

State Street Global Advisors' Guidance on Enhancing Gender Diversity on Boards in the Gulf Cooperation Council (GCC) Countries

Market Commentary

Key Takeaways

- State Street Global Advisors believes that board quality is 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.
- Our Fearless Girl campaign has inspired companies and shareholders worldwide to focus on board diversity and join us in our call to action. As part of this campaign we have analyzed and compared the level of diversity in the GCC.
- The economic opportunity in increasing gender diversity in the GCC countries is staggering. Research shows that full gender parity in workforce participation in the GCC could add US\$830bn to the region's economy, or 32% of the GDP.¹
- State Street Global Advisors examined 170 blue-chip companies across the region and found that only 23 (14%) have at least one female board director. Within the region Oman and Bahrain top the regional list on board gender diversity and Kuwait ranks first at executive management level.
- Considering the current levels of diversity in the region and that the GCC is an emerging market we will not be taking voting action against companies with no female directors on the board. Instead, we aim to facilitate gender diversity on boards through an active dialogue with wider stakeholders in the market generating debate around this issue.
- We believe directors have an important role to play in increasing gender diversity on their boards and throughout their organizations and have provided guidance to help facilitate these efforts in the GCC countries.

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.^{2,3,4} 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.⁵ Furthermore, a recent study⁶ by Future Fund and Willis Towers Watson pointed to improved “cognitive diversity” as one of the key factors in helping to meet investment goals given the uncertain outlook in capital markets — and gender diversity is one important component of achieving cognitive diversity.

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. In March 2017, we launched our **Fearless Girl** campaign that called on companies in Australia, the UK and the US with no women on their boards to add at least one woman. This year we expanded our call to action to include companies listed in Canada and Japan where female representation continues to be low. Since the introduction of our campaign, more than 300 companies identified by State Street Global Advisors responded to our call by adding a female director and another 28 have committed to do so.⁷

During our conversations with companies globally, 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.^{8,9}
- 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.
- In addition to the above, in some GCC countries there are also cultural and social norms that make it difficult for educated women to transition into and advance in a male dominated workforce.

As part of our Fearless Girl campaign we have analyzed and compared the level of diversity in the GCC. Our focus on the region is also supported by recent economic reforms in the GCC and the decisions of index providers FTSE and MSCI to include Saudi Arabia, Kuwait, United Arab Emirates (UAE) and Bahrain in their emerging markets indexes. We expect that over time as more international investors increase their exposure to the GCC's equity markets, listed companies in the region will face more pressure to improve their governance standards and gender diversity across all levels within organizations.

The Economic Benefits of Increasing Gender Diversity in the GCC

The GCC countries are going through a historical turning point in terms of enhancing women's economic inclusion. All six GCC countries are engaged in major reforms unlocking opportunities to increase women's economic empowerment and participation in the labor force. For example Saudi Arabia has set a specific target to increase women's participation in the workforce from 22% to 30% by 2030 and the UAE has set a target to become one of the top 25 countries in the world for gender equality by 2021.

We believe the economic benefits of increasing gender diversity in the workplace make a strong case for encouraging female participation and advancement.

For example, a recent study by McKinsey & Company suggests that achieving full gender parity in workforce participation in the GCC could add US\$830bn to the region's economy, or 32% of the GDP.¹⁰

However, women remain a largely untapped resource in the region. According to data provided by the International Labour Organization,¹¹ the rate of female labor force participation rate (% of female population ages 15+ that is economically active) at 30% is well below the global average of 49%, yet over 60% of university graduates in the GCC are female.

Gender Diversity on Boards and in Senior Leadership Roles in the GCC

The lack of female representation on boards and executive management in the GCC is significant (as seen in Figure 1 on the following page). Our research revealed that across the region 147 (86.5%) of the 170 companies we examined have no female directors on the board. We also found significant variations in board gender diversity between GCC countries. Women represent as little as 0.4% of board composition in Abu Dhabi and 0.5% in Saudi Arabia, compared with the highest percentage in the GCC seen in Oman at 6.96% representation.

We also find that the average of women at senior management level in the GCC at 5.06% is low. Within the region Kuwait ranks first with an average of 9.2% females in executive management positions followed by UAE – Dubai (7.4%) and Abu Dhabi (5.5%).

We believe that the GCC has a great potential to grow its economy by addressing gender imbalances for the following reasons:

- The relatively low level of female workforce participation in the region offers more upside potential than other markets.
- All GCC countries have made public commitments to increase women's workforce participation rates.
- The inclusion of the GCC's equity markets in the FTSE & MSCI indexes over time will potentially put more pressure on companies to improve gender diversity across all levels.
- The high level of education of women in the GCC suggests that the region has a strong female pipeline to facilitate the inclusion of women in the workforce.

Figure 1: An Overview of Board of Directors and Leadership Gender Diversity in GCC

	% of Companies with No Female Directors	Average % of Women on the Board	% of Companies with No Female Executives	Average % of Women on Executive Management Team
Oman Stock Exchange Top 10 Companies by Market Cap (%)	60.0	6.96	66.7	5.21
Bahrain Stock Exchange Top 10 Companies by Market Cap (%)	60.0	4.73	50.0	4.15
Dubai Financial Markets Top 50 Companies by Market Cap (%)	70.0	4.1	57.9	7.4
Kuwait Stock Exchange Top 10 Companies by Market Cap (%)	80.0	3.67	22.2	9.2
Qatar Stock Exchange Top 30 Companies by Market Cap (%)	86.7	1.58	68.2	5.0
Abu Dhabi Securities Exchange Top 20 Companies by Market Cap (%)	95.0	0.4	60.0	5.5
Saudi Arabia Stock Exchange Top 50 Companies by Market Cap (%)	96.0	0.5	86.0	1.9

Source: State Street Global Advisors' Research as of July 2018.

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

The inclusion of the GCC's equity markets in the FTSE and MSCI indexes alongside the public commitment of all six GCC countries to increase women's workforce participation rates creates a window of opportunity for companies in the region to benefit from speeding up the pace on addressing gender imbalances. We believe boards have an important role to play in increasing gender diversity and therefore we have developed a framework on the following page to help facilitate greater gender diversity within their organizations.

Considering the current levels of board diversity in the region and that the GCC is an emerging market we will not be taking voting action against companies with no female directors on the board. Instead, we aim to facilitate gender diversity on boards through an active dialogue with wider stakeholders in the market generating debate around this issue.

Investors, companies and governments need to work together to speed up the pace on gender diversity in the GCC.

We hope board members of our portfolio companies find this guidance useful. Any questions or comments may be directed to **Philip Vernardis**, Assistant Vice President – Asset Stewardship at Philip_Vernardis@ssga.com and **Robert Walker**, Managing Director and Head of EMEA Asset Stewardship at Robert_Walker@ssga.com.

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

Market Commentary | State Street Global Advisors' Guidance on Enhancing Gender Diversity on Boards in the Gulf Cooperation Council (GCC) Countries

¹ "The Power of Gender Parity" McKinsey & Company Global Institute, 23 March 2016.

² "Why Diversity Matters" McKinsey, Feb 2015.

³ "Women on Boards: Global Trends in Gender Diversity on Corporate Boards" MSCI, Nov 2015.

⁴ "Is Gender Diversity Profitable?" Peterson Institute for International Economic, Feb 2016.

⁵ "The Effect of Gender Diversity on Board Decision-making: Interviews with Board Members and Stakeholders" The Conference Board, Jan 2017.

⁶ "Future Fund and Willis Towers Watson 2017 Asset Owner Study" Willis Towers Watson, June 2017.

⁷ <https://newsroom.statestreet.com/press-release/corporate/state-street-global-advisors-reports-fearless-girls-impact-more-300-companies>.

⁸ As of December 2017, only 9.6% of the Australian Securities Exchange 100 (ASX 100); 4.9% of the Toronto Stock Exchange Composite Index (TSX Composite); 8.2% of the STOXX Europe 50; 1% of the Tokyo Stock Price Index 100 (TOPIX 100); 0% of the Financial Times Stock Exchange 100 (FTSE 100); and 4.4% of

the Standard & Poors 500 (S&P 500) are led by Female Chairs, while only 4.3% of the Australian Securities Exchange 100 (ASX 100); 1.8% of the Toronto Stock Exchange Composite Index (TSX Composite); 0% of the STOXX Europe 50; 0% of the Tokyo Stock Price Index 100 (TOPIX 100); 6.4% of the Financial Times Stock Exchange 100 (FTSE 100); and 5.7% of the Standard & Poors 500 (S&P 500) have Female CEOs. *Source: ISS Analytics as of December 2017.*

⁹ Board profiling universe includes 94 companies listed on the Australian Securities Exchange 100 (ASX 100); 223 companies listed on the Toronto Stock Exchange Composite Index (TSX Composite); 49 companies listed on the STOXX Europe 50; 100 companies listed on the Tokyo Stock Price Index 100 (TOPIX 100); 94 companies listed on the Financial Times Stock Exchange 100 (FTSE 100); and 495 companies listed on the Standard & Poors 500 (S&P 500). *Source: ISS Analytics as of December 2017.*

¹⁰ "The Power of Gender Parity" McKinsey & Company Global Institute, 23 March 2016.

¹¹ International Labour Organization, ILOSTAT database. Data retrieved in September 2018. Labour force participation rate is the proportion of the female population ages 15 and older that is economically active.

ssga.com

State Street Global Advisors Worldwide Entities

All material has been obtained from sources believed to be reliable. There is no representation or warranty as to the accuracy of the information and State Street shall have no liability for decisions based on such information. The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

Abu Dhabi: State Street Global Advisors Limited, Middle East Branch, 42801, 28, Al Khatem Tower, Abu Dhabi Global Market Square, Al Mayah Island, Abu Dhabi, United Arab Emirates. T: +971 2 245 9000. **Australia:** State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services Licence (AFSL Number 238276). Registered office: Level 17, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240 7600. F: +612 9240 7611.

Belgium: State Street Global Advisors Belgium, Chaussée de La Hulpe 120, 1000 Brussels, Belgium. T: 32 2 663 2036. F: 32 2 672 2077. SSGA Belgium is a branch office of State Street Global Advisors Limited. State Street Global Advisors Limited is authorized and regulated by the Financial Conduct Authority in the United Kingdom.

Canada: State Street Global Advisors, Ltd., 770 Sherbrooke Street West, Suite 1200 Montreal, Quebec, H3A 1G1, T: +514 282 2400 and 30 Adelaide Street East Suite 500, Toronto, Ontario M5C 3G6. T: +647 775 5900. **Dubai:** State Street Global Advisors Limited, DIFC Branch, Central Park Towers, Suite 15 -38 (15th floor), P.O Box 26838, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority (DFSA). T: +971 (0)4-4372800

France: State Street Global Advisors Ireland Limited, Paris branch is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorized and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Ireland Limited, Paris Branch, is registered in France with company number RCS Nanterre 832 734 602 and whose office is at Immeuble Défense Plaza, 23-25 rue Delarivière-Lefoullon, 92064 Paris La Défense Cedex, France. T: (+33) 1 44 45 40 00. F: (+33) 1 44 45 41 92. **Germany:** State Street Global Advisors GmbH, Briener

Strasse 59, D-80333 Munich. Authorized and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin"). Registered with the Register of Commerce Munich HRB 121381. T: +49 (0)89 55878 400. F: +49 (0)89 55878 440. **Hong Kong:** State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103 0288. F: +852 2103 0200.

Ireland: State Street Global Advisors Ireland Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered number 145221. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. **Italy:** State Street Global Advisors Limited, Milan Branch (Sede Secondaria di Milano) is a branch of State Street Global Advisors Limited, a company registered in the UK, authorized and regulated by the Financial Conduct Authority (FCA), with a capital of GBP 62,350,000, and whose registered office is at 20 Churchill Place, London E14 5HJ. State Street Global Advisors Limited, Milan Branch (Sede Secondaria di Milano), is registered in Italy with company number 06353340968 - R.E.A. 1887090 and VAT number 06353340968 and whose office is at Via dei Bossi, 4 - 20121 Milano, Italy. T: 39 02 32066 100. F: 39 02 32066 155. **Japan:** State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan, T: +81-3-4530-7380 Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association. **Netherlands:** State Street Global Advisors Netherlands, Apollo Building, 7th floor Herikerbergweg 29 1101 CN Amsterdam, Netherlands. T: 31 20 7181701. SSGA Netherlands is a branch office of State Street Global Advisors Limited. State Street Global Advisors Limited is authorized and regulated by the Financial Conduct Authority in the United Kingdom. **Singapore:** State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826 7555. F: +65 6826 7501. **Switzerland:** State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Authorized and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16. **United Kingdom:** State Street Global Advisors Limited. Authorized and regulated by the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350. **United States:** State Street Global Advisors, One Iron Street, Boston MA 02210. T: +1 617 786 3000.