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State Street Global Advisors Announces New Gender Diversity Guidance

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More from: **Allie Rutherford**, **Andrew Letts**, **Chad Spitler**, **Sharo Atmeh**, **CamberView**

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On Tuesday, State Street Global Advisors (SSGA) issued a **memo** and **press release** (discussed on the Forum here) calling on 3,500 global companies, representing more than $30 trillion in market capitalization, to increase the number of women on corporate boards. Timed to coincide with observance of International Women's Day, SSGA's initiative is the latest, and most assertive, move by a major U.S.-based institutional investor to push companies toward increasing gender diversity on boards.

In a significant shift, SSGA indicated that it will vote against the chair of a board's nominating and/or governance committee if a company fails to take action to increase the number of women on its board. SSGA **identifies** boards with no female representation and those that have less than 15 percent female representation as problematic.

SSGA's Forward-Leaning Governance Practices

Tuesday's announcement is another example of how SSGA has taken governance issues that once were traditionally discussed in the context of shareholder engagement, such as **director tenure**, and turned them in to proxy voting practices. The new policy also adds to SSGA's guidance published in August 2016 entitled "**Changing Board Practices and Culture to Meet Investor Expectations**," and comes one year after its launch of the **SSGA Gender Diversity Index ETF** which invests in large-capitalization companies that achieve high marks within their sector for gender diversity among senior leadership.

While SSGA has taken a leadership role on the issue of women on boards, it is not alone among institutional investors in calling attention to the need for greater gender diversity. Pension funds such as CalSTRS and CalPERS have focused on the topic for many years and other recent initiatives, including the **Commonsense Corporate Governance Principles** and the Investor Stewardship Group's **Corporate Governance Principles**, identify the need for an appropriate mix of director skills and composition on company boards. This is in addition to groups such as the **Thirty Percent Coalition**, **2020 Women on Boards** and the **30% Club** that advocate for increased gender diversity on boards.

Identifying Barriers to Gender Diversity and Outlining a Path Forward

Tuesday's announcement by SSGA outlined several problematic practices it believes have directly led to a lack of gender diversity on boards, including:

- Excessive reliance on existing director networks for identifying director candidates;
- A requirement that all directors have prior CEO experience;

- Lack of female representation in leadership positions within a company;
- Limited appreciation for and understanding of the value of greater gender diversity; and
- Limited organizational support in helping individuals achieve work-life balance.

In response to these practices, SSGA's six-part "Gender Diversity Framework" highlights steps that can help companies increase gender diversity, including:

1. Assessing the current level of gender diversity on the board and within management ranks
2. Establishing goals aimed at enhancing the level of gender diversity on the board and senior management
3. Identifying "diversity champions" on the board and within management who would support initiatives to meet established goals
4. Addressing behavioral gender bias in the director search and nomination process, including expanding the search for potential director candidates beyond existing director networks
5. Considering female directors for leadership positions on key board committees
6. Enhancing transparency and communication with investors on the board's position on gender diversity and reporting on progress against established goals

Engaging with Investors on Gender Diversity

CamberView expects that this initiative will accelerate the already growing call for companies to enhance the mix of diversity, skills and expertise on boards of directors. Management and directors should be prepared to discuss diversity and refreshment with investors while taking tangible steps toward improving the mix of gender diversity on their boards, especially if they are in one of the two categories of boards identified by SSGA as problematic. Companies can take steps to alleviate investor concerns on diversity by:

- Disclosing proactive board refreshment practices that include a focus on diversity;
- Identifying protocols within the nomination/governance committee to enhance diversity and remove bias from director searches;
- Consider enhancing proxy disclosure on director qualifications to include aspects of diversity; and
- Engaging in a thoughtful dialogue with investors on appropriate board composition, even if gender diversity goals have been achieved.

SSGA's memo sends a clear signal to boards that gender diversity will be in focus during the 2017 and 2018 proxy seasons. Companies with no female directors should expect SSGA governance teams to proactively engage with them in the coming months. SSGA's guidelines note that companies will have a year to comply with its new standards. If no movement toward greater gender diversity is seen, companies can expect a vote against the chair of the nominating and/or governance committee by SSGA.