SLOW, BUT STEADY PROGRESS
TSX60 BOARDS & GENDER DIVERSITY

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By: Bridget McKellar, Jean-François Malo & Emily Parsons | February 2019

The topic of "diversity," writ large, is top of mind for the boards of Canadian companies of all sizes and across all industries. Studies have demonstrated time and again the benefits of a diverse board of directors, from increased diversity of thought to improved corporate financial performance. One study found that 51% of director respondents believed that a lack of diversity of thought was a barrier to innovation and growth of the Canadian economy[1], and a recent Institutional Shareholder Services (ISS) global survey revealed that over 80% of investors think all-male boards are problematic[2].

With the rise of #MeToo, and numerous other social and political movements currently shining a spotlight on gender equality (or lack thereof) within society more broadly, the leaders of major Canadian companies are rightly continuing to take a closer look at gender diversity and equality within their own organizations. Of particular focus is the representation of women at the highest levels of the corporate world – i.e. boards of directors and executive teams.

With these thoughts in mind, and in anticipation of the 2019 proxy season, we follow up on our June 2017 article "TSX60 & Board Gender Diversity" with a look at 2018 TSX60 proxies and board diversity practices. This article focuses specifically on gender diversity; however, the authors wish to note that we recognize the definition of diversity is much broader than simply gender, and should include numerous other factors, including age, ethnicity, geography, religious / spiritual affiliations, and more.

Our observations include the following:

- 53% of TSX60 issuers have adopted board gender diversity targets (up from 47% in 2017)
- Where gender diversity targets exist, the average goal is 30% female representation on the board
- In 2018, 28% of all TSX60 director nominees were women (26% in 2017)
- Consistent with previous findings, TSX60 issuers with board gender diversity targets have overall higher representation of women on their boards (31%) than boards with a gender diversity policy, but no formal target (26%), and those without a policy (16%)
- Apart from gender, other types of diversity targets are uncommon – one notable example is Cameco Corporation, which has a requirement that at least one director be of indigenous descent, and from Saskatchewan

TSX60 Takeaways (2018)

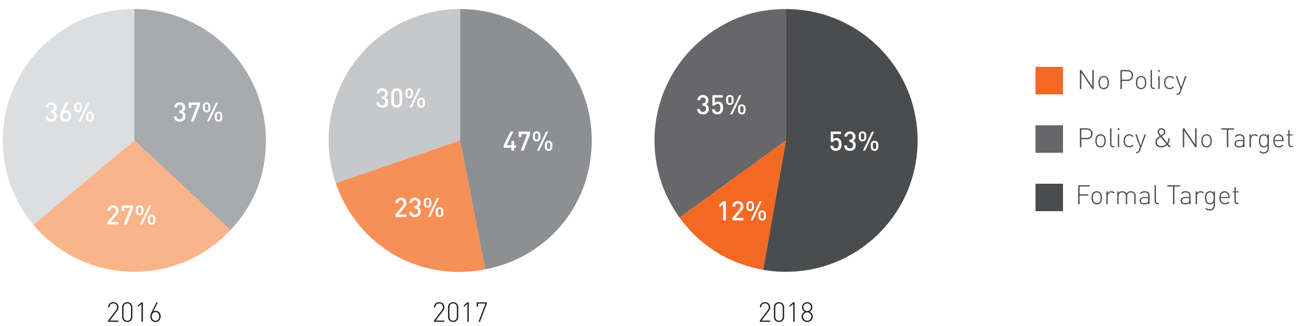
Board Gender Diversity Targets

Since 2016, there has been a notable increase in the number of Canada's largest companies that have adopted formal diversity policies and targets. The financial industry stands out for its approach, with 9 out of 10 TSX60 companies disclosing targets.

Since 2016, the number of TSX60 companies with **No Policy** has dropped from 27% to 12%.

RBC Royal Bank

RBC recognizes non-binary gender diversity as part of its diversity policy



For companies disclosing a target, it is typically ~30% (ranging from 10% to 33%), and just over half disclose the year by which they intend to reach the target.

We continue to see the reach of organizations such as the 30% Club Canada and the Catalyst Accord in promoting gender diversity on boards and setting dates by which they plan to achieve their targets. We note that numerous organizations participate in these initiatives, whose stated goal is to promote gender diversity.

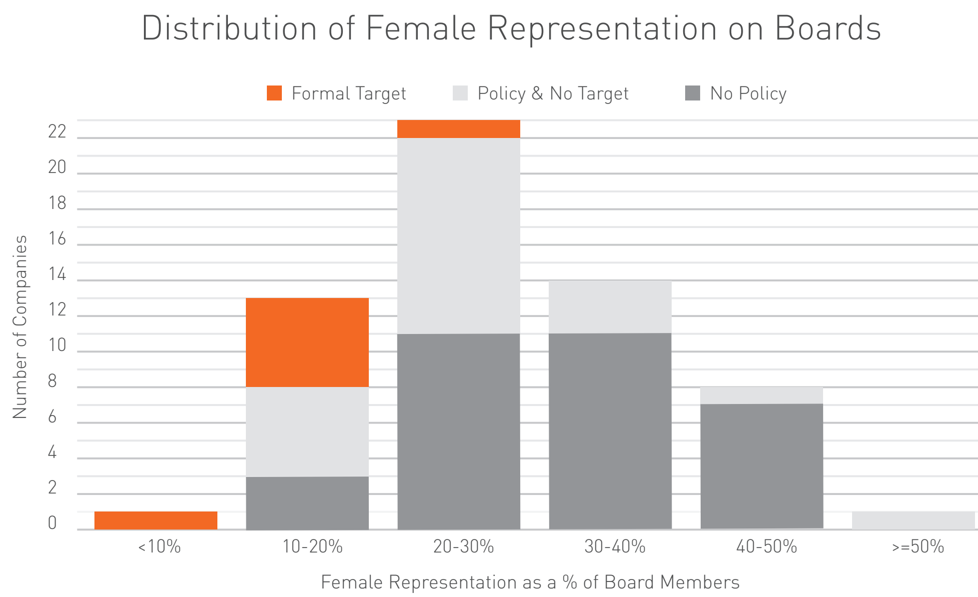
Women on Boards

In 2018, average female representation on TSX60 boards was 28%, a slight uptick from 26% in 2017 and 24% in 2016.

Highest Female Representation on TSX60 Boards[3]

Company	% Women
Saputo	50%
CP Canadian Pacific Railway	44%
CIBC	44%

Female representation on boards appears to correspond with the presence of a diversity policy and/or formal target.[3]



Setting Diversity Targets

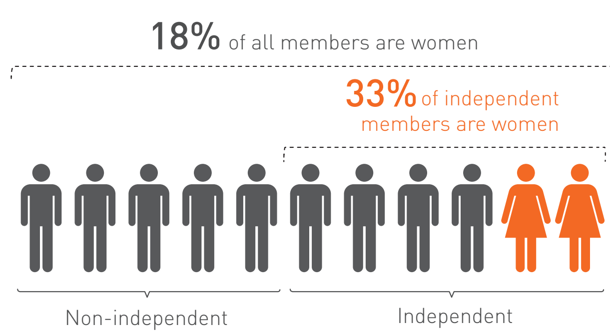
Full Board vs. Independent Directors?

For most organizations with a diversity target, the target applies to the **full board** (n=20); however, a large minority of companies stipulate that the target applies only to **independent directors** (n=12)

5 companies noted that gender diversity applies to both male and female representation in their diversity policy

Most TSX60 companies have only one non-independent board member: the CEO. However, for controlled companies, close to 50% of directors may be non-independent. Let's take a look at an example (illustrated below): a controlled company with 11 board members sets a diversity target related to only independent directors. The 5 non-independent directors are male, and 2 of the 6 independent directors are female. The results of the diversity target would suggest approximately 33% of directors are women, whereas the proportion of the whole board is much lower at 18% female representation.

In these cases, depending on overall board composition, how one applies a diversity policy / target will require judgment. When considering a diversity policy, it is important to reflect on the overall purpose: is it simply to set an attainable target (i.e. to "tick the box"), or rather is it to reap the benefits of a diverse boardroom?



Falling Short of Targets

A consideration for boards when establishing targets is the risk of delinquency. For example, a timing gap, unforeseen resignation, or shareholder activism event that proposes new directors, could result in the board missing its target. In 2018, 28% of companies with a target had not yet reached it[4]. While there are no legislative penalties associated with missing a target, best practice suggests that companies should actively address the issue, include discussion in disclosure, and engage shareholders.

Franco-Nevada

Franco-Nevada Corporation explained in its disclosure the process gone through to try to nominate another female director, who ultimately did not receive consent from her employer to join the Board. Transparent disclosure can demonstrate to stakeholders the efforts made by boards to address this issue.

Between 2011-2015, only 8% of appointed directors on activist shareholder board slates were women.[21]

Institutional Investor Community Voting Guidelines

Institutional investors have shown an increased willingness to use their voting power to encourage increased gender diversity on Boards:

	Organization	Voting Guidelines
Institutional Investors	STATE STREET GLOBAL ADVISORS $2.8T	**State Street Global Advisors** will vote against the entire nominating committee of any board that does not have 15% or more female directors[5]
	BLACKROCK $6.44T	**Blackrock** may vote against nominating and governance committee members if it believes diversity has not been appropriately accounted for on the board. They typically expect at least two women directors on the board[6]
	ONTARIO TEACHERS' PENSION PLAN $194B	**Ontario Teachers' Pension Plan (OTPP)** will consider voting against any chair of a nominating committee or other members of the committee where there is an insufficient representation of female directors, and the board does not adequately describe an approach to diversity that specifies either a goal or a target[7]
	CPP INVESTMENT BOARD $368B	**Canadian Pension Plan Investment Board (CPPIB)** will vote against any chair of a nominating committee if there are no female members of the board[8]
Proxy Advisors	ISS	**Institutional Shareholder Services (ISS)** may recommend voting against the chair of the nominating committee if the Company's Board has no female directors[9]
	GLASS LEWIS	**Glass Lewis** will typically recommend against any chair of a nominating committee if there are no female members of the board[10]

U.S. Perspective

Hugessen maintains a partnership with NYC and LA based Semler Brossy Consulting Group (SBCG), who have a long and established track record working with a broad cross-section of U.S. companies from Fortune 100 to smaller, privately, held firms, some over several decades. SBCG had this to say about the topic of board diversity south of the border:

"U.S. companies have so far not adopted board diversity targets, nor have they warmed to the idea of mandated quotas; however, they have made notable strides in recent years without them. The Spencer Stuart S&P 500 Board Index reported that, in 2018, women represented 40% of the incoming class of directors, up from 36% the year before. However, the S&P 500 has some distance to cover to catch up to their TSX 60 and FTSE 100 counterparts in terms of overall female board representation, which sits at 24% of all directors (up from 22% in 2017)[11] .

In terms of the California Bill SB-826, the general consensus appears to be reasonable uncertainty as to whether the rule will be overruled, changed, or postponed, but companies cannot afford to wait given the degree of change required and the risk of getting it wrong. Most companies are taking action now."

California Bill SB-826

Research suggests that if the rate of change in female representation on boards progresses at the current rate, gender parity will not be achieved for over 40 years[19]. In the interest of shortening this timeline, California recently passed a bill that promotes female representation on boards of directors by setting target levels for female representation, depending on the number of Board members. Targets range from 25% to 50%, with Boards larger than 6 members requiring at least 3 women[20]. This legislation draws on studies demonstrating that a critical mass of 3 women on a Board is required to make an impact. In the wake of this proposal, there has been push back from various stakeholders questioning the constitutionality of the bill, the increased burden of disclosure, and limitation on Board nominations. On the flipside, other states such as New Jersey have recently followed suit, proposing a similar bill intended to increase representation of women on Boards.

Beyond Diversity Targets

Diversity policies and targets are one tool available to promote female representation on boards, but there are many other ways to support diversity in the boardroom. For example, term and/or age limits are tools that can encourage board renewal, a critical step to create vacancies for female directors. Board competency matrices also deserve a closer look to ensure they are not unintentionally precluding segments of the population. Currently, board skills matrices tend to prioritize individuals with past CEO experience[12]. Given the underrepresentation of women in CEO roles[13], this may limit the pool of eligible female candidates. Interestingly, when boards are asked to rank skills that make an effective director, other traits such as independent mindedness and governance aptitude are consistently deemed more important than industry experience or previous CEO roles . With that in mind, boards may consider assessing their competency matrix to determine if it has a demographic bias and adjust accordingly.

Diversity in Executive Management

There is no clear consensus on the effectiveness of gender diversity on boards leading to increased representation of women in executive management or reduction of the gender pay gap. However, we believe that boards are uniquely positioned to "set the tone from the top" in addressing broader corporate and societal issues, including gender diversity throughout the organization.

CEOs and senior executives have an important role to play in ensuring women are progressing through the organization and are gaining the necessary experience to take on senior leadership roles – and the board can be proactive in holding management accountable for this objective. We are increasingly seeing this in action across a wide range of our client base.

There are tactical steps that CEOs can take to effect change in their organizations. The Canadian Gender & Good Governance Alliance recommends that CEOs assess possible gender imbalance in their workplaces by reaching out to peers, consulting with experts, and studying their organizations' data[14]. CEOs may consider implementing work-life flexibility benefits[15], encouraging mentorship and sponsorship of women in the workplace[16] – particularly at inflection points in their career (such as a promotion to a more challenging role), and highlighting the promotion of women to senior positions to increase visibility of female role models[17].

Looking Ahead

Gender diversity remains firmly planted on board agendas across corporate Canada, and the adoption of formal gender diversity policies at the board and senior executive levels is one tool that organizations can use to help foster more equal representation of women. As companies continue to highlight the need for diversity, it will be important to consider other aspects of diversity and equality beyond gender. We recognize that change cannot happen overnight, but companies' policies are evolving to become more inclusive than ever before; and we remain optimistic that the progress witnessed since 2016 will continue, at an accelerated pace.

Bridget McKellar, Jean-François Malo, and Emily Parsons are executive compensation professionals at Hugessen Consulting Inc.

For those with questions or who are interested in more in-depth and customized analysis and advice, please visit our website at hugessen.com for more information; you can also reach Bridget at:

Bridget McKellar, Manager
bmckellar@hugessen.com
416-868-4429

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