

Vision for Inclusive Boardrooms

If diversity in leadership is a competitive advantage, Canadian companies don't seem to be taking advantage.

In addition to being a hallmark of corporate responsibility, the evidence shows that greater representation means more innovation. A 2007 McKinsey study of 101 major corporations around the world found that companies with three or more women in senior management functions scored higher than companies with no women at the top on nine criteria of organizational excellence. In a European study, McKinsey found that companies with the highest level of gender diversity in top management posts outperformed their sector in terms of return on equity, operating result, and stock price growth. Diverse boards help to avoid groupthink and better understand the customer base and employees. These findings are echoed in Catalyst Canada's annual investigations into corporate diversity, Ernst & Young's 2009 *Groundbreakers* report on using the strength of women to rebuild the world economy, and Corporate Knights' own Leadership Diversity Index: the business case for diversity has been made time and time again.

Yet, over 40 per cent of FP500 companies

have no female directors and 40 of the TSX60 group of blue-chip companies have no visible minority or Aboriginal directors. There are no female CEOs in the TSX60—even though women comprise 50 per cent of the workforce.

The prime prerogative of a publicly traded corporation is to deliver superior performance to its shareholders. Companies must heed these findings to make their board and bottom line the best they can be. Most of Canada's largest companies now share the view that inclusiveness is a key ingredient for board effectiveness—so what gives? It's not for a lack of qualified non-white male candidates. While it's true that visible minorities, Aboriginals, and women are still unrepresented in the top executive ranks, a surprising number have made it to the C-suites, only to find the final frontier of the boardroom slammed shut. How else can one explain why a well-respected female CEO of a multibillion-dollar crown corporation hasn't received a single invitation to sit on a TSX board? The fact that so many board-ready women and multicultural executives are consistently overlooked for these positions calls into question the fiduciary soundness of current recruitment processes.

Signs of progress toward a more inclusive approach have been slow in coming. In 2001, nine per cent of FP500 company directors were women. In 2007, that percentage increased to just 13 per cent. If the current pace of change continues, women will hold less than one-fifth of board seats in 2020.

The good news is that 40 per cent of

the TSX60 companies have at least three diverse members on the board, which is generally considered to be the litmus test for breaking up groupthink and entrenching diversity in board leadership. But diversity alone isn't enough. Boards must be inclusive, not just representative—companies must actually listen to the diversity of perspectives and give these opinions weight.

After three years of investigating board and C-suite diversity, Corporate Knights decided to go beyond reporting on this issue. Together with Ernst & Young, Catalyst, and the Institute of Corporate Directors, Corporate Knights hosted an executive roundtable on the topic of Vision for Inclusive Boardrooms at Canoe Restaurant in Toronto on September 17, 2009. Participants, including CEOs, politicians, corporate directors, recruiters, and academics, were asked, "What actions can we take to make Canadian boardrooms more diverse and inclusive?"

While some believed that board diversity would "happen naturally" over time, most agreed that the process needed to start

early—at the beginning of a potential candidate's career.

One participant pointed out, "Right now, women, [visible minorities, Aboriginals, and other traditionally excluded groups] progressing in their careers only see the glass ceiling, so there is no hope." Non-traditional candidates are encouraged to prepare for leadership positions when they see what is possible. Diverse candidates need to see themselves reflected in existing boards since self-selection can plague even the most competent of board candidates without positive role models or guidance from mentors. Catalyst research has found a role-model effect, whereby more gender diverse boards beget more gender diverse executive corps.

One simple way to get to more inclusive boards (and more role models at the top) is for board recruiters to relax their almost catatonic focus on CEOs—where networks are tightest and the number of non-traditional candidates is smallest—and consider all senior corporate officers as candidates. According to Catalyst's research, this tactic alone would expand the pool of potential

women candidates from 39 to 1,002. Looking at NGOs, non-profits, crown corporations and other areas of untapped expertise will further broaden the pool of candidates. As of October 2009, DiverseCity onBoard, an initiative of the Toronto City Summit Alliance and the Maytree Foundation, has compiled a rich database of civic and business leaders from diverse backgrounds who are ready to serve on boards, including a subset ready to add value on large corporate boards.

Some jurisdictions have taken a legislative approach. Quebec has enacted gender equality legislation that aims to produce "actual, not just legal" equality in the next ten years. In 2007, Spain introduced an equality law recommending that women have 40 per cent representation on boards by 2015. The law suggests that compliance would affect a company's prospects of getting government contracts. In 2006, Norway mandated that female directors make up at least 40 per cent of all new shareholder-owned companies' boards in Norway (existing companies had two years to comply). Companies are also required to

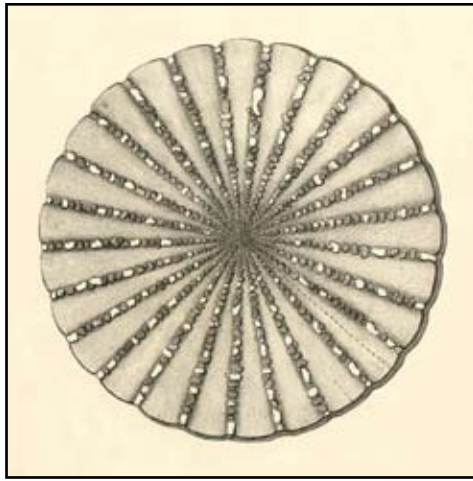
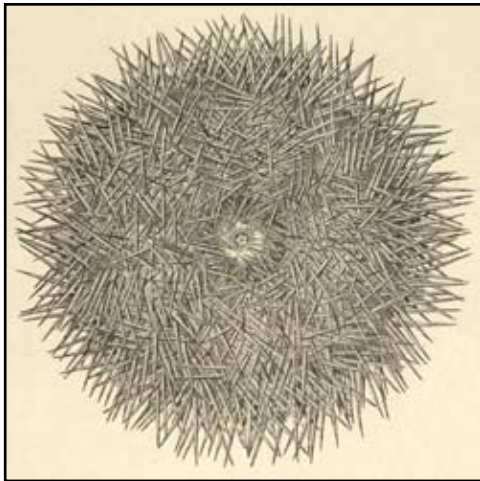
Corporate Knights Leadership Diversity Index 2009

COMPANY	SECTOR	% FEMALE	% VISIBLE MINORITY OR ABORIGINAL	SCORE (OUT OF 100)
Vancity	Financials	69.23%	0.00%	69.2
Husky Energy Inc.	Oil and Gas	14.57%	42.86%	57.4
BC Hydro	Utilities	42.57%	14.14%	56.7
SaskPower	Utilities	38.46%	15.38%	53.8
Caisse de dépôt et placement du Québec	Financials	38.46%	7.69%	46.2
Corus Entertainment Inc.	Communications and Media	46.15%	0.00%	46.2
Canada Post	Transportation and Logistics	38.08%	7.62%	45.7
Westport Innovations Inc.	Industrials	27.27%	18.18%	45.5
Bank of Nova Scotia (The)	Financials	25.38%	18.50%	43.9
Mountain Equipment Co-op	Retail	39.60%	0.00%	39.6

Twenty-five, or 20%, of the 125 companies considered in our Best 50 universe have no women on their boards, compared to 27% last year*. Eighty, or 64%, of the companies considered in our Best 50 universe have no visible minorities or Aboriginals on their boards, compared to 74.1% last year.

Eighteen, or 14.4% of the 125 companies considered in our Best 50 universe have no females and no visible minorities or Aboriginals on their boards, compared to 24.5% last year.

*Note: last year's Best 50 universe was comprised of 151 companies.



annually report gender equality efforts.

Suggesting similar legislation for Canada, which would also include mandates for visible minority and Aboriginal directors, drew applause from the attendees, reflecting the level of frustration at the slow rate of progress to date. While quotas are often viewed as reverse discrimination, and the antithesis of a meritocracy, a participant pointed out that “quotas are important so that people know what the standard is.” In Norway, Fast Company discovered that “those who experienced resistance to having women on boards and then lived the difference when the issue was forced supported the legislation. The reason: the change would never have happened unless it was required.”

Canada's Senate will likely debate the issue of boardroom parity in November. “Sen. Céline Hervieux-Payette has already lined up key supporters and the potential for a new law is bound to galvanize public opinion,” wrote roundtable attendee Sheila Cops in the Hill Times.

Some roundtable attendees suggested rather than imposing quotas, companies should make a declaration of diversity committing the company to achieving a minimum floor of 30 per cent diverse directors. As part of that commitment, every vacant board seat would be filled with a diverse member until the threshold is met. Otherwise, they would have to issue a public explanation for why a diverse director could not be found. Companies would be more accountable to undertaking a thorough search for a director, rather than defaulting to the old boy's club.

Another sensible suggestion from a May 2009 Financial Times editorial: all director vacancies should be advertised so that the potential pool of applicants extends beyond

the narrow slate generally suggested by headhunters (but see sidebar for recruiters who have diversity practices).

Toronto Mayor David Miller closed the executive roundtable with a call to arms. Although the crowd assembled represented some of the most progressive thinkers on board diversity in Canada, the faces in the crowd didn't reflect the diversity that he sees on Toronto public transit every day.

“There's no reason Canada's boards can't look like our subway,” he said. “We have the chance to lead the world, so we should.”

Canada is recognized internationally for its resource economy and its multiculturalism. It's time to recognize that the diversity of our human capital is our nation's most important resource. It is simply good business to harness this valuable asset in our boardrooms. If we don't act on this knowledge, we're doing our shareholders and our country a disservice. 🙏

LEADERSHIP DIVERSITY INDEX METHODOLOGY

Source is Corporate Citizen Database. Data is from fiscal 2008 and is for all companies in the universe considered for the Best 50 Corporate Citizens in Canada. CK looked at the percentage of board and top three C-suite members that are women and/or a visible minority, and found this percentage based on the total number of directors and executives assessed. For the top companies by sector and full results, please see www.corporateknights.ca/diversity

RESOURCES FOR DIVERSITY:

Go to corporateknights.ca/diversity to download a .zip file of diversity resources.

WHO SAYS THERE AREN'T ENOUGH WOMEN?

CK presents the female leaders of the top 40 crown corporations (ranging from \$582 million to \$7.4 billion in 2008 revenue) as potential directors.

Moya Greene, President and CEO, Canada Post

Laura Formosa, President and CEO, Hydro One

Jill Hutcheon, President and CEO, WSIB of Ontario

Hon. Marguerite Trussler, Chair, Alberta Gaming and Liquor Commission

Hélène F. Fortin, Chair, Loto-Québec

Roslyn Kunin, Chair, Work Safe BC

Carmen Neufeld, Chair of the Board of Commissioners, Manitoba Liquor Control Commission

Glenna Carr, Chair, Atomic Energy of Canada Ltd.

Michelle Cormier, Présidente du conseil d'administration, La Société immobilière du Québec

Shari Decter Hirst, Chair, Manitoba Public Insurance

Michelle Carinci, President & CEO, Atlantic Lottery Corp.

RECRUITMENT FIRMS LEADING THE WAY

- **Hewitt Associates** has a Canadian Corporate Social Responsibility and Diversity Specialist, Cathy Gallagher-Louisy
- **Kinley and Connelly's** Heather Connelly is one of Canada's most respected leadership search executives and has extensive experience in placing diverse candidates in executive and board positions
- **Ray & Berndtson** is in the process of launching a Diversity practice focused on Senior Management positions and Board Directors, which will be the first of its kind in Canada. Gillian Lansdowne and Sue Banting are co-leading this practice.

The Changing Face of Canada

by KERRY HO

Kerry Ho's story embodies the Canadian dream, and serves as a cautionary tale for companies who take a narrow-minded approach to seeding their boards. Born to an immigrant grocery store owner, Ho put himself through eight years of school via student loans before landing a promising job as a financial coordinator with one of the biggest oil companies in the world. He thought that if he worked hard, there would be no barriers to how high he could rise in the company. One day, his mentor, a senior executive in the company asked him, "Where do you see yourself going in the company?" Ho's unabashed response: "I want to be on the board." The executive replied, "I'll be honest with you. That will never happen. You're not the right type." The oil company lost a promising young employee, and today Ho is CEO at Inhance Investment Management, part of the VanCity Group, which makes a point of not imposing limits on its most talented—all the way up to the board level.

According to Statistics Canada, visible minorities, who currently make up over 16 per cent of the population, grew at a rate five times faster than the overall population between 2001 and 2006. Not surprising, given that immigration accounts for over 56 per cent of Canada's population growth. The Conference Board of Canada has found that by 2016, nearly one in five Canadians will be a visible minority.

Canada's elected governments are starting to reflect these changing trends. For example, Canada's parliament currently has 69 women (22 per cent) and 19 visible minorities (6 per cent) out of 308 MPs. Yet on the TSX60, nine companies have no female board members and 40 have no visible minorities on their boards. In total, visible minorities hold less than four per cent of the TSX60's board seats.

An increasingly global marketplace requires companies to promote and select competent, qualified individuals for leadership positions who will bring diverse perspectives to the decision-making process. Further, bringing more diversity to senior positions broadens a business' appeal to potential employees. The face of Canada is changing and smart companies will seek diversity on boards and among senior officers as a competitive advantage.

Conference Watch

The Conference Board of Canada
Insights You Can Count On



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