

State Street Targets Companies for Lack of Board Gender Diversity and Provides a Gender Diversity Framework to Promote Increased Representation

March 9, 2017 | Client Update | 3-minute read

Wall Street, Meet Fearless Girl. [See the picture](#) and [watch the video](#).

That's the tagline used by State Street in announcing, on the eve of International Women's Day, that it has placed a temporary statue right near Wall Street of a girl with her arms crossed facing the Wall Street bull, to represent the future. On the same day, State Street called on the 3,500 companies it holds to take concrete steps to increase the number of women on their boards, as a governance issue of critical importance to boards and investors in 2017.

In [a three-page guidance](#), State Street provides its position on gender diversity and a framework to help boards enhance the representation of female directors. The investor warns that while it prefers to advocate for its approach through conversation, it may vote against the chairs of nominating and governance committee if companies fail to take action.

Since 2015, State Street has been talking to companies about gender diversity. The guidance reflects strong skepticism about what they hear from boards as to the reasons for the lack of gender diversity, namely, a limited pool of qualified candidates. Instead, the investor blames the current practices for nominating directors as well as "behavioral biases," which it believes are the primary reasons that "continue to undervalue the contributions of women in the workplace." These include:

- Excessive reliance on existing director networks and connections as the primary source for identifying candidates
- Requiring all director nominees to have CEO experience to be considered
- Lack of female representation in leadership positions on boards and in senior management to help companies in diversification, noting that only 5% of S&P 500 companies are led by female board chairs, the same percentage of companies that have female CEOs
- 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
- Limited organizational support in helping individuals achieve work-life balance, which could lead to adversely affecting the pipeline of women leaders

State Street points out that 2% of S&P 500 companies do not have any women on their boards, and 24% of those companies do not "meet a threshold" of at least 15% of female directors. Expanding the metric to all listed companies shows that 35% of companies have no women directors, and 63% fail the 15% threshold measure.

State Street's gender diversity framework advises boards to:

- Assess the current level of gender diversity on the board and within management ranks
- Establish goals aimed at enhancing the level of gender diversity on the board and senior management

- Identify “diversity champions” on the board and within management who would support initiatives to meet established goals
- Address behavioral gender bias in the director search and nomination process, including expanding the search beyond existing networks
- Consider female directors for leadership positions and on key board committees
- Enhance transparency and communication with investors on the board’s position on gender diversity and report on progress against established goals

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Ning Chiu

+1 212 450 4908

ning.chiu@davispolk.com

This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's privacy notice for further details.