

**SUBMISSION TO**  
**PRODUCTIVITY COMMISSION**

**By**

**Jillian Segal, AM**

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## **SUBMISSION TO THE PRODUCTIVITY COMMISSION: DISCUSSION DRAFT ON EXECUTIVE REMUNERATION IN AUSTRALIA**

I would like to commend the Commission on an excellent discussion draft and for raising the focus on strong corporate governance arrangements and board accountability.

A number of discussion fora I have attended and a number of corporate submissions that I have seen have provided commentary on all of the Productivity Commission proposals and I do not seek to canvass those issues in detail here. I would just like to comment personally on the first proposal, namely, the “no vacancy rule”.

To the extent the recommendation regarding the ending of the "no vacancy rule" is designed to increase board diversity, I applaud the intent but I believe the recommendation itself is misdirected.

When seeking “board diversity” one is, of course, seeking diversity of thought resulting from diversity of background and experience which is directed towards improved decision making. In my opinion, an initial focus should be to improve gender diversity, as a first and important step in improving the diversity of the talent pool from which future directors can be drawn. Greater female representation on boards would also enable talent to be drawn from a group which although under-represented at board level, represents significant shareholder and customer numbers. There is also a growing body of research indicating boards with greater gender diversity provide fora for constructive “challenge” resulting in strengthened decision making and risk assessment processes.

However, the suggested methodology of using shareholder power to create vacancies could have serious unintended consequences and also not necessarily achieve gender diversity, e.g. it could encourage single issue activists to be nominated and elected from the floor of a general meeting. This could bring about dysfunctionality of a board and not necessarily succeed in the stated aim of constructive board diversity. Other unintended consequences could also result, e.g. boards could become too large and unwieldy, or not reflect a mix of skills appropriate to the industry.

I would like to suggest that there are available a range of other proposals that could be supported by the Productivity Commission to increase board diversity, particularly gender diversity. These include:

- (i) the establishment by all public company boards of voluntary but disclosable gender diversity targets for board (and senior management) with reporting annually against these targets or numerical goals;
- (ii) requiring mandatory gender diversity targets for federal government boards similar to the targets already established by State Governments in Victoria, ACT and South Australia where time limited targets have been set to achieve 50% representation of women on boards and committees;
- (iii) requiring all diversity reporting figures to be audited;
- (iv) amendment of the ASX Corporate Governance guidelines to require all listed companies to have disclosable targets for female board representation, and reporting against those targets on an 'if not why not' basis. These targets could be solely individually determined (and then reported against) or they could be benchmarked against a longer term mandated goal of achieving 40% representation within five years.

The poor representation of women at board level is also reflected in their low representation within senior management of corporates and their low participation more generally in the workforce. In jurisdictions where greater female participation at listed company board level has been achieved (e.g. Norway), greater participation at senior management levels has also resulted. The age spread of directors has also been lowered as well as greatly diversifying the talent pool from which directors have been sourced, to include professional services, small business and the public sector.

Introducing greater female participation at board and senior management level also has the potential to drive cultural change and change in work practices to increase workplace flexibility which in turn could result in a more general increase in female participation in the workforce. According to analytical work already undertaken in 2006 by the Productivity Commission itself and by Goldman Sachs in 2007 (and recently updated for Australia), this has the greatest potential to improve the productivity of the workforce and add to Australia's GDP.

I would be happy to expand on any of these suggestions.