

The background of the entire page is an abstract, artistic composition. It features a dense field of thin, golden-yellow lines that curve and sweep across the frame. These lines originate from various points and converge towards a central, funnel-like shape in the middle. The lines create a sense of depth and movement, resembling a complex, organic structure or perhaps a stylized representation of a network or data flow. The overall color palette is a deep, dark blue-grey, which provides a strong contrast for the bright golden lines.

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Canada Spencer
Stuart Board Index:
2021 Perspective

Spencer Stuart Perspective for 2021

Since 1996, Spencer Stuart has published the *CSSBI*, providing in depth analyses and insights on the governance practices of Canada's largest public companies. Over the years, the *CSSBI* has explored topics of critical importance to boards, with insights derived from Spencer Stuart's decades of board-level recruitment and advisory, active thought leadership, and involvements in the governance arena, both in Canada and internationally.

Board composition under intense scrutiny

The 2021 *CSSBI* provides Spencer Stuart's most extensive review of board composition to date, spotlighting gender, Indigenous Peoples, members of visible minorities, persons with disabilities and LGBTQ2S+, amid heightening market expectations.

The boards and management teams of Canada's largest companies continue to face a dynamic set of competitive, performance and sustainability challenges, together with growing calls for progress on DE&I in their organizations and at the board-level. For boards, the opportunity involves providing effective management oversight of wider initiatives, while taking steps, concurrently, to advance the collective diversity of board members.

The stakes for having the right mix of directors have never been higher. Board composition and director succession practices continue to face heavy scrutiny in the marketplace, led by activist shareholders, proxy advisors, regulators and, increasingly, governments and community advocates. Furthermore, views differ on what constitutes appropriate and effective board composition and refreshment, adding to an already complex set of priorities for boards and the committees responsible for board succession planning and new director recruitment.

Where we see convergence is in the need for a diversity of experience and viewpoints, greater representation by women, and boards that reflect the demographic, ethnic, racial, and cultural realities more widely. Boards in Canada, like those in other large markets, have come to recognize the value of having diverse perspectives and backgrounds in helping to spur

innovation and drive long-term value creation, together with progressive board refreshment practices.

Without exception, the boards of Canadian companies are being encouraged to be more representative of the Canadian population, employees, customers, and partners. Our 2020 *CSSBI* highlighted the opportunity in observing the small numbers of Indigenous Peoples and visible minorities, for example, represented on the boards of Canada's largest companies.

Fast forward to 2021, and aided by director self-identification and enhanced company disclosure, Spencer Stuart's analysis shows continuing board gender diversification and positive signs for other historically under-represented groups — stemming from the planned succession and board renewal initiatives of many *CSSBI 100* boards.

Board gender diversification advancing

In 2021, nearly four in 10 (38%) of all *CSSBI 100* directorships were held by individuals collectively from the four Designated Groups¹ (women, Indigenous Peoples, members of visible minorities, persons with disabilities) and/or LGBTQ2S+, 27% higher than in 2017. Women, including those self-identifying as another Designated Group and/or LGBTQ2S+ constituted 86% of the total, and accounted for much of this board-level diversification since 2017.

Moreover, 2021 marked the third consecutive year of virtual gender parity in NXD appointments, giving many *CSSBI 100* boards a more diverse representation. In 2021, one-third of all *CSSBI 100* directorships were held by women, 22% higher than in 2017 and more than double the total ten years ago. Four *CSSBI 100* boards were gender balanced in 2021, with another ~20 boards set to join that leading group (see page 17). Only eight boards in 2017 achieved that level of gender diversification. Our analysis also shows women continuing to hold more board leadership positions, given active rotation practices (see page 18). After increases in 2021, there were more than twice the number of women serving in the highest board leadership positions (board chair, vice-chair, lead director) and similarly large increases in the number of women chairing Audit and Gov/NomCo committees compared to 2017.

¹ Designated Groups as defined in the [Employment Equity Act of Canada](#).

Signs of progress for other historically underrepresented groups

Over one-third (35%) of all new *CSSBI 100* NXDs self-identified as an Indigenous person or a member of a visible minority and/or LGBTQ2S+, over three times more than totals observed in the prior four years (see page 15). Notably, in the past year, several *CSSBI* boards appointed their first board members self-identifying as either Black or Indigenous, while others disclosed being “in market” for similar diversity.

Nine percent of all *CSSBI 100* directorships were held by board members self-identifying as Indigenous, members of visible minorities, and/or persons with disabilities and/or LGBTQ2S+. Many *CSSBI 100* boards in 2021 — 40% overall — still lacked any such representation. While this is a notable improvement compared to 2017, when close to two-thirds (64%) of these boards lacked this diversity, clearly more progress is expected.

Based on our work with boards in the Canadian market we can say, with certainty, that most NXD specifications now emphasize specific board diversity objectives, together with the functional and/or industry domain requirement(s).

Board diversity targets, used by over 50% of *CSSBI 100* boards for gender, and starting to take hold for other Designated Groups (see page 17), are having the desired effect in new director appointments. Without compromising NXD specifications, boards and search committees are increasingly insisting on long-lists and candidate short lists that are strongly weighted with gender and/or profiles from other historically underrepresented groups and/or demographic (e.g., Indigenous Peoples and Black leaders, LGBTQ2S+) to enhance board diversification.

“Made in Canada” vs. international board candidates

Sustaining the progress will mean expanding the scope for new board talent. The opportunity is certainly being emphasized in NXD recruitment, especially for “made in Canada” specifications, with a lens on younger leaders, professionals, prospects outside of mainstream networks, and non residents of Canada.

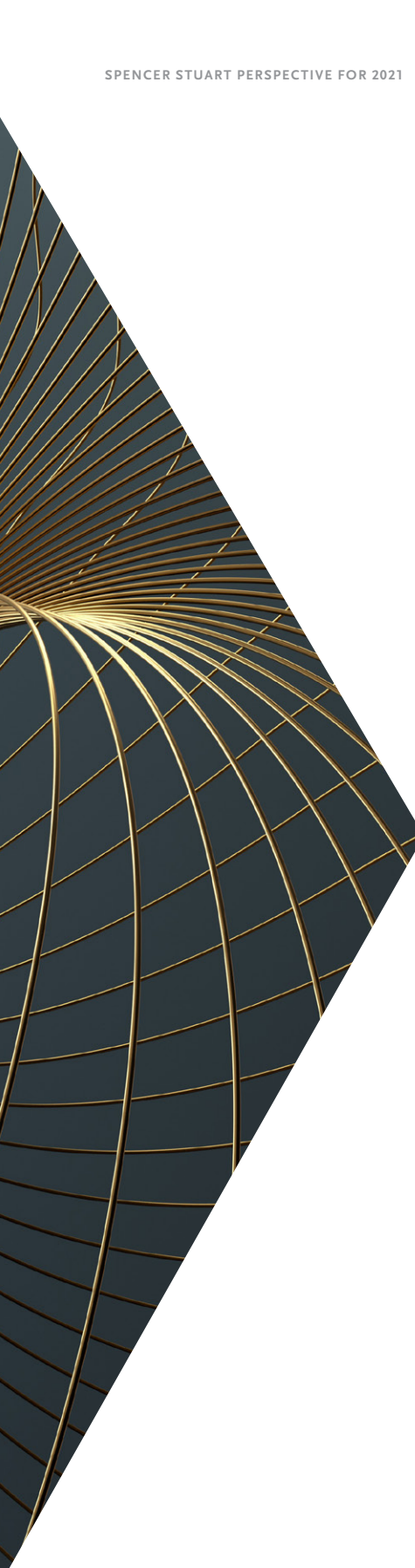
Canadian boards can run into some tough demographic and practical realities when recruiting in the domestic marketplace. There is a relatively small number of self-identifying leaders from various underrepresented groups in C-level corporate roles — the typical path to the board room — and they are in high demand. Most are fielding multiple approaches for board opportunities, even before factoring their availability, capacity, and the competitive conflicts that typically apply in NXD recruitment at this level.

One strategy for boards is to look beyond the C-suite for the required experience and other diversity attributes. While this “next generation” is more demographically and culturally diverse, they have not yet reached roles that historically served as a source for board talent and may have had little exposure even to their own company’s board or top management suite. Only a small number (4%) of current *CSSBI 100* directors fit into this younger 30 to 50 age cohort, but we expect this to change as boards continue to prioritize expertise and currency in areas such as digital enablement and technology. This will surely open the door to greater board diversification opportunities.

It will, however, be important for boards to consider the potential tradeoffs presented by younger leaders — who, for example, are more likely to hold full-time executive roles and may have less time and flexibility for a board commitment — and the onboarding and development support needed to facilitate their performance.

Entrepreneurs and successful business builders are another potential source of diverse board talent in Canada. These leaders are often operating outside the corporate mainstream and traditional networks and could be less inclined to serve in the spotlight of a public company. As with the younger cohort, they may have less exposure to boards and less appreciation for the NXD oversight role. Additional due diligence and assessment of their intrinsic capabilities for board work should also be leveraged in evaluating their potential.

Directors tell us that one of their most uncomfortable positions is finding themselves disagreeing with other board members on an issue. This is especially true for a younger director, lacking perspective on the board’s history or other important context. This makes knowing when to raise questions or push for more information even more difficult. In addition to creating an environment that encourages all directors to contribute, boards can establish a robust, development focused onboarding process that helps new directors get up to speed quickly on the business context, the board’s agenda, and committee responsibilities. In this context, a board mentor can provide perspective on boardroom interactions, explain the board’s written and unwritten rules, help with meeting preparation, and serve as a sounding board between meetings.



Advancing diversity is not just about recruiting new people to the board, it is also about creating a board culture that welcomes diverse backgrounds, perspectives, and vigorous debate, equipping all new directors to fully participate in the work of the board.

Succeeding in cross-border director recruitment

In 2021, cross-border recruitment reached a five-year high as nearly half (47%) of the incoming class of NXDs to *CSSBI 100* boards were non-residents, even with the obstacles imposed by the ongoing pandemic (see page 20). Non-residents, or internationally based directors, held close to one-third (29%) of all *CSSBI 100* directorships in 2021, up from 25% in 2015, giving these Canadian boards relevant experience and, increasingly, more diverse viewpoints and director backgrounds.

Certainly, the depth and experience (or lack thereof) of the Canadian NXD prospect pool is contributing to the trend. Boards are finding fewer available prospects in Canada with the desired domain expertise or the scale of experience required in key priority areas (e.g., growth markets, transformation, technology disruption, digital enablement, and e-commerce). Not surprisingly, most (89%) of the influx is from the U.S., given the depth and diversity of its prospect pool.

Spencer Stuart's 2021 analysis shows that non-residents are bolstering the ranks of self-identifying women and visible minorities serving on *CSSBI 100* boards (see pages 16 and 19). In the past three years, about 50% of all cross-border recruits to *CSSBI 100* boards were women and/or visible minorities, leading to an uptick in the proportion of non-resident directors from historically underrepresented groups serving on these boards. Interestingly, close to two-thirds of all Black self-identifying directors on these boards in 2021 were non-residents of Canada, which is as much a reflection of Canadian demographics as it is the need for our organizations to develop and advance more "home grown" leaders from various Designated Groups up to the board-level.

Having a well-articulated specification to support the prospect outreach is critical in all recruitment scenarios. Boards should be able to explain their interest, the potential fit, the commitment, the board's culture, and the potential benefits of serving on the board. Being sufficiently knowledgeable about the individual and their career (supplemented by market intelligence) is also critical. Prospects are more likely to engage when they view an opportunity as a valuable growth opportunity and/or where they can add needed perspective and expertise to the board. The active involvement

of the board chair and CEO can help in engaging a prospect who is sizing up other opportunities. Above all, prospects should see themselves advancing a specification and complementing the board, rather than simply ticking a box.

Future proofing the board: Focus on value creation

Value creation will likely be more challenging in the next decade than it was in the decade past. Board composition and the quality of corporate governance will be even more critical amid mounting inflationary, supply chain, transformational challenges, and geopolitical risk, facing the leadership of Canada's largest companies. Much is at stake, and boards will need to be up to the task.

Forward looking boards recognize the challenge. Board skills matrices and director succession plans continue to evolve. Indeed, we are seeing more NXD specifications calling for experience and currency in enterprise and operational transformation, technology and digital innovation, growth markets, capital deployment, enhanced risk expertise — requirements that are very much rooted in the current and future state of play.

At the same time, boards must have the right mix of experience to manage core oversight areas: CEO assessment and succession, strategy, financial and risk oversight, compensation governance, leadership development, and organizational DE&I initiatives.

Excluding management, *CSSBI 100* boards have an average of 10 directors, often fewer, to handle the growing workloads, committee and special assignments, and the increasing complexities of public company oversight. “Table stakes” are higher, meaning directors need to contribute across many dimensions, in multiple committees, rather than bringing narrow expertise.

Recognizing the importance of regular board refreshment, forward-looking boards openly discuss and forge agreement on both appropriate director turnover and how it will be achieved, while balancing the institutional knowledge and contributions of long-tenured directors with the need for new skills and ongoing renewal.

However, in the larger business context and the value creation agenda, is there a need to embrace a new mindset when it comes to board refreshment? Board turnover in the *CSSBI 100* averages about 10%, or about one new NXD annually if applied across the entire index. However, NXD appointments are not spread evenly from board to board. About 60% of

these boards appoint at least one new NXD annually and, within that group, about 25% appoint multiples. As well, director tenures often run well past 10 years, and many boards govern without mandatory retirement provisions (age and/or term limit) for their NXDs.

Ideally, boards will set the tone that annual re-nominations to the board are not simply assured. They are based on company strategy, the board's skills matrix and, critically, the performance of the board collectively and of its individual directors. In addition to setting clear expectations around director tenure, boards should periodically assess whether tenure-limiting policies are appropriate, considering questions such as:

- » How can the annual performance review drive board succession and refreshment?
- » Does the board succession plan align with the company's strategic plan?
- » What are the board's skill gaps against the future strategy?
- » Is there a need for mandatory retirement, a lower term limit for NXDs, or an earlier refreshment mechanism?
- » Should the board expand in size to gain required skills, together with priority diversity and experience attributes?
- » What is the optimal mix of board tenure levels or aggregate board tenure?

Accelerating future board diversification

Boards of Canada's largest companies continue to diversify. Acknowledging that more sustained work is needed on gender, Indigenous Peoples, visible minorities, and other historically underrepresented groups, Spencer Stuart is confident that these companies will continue to move the needle in building boards that are more representative of our broader society. However, the step change expected in the market requires a more accelerated approach, if we are to achieve the levels of board diversification sought, given current board sizes and director turnover noted above and in our analysis (see page 12). In this context, some NXD prospect profiles will look atypical compared to the traditional C-suite corporate background. This is a fact that needs wider acknowledgment amid a challenging board recruitment environment, requiring boards being open to different sets of experiences that can still deliver the capabilities they seek, and then committing to the development of their new board members. The work is ongoing.