Women on Corporate Boards of Directors

International Research and Practice

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2. Women on corporate boards of directors: the Canadian perspective

Ronald J. Burke and Richard Leblanc

INTRODUCTION

Interest in women serving on corporate boards of directors and efforts to increase their numbers has been present for almost 30 years (Schwartz, 1980). Canadian research and writing in this area starts with Mitchell (1984). While relatively little Canadian academic research has been carried out during this period (see Burke, 1993; 1994a; 1997a; 1997b; 1997c, for later contributions), interest in boards of directors and corporate governance more generally has peaked in the past five years. This increase has been brought about, in part, by glaring failures in corporate governance (dramatically illustrated by the Chicago trial of Lord Black and the failures at Enron, Anderson and World.Com), the need for more and more talented board members, heightened demands being placed on board members, and suggestions that corporate boards need to become more diverse; that is, more reflective of stockholders, employees and consumers (Burke, 2003).

NOTES ON CANADIAN CORPORATIONS

Canadian corporations are required to register, either federally or provincially, and are bound by the Business Corporations Act at the provincial level or the Canadian Business Corporations Act at the federal level. Public companies are required to have at least three directors, and it is recommended they have a balance of related (inside) and unrelated (outside) directors. Privately held corporations are required to have one or three directors depending on the jurisdiction in which the company is incorporated.

Most Canadian companies have more outside than inside directors. Board sizes range from one to 19 among Canadian *Financial Post* 500 firms, with larger corporations having bigger boards. There is also some evidence that board sizes have decreased slightly over the past decade (Leblanc and Gillies, 2005).

WOMEN IN MANAGEMENT: THE LARGER CONTEXT

Catalyst (2007) released its 2006 Census of Women Corporate Officers and Top Earners in the FP500. They reported the following.

- 5.4 per cent of top earners were women, up from 4.5 per cent in 2004 and 3.9 per cent in 2002.
- Women held 15.1 per cent of all FP500 corporate officer positions, up from 14.4 per cent in 2004, and 14.0 per cent in 2002.
- 65.6 per cent of all FP500 companies had at least one woman corporate officer, up from 61.4 per cent in 2004 and 62.4 per cent in 2002.
- Women held 9.9 per cent of line officer positions, up from 9.4 per cent in 2004, and 9.0 per cent in 2002.
- Women held 7.3 per cent of the highest corporate officer titles, up from 7.0 per cent in 2004, and 6.7 per cent in 2002.
- 39.2 per cent of FP500 companies had multiple women corporate officers, up from 35.6 per cent in 2004 and 33.6 per cent in 2002.
- Women held 16.2 per cent of positions in the 'executive pipeline', up from 14.8 per cent in 2004 and 12.5 per cent in 2002.

These figures are slightly lower than those reported in the US and slightly higher than those reported in other countries (see Davidson and Burke, 2004). The Canadian data show a significant under-representation of women at the top levels of Canadian companies, with small increases occurring over the past five years.

INSIDE THE NUMBERS

Information on the numbers of women directors in Canada has been collected by different groups using different samples. The *Financial Post* (1984) reported that nearly half of 143 corporations had at least one woman director but that only 14 per cent of corporate boards had more than one woman. The *Globe and Mail* (1990) reported results of a Conference Board of Canada survey of 241 corporations showing that 5.8 per cent of directors were women. The *Globe and Mail* (1993) reported that 4.7 per cent of 7070 directors listed in 1990 were women, up from 2.7 per cent in 1985. They found that 299 firms (42 per cent) had no women directors. A 2007 study of 100 of Canada's largest companies conducted by Spencer Stuart reported that women comprised 13.5 per cent of all directors, a 5 per cent increase from 2005. The number of these companies having no women directors fell from 21 per cent to 11 per cent during this time.

A study of 300 major Canadian companies conducted by Patrick O'Callaghan and Korn/Ferry International (2007) however, reported that women comprised between 6 and 8 per cent of board members over the past ten years.

Catalyst (1999) examined women directors on the FP500. They found that women held 6.2 per cent of FP500 board seats; only 36.4 per cent of FP500 firms had women directors; and 57 firms (11.4 per cent) had multiple women directors. Eighty-seven per cent of women directors held a single board seat. Catalyst (2001) reported that women held 9.8 per cent of board seats among FP500 companies, up from 6.2 per cent reported above three years earlier. But 51.4 per cent of FP500 firms still had no women directors. The authors place more faith in the Catalyst numbers since Catalyst uses the same data source in all their reported surveys.

Catalyst (1999) examined numbers of women directors among the FP500, 20 financial institutions (banks, insurance companies) and 20 Crown corporations. Only 182 companies (36.6 per cent) of the FP500 had any female directors; 57 (11.4 per cent) had multiple female directors. Women directors held only 6.2 per cent of the FP500 board seats. Women held more board seats in the other types of organizations (14.2 per cent), bringing the overall figure across the three types of organizations to 7.5 per cent.

CHARACTERISTICS OF CANADIAN WOMEN DIRECTORS

Directors were almost exclusively white males until the 1970s (Leighton and Thain, 1993). A few token females were then appointed. Mitchell (1984) undertook the first Canadian study of women directors (n = 57). Her findings revealed that 64 per cent sat on more than one corporate board; when not-for-profit and government boards were included, 81 per cent sat on two or more boards; more than half were 56 years of age or older; and more than two-thirds had university education. Mitchell concluded that her sample came from upper-middle class backgrounds; 40 per cent had attended private schools, and another 40 per cent had fathers who sat on corporate boards.

Burke (1995) and Burke and Kurucz (1998) reported a very different picture 10 to 15 years later. Burke (1995), in a study of 278 women directors, found that 90 per cent were university graduates, about one quarter had one or more professional designations, the majority were full-time employees of organizations (57 per cent), owned their own businesses

(13 per cent), or served as consultants or independent contractors (21 per cent). About half were 45 years of age or younger. Thus the current crop of women directors was younger, better educated, had more relevant business and professional experience; they enjoyed more varied work and educational experiences and had diverse backgrounds.

SELECTING AND ELECTING DIRECTORS

Respondents in Mitchell's study (1984) identified three main reasons why women believed they were selected as directors. These were that they had a community profile (23 per cent), female gender (21 per cent), had business expertise (14 per cent), provided regional representation (11 per cent), had memberships on other boards (10 per cent), had influential contacts (6 per cent), were corporate officers (4 per cent), shareholders' influence (4 per cent), family connections (3 per cent) and political connections (3 per cent).

More recent data (Burke, 1997b) indicated that board members believed that being a woman was still an important factor in their being selected for board memberships, yet did not see this as a negative issue. But a strong business track record, business contacts, advanced education, and an understanding of business and the possession of specialized knowledge and information (for example: law, finance and marketing) were believed to be significant factors in their selection (Burke and Mattis, 2000; Catalyst, 1997). Thus skills and competence seemed to be more important now than family connections.

These figures suggest that Canada has fewer women directors than the US, and similar levels to other countries (for example, the UK). These numbers are also slowly increasing.

FORCES OF CHANGE

Burke (1994b) examined views of 66 male chief executives who had women on their boards of directors, regarding the perceived benefits of having women as board members. Male CEOs who stated that appointing women to their boards would send the right signals (make important statements) to key constituencies also indicated more issues on which they wanted the perspectives of women directors, and more benefits and greater influence of the women they currently had on their boards.

Burke (1994c) also examined these CEOs' views on the director selection process and found that the most important factor in finding and appointing female directors was business experience, followed by high visibility, previous board experience and making a statement to customers/clients, stockholders and their managerial women. However, they felt it was somewhat difficult to find qualified women. Women's names surfaced from recommendations from other board members or were known personally by the CEO. The current size of the pool of qualified women was less than 250. High-level line experience or being the president of a small business was also highly valued. As directors, women yielded company benefits in terms of relationships with female clients and influenced the development of talented women within their companies as role models. These CEOs attributed the small numbers of female directors to a shortage of qualified women, not knowing where to look for them, and qualified women not making their interest known. Thus males and females see the causes of the shortage of women on boards and the solutions very differently (see Catalyst, 1995, for similar findings).

BUT CHALLENGES STILL REMAIN

Burke and Leblanc (2006), based on a qualitative study of 39 boards and 194 respondents, identified four ongoing challenges facing Canadian women aspiring to serve as corporate directors. These were:

1. Director qualifications: board directorships are still seen as an 'old white males' game' with a preference for men having CEO experience.
   'Directorship is an old man's game.' (director)
   'Directors like to have more people like them, that went to the same university, club and have the same friends.' (director)
   'I'd like a white, male CEO, or former CEO.' (director)
   'It's a WASP [White Anglo-Saxon Protestant] world, still. Look at the Toronto club.' (director)
2. Director selection: selection is still done primarily through the 'old boys' network'. Male directors still prefer others much like themselves.
   'You do your due diligence, but you take a directorship because a very senior member tells or asks you to it. It's the old boy network.' (director)
   'It's a country club – you bring your friends in, not who is most effective. This exists because the board does not truly acknowledge what its role is and the needs and demands of shareholders are not higher. Rare is the case when people are brought into the board based on what they can contribute. It's payback for a favour, throwing a bone, a good name, not competence or value.' (director)
3. Director evaluation: there is little evaluation of the contribution of board members at present.

> 'Very few chairs and boards of directors I know have a job description. And the ones that do are pretty pathetic.' (director)
>
> 'Board assessments are starting to gain acceptance, but it's very early days. Directors are reluctant to pass judgment on their peers.' (regulator)
>
> 'Never have I been subject to an evaluation as a director. A Code of Conduct was recently mailed to me, that I was required to sign, outlining my responsibilities as a director. It was the first time in 35 years.' (director)

4. Director replacement: There is too much reliance on attrition. There is, however, a need to proactively renew board membership based on needed competence. There is not enough emphasis on competence and too much emphasis on entitlement.

> 'We need to reformulate the board, other than through attrition.' (lead director)
>
> 'Board members feel as though they are entitled rather than that they've earned their directorship. And it ends due to age, which is to admit defeat. It's representative rather than competency-based. I've been [on Company ABC's board] for over two decades and we haven't had the right people in the past five years.' (director)

Many boards apparently have been able to find 'independent directors' without markedly changing their recruiting efforts. A great deal still appears to be done by many boards through the chair or chief executive officer canvassing incumbent directors about whom they know in the community or within the industry, who is well known and who can qualify as an 'independent' director. Indeed, it appears that 'reputation among peers' is used in many cases as proxy for director independence, or at least how independent a particular nominee will be perceived to be by the regulators and the public.

Thus, there does not appear to be much increase in the number of women on boards (Catalyst, 1993). Opinions are very mixed, ranging from the belief that 'every board desperately needs more women' to the position of one CEO that '[having a woman on the board] is a requirement that I have to meet so I meet it'. While there is evidence that sexism and male chauvinism is not dead in the boardroom – 'she likes skiing and sailing so she'll be a good board member' – by far the bigger concern is the availability of competent women directors and the high degree of recycling of women who are currently serving as directors. One senior male director remarked, in one of the author's corporate governance classes at the university, that 'only twenty women in the country are board-ready'. One woman director pointed out: 'Once you're on a few, you get on others. You meet more people and if you are good you'll be invited on others.'

UPPING THE NUMBERS

Canadian Regulation of Director Nomination and Assessment

The current Canadian Policy incorporates, *inter alia*, three major changes from previous corporate governance guidelines (Ontario Securities Commission, 2005). They are as follows:

(i) Nomination of directors

One section of the Policy (section 3.12) states in part that:

> Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps:
> (a) Consider what competencies and skills the board, as a whole, should possess. In doing so, the board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.
> (b) Assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the board. Instead, the board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director, as these may ultimately determine the boardroom dynamic.
> In carrying out each of these functions, the board should consider the advice and input of the nominating committee.

Another section, 3.14, also pertaining to the Nomination of Directors, states further that:

> In making its recommendations, the nominating committee should consider:
> (a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess;
> (b) the competencies and skills that the board considers each existing director to possess; and
> (c) the competencies and skills each new nominee will bring to the boardroom.

(ii) Position descriptions

One section of the Policy (section 3.5) states in part that:

> The board should develop clear position descriptions for the chair of the board and the chair of each board committee.

(iii) Regular board assessments

One section of the Policy (section 3.18) states in part that:

> The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:

(a) in the case of the board or a board committee, its mandate or charter, and
(b) in the case of an individual director, the applicable position description(s) as well as the competencies and skills each individual director is expected to bring to the board.

The Competency Matrix, Director Peer Review and Development of Innovative Tools and Approaches

What the Policy means for Canadian listed companies is that the ramifications of this Policy carry important implications for the recruitment and assessment practices of directors of listed company boards in Canada, including obviously women directors. There are emerging 'best practices' that are being recognized by a large consortium of institutional shareholders, the Canadian Coalition for Good Governance (2006), within company boards that are innovative in their approach to implementing the above Policy in the area of director selection. Two companies recognized by this consortium in the area of director selection, for instance, examined and advised by one of the authors, were cited for their competency skills matrix for directors, among other factors. Second, companies were recognized for innovative practices in the area of director assessment, including 'peer reviews', whereby directors assess one another on their effectiveness.

The effect of this recognition means that large institutional shareholders are beginning to focus their efforts on the rigor and transparency with which directors are recruited and assessed. Novel tools and approaches, for example, confidential peer and self-assessment questionnaires; 'evergreen' lists of potential directors; competency and skills matrixes for each director; 360 degree assessments (whereby a review by management is included in the director evaluation program) will continue to emerge as Canadian listed companies begin to comply with the above Policy, and disclose to shareholders that rigorous, transparent and viable director recruitment and evaluation programs are in place.

The assessment of individual competencies and skills of directors is difficult to accomplish without some sort of individual director self or peer review, per section 18 of the Policy, which calls for an assessment to consider 'the competencies and skills each individual director is expected to bring to the board'.

In order to implement a Competency Matrix, as set out in Table 2.1, in complying with section 3.12 of the Policy, a board would wish to reflect on the competencies and skills that, in its business judgment, it needed, given the company, industry, business model, strategy and management team. Then these competencies and skills would be listed along the vertical axis

Table 2.1 Director competency matrix for the financial services industry

Competency	Director 1	Director 2	Director 3	Director 4	Director 5	Director 6	Director 7	Director 8	Director 9	Director 10	Director 11	Director 12	Director 13
Financial Literacy													
Financial Expert													
Regulatory													
Technology													
Real Estate													
International													
Legal (privacy)													
Operating													
Risk Management													
Compliance, Controls													
Marketing, Consumer													
Strategic													
E-Commerce/ Internet													
Compensation													
Human Resources													
Business Judgment													
Special (e.g., derivatives)													

of a Competency Matrix Analysis. Next, a board should list individual directors along the horizontal axis and begin to assess which directors possess which competencies and skills.

The process of undertaking this review should be inclusive and constructive, yet rigorous. No one director need possess all or even many or most of these competencies and skills. For example, a scientist on the board of a pharmaceutical company may be very competent in R&D, but may be less skilled in interpreting financial statements, which his or her colleagues would have covered. What is important is that, as a board, it has all the competencies and skills, collectively, amongst board members, given the company, industry and the management strategy approved by the board. Part of the assessment should include behaviors and how directors contribute to group decision-making. Then a board's competency and skills 'gap' is used to drive the selection of prospective directors.

As a consequence, effective board chairs and nominating committees may begin to counsel directors whose competencies and skills are no longer relevant and explore the talent pool more deeply and across organizations, in efforts to recruit the best possible directors with the competencies and skills that the board desires.

Increasing Focus on Competencies

Recent research evidence has highlighted that board processes and board member competencies are key elements in board effectiveness. Simultaneously, corporate boards are becoming more interested in evaluating the contributions and behaviors of board members. Both of these factors are likely to make positive contributions to increasing women's representation on corporate boards.

Director Education Programs

Several Canadian organizations, typically associated with university schools of business, have developed director education programs over the past few years. These are offered in major Canadian cities. Classes typically range in size from 20 to 30 or more individuals, most being managers or professionals holding full-time positions. The gender mix of these director education programs varies from 25 per cent to 60 per cent women, figures significantly higher than the current percentage of women corporate directors. It is too soon, however, to judge the effectiveness of these programs in upping the numbers of women directors.

Mentoring Programs for Potential Women Directors

A new Canadian organization, Women on Board, has created a mentoring program that pairs promising women executives with successful senior-level business leaders with the goal of helping more qualified women achieve corporate directorships. This program was spurred by a similar one started in the UK. Mentors would provide references, make introductions, and offer advice on targeting board searches.

THE CURRENT CANADIAN SCENE

The Bad News

- slow progress of women to executive ranks
- slow increase in women on corporate boards
- no government monitoring and intervention
- no interest in quotas

The Good News

- a need for more qualified directors
- heightened interest in governance
- glaring failures in governance
- some 'soft' ratings of the best and worst Canadian boards of directors
- some educational offerings for directors, with lots of women graduates
- an increasing pool of 'board-ready' women.

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