

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

Key Takeaways

- State Street Global Advisors (SSGA) 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, SSGA analyzed and compared the level of diversity in six markets: Australia, Canada, Europe, Japan, the UK and the US
- SSGA 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, SSGA 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 SSGA, 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 SSGA 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, SSGA 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 (as seen in Figure 1).

Figure 1: An Overview of Board Gender Diversity in Australia, Canada, Europe, Japan, UK, and US⁷

	Japan	Canada	US	Australia	Europe	UK
	Tokyo Stock Price Index 500 (%)	Toronto Stock Exchange (%)	Russell 3000 (%)	Australian Securities Exchange 300 (%)	STOXX Europe 600 (%)	Financial Times Stock Exchange 350 (%)
% of Companies with No Female Directors	55.4	37.0	20.0	9.0	2.4	2.0

Source: ISS Analytics as of December 2017.

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, SSGA found that board diversity was still lacking at a few companies in the STOXX EUROPE 600. Figure 1 highlights the percentage of companies that have no female directors.

SSGA's Position on Gender Diversity

SSGA 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. SSGA 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.

SSGA's Guidance for Enhancing Gender Diversity on Boards

Given our expectations regarding gender diversity on boards, SSGA has developed a framework below (see below Figure) 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, Head of ESG Investments and Asset Stewardship at Rakhi_Kumar@ssga.com, and Caitlin McSherry, Principal, Asset Stewardship at Caitlin_McSherry@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 and the management hiring and promotion process

5. Consider female directors for leadership positions

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

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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 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.*

⁶ 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.*

⁷ Board profiling universe includes 289 companies listed on the Australian Securities Exchange 300 (ASX 300); 709 companies listed on Toronto Stock Exchange (TSX); 593 companies listed on the STOXX Europe 600; 500 companies listed on Tokyo Stock Price Index 500 (TOPIX 500) (as of June 2017); 302 companies listed on the Financial Times Stock Exchange 350 (FTSE 350); and 2,879 companies listed on the Russell 3000. *Source: ISS Analytics as of December 2017 unless otherwise noted.*

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