



GENDER DIVERSITY ON BOARDS IN CANADA

**Recommendations
for Accelerating
Progress**



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Gender Diversity on Boards in Canada

Recommendations for Accelerating Progress

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Acknowledgements



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About Catalyst

Founded in 1962, Catalyst is the leading nonprofit organization accelerating progress for women through workplace inclusion. With operations in the United States, Canada, Europe, India, Australia, and Japan, and more than 800 supporting organizations, Catalyst is the trusted resource for research, information, and advice about women at work. Catalyst annually honours exemplary organizational initiatives that promote women's advancement with the Catalyst Award.

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Foreword

The conversation about women on boards in Canada has shifted in an encouraging direction over the past year, thanks to the introduction of new securities law rule amendments to encourage greater representation of women on boards and in executive officer positions. The dialogue no longer focuses on why we need more women at the table, but rather, how we can accelerate progress. We are beginning to see meaningful action on the issue, and we applaud the Ontario Government's efforts to champion change.

However, the reality is that we are still a long way from reaching the ultimate goal: gender parity on boards, and indeed, at all levels of organizations. TSX-listed issuers cannot compete effectively in a global economy when they leverage the talents of only half their workforces. Issuers can and should be doing more to build inclusive workplaces that recognize, develop, and advance women *and* men.

In September 2015, some Canadian securities administrators released a progress review of the new disclosure amendments for TSX-listed issuers. From this report, we learned that few issuers have adopted targets for the appointment of women to boards or executive officer positions. Their top reason for not doing so? A belief that candidates should be selected based on merit.¹ Yet research shows that advancement based solely on merit is a concept that rarely—if ever—occurs in actual workplaces, which are burdened by systemic inequities.²

This is why we applaud the requirements implemented by the Ontario Securities Commission and other capital markets regulators, and the efforts undertaken by the Ontario Women's Directorate to better understand the impact of these regulations and consider important next steps.

For far too long, many Canadian companies have relied on tokenism, with one or two women directors seen as success. We can do much better than this. It's time to advance more of the record number of highly educated, experienced, and board-ready women in Canada to boards and executive positions.



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The most efficient way to do this is through the establishment of targets—the very targets that issuers have yet to adopt. The rationale is simple: it's impossible to measure progress without first having something to measure it against. Issuers that understand this thinking have already set targets for women directors, and indeed, many are demonstrating strong leadership by committing to increasing these targets over time.

Issuers need to have more representative corporate governance to better reflect their shareholders and stakeholders. Indeed, businesses large and small, private and public, have much to gain from boosting the number of women directors and women in leadership. Increasing the number of women in powerful positions has the potential to transform our workplaces and society.

But research has shown that women face many challenges in their careers that men do not, making it harder for women to break through to critical positions. These challenges—which include gender stereotyping; lower initial job placement; lower pay; slower advancement even when using the same career strategies as men; less access to larger, more visible, mission-critical, and international projects; and less access to highly placed sponsors who can accelerate career growth that leads to opportunities—mean that women often have to work harder to get noticed and get access.³ And we have a responsibility to change that.

Increasing the number of women in powerful positions has the potential to transform our workplaces and society.

The Ontario Government has an important role to play in accelerating progress for women on boards. Governments and businesses will achieve much more working together than in isolation. The tone from the top is critical. We congratulate the Ontario Government on its decision to establish a steering committee that will work to improve the representation of women on boards and in senior executive positions.

This report outlines recommendations to accelerate the pace of change. We thank the Ontario Government for the opportunity to provide insights and guidance.



A handwritten signature in blue ink that reads "Deborah Gillis".

Deborah Gillis
President & CEO
Catalyst

Glossary of Terms

This glossary provides definitions of many of the terms used in this report.

APPROACHES TO INCREASING REPRESENTATION OF WOMEN ON BOARDS

“Comply or explain” A regulatory approach requiring TSX-listed issuers to annually disclose the number and percentage of women on the issuer’s board of directors and in executive officer positions, and other mechanisms, policies, considerations, or targets relating to the representation of women. Issuers that have not adopted mechanisms, policies, or targets, or do not consider the representation of women, are required to explain their reasons for not doing so. To date, this approach has been adopted by 10 jurisdictions in Canada.⁴

Legislative approach Rules that are passed by a government body of elected officials. Also known as “hard law.”⁵

Quota A target number or percentage that specifies the representation of women and/or men on a board required to be achieved by law.⁶

Regulatory approach Actions taken and overseen by administrative bodies, such as agency requirements, target programs, stock exchange listing rules, corporate governance codes, and the like.⁷

Target A set number, range, or percentage of women and/or men on boards that an issuer is trying to achieve by a specific date.⁸

Voluntary approach A pledge or target initiated by a company that it intends to achieve. Voluntary approaches are not legally binding, but signal a public commitment to board diversity.⁹

TERMS USED TO DESCRIBE WOMEN’S ADVANCEMENT

Gender balance The state in which men and women’s representation occurs in relatively proportional amounts (e.g., a minimum of 40% of each gender represented).¹⁰

Gender diversity The state of having both men and women in a group or organization.

Gender parity The state of having an equal number of men and women.

TYPES OF COMPANIES

Issuer "A person or company who has outstanding, issues or proposes to issue, a security."¹¹

Venture issuer "A reporting issuer that, at the end of its most recently completed financial year, did not have any of its securities listed or quoted on any of the Toronto Stock Exchange, Aequitas NEO Exchange Inc., a US marketplace, or a marketplace outside of Canada and the United States other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc."¹²

Publicly traded company A company that has held an initial public offering and generally has shares that are traded on a stock exchange or in the over-the-counter market.¹³ These companies are generally subject to public disclosure requirements.

Private company A company owned by one or several individual(s), a family, or a parent company that does not trade shares on a stock market.¹⁴ These companies are not generally subject to public disclosure requirements.

SMEs (small and medium-sized enterprises): Companies whose personnel numbers fall below certain limits. In Canada, small enterprises are those with fewer than 100 employees, while medium-sized enterprises are those with 100 to 499 employees.¹⁵

Executive Summary

Achieving gender balance on boards and throughout the executive ranks is widely recognized as a global economic imperative. With companies showing little or no progress on their own, government intervention has proven to be effective in accelerating the rate at which women are placed on boards and in executive officer positions.

Governments around the world have addressed the challenge using a variety of approaches, with efforts falling in or around three models: legislative; regulatory administered by securities regulators; and voluntary business-led approaches.¹⁶ In Norway and other European Union countries, the number of women on boards has risen through legislation of quotas. Australia, which follows both a legislative and regulatory model, has seen its number increase, thanks in part to a new law requiring companies to report on efforts to increase women's representation on boards, and efforts by securities regulators to do the same. In the UK, which has adopted a hybrid regulatory and voluntary model, a government-led public-private partnership embraced by the business community, alongside a strong message from government that "more prescriptive alternatives" would be considered if targets were not met, has also resulted in significant progress.

Canada continues to lag behind other developed nations in terms of gender balance on corporate boards. Although more women than men graduate annually from Canada's universities and colleges,¹⁷ Canadian women continue to be underrepresented on boards and in senior management. The challenges faced by women from diverse communities are even more pronounced.

The Ontario Government has taken an important step by being the first jurisdiction to champion new "comply or explain" securities law rule amendments to encourage greater representation of women on boards and in executive officer positions. This regulatory approach has now been adopted by 10 Canadian jurisdictions.¹⁸ A

review by securities regulatory authorities of the disclosures of issuers with a year-end between December 31, 2014, and March 31, 2015, and that filed corporate governance disclosures by July 31, 2015, showed only incremental improvements for women directors. However, it is far too soon to fully assess the impact of the rule amendments.

This report presents a historical trend analysis that looks at a number of the now-required disclosures, including board renewal mechanisms such as term limits and written policies. In the set of 131 companies analyzed, we can see how board renewal mechanisms have developed and assess their impact from 2011 to 2015. The analyses suggest that some measure of progress can be achieved through these board renewal approaches.

*To accelerate the pace of change,
much bolder actions are required.*

But to accelerate the pace of change, much bolder actions are required. Best practices from around the world, as well as Canada's own banking sector, provide examples. The Ontario Government has an important role to play in advancing the establishment of targets for women's representation on boards, providing guidance around board renewal mechanisms, tracking progress on the number of women on boards, and further engaging with the business community to drive understanding of the need for change. Additionally, it needs to lead by modeling the behaviour it expects to see.

Companies also have a role to play by taking action to champion women, leading systemic and rapid change, and working with government to achieve shared objectives.

The recommendations listed below can help accelerate progress for women on boards. They are aimed at three important stakeholders: companies and issuers, leaders within companies, and governments.

Recommendations

Companies and Business Leaders: Set Goals and Champion Women

1. Set the following specific targets by the end of 2017, and achieve them within three to five years:

- a. 30% women board directors for all issuers that currently have at least one woman director.¹⁹
- b. One woman board director for all issuers that currently have zero women board directors.

2. Use at least one mechanism—such as director term and/or age limits—to facilitate board renewal.

3. Establish a written policy describing how the company specifically plans to increase representation of women on its board.

4. Review board recruitment policies:

- a. Require that lists of potential board candidates consist of at least 50% women candidates with the skills and profile sought, and include women from diverse communities.
- b. Require that women—including women from diverse communities—comprise at least 50% of the interview pool for every open board position.
- c. Implement board effectiveness assessments, including gap analysis using skills matrices.
- d. Leverage broad networks—not just the usual suspects—to connect supply with demand.

5. Champion senior executive women for board service by:

- a. Reassessing and removing restrictions on external board service.
- b. Implementing programs to match talent with board vacancies, for both executive and non-executive director seats.

6. Address gender equity at all levels of the organization by:

- a. Reviewing, on a continual basis, recruitment, promotion, and talent development systems to ensure they are unbiased.
- b. Investing in inclusive leadership training.
- c. Monitoring and tracking promotion rates, aiming for proportional promotion and retention at each level.
- d. Evaluating and addressing pay equity by:
 - i. Conducting periodic pay equity studies to determine if there are wage gaps and, if so, providing funds to rectify them.
 - ii. Implementing “no negotiations” policies and paying for work, not potential.
 - iii. Adopting pay transparency policies.

Governments: Define Goals, Track Progress, and Be Role Models for Issuers

7. Drive greater awareness among broader stakeholder groups and the general public by implementing an action-oriented public awareness campaign. Government has an important role to play in promoting understanding and action on these issues.

8. Reinforce and encourage the setting of specific targets, board renewal mechanisms, and written policies as a strong call to action for issuers.

9. Ensure progress continues to be tracked and published, as the Ontario Securities Commission (OSC) has done, on an annual basis to maintain transparency of corporate governance practices relating to the representation of women.

10. If sufficient progress is not made, particularly toward a 30% target, consider more stringent legislative or regulatory approaches.

11. Model exemplary behaviour by reviewing appointments to their own agencies, boards, commissions, and Crown corporations, and setting a minimum goal of at least 40% women in these bodies by the end of 2019.²⁰

Scope of Review

As part of an effort to assess and promote progress for women in the workplace, the Government of Ontario engaged Catalyst, the leading global nonprofit dedicated to accelerating progress for women through workplace inclusion, to measure movement in the representation of women on boards and in executive officer positions in Canada, identify emerging trends and best practices from around the world, and recommend strategies for driving momentum.

The timing of the engagement allowed for a review of the inaugural data set collected by Canadian securities regulators detailing issuers' compliance with new "comply or explain" disclosure requirements filed by July 31, 2015. Because it is too early to assess the long-term

impact of the requirements, Catalyst partnered with the Rotman School of Management at the University of Toronto to augment the "comply or explain" data set (released in November 2015) with data secured from proxy filings from issuers listed in the S&P/TSX Composite in 2011 and the S&P/TSX Composite in 2015. The resulting sample of 131 issuers (representing issuers appearing in each of the three data sets) allowed us to examine board renewal opportunities, board term and/or age limits, as well as the disclosure of written policies over the period from 2011 to 2015.

Finally, Catalyst worked with EY to review leading global practices and gain invaluable guidance and insights.

Women on Boards: An Imperative for Businesses Large and Small

The Big Picture

Canada’s ability to leverage all its talent is central to its international competitiveness, and accelerating women into leadership roles has taken on an urgency that may not have existed 10 or 20 years ago.

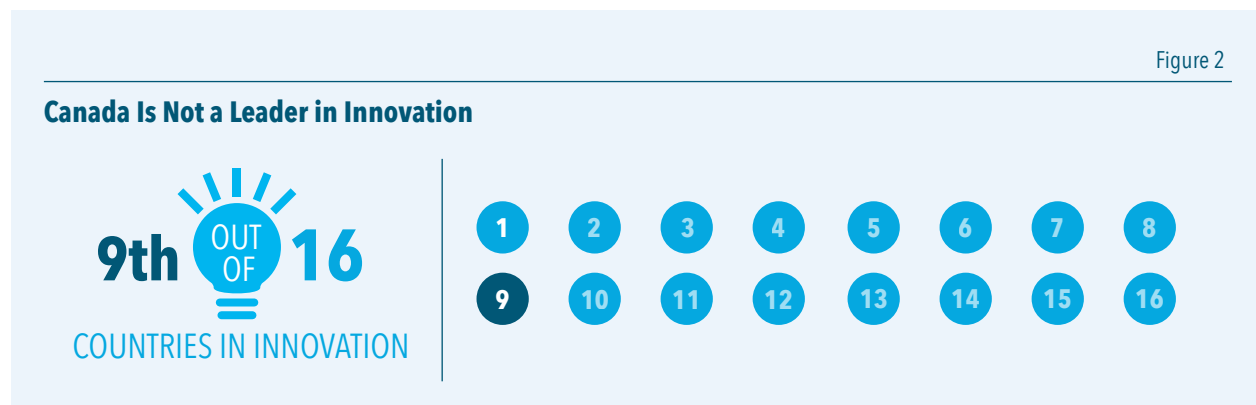
peers when it comes to innovation (9 among 16 countries),²³ and has seen little sustained labour productivity growth,²⁴ lagging behind the United States and other industrial countries for more than three decades.²⁵



Canada’s economy is at a significant crossroads, with an aging population, falling fertility rate, and smaller future workforce.²¹ Canada’s slow progress in the areas of productivity and innovation,²² which are essential to a high-performing economy, is also troublesome. Canada ranks near the middle of its



Global shifts—in technology, the growth of emerging markets, aging populations, and the rapid pace of change²⁶—have made a significant impact on global businesses. To be successful in this environment, businesses of all sizes will need to harness all available talent—men and women—to boost economic growth. Moreover, experts suggest that if women and men were to participate in the economy equally, the global annual GDP would increase by \$28 trillion, or 26%, by 2025.²⁷



Public Companies

According to the Institute of Corporate Directors, today more than ever, boards must leverage every opportunity to help drive their organizations' long-term effectiveness in the global economy. Shareholders and other stakeholders insist on "improved organizational performance, transparency and diversity of director opinion and experience."²⁸

The Canadian Coalition for Good Governance adds: "While the quality of individual directors is paramount, we also expect boards as a whole to be diverse. A high performance board is comprised of directors with a wide variety of experiences, views and backgrounds which, to the extent practicable, reflects the gender, ethnic, cultural and other personal characteristics of the communities in which the corporation operates and sells its goods or services."²⁹

Small and Medium-Sized Enterprises

SMEs—small and medium-sized enterprises—are an economic force in Canada. About 30% of Canada's GDP is generated by small enterprises (with fewer than 100 employees) and 9% is contributed by medium-sized businesses (100-499 employees).³⁰ Given the significance of this contribution, it is important that SMEs understand the benefits of women directors, as well as having women well-represented at all levels of the pipeline, and that they make efforts to strive for gender balance.

Private Companies

In a recent Spencer Stuart survey of board directors around the world, private company directors reported similar proportions of women on their boards as public company directors.³¹ The survey also found that they believe the biggest challenge to their organizations accomplishing their strategic goals is attracting and retaining top talent.³²

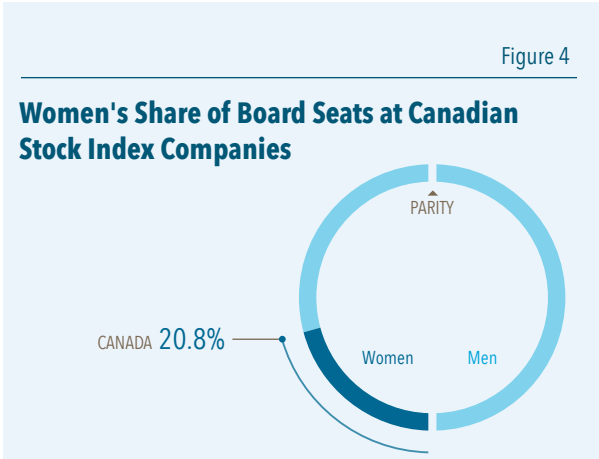
Signs of Momentum in Canada— But Challenges Persist

For more than a decade, representation of women on boards in Canada has improved, signaling momentum.³³ Yet challenges remain, in particular related to Canada’s performance in a global context, the high number of TSX-listed issuers with zero women on their boards (50%),³⁴ as well as systemic barriers that continue to hamper progress.

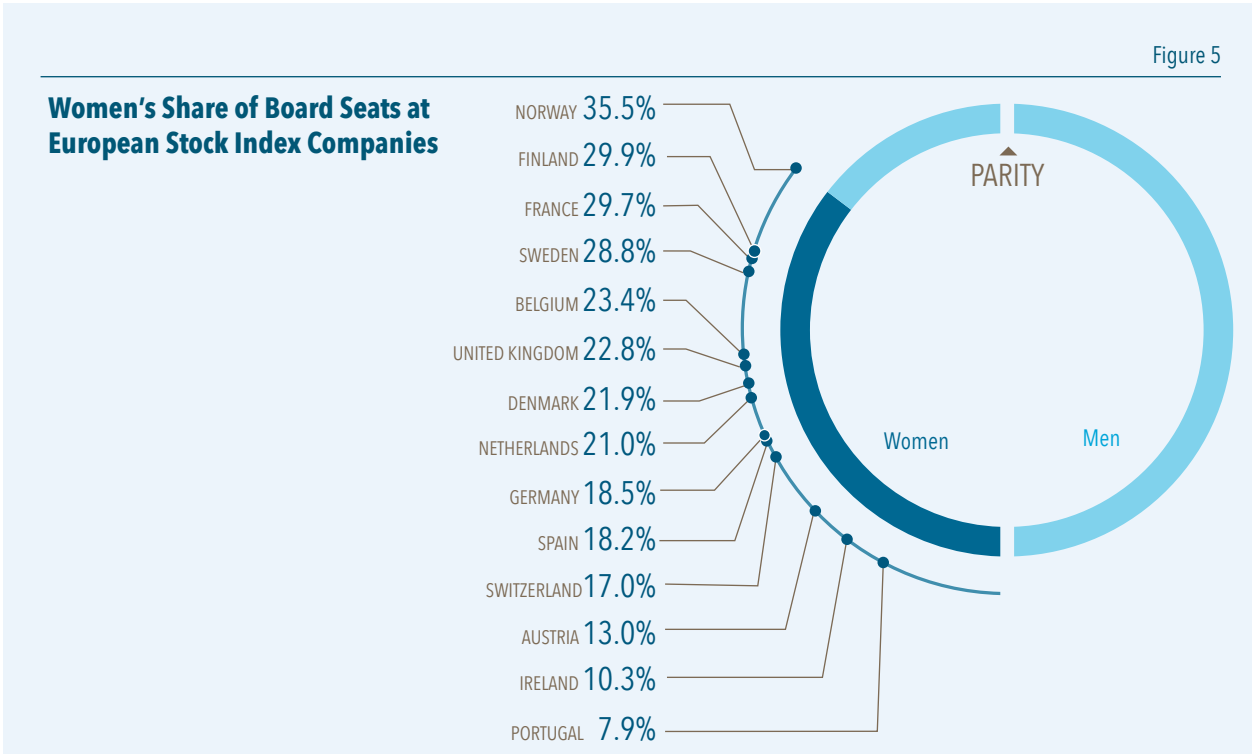
Slightly Upward Trend, But Slower Progress in a Global Context

While there has been an upward trend in the representation of women on boards in Canada,³⁵ the country lags behind other developed nations when it comes to gender-diverse boards. Europe, where legal requirements for women’s representation exist in many countries, leads the world.³⁶

Recent research suggests that gains for women on boards globally have come mostly from countries with laws and regulations to boost the number of women.³⁷ Not coincidentally, women



SOURCE: Catalyst, 2014 Catalyst Census: Women Board Directors (2015).



SOURCE: Catalyst, 2014 Catalyst Census: Women Board Directors (2015).

hold the largest percentage of stock index company seats in Norway, Finland, and France (35.5%, 29.9%, and 29.7% respectively)³⁸—all countries with government-legislated quotas for advancing women.³⁹ It is important to note, however, that the UK has seen significant gains in women’s representation without the use of quotas. Since 2011, women’s representation on FTSE 350 boards has more than doubled.⁴⁰

In Canada, accelerating the appointment of women directors has become an important focus. In December 2014, securities regulators in 10 jurisdictions across the country, led by the OSC, implemented rule amendments requiring all TSX-listed issuers to follow a “comply or explain” model and make certain annual disclosures with respect to women on boards and in executive officer positions.⁴¹

Ongoing Challenges for Canadian Women

Studies indicate that the gap between men’s and women’s advancement at Canadian companies emerges early in careers and grows with time. Catalyst’s groundbreaking global study of MBA graduates shows that high-potential Canadian women not only earn substantially less than their male counterparts in their first post-MBA jobs, but

Advancing women from diverse backgrounds is particularly important given that it is projected that almost one in three Canadian women will belong to a visible minority group by 2031.

also start out at a lower job level, and are offered fewer career-accelerating work experiences and international job postings.⁴² Further research from Catalyst shows that while men and women both report having mentors, men benefit to a greater degree from more senior mentors who effectively act as sponsors, helping secure opportunities for their protégés.⁴³

Research also points to another concern: Canada’s high-potential women are more than twice as likely as men to choose a non-corporate post-MBA job, pursuing public and nonprofit sector opportunities instead.⁴⁴ Indeed, corporate Canada is losing high-potential women to the non-corporate sector at a higher rate than other regions in the world. Canadian companies competing in a globalized marketplace will need to consider their recruiting, retention, and talent development strategies to address this drain of talent.⁴⁵

Advancing Canada’s talented women onto boards and executive committees is an important step to strengthening the pipeline of talented women. Advancing women from diverse backgrounds is particularly important given that it is projected that almost one in three Canadian women will belong to a visible minority group by 2031.⁴⁶

Early Results of the “Comply or Explain” Model

In December 2014, securities regulators in 10 jurisdictions across Canada implemented rule amendments requiring TSX-listed issuers to disclose annually:

-
- *The number and percentage of women on the issuer’s board of directors (the board) and in executive officer positions.*
 - *Director term limits or other mechanisms of board renewal.*
 - *Policies relating to the identification and nomination of women directors.*
 - *Consideration of the representation of women in the director identification and nomination process and in executive officer appointments.*
 - *Targets for women on boards and in executive officer positions.⁴⁷*
-

These amendments were created with input from a public roundtable and OSC-led consultations with experts and TSX-listed issuers.⁴⁸ Former OSC Chair Howard Wetston explained the new model was chosen because it “aligns with a fundamental principle of securities regulation, and that is transparency.”⁴⁹

In September 2015, some Canadian securities regulators released a first review of over 700 TSX-listed issuers’ compliance with the new requirements.⁵⁰

The results revealed that, among the issuer sample, less than half (49%) had at least one woman on their board, 60% had at least one woman in an executive officer position, and 15% had added one or more women to their board that year. Relatively few issuers had adopted either formal written policies to recruit more women executives (14%), or director term limits (19%) to support board renewal.⁵¹

Additionally, few issuers in the sample disclosed that they had adopted targets for the appointment of women on their board or to executive officer positions. Only 7% of the group (49 issuers) had set a target for women board directors, and only 2% (11 issuers) had set a target for women executive officers.⁵²

The regulators concluded that many of the TSX-listed issuers needed “additional guidance concerning the level and detail of disclosure that is necessary to satisfy the requirements of the Rule”⁵³ and encouraged issuers to review the guidance in the notice.⁵⁴

At a follow-up roundtable to discuss the review, business leaders and panelists expressed cautious optimism, calling the results a work in progress.⁵⁵ They agreed that it was too soon to declare success or failure, and that it will take time to assess the full impact of the regulations.

Board Renewal Trends Over Five Years

According to the Canadian Coalition for Good Governance, a “robust method” of board renewal is essential for increasing gender diversity, because it is challenging to adjust board composition when directors are not often replaced.⁵⁶ Indeed, the composition of the board and its renewal are fundamental features that demand proactive attention.⁵⁷

One board renewal strategy is the adoption of term limits—based on age, tenure, or both.⁵⁸ When it comes to increasing the number of women specifically, another strategy is the adoption of a written policy related to gender diversity, though companies typically have used this method for pipeline or senior-level positions.⁵⁹

Figure 6

Canadian Boards⁶⁰

63 YEARS
Average Director Age

8 YEARS
Average Director Tenure

10
TO
12
MEMBERS

Average Board Size

In order to understand the long-term effectiveness of term limits and established written gender diversity policies, we reviewed the board composition of S&P/TSX Composite issuers in 2011 and 2015. While the first year predates the regulations instituted by the OSC, this approach offered a deeper understanding than the snapshot provided by the OSC’s one year of data. It also presented a unique opportunity to examine the relationship between changes in gender diversity on boards and board renewal mechanisms.

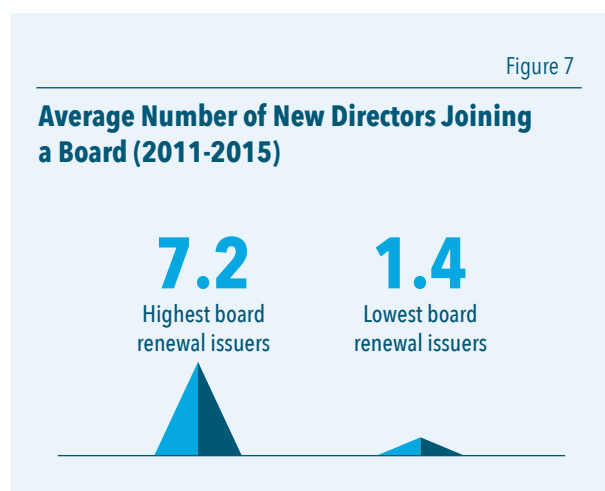
To obtain the data, Catalyst partnered with the Rotman School of Management at the University of Toronto. The research team augmented the OSC “comply or explain” data set (released in November 2015) with data compiled from annual proxy filings for S&P/TSX Composite issuers in 2011 and 2015. The resulting sample of 131 issuers⁶¹ allowed us to address the following questions related to board diversity:

1. Are boards with higher renewal rates more diverse?
2. Are issuers with board term limits more gender-diverse than those without them?
3. Are boards that explicitly state they consider women when recruiting new board positions more diverse than boards that do not explicitly state it?

The analyses revealed the following trends.

1. Are boards with higher renewal rates more diverse? **Yes.**

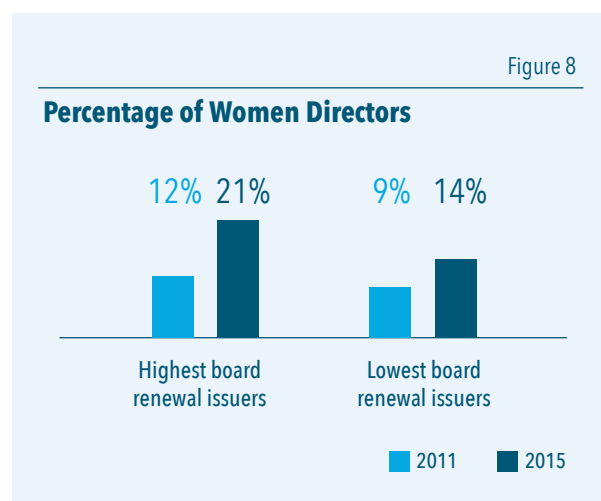
Issuers with the most board renewal have the most diverse boards. The analysis indicated that recruiting behaviour has changed over the past five years, and issuers have made an effort to add more women board directors when a renewal opportunity exists.



Issuers with the highest board renewal had, on average, nearly six more directors joining their board than issuers with the lowest board renewal (Figure 7). Issuers with the highest board renewal increased the percentage of women directors at almost double the rate of those with the least renewal (9 percentage point change compared to 5 percentage point change) over the five years (Figure 8).

Given that the average board size of 10 in 2015 has essentially remained unchanged from 2011, we can see that issuers with the most renewal added an average of one more woman to the board over five years (raising the percentage of women directors from 12% to 21%). There was little progress in gender diversity for issuers with the lowest board renewal.

We can conclude that renewal opportunities are valuable—albeit infrequent—chances for changing the composition of the board.



2. Are issuers with board term limits more gender-diverse than those without them? **Yes.**

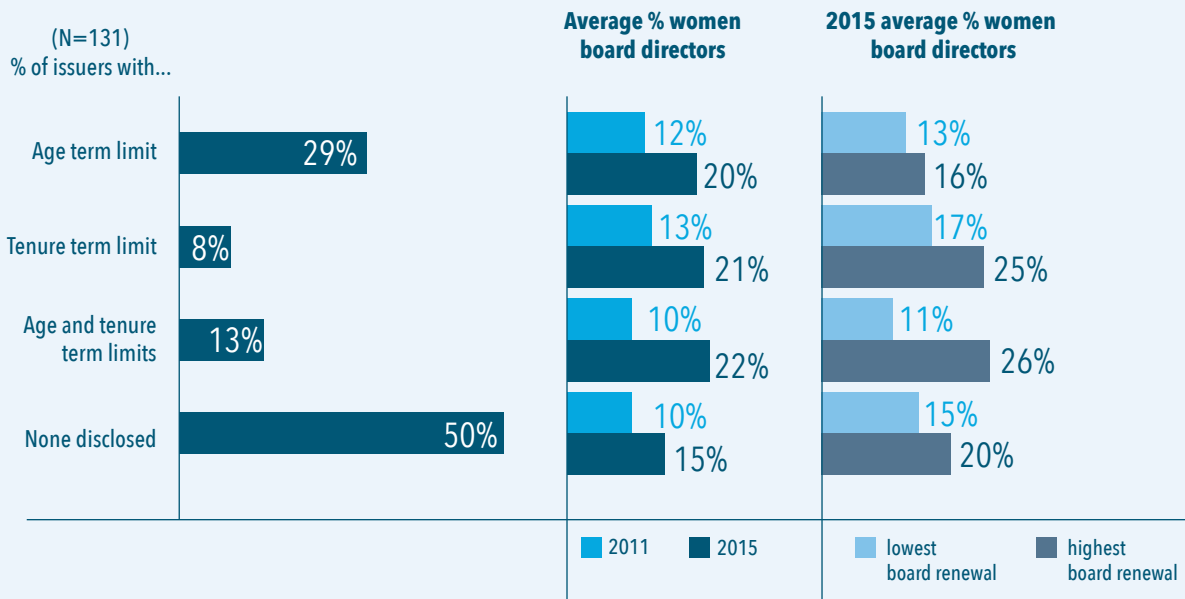
In general, boards with formal mechanisms to ensure board renewal also tend to have the most gender diversity.

In 2015, half (50%) of issuers had a board renewal mechanism in place, such as a term limit related to age (29%), tenure (8%), or age and tenure together

(13%). Term limit policies were associated with higher board diversity in 2015, and the boards that renewed the most often and also had term limits were the most diverse. Also, among issuers with the lowest board renewal, those with board tenure limits had a higher level of gender diversity than those without them (Figure 9).

Figure 9

Percentage of Women Directors Relative to Term Limits



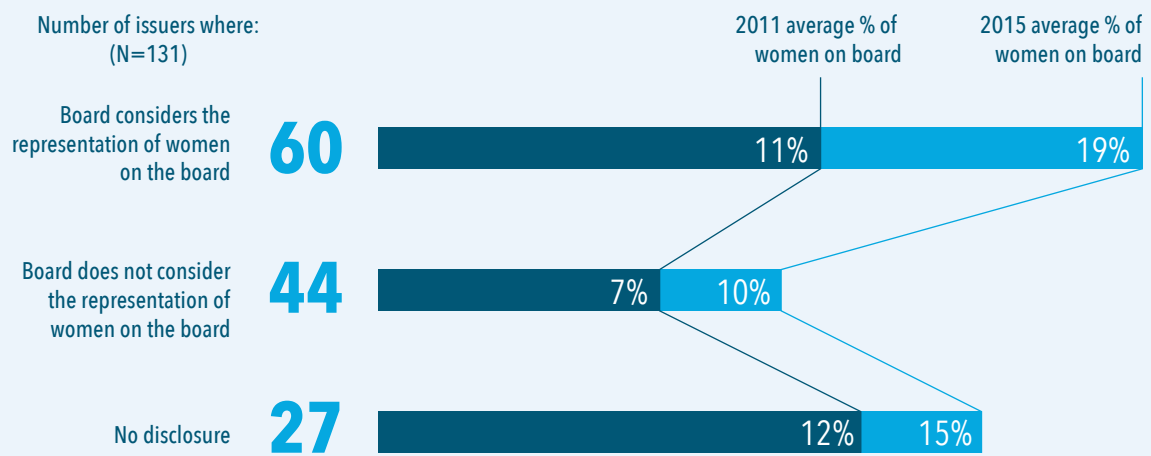
3. Are boards that explicitly state they consider women when recruiting new board positions more diverse than boards that do not explicitly state it? Yes.

On average, issuers that disclosed their consideration of women when recruiting new board positions had much more diverse boards.

Moreover, issuers disclosing this type of policy have almost doubled the representation of women on their boards over five years (Figure 10).

Figure 10

Percentage of Women Directors Relative to Consideration of Diversity



Best Practices and Lessons From Around the World

Leading Change: Canada's Banks

The Canadian banking sector has long championed gender diversity in the boardroom. In addition, the banking sector has cultivated a robust number of women in management. In 2014, women occupied 34.5% of senior management

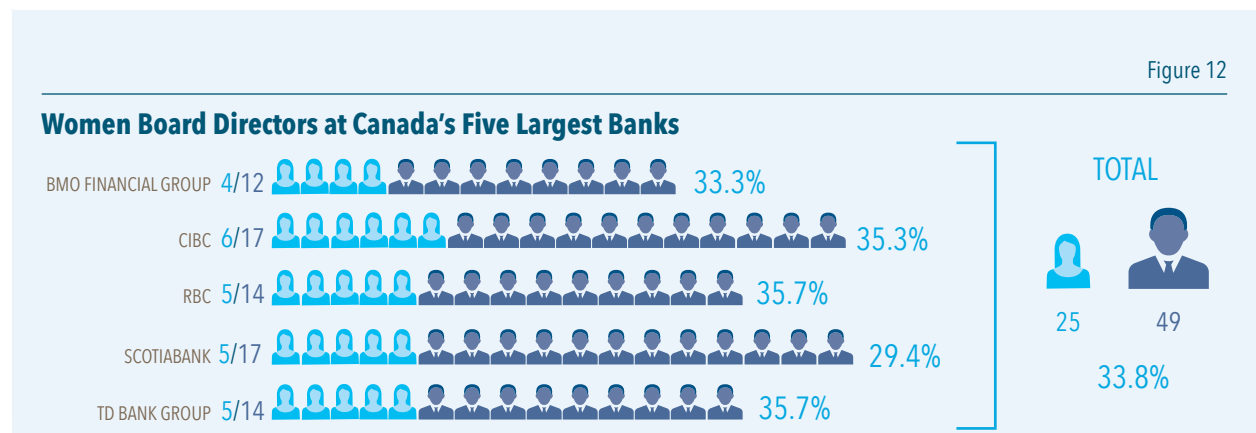
The Canadian banking sector has long championed gender diversity in the boardroom.

positions, and 50% of all middle management positions at Canada's six largest banks.⁶² These proportions are above most other sectors, and women also occupy many C-suite roles, including CFO, CRO, and heads of major business lines in the top Canadian banks.⁶³

There are several factors that can account for the industry's relative success in increasing the representation of women on boards. They include the federal Employment Equity Act of 1995, which requires banks to collect and report diversity data, set goals, and implement and maintain an employment equity plan to meet those goals.⁶⁴ The Act is similar to the OSC "comply or explain" requirements implemented in December 2014, with one notable exception: it does not specifically apply to boards of directors. In fact, there is not



any regulation that specifically addresses gender diversity on boards in the banking sector. Canada's banks have increased those numbers on their own. Among Canada's five biggest banks, women hold 33.8% of board seats.⁶⁵



SPOTLIGHT ON CANADA'S BANKING SECTOR: ACCELERATING PROGRESS



Canada's financial institutions are leaders in advancing women to boards and championing gender diversity in general, outpacing businesses in other sectors.⁶⁶ In an interview with Catalyst, Bill Downe, Chair, Catalyst Canada Advisory Board, and CEO, BMO Financial Group, shared his views on successes, lessons learned, and challenges that still exist.

HOW DID THE BANKING SECTOR BECOME SUCH A LEADER IN INCREASING THE REPRESENTATION OF WOMEN ON BOARDS?

In the early 1990s, there was an increasing focus on the issues of equity and diversity in the workplace. At the time, women already represented half of the workforce in the banking sector but were underrepresented in senior ranks. At BMO, we led a task force to examine the challenges for women, as well as Aboriginal peoples, people with disabilities, and visible minorities. This along with other efforts by industry leaders helped focus attention on the issues, while the Employment Equity Act in turn ignited action for organizations such as banks to start measuring progress. While the Act was not specifically directed at advancing women to boards, many in our sector saw it as an opportunity to address the challenges at the highest level. Having a visible leader speak openly and candidly and act purposely to advance the agenda was also critical in moving the dial. Tony Comper, our former CEO, became an untiring spokesperson on the topic. Other banks had similarly passionate and active advocates.

HOW IMPORTANT IS REGULATION AS IT RELATES TO ADVANCING WOMEN ON BOARDS?

Regulation reflects a building consensus view in society. While some companies may already be in the middle of the debate, others will be encouraged to participate. The Employment Equity Act motivated this type of participation on equity and diversity in the workplace, and the OSC's "comply or explain" rules have done the same for women on boards. Regulation broadens dialogue on important issues and helps promote change.

WHAT CAN OTHER COMPANIES LEARN FROM THE BANKING SECTOR ABOUT ADVANCING WOMEN TO BOARDS?

Setting measurable objectives is the first step, as you can't make progress unless you measure it. And, I firmly believe that if an organization chooses to operate under a set of principles to achieve those objectives, it should be judged by that achievement.

Another important lesson is that board turnover is a positive thing. We found that setting age limits and term limits provides opportunities for board renewal, and a chance for greater diversity. When a renewal opportunity comes up, board nominating and governance committees can and should take intentional steps to drive change. They should ask recruiters to provide diverse slates of candidates, or even consider adopting an "every other director" method for appointing women.

WHAT'S BEEN THE BIGGEST CHALLENGE YOU HAVE ENCOUNTERED TO BUILDING A MORE GENDER-DIVERSE BOARD? WHAT CHALLENGES STILL EXIST?

The biggest challenge is also an existing challenge: keeping the momentum going. With workplace diversity, momentum is a critical element. Sometimes it can be easy to let an issue slide from the agenda when objectives are met, but maintenance mode is not an option. When it comes to board diversity, companies need to keep the issue alive and make it a permanent part of the agenda. As long as the issue is on the agenda, and companies are committed to setting measurable objectives and reporting against them, I am optimistic that progress will continue.

Formal Approaches to Increasing Gender Diversity on Boards Around the World

Governments and businesses continue to engage in discussions about the best way to increase women's representation on boards. Around the world, efforts have fallen into three distinct areas: legislative, regulatory, and voluntary.⁶⁷ Below is an overview of approaches, lessons learned, and best practices from a number of developed nations around the world.

Regulatory Model

United States: Slow Progress, Many Critics



Since 2010, the US Securities and Exchange Commission (SEC) has required publicly traded companies to disclose whether and how they consider diversity when identifying board candidates.⁶⁸ If a diversity policy exists, the company must disclose both how it is implemented and how its effectiveness is assessed.⁶⁹ Notably, the regulation requires companies to explain their diversity policy only if they have one. If companies do not consider diversity when identifying board candidates, then no explanation needs to be given as to why not.

EFFECTIVENESS

The policy is widely viewed as ineffective in boosting the number of women directors.

While full compliance with the policy has been reported as mixed, the policy is widely viewed as ineffective in boosting the number of women directors⁷⁰ (women held 19.2% of board seats at

S&P 500 companies in 2014).⁷¹ Even SEC Chair Mary Jo White has acknowledged the disappointment about the quality of some of the disclosures.⁷²

LESSONS LEARNED

A recent four-year review of the rule reveals its biggest challenge: while most companies have disclosed that they do in fact consider "diversity" when appointing directors, only about half have defined diversity in sociodemographic terms of gender, race, or ethnicity.⁷³ Others have adopted their own definition of diversity, with most citing prior director experience, rather than sociodemographic characteristics.⁷⁴

At the time of the rule's adoption, the SEC encouraged this approach, stating: "We recognize that companies may define diversity in various ways, reflecting different perspectives....Some companies may conceptualize diversity expansively to include differences of viewpoint, professional experience, education, skill and other individual qualities and attributes that contribute to board heterogeneity, while others may focus on diversity concepts such as race, gender and national origin."⁷⁵

In the absence of additional guidance about what the term means, companies have been able to demonstrate that they do indeed take some form of diversity into account. Some believe this gives these companies a state of legal compliance that grants them "moral cover."⁷⁶

SEC Chair White recently announced a review of the disclosure rule to determine whether additional guidance is necessary.⁷⁷ Noted author and law professor Aaron Dhir recommends that the current rule be amended to include a definition of diversity that incorporates sociodemographic characteristics, and that the SEC adopt a "comply or explain" approach to diversity disclosure.⁷⁸ He cautions that the SEC must play a role in monitoring firms' explanations, as "one deficiency with the comply-or-explain approach to corporate governance disclosure generally is that corporations often provide insufficient explanations for their deviations from prescribed practices."⁷⁹

Regulatory/Voluntary Model

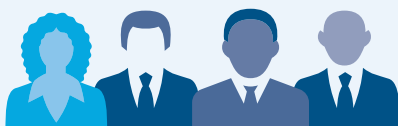
United Kingdom: Increased Numbers, Powerful Leadership



In 2010, the UK appointed former trade minister Lord Davies of Abersoch to identify barriers preventing women from advancing to boards and advise on strategies for change.⁸⁰ Lord Davies's initial report included 10 recommendations related to the issue as an important business priority. While stopping short of endorsing quotas, he recommended that FTSE 100 companies aim for a minimum target of 25% women on boards by 2015. At the same time, he cautioned that government "must reserve the right to introduce more prescriptive alternatives if the recommended business-led approach does not achieve significant change."⁸¹

Figure 13

Recommended FTSE 100 Target for Board Diversity



25% women on boards by 2015.

In October 2012, the UK adopted many of Lord Davies's recommendations, amending its corporate governance code to create a "comply or explain" model for gender disclosure.⁸² The regulation requires companies to describe their boards' policy on diversity, including gender, as well as any measurable policy implementation plans and progress on achieving their plan objectives. It should be noted that the corporate governance code had already included requirements that

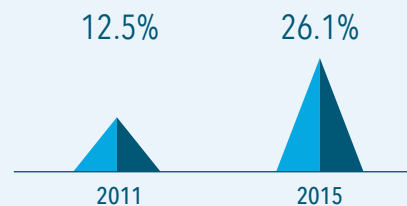
companies adopt a "comply or explain" approach related to board term limits, specifically regarding the independence of directors who have served more than nine years (the average tenure for directors in the UK is less than five years).⁸³

EFFECTIVENESS

Women's representation on FTSE 100 boards has more than doubled from 12.5% in 2011 to 26.1% in 2015.⁸⁴ In October 2015, a major milestone was reached with the announcement that there are no more FTSE 100 companies with all-male boards.⁸⁵ While much work remains to elevate the number of women into senior executive roles,⁸⁶ the UK approach seems to be working.

Figure 14

Percentage of Women Directors on FTSE 100 Boards



LESSONS LEARNED

The UK's success in bolstering women on boards without quotas can be linked to a number of strategies and actions taken by government, regulators, and the broader business community. Chief among these has been high-visibility leadership—in particular, the ability of the highly respected Lord Davies to galvanize business leaders around the idea of working together to avoid forced quotas.⁸⁷ Early actions included enlisting a group of respected board chairmen to lead by example and motivate others; this was followed by engaging broader stakeholders, including harnessing the investor community to engage, influence, and prompt action. Executive search firms validated the effort, drafting their own code of conduct for advancing women to boards, which is now endorsed by over 80 firms.⁸⁸

Another important driver has been the UK government’s unprecedented level of support. While it did not formalize all of Lord Davies’s recommendations in regulations, the government endorsed the report itself.⁸⁹ For example, companies that did not set women board director targets for 2013 or 2015 received a personal letter from Prime Minister David Cameron requesting that they do so.⁹⁰

Finally, setting targets and measuring progress—and in turn highlighting progress in an annual report—have been foundational to the UK’s success. According to Lord Davies, the recommended target of 25% women on boards by 2015 set out what “good looked like” in the five-year time frame, a measurable goal that helped focus the attention of business.⁹¹

Regulatory/Legislative Model

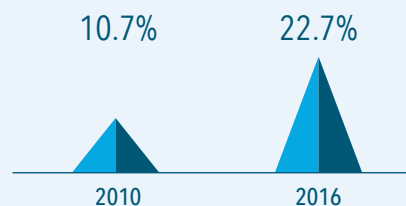
Australia: “If Not, Why Not” Shows Progress



Since 2011, the Australian Securities Exchange (ASX) has required all publicly traded companies to follow an “if not, why not” model to increase the number of women on boards.⁹² This approach is most similar to the “comply or explain” approach adopted by Canadian securities regulators. Under ASX rules, companies must establish a diversity policy, make it publicly available, and disclose measurable objectives for and progress toward achieving it, or explain why they have not taken these steps. They must also annually disclose the proportion of women in the organization, including women in senior executive positions and women on the board.

Figure 15

Percentage of Women Directors on Public Company Boards in Australia



In 2012, the Australian government passed the Workplace Gender Equality Act to “improve and promote equality for both women and men in the workplace.”⁹³ This legislation requires companies to report on efforts to increase women’s participation in their workplaces. In particular, they must report on the gender composition of their boards.⁹⁴

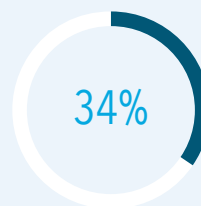
EFFECTIVENESS

Women’s representation on public company boards in Australia shot up from 10.7% in 2010 to 22.7% in 2016, and women comprised 34% of new appointments to ASX 200 boards in 2015.⁹⁵ However, while companies seem to have embraced the adoption and disclosure of diversity policies, progress in the area of setting and reporting measurable objectives has been slow.⁹⁶

Figure 16

New ASX 200 Board Appointments

Women comprised:



of new appointments to ASX 200 boards in 2015.

LESSONS LEARNED

With a population projected to double within the next 60 years,⁹⁷ Australia has a unique opportunity to break barriers to women's advancement, and it has certainly made progress in advancing women to boards since the adoption of its new disclosure rules. Strong corporate leadership has played an important role in Australia's progress: companies providing "highly transparent and granular disclosures" have led by example, demonstrating "as powerful an impression as the statistics themselves."⁹⁸

Two significant challenges have been developing measurable objectives and assessing progress—neither policy device has been adopted to the same extent as the introduction of diversity policies. According to an independent progress report, the problem may be that the term "measurable objective" is interpreted too broadly, with many organizations still reporting "aspirational" objectives (e.g., "gender diversity should be considered in all succession planning"), thereby making it difficult to assess objectives over time.⁹⁹ Organizations that have established meaningful, measurable objectives (e.g., increasing the number of women to the board by X%) and reported on them annually can communicate their commitment to diversity better than other companies.¹⁰⁰

Legislative Model

Norway: Quotas in Action



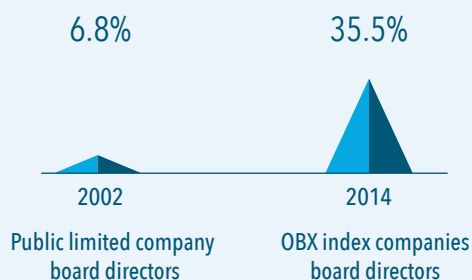
In 2003, Norway implemented gender quotas for board directors, requiring at least 40% representation of women on public boards.¹⁰¹ Companies were given until 2008 to meet the quota, and threatened with serious penalties for non-compliance, including possibly being shut down.¹⁰² While the law was fiercely debated and initially met with strong opposition, the Norwegian government announced full compliance in 2008.¹⁰³

EFFECTIVENESS

Norway has achieved perhaps the most significant increase in women's board representation in the corporate world to date, with 35.5% women directors at OBX index companies in 2014,¹⁰⁴ compared to just 6.8% for public limited company boards in 2002.¹⁰⁵ This increase is all the more meaningful given that in 2002, 470 out of 611 companies had no women board members at all.¹⁰⁶

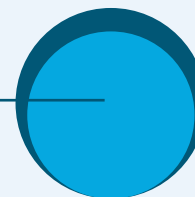
Figure 17

Percentage of Women Directors in Norway



This is significant because in 2002:

470
OUT OF
611
COMPANIES



had no women board members at all.

LESSONS LEARNED

While experts maintain that quotas may not be politically viable in countries such as Canada and the United States,¹⁰⁷ there are many signs that the approach has worked well in Norway. Among the benefits noted: increased quality of boardroom deliberations and overall corporate governance, and a more thorough selection process for directors, compelling companies to expand their “one-dimensional picture of what [a] board member should be.”¹⁰⁸

The quota law has prompted societal shifts in the definition of leadership, recognition of unconscious biases, and distribution of power.

Supporters claim that in addition to the benefits to corporate governance, the quota law has prompted societal shifts in the definition of leadership, recognition of unconscious biases, and distribution of power.¹⁰⁹ Belgium, Finland, France, Iceland, Italy, the Netherlands, and Spain, have all passed similar reforms.¹¹⁰

One criticism of Norway’s quota approach is that while it has boosted the number of women on boards, the gains at the top have not cascaded down to women below board level.¹¹¹ One study observed no statistically significant change in women’s representation in top positions.¹¹²

ADDITIONAL EFFORTS TO ADVANCE WOMEN ON BOARDS

A number of initiatives designed to accelerate women’s advancement have ignited support in Canada. They include:

- The 30% Club is a UK-based initiative for CEOs and board chairs who commit to publicly supporting gender diversity on boards and in the pipeline. It has chapters in many areas of the world, including Canada.¹¹³
- The Canadian Board Diversity Council’s (CBDC) Get on Board Governance Education Program equips board-ready and high-potential candidates with the tools to pursue board placements.¹¹⁴
- The Catalyst Accord calls for participating companies to accelerate the pace of change and help lift the overall proportion of women on FP 500 boards to 25% by 2017 by setting their own goals.¹¹⁵
- Catalyst’s Women On Board® program¹¹⁶ is a highly successful sponsorship program launched in Canada that pairs high-potential women with mentors and champions. To date, 54% of alumnae have been appointed to for-profit boards.¹¹⁷
- Women’s Executive Network (WXN) Top 100 is a program that recognizes talented professional women across Canada as leaders and role models who drive progress and inspire others.¹¹⁸

In addition, many organizations have internal mentoring programs designed to empower and accelerate the advancement of women to boards and executive positions.

Recommendations

The Ontario Government has taken an important step forward by championing new “comply or explain” securities law rule amendments to encourage greater representation of women on boards. But to accelerate the rate of change, bolder actions are required.

What follows are recommendations for companies, business leaders, and the government to accelerate progress for women on boards.

Companies and Business Leaders: Set Goals and Champion Women

1. Set the following specific targets by the end of 2017, and achieve them within three to five years:

- a. 30% women board directors for all issuers that currently have at least one woman director.¹¹⁹
- b. One woman board director for all issuers that currently have zero women board directors.

2. Use at least one mechanism—such as director term and/or age limits—to facilitate board renewal.

3. Establish a written policy describing how the company specifically plans to increase representation of women on its board.

4. Review board recruitment policies:

- a. Require that lists of potential board candidates consist of at least 50% women candidates with the skills and profile sought, and include women from diverse communities.
- b. Require that women—including women from diverse communities—comprise at least 50% of the interview pool for every open board position.
- c. Implement board effectiveness assessments, including gap analysis using skills matrices.
- d. Leverage broad networks—not just the usual suspects—to connect supply with demand.

5. Champion senior executive women for board service by:

- a. Reassessing and removing restrictions on external board service.
- b. Implementing programs to match talent with board vacancies, for both executive and non-executive director seats.

6. Address gender equity at all levels of the organization by:

- a. Reviewing, on a continual basis, recruitment, promotion, and talent development systems to ensure they are unbiased.
- b. Investing in inclusive leadership training.
- c. Monitoring and tracking promotion rates, aiming for proportional promotion and retention at each level.
- d. Evaluating and addressing pay equity by:
 - i. Conducting periodic pay equity studies to determine if there are wage gaps and, if there are, providing funds to rectify them.
 - ii. Implementing “no negotiations” policies and paying for work, not potential.
 - iii. Adopting pay transparency policies.

Governments: Define Goals, Track Progress, and Be Role Models for Issuers

7. Drive greater awareness among broader stakeholder groups and the general public by implementing an action-oriented public awareness campaign. Government has an important role to play in promoting understanding and action on these issues.

8. Reinforce and encourage the setting of specific targets, board renewal mechanisms, and written policies as a strong call to action for issuers.

9. Ensure progress continues to be tracked and published, as the OSC has done, on an annual basis to maintain transparency of corporate governance practices relating to the representation of women.

10. If sufficient progress is not made, particularly toward a 30% target, consider more stringent legislative or regulatory approaches.

11. Model exemplary behaviour by reviewing appointments to their own agencies, boards, commissions, and Crown corporations, and setting a minimum goal of at least 40% women in these bodies by the end of 2019.¹²⁰

Conclusion

While some indications of momentum exist, there is still much progress to be made in terms of gender balance on Canadian corporate boards. Women's representation on boards is only 20.8%,¹²¹ and

To accelerate progress, a more collaborative approach between government and business is recommended.

half of TSX-listed issuers are still without even one woman on their board. We commend the Ontario Government and other jurisdictions for their efforts to encourage more representative boards and executive teams. While it is still too early to assess the full impact of the rule amendments, initial signs are encouraging, and lessons from elsewhere indicate that change is achievable.

However, to accelerate progress, a more collaborative approach between government and business is recommended. The recently announced steering committee is an important and positive step. Encouraging issuers to set specific targets, implement at least one mechanism to facilitate board renewal, and establish a written policy to increase the representation of women on boards could help drive meaningful progress toward parity.

We congratulate the Ontario Government for its work thus far on this important issue, and look forward to seeing Canada take a strong leadership role in the global effort to increase women's representation on corporate boards.

Appendix

Board Renewal Trends Over Five Years: Limitations of Data

As indicated in the report, the data set was limited to the 131 companies that appeared in all three data sets: OSC, [S&P/TSX Composite](#) index from 2011, and [S&P/TSX Composite](#) index from 2015.

Two important notes are relevant to the analyzed sample of companies:

1. There is either no data or insufficient data on policy adoption dates (other than the mandatory date to adopt the “comply or explain” policy in 2015) in our trend analysis. Therefore, we cannot draw final conclusions as to what effect the “comply or explain” policy has or might have had on the observed trends. However, public companies are bound to disclosure in management information circulars. And for companies that have declared the adoption of specific policies, we can see specific behaviour trends—which suggest that policies promote behaviour.
2. The 131 companies in the sample have consistently been under the governance microscope simply by being on the S&P/TSX Composite Index. (See, for example, annual governance rankings such as Board Games, published annually in *The Globe and Mail*.) Therefore, they have been under sustained external pressure to adopt corporate governance best practices for an extended period, and certainly for the last five years. Companies under this level of scrutiny tend to have higher adoption rates of governance best practices than companies without the sustained external pressure.

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