AUSTRALIAN INSTITUTE of COMPANY DIRECTORS

Volume 10 | Issue 16 | 22 August 2012

The Boardroom Report

Boosting Australia's productivity

> *"GETTING CAPITAL PRODUCTIVITY RIGHT IS A PRIORITY THAT COULD REAP LARGE REWARDS IN FUTURE"*

A concerted effort to shore up productivity could add up to $90 billion to Australia's national income each year by 2017, according to a new report by the McKinsey Global Institute (MGI).

In the report, *Beyond the boom: Australia's productivity imperative*, MGI argues that the benefits of the resources boom have masked an annual decline of 0.7 per cent in Australia's productivity between 2005 and 2011, compared with a 2.4 per cent increase from 1993 to 1999.

It notes that without the one-off factors of an investment surge from the resources boom and high commodity prices, Australia's brisk income growth would have been cut in half – well below what has historically been achieved.

According to MGI, capital productivity is the biggest drag on growth. "Capital productivity actually lowered income by $43 billion from 2005 to 2011, or $53 billion when including the impact of a shift in capital to more productive industries. While $24 billion of the deterioration can be explained by large investments sunk into projects that have yet to be completed and $13 billion represents declining yields (a factor that cannot be controlled), $16 billion in income has been lost economy-wide since 2005 to higher costs and inefficiencies (which can be at least partially addressed)."

MGI's analysis on how to improve productivity carved the economy into four parts:

1. **Resource sectors:** These have experienced rapid growth but falling capital productivity. MGI estimates that Australia is less than halfway through the capital boom and notes that getting capital productivity right is a priority that could reap large rewards in future income growth. "Major capital projects are complex undertakings that are prone to inefficiencies and overruns, but the analysis reveals opportunities to boost performance by up to 30 per cent. Both individual companies and policymakers can help capture these gains," says MGI. "There is a clear role for government in influencing the time and cost of major resource projects. This includes ensuring that environmental approvals, infrastructure development and industrial relations deliver the right balance between development and other social good, and that regulators provide maximum clarity, certainty and speed to companies while fulfilling their mandates."
2. **Resource rider sectors, such as transport and professional services:** While these have grown rapidly because of their links with the mining and energy boom, they have also experienced a decline in productivity. MGI says this sector will benefit from finding new ways to make infrastructure development more cost efficient and adopting a more integrated cross-sector approach to resource productivity that can reduce the need for expensive new infrastructure.
3. **Local services, such as retail trade and telecommunications:** These have been largely unaffected by the resources boom and have posted solid productivity growth (albeit with gaps to international benchmarks). However, there is room for further gains given the average productivity gap of A$32 per hour with equivalent US sectors from 2005 to 2010. MGI found that new operating models within individual companies and sectors (automating supply chains, for example) could boost productivity, as could actions by governments to streamline regulation, encourage innovation and promote competitive markets. To close the gap, MGI says Australia needs to re-embrace the cause of microeconomic reform that drove growth in the 1990s.
4. **Manufacturing:** Australia has experienced long-term erosion in manufacturing output and employment. Capital productivity

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has fallen significantly over the past six years and has been only partly offset by gains in labour productivity. But the decline has not been uniform across all subsectors. Unsurprisingly, the subsectors facing the greatest threat from low-cost overseas producers have posted the greatest job losses and the greatest productivity increases. At the same time, productivity growth in more innovative manufacturing sectors has lagged below international benchmarks. MGI says improvement will depend on three factors: further cost efficiencies in those subsectors that compete primarily on price (with a particular focus on the neglected area of management quality); higher labour mobility within the manufacturing sector; and a more supportive ecosystem for innovative manufacturing (the area in which Australia has the best long-term potential to be competitive).

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The Boardroom Report

AGMs in need of reform

Almost three-quarters of listed companies believe that annual general meetings (AGMs) are in need of reform, according to a survey by law firm Allens.

Similarly, 85 per cent of the decision makers polled at 100 Australian listed companies (all clients of Allens) agreed there was a need to review the content and format of annual reports to make them more accessible to investors.

The survey found broad support for significant changes to the way AGMs were conducted, although there was no clear consensus as to a preferred alternative to the current AGM structure. While 40 per cent of respondents favoured abolishing the AGM, 47 per cent did not.

A common theme to emerge from the survey was that the current "one-size-fits-all" approach needs greater flexibility in order to make the AGM relevant to all types of companies. The survey also found that a clear majority of respondents (63 per cent) were in favour of regulating or restricting the use of proxy advisers in the AGM voting process, and 70 per cent agreed or strongly agreed that the recent "two strikes" reforms relating to executive remuneration should be abolished. In addition, 52 per cent favoured abolishing the "no vacancy" reforms, which stop boards from leaving positions unfilled when the board has less than the maximum number of directors authorised by shareholders.

There was a generally favourable but mixed response to the propositions that listed companies should be required to webcast AGMs (45 per cent in favour, 31 per cent against) and offer direct voting (46 per cent in favour, 17 per cent against). However, 48 per cent of respondents did not believe that topics that could be raised for discussion at AGMs should be more prescriptively defined, while 30 per cent favoured such a move.

Many respondents suggested that the Corporations and Markets Advisory Committee (CAMAC) conduct a cost/benefit analysis of the AGM and a reassessment of its modern role and purpose to determine whether it should be abolished or changed.

The survey was conducted in response to the review by CAMAC of AGMs in Australia. CAMAC is expected to publish a discussion paper on the topic by the end of 2012.

In October 2011, the Australian Institute of Company Directors published the *Institutional Share Voting and Engagement* research report, which, among other things, examines the issues faced by directors, institutional shareholders and proxy advisers during the corporate AGM season. To access this report, click here.

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The Boardroom Report

Finding your feet under a new boardroom table

Taking on a new board role can be exciting and stressful at the same time. Expectations can run high and opinions are often formed during the first few weeks. So how can you effectively integrate into your new position?

Dr Travis Kemp, leadership and talent director at global talent management company Lee Hecht Harrison, says because not all boards are created equal, it depends very much on the board you are joining.

He cautions that directors are often very good at doing the commercial and financial due diligence before joining a board but can be bad at understanding the "soft" elements that are also part of being on a board – the culture, relationships, style of leadership, how decisions get made and how things get done.

To get a feel for these, he advises talking to other board members, the executive team and even staff at the coalface. Most important, however, is spending time with the chairman to get his or her perspective.

Kemp, who is also on the board of Surf Life Saving SA and start-up media production company CRK Media, believes the integration challenges can be harder for ex-CEOs and former CFOs who have had great success in their executive lives and base their self concept and self esteem on this success. "We expect them to go from what is often a very hierarchical and autocratic command and control type structure to working in a collegiate, collaborative and almost egalitarian way on a board."

He advises new directors to sit back and listen at their first few board meetings and rein back that tendency to have to prove their experience, worth and value in order to justify being on that board.

"CEOs will often talk about the 'imposter syndrome' where they ask themselves: 'How did I get this role? I really don't know everything I should know. I hope that nobody finds out.' The same holds true for board members. So being very clear on where you will contribute and what your strengths are is important. You don't have to be everything to everybody on a board. You just have to contribute what is seen as value to the board. That's fundamentally why you were invited onto the board in the first place. Have faith in the fact that you are sitting at the table because you have something to offer and others will recognise that. You don't have to prove that to the world."

Kemp believes it is fine to ask questions, even dumb ones. "You are in a fantastic position because you don't know this organisation and are new to it. Those dumb questions could surface issues that no one has had the courage to ask."

He advises making a declaration about how you will be working, what is important to you and what you want to contribute. "And asking what people want from you is a valuable process."

He also recommends not trying to manage the impression you create. "Be who you are and authentic. Start off on a foot of integrity and openness and then life will get easier after that, not harder."

If you encounter difficult board members, he says the rule of thumb is always call it early. "If there is a problem, put it on the table and work it out. If you need a facilitator, bring one in, but the chairman should be able to be facilitator."

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Ten stress tests of your board CV

A good resumé for a directorship position should show what you will be able to do for a specific board, rather than just outlining where you have been, says Dianne Jacobs MAICD, founding principal of The Talent Advisors.

"Executives are emotionally attached to their corporate resumé – after all, it represents a life's work. Yet, 'cutting and pasting' limits the quality needed for a board nomination. It is best to use different assumptions, adopt higher-level director thinking and start with a blank sheet," she says.

"The objective is to get you from long-list to short-list and in front of the people who matter. As the resumé gets quickly browsed in the first instance, the key consideration becomes: Is it easy to note your explicit contributions to this specific board?"

While good structure and visual impact are mandatory, Jacobs' key advice is to keep your CV relevant, demonstrating a strong match between your achievements and the "asked for" competencies.

"The fit should be apparent from the first half of page one. The profile summary brings together your unique capability in one or two paragraphs. It should be followed by three to six core skills that tie in with those required by the board," she says.

"Nominations committees need to know you can contribute in the context of the challenges and commercial realities of their specific board. Often, a phone call to one of the directors helps cut to the chase on what will really drive the selection decision.

"Those reading the board resumé want to know you can think clearly and put together a succinct presentation. Write in a straightforward, factual and direct style, yet with enough information to answer the 'so what?' question."

Jacobs says the best cover letters objectively explain the relevance of your experience in the context of the particular board position. Rather than being self-promotional or a précis of your resumé, the cover letter should set out what you will bring to the board, based on the core strategic issues.

Before sending off your application, she says your board CV should pass these 10 stress tests:

1. Have you started with a blank sheet and fresh approach?
2. Does it build the business case for your seat at the table?
3. Does it demonstrate you can think and operate as a non-executive director?
4. How relevant are your examples in articulating fit and competency?
5. Would those reading your resumé have a clear understanding of your unique strengths and capability as a candidate?
6. Are your achievements clearly supported by meaningful evidence relevant to this board?
7. Are your board and committee role skill sets apparent?
8. Is your brand reinforced – in clear language, using a logical structure with correct key words and professionally presented?
9. How well does your resumé differentiate you from other nominees?
10. Does your LinkedIn or director registry profile reinforce your directorship objectives and board resumé?

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Listed companies make progress on gender reporting

Most listed companies have established diversity policies, many of which stretch well beyond gender, according to a new report by KPMG.

KPMG analysed the 31 December 2011 year-end disclosures of a sample of 211 listed entities to assess how they had adapted to changes to the *ASX Corporate Governance Council Principles and Recommendations* released in June 2010.

It found that 98 per cent of companies had either established a diversity policy or provided an explanation as to why they had not. The financial and energy sectors led the way with the highest percentage of entities reporting the establishment of diversity policies.

Of the 129 entities that reported they had established a diversity policy:

- 124 entities (96 per cent) disclosed the policy or a summary of that policy.
- 114 entities (88 per cent) disclosed that it covered more than gender.
- 87 entities (67 per cent) disclosed they had requirements for the board to establish and annually assess the diversity objectives and the progress of achieving them.

"Aside from gender, some of the additional groups that entities have incorporated in their definition of diversity include age, ethnicity, religious beliefs, cultural background, disability, sexual orientation, marital status, language, experience, physical ability, education and political beliefs," notes KPMG.

More than half of the entities that had a diversity policy also reported measurable objectives for achieving gender diversity. And, most disclosed the proportion of women employees at different levels of the organisation, with the financial industry having the highest level of disclosure overall.

KPMG was not able to identify a high level of disclosure against Recommendation 8.1, which encourages entities to disclose whether remuneration by gender has been considered in the remuneration committee's review and recommendations to the board.

It notes, however, that some organisations had set measurable objectives relating to consideration of remuneration by gender. "From our discussions with directors, we understand this is now a very common remuneration committee agenda item. Where this is the case, entities would benefit by making this clear in their disclosure," advises KPMG.

KPMG's review also revealed limited disclosure on the board processes used in searching for and selecting new board directors. "The majority of entities have provided a lower level of transparency than suggested in the ASX recommendations," says KPMG.

In addition, less than half of the entities disclosed a statement of the board mix of skills and diversity in the corporate governance statement in the annual report.

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