CCGG
GENDER DIVERSITY POLICY
2018

CCGG Canadian Coalition for Good Governance
THE VOICE OF THE SHAREHOLDER

CCGG released our original Board Gender Diversity Policy in October 2015 (the "*2015 Policy*"). In the intervening years, gender diversity on boards and in senior management has continued to be a focus for institutional shareholders, regulators, legislators, issuers and researchers, both in Canada and globally.[1] While some progress has been made, the rate of improvement in Canada has been disappointing.[2] Thinking has developed in this area in response to the lack of progress, the impact of various attempts in Canada and other countries over the last three years to address gender imbalance, and on-going research that continues to show the benefits of increased gender diversity[3]. CCGG's position has continued to evolve and our current position is reflected in this updated Gender Diversity Policy (the "Policy") which replaces the 2015 Policy.[4]

The case for enhancing gender diversity

As outlined in our *2015 Policy*, CCGG believes that gender balance is a corporate governance issue. As such, it is relevant to institutional investors' decisions as to whether to invest in a company and how to vote their proxies.

That there is a business case for gender balance is broadly, though not universally, accepted.[5] CCGG's support of gender balance, however, does not solely rely on the business case that increasing diversity is related to improved corporate performance. We also question the need for such evidence since there is no expectation of similar evidence linking the presence of men on boards to superior corporate performance. CCGG also relies on the research showing that gender diversity improves oversight and mitigation of risk, helps to avoid group think, improves decision-making and leads to more effective monitoring of CEO performance, among other benefits[6]. On a common-sense level, it seems self-evident that selecting candidates from the broadest pool possible increases the opportunity of finding meritorious candidates and will result in a competitive advantage over those that choose not to access the whole pool.

In short, CCGG assumes that board gender diversity, as well as diversity in all forms, is a good and that increasing board diversity improves the quality of boards – one of CCGG's paramount concerns and a concern for all companies.

Gender diversity matters to companies from a broader, long term perspective as well. The increasing focus of institutional shareholders on material environmental and social factors in investment decision-making includes a consideration of gender diversity on boards (and in senior management). Investors are looking to see the extent of a diversity when evaluating a company and boards are increasingly facing investors' higher expectations in this area.[7] The expectations of company employees and the broader community in which the company operates have implications for a company's reputation and are also relevant.[8]

Boards should also focus on having women in positions of power on the board, for example, on key committees or in the role of board or committee chair. The participation of women on the nominating committee, in particular, may be helpful in enhancing the search for suitable board candidates.

Boards should adopt a written gender diversity policy as a 'best practice'

In our *2015 Policy*, CCGG expressed the view that adopting a board gender diversity policy should be considered a corporate governance 'best practice' and that the Canadian Securities Administrators ("CSA") should require issuers to adopt and disclose such a policy. Evidence supports the efficacy of written policies in enhancing gender balance: in the CSA Review, companies with a written policy had a higher percentage of women on boards than those without, consistent with the findings in the prior two years.[9] Written policies lead to progress. CCGG is hopeful that the CSA will move to prescribe written gender diversity policies as a best practice in its corporate governance guidelines.

Boards should adopt a self-imposed gender diversity target as a 'best practice'

In our *2015 Policy*, CCGG did not take any position as to the content of a company's gender diversity policy, including whether the policy should incorporate a target for the desired number or percentage of women on the board. CCGG now is of the view that as a matter of best practice, gender diversity policies adopted by companies should incorporate targets for increasing gender diversity on the board.[10] Evidence also supports the adoption of targets as an effective means of enhancing gender diversity[11], a finding in keeping with the old adage "what gets measured gets done". It is important to have a method for measuring progress against the target, including in the form of setting a meaningful timeline for achieving the selected goal.[12] Accordingly, CCGG is also hoping that the CSA will move to amend its corporate governance guidelines to state that as a matter of best practice, that gender diversity policies should include a target and that companies should disclose progress against the target.

Choosing a target

In setting an appropriate target, boards should give due consideration to research that supports the adoption of at least a 30% target on the basis that this level constitutes a 'critical mass' whereby the views of the diverse members of a group are viewed not through a prism of tokenism but carry the same weight as the opinions of other group members[13]. Indeed, recent research supports the view that gender diversity impacts performance "only when an optimal balance is reached"[14] and that results "clearly confirm that this balance corresponds to a male-female ratio between 40% and 60%, reinforcing that no one gender is better than the other, rather, diversity is key to enhanced performance."[15] The idea is that there is an ideal zone where neither gender is less than 40% or more than 60%.[16]

So, while CCGG believes that an issuer's specific target should not be prescribed by regulators at this time, a company's choice of target should be informed by relevant research and with the intention of increasing gender diversity. If further research and practical experience, both in Canada and in other jurisdictions, support the view that a prescribed target is the only way of making progress towards gender balance, CCGG may revisit this position.

Importance of increasing gender balance in senior management

Board members have traditionally been drawn from the pool of people with senior management experience, preferably CEOs. (Attention is now being paid to ways to diversify this pool, as discussed below.) An oft cited reason for not having more women on boards is that the number of women in this pool is small – and without women with the appropriate executive background, boards can not increase the number of women on a meritorious basis[17]. It appears, however, that increasing the number of women in executive officer positions can be even more challenging than increasing the number of women on boards,[18] a reality supported by the most recent CSA Review. The percentage of companies in their universe with at least one woman in an executive officer position has stayed steady overall at around 60% for the last three years, while gender diversity on boards has increased, albeit not significantly.[19]

The higher one goes up the ranks of organizations, the lower the percentage of women. Much attention has been paid to the reasons for this, and various efforts have been and are being made to stop this "leakage".[20] Because gender imbalance in senior management is inextricably connected with gender imbalance on boards, CCGG believes it is incumbent on boards to focus on the former as well as the latter. Boards should establish a corporate culture where it is seen as important to maintain consistent levels of gender diversity throughout the organization.

CCGG believes that in addition to helping to increase gender diversity on boards, gender diversity in senior management is a good in and of itself We note that the same research supporting the benefits of increasing gender balance on boards applies to senior management.

The CSA Review shows a positive connection between the adoption of a written policy on board gender diversity and a higher percentage of women on boards. Presumably the same effect can be expected when companies adopt a written policy on gender diversity in senior management. Accordingly, CCGG is of the view that the CSA should amend its corporate governance guidelines to stipulate that the adoption of a written gender policy for increasing the percentage of women in senior management is a best practice.

Further, that written policy should include a target. As with board targets, CCGG does not at this point propose that a specific target should be adopted but that companies should consider the issue and articulate a target that is appropriate for their circumstances, keeping in mind that the goal is gender balance in senior management and throughout the organization.

Given the importance of gender balance in senior management, CCGG also believes that the CSA governance guidelines should be amended to require that board mandates acknowledge a consideration of gender diversity as part of management succession planning. Consistent with the CSA guidelines 'comply or explain' model, if the board does not consider gender diversity in succession planning then the issuer should be required to explain why not and identify the risks or opportunities associated with not doing so.

Broadening the search for candidates

CCGG believes that qualified board candidates should be sought from a broader network than the friends and present /former colleagues of existing board members or senior management and supports both professionalizing the director recruitment process in order to move outside traditional personal networks[21] and considering persons from backgrounds other than those with CEO experience, for example, looking at members of senior management below that level, as well as looking outside the corporate sector for qualified individuals from academia or government. Requiring more disclosure about the board recruitment processes of public companies would likely go some distance towards strengthening those processes.

Importance of board refreshment in increasing gender balance

An effective method of board refreshment is also key to increasing gender diversity: change in board composition is harder when directors are seldom replaced. Simply expanding the size of the board to accommodate more women is not a viable, long-term solution to increasing the percentage of women on boards. Moreover, board renewal is important not only to make positions available for women, but also to help ensure an appropriate balance between the experienced perspective of long term directors and new perspectives that bring fresh insights to the board. Setting director term limits or a retirement age are two ways of helping to achieve this goal. CCGG's preferred method of board renewal, however, is through a strong annual evaluation process of the full board, board committees and individual directors, where the results are acted upon. Because long term directors can continue to meet individual assessment expectations, a robust board evaluation process should incorporate a consideration of the balance between experienced and fresh insights in board composition.

Going forward

In our *2015 Policy*, CCGG spoke of the possibility that a 'comply or explain' regime may not be sufficient to address the lack of gender diversity on boards and in senior management. We referred to the case of majority voting as an example where a mandatory requirement was ultimately necessary to move the needle.[22] This may turn out to be the case for increasing board gender diversity as well. CCGG will continue to monitor progress in this area and consider whether our policy should be updated as appropriate.

[1] For example, CCGG was a founding member in 2017 of the Canadian Gender and Good Governance Alliance, an initiative to promote gender diversity on boards and in senior management by of seven national not-for-profit organizations focused on research, advocacy and education, with support from the Government of Ontario, Ministry of the Status of Women, and the Ontario Securities Commission. The Alliance's first publication, the Directors' Playbook, provides practical guidance for boards on how to increase gender diversity and is available here.
[2] For example, the Canadian Securities Administrators' (the "CSA") third annual review of disclosure regarding women on boards and in executive officer positions as prescribed under National Instrument 58-101 *Disclosure of Corporate Governance Practises* was released in October 2017. The review (the "CSA Review") revealed that, after three years of the disclosure rules being in place, the percentage of women on the boards of the 660 Canadian public companies reviewed had increased from 11% to 14% and the level on the largest companies, with market capitalization greater than $10 billion, had increased from 21% to 24%. Also of note, women filled only 26% of board vacancies in 2017 (page 3). At this rate, it is estimated that gender parity would not be reached until 2035.
[3] In January 2018, McKinsey & Company updated its impactful 2015 study *Why Diversity Matters* with *Delivering Through Diversity* which reinforces the link between diversity and company financial performance. For example, it found that companies in the top quartile for gender diversity on their executive teams were 21 percent more likely to experience above-average profitability than companies in the fourth quartile, up from 15 percent in the 2015 study. See also *Gender-Balanced Teams Linked to Better Business Performance: A Sodexo Study*, Rohini Anand, PhD., Sodexo, 2016.
[4] In our *2015 Policy*, CCGG emphasized, and we reiterate here, that we support increasing board diversity on a broader basis than gender alone. We focused then and now on gender because CCGG believes that gender is a good place to begin to increase diversity given that women comprise half the population and remain consistently underrepresented on boards and in senior management. CCGG's adoption of a board gender diversity policy should not be interpreted as a sign that a lack of other forms of diversity, such as ethnic, cultural or age, is less important.
[5] "*Women Matter: gender diversity, a corporate performance driver"*, McKinsey & Company, 2007; "*The Bottom Line: Corporate Performance and Women's Representation on Boards"*, Lois Joy, Nancy M. Carter, Harvey M. Wagener, Sriram Narayanan, October 2007; "*Mining the Metrics of Board Diversity"*, June 2013 Thomson Reuters; "*Women on Boards"* February 2011, U.K., pages 7-9 (the Davies Report"). For a different perspective, see *Does Gender Diversity on Board Really Boost Corporate Performance*, Knowledge@Wharton, May 18, 2017.
[6] See for example, Maznevski, M. L. (1994) Understanding our differences: Performance in decision-making groups with diverse members, Human Relations, 47(5): 531-552; Women on Boards, February 2011, U.K., pages 7-9 (the "Davies report"); women in the Boardroom and their Impact on Governance and Performance, Renee B. Adams and Danierl Ferreria, October 22, 2008 at https://www.responsibleinvestor.com/images/uploads/Women_in_the_boardroom.pdf; Diversity and Work Group Performance, November 1, 1999, Graduate school of Stanford Business
[7] Several of CCGG's members have proxy voting guidelines that recommend voting to withhold from some directors in certain circumstances where gender diversity is considered to be inadequate.
[8] *They Don't Fit in: The Lame Excuses Companies Offer for Not Appointing Female Directors*, Fortune, May 23, 2018. *Not Just Google and Facebook: America's Boardrooms are Still Woefully Bereft of Women*, Forbes, July 9, 2014
[9] Ibid CSA Review
[10] CCGG has not taken a position at this time on the setting of targets on boards [and in senior management] for forms of diversity other than gender.
[11] Include CSA Review numbers on those with targets
[12] For example, the objective of the 30% Club Canadian Investor Group: Statement of Intent September 2017 is to achieve a minimum of 30% women on the boards and at the executive management level of S&P/TSX composite index companies by 2022.
[13] See, for example, *Women Matter*, McKinsey &Company, Desvaux, G, Devillard-Hoellinger, S & Bumgarten,P (2007)
[14] Sodexo page 3
[15] ibid
[16] ibid

[17] The most common explanation provided by issuers in the CSA Review that did not consider the representation of women in their board appointments (83%) or in their executive officer positions (80%) was that their selection was based on merit. CSA Review page 18..

[18] "*Women on Boards*" April 2013, U.K., pages 6-7; "*Women on Boards*", February 2011 U.K., page 26.

[19] CSA Review, page 3. Note that the CSA Review's definition of 'executive officer' of an issuer includes all major subsidiaries of the issuer which arguably inflates the true levels of female representation in the most senior ranks.

[20] For example, mentoring programs, sponsorship efforts, flexible work hours, extended parental leave, 're-entry programs, 'virtual' offices and unconscious bias training are just some of the attempts being made to address the problem.

[21] Change will not be achieved simply by outsourcing the search to an external executive search consultant armed with the same mandate but rather the consultant must be instructed to consider a more comprehensive universe beyond the current board's and management's circle.

[22] The Toronto Stock Exchange originally adopted a voluntary 'comply or explain' listing requirement with respect to whether a company had adopted a majority voting policy in 2012 but changed that to a mandatory one in 2014 when it became clear that many companies were not adhering to the spirit behind the listing requirement of ensuring that true majority voting is in place. It may turn out that gender diversity requires a similar mandatory externally-imposed solution.