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Mandated diversity quotas won't make corporate board governance any better

Hiring the best and the right people for the job will

Virginia Weiler, chair of Vancity's board of directors   Simon Hayter for National Post

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Despite being just 39 years old, Tamara Vrooman had already had an extensive career in public service, including three years as British Columbia's Deputy Minister of Finance and Secretary to the Treasury Board, when she was hired as CEO of Vancouver-based credit union Vancity in 2007. Five years on, the company is flourishing under the tutelage of the Victoria-born, Kamloops, B.C.-bred dynamo, both from a financial and a gender-equality perspective. Five women serve on Vancity's eight-member executive team and six women were elected to the nine-member board of directors.

It's a perfect example of women inspiring women. It's so good that Vancity has earned the top spot on the Corporate Women Directors International's list of Top Ten Women-Led Companies for having the best record in appointing female directors.

According to the organization's study of 112 CEOs in 39 countries, companies led by women have more females in leadership roles: 22.3% of board members are women compared to an average of 9.8% at blue-chip companies, and 24.3% of senior managers are women compared to 12.2% in more male-dominated firms. Lululemon Athletica Inc. and Desjardins Financial Security also joined Vancity in the top 10, putting Canada behind only the United States on the list.

"It's just who we are — it's been that way for many years," says Virginia Weiler, chair of Vancity's board of directors. "We were the first financial institution in Canada many years ago to offer mortgages to women without co-signers… We have a very diverse workforce and a really strong representation of women. That's been our reputation — to embrace diversity and find opportunity to deliver services to our members that maybe they weren't getting elsewhere. It's just kind of part of our history."

Though the issue of diversity on corporate boards — or lack thereof — in Canada and elsewhere is nothing new, the topic returned to the spotlight this spring when the European Union's justice commissioner, Viviane Reding, suggested that mandatory quotas might be the answer to increasing the number of women on the EU's publicly traded companies.

As Reding explained, her initial request for self-regulated quotas didn't do the trick, since only 24 companies signed a pledge to ensure 30% of their board positions would be held by women by 2015. At the current rate, she said it would take more than 40 years for women to hold 40% of board positions in Europe's publicly traded companies. "Personally, I am not a great fan of quotas," Reding said in a statement. "However, I like the results they bring." She gave companies until the end of May to provide their input on the matter and will then decide how best to encourage change.

Canadian diversity evangelists and critics are watching the reaction to Reding's proposal with interest while also keeping an eye on other countries where quotas and other similar policies are being considered. Norway, France, Iceland and Spain have introduced some form of mandatory gender-based quotas for public company boards while Switzerland, Israel and South Africa are just a few countries that have introduced quotas for government-owned companies. The Australia Stock Exchange, meanwhile, has asked companies to disclose any diversity policies that include establishing measurable objectives for achieving gender diversity on boards.

Here at home, one of Quebec Premier Jean Charest's first moves was to insist that more women be appointed to the boards of the province's Crown corporations. His idea was made official in 2006, with legislation requiring 50% of board seats be held by women by late last year. The target was met: Female board representation is up to 52.4% from 27.5% in 2006.

"Generally, quotas are used when all other moral persuasion means fail," says Vikas Mehrotra of the Edmonton-based Canadian Corporate Governance Institute. "No one likes quotas because it's like giving the same medicine for everyone. If you put in quotas, firms that are poorly governed will benefit from these quotas. But firms that are governed well don't need these quotas. In general, quotas are not a good thing."

Sharon Healy, national managing director of people and culture at Toronto-based consultant Grant Thornton, agrees. She says quotas and targets are "problematic" because they erode the basic principles of equality and fairness. Just mentioning the idea of quotas and targets generates an emotional response from those who might be impacted by them.

"Women and other diverse candidates, in my experience, don't want a special deal and they certainly don't want to be seen as having a special deal," says Healy, who has always been the lone female on the public boards she has served. "They just want equality of opportunity, and that's very different than having targets and quotas. And men don't like targets and quotas because it infers favouritism."

But some believe quotas do have a place. Ratna Omidvar, president of Maytree, a private foundation that is trying to move more visible minorities into leadership roles in Toronto, believes quotas may work better in public rather than corporate settings. Corporations can be nimble, she says. If you remove the barriers in the corporate world, quotas aren't required. Public institutions are harder to change.

"When we became a bilingual country it was important for public servants to be bilingual, so the public service in Ottawa marshalled a lot of resources behind French language or English language training — depending on what the public servants needed — to make sure that the public service reflected the bilingual personality that we have," Omidvar says.

"Today, you can't go to Ottawa without seeing that Francophone reality and that bilingual reality. That's the kind of effort we may well need today with visible minorities: a stated goal, leadership that puts itself behind that goal, the marshalling of resources and efforts, and, finally, counting and reporting how well we have done."

At first glance, quotas also seemed to have worked in Norway. The country introduced corporate board quotas in 2003 and called for gender diversity targets of 40% by 2008. The number rose to 40.3% by 2010. Mehrotra calls Norway's model "a qualified success" since it has not led to any significantly adverse effects on corporate valuations and has created a more stakeholder-friendly and gender-equal corporate culture.

"Quotas make some sense if you are trying to redress an historical injustice or unfairness, and if the effects of these quotas are not manifestly negative," Mehrotra says. "The Norwegian experience allays the adverse effect fears."

But Pamela Jeffery, founder of the Canadian Board Diversity Council (CBDC), points to research questioning whether Norwegian firms are actually replacing male directors with female ones or simply increasing the overall size of the board in order to reach the target.

Rather than endorse quotas, the CBDC hopes corporate Canada will voluntarily improve diversity on boards by bringing in more women as well as visible minorities, aboriginals, people with disabilities, and members of the lesbian, gay, bisexual and transgendered community. Jeffery particularly likes how the Australia Stock Exchange is handling the issue. “Their approach is not quota driven, but one in which the regulator has defined and required disclosure by companies in setting and achieving their own objectives,” she says.

Catalyst, a nonprofit organization that advocates women in business issues, has taken that idea one formal step further, issuing a call to action for Canadian corporations to increase the overall proportion of FP500 board seats held by women to 25% by 2017. Dubbed the Catalyst Accord, it calls for participating companies to pledge allegiance and submit interim goals to Catalyst that will be kept confidential. Members of the Catalyst Canada Advisory Board will provide participating companies with a roster of board-ready women whom the advisory board sponsors. The organization will also work with corporate search firms to develop a voluntary code of conduct to help them recruit qualified women.

The accord was drafted in response to a Catalyst survey that showed the proportion of women on Canadian boards rose only half a percentage point between 2009 and 2011. Catalyst’s survey showed that nearly 40% of FP500 companies and more than 46% of public FP500 companies don’t have a single woman serving on their boards.

CBDC’s 2010 Annual Report Card survey of 450 FP500 directors found 62% believe their boards are diverse. Yet women held only 15% of FP500 board seats, visible minorities had 5.3%, people with disabilities had 2.9%, and First Nations, Inuit and Métis came in at just 0.8%. The utilities sector had the most promising numbers, with women holding 21.7% of board seats as of June 2011, followed by finance and insurance at 19.6% and the retail trade at 18.5%. The poorest performers were the manufacturing sector, where women held just 9.7% of board seats, and the mining, oil and gas sector at 6.6%.

Such numbers give fans of mandated quotas, such as the EU’s Reding, plenty of ammunition that the status quo isn’t working.But critics of the EU’s position have called the whole issue “patronizing” and the term resonates here in Canada with people such as Jeffery. She says the “entire talent pool” should be tapped for management, executive and board roles. Right now, though, only half the pool is being tapped for directorships. In her words: “Women are woefully underrepresented.”

Last year, the Institute of Corporate Directors (ICD) in Toronto surveyed its 5,000 members for their thoughts on board diversity. About 550 directors from public, private, not-for-profit and Crown boards responded and just 4% indicated quotas were a good thing. The vast majority believed government intervention and quotas should be off the table. The ICD ended up recommending voluntary measures such as the adoption of board diversity policies, soft targets or guidelines, expanded definitions of selection criteria and board qualifications, and enhanced disclosure board diversity and/or how diversity factors into board composition decisions.

“Getting on a board should be about merit, rather than a token gesture,” says Stan Magidson, CEO and president of ICD. “A board composed of a diverse group of people who each bring unique competencies, skills and perspectives to the table is ultimately more effective than one that is a forced fit.”