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Being Fearless about the Future

Expanding the Call for Board Gender Diversity

Remarks delivered at the 2017 Breakfast of Corporate Champions

Thank you — for that introduction and for everything you do. I want to thank the Women's Forum of New York for this opportunity — particularly Carolyn Carter and Janice Ellig for their outstanding leadership. And many thanks to this morning's speakers as well. What a year. Who would have thought that a 50-inch statue could make a statement strong enough to resonate across the globe?

Behind all the debates about Fearless Girl, all the Twitter mentions and all the energy flowing through this conversation, we have also seen the beginnings of real progress on the issue of gender diversity in the corporate boardroom.

But of course we've also seen something else: criticism leveled at State Street that we haven't gone far enough in our own practices to be an authentic champion on this issue.

So, let me state at the outset: we welcome those criticisms. We take them seriously.

Within 48 hours of placing Fearless Girl near Wall Street, there were news stories raising questions about the number of women we have in senior leadership. And most recently there was news regarding a routine audit conducted in 2011 by the Office of Federal Contract Compliance Programs that looked at our pay practices from seven years ago.

We disagree with the methodology used by the OFCCP and the conclusions of its audit. But we chose to enter an agreement to settle the matter and move forward.

Let me be clear: We unequivocally support equal pay for equal work. We also feel that it is more important to focus our resources on initiatives that drive systematic and sustainable change, not litigation. As an organization, we've focused on increasing the number of women and employees of color in more senior and higher paying roles, a strategy we think meaningfully attacks the wage gap.

Bottom line: Fearless Girl was never a statement of accomplishment. Her purpose is aspirational and inspirational for us and all others.

And if anyone thinks that we are going to retreat on the issue of gender diversity in the corporate boardroom... or stop using our voice and our vote to effect change outside our own organization... they are sorely mistaken. That is not going to happen.

And so as we wrap up this remarkable morning, I want to share with you how we are planning not to step back — but to step up our efforts in the year ahead.

Before diving in, I would be remiss if I didn't take a moment first to comment on the news announced last week about my new role at State Street. I was invited here to speak as the leader of State Street Global Advisors, the asset management arm of State Street, which drives the firm's asset stewardship efforts. I have now transitioned into a new role as president and COO of State Street Corporation.

But I want to assure you that this transition in leadership in no way lessens the firm's commitment to pushing for greater gender diversity on boards. This remains a high priority for our new State Street Global Advisors leader Cyrus Taraporevala and our dedicated asset stewardship team.

Today, I'm going to describe some of the recent engagements we've had with our portfolio companies — so you can understand why we need to keep going. And I want to conclude with some thoughts about what each of us can do to keep making progress.

Engaging Companies on Gender Diversity

So the first question: How did State Street, an asset manager in a male-dominated industry, end up being an advocate for gender diversity in the corporate boardroom? As one of the largest index fund providers in the world, a huge portion of the assets we manage are essentially permanent capital. Unlike in our active strategies, our index fund managers can't walk away from a company so long as it is in the index.

As Jack Bogle once said: if you're an active manager and you don't like what a company is doing, you sell it. If you're an index manager, you try to fix it.[1]

Having served on a number of public, nonprofit, health care and mutual fund boards over the years, I believe effective, independent and diverse board leadership is a precondition for ensuring that companies are focusing on the long term, and increasing the probability of attractive long-term returns.

Of course, anyone who has ever served on a board knows the advantages of working with board members who bring different perspectives and backgrounds. In particular, gender-diverse boards tend to pay more attention to risk management… and are less inclined toward cronyism and groupthink.

Moreover, data from MSCI,[2] McKinsey[3] and a host of other studies[4] show that companies with women in leadership tend to perform better than those without.

But despite that evidence, less than a quarter of companies in the Russell 3000 have a single woman on their boards.[5] So as fiduciaries, we had an obligation to engage on this issue as stewards of the assets we manage. To drive board diversity through dialogue and engagement. And, if necessary, to use our proxy voting power to effect change, just as we would with any other long-term risk to our clients' portfolios.

Using Our Voice and Vote

So we informed 600 companies with no women on their boards that we were prepared to vote against the Chair of their Nominating Committees if we didn't see action Needless to say, there was no shortage of reactions.

Some companies saw this as an opportunity. Not long after we had engaged with a Houston real estate firm, the company wrote us that our input had helped shape their board refreshment process and discussions — and that they had now added a woman to their board.

Others were less receptive or missed the point of gender diversity. One company seemed inconvenienced, saying: "You want a woman, we'll give you a woman."

More than one company told us, "We had no idea people really cared about this." Simply put, many companies didn't seem to understand why having diverse perspectives was important to their companies and to shareholders. Even when they did understand, many companies weren't entirely sure how to proceed.

For example, a building materials company, described how it had recently improved its corporate governance practices around ethnicity, race and gender... but that these changes hadn't yet resulted in a female board member. In cases like these, we had to decide whether to vote against them or — if we thought they understood the value of recruiting diverse board candidates and had a plan to do so — waive our voting guidelines.

So, we ultimately made these decisions on a case-by-case basis. Of the 600 companies we engaged, we ended up voting against 400 of them at their annual meetings so far. These weren't decisions we took lightly.

These votes got a lot of the headlines. But more importantly, 42 companies committed to increasing the diversity of their boards. And, in fact, seven of those have already added women.

Pushing the Envelope

So where do we go from here? Our initial efforts included the main US, Australian, and UK listed companies — 3,500 companies in all.[6] To build upon that progress, today we are announcing that in the coming year we will be extending this board diversity guidance to more than 1200 additional companies in Canada and Japan.

Why those two countries?

In Japan, the problem is actually worse than in most other advanced economies because so few women are in the workforce. All told, 55% of companies in the TOPIX 500 don't have a single woman on the board.[7] But at the same time, Prime Minister Abe's economic plan makes clear that board independence will be key to driving the country's economic growth and singles out gender diversity as a priority.

In addition, Japan's Government Pension Investment Fund — the largest in the world — is allocating a portion of its assets to the MSCI Japan Empowering Women Index, which aims to represent companies that maintain gender diversity.So we think Japan presents a great opportunity to make progress.

The challenge is more surprising in Canada, where despite its progressive reputation, 4 out of 10 of the 700 companies in the Toronto Stock Exchange, don't have any women on their boards.8 The problem is actually worse for Canadian startups, where 8 out of 10 companies have all-male boards.[9]

Being Corporate Champions

But even as we are expanding the reach of Fearless Girl to more boards around the globe, we all need to take a hard look in the mirror at ourselves on this issue. No matter how attuned we think our companies are to this issue, there are five questions our engagements tell us we should all be asking ourselves.

First, are you assessing unconscious gender bias in the director search and nomination process? And if you think your company is the exception on this issue, you probably haven't spent enough time examining it.

Here's what I mean: the top two qualifications for board candidates tend to be:

Do you know someone on the board?

Are you a sitting CEO?

The first just perpetuates the old boy network. And here's the problem with the second one: over the last half century, there have been only 64 female CEOs in the Fortune 500.[10] And the 32 there today? That's a record high. There simply aren't enough female candidates if the only measure is a CEO title.

Second, are your companies actively assessing the current level of gender diversity within your management ranks? It's not only about the board. Are you keeping diversity metrics around the percentage of new hires, managers and executives?

For us, at State Street, this has been a bit of a journey, but we are making progress.
While women still make up only about a quarter of senior management at State Street — last year women represented 43 percent of all our executive promotions.[11]

And that's point number three: are you acting on those metrics? Are you establishing goals to enhance gender diversity on the board and within senior management? Are you tying those goals to business scorecards, performance and other key metrics?

Fourth, do you have "diversity champions" on the board and within management? I don't mean token figureheads — but leaders who are engaged on this issue and who support the initiatives to meet these goals.

Lastly, is gender diversity something your company actively communicates about to employees, shareholders and the broader public? Put simply, the conversation about gender diversity in the boardroom shouldn't be confined to the boardroom.

Being Fearless About the Future

Because the needle is still moving far too slowly. Certainly, as our future becomes more uncertain and the pace of change accelerates, groupthink is increasingly recognized as a business liability.

In a more complex, innovation-driven environment, embracing a diversity of thinking, competencies and backgrounds is a business imperative. Companies that want to compete can't afford to neglect half the population, especially as women continue to outpace men when it comes to higher education and the skills that are increasingly important to the industries of the future.

The talent is there. We simply need to be bolder, and yes: fearless. Fearless in acknowledging our own biases, conscious or otherwise. Fearless in our commitment to get to parity on corporate boards well within this generation. Fearless in looking beyond the usual corporate pools of candidates to find individuals who may not look like us, act like us or have the same experience.

Right now, the United States has a generation of women who have served at the highest levels of the military during nearly two decades of armed conflict. Why aren't we more actively recruiting among them? That's just one example.

But being fearless about this issue also requires us to do something else that is very important: take a chance.

I am Exhibit A in a very long list of men who were promoted on their potential rather than their track record. We need to take that chance on more qualified women.

There were countless reasons why State Street shouldn't have taken this issue on, but there are at least 15 trillion reasons why we will continue to keep going: That's the amount of investible assets — $15 trillion —managed and owned by companies who since Fearless Girl was placed in New York are now speaking up on this issue.[12] Dollars that are being put to work advancing gender diversity.

The point is, we all have a role to play. With asset managers, asset owners and public companies working together to stand for gender diversity, we can do more than just continue the conversation Fearless Girl began — we can change the conversation. And more importantly, we can literally change the faces of those in the workplace and the boardroom.

Of all the lessons we have learned this last year, that, I believe, is the most important. And it's one that I hope we all take to heart in the year ahead.

Thank you for this opportunity.

Endnotes

1 Bloomberg, "Q&A With Jack Bogle: We're in the Middle of a Revolution," 11/23/16.

2 Lee, Linda Eling, et al. Women on Boards: Global Trends in Gender Diversity on Corporate Boards, MSCI, November 2015. Accessed on February 17, 2016. MSCI defined companies without a critical mass of women at the top as companies with less than three women on their board of directors or a lower percentage of women than the average in the company's country. The methodology used in MSCI's study is different than that of the index, and as such, the results of the study should not be viewed as indicative of future performance of any State Street Global Advisors product. Return on equity is not representative of the performance of any investment or the potential return of any ETF.

3 Woetzel, Johnathan. "The Power of Parity: How Advancing Women's Equality can Add $12 Trillion to Global Growth." McKinsey Global Institute, September 2015; "Why Diversity Matters" McKinsey, Feb 2015.

4 "Is Gender Diversity Profitable?" Peterson Institute for International Economic, Feb 2016; "The Effect of Gender Diversity on Board Decision-making: Interviews with Board Members and Stakeholders" The Conference Board, Jan 2017.

5 State Street Global Advisors Asset Stewardship Team March 2017

6 State Street Global Advisors Press Release, March 7, 2017.

7 Institutional Shareholder Services as of June 30, 2017.

8 Institutional Shareholder Services as of June 30, 2017.

9 Institutional Shareholder Services as of June 30, 2017.

10 "Women in the Fortune 500: 64 CEOs in half a century," CNN Money, August 7, 2017.

11 State Street Human Resources.

12 WSJ.com, Bloomberg, Pensions & Investments, CNBC May 2017.

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