

SSGA's Guidance on Enhancing Gender Diversity on Boards

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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 three markets: Australia, the UK and the US¹
- SSGA found that most large cap company boards in these markets have at least one female director but 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.^{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

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 organization⁶
- 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

Figure 1: An Overview of Gender Diversity in Australia, UK, and US⁷

	Large Cap Companies			Broader Indices			All Listed Companies		
	Australian Securities Exchange 100 (%)	Financial Times Stock Exchange 100 (%)	Standard & Poors 500 (%)	Australian Securities Exchange 300 (%)	Financial Times Stock Exchange 350 (%)	Russell 3000 (%)	Australia (%)	UK (%)	US (%)
% of Companies with No Female Directors	4	0	2	17	5	24	45	36	35
% of Companies with < 15% of Female Directors	16	11	24	30	30	58	53	55	63

Source: As of date November 30, 2016. Institutional Shareholder Services.

Market Practice

As part of our review of boards' gender diversity, SSGA analyzed the level of diversity in three key markets — Australia, the UK and the US. We found that in all three markets, boards of most large cap companies had made a concerted effort to include women on their boards (as seen in Figure 1). Nevertheless, 4% of Australian Securities Exchange 100 (ASX 100) and 2% of Standard & Poors 500 (S&P500) still do not have any women on their boards. Moreover, 16% of Australian Securities Exchange 100 (ASX 100), 11% of Financial Times Stock Exchange 100 (FTSE 100) and 24% of S&P 500 companies do not meet a threshold of at least 15% of women on boards. When expanded to all listed companies, the lack of female representation on boards is significant. Figure 1 highlights the percentage of companies that have no female directors and have less than 15% of women on their boards.

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

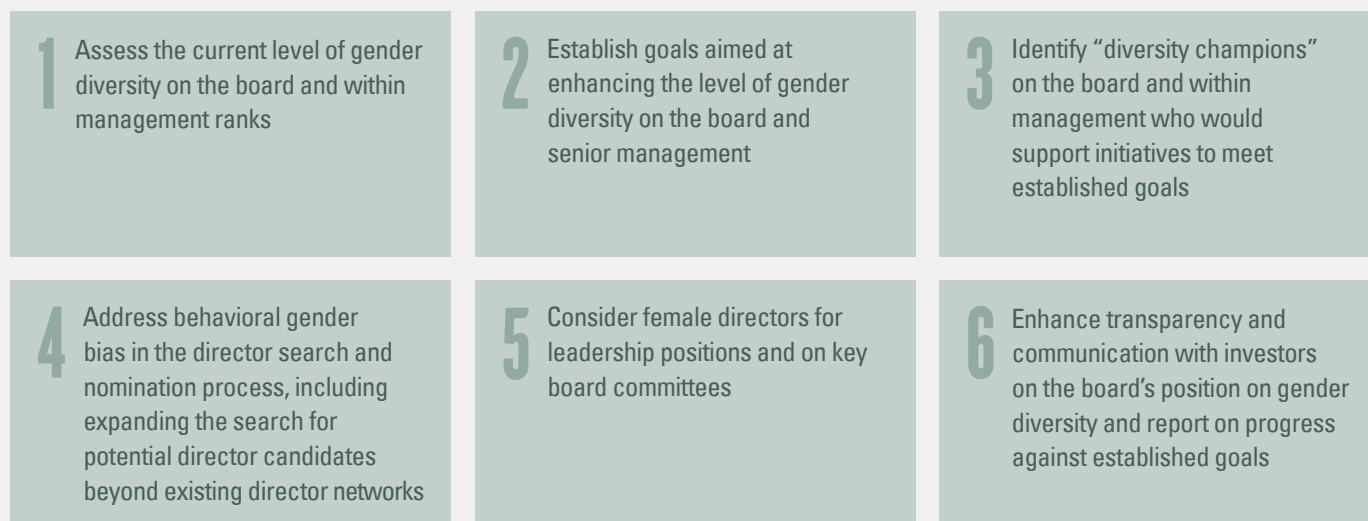
management. SSGA believes board diversity enhances board quality as it brings together directors with different skills, backgrounds and expertise. We recognize that there are many ways to achieve board diversity and we support all forms of diversity, but as a starting point, we believe boards should 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 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 Figure 2) to help boards enhance female representation on their boards.

Figure 2: Gender Diversity Framework



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¹ Gender diversity profile of European country boards were not considered as many markets in the region have regulatory requirements pertaining to gender diversity levels on boards that drives company practices.

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 As of January 2017, only 5% of ASX100 and S&P500 and 4% of FTSE100 are led by female Chairs, while only 5% of ASX100 and S&P500 and 6% of FTSE100 have female CEOs.

⁷ Board profiling universe includes 97 companies listed on the Australian Securities Exchange 100 (ASX 100); 94 companies listed on the Financial Times Stock Exchange 100 (FTSE 100); 472 companies listed on the Standard & Poors 500 (S&P 500); 284 companies listed on the Australian Securities Exchange 300 (ASX 300); 274 companies listed on the Financial Times Stock Exchange 350 (FTSE 350); 2,743 companies listed on the Russell 3000; 682 companies listed in Australia; 826 companies listed in the UK; and 4,546 companies listed in the US.

Contact Us

We hope board members of our portfolio companies find this guidance useful. Any questions or comments may be directed to:

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