

# THE BUSINESS CASE FOR Women on Boards

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The Conference Board  
of Canada®

FEDERAL-PROVINCIAL-TERRITORIAL  
**MINISTERS RESPONSIBLE**  
FOR THE STATUS OF WOMEN

# Women on Boards: A Competitive Edge

## Great leadership generates great results

In an increasingly fast-paced and ever-changing global market, companies need to sustain a competitive edge.

A range of talent, experience and skill in the boardroom drives performance and generates better results. Executives are looking to attract the best. However, they may be missing out on a key source of talent: women. Countless skilled and experienced women are ready to take on the challenges of the corporate boardroom and contribute to the success of companies across Canada.

Increasing the number of female directors is not just about creating equal opportunities for women. It's about strengthening the performance of Canadian companies in a global economy.

### Benefits of Having Women on Boards

Diversity of talent is associated with diversity of thought. Research shows that having women in the boardroom is linked to better business results.<sup>1</sup> Benefits of having women in the boardroom include:



- Strong financial performance
- Ability to attract and retain top talent
- Heightened innovation
- Enhanced client insight
- Strong performance on non-financial indicators
- Improved board effectiveness

### Women on Boards: An Untapped Competitive Advantage

Women make up almost half of the Canadian labour force, and yet:

- Only 14.5% of directors of Financial Post 500 (FP500) companies are women. Remove Crown corporations from the equation, and women make up only 10% of directors.<sup>2</sup>
- Nearly 40% of FP500 companies and close to half of publicly traded companies have no women on their boards.<sup>3</sup>

How does this stack up globally? In 2011, Canada ranked ninth among major industrialized nations in the representation of women on boards—down from sixth place in 2009.<sup>4</sup>

Canadian companies can take action and make change happen.

# Six Ways Companies Benefit from Having Women on Boards

## 1 Strong Financial Performance

Having women on boards is good for business.

Research has shown<sup>5</sup> that companies with more women on their boards tend to outperform their competitors on a number of financial measures, including:

- Return on equity
- Return on sales
- Return on capital
- Share performance
- Stock price growth

For example, Catalyst tracked the performance of Fortune 500 companies between 2004 and 2008 and found that companies with the most female

directors outperformed those with the fewest. They yielded:

- 26% higher return on invested capital
- 16% higher return on sales<sup>6</sup>

A 2012 study by Credit Suisse<sup>7</sup> found that the financial benefits linked to having women on boards were more pronounced in the post-2008 period than in the three years leading up to the stock market crash. The researchers concluded that the evidence suggests gender balance on the board brings greater stability throughout the market cycle.

### Spotlight: TransCanada Corporation

#### Number of Women on Board: 3/10

TransCanada Corporation, an energy infrastructure company based in Calgary, sees the advantage of promoting diversity across the company and actively seeks out qualified women for board positions. TransCanada draws from lists of highly skilled and experienced “board-ready” women developed by organizations like Catalyst and the Canadian Board Diversity Council, and evaluates these candidates against a matrix of skills and expertise needed by the board.

*“TransCanada is committed to encouraging gender and cultural diversity across the company, including the board of directors. Ensuring a broad representation on our board is not just something that is nice to have; it is essential. We recognize that having people with different viewpoints and backgrounds enhances our decision-making, helping to keep it informed and prudent. Women can bring valuable perspectives that an all-male board may lack.”*

○ Barry Jackson, Chair of TransCanada Corporation’s Board of Directors

## 2

## Top Talent

Recruiting qualified women and men ensures that boards draw from the biggest and brightest talent pool.

Women make up a significant portion of key candidate pools, including:

- Nearly a quarter of senior managers in Canada<sup>8</sup>
- More than one-third of Canadian MBA graduates<sup>9</sup>

Companies with women on their boards are better able to attract and retain excellent employees.<sup>10</sup>

Women are drawn to companies that already have women on their boards, because they see opportunities to advance. Having women in the boardroom sends a strong message that a company is progressive and recognizes merit. These companies become employers of choice for the best candidates.

In the war for talent, this is a serious competitive edge.

### Spotlight: Intact Financial Corporation

#### Number of Women on Board: 4/11

Intact Financial Corporation is a Canadian provider of home, auto and business insurance. The company believes that achieving greater diversity enriches its discussions, broadens its thinking and improves the depth of its strategy development.

Embracing diversity reinforces the importance of valuing differences for the entire organization and better enables Intact to reflect the varied perspectives of its stakeholders.

*“The Canadian economy needs the contribution of all the diverse talent in the country to achieve its full potential and improve our standard of living.”*

- Claude Dussault, Chair of Intact Financial Corporation’s Board of Directors

# 3 Heightened Innovation

Having women on boards fosters creativity and innovation.

Research shows that Fortune 500 companies with female directors are better than others at identifying and capitalizing on innovative opportunities.<sup>11</sup>

Having both women and men on boards brings varied perspectives and experiences to the boardroom table. Diversity of thought counteracts “groupthink” and encourages board members to consider a broad range of ideas and possibilities.

## Numbers Matter

Companies can cultivate innovation by making sure they have at least three women on their boards. In general, the presence of three women on a board forms a critical mass that changes board dynamics to foster creativity and encourage new ideas.<sup>13</sup>

## Staying Ahead of the Pack

Companies with women on their boards tend to be highly innovative. They:



- Introduce new concepts and practices to their industries
- Establish organizational structures that facilitate innovation
- Adopt progressive management practices
- Provide training and development for employees
- Invest in research and development<sup>12</sup>

# 4

## Enhanced Client Insight

Boards that reflect the composition of society can better understand the needs and preferences of their clients.<sup>14</sup>

This leads to:

- Improved product development
- More effective product marketing
- Better customer service

In fact, consumer-facing industries have a higher representation of women on their boards<sup>15</sup> in part because they know that a female perspective is crucial to their business success.

A board of directors that includes women tends to communicate more actively with clients and shareholders.<sup>16</sup> This helps companies improve their stakeholder insight and understanding, and build stronger relationships.

### Spotlight: Shoppers Drug Mart

#### Number of Women on Board: 5/11

Shoppers Drug Mart, a drugstore retailer based in Toronto, uses a number of strategies to increase the representation of women on its board. For example, the board chair and the nominating and governance committee begin the director recruitment process by identifying competencies needed to enhance board dynamics. Then, they ensure women are proportionately represented on the list of candidates.

Some other strategies Shoppers uses to promote board diversity include:

- Engaging an experienced executive search firm and specifying the types of candidates the company is seeking (in terms of competencies and demographic diversity).
- Seeking out candidates with different experiences (for example, not every candidate has to be a former CEO).
- Ensuring that candidates not only meet the criteria but also add value to the decision-making process.
- Providing a robust orientation program for new directors.

In addition, when Shoppers began recruiting women to its board, it appointed two at the same time. This was to give the board a better chance of changing behaviours and successfully integrating the new directors.

*“It is very simple in my mind: a successful board requires diversity—not only in terms of gender, but also experience, strategic thinking, geography, personality (character) and industry. You are seeking people with different viewpoints and the courage to speak up and challenge each other in a respectful manner. You want a board culture that challenges the status quo and has the right board dynamics. It takes time, but it is worth the effort in the long term to build a board that excels.”*

○ Holger Kluge, Chair of Shoppers Drug Mart’s Board of Directors

# 5

## Strong Performance on Non-Financial Indicators

Corporate social responsibility (CSR) is a core element of a company's reputation.<sup>17</sup> Stakeholders judge a company not simply on its profitability, but also on its contributions to local and global communities. A positive reputation increases a company's ability to retain its market value.<sup>18</sup>

Companies with both women and men on their boards tend to have a positive CSR profile, characterized by:

- Good employee relations
- Ethical product sourcing
- Strong environmental and human rights records
- Support for local communities<sup>19</sup>

### Spotlight: Manulife Financial

#### Number of Women on Board: 5/16

Manulife Financial, based in Toronto, is a financial services company with principal operations in Canada, the United States and Asia. Changes in Manulife's board over the past four years created opportunities for the company to search for new directors with the right set of skills to advance the company's strategic direction.

Manulife's Board Diversity Policy outlines factors to consider when nominating new directors, including gender, ethnicity, and geographic representation. The company conducted an extensive, disciplined search for top talent, and the outcome was a diverse set of candidates. Manulife hired 10 new directors with a broad range of professional expertise—half of whom were women.

By having talented women on the board, Manulife communicates to its stakeholders that it is a strong and diverse organization. Board diversity is important not only to the company, but also to potential employees.

*"Our HR professionals tell us that they are asked not only about the numbers and positions of women in senior management, but about women on the board."*

○ Gail Cook-Bennett, Former Chair of Manulife Financial's Board of Directors

## 6 Board Effectiveness

Boards with both women and men tend to be more active in overseeing the strategic direction of the company, and in reinforcing accountability through audits and risk management.<sup>20</sup> They also tend to make decisions more objectively.

### Key practices of boards with female directors include:<sup>21</sup>

Identifying clear criteria for measuring corporate strategy

Monitoring implementation of corporate strategy

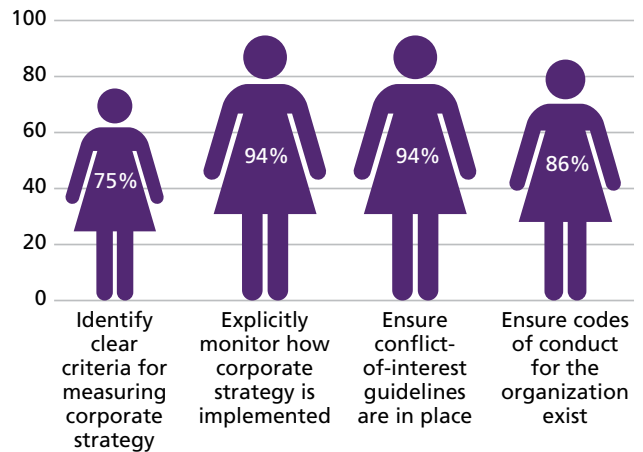
Using outside search firms to select new board members

Providing board orientation programs for new directors

Conducting formal board director performance evaluations

Adopting written policies to limit the authority of board directors

### Boards with three or more women:



Source: The Conference Board of Canada.



# Eight Strategies for Increasing the Number of Women on Boards

Increasing the number of women on Canada's boards of directors makes good business sense.

There is no shortage of "board-ready" women in Canada. Countless women across the country possess skills and experiences that are highly valuable for corporate boards.

Here are some strategies that companies are using to increase the representation of women on their boards. Keep in mind that no single practice is the ultimate solution; they are all pieces of the puzzle.

## Ensure Leadership Commitment

CEO and board chair commitment to increasing the representation of women on boards is essential to sustainable and meaningful change.<sup>22</sup>

- Sign the Catalyst Accord, a voluntary pledge by Canadian companies to increase the overall proportion of women on FP500 boards to 25% by 2017.

## Adopt Formal Board Policies

Diversity should be a criterion of board composition.<sup>23</sup> This is a good way to embed women's representation in the boardroom into the structure and culture of the organization. Companies should set goals for the representation of women, and regularly evaluate their performance against these targets.

- Set term limits—regular refreshment will create opportunities to recruit women.
- Commit to reserving future openings for women—for example, one of every three open seats.
- Seek out qualified women—aim to have at least three women on the short list for every vacant position, and commit to interviewing female candidates.

## Recruit Outside the "C-Suite"

CEOs and former CEOs are often seen as the best candidates for board membership. Bear in mind, however, that 60% of FP500 company directors don't have CEO experience. Companies should consider women from outside the "C-suite" with skills that are essential to effective board performance.<sup>24</sup>

- Many boards require market expertise, industry knowledge, or functional capabilities such as audit and compensation.
- Consider executive directors of non-profit organizations, academics, or senior managers in the public sector.

## Recruit Beyond Traditional Networks

To gain diversity of talent, seek board candidates from outside the business and social networks of existing board and company members.<sup>25</sup>

- Engage a professional search firm and insist that it provide a diverse slate of candidates who meet board criteria.
- Use the lists of "board-ready" women across Canada developed by organizations like Catalyst and the Canadian Board Diversity Council.
- Ensure there are women on the nominating committee—this will help expand the company's networks.

## Increase the Number of Women in the Leadership Pipeline

Ensuring that more women can reach the top levels of the company will make it easier to find qualified women for board positions.<sup>26</sup>

- Remove barriers that prevent women from rising to leadership positions.
- Mentor high-potential women.

## Sponsor High-Potential Women

Being visible to the “right” people is key to becoming a director. Sponsorship is one way to enhance visibility for women.<sup>27</sup>

- Introduce women to networks, nominate them for board openings, and champion their inclusion on boards.
- Provide high-performing women with opportunities to develop the skills necessary for becoming directors.

## Focus on Competencies

Now more than ever, companies need industry, human resources, audit and management expertise on their boards of directors. Boards should periodically assess the types of expertise they need, and then target both women and men with these skills.<sup>28</sup>

- Create or update skills matrices to determine required competencies and evaluate gaps within the current board.

## Ensure Nominating Committee Impartiality

Companies should include women on nominating committees, and adopt nomination policies and practices that promote diversity and impartiality. For example:

- Ensure nominating committees recruit from a broad talent pool.
- Ask committees to initially review CVs without looking at names, to prevent members from unconsciously filtering out women.<sup>29</sup>
- Encourage committees to focus on skills, not gender.

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### Key Canadian organizations working to promote women on boards:

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Association of Québec Women in Finance

Catalyst

Canadian Board Diversity Council

Canadian Women in Communications

Conférence régionale des élus de Montréal, projet « Cravates roses »

Réseau des femmes d'affaires du Québec

Women in Capital Markets

Women in Leadership Foundation

Women on Board

Women's Executive Network

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commissioned The Conference Board of  
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