

Board Gender Diversity

PNGID Consultation Paper

1 June 2020



PNG INSTITUTE OF DIRECTORS

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Consultation Process

The Board of the Papua New Guinea Institute of Directors seeks your feedback and comments on this consultation draft of a proposed strategic action plan to address gender gaps on Boards in Papua New Guinea.

This paper is presented in a form that will be used in the final version to be adopted by the Board. It is shared to encourage robust discussion with a view to eliciting further contribution on the initiatives that PNGID can adopt to advance the goal of securing greater representation of women on boards. Stakeholders should also feel free to raise any issue of relevance on this subject.

Feedback received on this Paper will be used by the PNGID Board's Strategic Committee to finalize the strategic action plan for PNGID Board approval and adoption in mid- to late July with implementation of the proposed measures to commence in the second-half of 2020.

Submissions in response to this Paper are due by 13 August 2020.¹

All submissions can be hand-delivered, sent via mail or sent by email to:

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¹ The closing date of the consultation period has been extended by the PNGID Board to 13 August 2020 in recognition of the challenges imposed on working arrangements in response to the COVID-19 measures imposed by Government.

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A SEAT AT THE TABLE

Improving Corporate Governance by Addressing Gender Gaps on Boards

PNG INSTITUTE OF DIRECTORS

Promoting good governance



PNG INSTITUTE OF DIRECTORS

CONTENTS

Board Gender Diversity Makes Sense	1
What Does PNGID Seek To Do?	1
Early Steps.....	2
A Call to Action	3
Growth	5
Delivering Member Value	5
Standards.....	7
Influence	7
Engagement	9
Agents for Change.....	10

BOARD GENDER DIVERSITY MAKES SENSE

1

Gender equality is a fundamental human right and it is a significant development issue in Papua New Guinea. Women comprise 48.2% of the population (NSO 2013) but are significantly underrepresented in the spheres of leadership, decision making and economic participation within Papua New Guinea.²

Papua New Guinea Institute of Directors (hereafter the “Institute” or “PNGID”) embraces the 17 Sustainable Development Goals (SDGs) and within its area of responsibility and influence seeks to promote and support the achievement of these goals. In support of Goal 5 on gender equality the Institute is undertaking steps to promote the elevation of more women to directorship positions.³

Boards need competency and skills. The business case for gender diversity is strong. The Institute believes that the underrepresentation of females on company boards belies the talent pool for female directors in Papua New Guinea.

The Institute is unaware of any specific research done for Papua New Guinea of the impact of board gender diversity on the financial performance of businesses. However, overall there are studies from other regions and countries that show that greater gender diversity on boards improves financial performance reflected in return on equity and return on assets (see for instance IFC 2019 and ILO 2019).^{4,5} Whilst the evidence is mixed with respect to the impact of share prices, it has been suggested that this is due to analyst or investor bias affecting the statistical results. The literature also suggests that gender board diversity leads to less volatility in the market value of companies. Additional benefits found were an increase in compliance and risk management, creativity, innovation, openness and in better gauging consumer sentiment.

Creating the awareness that more women on boards and in business leadership makes a difference to the bottom line as well as providing numerous additional benefits will help to shift current culture, paradigms and expand the opportunities for female leadership in business.

WHAT DOES PNGID SEEK TO DO?

2

PNGID wishes to lead in the promotion of good corporate governance in Papua New Guinea. The values of the Institute are to be inclusive, transparent, enterprising and to collaborate with partners in a respectful and professional manner. The Institute’s

² National Statistical Office (2013) *Final Figures. National Population and Housing Census 2011*, NSO: Port Moresby, Available at <https://www.nso.gov.pg/index.php/document-library>

³ PNGID’s *Rules of Association and Constitution* defines a director broadly as one who is a member of a governing body of a company, public or statutory body or non-for-profit organisation.

⁴ International Labour Organization (2019) *Women in Business and Management: The business case for change*. ILO: Geneva. Available at https://www.ilo.org/global/publications/books/WCMS_700953/lang-en/index.htm

⁵ International Finance Corporation (2019) *Board gender diversity in ASEAN*, Available at https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/resource/s/guidelines_reviews+and+case+studies/board+gender+diversity+in+asean

Strategic Plan 2019-2021 with 5 thematic pillars guides the efforts the Institute will apply to advance board gender diversity:

1. *Growth*. As part of its efforts to promote a culture of inclusion the Institute seeks to grow the number of female members of the Institute at all membership grades. There is a pressing need to develop the next cadre of directors and develop a pipeline of talent.
2. *Standards*. Providing guidance on how gender gaps can be addressed. The Institute seeks to articulate standards for good corporate governance that comply with international best practice but also are relevant to the needs of Papua New Guinea whilst serving the public interest.
3. *Delivering Member Value*. Work is underway for the introduction of a new suite of introductory training in corporate training program. As part of the proposal for funding for this program a scholarship component specifically for aspiring female directors has been incorporated.
4. *Engagement*. Aspiring directors need mentors and network opportunities to learn and to absorb lessons on how to become an effective director.
5. *Influence*. Providing guidance and leadership affecting corporate governance. The Institute wishes to lead and support efforts to address gender gaps at a policy level in both public and private sector.

EARLY STEPS

3

At the Institute's 2018 Annual Award the President announced in his welcome address that another "goal that is dear to our Board and to many here I am sure is the promotion of more women into leadership roles. We want to focus on ways to encourage greater diversity on boards."

The Institute supports gender diversity and the empowerment of women. The Institute Board has 2 female directors amongst its board size of 7 directors with one currently the Vice-President. This is a ratio just under 30%. It will seek to maintain this ratio and increase it over time. The Institute has 3 Committees, of which one is chaired a female Director.

The Institute Board in February 2019 approved a procurement policy that provides explicitly for the maximization of participation by female-owned businesses and small-to-medium businesses.

In May 2019, the Institute President wrote separately to the Minister for Public Service and the Minister for Public Investment and State Investments proposing that gender diversity in public governing bodies – particularly commercial statutory bodies and regulatory public authorities be strengthening by considering targets or quotas for female directors. At the Institute's *Women on Board Breakfast* on 9 March 2020 the Minister of State Enterprises was a guest speaker and affirmed a commitment to increasing the number of female directors on Boards of State Owned Enterprises.

A CALL TO ACTION

4

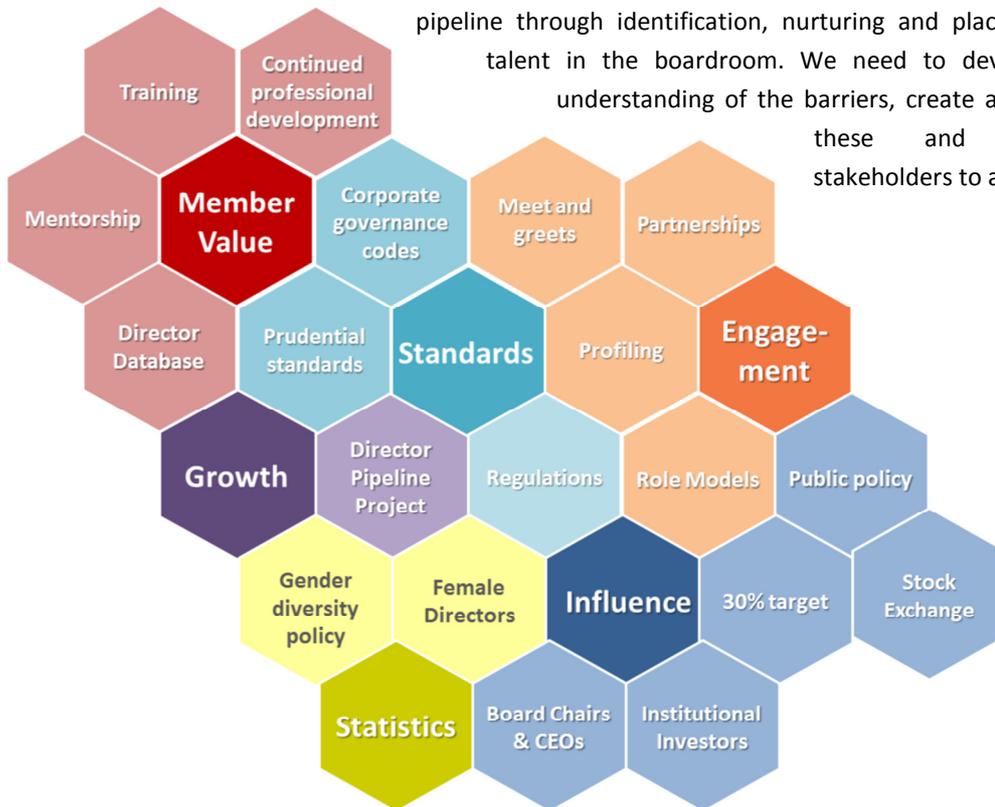
The action plan by PNGID revolves around two questions:

1. Why is gender balance important?
2. How do we achieve gender balance on Boards?

In thinking about these questions we can also conceptualize the answers into demand and supply perspectives. The demand side revolves around publicizing and raising awareness about the real benefits women bring to business leadership and boards.

We also pay attention to the approach we advocate. A coercive approach is shied away from. Instead we choose to influence and collaborate to achieve voluntary commitments to board gender diversity.

We believe we can contribute by establishing programs that build the talent pipeline through identification, nurturing and placing this female talent in the boardroom. We need to develop a deeper understanding of the barriers, create an awareness of these and work with stakeholders to address them.



The Institute has a four-step plan to achieve its goal of securing 30 percent female board representation by [2030]⁶ for major companies and public bodies:

1. documenting the state of play, creating awareness on the importance of board diversity and the underrepresentation of women on boards and starting a conversation in Papua New Guinea about this;

⁶ Whilst 2030 is proposed as the year for the target to be achieved, feedback is especially welcomed on whether greater ambition should be pursued for an earlier achievement.

2. supporting the development of the talent pool of women with initiatives that will:
 - a. identify females with aptitude to undergo training and mentorship;
 - b. match the talent pool with available board positions; and
 - c. build women-women networks for women to encourage, share experiences, inspire and support aspirations; and
3. Influence. Working with key bodies that can effect change including institutional investors, advocacy groups and other bodies committed to gender diversity.
4. Standards. Advocating for changes in corporate governance codes to include gender diversity policy requirements with a comply/report or explain mechanism.

These components are discussed below under the pillars of our current *Strategic Plan*.

The Institute wants to shine a light on the current state of play. We need facts. Starting with selected prominent companies, the Institute will work to document and analyse the gender balance of Boards, whether a company has a Board Diversity Policy and training program for emerging female directors. Statistics provide transparency and help us understand context and dynamics. This is important for advocacy and to track progress over time. It also allows the identification of lagging companies and for constructive engagement with their Boards to progress change (not to name and shame).

The Institute proposes initially to gather board gender statistics on two groups of companies: listed private sector companies and commercial state owned enterprises. We will look to work with our stock exchanges and with business chambers on this.

The global experience at least in advanced economies is that the top tier of companies, such as the companies in the FTSE 100, S&P 500 and ASX 100, perform well on gender diversity metrics but the next tier less favourably. We will incorporate an expansion of our sample in the next phase of our research plan.

For private sector those companies that are listed on the PNGX Markets will form the first array of statistics collected. There are 13 listed companies according to the website of the PNGX.⁷ For the public sector public enterprises the Institute proposes to gather statistics for those companies under the ambit of Kumul Consolidated Holdings and the General Business Trust, Kumul Petroleum Holdings Limited and Kumul Minerals Limited.⁸

⁷ These companies are: Bank South Pacific Limited, Credit Corporation (PNG) Limited, PNG Air Limited, City Pharmacy Limited, Coppermoly Limited, Kina Assets Management Limited, Kina Petroleum Corporation, Kina Securities Limited, Newcrest Mining Limited, New Guinea Islands Produce Limited, Niuminco Group Limited, Oil Search Limited, Steamships Trading Company Limited.

⁸ KCH has nine major companies: Air Niugini Limited, Motor Vehicle Insurances Limited, National Development Bank, PNG Ports Corporation Limited, PNG Power Limited, Post PNG Limited, Kumul Agriculture Limited, Kumul Telikom Holdings Limited, and Water PNG Limited, and one major investment company: Bank South Pacific Limited.

GROWTH

5

The pipeline of director talent is built at the executive level of organizations. Development of women in the C-suite⁹ requires a broader reform program that involves cultural and structural shifts to overcome biases and other impediments they encounter. The Institute recognizes and applauds the strong policy moves to achieve this in both the public and private sector.¹⁰ The Institute believes that having more women in the Board can support the appointment of more women to senior executive positions in companies and organization.

Recent changes in the regulation of the financial services have highlighted the need to grow the pool of professional directors. The Institute is involved with the Bank of PNG, the University of PNG and the private sector in the *Director Pipeline Project*, an initiative that seeks to nurture emerging directors and support their ongoing development as professional directors.

Whilst the numbers of female executives may not match their male counterparts, the Institute believes that there is sufficient female talent to allow an immediate expansion of the pool of emerging directors. There are large pools of women in the workforce that have educational attainments and professional training that match that of their male counterparts. A program of development through training, mentorship and network opportunities will support the emergence of this cohort and future generations.

The Institute itself has a female membership of 60, a mere 15 percent of its total membership. This is inadequate and the Institute will reinvigorate efforts to increase its female membership and to support the identification of women talent that can be nurtured to assume a seat on a board. The Institute does not believe that there is a talent gap.

The ratio of 30% is often advanced as a minimum threshold for the share of women on boards. One basis for this is a view that there is a critical mass of women required to ensure that the impacts of board gender diversity are positive.

DELIVERING MEMBER VALUE

6

To address the small pool size of the directors within Papua New Guinea, the Institute is cognizant that it needs to do more to increase the supply of “board-ready” candidates for directorship. This will involve examine the full development path for aspiring directors from (i) providing director training to (ii) continued professional development to increase understanding and skill-building to (iii) linking these candidates with experienced or current board members to act as mentors and to assist build professional networks, provide encouragement and guidance and (iv)

⁹ The C-suite refers to executive level positions such as the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Technology Officer, and so forth.

¹⁰ The public sector has the *Gender Equity and Social Inclusion* program and the private sector has champions such as *Business Coalition for Women*.

facilitating the placement of capable women into board positions by connecting the pool of talent looking for directorships with the demand by boards searching for high-quality candidates.

The process to fill vacancies on Boards can often rely on existing networks and limit the search process. Whilst a formal search process can take time and involve costs for companies and organizations, the Institute believes that the rewards from this can be significant in ensuring that the diversity of skills, experience and industry knowledge required by a Board are identified and that this could easily extend to gender diversity.

The Institute plans to support the search process with the commissioning of a database that will list its members, their qualifications, skills and other attributes to connect Boards to the talent pool of directors. In conjunction with the database project, the Institute will establish coaching sessions with candidates to help with their profile and with applications for board positions.

Board search processes can narrow the opportunities available for women. The Institute believes that the talent pool of women is sufficient to provide for merit-based appointments. The Institute database will allow the identification of suitable female candidates for directorships and can reduce the burden of identifying the right candidates for the board position.

Encouraging businesses to adopt formal search and nomination processes for their board directors can support gender diversity. This process can focus attention on the need to be more active in their search and expand their criteria to identify candidates that bring leadership, skills and competencies to the board.

The Institute is currently examining its training portfolio and exploring the prospects for partnerships to introduce new courses for Directors. The current course will be expanded to four courses and a further partnership will provide a knowledge ladder for continued professional development. As part of this new offering it is hoped to incorporate a scholarship component for emerging female directors.

The Institute is able to organize dedicated training for aspiring female directors to provide them with the technical and soft skills to be successful directors and how to manage cultural issues that confront women leaders. Additionally, exposing the female candidates to board duties and tasks can be done through simulated board meetings with experienced directors present to provide advice and guidance.

The Institute will expand its networking events from meet and greets to power breakfast (such as the initial Women on Board breakfast) and networking lunches that provide the opportunity for dialogue and to enhance visibility of aspiring and emerging female directors by connecting them with business leaders, policy-makers and decisions makers.

STANDARDS

7

Promoting gender diversity in the national context is important. As it takes time to work through the policy cycle it can often seem that Government isn't active or is languid. It is the Institute view that finding the right balance between imposing change and encouraging voluntary change is important for the overall success of the push for greater board gender diversity. The Institute is conscious that legislative decrees can impose additional costs and burdens on businesses and organizations. This in turn can be inimical to the long-term success of achieving greater gender representation on Boards and business leadership.

The Institute believes that working with regulators and our stock exchange (including the new established PNG Securities Commission) can create opportunities to advance board gender diversity. Establishing within regulatory frameworks requirements to produce statements arounds gender diversity in corporate governance codes is a softer approach but has proven effective in some countries such as Finland and is being adopted in APEC countries such as the Philippines and Australia.¹¹ These measures can be done using a "comply/report or explain" model.

Regulators are uniquely placed to advance gender diversity on Boards. Stock exchanges can also promote substantive progress in this area. The Institute will advocate for changes to corporate governance codes, to prudential standards and other regulations to advocate for board gender diversity. Stock exchanges are able to move with greater speed than regulators. Regulators are able to move with greater speed than legislators.

There are stock exchanges that have encouraged or required its members to publish disclosures of gender diversity policies and targets. There are stock exchanges that have signalled their commitment to gender diversity by participating in the *Ring the Bell for Gender Equality* ceremony that takes place on International Women's Day.

INFLUENCE

8

The Institute firmly advances that the composition of members should be determined by the needs of the Board and the organization. Predominant is the requirement to ensure that the Board has the right mix of competencies to effectively steer and oversight the organization.

The Institute has written to Government Ministers seeking to promote policy that sets targets or quotas for gender diversity on public governing bodies. However, it is recognized that quotas may promote tokenism and be detrimental to the long term goal of promoting greater opportunities for women to participate in leadership positions and the successes of businesses. The Institute believes that a floor for

¹¹ In Australia, in 2010 the Australian Securities Exchange made gender diversity a listing requirement for its member companies.

female directors may have merit but the policy target should be set higher so that this floor does not become a *defacto* ceiling.

Many countries have codified in legislation quotas. The Institute feels that an approach that encourages and nudges may have greater lasting positive impact.

The Institute will engage with institutional investors such as superannuation funds, insurance companies and investment funds to apply external pressure to those companies it invests in to have more diverse boards as well as adopting best practice for corporate governance. Institutional investors will be encouraged to urge companies:

- have gender diversity policies and the board has assigned responsibility for it or delegated responsibility to a director or the Board Chair;
- ensure greater gender balance in boardrooms by voting against re-election of chairs or directors that have no or minimal women directors or that are making poor progress towards board gender diversity;
- enquire on gender diversity progress at Annual General Meetings;
- participate in the Institute's board gender diversity score-cards that track progress; and
- have a public commitment to gender diversity at board and executive levels.

Collaboration forms a central plank in our *Strategic Plan* and recognizes that the Institute itself is growing and developing its capabilities. The Institute believes that active engagement is required to move the needle on greater gender representation. Combining our voice with other advocacy and professional membership organizations can amplify our influence and overcome resource and credibility constraints.

The Institute recognizes that strategic partnerships with other organizations such as the *BPW Port Moresby* and *Business Coalition for Women* who lead the way in promoting and championing women leadership in a broader strategic sphere.

Institutional investors can influence the governance of companies. We will seek to engage with superannuation funds particularly and other investor companies such as trustee landowner companies to advocate that they demand that their investee companies have a gender diversity policy and set progressive targets for gender representation on Boards. Recognizing that the talent pool is determined by the C-suite we will also advocate that these shareholders also require within the diversity policy of their investee companies that there be consideration and appointment of women to senior managerial positions and that the pipeline of talent be supported through training and professional development.

The Institute aims to influence public thinking and to shape official and company policies. The Institute considers that there is utility in conducting a campaign that seeks to leverage the many good initiatives being conducted by companies and to connect these organizations through a platform that allows exchanges, diffusion of some approaches practices and the adoption of leading practices to address gender diversity on boards and in the C-suite.

In this regard, the Institute will seek to introduce a “Pledge for Gender Diversity” to be signed by Chairs of Boards, Chief Executive Officers and other corporate leaders that will set principles and a commitment to achieving action, with measurable indicators, to realize gender diversity. Whilst the Institute recognizes that there are existing international initiatives such as the United Kingdom’s *30% Club* or the United States’ *Thirty Percent Coalition* that could be leveraged by setting of a national chapter, it is felt that a home grown charter appropriate to the circumstances of Papua New Guinea is appropriate.¹²

The Institute advocates a target of at least 30% for female representation on Boards. This target could also be adopted for the C-suite in companies. This threshold is supported by studies that conclude that a critical mass of female leadership is required for a positive impact on firm value, board effectiveness and productivity.

We will continue to actively engage with business leaders to share the benefits of good corporate governance and on the importance of diversity in this.

Companies actively identify their own female talent and provide training and professional development to nurture and guide them to positions in the C-suite. The Institute would like to talk to business leaders about how these talented women are potential future board directors and for these candidates to enter the director pipeline project run by the Institute and gain valuable directorship experience with placement on not-for-profits organizations that align with the corporate social responsibilities of the employing companies.

ENGAGEMENT

9

Make them known! Increasing the visibility of current female directors can be an effective way of expanding the pool of directors. These women leaders can be role models and mentors for aspiring female directors. Seeing is believing!

The Institute will work on profiling corporate leaders and female directors, providing a short biography that highlights their appointments, the boards and industries in which they serve and their achievements. Visual and tangible proof can motivate, inspire and encourage personal and professional development of young women to aspire to achieve similar achievements and move beyond. This can also challenge biases by providing evidence that women can and do contribute meaningfully as corporate leaders.

The Institute will endeavour to connect aspiring directors with role models and mentors. A mentorship scheme will be designed to place young female talent in contact with women and men in senior positions. This allows expertise and experience to be passed to next generation of talent. Having an experienced hand ready to guide aspiring directors can be a useful mechanism to navigate hurdles and speed progress; to provide encouragement and guidance about appropriate training and continued professional development.

¹² In the United Kingdom the Hampton-Alexander Review has now set a goal of 33% of women in leadership positions for FTSE 350 companies.

The Institute hosts meet and greet events which are opportunities to network. Going beyond this, the Institute will seek to create networks for aspiring female directors that open broader opportunities, beyond their industries and businesses, by identifying and publicizing female director candidates from the talent pool.

Female corporate leaders sharing experiences, life stories, how to balance family-work commitments, how to build competencies and how they navigate obstacles can usefully guide and improve confidence for and assertiveness by emerging talent to take the next steps in their directorship careers. Male champions are also required for the program of change. Mentors will involve male corporate leaders who can directly promote gender diversity but also advocate for change.

AGENTS FOR CHANGE

10

Gender equity is a profound issue with complex drivers that requires a multi-stakeholder and multi-pronged response. Of the many groups that the Institute views as having the ability to bring about positive change, there are four broad groups that the Institute will seek to work with:

1. *Companies and organizations with governing boards* can make immediate changes and drive the agenda for changes. These will involve engagement with Board Chairpersons, Directors with influence and the Chief Executive Officers (or organization head).
2. *Government including regulators*. Shaping public policy, legislation and regulations to reflect best practice in corporate governance is an ongoing focus for the Institute. Both Ministers and heads of department and other public bodies are important channels for this work stream.
3. *Institutional investors*, both asset owners and asset managers. These can demand and advocate for changes.
4. *Advocacy, pressure groups and empowerment groups*. There are a growing number of organizations within Papua New Guinea that have influence and connections to advance gender diversity and to support the growth of female leadership. Two leading organizations that the Institute will seek to work with are *BPW Port Moresby* and *Business Coalition for Women*.¹³

¹³ For more information visit <http://www.bpwpng.org/> and <http://www.pngbcfw.org/>