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State Street Global Advisors' Guidance on Enhancing Gender Diversity on Boards

Key Takeaways

- **State Street Global Advisors focuses on board quality as foundational to good governance and positive investment outcomes**
- **We are especially concerned with ensuring effective independent board leadership, which involves achieving the right skill sets as well as a diversity of views, including gender diversity on boards**
- **As part of our review of boards' gender diversity, State Street Global Advisors analyzed and compared the level of diversity in eight markets: Australia, Canada, Europe, Hong Kong, Japan, Singapore, the UK and the US**
- **State Street Global Advisors found that while most large cap company boards in these markets have at least one female director, they have yet to fully embrace gender equality within their ranks**
- **While companies cite a limited pool of suitable female director candidates as a primary obstacle in achieving greater diversity in the boardroom, State Street Global Advisors has identified current practices for nominating directors and behavioral biases that continue to undervalue the contributions of women in the workplace as the leading obstacles**
- **We believe boards have an important role to play in increasing gender diversity and therefore we have provided guidance to help directors facilitate greater gender diversity within their organizations**

Background

Research shows that companies with greater levels of gender diversity have stronger financial performance as well as fewer governance-related issues such as bribery, corruption, shareholder battles and fraud.^{1,2,3} A January 2017 report by the Conference Board suggests that the reason for the outperformance is largely attributed to the outside perspectives brought into the boardroom by adding women to the board.⁴

At State Street Global Advisors, we view gender diversity as one of many ways a board can introduce a varied set of skills and expertise among its directors to help improve financial performance. Gender diversity on boards has been a thematic engagement area for State Street Global Advisors since 2015. During our conversations with companies, most boards have been supportive of enhancing gender diversity but cite a limited pool of suitable female director candidates as a primary obstacle to achieving greater diversity in the boardroom. However, based on our discussions, we have found that current practices for nominating directors as well as behavioral biases that continue to undervalue the contributions of women in the workplace are the leading obstacles. These include:

- Excessive reliance on existing director networks and connections that continue to be the primary source for identifying director candidates
- Requiring that all director nominees have CEO experience to be considered to serve on boards
- Lack of female representation in leadership positions on boards and in senior management to help guide the companies on their journey to diversify the organization^{5,6}
- Limited appreciation for and understanding of the value and need for greater gender diversity within organizations
- Lack of efforts to address behavioral gender biases inherent in workplace culture and HR-related practices within organizations
- Limited organizational support in helping individuals achieve work-life balance, which can stymie the career progression of women, thereby adversely affecting the pipeline of women leaders

Market Practice

In our 2017 review of board gender diversity, State Street Global Advisors found that in Australia, the UK and the US, boards of most large cap companies had made a concerted effort to include women on their boards. When expanded to broader indices, the lack of female representation on boards is significant.

In 2018, we expanded our review to include three additional markets: Canada, Europe, and Japan. Similar to our findings in 2017, the lack of female representation on boards within the broader indices of Canada and Japan is significant when compared to large cap based indices. In Europe, although many markets have regulatory requirements pertaining to gender diversity levels on boards, State Street Global Advisors found that board diversity was still lacking at some companies. In 2020, we expanded our analysis to Hong Kong and Singapore. Figure 1 highlights the percentage of companies that have no female directors.

Figure 1

An Overview of Board Gender Diversity in Australia, Canada, Europe, Hong Kong, Japan, Singapore, UK, and US⁷

	Australian Securities Exchange 300 (%)	Toronto Stock Exchange (%)	STOXX Europe 600 (%)	Hong Kong Hang Seng (%)	Tokyo Stock Price Index 500 (%)	Straits Times Index (%)	Financial Times Stock Exchange 350 (%)	Russell 3000 (%)
% of Companies with No Female Directors	8 . 4	17 . 0	0 . 3	22 . 0	33 . 8	20 . 0	0 . 3	8 . 0

Source: ISS Analytics and FactSet financial data and analytics as of February 2020.

State Street Global Advisors' Position on Gender Diversity

State Street Global Advisors believes good governance is a function of sound board quality, which starts with strong, effective independent board leadership. By effective we mean having the right skills; by strong we mean the board's ability to exert its influence; and by independent we mean that the board is not captive by management. State Street Global Advisors believes board diversity enhances board quality as it brings together directors with different skills, backgrounds and expertise. We recognize that there are many ways to achieve board diversity and we support all forms of diversity, but as a starting point, we believe boards should have at least some independent female directors. Further, boards should also set expectations for senior management to enhance gender diversity within their ranks and the broader organization.

Our preferred approach is to drive greater board diversity through an active dialogue and engagement with company and board leadership. In the event that companies fail to take action to increase the number of women on their boards, despite our best efforts to actively engage with them, we will use our proxy voting power to effect change — voting against the Chair of the board's nominating and/or governance committee or the board leader in the absence of a nominating and/or governance committee, if necessary. In cases where companies fail to take action to increase the number of women on their boards for four consecutive years, we will vote against the entire nominating and/or governance committee, not just the chair.

State Street Global Advisors' Guidance for Enhancing Gender Diversity on Boards

Given our expectations regarding gender diversity on boards, State Street Global Advisors has developed a framework below (see Figure 2) to help boards enhance female representation on their boards.

We hope board members of our portfolio companies find this guidance useful. Any questions or comments may be directed to Lynn Blake, Executive Vice President of State Street Global Advisors and CIO of Global Equity Beta Solutions at Lynn_Blake@ssga.com, Rakhi Kumar, Senior Managing Director, Chief Strategist, ESG and Asset Stewardship at Rakhi_Kumar@ssga.com, Ben Colton, Global Co-Head, Asset Stewardship at Benjamin_Colton@ssga.com and Caitlin McSherry, Vice President, Asset Stewardship at Caitlin_McSherry@ssga.com. This guidance was originally published in 2017.

1. Assess the current level of gender diversity on the board and within management ranks

2. Establish goals aimed at enhancing the level of gender diversity on the board and senior management

3. Identify “diversity champions” on the board and within management who would support initiatives to meet established goals

4. Address behavioral bias in the director search and nomination process, including expanding the search for potential director candidates beyond existing director networks

5. Consider female directors for leadership positions and on key board committees

6. Enhance transparency and communication with investors on the board’s position on gender diversity and report on progress against established goals

Endnotes

- 1 “Why Diversity Matters” McKinsey, Feb 2015.
- 2 “Women on Boards: Global Trends in Gender Diversity on Corporate Boards” MSCI, Nov 2015.
- 3 “Is Gender Diversity Profitable?” Peterson Institute for International Economic, Feb 2016.
- 4 “The Effect of Gender Diversity on Board Decision-making: Interviews with Board Members and Stakeholders” The Conference Board, Jan 2017.
- 5 As of February 2020, only 12% of the Australian Securities Exchange 100 (ASX 100); 6.4% of the Toronto Stock Exchange Composite Index (TSX Composite); 6% of the STOXX Europe 50; 5% of the Financial Times Stock Exchange 100 (FTSE 100); 3.4% of the Standard & Poors 500 (S&P 500); 4% of the Hang Seng; and 3.3% of the Straits Times are led by Female Chairs, while only 6% of the Australian Securities Exchange 100 (ASX 100); 2.5% of the Toronto Stock Exchange Composite Index (TSX Composite); 2% of the STOXX Europe 50; 6% of the Financial Times Stock Exchange 100 (FTSE 100); 5.8% of the Standard & Poors 500 (S&P 500); 2% of the Hang Seng; and 3.3% of the Straits Times have Female CEOs. Source: ISS Analytics as of February 2020.
- 6 Board profiling universe includes 100 companies listed on the Australian Securities Exchange 100 (ASX 100); 236 companies listed on the Toronto Stock Exchange Composite Index (TSX Composite); 50 companies listed on the STOXX Europe 50; 100 companies listed on the Financial Times Stock Exchange 100 (FTSE 100); 500 companies listed on the Standard & Poors 500 (S&P 500); 50 companies listed on the Hang Seng; and 30 companies listed on the Straits Times. Source: ISS Analytics as of February 2020.
- 7 Board profiling universe includes 296 companies listed on the ASX 300; 600 companies listed on the STOXX Europe 600; 351 companies listed on the FTSE 350; and 2,970 companies listed on the Russell 3000 [Source: FactSet financial data and analytics]; 358 companies listed on TSX; 50 companies listed on the Hang Seng; 382 companies listed on TOPIX 500 (as of June 2017); 30 companies listed on the Straits Times; Source: ISS Analytics as of February 2020.

About State Street Global Advisors

Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day:

- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 27 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third-largest asset manager with US \$3.12 trillion* under our care.

* AUM reflects approximately \$43.72 billion USD (as of December 31, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

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