2020

BOARD DIVERSITY INDEX

Watermark
SEARCH INTERNATIONAL

in Partnership with

Governance Institute of Australia

WELCOME

from Watermark Search International and the Governance Institute of Australia

Welcome to our Fifth Board Diversity Index.

We are very pleased to be working together to more broadly disseminate this ASX300 Board Diversity Index. Both organisations strongly support the creation of more diverse boards…but why?

Because there is:

- significant evidence of improved business performance with diverse boards,
- an increasing social imperative,
- an increasingly large pool of better prepared diverse candidates; and
- growing external pressure from several large Proxy Advisors and Fund Managers as well as the broader community to simply not invest in, those companies with homogeneous boards.

We are in the midst of the COVID-19 pandemic stretching across the world. It is impacting many of the things we have previously taken for granted; from toilet paper to international travel, from sporting events to family barbecues, the rules have changed. No doubt more changes are to come but one thing is certain: our ability to cope with radical shifts in any operating model is unlikely to be best met by continuing to do things the way in which we always have. Thinking about the potential responses to the impact of COVID-19 on your business is likely to be much more effective and much broader reaching if you have different perspectives working on the issue. This is one of the key benefits of diversity at any level…higher quality outcomes.

February 2020 marked one year since the release of the final report of the Banking Royal Commission. Commissioner Keith Hayne AC QC noted that "…failings of organisational culture, governance arrangements and remuneration systems lie at the heart of much of the misconduct examined in the commission." So, what has shifted? Have any of the changes made across our ASX300 boardrooms shown any evidence of the 'failings' above being addressed by broadening the pool of directors being appointed to our boards? Have such appointed directors provided new perspectives or skills in these areas? We answer some of those questions in this Index.

The role of the board continues to be under scrutiny with the Royal Commission into Aged Care Quality and Safety providing an interim report that is possibly best summarised by the heading of the Foreword "A Shocking Tale of Neglect". Without presupposing the outcomes of the Commission, it is highly likely that the several boards responsible for steering the organisations which offer services in aged care will be established to have failed on a number of levels by this Royal Commission. The Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability is also in session but has a long way to run. Will it too uncover some lapses in Corporate Governance? With nearly 8,000 submissions to date it seems a range of stakeholders want to be heard. Claerwen Little, the National Director of UnitingCare Australia, noted with respect to the Royal Commission that…

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"…what the past 12 months of hearings has really raised for directors is that culture is pretty much everything."

From a board diversity perspective, gender remains front and centre globally, in contrast to cultural, age, education or any other of the multiple forms of diversity. Norway, France, Spain and Iceland all have laws that require women make up at least 40% of the board of all listed companies. The 30% Club is present in 14 countries, and although Brazil and Japan are hardly 'poster children' for gender diversity at 7.3% of the Mercado B3 and 10.5% of the TOPIX 100 respectively, there is more scrutiny than there was in shifting that imbalance. The 30% Club has extended its focus from the ASX200 to the ASX300, advocating for 30% female directors by January 2022 and, along with support from a range of governance organisations, is likely to become the 40% Club in relatively short order, even if many countries do not legislate that change. Is the 40/40/20 Club the '30% Club.2.0'?

The global focus on board gender diversity is slowly broadening to include Cultural Diversity, but this expansion is slow. The move tends to be implicit rather than explicit. For instance, the ASX Corporate Governance Council stated in its most recent edition of 'Governance Principles and Recommendations' that "…boards of listed entities consider other facets of diversity in addition to gender when considering the composition of the board. In particular, having directors of different ages, ethnicities and backgrounds can help bring different perspectives and experiences to bear and avoid "groupthink" or other cognitive biases in decision making."

Recommendation 1.5 is very specific about components of gender diversity and very high level around other components of diversity.

2020 is likely to be a year without corporate precedence. As such, the way that our boards either get ahead of or react to the challenges thrown up will be key in determining how successfully their companies survive or even thrive in such a dynamic business environment. We believe that boards with a broad range of views, skills, educations and backgrounds will be in a better position to cope with the ensuing uncertainty.

The compiling of this Index is a significant undertaking with over 30,000 discrete pieces of data being acquired, collated and interpreted; thanks go to Graham Willis for leading the initiative, and Emma Lukabyo for collating all the data.

Kind regards

David Evans
Managing Partner
Watermark Search International

Megan Motto
Chief Executive Officer
Governance Institute of Australia

In 2020, we continue to throw a spotlight against five key areas of diversity.

ASX 300:

- Gender Diversity ✓
- Cultural Background ✓
- Skills Diversity ✓
- Age Diversity ✓
- Tenure & Independence ✓

GENDER DIVERSITY

EXECUTIVE SUMMARY

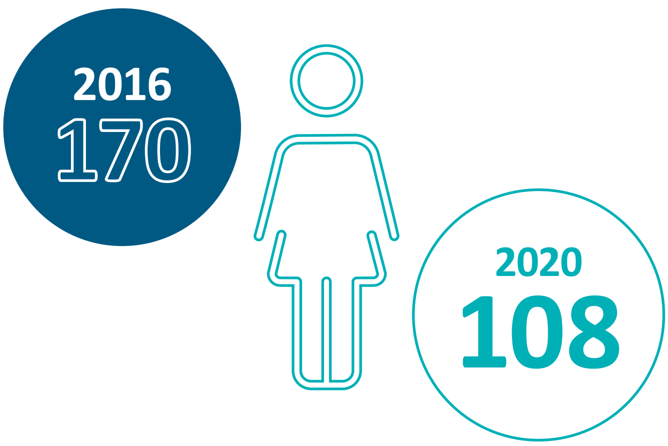
In 2020, at the beginning of a new decade, unfortunately we are still having to talk about the need for greater boardroom gender diversity. As we predicted last year, we are not going to be in a position to stop talking about it for at least another four years…and even that is an aggressive timeline based on the way things have shifted over the past five years. Positively, gender imbalance on boards is continuing to lessen, 561 of the 2004 board seats on the ASX300 are now filled by women; that is 28 more than last year. Another positive indicator is the fact that the number of boards that have 30% or more women on them has risen from 113 last year to 121 in 2020. This is also accompanied by a rise in the number of boards that have 50% or more women; 20 companies (up from 16 last year) are in that list.

> **"Research shows that companies with greater levels of gender diversity have stronger financial performance as well as fewer governance-related issues such as bribery, corruption, shareholder battles and fraud."[1]**

There are of course many other positive changes that have been made in respect of gender diversity. For those that feel frustrated by the process of improving gender equality, specifically that pace of change seems glacial, it is worth reflecting briefly on the progress that has been made. On that basis, it is worth having a quick glance back to 2016, when Watermark first started recording the data from the ASX300 to reflect on how much progress has been made in 5 years.

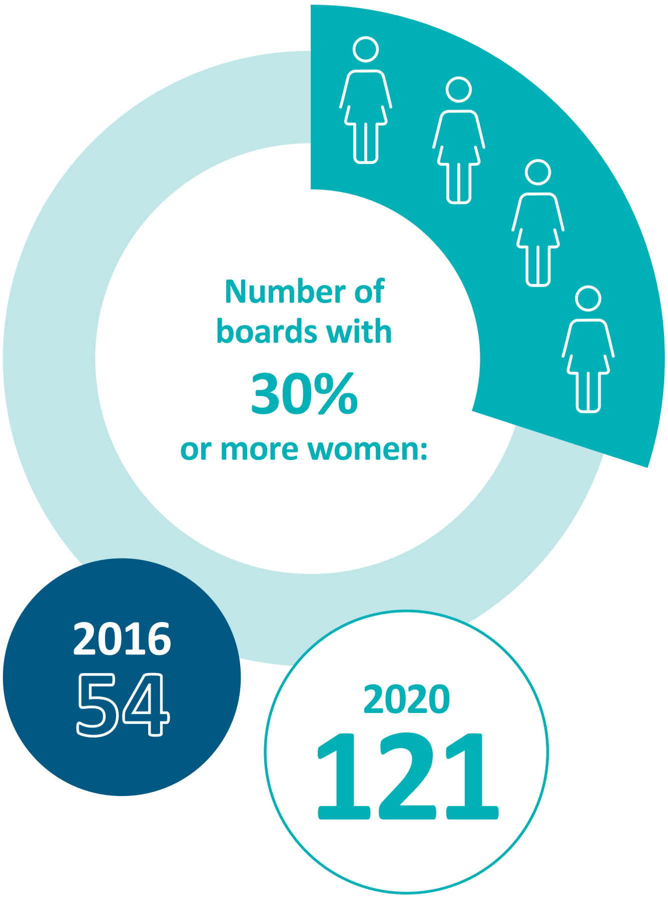
The following infographics provide a snapshot of the key changes.

Boards with 0 or 1 women

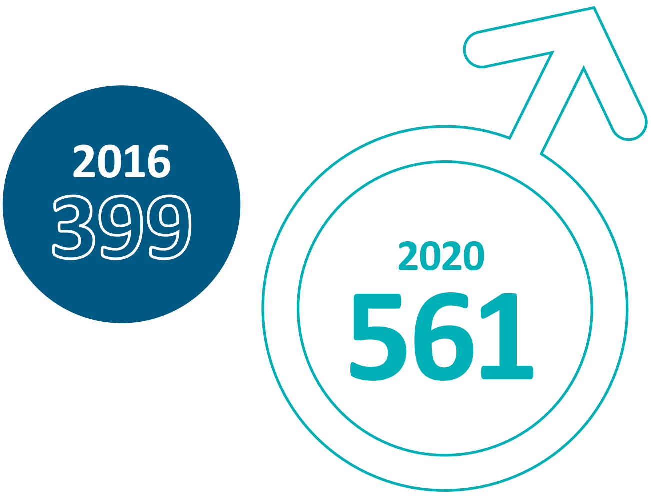


1 "The Power of Gender Parity" McKinsey & Company Global Institute, 23 Mar 2016.

Boards with more than 30% women



Number of women directors



Last year, there were 32 ASX300 boards with no women on them...this year that has reduced and there are now 29 companies with no women on their boards. It is interesting to note that 20 of those companies are 'repeat offenders', namely they were on the list last year and remain there. In addition, there are 30 new entrants to the ASX300, who have not yet caught up with either the ASX Governance guidelines or the investment strategies of some of the Superannuation Funds or Global Fund Managers. The breakdown of those companies with no women on their boards are as follows:

ASX boards in 2020 with 0 women directors

ASX50	0
ASX50 – 100	1
ASX101 – 200	10
ASX201 – 300	18

A full list of those companies with no women on their boards, as well as the 'repeat offenders' is provided in the appendices.

GENDER DIVERSITY CONT.

EXTENDED ANALYSIS

We would like to extend credit where it is due and that is in terms of gender equality…not just at the board level but also throughout the company. Out of the 3,519 companies researched in Equileap's 2019 Gender Equality Global Reporting & Ranking Report, Australia scored highest.

"The highest scoring countries for gender equality are Australia (44%), France (42%) and Sweden (41%)."[2]

Of those 3,519 companies, Australia had 11 companies in the top 20. Of those 11 companies all, bar one, had 3 or more women on their boards. Of course, this is correlation not causation however there is no disputing the fact that those companies who have scored well in terms of overall gender equality have gender diverse boards and as we know 'tone is set from the top'. Special mentions should be made of Mirvac, who sat in second position globally, and Suncorp who was the only company out of the 3,519 researched that achieved gender balance at all levels.

The gender diversity message continues to be re-enforced by the ASX50 as well as trickling down to the ASX201-300. Both tranches have improved their gender balances…the ASX50 by a further 3% to a 34:66 female:male split and the ASX201-300 by the same margin. Two factors make life slightly harder for the ASX201-300 group: firstly their boards are smaller, with an average size of 5.8 directors (compared to 8.6 in the ASX50), and secondly in our experience, boards tend to increase their diversity as they grow in the ASX300. The majority of new entrants tend to be less advanced on diversity in all of its forms.

In March 2019 the 30% Club Australia widened the 30% target past the ASX200 and onto the ASX300. Regardless of whether or not one is an advocate for quotas, (the 30% Club are not), the establishing of targets speaks for itself. In the UK, where the 30% Club launched in 2010, the proportion of women on the FTSE 100 boards has increased from 12.5% to 32.1% in 2019. The 30% Club would not claim they were the only reason for this shift but they have been a key player… if you choose to measure something, it immediately becomes visible.

"Firms with a high gender diversity on their board of directors were more profitable and larger than firms with low gender diversity."[3]

One needs to examine the data closely, and look behind the overall representation of women on the ASX100, 200 or 300 (sitting at 28%) because the ASX50 are 'pulling' the averages up which has the prospect of lulling Corporate Australia into a sense of complacency. There is a large gap between the number of women on the ASX50 boards (34%) and those in the ASX201-300 boards (22.8%). Further, there is also a gap in the boards of those companies that joined the index in 2019 (15%).

Gender split

2 Equileap's 2019 Gender Equality Global Reporting & Ranking Report.

3 S&P Global Inc 2019 When Women Lead, Firms Win.

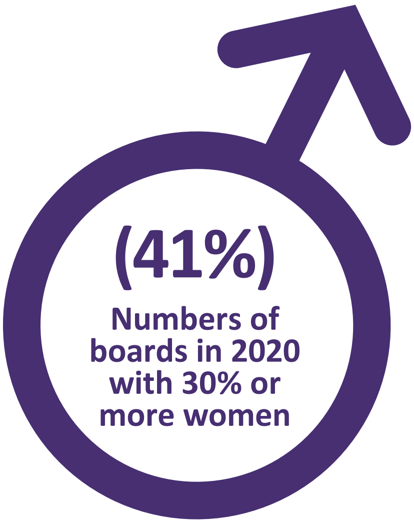
54 in 2016

63 in 2017

76 in 2018

113 in 2019

121 in 2020



If we examine the 'changeover rate', namely the number of men and women coming out of board roles against the number of men and women coming into board roles we can see that 39 women left board roles across the ASX300 and 81 joined. This is still not as many as the men appointed to ASX300 boards (123) but it is just a touch under 40% which points to a further increase in the overall representation of women. So, for all the men looking to build out their board portfolio, some of whom feel hard done by, we would say that you still have a 60% chance of being invited onto a board…which is about 50% better than if you are a woman.

For the 30 companies new to the ASX300 in 2020 the overall picture, in terms of gender balance, definitely lowers the average of the companies already part of the ASX300. The new players brought with them 156 board seats and only 24 of those were filled by women, and so these companies are a long way short of a 30% target. The metals and mining sector make up 30% of all new entrants and are the worst offenders when it comes to having female board members. We find it a bit of a conundrum as to why our newest ASX300 representatives have not got their boardroom diversity in better order. It's equally interesting with the line some investors are taking, including Goldmans, Legal and General, Blackrock, State Street and Australian Super, which is to vote against firms (or in Goldman's case not even bring them to market) with 0 women on the board. We would have thought that negative market sentiment alone would be enough of a 'stick' to move things along; clearly not.

"Starting on July 1st in the U.S. and Europe, we're not going to take a company public unless there's at least one diverse board candidate, with a focus on women."[4]

4 David Solomon, CEO Goldman Sachs.

At the start of the year there was only one company in the ASX100 that had no women on its board and that is the perennial favourite TPG Telecom. Yet, we hope that their merger with Vodafone can provide an opportunity to improve the board's gender imbalance with Amanda Harkness potentially becoming a member of the TPG Board next year.

There are currently 21 boards that are chaired by women which has risen for the third year in a row, in fact it is up by 24% on last year but let's agree that it is off a low base. It goes without saying that every company that is chaired by a woman has at least one woman on its board, in the case of GDI Property and Macmahon Holdings that is only the Chair, however 13 out of these 21 companies have more than 30% of their board made up of women. That is 62% of these boards with a 30%+ female:male ratio in contrast to the ASX300's 41%. This increased diversity at the board level is also likely to have a flow through to the executive and managerial ranks as noted in the Equileap rankings.

There are also 20 boards where gender balance is just that, with there being 50% or more women on the board. Those are boards that have led by example and who are in the position to hold their executive teams to account whilst having their own house firmly in order. It is from these firms that the next generation of board directors, male and female, will likely emerge with a clear perspective on the benefits of gender diversity. The full list of companies with 50% or more women on their boards is in the appendices.

If we look at the concentration of multiple board roles in the hands of the core directors, there are 108 women (or 19.2% of all female board directors), in the ASX300, holding 268 (47%) of all board positions. Most of those women holding multiple roles (62%) are sitting on 2 ASX300 boards. That is a concentration of 1.4 ASX300 listed roles per director and that is not the 'impenetrable wall' noted by Graham Samuel AC last year. In fact, it is quite a drop from last year's figures, where that concentration was 2.04 roles per director. As we noted last year this concentration will continue to diminish as more women become directors of ASX boards…not just ASX300 boards. A significant number of board searches for listed companies (of any size) have as part of the brief, a desire for listed experience, which is a bit of a Catch-22. One way of breaking that is to see more women appointed to ASX300-500 roles where they can further develop their board skills and another is to more widely adopt the relatively nascent board 'observership' programs for less experienced directors.

GENDER DIVERSITY CONT.

COMMENTARY

There are many organisations, both in Australia and globally, that have an interest in gender diversity and its role in business performance, several of them are referenced in this Index. It is rare however that any of those organisations, and the many reports produced, look at the wider concept of diversity. They either tend to focus exclusively on gender diversity or on other specific components of diversity. This Index looks at multiple components of diversity and how it plays out in our boardrooms.

Overall the story in our larger companies is a positive one with regard to gender. It is however well past time to widen the conversation to other components of diversity and not just settle for talking about 'cognitive diversity'. Cognitive diversity is indeed at the nub of what will make boards and executive teams more effective however, and it is a big however, it is extremely hard to measure. You might know it when you see it but that is relatively unhelpful. We would suggest Corporate Australia to be better off in using more easily identifiable and reportable factors such as age, tenure, cultural background and experience, as a proxy for cognitive diversity.

There is an increasing interest in the role that a gender diverse board plays with regard to Corporate Social Responsibility (CSR) and the 'referred' impact of that.

"The findings broadly support the proposal that the link between women on boards and financial performance is indirect… Having women on boards appears to be linked to more substantial CSR activities and programs, which in turn here appears to be positively linked to financial performance. Using a sample of Australia's largest firms, the findings suggest that women on boards are positively linked to financial performance; however, the link appears to be mediated through CSR."[5]

In the UK a study on UK financial institutions found that:

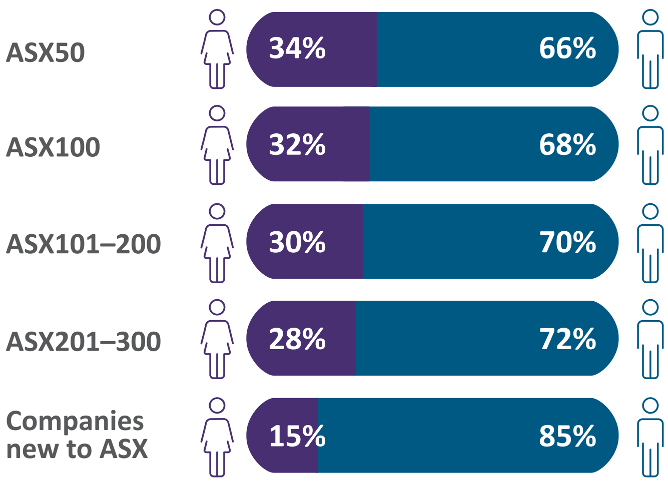
"… Gender Diversity enhances board monitoring and brings a diversity of ideas, new perspectives, experience and business knowledge to the decision-making process in the boardrooms, thereby improving the firm's financial valuation."[6]

"The outcome of this empirical research shows that the presence of women on the corporate boards of the UK financial institutions has a positive and statistically significant relationship to the firm's value".[6]

So rather than a direct correlation, or even a causative link, between women on boards and financial performance, it might be more indirect…still relevant but harder to see.

In summary, the ASX50 leads the way and the ASX200 is getting there at a reasonable pace. Companies joining the ASX need to be directly encouraged to do more and the year on year 'gender deniers' also merit a degree of attention. Broadly speaking the Telecommunications, Energy and Industrials sectors would do well to redouble their efforts and the Finance and Healthcare sectors are making better headway.

Women on boards Ratio



5 Jeremy Galbraith, "Is Board Gender Diversity Linked to Financial Performance? The Mediating Mechanism of CSR" Business & Society, 2018, Vol 57(5) 863-889.

6 Peter Agyemang-Mintah and Hannu Schadewitz, Gender Diversity and Firm Value: Evidence for UK Financial Institutions, July 2017.

CULTURAL DIVERSITY

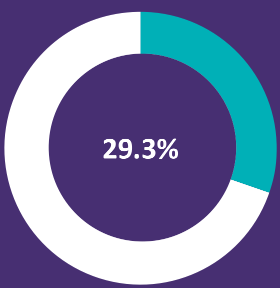
Executive Summary

We have previously detailed just how demographically different our board and senior executive composition is in comparison to our broader population. In 2020, there has been no significant change.

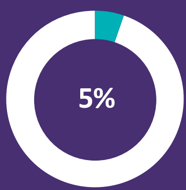
Last year Gareth Evans, the Chancellor of the Australian National University at the time, remarked that "The "Bamboo Ceiling" for Asian Australians is as pervasive as the "Glass Ceiling" experienced by women, but receives nowhere near the same attention." At best the Corporate Governance Council and the AICD refer to diversity being broader than just gender however when it comes to specifics, the details are absent.

Is that good enough for a society that prides itself on multiculturalism? We think not.

- On the ASX300 the number of board directors from non-Anglo-Celtic cultural backgrounds has decreased to 5%.
- The percentage of board directors from anywhere outside Australia has decreased to 29.3%.
- 71% of Women NEDs who are not from Australia are from North America, New Zealand or the UK.



ASX300 Directors with a non-Australian background is at 29.3%



5% of ASX300 board members are from non-Anglo-Celtic backgrounds

Extended Analysis

The UK moved to set a target through the 2017 Parker Review for the FTSE 100 to appoint at least one director of BAME (Black, Asian and Minority Ethnic) background by 2021. They are failing dismally and there are fewer directors of a BAME background at the end of 2019 than there were in 2014...but at least there is a target and it is in the open. At Watermark we agree with the view that "what gets measured gets done" and reporting on the cultural diversity of our ASX300 boards in a consistent and comprehensive manner would be a good first step.

"Today's FTSE 100 and 250 boards do not reflect the society we live in, nor do they reflect the international markets in which they operate. Whilst we are making good progress on gender diversity in the boardroom, we still have much to do when it comes to ethnic and cultural diversity."[7]

Last year in our Board Diversity Index, we noted that we were looking forward to "an increasing representation of directors from a broader range of cultural backgrounds" and "the appointment of directors from Australia's First Peoples to our ASX300 boards." We write this Diversity Index still looking forward to these representations.

7 Sir John Parker, Chairman of the Parker review Committee, October 2017.

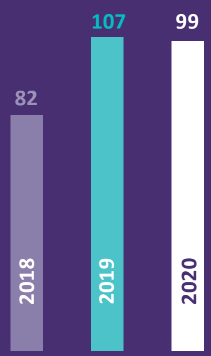
CULTURAL DIVERSITY CONT.

Anglo-Celtic **90.4%**
European **3.3%**
Non-European **6.3%**

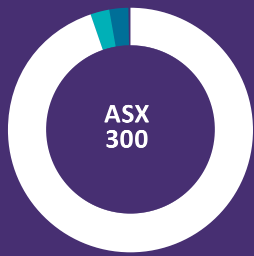
We continue to believe that apart from cultural diversity being a key element of overall diversity, it is an opportunity for business improvement in its own right. Government policy, operating models, services and the like are unlikely to meet the needs of the population and provide further opportunities to export oriented companies if the people responsible for leading those institutions are fundamentally Anglo-Celtic at every level.

As in previous years cultural diversity is stubbornly weighted towards those with Anglo-Celtic and European backgrounds, and this year we have gone backwards. The slight forward momentum of previous years has not been sustained for some reason.

Number of Directors of non-Anglo-Celtic Background across the ASX300

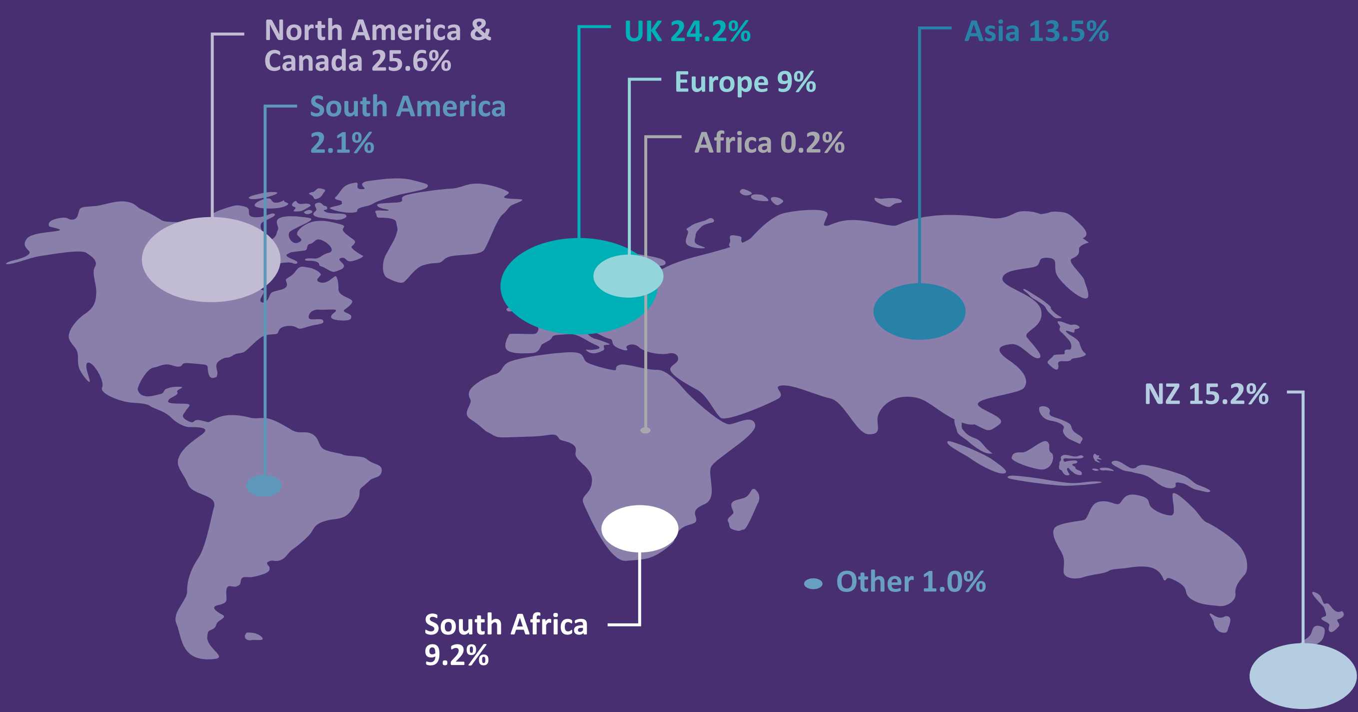


Anglo-Celtic **91.9%**
European **3.1%**
Non-European **5%**



Anglo-Celtic **92.4%**
European **2.6%**
Non-European **5%**

Distribution for board directors from countries outside Australia



The Asian and USA/Canadian cohort have a gender split along similar lines to overall gender split of the ASX100 with a 34.2% and 36.7% female:male distribution respectively. In contrast, those directors from South Africa are 96.3% Male.

COMMENTARY

The representation of directors with an Asian cultural background has reduced this year and their place seems to have been taken by directors from the USA, Canada and New Zealand. The numbers are not that large, but it is a disappointing shift from a board diversity perspective. Our interconnectedness with Asia from a trade, education, tourism and political perspective is increasing not decreasing and the current state of board cultural diversity does not reflect that, nor do our executive ranks.

"By international standards, Australia's population and national labour force are highly diverse in terms of their cultural, linguistic and religious characteristics…. an underrepresentation of cultural and linguistically distinct minorities… may be economically wasteful, as well as unethical."[8]

In addition to a board cultural diversity that should be more reflective of the Australian population and our major regional trading partners, there is also the issue of the broader contribution that cultural diversity makes to boards. Some studies have demonstrated a positive correlation between Corporate Social Performance and cultural diversity.

"Our empirical analysis reveals a significant positive relation between board cultural diversity and CSP (Corporate Social Performance), consistent with the argument of cultural diversity increasing a board's ability to incorporate stakeholder concerns into corporate decision making."[9]

"Within a firm, we find that an increase in a culturally diverse board is associated with an increase in CSP (Corporate Social Performance)."[9]

In summary there are several good reasons for board cultural diversity to increase and this is just not happening. We would offer, as we did in last year's index, that;

"The same organisations that drove the initial recognition of the board gender imbalance… are well placed to continue their good work in cultural diversity."[10]

…and we would ask them to do so.

8 Nick Parr and Sheruni De Alwis, "The birthplaces, languages, ancestries and religions of chief executive officers and managing directors in Australia." Asia Pacific Journal of Human resources, Volume 57, Issue 3, July 2019.

9 Dodd, Frijns, Garel 'Cultural Diversity in the Boardroom and Corporate Social Performance'.

10 Watermark Search International Board Diversity Index, 2018.

SKILLS DIVERSITY

EXECUTIVE SUMMARY

The year on year changes in the area of skills and expertise that directors bring to their various boards moves slowly. Radical shifts are not what one expects when the only measurable new sets of experience in a specific area are provided by the new directors, and there are only 204 of those (10.2% of all directors). We are not implying that the current directors are not adding skills on an ongoing basis but we look at the core skills that directors bring to the board, not the additional expertise they gain.

"Failings of organisational culture, governance arrangements and remuneration systems lie at the heart of much of the misconduct… Supervision must extend beyond financial risks to non-financial risks, and that requires attention to culture, governance and remuneration."[11]

We had expected, off the back of both the completed and current Royal Commissions, to see more experience that would supplement the three main findings of the Hayne Royal Commission about the supervisory shortcomings in the areas of Culture, Remuneration and Governance. Two of those areas of expertise can be found in either the HR and Change Management sector or the Consulting sector and the shifts in those areas have been minuscule, down 0.1 % in Consulting and up 0.1% in the HR and Change Management area. Equally, we thought that the Legal sector might 'fight back' in the governance space …however a 0.1% increase is not much of a shift. All in all, the skills of directors reflect more of the same expertise, with very slight differences.

- The Accounting, Finance and Legal sectors are still the most strongly represented. On average there are 2.4 Finance experts per board.
- Human Resources and Change Management remain a rounding error and seem to be less well regarded than those with Marketing and Communications skills. (Marketing/Communication skills were certainly in demand post Hayne).
- It remains tough to be appointed to a board if you are a woman with Engineering or Agribusiness skills.

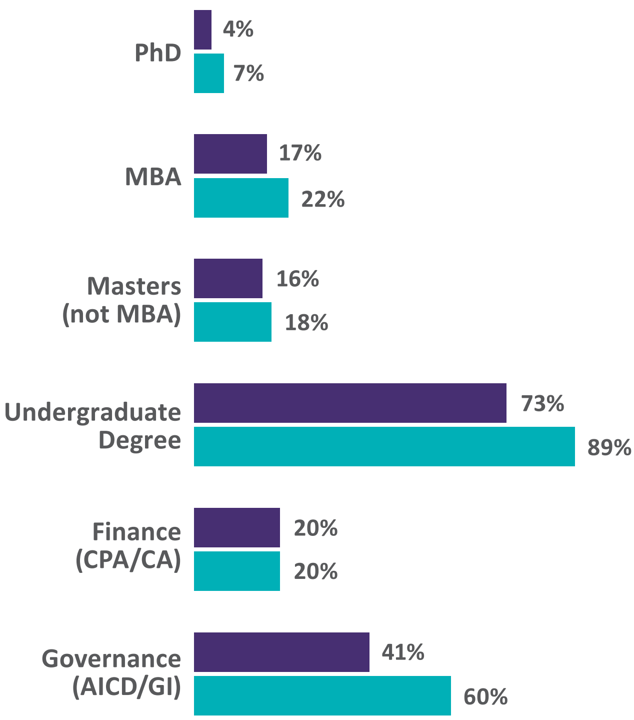
EXTENDED ANALYSIS

We looked again at the qualifications directors disclose to see if those showed any trends.

Again, newer board directors are better qualified academically and have more Governance training than those already in the boardroom. One might argue that if you are in the boardroom, the Governance qualifications have already been gained through prior learning but with the way that the Governance landscape keeps evolving, we don't agree. Ongoing Governance education is every bit as important as ongoing education…and the newer directors are launching off a more solid footing.

Women joining the ASX remain better qualified and better prepared from both a governance and academic perspective and that is likely to persist for two reasons; firstly the female academic completion rate is some 4-5% higher than their male counterparts and secondly women often feel they need to offer more, certainly in terms of governance qualifications, than their male counterparts.[12]

ASX300 boards and directors qualifications



11 Royal Commission into Misconduct in the Banking, Superannuation and financial Services Industry, Final Report, Commonwealth of Australia, 2019.

12 Tara Sophia Mohr, "Why women don't apply for jobs unless they are 100% qualified". Harvard Business Review, 2014

This is a similar picture to that painted with those companies new to the ASX300, although with less gap between the men and the women. It is worth noting again that there were only 24 women who were members of those new ASX300 boards.

Education, experience and the ability to fit into the board's culture are what is needed from every director. They are all expected to have a strategic mindset, a degree of intellectual curiosity, demonstrated ability to work in a team, leadership skills and commercial nous…those are the table stakes. Outside of these stakes, good Chairs are also looking for board members who will be additive to the board, those who can offer a different perspective or skill but NOT 'break' the dynamics of a well performing board. Good boards can tolerate, and indeed get the best out of, a much broader range of skills, experiences, cultural backgrounds and personalities. We firmly believe boards that have an overabundance of subject matter experts, to the exclusion of a broader set of skills and experience, are missing a potential opportunity to transfer learnings from different sectors.

"Given the central role that culture plays in managing risk and driving performance the observation about traditional areas of expertise is just one more argument in favour of increasing board diversity (not just in terms of gender – but also, background, experience and skills)."[13]

COMMENTARY

"The Hayne Royal Commission's findings would suggest that those boards whose directors possess experience in remuneration, culture and governance will find themselves in greater demand…Those with HR and strategic HR and business transformation skills should be in demand"[14]

It appears we were either largely wrong or that perhaps the leaders of companies believed that even if those skills were in demand, their current boards possessed them and/or could tweak their own as necessary in order to adapt. Alternatively, perhaps boards were happy to place the onus on consultants and the executive to boost those areas. Whether it is those factors independently, a combination of those factors or something else entirely we can't say.

The impact of the COVID-19 on businesses in 2020 is already proving to be significant and the situation is far from over. The way that boards support and guide their executives to react to the pandemic is critical, along with the 'Domino effect' measures which will be out of anyone's control. Getting ahead of things is going to be tricky initially, but how boards think about their business post COVID-19 and the opportunities for change that the impact of the virus may offer is very significant…the word 'unprecedented' in this environment is not over hyped.

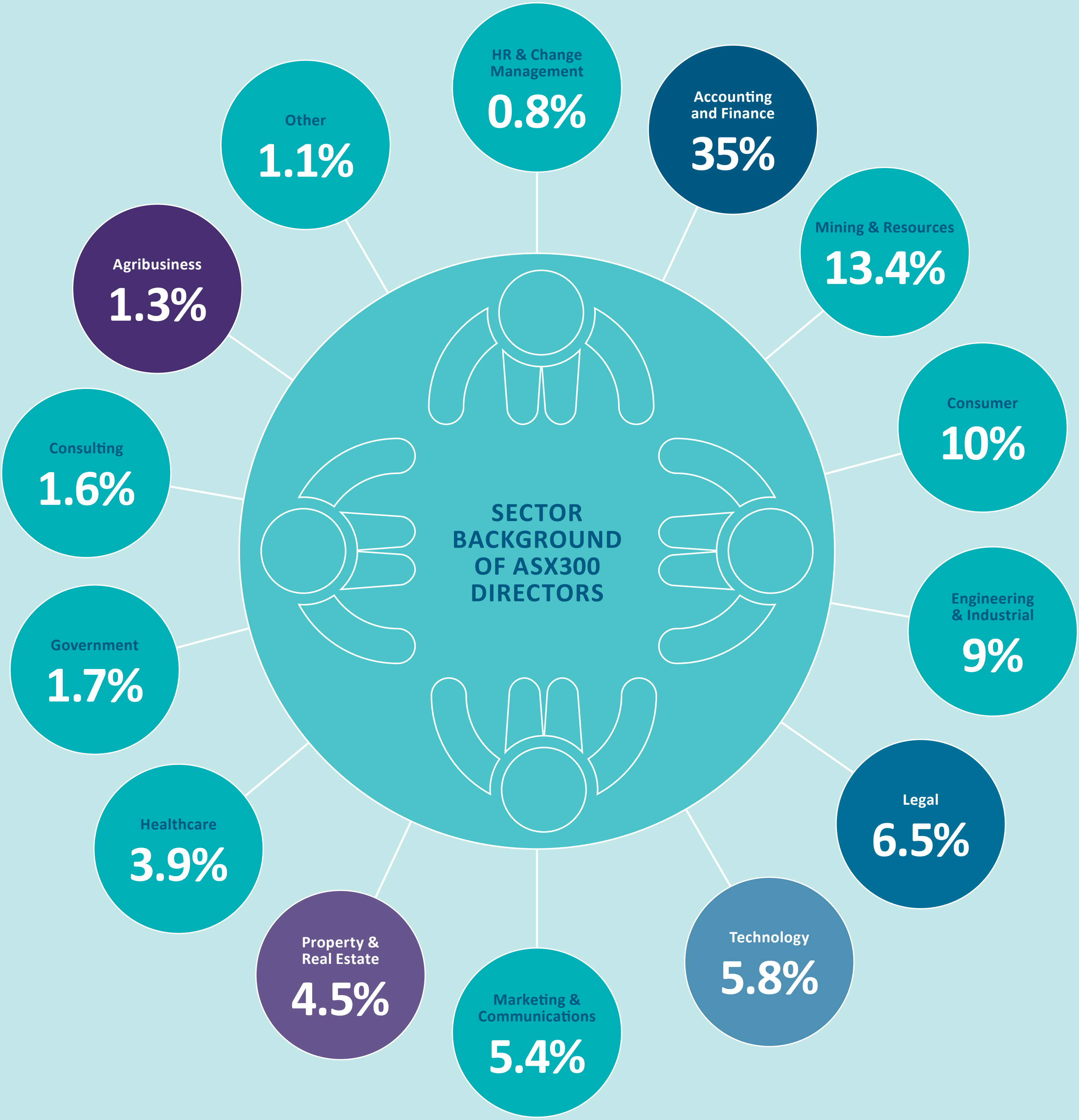
So, what skills do we see boards benefitting from over this period:

- Strong finance skills
- Superior communication skills
- Well-developed strategic planning skills
- World class technology skills…and this might surprise you…
- Strong Change Management and HR skills.

Some of those skills may be obvious, but why the HR and Change Management skills? Simply because many companies are not going to look the same and will not be able to go back to the business models of 2019. Reconfiguring the company, automating workflow, shifting to off site models and securing the talent required to do so will be critical. Human Resource development of boards is even more important than last year and having at least one board member with the skills and experience to provide a Human Resources and change management perspective to the board is critical. It is crucial for such a board member to be able to understand in some detail how the executive is delivering on plans and providing an 'advice platform' for the executive is going to be important.

13 Dr Simon Longstaff AO, 'Corporate Culture and the Duties of Directors', Report, The Ethics Centre, 2016.

14 Watermark Board Diversity Index 2019.



Biggest percentage shifts since 2015

↑ 45% Technology

↑ 60% Property & Real estate

↓ 34% Agribusiness

↓ 12% Legal

↓ 12% Accounting & Finance professionals

AGE DIVERSITY

EXECUTIVE SUMMARY

The number of companies disclosing the age of their directors stayed at 69% with the ASX100 reporting on age in 81% of cases. Based on those companies that disclosed age, the average age of all directors is 60.6 years, and was 61.5 for males and 57.9 for women. There was very little variation across the ASX300. As in previous years, given that just over 30% of the ASX300 have elected not to provide the age of their directors, we believe the sample is representative but caution the reader from attributing too much significance to small changes.

"In general, the age of directors at a company does not have any significant effect on its performance"[15]

Notwithstanding the above, there was a further study examining the link between age and improved Corporate Social Performance (CSP) which found that:

"Higher female representation on boards, younger boards and smaller average director tenure lead to improvements in CSP."[16]

Both male and female board members are slightly more mature this year, the men 0.2 of a year and the women 0.6 of a year, which is probably more significant. As we commented last year we expected the average age of company directors to increase for three reasons; the overall healthier aging of the population, a receding retirement age as well as a female NED cohort 'settling' into their relatively new (relative to the men that is) board portfolios.

There are 119 directors who disclosed themselves as being under 50 years of age and that is the same number who did so last year…so the ASX300 directors are not getting any younger…in fact the average age is increasing.

- The average age of both female and male directors has again increased, women at a faster rate.
- The age difference between male and female directors continues to narrow.
- The reporting of board member ages sits at 69%, the same as last year.

EXTENDED ANALYSIS

As in previous years we have also had a look at the age range of the boards given the fact that this potentially contributes more to diversity than just a younger or older cohort.

Age Ranges by sector

Energy	21.4 years
Industrials	18.7 years
Consumer	17.0 years
Telecommunications	17.0 years
Materials	16.6 years
Heathcare	15.4 years
IT	15.4 years
Real Estate	14.0 years
Financial Services	12.6 years
Utilities	9.0 years

15 Elizabeth Carroll, 'How Director Age Influences Corporate Performance', Equilar Inc, Jan 2018.

16 Dodd, Frijns and Garel, 'Cultural Diversity in the Boardroom and Corporate Social Performance'.

AGE DIVERSITY CONT.

If we look at the age spread by position in the ASX300, the ASX100 has a wider average age range (18 years) compared to the ASX101-200 (14 years) but whether that is material is unknown.

It is interesting to note that a PwC study conducted in the USA found:

"Ninety percent of directors indicated that age diversity was either "very" or "somewhat" important in achieving diversity of thought which was on a par with both gender and tenure."[17]

And also commented that:

"The talent and the ability to bring something unique to the boardroom is often there, it just may not look like what the board is used to."[17]

One has to be wary of blindly looking at age range as a Diversity Measure. Some companies with the greatest age range, and so age diversity potential, have had the same Captain at the helm for many years and increasing tenure often does little to help diversity. If we look at the three companies with the greatest age range they all exhibit this quality, NewsCorp has an age range of 49 Years with Rupert Murdoch at the helm, Seven West Media an age range of 37 years with Kerry Stokes as the Chair and TPG Telecom with a range of 36 years with David Teoh as Chair. These examples demonstrate that a larger age range should not automatically correlate to a board being seen as diverse.

COMMENTARY

As we have predicted for the past three years, the average age of directors has increased at a measured pace but that of the women has increased at a faster pace. We see this continuing as the relatively new cohort of women directors gains even more experience.

"Multiple voices lead to new ideas, new services, and new products and encourage out of the box thinking."[18]

As we have previously commented we see age as another component of diversity rather than a stand-alone measure that is of intrinsic value. When you combine age with gender, cultural background, sector experience and tenure it becomes a useful contribution. In our current times of uncertainty, a wise head to steer the board through uncharted territory is most likely a valuable commodity. However, it will be necessary to have younger contributors to think differently about how the business model should shift to accommodate a changed environment, so unprecedented that not even those with expansive tenure have seen anything like it.

17 Leah Malone, Director PwC's Governance Insights Center, PwC Directors Survey August 2019 (USA).

18 Forbes Insights, "Global Diversity and Inclusion: Fostering Innovation Through a Diverse workforce".

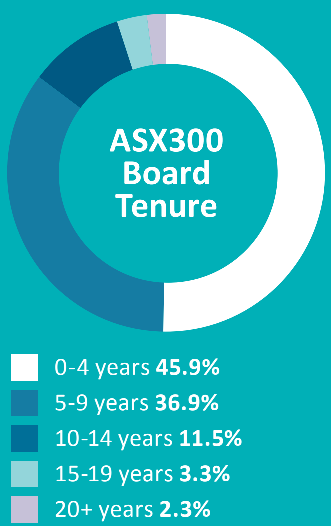
TENURE AND INDEPENDENCE

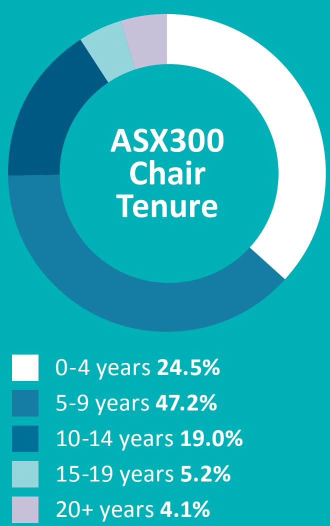
EXECUTIVE SUMMARY

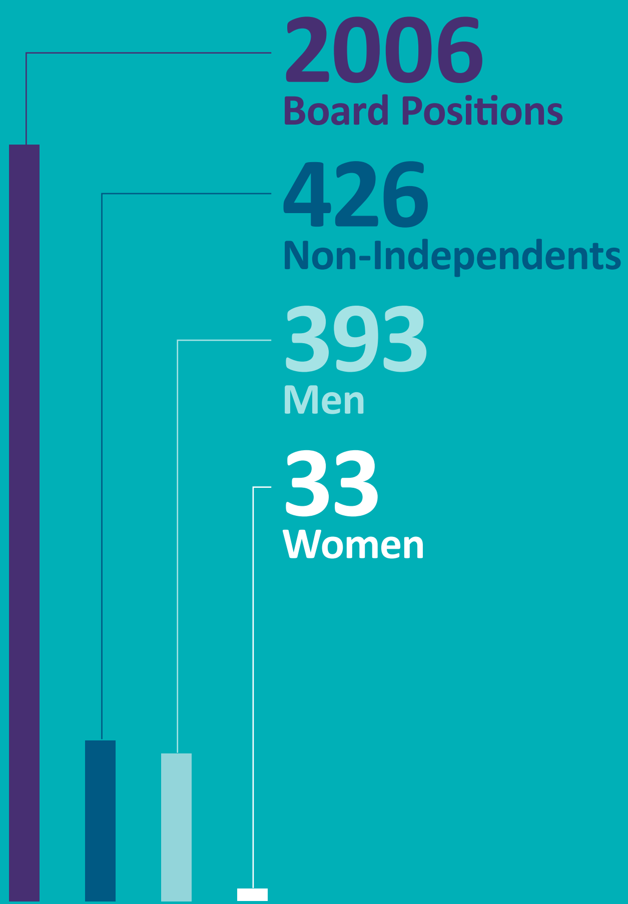
Tenure and Independence often go hand in hand. In Australia the recommendation from the Corporate Governance Council is that after being on the board for 10 years the independence of that director should be examined and re-affirmed. Tenure is not always bad...it's the closeness to the executive, the potential to dismiss new ways of thinking about the business or resistance to the winds of change that are bad. It would be naïve to think that those qualities only existed in directors of longer tenure...they can creep into the board at any stage. As an example, Berkshire Hathaway of Warren Buffet fame has two of the original founders on the board...55 years later and, by any measure this board has been a world-class success. It's not just about tenure and in Berkshire Hathaway's case, nor is it about age, given that three board members are in their 90's, ... but it is about a breadth and a diversity. By having long sitting board members, normally the Chair, in place for long periods of time another component of diversity goes missing.

From an Independence perspective out of the 2006 board positions, 78.7% (1580) of them are considered independent...21.3% (426) of them are not. However, of those 426 positions 284 of them are managing directors and on the board, meaning that 142 directors, around 1 in every two boards, are not independent. On the face of it that is a low number BUT the numbers are concentrated.

In broad terms larger companies have a higher percentage of independent directors and those with a lower market cap have a higher percentage of non-independent directors. Generally, as companies have climbed the ASX ladder, their boards have become more independent, but not in every case. Similar to last year, women are much more likely to be independent and of the 426 non-independent positions only 33 (7.7%) are filled by women. One of the reasons this is so low is of course the small number of women in the position of MD and so, from an independence perspective, this is unlikely to change in any meaningful way in the short term.







TENURE AND INDEPENDENCE CONT.

EXTENDED ANALYSIS

For the tenure of the Chairs it's an interesting shift from last year where 54% of the Chairs were in the 5-14 years bracket to this year where 66.2% are in that bracket. The biggest change is in the 5-9 year bracket where it has risen almost 10 percentage points, reflected by a drop in the 0-4 year bracket of around 12%. We believe it is not a bad thing, mindful of the ASX Governance Council guidelines, to have 55 Chairs in that 10-14 year bracket, but those that have carried on into the 15+ years bracket we see as less desirable. It is interesting to note, in the current environment, that only those Chairs in the 20+ years bracket are likely to have been in that role for both Black Monday in 1987 and the GFC in 2007… maybe their experience will prove the difference?

As mentioned above, the larger companies' directors are more independent with only 140 (18%) of the 797 board positions being non-independent. If one takes out the managing directors, we are only left with a relatively small number of non-independent directors. Again, women are a very small number in the overall count with only 11 (7.1% of non-independent directors) women being considered non-independent. The ASX101-200 has 647 board positions and 388 (38.3%) are considered non-independent…a much higher number. Women are once again a small part of those numbers with 10 (4% of non-independent directors) of them being non-independent. Finally, if we look at the ASX201-300, the 'independence ratio' increases again to 75:25, larger than the ASX100 but not of the same scale as the ASX101-200.

We also had a look at whether certain sectors displayed less independence, when it came to directors, than others. Utilities, on relatively small numbers, have the highest number of independent directors at 89% and at the other end of the scale, similar to last year, is the IT sector, with only 73% of their directors seen as independent.

ASX 100 Independence

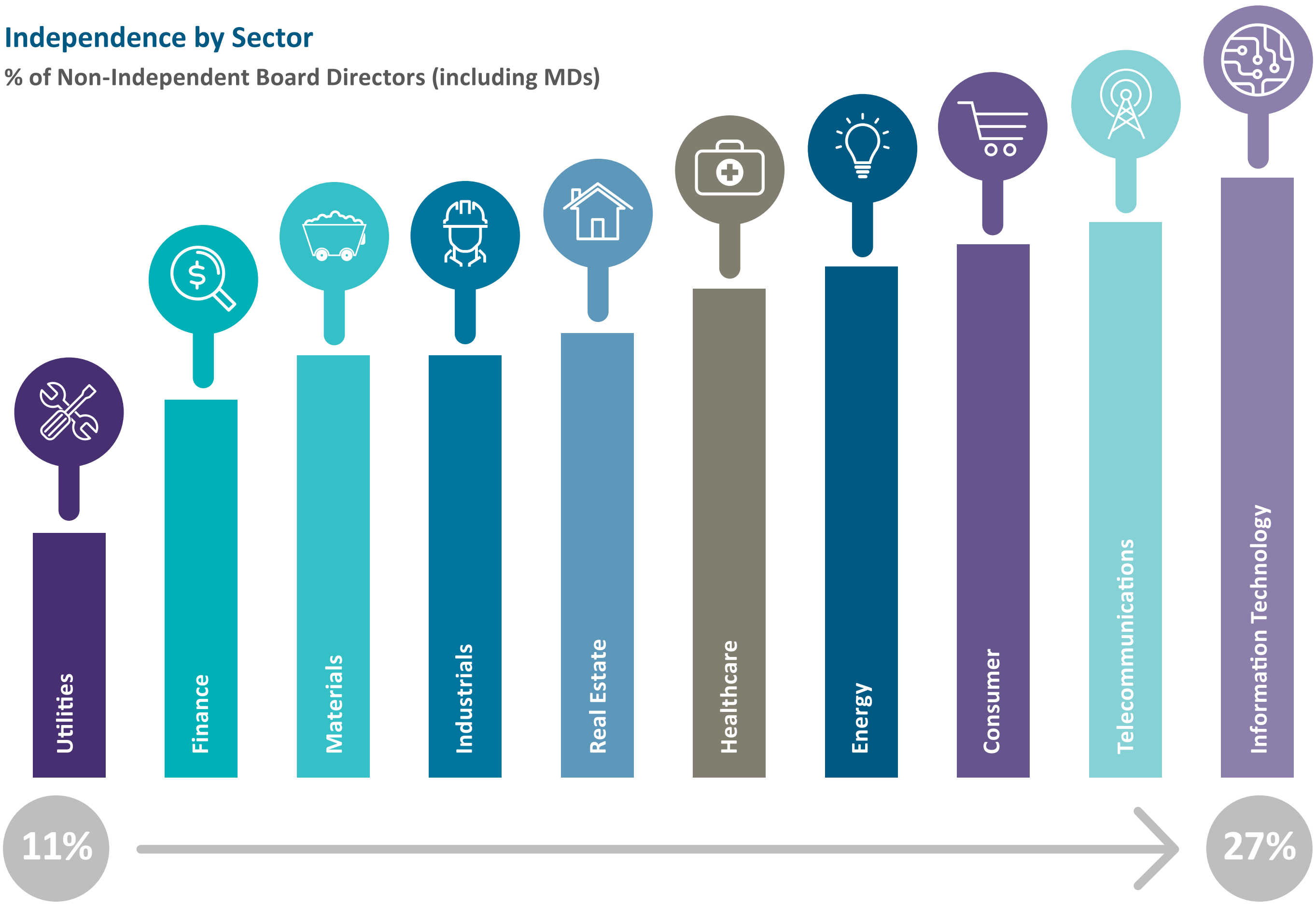
ASX 101-200 Independence

ASX 201-300 Independence

ASX 300 Independence

Independence by Sector

% of Non-Independent Board Directors (including MDs)



COMMENTARY

As we stated in our introduction, we are not a believer in diversity for diversity's sake nor are we a believer in quotas. As the Stanford Graduate School of Business noted:

> **"Diversity for Diversity's sake tends to harm governance quality, primarily when it leads to forced turnover and the appointment of less experienced directors."[19]**

In summary, 28% of the ASX300's Chairs have been in place for in excess of 10 years and 9% have been in place for more than 15 years. In parallel with this observation, 136 directors (excluding managing directors) would not be deemed independent: there is obviously room for improvement.

We believe that directors with extended tenure and also boards with a higher degree of non-independence would benefit from reading the corporate and societal tea leaves and, in a structured way, look to change the composition of their boards to be more diverse. For a larger percentage of shareholders, it's no longer just about profit…it's about how companies go about attaining that profit and they are looking at a wide number of measures.

Ultimately the market, combined with peer pressure and social expectations is quite good at helping companies come to the 'right' decisions and so align their boards with broader stakeholder expectations. If the fund managers are going to vote against a company due to a lack of diversity this will encourage boards to change. If the Governance Organisations set clear targets to aim for and ask for an 'If not, why not?' explanation this will also move the needle and finally the stakeholders (not just the shareholders) will push boards to change, they will likely do so by shaming them into it.

19 Stanford Graduate School of Business, "Diverse Boards, Research Spotlight".

SUMMARY

Regardless of the unprecedented and swift impacts of COVID-19 on businesses across the world, the environment was already shifting for boards. In August 2019, The Business Roundtable, comprised of 181 CEOs of some of the world's largest companies, explicitly shifting the purpose of business from Milton Friedman's 1970 doctrine which stated *"there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits…"* to instead lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders. They said:

"Each of our stakeholders is essential. We commit to deliver value to all of them…"[20]

That is a fundamental shift – profit is not the only responsibility of business.

One could argue that good businesses have been doing that forever, and indeed some have, but to potentially have that become embedded in the purpose of every business is quite different. There was some vocal disagreement with the stance that the Business Roundtable had taken, many suggesting they had 'sold out'. Tential shift has some distance to run but it is not just an issue being run in the rarefied atmosphere of the Business Roundtable. It also had some significant airplay in Australia under the auspices of the ASX Governance Council's proposed Social Licence to operate. In the end this proposal remained just that and the word's 'Social Licence to Operate' instead was swept up in an anti-political correctness campaign…but it will return in some form or other.

The 2020 Edleman Trust Barometer, with over 34,000 respondents, concluded that no institution is trusted... NGOs, Business Government or the Media…none. It notes that

"Trust is built on two key drivers: competence and ethical behaviour." Further they posited that, "business is recognized for its ability to get things done. But to earn trust, companies must make sure they are acting ethically, and doing what is right. Because for today's stakeholders, competence is not enough."[21]

We believe this provides a fundamental opportunity for companies, and the boards that lead them, to differentiate themselves not just on products and services but also on how they engage with multiple stakeholders on an ethical basis.

Returning to the central reason for providing this Index, we also believe that more diverse boards have a richer opportunity to meet the expectations of these multiple stakeholders. There is a 'quick win' in terms of community expectations by having a more gender balanced board, with a subsequent flow on effect to the company as a whole, but this somewhat misses the overall point of diversity. It is not a single factor, such as gender, but a melange of everything that makes us different and, as a result, allows different contributions, a range of ideas, vast questioning of the status quo, robust debate and the willingness to think about things differently. More than ever we need that sort of thinking in our boardrooms.

20 Milton Friedman's 1970 doctrine, Harvard Business Review, 2012.

21 The 2020 Edleman Trust Barometer, 2020.

IN 2020/2021 WE STILL LOOK FORWARD TO:

- A widening of the conversation on all the elements that contribute to board diversity.
- An increasing representation of directors from a broader range of cultural backgrounds.
- The appointment of directors from Australia's First Peoples to our ASX300 boards.
- A recognition that a 'social licence to operate' does not need to be legislated for... it is a responsibility that good boards should accept as part of their remit.

WE ALSO LOOK FORWARD TO:

- The business world reopening having used the opportunity that the COVID-19 imposed on us to rethink business models.
- A 'new normal' not including many of the diversity imbalances of our past.
- A more flexible and nimble workforce, able to adapt swiftly to – and more open to – change.
- A greater recognition that diversity on boards is a major positive for our society – and also is proving to be great for business.

DATA COLLECTION & INTERPRETATION

We have continued to keep our data collection to the ASX300. Again, it is worth noting that at any one time there are rarely 300 companies in the published lists that make up the ASX300. This year there were 296 companies that made up the data for this review. All data was current as of the start of January 1st 2020, unless otherwise indicated.

In considering the number of board members, we have included the Managing Director but not the Chief Financial Officer or Company Secretary as members of the board. This is potentially a source of small differences with some other studies.

In terms of skills and experience we have determined that a director brings one major area of experience to a board. We recognise that this is a dramatic oversimplification and does not properly acknowledge the range of skills and experience that directors build over their executive careers; we accept this limitation of the Index, however believe the way we have approached this is of value and provides another element of diversity not covered in other studies.

Based on our years of board search experience we know that specific areas of core experience are predominantly the reason a director is invited to join the board. For example, a director who has been a partner in a law firm is unlikely to be invited to join for their mining experience; it does not necessarily follow that they do not have any. Equally just as a director has, most likely mastered, the P&L, Balance Sheet and Cash flow reporting, it does not necessarily make them a financial expert.

Regarding postgraduate education, those holding PhDs have sometimes recorded a Masters qualification and sometimes not. We have not assumed that those who did not record a Masters hold one, given one can progress through and obtain a PhD without undertaking a Masters. We have however counted, for both women and men, both a PhD and a Masters as separate qualifications where listed.

With regard to cultural background there is, in some cases, a degree of judgement that has been applied. In many cases the individual's cultural background is quite clear; in other cases where an individual has been educated in Australia and is of a different cultural background, it is less clear. Just as we have determined, for example, that someone with exposure to the financials is not a financial expert, an Australian that has worked in Asia for a period is not the same as a director who was born and educated there.

When it comes to the terminology of cultural background, Anglo-Celtic, European, etc., we have used the same terminology as that used by the Australian Human Rights Commission in its publication "Leading for Change".

When we have examined the independence of directors, we have considered executive chairs, managing directors, previous CEOs or managing directors, large shareholders, nominees of large shareholders and founders as non-independent. We have also looked back in time, prior to a listing event, to determine if the same individuals have been on the board for an extended period. If they have, we have also counted them as being non-independent.

We believe that the focus on cultural diversity will gain momentum and there are strong economic and social benefits for companies and shareholders in creating more diverse workforces and boards. We recognise that diversity is not limited to the items covered in this Index, however believe the factors we have measured provide a very solid platform from which to build.

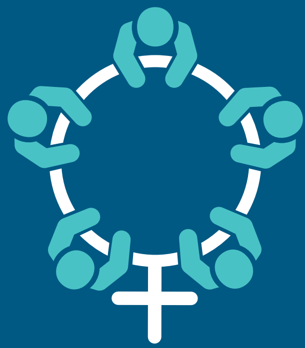
We invite you to contact us if you wish to discuss any components of this Index.

David Evans
Managing Partner
Watermark Search International

APPENDICES

BY THE NUMBERS

Companies making up the Index	>	296
Board Seats	>	2,006
Roles filled by men	>	1,443
Boards that were all male	>	29
Boards with 30% or more women on their Boards	>	121
Directors of Non-Anglo-Celtic background	>	99
Board roles filled by directors who would be seen as financial experts	>	702 (35%)
Women directors with core AgriBusiness experience	>	0
Directors who were under 50 years of age	>	119 (5%)
Directors who are not Independent	>	426
Chairs with a tenure of more than 10 years	>	83
Directors leaving Boards	>	172
Directors with a Government qualification	>	721 (36%)



COMPANIES WITH 50% OR MORE WOMEN ON THEIR BOARD

COMPANY	CHAIR
1. Commonwealth bank	Catherine Livingstone AO
2. Woolworths Group	Gordon Cairns
3. Fortescue Metals Group	Andrew Forrest AO
4. Mirvac Group	Dr John Mulcahy
5. Auckland International Airport	Dr Patrick Strange
6. Medibank	Elizabeth Alexander AM AO
7. Bluescope Steel	John Bevan
8. Spark New Zealand	Justine Smyth
9. Altium Limited	Aram Mirkazemi
10. Ansell Limited	John Bevan
11. Nib holdings	Steve Crane
12. Metcash	Robert A Murray
13. Abacus Property Group	Myra Salkinder
14. CSR Limited	John Gillam
15. Bapcor	Andrew Harrison
16. Lifestyle Communities	Philippa Kelly
17. FlexiGroup	Andrew Abercrombie
18. Asaleo Care	Harry Boon
19. Myer Holdings	Garry Hounsell
20. Japara Healthcare	Linda Bardo Nicholls AO

COMPANIES WITH 0 WOMEN ON THEIR BOARDS (IN ORDER OF MARKET CAP)

Please see in teal details of female board members appointed after 1st Jan 2020:

1. TPG
2. AP Eagers
3. Pro Medicus
4. Centuria Metro
5. National Storage
6. Freedom Food
7. NRW Holdings
8. Silver Lake Resource
9. Isignthis
10. Centuria (ASX code CMA)
11. Mount Gibson iron
12. Charter Hall Soc (ASX code CQE)
13. Kogan.com
14. Emeco Holdings +
15. Hub24
16. Rural Funds Group
17. Redcape Hotel Group
18. Carnarvon Petroleum
19. Jupiter Mines +
20. Navigator Global
21. West African Resources
22. Dacian Gold
23. Super Loop
24. Ioneer
25. Bellevue Gold
26. Maca Limited
27. Intega Group
28. Paladin Energy
29. New Century Resource +

- NRW Holdings appointed Fiona Murdoch in Feb 2020.
- Charter Hall Soc appointed Karen Moses in March 2020.
- Hub24 appointed Ruth Stringer in Feb 2020.

Teal = Companies who also has 0 women on their board last year
+ = Companies who have a female co-sec but is not in our numbers.

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WATERMARK'S CAPABILITIES

Executive Search

Founded in 1979, we are one of the longest established Australian executive search firms. Even though we are, above all else, an Australian based firm, we have an established track record in attracting and then securing, overseas candidates.

We have considerable expertise in senior executive appointments across a broad range of public and private sector organisations. Our firm has been built on a substantial body of work undertaken for publicly listed companies, private companies, state owned corporations, government agencies, departments and advisory boards.

Diversity

We pride ourselves on delivering the best candidates in the marketplace for consideration by our clients. We go further than most executive search organisations in ensuring that our clients have a gender diverse range of candidates as part of the process. Over the past three years, nearly 50% of all successful candidates introduced by Watermark were female. This is a significantly greater representation of women executives as successful candidates than any levels indicated by recent third-party studies. In addition to our focus on gender diversity we have also had the opportunity to assist a number of Indigenous organisations secure high-quality candidates through well targeted executive search.

Interim Executive Management

We provide immediate and high-level specialist executives, including senior managers, with the experience to bring stability to and provide guardianship for a company during a period of change, executive absence or performance turnaround. We also assist with providing executives who deliver on projects, programmes or specialist reviews. When clients are ready to appoint an executive, we normally complete the assignment within two weeks.

Board Search

We believe that strong boards make for better organisations and improved business performance. In conducting searches, we do not simply look for 'a name' but rather search for candidates with the relevant skills to add real value to a board. We often start our board search by working with the client to produce a Board Skills Matrix, which then informs the specific brief.

Our track record ensures familiarity with the specific, and often sensitive, challenges involved in appointing Non-Executive Directors and Chairs with the right skill, personal and cultural fit.

Tailored and unbundled solutions

Watermark is very comfortable with adapting or tailoring our service offering to fit our individual client's needs. We are able to unbundle the search process to provide only the parts of an executive search or value-added recruitment services you require. Tailored services we have provided include; market mapping, managing advertised response (reviewing, culling and recommending), reference checking, selection panel attendance and scribing. This can also be scaled-down to better suit budgets or supplement existing internal resources.

Market Insights

We have a unique 'window' into both the commercial and government worlds and are available to provide informal market insights to our clients on topics such as salary packaging, hiring trends and executive onboarding.

As thought leaders, we undertake various pieces of research and market analysis to form our CFO Report, Interim Management Survey and this Board Diversity Index.

Watermark
SEARCH INTERNATIONAL

Watermark Search International

Sydney Office
Level 5, 55 Clarence Street,
Sydney, NSW 2000
02 9233 1200

Melbourne Office
Level 11, 385 Bourke Street,
Melbourne, VIC 3000,
03 8629 1333

watermarksearch.com.au