

The inclusion imperative: In 2018, building a better board means building a board that looks like Canada

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Author: [John M. Valley](#)

More than

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(2016 census)

Last October, when Statistics Canada published the results of the 2016 census, we learned that more than one in five Canadians—7.7 million people—are now a visible minority, and a further 1.7 million, or 4.9% of the population, are Aboriginal.

That same month, in the United Kingdom, the Parker Review Committee, led by British businessman Sir John Parker, released its final report on the ethnic diversity of UK boards. It concluded that while UK companies have made “great progress” on gender diversity, “we still have much to do when it comes to ethnic and cultural diversity as a business imperative.”

The passage of *Bill C-25*, amending the *Canada Business Corporations Act* (CBCA), adds further impetus. With it, the inclusion of visible minorities and Aboriginal Canadians at the board level has, like gender diversity, become a priority for director recruitment.

Recent trends also suggest inclusion is poised to emerge as a key differentiator among investors and in the marketplace—where there’s already a heightened focus on overall board composition.

Here we look at some of these developments in more detail.

New legislative disclosure requirements

As in the UK, Canadian companies have increasingly prioritized gender diversity in policy, practice and disclosure in recent years. The regulatory catalyst for this was the amendments to National Instrument 58-101 *Disclosure of Corporate Governance Practices* (NI 58-101), requiring disclosure respecting the representation of women on boards and in executive officer positions at Toronto Stock Exchange-listed companies, which came into effect at the end of 2014.

Now, with the federal government's passage of *Bill C-25*, diversity disclosure requirements for all CBCA companies with publicly traded securities are expanded to include all "designated groups"—including not just women but also visible minorities, Aboriginals and people with disabilities.

The bill adopts a comply-or-explain disclosure approach, consistent with existing securities regulations. Boards that want to be well positioned to provide good disclosure in this area—ideally with an up-to-date *written* board diversity policy—should be planning it now. It takes time to find people who can add value and work with fellow directors. And for most companies, it will require taking steps to expand the talent pool from which they currently draw.

Recruiting from a broader group

Our research for Osler's *2017 Diversity Disclosure Practices* report, reviewing disclosure documents filed by all TSX-listed companies covered under NI 58-101, found little mention of directors from visible minorities or Aboriginal Canadians. Further, on the recruiting skills matrices used by boards and by recruiters, these groups rarely appear.

For many companies, then, aligning with *Bill C-25's* policy direction will require concerted effort. But for boards seeking to reduce the risk of groupthink, and be better equipped to make fully informed decisions and provide stronger oversight, it also represents an opportunity. These are the outcomes that result when you bring people to the table with different frames of reference asking questions that wouldn't otherwise be asked.

An important first step for most boards, then, will be to revisit their nomination and recruitment processes to expand the scope of their search. Our 2017 report highlighted some examples that innovative boards have adopted to expand the ranks of female director candidates, including:

- setting recruitment criteria to include targeted groups
- instituting formal mentorship and networking programs
- supporting external partnerships to promote change
- increasing awareness of best practices

Boards should now consider similar practices designed to enhance the ranks of visible minority and Aboriginal candidates.

Addressing business imperatives

22.3%

of Canadians

belong to a visible minority

but represent only

4.5%

of directors at FP500 companies

(Canada Board Diversity Council)

The Parker Review in the UK may not be linked to any government action or legislation, but its publication is a signal moment.

In calling for increased ethnic diversity on UK company boards, its authors cite the pronounced disparity between the percentage of UK citizens of colour (14%) and their representation on FTSE 100 boards (2%). In Canada, there is a similar disparity for visible minorities, who make up 22.3% of the total population yet only 4.5% of directors at FP500 companies, according to 2016 data from the Canada Board Diversity Council.

Along with the benefits of a more inclusive board cited above, the report also lists several external benefits to key business drivers that apply equally here—in particular, its potential to enhance and protect brand value, identify opportunities, and manage and offset supply chain risks.

Conclusion

Boards today are increasingly being called upon for bolder thinking coupled with greater foresight and self-awareness. After a slow start, they've come to appreciate the value that greater representation of women bring to the board. Making a conscious effort to broaden that talent pool further, to include visible minorities and Aboriginal Canadians—reflecting a broader cross-section of the country's population—is a practice as sound as it is appropriate.