



3 August 2012

Actioning and making diversity change stick

1. A key first step in actioning change is making sure that people are aware of and understand the need to change.

If you're addressing the diversity challenge but are finding inadequate traction, it may help to make the business case more compelling. Leaders could reap rich rewards; laggards might find the cost of late compliance (possibly via quotas) very much more expensive.

2. Second, stimulate belief that change is achievable. Change has no hope of succeeding if a critical mass of your people doesn't hold the view that it's doable. At this belief stage you should have clear plans, including resourcing and timelines, for how the changes will be delivered. Importantly, if you can, get people to buy into just one change element and you can build from that smaller start.

3. Third, help people make and cement their commitment to the change. First steps are usually the hardest, so outline clearly what they need to do to take action. Then, support change efforts, including standing by those who may not succeed on their first attempt. Be sure to publicise and celebrate even small change successes.

DOES ASX DIVERSITY REPORTING SIGNAL CHANGE?

New ASX diversity reporting arrives

Was the last day of 2011 any more significant for around 10% of ASX listed companies than June 2010? In June 2010, the ASX Corporate Governance Council (CGC) released changes to its Corporate Governance Principles and Recommendations. New recommendations relate to reporting on a range of gender diversity factors. These include achievement against board gender objectives and proportions of women at certain levels in listed companies.

The new reporting recommendations have had a long gestation period. They follow the March 2009 Corporations and Markets Advisory Committee (CAMAC) Diversity of Boards of Directors Report.

Although conservative in its commentary, the report raised "the question whether the boards of some companies are unduly limited in their approach and are failing to consider the benefits of greater diversity in the composition. Questions also arise whether the pool of candidates for board positions is restricted through relative lack of opportunity for women (and possibly other groups) to advance in managerial or other positions that would help them develop the skills and experience seen as relevant for board membership."

Those 10% of ASX companies (211 in total) whose year end is December 31st provide the first indication of corporate Australia's willingness to address more formal reporting of gender diversity. On July 31st 2012, ASX Compliance released a commissioned report (Report) on the adoption of the CGC diversity reporting regulations.

Four areas of analysis

The Report analyses four main areas of diversity reporting, all at a very high level. First, it comments on diversity policy reporting. Second, there is analysis around measurable diversity objectives. Gender diversity specifically is the third area of examination. The final area covers Board selection processes and remuneration reviews. Given space constraints in this briefing, we'll examine only the diversity reporting component.

Diversity policy and reporting

The 98% 'compliance' with CGC diversity reporting recommendations provides a positive start. The non-compliant 2%, it seems, either delisted or have made moves to "rectify after the date of the report". But remember, the ultimate goal of the new recommendations is not about reporting compliance. Rather, the aim is that listed companies take action, in a self-regulated manner, and bring about diversity changes deemed necessary.

The first disappointment comes on realising that 37% of entities didn't actually disclose a diversity

policy. The only way they managed to comply with the reporting recommendation was by making an 'if not why not' disclosure. Common 'explanations' for the no-show include 'informal diversity monitoring in place', 'busy developing a policy', and 'impractical due to size'.

Just how difficult can it be for a listed company to develop and formalise a diversity policy...in the 18 months since the changes were announced? Not the most persuasive of ~~excuses~~ 'explanations'. This raises a question around the quality of diversity policies the 67% of entities report having. Tellingly, analysts provided only a gracious "no comment" when asked about the possibility of boilerplate commentary being dropped into some reports to achieve diversity reporting compliance.

Nevertheless, it was heartening to learn that 54% (114) of the 211 entities were more inclusive than gender only. Many diversity policies relate to age, ethnicity and cultural background among other diverse groupings included.

It was also good that a number of entities disclosed having requirements for their board to establish and assess diversity objectives on an annual basis. But, the total that did so was a lot more concerning. Only 41% (87) of the 211 have these board diversity requirements. Quality reporting and monitoring is likely even lower, with only 36% (76) of entities reporting having established measurable diversity objectives. Only 27% (58) of the entities disclosed details of their measurable objectives in their annual reports or on their websites.

Assessing the likelihood of meaningful change

Based only on the data available from this first diversity reporting season, what is the likelihood of meaningful diversity change following in most reporting entities? Based on the model UGM uses to plan and assess change, maybe not much, not soon! Rather than embracing the opportunity to show leadership in this vital area, too many entities seem to be restricting their efforts to only meeting compliance requirements. Worse still, compliance centres around reporting, rather than making sincere, concerted efforts to address the diversity challenges which prompted the reporting regime!

According to researchers Loup & Koller, compliance often represents only temporary change which frequently dissipates when compliance controls are removed. Compliance behaviour usually stems from either a lack of awareness and understanding that change is needed or a lack of belief that true change is possible. How one moves forward depends on whether it is an awareness problem or a belief problem. Hopefully, when the remaining 90% of the ASX reports in the next 6 months, we'll find this first 10% are an anomaly and change is prospering.