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How to Improve Your Board's Gender Balance

We all recognize that there is a serious gender imbalance on most corporate boards. Among the 677 issuers listed on the Toronto Stock Exchange, 45 percent have failed to appoint any female directors.

The simplistic prescription for managing this chronic condition? Mandatory thresholds favoured by policymakers, regulators and some corporate boards.

These efforts have been met by resistance, not just by the "old boy" network of directors, but also by nominating committees and shareholders who believe that current and former CEOs represent the best talent – regardless of gender.

To diagnose any malady, it's essential to identify the symptoms. As long as the majority of public company directors are current and former CEOs, it will be a challenge to find an acceptable pool of female candidates to consider. (The bias toward appointing CEOs also arbitrarily overlooks much male talent).

When 54 percent of Fortune 500 directors are current or past CEOs while fewer than 6 percent of the same public issuers are headed by women, is it any wonder that a serious gender gap exists? The situation is even grimmer in Canada, where there are no female CEOs among members of the S&P/TSX 60 Composite index.

The real issue conspiring against gender diversity is an entrenched view that CEO experience makes for a highly effective director. But there is no evidence that CEO-dominated boards make superior decisions. The former board of BlackBerry Ltd. (founded as Research In Motion Ltd.) is a case in point. Seven of the eight directors serving in the summer of 2007, when Apple Inc. launched the game-changing iPhone, were current or former CEOs. Did this senior executive club anticipate Apple's assault on RIM's comfortable market or effectively respond to it? The much-diminished share price of BlackBerry since tells the story.

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Sadly, overreliance on CEO experience shows no sign of abating. The latest annual study of new director appointments at Fortune 500 companies by the executive search firm Heidrick & Struggles reported that CEOs now comprise 73 percent of all new board recruits, up from 55 percent two years before. "One of the biggest obstacles to diversity," the study concluded, "is the prevailing notion that the ideal director must have CEO experience."

The top six Canadian banks have made significant strides in addressing the board gender imbalance. Today, 31 percent of their total 85 directors are women. This far exceeds the 12 percent female director rate among all 677 companies listed on the TSX. But it will be challenging to achieve parity when 61 percent of Canada's bank directors remain current or past CEOs. To their credit, the banks have managed to attract 11 past and current female CEOs as directors. But the female CEO farm team for the banks and other companies remains thin.

Rather than imposing gender thresholds or quotas, a more effective solution would be to nominate directors with diverse experiences (regardless of C-suite titles), recognizing that having a broad range of backgrounds around a boardroom table may lead to better decisions. Encouraging boards to refresh themselves, whether through term limits or effective and honest annual board self-assessments that identify evolving skills gaps, is an important first step.

I chair the governance and compliance committee of a mid-sized federally regulated trust company that is responsible for recommending director nominees to the board for shareholder consideration. Through our annual board self-assessment, it was unanimously agreed that we needed – and wanted – to address our board gender imbalance while bringing in required expertise in several areas. We wanted the best talent to fill the identified expertise gaps, regardless of a previous CEO title. With the assistance of the ICD's Directors Register and Women Get On Board, a membership-based advocacy group, we were able to identify first-class female director prospects.

While none had been a CEO, all had the experience, judgment and enthusiasm that we sought. Since we jettisoned the CEO requirement, we were able to address our gender challenge and recruit the best talent.

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