

## Ministry of Women's Affairs submission on NZX proposed diversity listing rule

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*The Ministry of Women's Affairs is the Government's principal advisor on achieving better outcomes for women. The Ministry has three priority areas: greater economic independence, more women in leadership and increased safety from violence. Within the women in leadership priority area, the Ministry seeks to ensure that key-decision-makers have the data and other information they need to make informed decisions about increasing the number of women on private and public sectors boards in New Zealand.*

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### Introduction

Government seeks a step-change in New Zealand's economic performance. Because improving gender diversity is widely recognised internationally as an opportunity to significantly improve economic performance, increasing the participation of women in leadership roles across the economy is a key priority for the Ministry of Women's Affairs.

We congratulate NZX on its proposed diversity listing rule. We appreciate that NZX has gone further than it signalled in August 2011, by including both quantitative and qualitative reporting measures – both of which are critical to understanding an Issuer's position with respect to diversity. We believe the proposed rule will raise awareness of the benefits of diversity and contribute to improved Issuer performance by increasing women's participation in senior management teams and on boards.

We welcome this opportunity to comment on the proposed diversity listing rule as set out in Part II of NZX's consultation document: Consultation on Market Rules for the Main Board/Debt Market (30 March 2012).

### Comment

The evidence-based business case for gender diversity is well documented and widely accepted internationally. We therefore take as a given that gender diversity is a desirable goal. This submission focuses on the particular value of a strong diversity listing rule in meeting investor needs and stimulating action on gender diversity.

*"Given the end goal is to ensure the wellbeing of the New Zealand economy, it is important that financial markets function well and are attractive to investors." Derek Johnston, Chair, NZ Markets Disciplinary Tribunal<sup>1</sup>*

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<sup>1</sup> New Zealand Investor, September 2011, p 23.

From an investor perspective, gender diversity provides a key indicator of an Issuer's vigour, resilience and future prospects.<sup>2</sup> Issuers with diverse leadership are seen as:

- forward thinking, innovative, flexible, and able to adapt to a dynamic business environment
- making good use of available human capital in the face of a world-wide talent shortage
- likely to provide good financial returns to investors
- less likely to expose investors to unacceptable risk.

Accordingly, investors are increasingly seeking better diversity performance from companies they currently invest in and examining diversity performance when evaluating future investment opportunities.

The establishment of the 30% Club Investor Group (The Group), which represents combined assets of more than £1.77 trillion, is a mark of investor interest in board diversity in the United Kingdom. The Group seeks to influence UK companies to improve their diversity performance. Helena Morrissey, founding member of the 30% Club and CEO of Newton Investment Management, states the case very simply:

*“At Newton, we believe that in a global business environment, diversity is not simply an optional extra or a distraction from operational business matters; a company which ignores issues that have the potential for significant detrimental effects upon its costs and reputation is unlikely to be well-equipped to create value for shareholders.”<sup>3</sup>*

The New Zealand Shareholders Association expects ‘that by improving board composition in terms of relevant areas of experience and expertise there would be an increase in the percentage of women on public company boards given women's representation in the professions and industries’.<sup>4</sup>

New Zealand companies will need to lift their diversity performance if they are to satisfy investor expectations and be attractive to local and international investors.

<sup>2</sup> This perspective is informed by the business case for gender diversity and research suggesting that greater diversity would have ameliorated the recent global financial crisis. (Eversheds (2011) *The Eversheds Board Report: Measuring the impact of board composition on company performance.*)

<sup>3</sup> Newton Investment Management (UK) is global investment management subsidiary of The Bank of New York Mellon Corporation, with assets under management of over £47 billion. Excerpt from Newton publication *The dynamics of diversity*, September 2011, available at [http://privateclients.newton.co.uk/core/resources/perspectives/uk\\_content/2011/content/201109\\_diversity.pdf](http://privateclients.newton.co.uk/core/resources/perspectives/uk_content/2011/content/201109_diversity.pdf)

<sup>4</sup> See <http://www.nzshareholders.co.nz/shareholders-best-practiceDetail.cfm?bestpracticeid=28>

In this context we see the proposed diversity listing rule as serving several key functions:

- signalling to the business sector the importance of diversity to Issuer performance
- stimulating companies to explore opportunities to improve their diversity
- enabling investors to evaluate Issuer performance and make informed investment decisions, by requiring Issuers to report diversity metrics, policies and progress.

In proposing the diversity listing rule, NZX is fulfilling one of the central functions of its role as New Zealand's market operator.

### **Suggested changes to the proposed rule**

We believe, given the importance of diversity to investors, and ultimately to New Zealand's economic performance, that NZX could consider strengthening the proposed diversity listing rule to give effect to the functions outlined above. In addition to the objective of providing meaningful information to investors, our suggestions aim to promote:

- trans-Tasman harmonisation
- alignment with international market standards
- best practice in corporate governance
- genuine progress on gender diversity.

Drawing on the measures implemented by the ASX in Australia<sup>5</sup> and the Financial Reporting Council in the UK<sup>6</sup>, we suggest the following changes to the proposed amendment, with proposed new wording marked in italics:

"The annual report of an Issuer shall contain:

*(j) a quantitative breakdown in a tabular format, as to the gender composition of each of the Issuer's Board, senior management team and any Subsidiary board; and*

*k) a summary of its gender diversity policies and measurable gender diversity objectives; and*

*(l) a statement from the Board of the Issuer providing its evaluation of the Issuer's performance with respect to its gender diversity policy (if applicable) and achievement of measurable objectives.*

To further communicate its interest and assist companies to take action, we suggest that NZX consider updating its Corporate Governance Best Practice Code, in line with the measures implemented in Australia and the United Kingdom.

We also encourage NZX to consider options for making guidance available to companies to assist them to comply with the spirit of the rule and improve their gender diversity if needed.

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<sup>5</sup> See

[http://www.asxgroup.com.au/media/PDFs/cg\\_principles\\_recommendations\\_with\\_2010\\_amendments.pdf](http://www.asxgroup.com.au/media/PDFs/cg_principles_recommendations_with_2010_amendments.pdf)

<sup>6</sup> See [http://www.frc.org.uk/images/uploaded/documents/Feedback\\_Statement\\_on\\_Boardroom\\_Diversity\\_October\\_20111.pdf](http://www.frc.org.uk/images/uploaded/documents/Feedback_Statement_on_Boardroom_Diversity_October_20111.pdf)

The ASX embeds supporting material in its Corporate Governance Principles and Recommendations in the form of commentary and suggestions boxes.<sup>7</sup> It also provides a dedicated web page with information and links to other organisations and resources. The website includes video commentary explaining the business case for gender diversity and pointing to help available to companies who want to evaluate and improve their performance on gender diversity.

Guidance on complying with the rule will be even more valuable in New Zealand, where the business case for gender diversity is not yet widely understood and measures to enhance gender diversity not well-established.

We also suggest that NZX publicise its intentions with respect to monitoring Issuer compliance with the proposed rule, and any measures it will take where companies do not comply, to further signal the importance NZX places on diversity of leadership.

To maintain a focus on diversity performance, celebrate success and incentivise further change, we suggest that NZX explore options for placing a summary of Issuer gender diversity metrics in the public domain and updating these at regular intervals, as done in both Australia and the United Kingdom.

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<sup>7</sup> An excerpt from the ASX document is provided as an appendix to this submission.



Appendix: Example of guidance material to support meaningful implementation<sup>8</sup>**Recommendation 3.2:**

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

**Commentary**

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background.

The measurable objectives should identify ways in which the achievement of gender diversity is measured, for example, the proportion of women

employed by (or consultants to) the company, in senior executive positions and on the board.

Where companies establish a diversity policy, they should also introduce appropriate procedures to ensure that the policy is implemented properly, which may include additional measurable objectives in relation to other aspects of diversity as identified in the policy. There also should be an internal review mechanism to assess the effectiveness of the policy.

Suggestions for the content of a diversity policy are set out in Box 3.2.

**Box 3.2: Suggestions for the content of a diversity policy**

Companies may find it useful to consider the following matters when formulating a diversity policy:

1. Commitment to diversity and articulation of the corporate benefits arising from employee and board diversity and the importance of benefiting from all available talent. This should promote an environment conducive to the appointment of well qualified employee, senior management and board candidates so that there is appropriate diversity to maximise the achievement of corporate goals.
2. Commitment to and identification of ways to promote a corporate culture which embraces diversity when determining the composition of employees, senior management and the board, including recruitment of employees and directors from a diverse pool of qualified candidates.
3. Identification of factors that should be taken into account in the selection processes and whether professional intermediaries should be used to identify or assess candidates.
4. Identification of programs that assist in the development of a broader pool of skilled and experienced board candidates including initiatives focused on skills development such as executive mentoring programs or more targeted practices relating to career advancement such as those that develop skills and experience that prepare employees for senior management and board positions.
5. Articulation of a corporate culture which not only supports workplace diversity but also recognises that employees at all levels of the company may have domestic responsibilities.
6. Transparency of board processes, review and appointments.
7. The extent to which the achievement of measurable objectives should be tied to Key Performance Indicators for the board, the CEO and senior executives.

<sup>8</sup> Source: p24 ASX Corporate Governance Principles and Recommendations.  
[http://www.asxgroup.com.au/media/PDFs/cg\\_principles\\_recommendations\\_with\\_2010\\_amendments.pdf](http://www.asxgroup.com.au/media/PDFs/cg_principles_recommendations_with_2010_amendments.pdf)