

While the presence of women on boards is generally beneficial to corporate and investment success as I discovered when I took a look at this issue on my blog last year - <http://howtoinvestonline.blogspot.co.uk/2012/08/women-on-boards-of-directors-in-canada.html> - the only action that could improve corporate performance through more intensive investor evaluation is better disclosure of facts, namely the number and proportion of women directors. Trying to force the issue of increasing the number of women is likely to result in weaker, token candidates being named. I would not want that as an investor when my money is at stake and I don't see the other suggested possible actions in your consultation paper being useful.

Regards,
Jean Lespérance

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Women on Boards of Directors in Canada - Should Investors Care?

A few days ago, Credit Suisse released *Does Gender Diversity Improve Performance?* The study of 2360 companies worldwide from 2005 to 2011 did indeed find a positive answer to its question, as the Financial Post reported in *Shares of companies with women directors outperform those with men-only boards*. A 26% stock return outperformance by companies with at least one woman on its board is certainly something to take notice of. So the natural question is, how strong is the relationship, does the presence of women on a board more or less guarantee great returns and is this factor a good stock selection screening criteria as a result? Since Canadian investors place more emphasis on the Canadian market, let's focus on the Toronto Stock Exchange.

How many women directors and where are they concentrated?

Credit Suisse looked at the 102 largest Canadian companies and found that women only made up 14.5% of directors but the study doesn't say how many companies have at least one woman on the board. The data doesn't seem to be already compiled anywhere, so we laboriously tallied, using [Sedar's database search](#) to pull up the latest *Management Information Circular* (which Sedar labels *Proxy Circular*), the women directors of the 100 largest firms traded on the TSX.

- **Women directors are concentrated in the largest companies.** 73 of the top 100 companies have at least one woman director i.e. only 27 had none. These are already all big companies, but the bigger the company, the more likely there is a woman director - when we take the top 60 largest we find that 54 (90%) of them have a woman director. Moreover, the biggest companies all have more than one woman e.g. #1 Royal Bank has five as does #2 TD Bank, the most women we found (we're not sure if any Canadian company has more than five, or if any board is actually majority women).
- **Women directors are concentrated in certain sectors: Consumer (only 1 out of 14 companies has a men-only board), Industrials (0/5 men-only), Telecommunications (0/5), Utilities (0/5), Banks and Insurance Companies (0/10).** Men-only boards are found much more often in Energy (11 men-only/29, Materials/ Mining (9/18) and REITs (3/4).

Women directors do not automatically ensure outperformance

Taking the Energy sector, where about half the companies have no women directors, we entered the stock tickers on the [Globe and Mail's My Watchlist tool](#) to get total stock return for one- and five-years as well as return on equity and operating margin. The results deny a simple automatic outperformance by companies with women directors. In fact, as our table from Globe data shows, the men-only companies have done better!

Performance of Energy Companies with Women Directors vs None						
Company	Ticker	Total Rtn 1y	Total Rtn 5y	Rtn on Equity	Operating Margin	Women on Board
Alberta Gas	ATV	--	-22.39%	4.21%	-184.62	0
Novinium Oil	TSJ	--	-24.30%	1.38%	59.29	0
M&E Energy Corp	MEC	--	-22.86%	1.76%	28.38	0
Pacific Petroleum Energy	PPLC	24.18%	-19.83%	28.54%	54.76	0
Inter Pipeline Fund	IPL.F	23.18%	-41.30%	18.86%	-42.74	0
Canadian Fuel Energy	CFE	22.52%	-5.44%	4.88%	81.82	0
Baytex Energy Corp	BTE	20.70%	-18.81%	21.82%	66.67	0
Progress Energy Resources Corp	PRQ	12.14%	86.82%	3.88%	47.68	0
Petrol Exploration & Develop	PEX	12.27%	-7.35%	12.88%	86.21	0
Veridian Energy Inc	VET	9.58%	6.99%	13.38%	81.04	0
Progress Energy	PEF	-3.11%	-41.76%	2.40%	41.09	0
Average		14.07%	-4.44%	10.46%	37.22	
Denison Energy	DES	--	-13.33%	18.28%	18.48	1
Raytheon Corp	RYN	24.97%	7.17%	18.99%	9.11	1
Enbridge Inc	ENB	18.74%	31.14%	8.95%	-12.68	2
PanCanadian Pipeline Corp	PCP	15.27%	10.24%	18.22%	19.28	1
ARC Resources Ltd	ARL	8.60%	-0.81%	8.24%	48.08	1
AltaGas Ltd	ALG	7.48%	18.75%	8.88%	17.4	1
TransCanada Corp	TRP	6.89%	19.95%	8.46%	59.65	2
Inland Oil	IND	-1.58%	8.89%	28.27%	18.8	2
Canadian Oil Sands	COB	-2.40%	-18.67%	28.88%	68.87	1
Nasdaq Inc	NBY	4.30%	17.43%	8.88%	55.62	1
Canadian Natural Resources	CNM	-5.98%	-26.84%	13.07%	47.68	2
Pacific West Petroleum	PWT	-5.18%	-28.89%	4.49%	42.22	2
Husky Energy	HSE	-6.68%	-5.42%	12.70%	21.48	2
Talisman Energy	TLM	-9.91%	-23.82%	13.96%	55.89	2
EnCana Corp	ENCA	-6.43%	-18.87%	-28.85%	9.21	3
Scanlon Energy	SEI	-7.38%	-12.13%	11.49%	28.23	2
Emerald Corp	EMR	-8.27%	-48.71%	1.27%	21.01	1
Crescent Corp	CCO	-12.34%	-16.85%	9.36%	32.63	2
Average		0.81%	-5.31%	9.83%	33.51	

Boards with women *tend* to be better boards and companies with better boards *tend* to outperform

The idea of vetting companies using women board members as a test is not completely useless since their presence looks to be associated with more effective boards. The [Clarkson Centre for Business Ethics and Board Effectiveness](#) each year rates all the TSX company boards. Taking the [latest 2011 tables](#) and matching against our data on women directors, we find that very few men-only boards rate very highly. Only one of our men-only largest 100 - Vermilion Energy - got as much as an AA rating from CCBE. All fifteen of our 100 largest firms that attained CCBE's highest AAA board rating had at least one woman director, as did 10 of 11 AA boards and 13 of 16 A boards. As we noted a year ago in [Stocks & Board Governance - Do the Good Guys Finish First or Last?](#) companies with better boards do seem to reward investors but it is a tendency, an average. Credit Suisse also couches its conclusions in terms of tendencies, despite the huge glaring headline outperformance number.

When we recently winnowed out the [Olympic Champion Canadian Stocks](#), we did not consider whether they had women directors, but lo and behold, **all sixteen companies in our list have at least one woman director**. We suspect this is more than mere coincidence.

The Credit Suisse report notes specific strengths and attributes that women can bring to boards. The bigger talent pool argument certainly makes sense - looking again to the Olympics for inspiration, we note that, as of time of writing, four of the seven Canadian medals to date have been won by the women!

Another group that tracks boards is the [Canadian Coalition for Good Governance](#), a group of large institutional investors such as pension funds. Their take on the issue of women on boards from their website was expressed in [a presentation to a Senate committee](#): "... *gender diversity alone is not sufficient to ensure a high quality board ...*" Companies that include token women, or which don't do a good job selecting board members in general, are not likely to magically outperform with women directors.

We don't know whether the Financial Post intended the irony but the photo accompanying the above-cited news article is of a rather attractive newly-appointed first woman director of a well-known company. Perhaps this was not the best photo choice, given the performance of Facebook stock. Caveat investor, always.

Disclaimer: this post is my opinion only and should not be construed as investment advice. Readers should be aware that the above comparisons are not an investment recommendation. They rest on other sources, whose accuracy is not guaranteed and the article may not interpret such results correctly. Do your homework before making any decisions and consider consulting a professional advisor.