularly strong focus on the benefits gender diversity can bring to board performance.

In January 2015, 19.4 per cent of ASX 200 board members were women.[1] In April that year the AICD set a target of 30 per cent female representation by the end of 2018. By 30 June 2018, the figure had risen to 27.9 per cent.

However, companies further down the ASX ranking have largely escaped attention. This study takes a step towards rectifying that by analysing gender diversity on all boards in the ASX 201-500. The aim is to identify barriers that need to be overcome and highlight opportunities for improvement.

This is a summary of the key findings.

LACK OF GENDER DIVERSITY ON SMALL CAP BOARDS

- On average, 15.8 per cent of the directors on ASX 201-500 boards are female. This figure falls from 17.1 per cent in the ASX 201-300 through to 15.8 per cent in the ASX 301-400 to just 14.1 per cent in the ASX 401-500.
- Evidence suggests that 30 per cent female representation is the required critical mass to help erode homogeneity on boards and, ultimately, promote better governance. Only 16 per cent of ASX 201-500 companies have achieved or surpassed this figure compared with 42 per cent of companies in the ASX 200.

MARKET EXPECTATIONS

- Just 2.5 per cent of ASX 200 companies have no women on their board. In the ASX 201-500 the figure is 38 per cent. Institutional investors who invest in this space are already exerting pressure on small cap companies to improve gender diversity.

[1] http://aicd.companydirectors.com.au/~/media/cd2/resources/advocacy/board-diversity/pdf/05180-4-coms-gender-diversity-quarterly-report-deb15-a4_v6.ashx

SPECIFIC CHALLENGES IN CERTAIN SECTORS

- The discrepancy between small and large cap boards is particularly marked in the traditionally male-dominated sectors of construction, electricity, gas, water and waste services, and mining. Females constitute just 10.3 per cent of these boards in ASX 201-500 companies, compared with 24.1 per cent in the ASX 200.
- On average, small cap companies have smaller boards than large cap companies — 5.5 board members, compared with 7.5 — with a narrower matrix of skills.

CHAIRS OF LARGE CAPS EXERT THEIR INFLUENCE

- Approximately 10 per cent of ASX 200 chairs also chair companies in the ASX 201-500. Where this crossover occurs, the percentage of women on the small cap boards is 22.9 per cent, markedly higher than for small caps overall.

GREATER DIVERSITY IN RECENTLY LISTED COMPANIES

- Newer companies tend to rate better in terms of gender diversity. Of the 83 companies that listed on the ASX in the past five years, 25.3 per cent have 30 per cent or more women on their boards. This falls to 13 per cent on the boards of companies that listed before 2013. In addition, there is a higher proportion of all-male boards in the cohort of companies listed before 2013 — 39.7 per cent vs 32.5 per cent for those listed after 2013.

METHODOLOGY

The data was obtained by analysing the composition of all boards in the ASX 201-500. It is correct as of 30 June 2018.

The constituents of the ASX All Ordinaries are based on the June 2018 Quarterly Rebalance of the S&P/ASX Indices. In June, there were only 496 companies in the ASX All Ordinaries due to the delisting of four companies since the official rebalances. Companies that drop out of the ASX 201-500 will not be officially replaced until the next official rebalance in March 2019.

Along with the data analysis, this report includes the thoughts and opinions of experienced chairs and directors who are familiar with both large and small cap boards. It concludes with comment from Tony Featherstone, Consulting Editor of the Governance Leadership Centre, who examines the trends likely to influence the appointment of female directors in the ASX 201-500 in the future.

Use of "large cap" and "small cap"

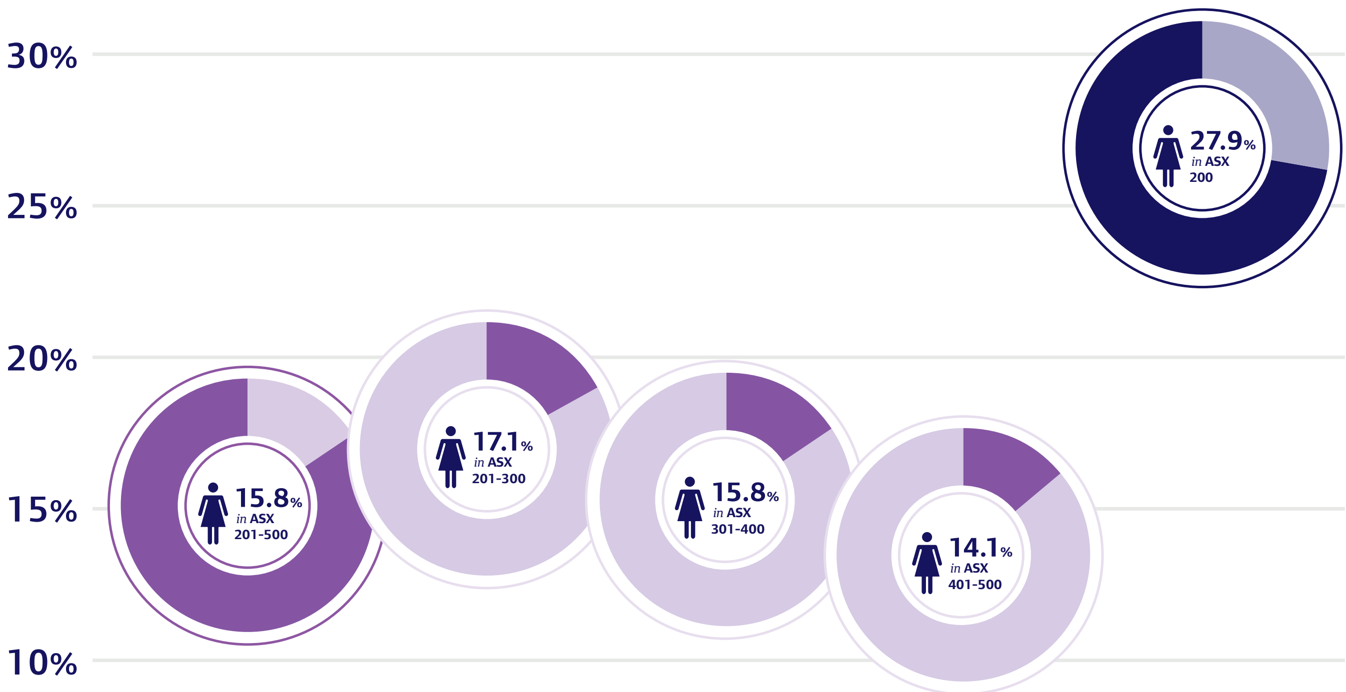
For this report, “large cap” is used to describe companies in the ASX 200, “small cap” to describe companies in the ASX 201-500.

Currency

All figures quoted in this report are in Australian dollars, unless otherwise noted.

Lack of gender diversity on small cap boards

Female representation on company boards greatly declines beyond ASX 200



Female representation on ASX 201-500 boards is just 15.8 per cent. This falls from 17.1 per cent in the ASX 201-300 through to 15.8 per cent in the ASX 301-400 to 14.1 per cent in the ASX 401-500.

These figures are a matter for concern. Evidence suggests that 30 per cent female representation is the required critical mass to ensure women are not seen as "outsiders" or representing a "woman's point of view". Their voices and ideas are also more likely to be heard. This helps erode homogeneity on boards and ultimately, promotes better governance.[2]

The story is quite different on ASX 200 boards. As of June 2018, the figure was 27.9 per cent — an increase from 19.4 per cent in 2015. In April that year the AICD set a target of 30 per cent females on ASX 200 boards by the end of 2018 and began actively promoting gender diversity in this space, tracking developments and producing regular reports. This focus on gender diversity also attracted considerable interest in Australia's largest companies from the media and the investor community.

[2] https://www.wcwonline.org/pdf/CriticalMassExecSummary.pdf

Companies further down the ASX ranking have not experienced the same scrutiny. It is possible that this, along with the lack of a specific target for improvement, has contributed to the discrepancy in gender diversity between small and large cap boards.

Richard Cawsey GAICD is concerned but not surprised by the statistics. As chair of three small cap companies — ASX-listed Redbubble and two private companies — he regards diversity as an undervalued asset.

"Having a wide range of voices and life experiences around the board table brings breadth of thinking, grounding and creativity to companies of all sizes," he says. "Gender diversity is just one aspect of that, but, as half of the population is female, it makes sense to focus on the most pressing challenge."

Sibylle Krieger FAICD, chair of small cap Xenith IP Group, believes that small caps need to understand that diversity and adaptability underpin sustainable growth, particularly in a time of very rapid change.

"Australian companies have a long history of male-dominated boards comprising mainly ex-CEOs from the company's own sector," she says. "We still need sector expertise, of course, but we also need the range of perspectives and skills that only diversity can deliver."

"Having a wide range of voices and life experiences around the board table brings breadth of thinking, grounding and creativity to companies of all sizes."

A DIFFERENT CHALLENGE

Along with lack of attention, it's possible that fundamental differences in the style of governance between large and small cap companies have had an impact on how ASX 201-500 boards are constituted.

"In small caps it's common for the founders and large investors to take up most of the seats on what's often a very small board," says Cawsey. "And, when you're in the high pressure early stages of being a public company, there's strong motivation to surround yourself with people you're confident you can trust. This is where unconscious bias can kick in as we turn to our established networks and look for people just like us. But, rather than asking who we can trust, I believe we should be asking how we can make the best decisions as a group. That means looking beyond the people we know."

Where resources are limited there can also be relatively few opportunities for aspiring directors, male or female.

"Over the past 10 years I've been a director of four or five companies with a market cap in the $20 million-$50 million range," says Graham Bradley AM FAICD, a professional director whose current board positions include chairing GrainCorp and EnergyAustralia. "In this space, you have to keep costs low because you're chronically short of capital, so you can't afford to pay too many day-to-day directors. Those you do have are bound to be more involved in the day to day operations of the organisation."

This blurring of the line between the board and management can lead companies to search exclusively for directors with senior executive experience. In some cases, this limits opportunities for women in particular.

> "Smaller companies tend to have fewer board appointments, limited budgets and, in some cases, a fairly myopic view that they must have someone with board and CEO experience in their particular sector."

"Smaller companies tend to have fewer board appointments, limited budgets and, in some cases, a fairly myopic view that they must have someone with board and CEO experience in their particular sector," says Debbie Goodin MAICD, who is a director of Macquarie Atlas Roads, APA Group, Senex Energy and oOh! Media and has experience across both large and small cap boards. "There are many mining and industrial companies below the ASX 200 that have relatively few women in their workforce, certainly at a senior level, so, while you may say you're opening the search to women, your parameters could effectively shut them out."

Cawsey sees benefits in having directors with senior executive experience, particularly when their experience is at the scale of operation to which the company aspires. However, he doesn't consider that requirement to be, in any sense, universal.

"I think that making senior executive or CEO experience a primary requisite is an unnecessary brake on bringing diversity to the boardroom," he says. "In the companies I chair and advise we haven't found it that difficult to create board roles that are accessible to a far wider pool of candidates. We simply put aside the narrow view of an 'ideal' director in favour of a creative approach to reviewing the skills mix required to support management while effectively governing a small cap company. That enables us to improve diversity while broadening the pool of well-experienced directors."

George Savvides FAICD, chair of both large and small cap boards, suggests that the composition of the shortlist of candidates could be a better test of good governance around gender diversity than the final selection.

"At the moment, there are fewer women than men working in some sectors so there's a smaller pool of available talent," he says. "I have no doubt that this will change in the future, but, while we're in a catch-up situation, we may need to dig a bit deeper and search a bit harder to make sure we end up with a balanced shortlist. In my view, this will inevitably lead to a more balanced outcome."

A DEEPER SEARCH

Advertising the position is one way to reach quality candidates outside existing networks. Another is to use a professional recruitment firm.

"We always provide a diverse list of candidates, and I would expect other search firms to have a similar policy," says Guy Farrow, Managing Partner of Heidrick & Struggles Australia. "And, while some poorly resourced small caps do go it alone, there are many that understand from the outset that a beachhead of good governance will help them to grow and achieve their goals."

"It's a matter of balancing cost against risk and reward," adds Karen Fifer, Managing Partner of Heidrick & Struggles' Regional Consumer Practice, Australia. "Most small caps aspire to be larger caps so they should ask themselves whether they can afford not to leverage the networks, skills and robust assessment frameworks of professional search firms."

Susan Forrester FAICD, a professional company director with experience across ASX-listed, public and private companies, recommends that women take the initiative by revisiting their professional networks.

"I serve on three listed small cap boards, and all of my breaks came from my connections with retail and institutional stockbrokers, investment bankers and top-tier law firms — people who can see the deal pipeline coming through," she says. "I encourage the women I mentor to develop these kinds of connections so they'll hear about forthcoming initial public offerings (IPOs) and can find out what skill sets these companies are looking for."

Farrow has noted a trend for directors to develop a balanced portfolio that might include a small cap along with a large cap, government, private equity and not-for-profit board.

"In general, directors prefer to build this type of portfolio from the front, searching first for a role in the ASX 200 then rounding it out with the others," he says. "This could have a positive influence on the gender balance of smaller cap boards that value large cap experience."

This top-down approach could also make practical sense for any director at the start of his or her boardroom career.

"Small caps are not necessarily a good training ground for people who want a career as a director of larger public companies," says Bradley. "Companies with just three or four people on their boards can't afford to have trainee directors. Large companies have a bit more room to take a risk that someone with talent and potential will grow into the director role, and I've seen many top 100 companies do that."

A NEED FOR RESPECT

Andrea Staines FAICD, a director of ASX 300 SeaLink Travel, is concerned that both men and women are being discouraged from considering a seat on a small cap board.

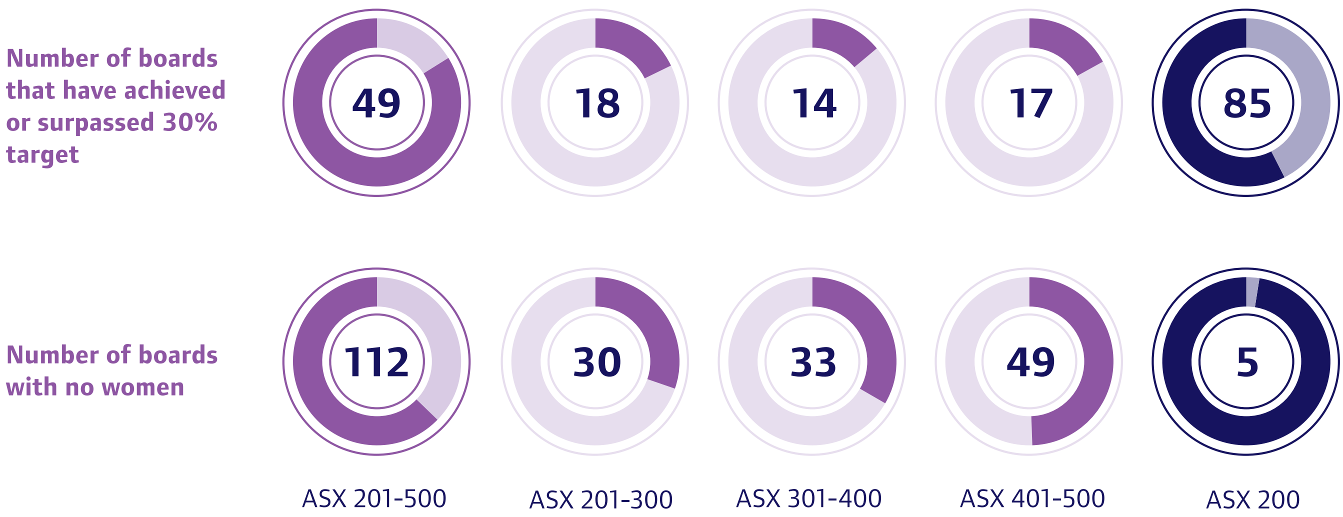
"I think we're conditioned to think of small caps as failures in the board space," she says. "Discussions tend to focus exclusively on the ASX 200, and I think that's a disservice to small caps, particularly as there's so much to be gained from sitting on one of these boards, precisely because they tend to be so much more hands on. I think that anything we can do to improve respect for small caps will result in better-experienced board directors on the boards of all companies, including the ASX 200."

"It's all well and good having a diverse range of voices but, to be inclusive, you have to listen to them."

Cawsey believes that, over the longer term, it's reasonable to expect that true diversity will drive financial performance.

"I'd be happy to be judged on that," he says. "I also believe there's still room for education about what diversity really means, the benefits of diversity at the board level and the difference between tick-the-box diversity and genuine inclusion. It's all well and good having a diverse range of voices but, to be inclusive, you have to listen to them. That will only come when diversity is accepted as a major aspect of governance."

Market expectations



In April 2018, there were 112 companies in the ASX 201-500 with no women on their board. This broke down to 30 in the ASX 201-300, 33 in the ASX 301-400 and 49 in the ASX 401-500. By comparison, there are just five all-male boards in the whole of the ASX 200.

"These figures are unacceptable," says Louise Davidson, CEO of the Australian Council of Superannuation Investors (ACSI). "ACSI and our members believe that great boards are characterised by diversity of thought, gender, skills and ages. Companies without sufficient board diversity risk falling behind their competitors and failing to attract investor capital."

ACSI members include 38 Australian and international asset owners and institutional investors. Collectively, they manage over $2.2 trillion in assets and own, on average, 10 per cent of every ASX 200 company.

"ACSI and our members see board gender diversity as a significant business issue and necessary for the long-term sustainability of companies," Davidson continues. "When we meet with smaller companies we always discuss how and why they have populated their boards and test their thinking on gender diversity. We believe those discussions, and our voting policy, are making a difference and promoting change."

Simon O'Connor, CEO of Responsible Investment Association Australasia (RIAA), anticipates that an increase in appetite for investing outside of the ASX 200 will bring greater pressure to bear on small cap boards.

"Many of the investors understand how greater diversity of thought around the board table can enhance outcomes and, increasingly, they're communicating their desire to see more diverse boards on ASX-listed companies," he says.

"Over time I believe investors will regard diversity as an important indicator of how well-equipped small cap companies are to navigate the diverse array of operating risks."

Guy Farrow, Managing Partner of Hedrick & Struggles Australia, points out that today's small cap could be tomorrow's large cap.

"History has shown that, over a 10-year period, there is significant change in the composition of the ASX 100", he says. "Any company that aspires to break into the higher reaches of the ASX needs to consider how their governance principles will create a foundation for success and enable the company to stand up to increasing scrutiny from investors."

SWIFT RESPONSE TO PRESSURE

Martin Lawrence, a director of governance advisory service for institutional investors, Ownership Matters, has already seen the impact of pressure from institutional investors.

"I'm aware of quite a few companies in the below [ASX] 200 area that had been completely recalcitrant on the issue of diversity until they received a letter suggesting an institution would vote against them if they didn't put at least one woman on the board," he says. "It's remarkable how swiftly they made the change."

However, he also points out that, once outside the ASX 200, the level of institutional ownership starts to fall away.

"I don't see this changing much in the future because of liquidity issues," he says. "Institutional investors might need to purchase most of the existing stock to gain 5 per cent representation. An illiquid marketplace could then make it very difficult for them to exit if they needed to. Also, management has the power to punish investors if they believe you're offside so you could see your share of the company diluted and, again because of reduced liquidity, have to buy back in at a very high cost. Fund managers can do their best but I'd say the pressure will have to keep coming from asset owners."

STRUGGLING TO MEET TARGETS

Smaller companies in particular may be finding it difficult to meet diversity targets.

"The financial resources available to a small cap company are often limited, and this, in turn, is reflected in total board remuneration and the number of directors. Board members might be limited to three, which is the minimum number required by the Corporations Act," says Richard Close, director of institutional distribution at Antares. "The company may be in a crucial growth or development phase that requires scarce capital and/or highly specialised knowledge input. In this case the board is, more often than not, regarded as a source of specialist or professional advice that is cheaper than external professional advisors and reduces the need to hire more full-time employees. Under these circumstances, board recruitment is likely to be highly specialised."

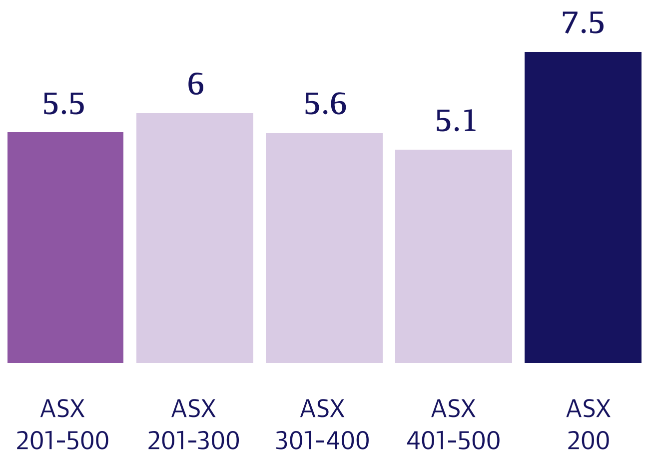
Nevertheless, Davidson believes that boards of all ASX 300 companies with poor gender diversity can expect scrutiny from investors until a reasonable gender balance is achieved.

...Boards of all ASX 300 companies with poor gender diversity can expect scrutiny from investors until a reasonable gender balance is achieved.

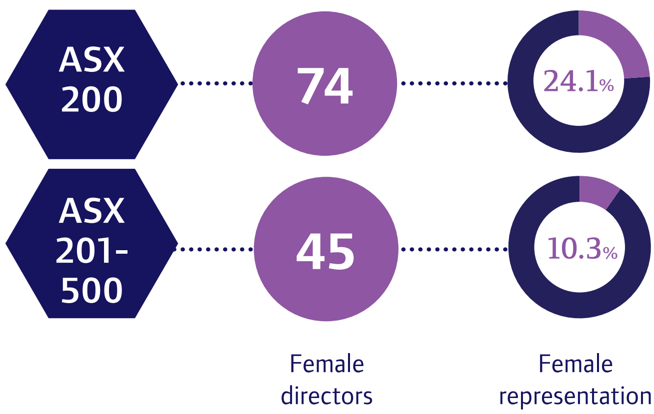
"ACSI has been discussing board gender diversity with companies for years and, this year, we plan to increase the pressure on companies to meet our target for women on boards," she says. "As businesses become larger and more complex they require a whole new level of governance and behaviours and the best board talent available. This recognition is likely to drive some improvement in board gender diversity, though I doubt it will play as important a role in driving change as investor pressure."

Specific challenges in certain sectors

Average board size



Male-dominated industries



The discrepancy between the degree of female representation on large and small cap boards is particularly marked in the traditionally male-dominated sectors of construction, electricity, gas, water and waste services and mining. Women occupy just 10.3 per cent of seats on the boards of companies in these sectors in the ASX 201-500, compared with 24.1 per cent in the ASX 200.

One of the challenges confronting these companies is that there are still relatively few women employed in these sectors, particularly at the highest levels. Larger companies may accommodate this relative lack of industry experience by appointing female directors from outside the sector to complete a broader matrix of skills. However, small cap companies tend to have smaller boards — on average, fewer than six people, compared with 7.5 in ASX 200 companies — and 50 per cent of small caps have boards with five members or fewer. This, along with a tendency for slower turnover on small cap boards, can limit opportunities for appointing women.

"A typical top 100 board might have eight, nine or 10 directors with a tenure of six to nine years, which means at least one vacancy is likely to arise every year," says Graham Bradley AM FAICD who among other board positions, is the Chair of GrainCorp and EnergyAustralia. "Smaller companies might have only three or four directors, often founders and early investors who could stay on the board for 10 years or more, so there might only be one vacancy every five to 10 years. Even if every new director appointed was a woman, you're not going to achieve the same sort of gender balance that is possible in larger companies within the same timeframe."

The healthcare sector is unusual in having a very extensive, well-developed and mature pool of senior executive women.

Fiona Harris FAICD, a director of Oil Search Limited, BWP Trust and Perron Group, has a background with resource companies, including some in the ASX 201-500 space.

"In my experience, small cap resource companies tend to be single project, single commodity organisations focused on trying to get their project into production before running out of cash," she says. "They will try to keep costs to a minimum so, in the earlier stages, this can mean they only have the required minimum of three directors — and these are often the people who put the project and company together.

"The reality is if you're a three-person board struggling to keep a company alive on a diminishing amount of cash, you won't be adding the cost of an additional director to your cash burn rate unless you're convinced it really is a necessary expense. And companies with relatively few employees are likely to outsource functions such as investor relations so women who have a more diverse background without a 'hard' qualification in finance or STEM (science, technology, engineering and maths) may find it difficult to find a role in this space."

LIMITED SECTOR EXPERIENCE

As former chair of the AICD, Rick Lee FAICD championed board diversity and helped establish initiatives such as the Chair's Mentoring Program that have been instrumental in driving change. He chairs the boards of the ASX 200 company Oil Search and ASX 300 Ruralco Holdings, both of which have surpassed 30 per cent female representation. However, he advises his own mentees not to accept small cap board positions in areas such as mining, gas and information technology (IT) unless they're specialists in that area.

"I believe it can be fairly tough to come in from the outside and contribute to the more entrepreneurial companies in this sector," he says. "It's been my view since we first launched the diversity initiative a decade or so ago that the real challenge is helping women to gain the deep industry knowledge required on these kinds of boards. In an ideal world it would be good to have the diversity targets apply right down through the ASX, but I think the reality is that, first, we need more female representation in the senior management ranks so they can gain relevant hands-on business experience."

Laurie Brindle, who chairs ASX 200 Viva Energy and ASX 300 National Storage, also sees this as a priority.

"Larger organisations in the traditionally male-dominated industries have been focused on this for some time," he says. "The emphasis needs to be on providing a pathway to opportunities for women to compete for, and to secure, senior management roles with direct profit and loss accountability."

The healthcare sector is unusual in having a very extensive, well-developed and mature pool of senior executive women.

"When I took up my position as Chair of Macquarie University Hospital in Sydney, which is one of my small cap companies, it was no surprise to find the board was already gender balanced," says George Savvides FAICD, chair of both large and small cap boards. "Healthcare and aged care are massive and fast-growing sectors, and they're parts of the ecosystem where diversity has become perfectly normal. This hasn't always been the case — medical students were once predominantly male — so it's a good example of how things can change."

Savvides is also encouraged to see more women studying STEM subjects.

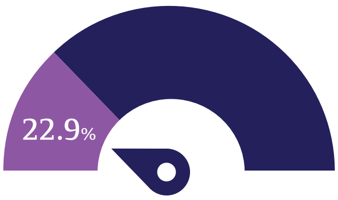
"My profession is engineering, and, when I was a student at the University of New South Wales, I think there was just one female on the undergraduate course," he says. "Now it's totally different with strong female representation in all aspects of science and engineering. And I believe this next generation of leaders in corporates will produce the next generation of directors."

"Healthcare and aged care are massive and fast-growing sectors, and they're parts of the ecosystem where diversity has become perfectly normal."

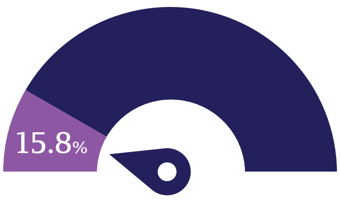
Chairs of large caps exert their influence

ASX 200 chairs drive gender diversity on their ASX 201-500 boards

chairs on both ASX 200 and 201-500 boards (10%)



Female representation on ASX 201-500 boards chaired by ASX 200 chair



Female representation on ASX 201-500 boards

Approximately 10 per cent of ASX 200 chairs also lead at least one board in the ASX 201-500. Where this crossover occurs, the percentage of women on the small cap boards is markedly higher than the average for this cohort. Could these chairs be helping to drive gender diversity deeper into the ASX 500?

Simon O'Connor, CEO of Responsible Investment Association Australasia (RIAA), thinks this might be the case.

"We believe that gender diversity in the ASX 200 will deliver stronger boards with more diverse insights," he says. "As a result, they'll be better able to manage the complex companies they are overseeing and, as these benefits become ever more evident to board members of large caps, we expect to see them exert their influence on the composition of smaller cap boards."

For some time, diversity has been a high priority for the chairs of large cap boards.

"The importance of gender and other types of diversity has been strongly reinforced in larger companies," says George Savvides FAICD, who chairs both large and small cap boards. "Chairs of ASX 200 companies now work hard to make sure we have fair representation on our boards, and it's natural that we should ask the same questions when we're working in smaller caps, where gender diversity is nowhere near as apparent. Also, on my smaller cap boards, I find the relationship between the CEO and chair isn't limited to the formal side of governance but extends to a coaching role. I'm happy to share the experience I've gained with larger corporates, including my positive experiences with diversity."

Graham Bradley AM FAICD, a professional director whose current board positions include chairing GrainCorp and EnergyAustralia, sees wide recognition among the directors and, particularly, the chairs of larger companies that there are many benefits associated with both gender and cognitive diversity.

"I think that, over time, they will help to influence smaller companies when it comes to increasing the number of women on the board," he says. "But I also think it's going to be a slow process because there's a lower rate of turnover."

Rick Lee FAICD is the Chair of the ASX 200 company Oil Search and ASX 300 Ruralco Holdings. He has also been mentoring aspiring female directors for close to a decade and advises most to stay in their executive role for longer.

"I understand why they want a career as a director, but in my mind — and I know this is a gross generalisation — the real value in the small cap boardroom comes from people who have effectively run businesses or parts of businesses," he says. "On small cap boards, limited resources mean the directors often end up in a quasi-executive role so it's natural to look for people with hands-on experience."

Debbie Goodin MAICD is a director of Macquarie Atlas Roads, APA Group, Senex Energy and oOh! Media with experience across both large and small cap boards. She believes that all would-be directors must also understand the particular risks associated with small cap companies.

"The lack of opportunity can make any board tempting, but my advice is to do very thorough due diligence before joining a small cap board because the financials may not be as robust as in a larger company," she says. "You should also be aware that, where the owners or directors with large shareholdings take up most of the seats, it can be difficult to influence the appropriate level of corporate governance. I know directors who have gone into these kinds of companies and been challenged by very low corporate governance standards around issues like continuous disclosure, which are quite high risk."

"All directors must, of course, take their fiduciary duties seriously," Bradley adds. "But many small caps struggle to meet all of the ASX Corporate Governance Principles and Recommendations because they're just not set up to operate in the same way as larger companies."

AN UNDERUTILISED POOL OF TALENT

Laurie Brindle, Chair of ASX 200 Viva Energy and ASX 300 National Storage, believes that many chairs of large caps recognise the economic benefits of gender diversity.

"The female workforce represents an underutilised talent pool in an environment where talent is often scarce."

"The female workforce represents an underutilised talent pool in an environment where talent is often scarce," he says. "This provides an important opportunity, and I believe the flexible workplace practices of larger companies may flow down and precipitate change in smaller companies."

Greater diversity
in recently listed companies

Companies listed in the past five years show greater gender diversity

30% or more women

Zero women

Under 5 years (83)
Over 5 years (214)

Of the 83 companies that listed on the ASX in the past five years, 25.3 per cent have 30 per cent or more women on their boards. This compares with 13 per cent on the boards of companies that listed before 2013. Also, fewer of the more recently listed companies have an all-male board — 32.5 per cent versus 39.7 per cent.

This doesn't surprise Richard England. As Chair of Qantm Intellectual Property and a director of Bingo Industries, both of which listed within the past two years, he's confident that newer companies are more aware of the need for diversity.

"Certainly, proxy advisers are looking to see that women are represented on boards, but I think the trend for greater diversity has more to do with benefits than pressure from institutional investors and shareholders," he says. "The companies I'm involved with are committed to achieving a minimum of 30 per cent female representation and I believe that all smaller cap boards should embrace that concept. In my experience, a diverse board brings a richer and more interesting board discussion and a wider range of opinions."

Sibylle Krieger FAICD is Chair of Xenith IP Group, whose IPO was less than three years ago. She makes the point that most companies want to employ women, market to women, or both — and this is much harder to do successfully without women in the senior ranks, including on the board.

"Xenith operates in a professional services environment, which is still dominated by males with predominantly STEM training," she says. "We're doing our best to diversify our workforce and our service offering. Our board is half men and half women, with a female chair, and our Chief Financial Officer is a very capable woman. I think this degree of diversity at the highest levels sends a clear message about our values and how we see the future."

LEARNING THE DETAILS

It is possible that recently listed companies are more prepared to look beyond their own networks. For example, when National Veterinary Care needed a chair to guide it through its IPO, it chose Susan Forrester FAICD, a professional company director with experience across ASX-listed, public and private companies who had never worked in that particular sector.

"My first reaction was to decline the invitation, but the company made it clear that I had the commercial skills they needed in professional services along with the experience that came from establishing strategic human resources frameworks and remuneration structures in people-focused businesses," says Forrester. "I think, as women, we need to trust ourselves and accept that, as long as we have the appropriate skills, we can quickly learn the sector dynamics."

Andrea Staines FAICD, a director of ASX 300 SeaLink Travel, expects to see more board members without the classic, large corporate linear career history.

"Many newer companies are aware that a traditional background doesn't necessarily cut it anymore."

"Many newer companies are aware that a traditional background doesn't necessarily cut it anymore," she says. "In the retail space, for example, experience in areas such as digital marketing and behavioural economics can be as important as management skills. I think this will have an impact on diversity as all boards are forced to search further afield."

SPECIAL CONSIDERATION

Opinions differ as to whether newly listed companies deserve special consideration.

Laurie Brindle, Chair of large cap Viva Energy and ASX 300 National Storage, suggests there are practical reasons why even those committed to gender diversity might need more time to achieve their goals.

"Recently listed companies often bring with them key management personnel, including board members, inherited from their pre-listing operating history," he says. "The imperatives of private or family companies are often different from those of the long-established large public companies that make up much of the ASX 200. Furthermore, smaller cap companies often have registers containing significant shareholdings held by founders or sponsors, particularly at the board level. The interaction of these factors with the fact that smaller companies typically have fewer board members means that new small caps are likely to have less freedom in achieving the desired diversity at the board level."

By contrast, Louise Davidson, CEO of the Australian Council of Superannuation Investors (ACSI), sees no reason for them to be treated differently.

"It's true that many smaller companies are at a very early stage of development, may not even be generating revenue and often have only three or four directors," she says. "That said, in order to grow successfully and sustainably, it's important that they consider the deepest possible talent pool of directors. Companies without any women directors are not just out of touch with community expectations; they're out of step with their peers."

Things could continue to change as the number of female entrepreneurs increases and more newly listed companies are run by women. And Krieger predicts that generational change will eventually make diversity an accepted norm.

"The demographic that still questions the value of having appropriately skilled women on boards is a minority that will probably exit the scene over the next decade," she says. "Younger people notice lack of diversity, and not in a good way. By 2025, 75 per cent of the workforce will be millennials, and they treat diversity as a given. I'm sure they're surprised that we're still having this conversation."

Promising future for gender diversity in small-company governance

Tony Featherstone
Consulting Editor
Governance Leadership Centre

Trends suggest small cap companies will speed up appointment of female directors.

Governance change usually starts in large companies and gradually moves to smaller ones. That may be true of the push for better gender diversity on boards. In time, smaller ASX-listed companies are expected to follow the lead of ASX 200 companies and appoint more women to their boards.

However, it is simplistic to extrapolate the experience of ASX 200 companies with gender diversity to small cap companies or assume similar gains will occur.

Far less is known about small cap boards than boards of large companies. Academic and market research on boards, in Australia and overseas, has mostly focused on large companies. Similarly, market pressure from proxy advisers and investor groups on gender diversity has mostly been directed towards larger companies.

Governance campaigns, here and overseas, to have more women on boards have targeted large cap companies. For example, the AICD target that 30 per cent of directors are women by the end of 2018 is for ASX 200 companies.[3]

More investigation of the characteristics of small cap boards, their gender diversity and its effect on firm performance is worthwhile. The international governance community must understand the needs of small cap companies, boards and their stakeholders before drawing definitive conclusions about the future of gender diversity and small caps.

Australia's experience with gender diversity on small cap boards is broadly in line with trends in the United Kingdom and the United States, markets that do not have mandatory quotas for women on boards.

Women occupied 12 per cent of board positions in companies in the Russell 2000 index of US-listed small caps.[4] That compared to 20 per cent female representation on boards in S&P 500 companies in the United States.

[3] AICD, "Gender Diversity Progress Report," December 2017-February 2018.
[4] Ernst & Young (EY) Centre for Board Matters, "Governance trends at Russell 2000 companies," October 2016.

Several trends suggest gender diversity will become a larger governance issue for ASX 201-500 companies this decade and next.

In the United Kingdom, women held 13 per cent of board positions in FTSE Small Cap Index companies in 2013.[5] That compared to 19 per cent female representation on boards of FTSE 100 companies at that time.

Although global share market indices are not directly comparable, the data implies that Australian small caps are matching gender diversity levels on boards in similar markets.

That does not mean Australian small cap companies, like others in Western markets, are immune from market forces to improve board gender diversity. The benefits of diversity — across all forms — in improving decision making and organisational culture are well known. Like ASX 200 companies, small caps have much to gain from boardroom diversity.

Also, small cap companies must recognise market and community expectations on gender balance. As more institutional capital is invested in small cap companies, and subject to responsible investment processes with environmental, social, and governance (ESG) filters, market pressure on those lagging on gender diversity is expected to rise.

Several trends suggest gender diversity will become a larger governance issue for ASX 201-500 companies this decade and next and that their boards will have a measured response through appointing more women, as is happening in ASX 200 companies.

Here are seven interconnected trends:

1. Rise of responsible investing

The push for better gender diversity on small cap boards ultimately starts with investors. Nine in 10 Australians expect their superannuation or other investments to be invested responsibly and ethically, according to Responsible Investment Association Australasia (RIAA).[6]

Growing community interest in responsible investing has led to strong growth in institutional capital invested via responsible investment filters.

Responsible investment constituted $622 billion of assets under management as at December 2016, representing around half of all assets professionally managed in Australia, found RIAA.[7] Within that, $557.1 billion was managed through 'broad responsible investment' strategies, which integrate ESG criteria, including gender diversity on boards, in investment decisions.

Simply, more institutional capital, via superannuation, is considering gender diversity as one of many ESG factors as part of the investment process. In time, this weight of money is expected to increase market pressure on companies, large and small, that lag on gender diversity.

[5] Mallin, C. Farag, H., "Balancing the Board: Director's Skills and Diversity," ICAS, April 2017. Page 6.

[6] Responsible Investment Association Australasia, "From Values to Riches: Charting changing consumer attitudes and demands for responsible investing in Australia," November 2017.

[7] Responsible Investment Association Australasia, "Responsible Investment Benchmark Report: Australian 2017," 2017.

2. Growth in small cap investing

As Australia's superannuation pool expands, more institutional capital will be invested in smaller listed companies. The size of Australian superannuation assets ($2.61 trillion[8]) is larger than the investable universe on the ASX ($1.9 trillion[9]).

ASX listed small caps have been a consistent source of "alpha" (a return greater than the market return). Over 10 years, 67 per cent of Australian small cap funds outperformed their respective benchmark index, according to S&P Global.[10] That compared to 74 per cent of Australian large cap equity funds underperforming the ASX 200 index over 10 years.

The potential for higher returns from smaller listed companies saw more fund managers in 2017 launch micro cap funds investing in stocks outside of the ASX 300.[11]

The implication is clear: as more institutional capital that factors in ESG criteria is directed to small cap companies, market interest in gender diversity on small cap boards — and pressure for change — will slowly build.

3. Rise of index investing

Global asset managers with index funds have been among the most vocal proponents of gender diversity on boards. BlackRock Inc., the world's largest money manager, expects every board to have at least two women.[12] Vanguard, another prominent global asset manager, wants women to hold 30 per cent of board roles.[13]

Gender diversity expectations of these and other global asset managers do not distinguish between large and small cap companies. Moreover, BlackRock, Vanguard and State Street Global Advisors, another prominent gender diversity proponent, have ASX-quoted exchange-traded funds (ETFs) over small cap share market indices.

The upshot is global asset managers with a stated interest in better gender diversity on boards increasing their ownership of small cap Australian companies via ETFs (index funds). ETFs are one of the world's fastest-growing investment products, with US$4.6 trillion invested globally through these funds.[14]

That suggests greater engagement between global and local asset managers (in index and active funds) and Australian small cap companies on ESG-related issues, such as board gender diversity.

4. Market pressure intensifying

In addition to asset managers taking a more public stance on board gender diversity, Australian investor groups are applying greater pressure on ASX-listed companies lagging in this respect.

The Australian Council of Superannuation Investors (ACSI) in 2017 said for the first time it will vote against the re-election of certain directors of companies that have zero women boards, and against boards with less than 30 per cent women on a case-by-case basis.[15] ACSI in 2017 acted on its diversity guidelines position, voting against the re-election of directors of a handful of ASX-listed companies with poor diversity.[16] ACSI's focus has mostly been on ASX 200 companies.

Investor groups and the funds they represent are expected to take stronger action against zero-women boards in coming years, including those of small cap companies, principally by voting against the re-election of some directors at annual general meetings.

5. Gender reporting/disclosure

Better reporting and disclosure of gender diversity in ASX listed companies, for executive teams, boards and organisations, is an important development for ASX 201-500 companies. Gender diversity metrics provide greater transparency on this issue and allow the market to make a more informed assessment on diversity leaders and laggards.

8 Australian Prudential Regulation Authority, "Quarterly Superannuation Performance," March 2018. P 7.
9 Australian Securities Exchange, "End of Month Values," www.asx.com.au, at April 2018.
10 S&P Down Jones Indices, "SPIVA Australia Scorecard," Year-end 2016.
11 Morningstar, "Sector Wrap-Up Report for Australian Large-Cap and Small cap Funds," February 2018.
12 BlackRock, "Voting Guidelines for US Securities," February 2018.
13 McNabb, FW., "An Open Letter to Directors of Companies Worldwide," Vanguard, August 2017.
14 Forbes contributors, "Global ETF Industry Swells to US$4.6 trillion," Forbes Magazine, November 2017.
15 Australian Council of Superannuation Investors, "ACSI Governance Guidelines," November 2017.
16 Featherstone, T. "Pressure from Institutional Investors To Maintain Progress on Gender Diversity," Governance Leadership Centre, AICD, February 2018.

IPOs are an important source of board formation — and an opportunity for companies to begin life as a listed entity with stronger gender balance on their board.

Gender-diversity disclosure among ASX 201-500 companies slightly improved in 2015, compared to two years earlier, according to a KPMG/ASX study.[17] The research found that 88 per cent of ASX 201-500 companies had an established diversity policy.

Eighty-three per cent of ASX 201-500 companies in the study disclosed the proportion of women on their board, compared to 98 per cent in ASX 200 companies. Sixty-five per cent of ASX 201-500 companies disclosed the proportion of women in executive roles, and 79 per cent disclosed the proportion of women across the organisation.

Women formed 38 per cent of the workforce in ASX 201-500 companies in 2015, from 34 per cent in 2012.[18] Although the change is small, a higher proportion of women in ASX 201-500 companies suggests a higher proportion of female managers and executives in time, which is seen as a precursor to more women on boards. Directors of larger listed companies often have senior executive experience.

6. Share market floats and diversity

IPOs are an important source of board formation — and an opportunity for companies to begin life as a listed entity with stronger gender balance on their boards.

Most of the top 30 companies for gender diversity in the ASX 201-500 listed within the past five years. In contrast, most companies with zero-women boards have been listed on ASX for more than 10 years.

The ASX had its most active year for IPOs in 2017, by volume, in a decade, with 143 listings.[19] Small cap listings proliferated. Tech IPOs have been prominent, with the ASX attracting 27 tech IPOs in 2016, including several overseas-based companies, and ranking third among global exchanges for IPOs in the tech sector.[20]

There has been a push in recent years for privately owned tech companies and start-ups to improve their gender diversity.[21] US investment bank Morgan Stanley found that listed tech companies with higher gender diversity deliver higher returns.[22]

As more tech companies list on ASX via IPOs, and as more floats occur generally, foundations for better gender diversity among ASX 201-500 companies are forming.

[17] KPMG/ASX, "ASX Corporate Governance Principles and Recommendations on Diversity: Analysis of Disclosures for Financial Years Ended between 1 January 2015 and 31 December 2015," 2016. Pages 4-5

[18] KPMG/ASX, "ASX Corporate Governance Principles and Recommendations on Diversity: Analysis of Disclosures for Financial Years Ended between 1 January 2015 and 31 December 2015," 2016. Page 6.

[19] Posnett, J., "ASX IPO Review: Small and Mid-Cap Floats Prominent," ASX Investor Update. February 2018.

[20] Posnett, J., "Behind the growth in ASX Tech Listings," ASX Investor Update. February 2017.

[21] Evans, T., "Tackling the Gender Gap In The Technology Sector," Seek, 2016.

[22] Morgan Stanley, "Women Employees Boost The Bottom Line for Tech Firms," 2016.

7. Company size, complexity add to small cap appeal

There is a correlation between company size, board size and gender diversity. ASX 201-500 companies have an average board size of 5.5 members. ASX 200 companies have an average of 7.5 board members.

As the combined market value of ASX 201-500 rise in the coming decade, their average board size will likely increase, creating opportunities to improve gender diversity through appointing female directors.

If current trends continue, the median market capitalisation of companies in the S&P/ASX Small Ordinaries index (a gauge of companies ranked 101 to 300 by market value) will exceed $1 billion in the coming decade. The current median market capitalisation for the Small Ordinaries is $865 million, according to S&P Global.[23]

As their shareholder base expands, ASX 201-500 companies will require more experienced and diverse boards. This could lead to a gradual increase in the pool of director fees for these companies, adding to the appeal of serving on their boards.

Also, as more information technology, financial technology (fintech) and life sciences IPOs occur on the ASX, the sector composition of ASX 201-500 companies will slowly change. Much industry disruption could come from small cap companies, making their boards attractive to directors wanting to govern "disrupters" rather than the disrupted (incumbent larger companies).

As stated earlier, there is scant empirical evidence on director attitudes towards small cap boards in Australia or overseas to support this view. But anecdotally, the appeal of governing high-growth smaller companies that are disrupting markets and have global ambition — and spending more board time on strategy than compliance — is rising.

Some directors of ASX 200 companies might find that having a small cap role in their governance portfolio adds to their knowledge of industry disruption, technology and overall board skills.

Increasingly, ASX 200 directors and others looking to build their governance portfolio could view small caps as an opportunity to govern some of the market's most exciting and diverse companies — and potentially share in wealth creation through equity incentives.

ABOUT THE AUTHOR

Tony Featherstone is consulting editor of the Governance Leadership Centre and a former consulting editor of AICD's *Company Director Journal*. He is a former managing editor of *BRW* and *Shares* magazines and specialises in small listed companies and governance.

[23] S&P Global, "S&P/ASX Small Ordinaries Fact Sheet," June 2018.

For more information, please contact

t: 1300 739 119

e: diversity@aicd.com.au

w: companydirectors.com.au/advocacy/board-diversity

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