Institute for governance
of private and public organizations

Yvan Allaire, PhD (MIT)
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October 3, 2013

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8

Subjet: Submission of IGOPP to the Ontario Securities Commission (OSC) in reply to request for comments on the proposal regarding women on boards and in senior management positions in Ontario.

Dear Secretary,

Please find attached the position of our Institute on the place of women on boards.

Please note our strong recommendation that publicly listed companies adopt a policy of **naming one woman for every two positions on the board**; with such a policy and minimal turnover of board membership, women would make up 40 % of board member in 10 years.

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The place of women on board

Professor Yvan Allaire, Ph.D. (MIT), FRSC
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Toward Value-Creating Governance™

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October 3, 2013

VIA EMAIL

Attention:

c/o The Secretary
Ontario Securities Commission
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22nd Floor
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Email: comments@osc.gov.on.ca

ABOUT IGOPP

Established in September 2005, the Institute for Governance of Private and Public Organizations (IGOPP) is a joint initiative of HEC Montréal and Concordia University (The John Molson School of Business). The Institute is committed to promoting sound corporate governance practices for private and public organizations in Quebec and the rest of Canada.

It achieves this through:

Policy papers
Training
Research
Dissemination of information

OUR MISSION

Help public and private organizations to adopt governance systems and practices that create value by offering training, adopting public positions, conducting research and disseminating ideas.

OUR VISION

Through its original contributions, the IGOPP seeks to become a reference organization on governance issues in Quebec, Canada and around the world.

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In 2010, 14.4% of board members of the 100 largest Canadian publicly listed corporations were women. During the year 2010, roughly 7% of these board members were replaced and for one in five cases by a woman. (Source: Spencer, Stuart, Corporate Board Report, 2010).

Even to a patient, passive observer, it is clear that the rate of change in the participation of women on corporate boards is glacially slow.

Once upon a time, there were plausible reasons that explained the weak representation of women on boards of directors. The historical lag in the rate of women graduating with degrees in management played a role. The established networks from which emerged candidates for board membership were also influencing the ratio of women on boards.

But the ratio of women in, say, graduating classes of MBA students has increased swiftly over the last 20 years. For instance, as shown in the following table, women, who accounted for only 11% of Harvard MBA graduates in 1975, now make up to 40% of the next cohort of graduates.

In Canada as in the USA, the ratio of women in the graduating MBA classes has hovered above one third since the early 2000's.

Enrollment-Harvard MBA

Class of	1975	1985	1995	2005	2013	2014
Total MBA Enrollment	806	793	789	895	905	913
Applications	3,381	5,709	6,321	8,540	9,331	8,963
% Admitted				12%	12%	13%
Yield				90%	89%	89%
Women	11%	25%	28%	35%	39%	40%
Minorities	6%	9%	14%	22%	23%	24%
International	15%	13%	23%	33%	34%	34%

Source : Harvard Business School

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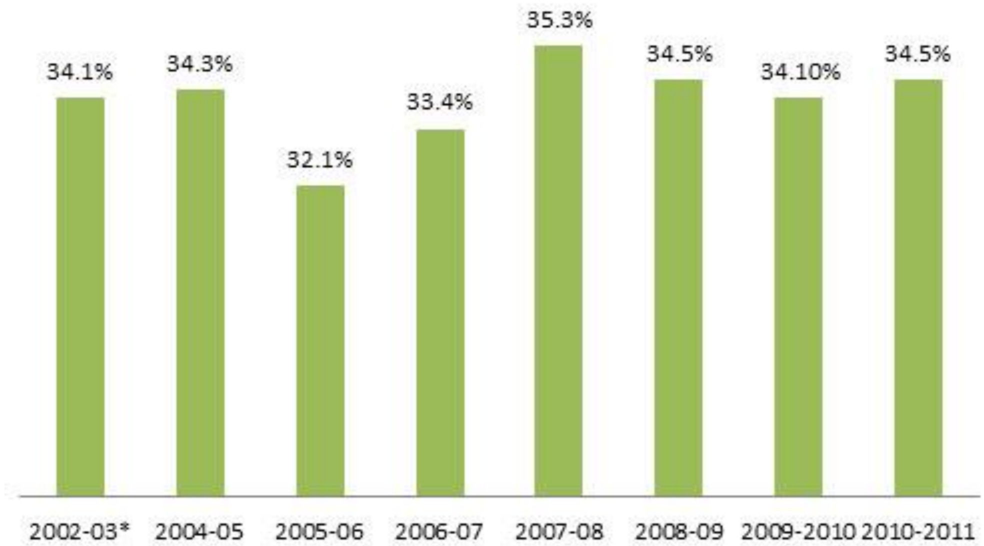
Women graduates as a percentage of total-Canadian Universities



Source : Catalyst

However, the 2011 ratio of women on Canadian and American boards is closer to the ratio of women MBA graduates in the 1975 period!

Once the fact is accepted as incontrovertible that women are equal to men in intelligence, competence, integrity and independence of mind, the issue then becomes how to raise in a sensible manner their representation on boards of directors. That is a matter of principle, equity and fairness.

Advocates for increased participation of women on boards of directors should be careful about basing their argument on the supposed economic benefits of increased female participation.

Studies purporting to demonstrate such benefits are always controversial, subject to methodological criticisms. The economic performance of companies results from so many factors, interrelated and time-dependent, that to isolate the influence of a single variable such as the ratio of women on the board requires a suspension of disbelief. And if a study, as well (or poorly) done as the others, were to conclude that there is a negative correlation between

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performance and the number of women on boards, should the drive to better representation of women stall or stop?

The way forward

Governments have opted for one of two approaches to increase the rate of progress of women participation on board:

1. The French way, that is, by a law establishing quotas to be met by all publicly listed corporations (as well as large private companies!). In January 2011, the French government enacted a law obliging companies to meet a quota of 20% of women on their board by 2014 and 40% by 2017 (The percentage of women on the boards of the 120 largest publicly listed French companies was 11.4% in 2010). Any appointment to the board of a company which contravenes these obligations when those quotas become effective will be declared null and void; board members will not receive any board meeting fees until the situation is corrected.

2. The British way, that is, set up a commission to come up with reasonable objectives and to urge, or shame, corporations into making firm commitments to specific targets within a given time-frame. Thus, in February 2011, a task force created by the British government and chaired by Lord Davies of Abersoch submitted its report calling on British corporations to set a firm target of 25% of women on their boards by 2015. (The percentage of women on the boards of targeted British corporations was 12.5% in 2010)

The first avenue runs the risk of triggering perceptions of affirmative action, a most damaging consequence for the whole effort of getting women to take a substantial place on boards. The second approach, unsupported by public and binding commitments, may turn out to be mere window dressing.

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The turnover of boards

But the most troubling aspect of this issue is that a fundamental variable is never brought into the discussion: *the turnover rate of board membership*. The Spencer Stuart report for 2010 shows that there were some 87 new members out of 1150 members on boards of the 100 largest corporations, or a rate slightly above 7%.

With a turnover rate of 7%, board membership changes entirely over a 10- year period; with a turnover rate of 10% the board changes one and a half time in 10 years; with a turnover of 15%, the board changes completely over a five-year period and rolls over three times over a ten-year period..

Will board turnover rate increase in years to come or can it be pushed up?

There may be some acceleration of turnover as board members age and policies continue to be adopted over the next few years to put limits on the age and the number of years of service of board members. Of course, boards have to do a better job of evaluating their members and push out those who do not perform up to a high standard, which could raise the turnover rate for a period of time. But it is doubtful that a rate much higher than 7% may be sustained over a long period *and it may not be wise governance to experience too high a rate of board turnover.*

The ratio of women among new members

At the observed rate of 1 woman for every 5 vacancies on boards, women would account for 16.6% of board members in 5 years and 18.8% in 10 years (up from 14.4% in 2010). Clearly, these are not acceptable results.

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The following table maps out the issue and gives indications as to what might be reasonable targets.

WOMEN ON BOARD:
Board turnover and ratio of women as new members
(100 largest Canadian publicly traded companies; women=14,4% in 2010)

Annual Turnover of board membership			Ratio of women among new members 1/5	1/3	1/2
7%	(22% turnover)	T+3	15,9%	18,3%	21,7%
	(40% turnover)	T+5	16,6%	21%	26,7%
	(97% turnover)	T+10	18,8%	27,5%	38,8%
10%	(33% turnover)	T+3	16%	19,1%	25%
	(60% turnover)	T+5	17%	23,6%	32%
	(150% turnover)	T+10	19,5%	28,3%	41,4%
15%	(52% turnover)	T+3	17%	23%	30%
	(100% turnover)	T+5	18,8%	28,8%	41%
	(300% turnover)	T+10	19,6%	39,7%	47,5%

(Data for 2010 from Spencer Stuart 2010 show a 7% turnover and 1 woman for 5 new board members)

The one variable which is largely under the control of boards is the ratio of women among new board members. What policy should the company set for new board members to fill vacancies? The table above shows the impact of raising that ratio from the current one in five to one out of two.

With a 7% turnover rate, the "one-in-two" policy would bring the ratio of women on boards close to 40% in 10 years (from 14.4% in 2010). That seems a long time but it does take into account the fairly slow rate of turnover of boards. *Any company committing to appoint one woman for every two vacancies on its board should be commended*.

This table also shows the risk of the French approach of setting an arbitrary quota of 40% in six years (starting from a lower base than in Canada). Only with a **15%** yearly turnover and the appointment of one woman for every two board vacancies would the mandated 40% quota be met within five or six years.

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There are other ways to meet this legal obligation, *none very palatable*:

- Increase the size of the board and appoint only women to the new board seats;
- Force out of the board, earlier than is wise governance, competent male members to make room for women members through a combination of strict term limits or earlier age limit;
- Raise the ratio of women among new board members to 100%;
- A combination of the above.

Conclusion

Boards of directors must make some vigorous and public commitments to raising the participation of women to their boards. They should set a policy to achieve a reasonable turnover of their board membership and adopt a policy of *appointing on woman for every two board vacancies until women represent 40% of their board members.*

That may not meet the calendar and deadline of some activists on the subject but it is a fair and balanced way to generate benefits for all parties, most particularly for women.

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