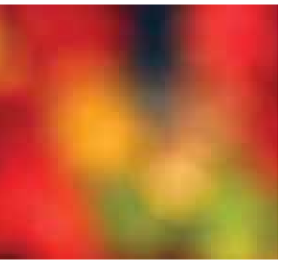

Some risks and rewards in implementing diversity policies

By Jane Bridge, Managing Partner, Boardroom Partners

- The risks involved in managing diversity must be managed in the same way as other risks — using a disciplined and consistent framework
- Designing and constructing a pipeline is not a simple exercise — it involves a massive change program
- Identify what could go wrong and why; assess and evaluate the risks in terms of likelihood, consequences, impact and effect; and develop strategies to deal with the risk

The past twelve months in Australia have seen unprecedented coverage and argument establishing the case for increased productivity and performance of business through better utilisation of women in the workforce generally, and particularly at senior executive and board level. The case for change is well established, but the jury is still out on the best way to achieve sustainable results.

Different perspectives on how to consider the issue

Three recent articles in this journal have each provided a different lens through which to consider gender diversity issues, including implementation, which can guide those who feel the heat turning up, but are not sure quite where to begin.

Mid-year, Spearritt and Butcher[1] discussed the potential benefits of diverse composition as a strategy to enhance performance and argued the many advantages of accessing a broader pool of candidates as a means of improving decision-making, corporate reputation and overall corporate performance. Forward-looking companies were predicted to engage with shareholders on the issue at 2010 AGMs ahead of the requirement to do so (which indeed happened). Recommendations from both the Corporate and Markets Advisory Committee (CAMAC) and the Productivity Commission reinforce the case for change in the recruitment process of board directors and the need for greater disclosure.

This was followed by Athanasofff and Bonomelli[2] providing a comprehensive description of the changes to the ASX Listing Rules and the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (Principles), reminding companies of the new requirements to not only put in place a policy to achieve gender diversity, but to set measurable objectives against which progress could be assessed and, even further, to disclose both the policy, the objectives and the current status of all groups covered by the policy in the organisation at that time. They concluded that success (or otherwise) will depend on how open and committed companies are to embracing the initiative and to implementing organisational change.

In December, Braithwaite[3] complemented this perfectly with his piece discussing the need to consider the implementation of a change management program within a governance and risk management framework. The article highlighted three essential steps in any successful change program: engaging people and helping them understand what prompted the change; enabling people to do things differently through reform of systems and behaviours; and empowering people so that it is easy to accept new ways rather than hanging on to the old.

These articles, individually and collectively, stress the need for change and the associated risks and rewards. Each has useful facts and ideas that contribute to the growing body of expertise and opinion in the public domain about a topic that was not spoken about so openly even five years ago. Some of the approaches to enforcing, encouraging or escaping diversity are described along with some suggestions for developing a suitable 'road map', assessing some of the inherent risks in each approach.

What can be done on the supply side?

While there is enormous interest and focus on the boards of the ASX 200, it is important to remember that this is a very small group of individuals; approximately 1,500 positions are held by a slightly smaller number of men and women. Around 10 per cent of those are currently women (that is, around 150 board seats or CEO roles across 200 companies) and the many observers of this issue may feel some sense of triumph if this proportion rose to 15 per cent (225 seats) or 20 per cent (300 of the 1,500). While this is a useful and a relative measure to monitor progress on a longitudinal basis, it is important that the focus does not become one of simply watching numbers, but expands to looking more broadly at the overall change in company performance, and the shifting profiles and positions of men and women in the workforce broadly.

Boards have a responsibility to look at both the demand and the supply side of the equation. Are they developing women in the organisation who could take on senior management, CEO and board roles? And are they encouraging women to be considered for positions at executive and board levels too? The executive ranks in companies provide much greater opportunity for progress, as they are made up of much larger populations. Achieving success in this area and lifting the overall average of women in senior management positions from the current eight per cent of Key Management Personnel (KMP – as defined by the Equal Opportunity for Women in the Workplace Agency) has the potential to prompt real and lasting change. Occupants of these positions have the potential to influence their own organisation, inspire and give confidence to other women and potentially join the boards of other companies as non-executive directors.

The development then of programs and policies that can assist with retaining and advancing women are important for more than just the current reporting cycle; they are critical to feed the pipeline overall for both the executive and the non-executive pool of female candidates.

Linking the importance of diversity to the business to risk management

The CEO Kit[4], produced in 2006 by a group of members of Chief Executive Women, suggested that there were seven reasons why gender diversity is important for Australian companies (see table below).

Research by Bain and Company in 2010[5] (as discussed at length in another article in this issue), involved over 1,200 business people in Australia, gathered views about the ends and means of improving gender diversity in the pipeline, and showed consistently similar results to those discovered by *The CEO Kit* authors — to make any change and have any impact requires a real commitment. To close the gap and create a stronger pipeline involves some basic steps that may be challenging for some companies, and will pose some real risks for others.

How to manage the risks involved in these unchartered waters? In the same way that other risks for the business are approached, that is, using a disciplined and consistent framework. Indeed, it may be that some of the impacts and consequences of the associated risks will inevitably turn up some previously

Reason	Rationale
1 Financial performance	Better performance has been linked with organisations that have a higher proportion of women in their senior ranks.
2 Reputation	Women leave organisations that don't deliver on employment promises (career opportunities, a fair go, equal pay etc).
3 Leadership	Better leaders will be available if the pool of 'potentials' is wider and deeper and real choices can be made.
4 Cost	Replacement costs are now known to be high, particularly for skilled and talented staff who may have some years of experience.
5 Innovation and insight	Group think is much less likely when there is some diversity of opinion, background, education and experience in the group.
6 Clients and customers	Credibility with users and purchasers is likely to be much greater if it is possible to identify with the market.
7 Employee engagement	Engagement is critical in retaining staff and many who leave (very often women) cite a disconnection between company rhetoric and company behaviours.

unconsidered outcomes. Use the principles of identifying, assessing and measuring risks.

- Take stock of the context and environment.
- Identify what could go wrong and why.
- Unpack ‘the risk’ to see what might prevent or stop something happening.
- Establish who or what could reduce the damage of the event coming to pass.
- Analyse the risk against the agreed criteria in the company.
- Assess and evaluate the risks in terms of likelihood, consequences, impact and effect.
- Develop strategies to deal with the risk.

Given the level of coverage and interest that has been generated recently in the Australian media about the diversity issue, the risk environment is higher than it was two years ago. There are now more parties watching progress than ever before, and the stakes have been raised for companies as the disclosure regime is requiring information that has not previously been available in the public domain. New graduates, investors, proxy advisers and customers will all have access to information about who the company employs and the positions held by men and women throughout the organisation.

Workforce demographics have changed and there is a recognition that talent cuts across demographic groups. There is, once again, competition for scarce resources (talented people) and the increasing globalisation of business signals a need to rethink parochial practices that are justified on cultural grounds. Research from many sources estimates that women drive at least 85 per cent of purchase decisions and are emerging as significant decision-makers among customers and competitors.

Tolerance and patience, on the other hand, are lower today as the assumptions that these issues would self-correct ‘in time’ have been proven to be false. Women and men have been graduating and entering the workforce at similar rates for years now, and yet, by middle management level, the numbers of women have dwindled. Some women leave, others are left behind.

Designing and constructing a pipeline

To design and construct a pipeline is not a simple exercise — it involves a massive change program, including making some predictions and declaring them publicly. Some of the lessons from organisations that have made progress include:

- the importance of gathering the facts about the current workforce, including recruitment, attrition, remuneration and promotion and having all of this available by gender. Attempting to introduce a change for the sake of it (or to tick a reporting box) will fail and could prompt a backlash
- the absolute necessity of having the CEO on board and, ideally, as the driver of the reform
- the need to have both men and women involved in any initiatives so that efforts

- are not marginalised or dismissed by one group or the other
- designing a suite of programs and initiatives that is well paced and will achieve results.

Where to start?

- Have a look at what's going on in your organisation — are there some obvious areas for reform? Do you have pink ghettos in the company? Only men in corner offices? At-risk pay in sections where there are no women? Does the company have key meetings and briefings at odd hours or in unfriendly places? Is all your corporate entertaining arranged around male sporting events? How long does it take (on average) for a graduate recruit to be promoted in your company? Is this the same for male and female graduates? Do employees leave your company at certain key career points? Do these relate to life cycle and is there a gender pattern to this information?
- Have a look at what some other organisations are doing — much of the leading-edge company stories are now available publicly and may provide suitable models to be adapted.
- Consider the risks attached to:
  - › doing nothing
  - › doing something and failing
  - › doing something and succeeding.

Referring to *The CEO Kit* again, it is organised around five core questions that will immediately provide an assessment of where a company might sit on a continuum of 'risk' or 'readiness'. An example follows on the right of this page.

The risk assessment illustrated here is calibrated against internal and external criteria. For employees, for example, there are real concerns if the CEO and top team pay no attention to pipeline issues of building pathways for women. The risk is that women in these organisations will not stay, taking with them skills, experience and possibly a disappointment with the company. Not knowing how a culture is affecting male and female employees is dangerous.

Views from outside the company become important when they are heard from customers or investment managers or proxy advisory firms. These voices have been known to suggest that the lack of women in the company in senior positions or on the board is symptomatic of a failure of the existing (male) management to plan or stay up to date with contemporary values, or are indicative of a resistance to change.

There are other warning signs that might come up on the risk radar in companies where gender diversity has not been an issue or has not been addressed in any systematic way:

- There are fewer applications for positions from female candidates than male candidates.
- There is higher turnover in female employees compared with male employees at any level.
- Women's presence reduces at critical stages as careers progress.
- No attention is paid to gender issues in annual performance reviews.
- There is a lack of core opportunities for female employees with management and executive potential.
- The key decision-making groups are all male.
- There are no female role models or support systems to encourage women to stay in the company and learn how to progress.
- There is an absence of or limited participation by women in succession planning.
- The information in the annual report (KMP's salary details etc) is all about men.
- There is a dominant culture that is excluding of others (this could be 'blokey' or simply 'clubby').

Question	Response	Risk Assessment	
Is identifying and promoting female talent a top priority for our CEO, leadership team and board?	Yes	Low	*
	Sometimes	Medium	**
	No	High	***
Are we appointing our share of female talent?	Yes	Low	*
	Don't know	High	***
	No	High	***
Is our (organisational) culture driving women out?	Yes	High	***
	Don't know	High	***
	No	Low	*
Does our pay distribution by gender tell a story?	Yes – Positive	Low	*
	Yes – Negative	High	***
	Don't know	High	***
	No	Low	*
Are we managing our female talent for leadership roles?	Yes	Low	*
	No	High	***

Organisations now have access to a plethora of information and advice about the diversity issue, at board and management level. The publication of *Early Adopter Case Studies*[5] adds to the material available and gives useful tips from five listed companies who are 'ahead of the game' and thereby reducing their potential risks and exposure. The ASX Group, BHP Billiton Ltd, National Australia Bank Ltd, Telstra Corporation and Woolworths Ltd all provide examples of initiatives, targets and programs that have been developed to suit the particular circumstances of each of these companies.

- No policy changes have occurred over the past few years to allow for balancing the dual responsibilities of some women, or to allow for career breaks without penalty for child bearing and raising.
- No advocates for or sponsors of women stand out in the company.
- Company values and the code of conduct do not actively include diversity.
- There are wide differences in promotion rates for men and women.

Having worked now with boards for the past 15 years, and as an adviser on equity issues for women in work prior to that, my own top 10 risks for the next five years would be:

1. doing nothing in the hope that the mood will pass and life will return to 'normal'. It won't. The genie is out of the bottle and no amount of waiting will squeeze it back in
2. grabbing at a couple of public actions that may allow you to take some credit for bold moves and then reverting back to business as usual. Examples of this are appointing women to the board because of their gender, without any suitable skills or experience. This will end badly for the board and for the woman. Or appointing the first female into an executive team without any recognition that the dynamic will change and behaviour may need to change too
3. using a compliance focus for any initiatives, resulting in little meaningful change and dealing only with superficial issues
4. failing to gather data internally to provide a basis for action. This can also be described as believing you have all the answers and so discounting other views and perspectives
5. believing this will be simple, or quick, or easy, or that it can be fixed by a consultant for a fee. Successful programs deal with deep cultural change and are embedded across the company and tied to the core policies (pay, performance and promotion)
6. delegating the issue to human resources (HR) to fix. While the HR function may well be charged with generating the data, this is not an HR responsibility — rather it is a company-wide responsibility that must be shared across all functional areas if it is to have any traction. The most successful companies have the CEO leading these initiatives and actively walking the talk of the objects and goals of the effort
7. addressing some of the issues, some of the time, or in some of the company locations, but not others. This issue is serious and will not be improved by a scattergun approach or one that only applies if funding allows and then is 'put on ice' for months on end
8. having great company rhetoric that doesn't align with company reality. CEOs and boards can make bold statements and claims but if these don't match actions, then 'something's gotta give'. Invariably, this is valuable members of staff or the board who will quit when the commitment to the rhetoric is exposed as superficial
9. vesting responsibility for success in a small group of people rather than involving all managers in some way. This leaves the group vulnerable to change and progress can be unwound easily and quickly by the appointment of a new CEO with different priorities if the program is not embedded company-wide and accepted as part of 'how we do things round here'
10. finally, choosing the usual suspects to take carriage of the program, or allocating this as an 'extra project' to some capable executive with potential. Both are likely to result in having them collapse from exhaustion.

I have seen all of these play out in Australian organisations and there is no excuse to repeat the mistakes of others.

Remember: Peter F Drucker is often quoted as saying, 'Whenever you see a successful business, someone once made a courageous decision'.

Follow the path to success

Organisations now have access to a plethora of information and advice about the diversity issue, at board and management level. The publication of *Early Adopter Case Studies*[6] adds to the material available and gives useful tips from five listed companies who are 'ahead of the game' and thereby reducing their potential risks and exposure. The ASX Group, BHP Billiton Ltd, National Australia Bank Ltd, Telstra Corporation and Woolworths Ltd all provide examples of initiatives, targets and programs that have been developed to suit the particular circumstances of each of these companies.

Various associations and professional groups offer strategies and programs to assist with the development of women into 'board-ready' candidates. These are widely advertised, well documented and produce a wealth of materials that are valuable resources.

There is now a well defined path to success. The choice is about defining success for your organisation, and setting the targets that can be considered and developed in the same way as you would for any other estimate of business planning. There are markers along the way to provide guidance and encourage success.

Finally, there is a destination: next year's annual report that will include a report on the plans, progress and targets of your program, and the preparation of which will provide a good focus for your chosen strategies throughout the next twelve months. In summary:

- Work to build diversity into your organisation as you would with any change management program.
- Set out to learn from others who have gone before you.
- Gather data and build a program to suit your needs.
- Don't waste time on a boilerplate approach that was designed for another company with a different workforce.
- Apply your existing risk management framework and assess the costs, benefits, potential losses and gains as you would for any new program.
- Be brave; make a courageous decision (or recommendation at least) if you want to start to build a truly successful business, designed for the next 50 years and not the 50 just past.

Good luck.

Boards cannot and do not operate in isolation from the rest of the organisation, and the two need to be 'in synch' for a productive and useful relationship to occur. In Australia there are all-male boards of companies who manufacture products directed solely at women; companies where women make up the majority of the workforce, diminishing as the pyramid narrows, culminating sometimes in a solitary (or no) female director on the board; and many companies where women are present in the executive ranks but work to an all-male board. Assessing the 'risk' of each of these situations would all rate as 'high' in terms of:

- the possibility that women will quit senior roles when there appears to be no possibility of advancement (and possibly join the competition)
- the potential for products and services to become 'out of synch' with the customer market, resulting in the loss of market share
- the likelihood that finding replacements for roles left by women will become harder as patterns of employment become more public (talk to any undergraduate law student about which firms they aspire to join, and which they wouldn't touch!)
- the damage that flows to corporate reputations, both in employment and investor terms when company practices and culture are not shown to be conducive to women's employment and advancement. (Those who watched the David Jones story unfold would not be surprised to hear that on announcement of the damages claim, the company's share price dropped 3.3%.).

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Notes

1 Spearritt, Katie, and Butcher, Sam, 'Promoting board diversity to enhance performance', *Keeping good companies*, Vol 62, No 6, July 2010, Chartered Secretaries Australia

2 Athanasoff, Julie, and Bonomelli, Mindy, 'Changes to the ASX Listing Rules and ASX Corporate Governance Council Principles and Recommendations', *Keeping good companies*, Vol 62, No 7, August 2010, Chartered Secretaries Australia

3 Braithwaite, Peter, 'Change management in a governance and risk management framework', *Keeping good companies*, Vol 62, No 11, December 2010, Chartered Secretaries Australia

4 Chief Executive Women, *The CEO Kit – For Attracting and Retaining Female Talent*, CEW 2006

5 Hrdlicka, Jayne, Cottrell, Dale and Sanders, Melanie Sanders, *Level the playing field: A call for action on gender parity in Australia*, 2010, Bain & Company, Australia

6 Australian Institute of Company Directors, *Early Adopter Case Studies*, 2010