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## Raising the Stakes on Board Gender Diversity

2017 has seen interest in board composition intensify. Investors have long scrutinized individual directors' qualifications; however, increasingly they are asking how those individuals complement each other, and whether the overall board reflects a diverse mix of backgrounds, skills and qualifications. Investors want to know how boards ensure that they are recruiting directors whose expertise aligns with company strategy, and numerous investment firms have updated their proxy voting policies to punish boards that lack diversity.

As in previous years, shareholders pushed for increased board gender diversity through shareholder proposals at select companies.



Throughout the course of the 2017 proxy season, two shareholder proposals on board diversity received majority shareholder support: one at Cognex Corporation in April and another at Hudson Pacific Properties in May. While not the first of their kind to receive majority support from shareholders, these shareholder proposals were nonetheless notable for the substantial margin of victory they enjoyed; the proposal at Cognex Corporation received the support of nearly 63% of votes cast, while Hudson Pacific Properties'

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received 85% support. Still, these shareholder proposals did not represent a significant break from the status quo on board gender diversity.

However, the board gender diversity conversation was strengthened in 2017 when several of the world's largest institutional investors substantially changed course on the issue. The proxy season kicked off with a physical symbol of the strategic upheaval: the March installation of State Street Global Advisors' *Fearless Girl* statue on Wall Street in front of the iconic *Charging Bull*. The statue complemented the firm's [announcement](#) that it would place increased emphasis on gender diversity and vote against the members of underrepresented boards charged with nominating directors without disclosure of substantial efforts at adding female directors. In July, State Street Global Advisors [announced](#) that it had voted against directors at 400 globally listed companies on the basis of insufficient female representation on boards.

Meanwhile, BlackRock Inc. [reported](#) in July that it supported eight of nine shareholder proposals on board diversity in the U.S. and Canada during the second quarter of the year and voted against nominating committee members at five of those companies for their failure to address investor concerns on the issue. Additionally, in August, The Vanguard Group released an [open letter](#) addressed to directors of public companies worldwide stating that it had joined the 30% Club, a global organization that advocates for greater representation of women in boardrooms and leadership roles.

Adding even more momentum, in September, New York City Comptroller Scott Stringer launched the Board Accountability Project 2.0. Hot off the heels of the office's successful campaign for proxy access, Mr. Stringer sent a [letter](#) on behalf of the New York City Pension Funds to [151 companies](#) seeking engagement on a variety of items; among them, the disclosure to all investors of a board skills matrix that includes the gender and race/ethnicity of directors.

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Clearly, investors are increasingly willing to hold boards accountable on the diversity issue, and they are expanding their toolset to do it. Following the example of large institutional investors, smaller firms are also updating their policies to put pressure on boards that have been laggards in addressing diversity. Although Glass Lewis has previously highlighted a lack of gender diversity as a potential concern that shareholders should be mindful of, the 2018 U.S. Guidelines have added a phased policy that, beginning in 2019, will see nominating committee chairs of Russell 3000 boards targeted with negative recommendations if their board does not include a female director nor disclosure of a cogent explanation and/or plan for addressing the lack of female representation.

In response to these developments, companies are buttressing their proxy statements with additional information on their board evaluation process and approach to diversity. Further, boards are revising their director recruitment process to include more diverse candidates, often through the use of third party search firms. According to [Spencer Stuart's 2017 U.S. Board Index](#), women comprised 36% of the new directors added at S&P 500 companies this year and 42% of first time directors, the highest rate of female representation since this data began being collected in 1998. In December 2017, Broadcom Ltd., one of the four companies in the S&P 500 with an all-male board at the end of the proxy season, appointed Gayla J. Delly, former CEO of Benchmark Electronics, Inc., as a director.

Undoubtedly, the remaining all-male boards in the S&P 500 and beyond will face ever more questions heading into the 2018 proxy season: approximately 6% of the Russell 1000 and 21% of the Russell 3000 indices still have all-male boards. Moreover, despite the influx of new diverse directors, overall representation of women on S&P 500 boards rose a paltry 1%, from 21% in 2016 to 22% in 2017, due in part to decreased rates of director turnover. Although progress is observable, it's a long path to gender parity in

public company directorships. Nonetheless, investors ratcheting up the pressure on directors may be a shortcut.

*Brianna and Starlar are analysts covering the U.S. market. Starlar Burns also contributed to this report.*

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By [Brianna Castro](#) | December 19, 2017 | [Blog](#) | [Comments Off on Raising the Stakes on Board Gender Diversity](#)

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