

# **Diversity: A Fundamental Strength for Boards**

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60 years ago, the July 1943 issue of Transportation Magazine stated: (and I quote):

*“There's no longer any question whether transit companies should hire women for jobs formerly held by men. The draft and manpower shortage has settled that point. The important things now are how to select the most efficient women available and how to use them to the best advantage.”*

The magazine had such tips as:

- *“Pick young married women. They usually have more of a sense of responsibility than their unmarried sisters. They're less likely to be flirtatious, they need the work and they still have pep and interest to work hard and to deal with the public efficiently.*
- *“General experience indicates that "husky" girls - those who are just a little on the heavy side - are more even-tempered and efficient than their underweight sisters.*

- *“Retain a physician to give the woman you hire a special physical examination - one covering female conditions. This step not only protects against the possibilities of lawsuit, but also reveals whether the employee-to-be has any female weaknesses which would make her mentally or physically unfit for the job.”*

Well, I’m happy to see that women have come a long way since 1943 – at least in some aspects of the workplace.

According to the most recent report from Catalyst, a leading researcher in the area of women in management:

- Women represent 46.1% of the labour force in Canada.
- They hold 33.7% of management occupations; and
- They hold 14% of the senior executive positions.

But, when it comes to women serving on boards, the numbers are not so encouraging.

Catalyst's most recent survey of the FP 500 (that is, the 500 largest Canadian companies in terms of revenue) showed that:

- 11.2% of board seats are held by women
- If one excludes Crown corporations and privately held companies, the percentage of women directors drops to 9%
- 51% of companies have no women on their boards - and, by the way, this figure has not changed for about 10 years.
- Women currently chair only 3 of the 243 publicly traded companies which are part of the Financial Post 500.

This data is supported by Patrick O'Callaghan who recently reported that the overall percentage of women on corporate boards (he surveyed a slightly different group than Catalyst) was 8%, which he said was significantly unchanged from the range of 6-8% he's measured since 1994.

By way of contrast, in the USA women hold 13.6 percent of board seats on the Fortune 500 companies and approximately 90% of those companies have at least one woman.

### **Why am I concerned about the lack of women on corporate boards?**

Because companies play a significant role in our society - and corporate boards provide leadership on issues that impact the strength of Canada's economy and our overall well-being.

And because boards without women are not diverse. While gender is but one aspect of diversity, it is an important one.

The literature with respect to diversity is persuasive. A more diverse board:

- considers a greater range of perspectives;
- is sensitive to a broader range of potential risk;
- exhibits a greater ability to generate more high-quality solutions;

- generates more vigorous debate which, itself, is a predictor of success; and
- brings to the company a greater ability to understand and manage diverse constituencies such as shareholders, consumers and employees.

I think the Conference Board of Canada described it well when they said that external diversity (such as gender) can be used as an indicator of inner diversity. Women bring different, skills, experience, views and perspectives.

Several studies have also concluded that organizations with more women in senior positions perform better.

The Conference Board of Canada tracked corporations from 1995 to 2001 and found that those with two or more women on the board in 1995 were far more likely to be industry leaders in revenues and profits six years later in 2001.

In 2004, Catalyst issued a report in the US. They studied the financial performance of 353 companies between 1996 and 2000. They found that the group of companies with the

highest representation of women in their senior management had a 35% higher return on equity and a 34% higher Total Return to Shareholders than companies with the lowest women's representation.

The Glass Ceiling Research Centre in California tracked the performance of Fortune 500 companies from 1980 to 1998. The 25 companies with the best record for promoting women to senior positions, including board positions, posted returns 18% higher and returns on investment 69% higher than the Fortune 500 median of their industry.

It should also be considered that women control 80% of household spending and, using their own resources, make up 47% of all investors.

Perhaps the most fundamental business rationale for a company's commitment to greater diversity in the boardroom is a simple and compelling one - the desire to find and employ the best talent. After all, women represent 50% of the talent pool.

An analysis of corporate board membership in Canada suggests that many companies have not, in the past, searched broadly for talent from diverse communities. As a result of selection and recruitment practices that have been informal in nature and reliant on personal networks, many directors have been selected from relatively narrow pools of people sharing common experiences, career patterns and backgrounds.

### **What can be done to increase the number of women on corporate boards?**

In 2004, Norway introduced a piece of legislation that requires companies to have at least 40% women on their boards by July 2005. I recently spoke to 2 women directors of Statoil, one of Norway's largest companies, and they advised that, if passed into law, this legislation would create approximately 800 vacancies for female directors in that country. Whether or not the legislation is ultimately passed, it has certainly raised awareness of the issue. I hope Canada doesn't have to resort to such drastic measures.

Some corporations have begun to search for more women. This is a good start. In my view, there are several things they must do to ensure that women have a level playing field when being considered for these positions.

1. There must be a commitment at the top. This must come from the Chair and current board members.
2. They must set objective criteria for the director search. This must be based on skills and experience, not personal connections.
3. They must look beyond traditional sources. If there aren't women at the CEO level, they must look at the next level down, often called the marzipan level. Look at departments within the federal or provincial governments. Some women run departments or divisions that are larger than many companies.
4. They must follow a structured recruitment process. I am not a slave to process and believe that director recruitment is more of an art than a science. However, I believe when it comes to recruiting fairly and

- including women in the pool of potential candidates, a structured process helps attain good results.
5. They should use executive search professionals to ensure they are casting the net wide enough and identifying up and coming leadership talent.
  6. They must provide appropriate support for new directors. This includes a robust orientation and education program. In order for the recruitment to be a success, new directors must be confident they will receive the support they need to be effective.
  7. And finally, they must create a culture that is inviting to newcomers who are not known to current board members. It must be a commitment to teamwork based on respect for the individual talents at the board table.

### **And what can women do?**

Women who are interested in serving on boards can be more proactive. I'll share with you some of the things I think are important for women seeking board positions.

1. Finance counts. You need to be able to understand the organization's financial statements and the financial issues relevant to the organization's industry.
  - a) Read the financial pages of leading newspapers and magazines. Be informed about the issues.
  - b) If you lack financial skills, take an appropriate course. Most universities offer courses such as "Financial Analysis for the Non-Financial Executive".
  
2. Corporate governance counts.
  - a) Go to courses – there are now many good ones available.
  - b) Be familiar with leading practices in corporate governance. There are many good books on the subject and today the internet is also a good research tool.
  - c) Join a director association to keep apprised of recent developments. In Canada, the Institute of

Corporate Directors provides a useful source of information on corporate board issues.

3. If available, seek out mentors - senior directors who can give you advice and perhaps stand as your referee.
4. Seek opportunities to mix with corporate directors – this can be done through courses, association meetings and conferences.
5. Be the best at what you do. Whether it's human resources, finance or operations, be the best and whenever possible, take on leadership roles in your profession.
6. Don't sell yourself short. Most Canadian women are too modest about their accomplishments and abilities. Don't be afraid to accept public recognition for your achievements.
7. And finally, be public and proactive about your ambition. There are many ways this can be done that is not a "turn off". In addition to speaking to executive search firms and current directors, women may also

make known their availability through the Women in the Lead directory – which is a directory devoted exclusively to qualified women seeking corporate board appointment. The Women in the Lead initiative is leading the field in the promotion of women for corporate board positions.

Although the progress to date has been slow, the future outlook for women on boards is positive.

1. There is increasing acceptance of competency grids and structured search processes to recruit for board positions.
2. Approximately 900 directors in Canada will be retiring over the following five years. These vacancies must be filled.
3. There is continuing pressure on directors and CEOs to limit the number of boards on which they serve.
4. Many current directors do not wish to serve in an increasingly demanding and potentially litigious environment.

5. There is increasing public pressure for more independence and diversity on corporate boards. This comes from consumers and shareholders.
6. Some of the new corporate governance rules and best practices - things like independence, financial expertise and director evaluation - attract a new pool of directors including the many women seeking to serve.

For all of the above reasons, there will be significant board opportunities in the next few years - and provided that boards show leadership and adopt proactive recruiting strategies that adequately facilitate the consideration of qualified women, we hopefully will see an increase in the diversity of corporate boards in Canada.

I cannot leave the stage without commenting on the significant contribution Doreen McKenzie-Sanders has made to this field. While I will leave it up to Peter Ladner to tell you about her many accomplishments, I do want to put her work in context for you. When Doreen began her work in this field she would have been faced with a work

environment similar to the rules and attitudes set out in the Transit Magazine hiring guide from which I quoted at the beginning of my talk. While Doreen's accomplishments are significant on their own, they are even moreso when one considers the environment in which she pioneered on behalf of women. Thanks to Doreen and others like her, we women no longer have to be pre-screened for "*any female weaknesses that would make us mentally or physically unfit for the job*".

Women are now being recognized as a foundation of strength and competitive advantage in the boardroom.

Thank you.