Corporate governance should shine a light on gender diversity on boards: TD Economics

TORONTO -- Corporate Canada needs a "gentle push" when it comes to increasing the presence of women board directors according to a report published today by TD Economics.

While the labour force participation of women has increased dramatically over the past century, the representation of women on the boards of Canadian corporations remains remarkably low. Specifically, women represent only 11% of board members for firms on the S&P/TSX Composite Index. Moreover, almost three-quarters of the firms on the composite index either do not have a single female board member (43%) or only have one female board member (28%).

"Canada has slipped in the international rankings of women's representation on boards," said Beata Caranci, author of the report and a Deputy Chief Economist for the Bank. "This implies a market failure to appreciate the skills and perspectives that women can bring to the table."

The report warned against establishing quotas to change the status quo. "Directors need to be appointed on the basis of merit. Quotas don't support the concept of merit, and can be detrimental due to their impact on the morale of an organization and of women, which undermines the cause being championed," said Ms. Caranci.

Additionally quotas don't fit with our nation's corporate mix. Publicly traded firms on Canada's benchmark index are generally smaller and concentrated in the resource sectors. In each of these cases, companies face unique challenges when trying to increase the proportion of women on boards, and it becomes increasingly difficult when the two factors are combined. "It's these types of companies – both small and resource based – that could face a larger burden under a system with a universally applied percentage quota," said Ms. Caranci.

Instead, the report suggests a "comply or explain" policy would be better suited for Canada's corporate landscape. The basic premise is to embed gender diversity considerations into corporate governance standards for new director nominations, rather than relying on voluntary, self-reporting initiatives. This is the "comply" portion of the policy. The "explain" portion allows firms the flexibility to deviate at their discretion, but in doing so, they must indicate why to shareholders.

The report recommends this approach goes hand-in-hand with ongoing initiatives to develop the pipeline of women and to link them with corporations.

However, the report notes, in its strictest form, the "comply" portion within a governance code may require corporations to provide explicit guidance on goals or targets be it gender representation or other metrics. This runs the risk of a target mistakenly interpreted as a quota.

Since a key benefit of "comply and explain" policies is to bring awareness and transparency to gender diversity, this could be achieved simply with a requirement for all publicly-listed companies on the S&P/TSX Composite Index to indicate how gender diversity is taken into consideration, while also reporting the number of female directors and the trend in representation at the board and executive level over time.

Doing so lets the market decide whether corporate policies are appropriate by shining a spotlight on women's representation at the upper echelons of management for shareholders and customers. "A gentle nudge in the right direction could be beneficial and lead to better labour market outcomes," said Ms. Caranci.

Finland and Australia adopted “comply or explain” policies in the last few years. Both have had success in increasing the ranks of women in their boardrooms, without imposing punitive sanctions. In three short years (2008-2011), corporate boards in Finland have doubled female representation to between 26% and 22%, while Australia has leap frogged over Canada in the international rankings with an impressive five percentage point increase. These two examples show that even without binding sanctions or consequences, applying a “comply or explain” style policy can achieve results by drawing greater attention to the issue.

Ms. Caranci said: "Enhancing corporate governance practices to require publicly listed companies in the S&P/TSX benchmark index to disclose gender representation among board and senior executive members, while also conveying to shareholders how - or if - gender diversity is taken into consideration in board nomination processes are steps in the right direction. These measures alone will enhance awareness, accountability and measurability of diversity policies, while helping firms identify barriers to women’s advancement, and provide a baseline to measure progress in the future.”

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For media inquiries, please contact:
Beata Caranci
Vice President and Deputy Chief Economist
TD Bank Group
416-982-8067

Leslie Preston
Economist
TD Bank Group
416 983-7053