



### **Institute for Governance of Private and Public Organizations**

3000 Chemin de la Côte-Sainte-Catherine Montreal, Quebec H3T 2A7

Telephone: 514 340-6483 Website: www.igopp.org Legal deposit—June 2009

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INSTITUTE FOR GOVERNANCE OF PRIVATE AND PUBLIC ORGANIZATIONS (IGPPO)

The IGPPO is a joint initiative of HEC Montréal and Concordia University (John Molson School of Business) to provide a centre of excellence for matters related to governance issues and best practices in the functioning of boards of directors and senior management in Quebec, Canada and worldwide. The Institute is active in four key areas: research, training, the issuance of policy papers and the sharing and spreading of information on governance matters.

# Message From The Chair of The Board of Directors INSTITUTE FOR GOVERNANCE OF PRIVATE AND PUBLIC ORGANIZATIONS (IGPPO)

The Institute for Governance of Private and Public Organizations (IGPPO) has asked a Working Group of members of its Board of Directors to come up with recommendations of measures and initiatives to increase the number of women serving on the boards of directors of Canadian publicly-traded companies.

Despite some modest efforts, the issue kept simmering over the years and the proportion of women on Canadian boards of directors remains low. Some of the reasons invoked to explain this under-representation, perhaps plausible in years past, have by now taken on the allure of excuses and equivocations.

Given the obvious fact that intelligence, integrity and courage are shared equally by men and women, the issue becomes, in our day and age, how to ensure that corporate boards take full advantage of what women have to offer.

The Working Group has been mandated to come up with *reasonable* and *effective* ways of increasing female representation on the boards of directors of publicly traded corporations, without legal coercion or arbitrary deadlines.

This report does make five specific, reasonable and effective recommendations to enhance the representation of women on corporate boards. The board of the Institute has approved this report (with one dissenting vote) and it is now being released as the Institute's fourth policy position. The text of the dissenting opinion is appended to the report.

I extend my sincere thanks to the members of the Working Group for their diligence and cooperation. I am especially grateful to Dr. Monique Lefebvre for her effective and timely leadership of the Group.

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## Message From The Woking Group Chair

On behalf of the Working Group established by the Board of Directors of the Institute for Governance of Private and Public Organizations (IGPPO), I am pleased to present this report regarding the status of women corporate directors in Canada. After reviewing numerous reports and studies dealing with this issue, we are more resolved than ever to push for a change.

The percentage of women directors among Canada's 100 largest corporations has increased only slightly during the past decade. The situation in Quebec is no different.

So why is it taking so long to get more women on our boards of directors? There are many reasons why progress has stalled. Some of these reasons—including the relatively limited number of women CEOs and senior executives in the corporate world (the talent pool from which potential board members are traditionally drawn)—have a fading validity. But lack of progress in gender balance at the board level more likely derives from the fact that greater diversity in corporate boards is not always recognized as a source of added value.

However having too much homogeneity on corporate boards clearly has downsides too. A Conference Board of Canada report published in May 2002 concluded that "When all board members are 'cut from the same cloth,' the board can become an 'old boys' network," with all of the governance-related risks this involves. According to the Conference Board report, the presence of women on boards of directors has a significant impact on the way board meetings are run. The issues addressed at those meetings are broader in scope and more representative of all of aspects of good governance. "In essence," they explain, "the board is casting a wider net."

Fortunately, increasing numbers of companies have implemented proactive strategies to enable a higher number of qualified women to make effective contributions toward improving board quality and diversity. Organizations such as Desjardins, National Bank, Agrium and Petro-Canada are excellent examples of the progress made in this area.

We hope that the recommendations we propose encourage a growing number of companies to integrate greater diversity and gender balance into their corporate strategies.

## Members of the Working Group



**Monique Lefebvre, PhD, Chair of the Working Group**Psychologist, Executive Coaching and Corporate Director



**Yvan Allaire, PhD, FRSC**Chair of the Board of Directors
Institute for Governance of Private and Public Organizations (IGPPO)



**Hélène Desmarais**Chair and Chief Executive Officer
Centre d'entreprises et d'innovation de Montréal (CEIM)



Paule Doré Corporate Director



**Andrew T. Molson**Vice-Chairman
RES PUBLICA Consulting Group



**Robert Parizeau**Chairman of the Board of Directors
AON Parizeau



**Guylaine Saucier** Corporate Director

### Majida Lamnini Working Group Secretary Institute for Governance of Private and Public Organizations (IGPPO)



Gender Equality in the Corporate World

Women today occupy a central role in Canadian society. For many years, women have come to represent a majority of enrolments in faculties of business, law, health and science in Canadian universities and therefore constitute a significant proportion of tomorrow's corporate executives.

In addition, a growing number of women currently occupy, or have occupied high-level executive positions in the legal, financial, accounting, communications, consumer goods and industrial products sectors. Their experience and perspective have become a valuable addition to board of directors.

In recent decades, women have learnt how to make the most of opportunities available to them in sectors which until just a short time ago had been male-dominated. In the public sector, specifically in the healthcare and education fields, great strides have been made to increase female representation on boards of directors.

In fact, nearly one third of available board positions in healthcare and education organizations are now occupied by women. In Quebec government owned corporations, (which following provincial legislation adopted in 2006, are required to have gender-balanced boards by 2011) the proportion of female directors has reached 42%¹.

However the private sector has not been as successful in this area. Growth in the number of women on boards of Canadian publicly-traded companies has been sluggish at best.

According to the Canadian Spencer Stuart Board Index (CSSBI 100), which compiles data gathered from the 100 largest publicly-traded corporations in the country, women hold a mere 15% of directorships in Quebec and Canadian businesses.

The Catalyst organization, looking at statistics for Financial Post 500 companies, arrived at an even lower percentage for Canada: 12.4%². This means that for the 100 largest Canadian corporations, the percentage of women directors grew by no more than 3% over the past decade. Fortune 500 companies in the U.S. fare no better (see Table 1).

Although Quebec and Canada have made up for our slight lag behind our neighbours to the south, other countries continue to perform much better than we do. Norway, for example, has gone from 7% female representation on the boards of its publicly traded corporations in 2002 to 36% in 2008<sup>3</sup>.

Table 1

Percentage of board positions held by women

	CSSB1 100 (100 LARGEST CANADIAN COMPANIES)	UNITED STATES (FORTUNE 500)	QUEBEC (50 LARGEST QUEBEC COMPANIES)
2008	15	15	n/a
2007	14	15	14
2006	14	15	13
2005	13	14	n/a

Source: Spencer Stuart, Canadian Spencer Stuart Board Index, 2008.

Institute for Governance of Public and Private Organizations, Les pratiques et tendances dans l'organisation et la rémunération des conseils d'administration des 50 plus importantes entreprises au Québec, 2007.

<sup>2</sup> Catalyst, The Bottom Line: Connecting Corporate Performance and Gender Diversity, 2004.

<sup>&</sup>quot;Business in Norway: Girl Power," The Economist, January 3, 2008.

In comparison, one Quebec board in six still has no women directors at all. Furthermore, the smaller the organization, the less likely it is that it will have female representation on its board. In Quebec companies with assets under \$1 billion, women account for only 12% of board members, compared to 16% for those with assets in excess of \$5 billion<sup>4</sup>.

Fortunately however, men-only boards are increasingly rare. The percentage of boards with no women directors dropped from 22% to 12% between 2005 and 2007 in Quebec. This compares favourably to the current Canada-wide figure of 17%. Quebec nevertheless does have a larger proportion of boards with only one woman member (46% versus 32% for Canada as a whole).

Quebec is also somewhat behind in terms of the number of boards with two or three women members. At the end of 2007, 26% of boards in Quebec had only two women directors whereas 16% had three (compared to 33% and 18% for the entire country). This means that more than half of Canadian boards (51%) have two or three women directors contributing to decision-making, compared to 42% in Quebec.

With all due respect to advances made by organizations in Quebec and the rest of Canada, the IGPPO Working Group believes that the move toward gender equality in private-sector boards needs to pick up speed.

Under-representation of women robs companies of access to a much-needed pool of skills and expertise.

# Table 2 **Quebec Companies with the lowest and highest proportions of women directors**

#### NO WOMEN DIRECTORS

Goodfellow Héroux Devtek Reitmans Canada Tembec TransForce Velan

#### THREE OR MORE WOMEN DIRECTORS

National Bank Laurentian Bank Industrial Alliance Jean Coutu Molson Coors SNC Lavalin

 $Source: Spencer\ Stuart, Canadian\ Spencer\ Stuart\ Board\ Index,\ 2008.$ 

Institute for Governance of Public and Private Organizations, *Les pratiques et tendances dans l'organisation et la rémunération des conseils d'administration des 50 plus importantes entreprises au Québec*, 2007.



#### **RECOMMENDATION No 1**

# A 40% Gender Target for Corporate Boards

The Working Group believes that organizations with few or no women board members are depriving themselves of a rich source of talent and diversity. The Group therefore recommends that Canadian and Quebec companies strive for a minimum of 40% representation of both genders on their boards.

This goal should be achieved as part of the normal turn-over rate of board membership. Achieving this critical mass would be adjusted to the pace of change of board membership in a particular company. The goal is to ensure that both genders account for at least 40% but not more than 60% of board membership.

Similar initiatives have been adopted by several countries. For instance, in Norway since January 1<sup>5t</sup>, 2008, boards of all publicly traded companies must be made up of at least 40% women. Spain has also mandated that publicly traded companies meet this 40% minimum level by 2011—this in a country where women board members accounted for only 3% in 2006<sup>5</sup>.

In Quebec, the *Act Respecting the Governance of State-Owned Enterprises* requires that the boards of the province's 19 state-owned enterprises (including those of the Caisse de Dépôt et Placement du Québec and Hydro-Québec) achieve overall gender equality by December 14, 2011.

The IGPPO Working Group however does not believe in legally mandated targets for gender equality on boards at this time. It advocates an incentive-based, voluntary but accountable approach.

Part of the reason for this preference for an incentive-based philosophy stems from our observation of the experiences in other countries. The shift in Norwegian policy, for example, despite its undeniable success, has had its fair share of hiccups. Companies in Norway were required to recruit more than 4,000 women directors, in a country of 4.7 million people (less than that of Quebec) in under four years.

The key reason the Working Group prefers incentives over coercion reflects an abiding commitment to board quality. Ability and skill remain the most important criteria for any board member. The IGPPO Working Group's proposed gender targets should in no way take precedence on competence of board candidates. Under no circumstances should there be doubt that a woman director has been appointed strictly for her gender rather than for her individual qualifications.

### **RECOMMENDATION No 2**

# **Integration of Diversity**and Gender Equality Into Corporate Strategies

Boards should mandate their nomination and governance committee to take steps to systematically seek out women candidates to replace outgoing board members. The nomination committee and the board are in effect called on to identify **competency profiles** that will ensure that the board adds value and contributes to the development of strategies to meet the issues and challenges of the organization.

When the board or nomination committee calls in a recruitment firm to seek out potential board candidates, it should insist that women who have the necessary credentials be included on the list, even if this means that the scope of the search be broadened.

There are many resources available to help in the recruitment of women directors. One of these is *Women in the Lead/Femmes de tête*, a 1,172-page book compiled by the University of Western Ontario's Richard Ivey School of Business. It contains a list of more than 800 women, including 230 in Quebec, who have the qualifications required to be a corporate director. To facilitate the search, the book contains lists by sector, province, languages spoken (English, French or 35 others), previous board experience and other criteria.

Other associations dedicated to the professional advancement of women can also be a valuable resource for nomination committees, including such organizations as the Réseau des femmes d'affaires du Québec, the Association of Quebec Women in Finance and Women at the Top.

The nomination committee and the board are in effect called on to identify competency profiles that will ensure that the board adds value and contributes to the development of strategies to meet the issues and challenges of the organization.



As indicated above, the nomination committee should do everything in its power to include the names of qualified women candidates on its list of potential replacements for outgoing directors. Putting this into practice may require that the company use professional resources to support its recruitment processes.

For instance, directors' job descriptions should accurately outline the required profile and qualifications. Some studies show that women will not apply for a position if they do not meet at least eight of out ten of the criteria listed in a job description. In contrast, the threshold for men tends to be lower; at six out of ten.<sup>6</sup> This underscores the importance of preparing carefully drafted job descriptions for board positions.

In addition, recruitment efforts should search beyond pools of individuals who are already directors or officers of other major corporations. This may involve identifying high-ranking women executives who hold, or have held, strategic positions in other organizations—not necessarily at the CEO level, but senior enough to ensure a considerable level of management experience in a given sector. The company should also seriously consider calling on external recruitment firms to widen the pool of potential candidates beyond the social networks of present board members.

The appointment of women to the board of a subsidiary can also be an effective way of developing and building the skills required for them to eventually take on a directorship at the parent company.

### **RECOMMENDATION No 4**

# **Disclosure**

As indicated earlier, the IGPPO Working Group recommends that companies measure their progress in moving towards gender equality in board composition and that this information should be made broadly available.

Boards should adopt a long-term succession plan for board membership, which would include measures and timelines to raise the representation of women. The company's annual report should describe these measures and report on progress achieved over the years.

### **RECOMMENDATION No 5**

# **Coaching**

The IGPPO Working Group's final recommendation is that corporate board chairs or other senior directors work closely with incoming board members of both genders to ensure their smooth integration into the group and to familiarize them with the dynamics and culture of that particular board.

# **Conclusion**

Businesses in Quebec and the rest of Canada operate within a pluralistic society where women play a fundamental and increasingly important role. Increasing the number of women directors on the boards of publicly traded corporations, would both increase diversity and substantially broaden the board's insight and experience. This in turn would help improve corporate governance. After two decades of minimal progress in the place of women on corporate boards, it is time for action to bring about changes in this situation.

The purpose of this report is not to force companies to arbitrarily increase the proportion of women directors within their organization. Rather, it is intended to persuade them that it is in their best interest, in the interest of better governance to do so.

# **Dissenting Text**

While I have every wish to see qualified women sitting on the boards of directors of publicly traded companies, I do not believe it should be a main priority. Furthermore, I believe that efforts in this regard are often based on political correctness and they also carry significant downsides.

I regard the roles of both men and women on corporate boards as similar.

What I seek from directors is what I call the "Three Cs":

- Competence in many aspects of life, but particularly regarding how to run a company for the benefit of shareholders and other stakeholders. This necessitates managerial knowledge and experience; industry specific and business knowledge; strategic thinking, plus an understanding of accounting, some law, human resources and succession. The ability to assess risk is also important.
- Curiosity. To be effective directors must ask questions, broaden their knowledge and take an interest in meeting members of the management team. They must make sure they get the right information. They must ask for specific information beyond the typical package offered by CEOs to directors. They must raise new ideas: inquire about, and test risks.
- Courage. Effective directors must be willing to differ with others (within the confines of competence). They must "have a mind of their own" and not be reticent about expressing it. They must guard against being part of the "old boys" network, remain independent thinkers, all within a spirit of teamwork with other members.

Beyond a person having the "Three Cs," I require good reputation and high ethic—these last two are a sine qua non. One reason our boards have functioned so badly in the past is that the Three Cs have been largely absent, as a result the CEO "ruled the roost" (The agenda and the information). So unless the Three Cs are prioritized, boards will remain dysfunctional.

Some further remarks: while specialized knowledge (law, accounting, investments, etc.) is important, a good director must also be competent in the areas I stressed above.

If only specialists were bosses, no hospital would function. Things would be neglected and there would be no checks and balances. Our 30,000 unnecessary deaths in hospitals bear witness to the mess that specialization has brought. According to Gwyn Morgan ex-President of Encana, "hospitals are possibly the most dangerous places in Canada".

Boards must have preferably only directors with the wide competencies I enumerated (though this may possibly imply many boards would have far fewer directors).

In short, while I have every wish to see qualified women on boards it is not my priority. Doing so would be akin to affirmative action programs such as preferring "minorities" (African-Americans in the United States) in jobs, and would thus discriminate against people with greater qualifications.

Furthermore, I also do not agree that "good governance is based on a balanced representation of the sexes in board deliberations" as is stated in the policy paper conclusion. Nor do I agree that "it is time for the situation in medium-sized and large businesses to evolve"—where real qualifications are especially important.

I do NOT believe in discrimination, and forcing women on boards is discrimination against men. Rather I believe that truly qualified women should sit on boards; and the more women that are qualified, the more that would be eligible to do so.

Stephen A. Jarislowsky June 2009

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### INSTITUTE FOR GOVERNANCE OF PRIVATE AND PUBLIC ORGANIZATIONS

STREET ADRESS
3535 Queen-Mary Boulevard, 2<sup>nd</sup> Floor
Suite 205, Office 2.084
Montreal, Quebec
H3V 1H8

MAILING ADDRESS 3000 Chemin de la Côte-Sainte-Catherine Montreal, Quebec, H<sub>3</sub>T <sub>2</sub>A<sub>7</sub> Canada Telephone: 514 340-6483

Fax: 514 340-6627

Email: info@igopp.org Website: www.igopp.org