

Diversity Demands Trickle Down From Boardroom to Workforce

By Leah Rozin

The Fearless Girl statue, installed by State Street Global Advisors to bring focus to its gender diversity campaign, is rounding out her second year on Wall Street amid a slowly but surely changing business culture. As of July, every boardroom in the S&P 500 had at least one woman in its rank, according to Forbes. The 2018–2019 NACD *Public Company Governance Survey* reports that more than half of directors (53%) say their organizations have board diversity goals, and most cite the enhancement of the board’s cognitive diversity as the main objective (see *Figure 1*).

The importance of cognitive diversity appears to be stuck inside the boardroom at most companies. In the same survey, less than half of respondents said they’d had a conversation about diversifying their senior management team (see *Figure 2*). Institutional investors seem to have picked up on this inaction, with some filing shareholder proposals.

Rule 14a-8 of the Securities Exchange Act of 1934 allows shareholders to submit proposals to proxy statements to be voted on at the company’s annual meeting. Shareholders must hold a minimum \$2,000 or 1 percent of the company’s stock for at least one year to have their proposals included, among other conditions. These proposals have historically focused on traditional governance measures such as majority voting standards or annual director elections. In 2017, there was an unprecedented shift to proposals focused on environmental and social (E&S) issues rather than governance (see *Figure 3*).

Looking at the 2019 proxy season to date, there has been a decrease in the overall number of proposals filed, but proposals related to E&S continue to be the top focus of shareholder resolutions, with 454 filed thus far. This proxy season also brought about new categories of E&S proposals that received majority

FIGURE 1

53% Of companies currently have a goal(s) to diversify its board composition

Why did your company set diversity goals related to board composition?

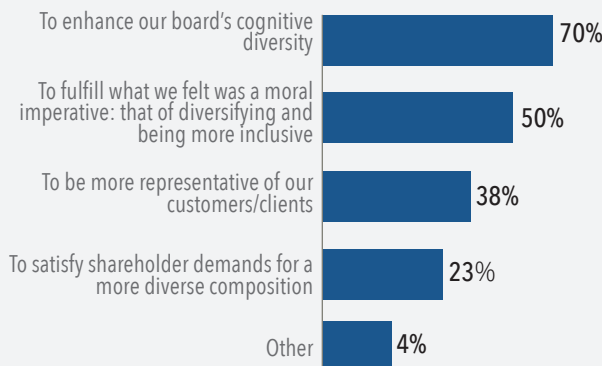
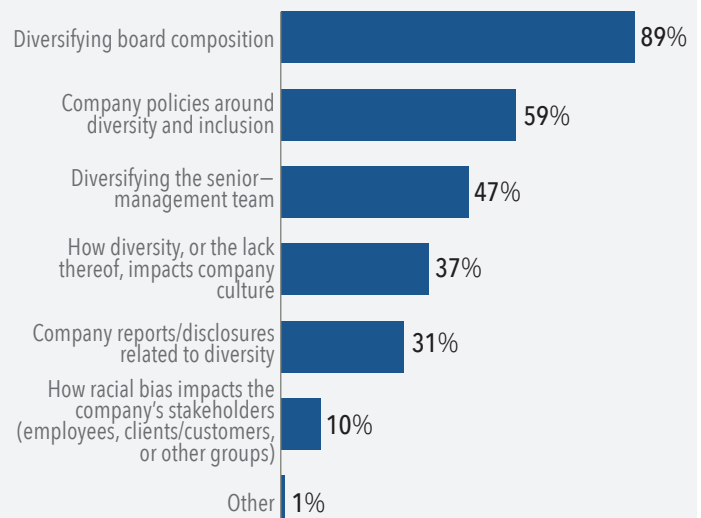


FIGURE 2

Which of the following has your board had conversations about during the past two years?



Source: 2018–2019 NACD *Public Company Governance Survey*

support, with social issues at the forefront. Only one of the three socially focused proposals related to diversity that passed with majority support, sought greater diversity inside the boardroom. As diversity at the board level becomes more accepted, these proposals could signify a shift in investors' focus to increasing diversity in the composition of the executive team and broader workforce.

Trillium Asset Management, an employee-owned investment management firm founded in 1982, was the shareholder proponent behind the two majority-supported executive and workforce diversity proposals. In its letters to management and the board, Trillium cited a McKinsey & Co. report that found companies in the top quartile for gender or racial ethnicity are more likely to financially outperform national industry medians. While Trillium could be seen as a specialty investor focused primarily on environmental, social, and governance issues, the two proposals it put on ballots were likely supported by large institutional investors, as evidenced by the majority of votes that secured their passage.

Also of note: Voting abstentions have decreased dramatically over the past four years on the diversity topic (see Figure 4). Directors could infer this to mean that shareholders are no longer sitting on the sidelines but are actively voting either for or against such proposals.

"Companies that are publicly accountable to diversity goals are most likely to make rapid progress toward achieving their goals," Trillium stated in its proposal filed with The Travelers Cos. This focus on creating accountability for diversity goals is not a new concept but one that is gaining steam in the United States.

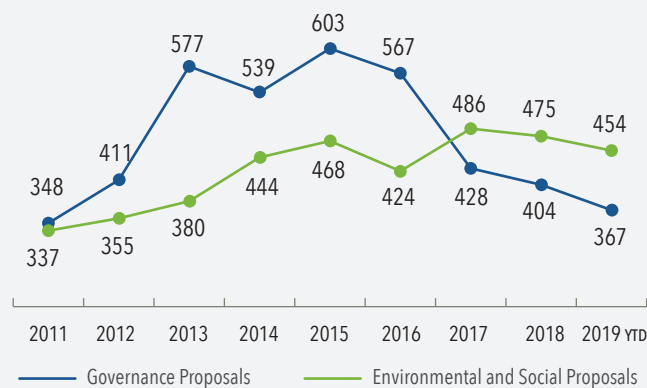
"Put your money where your mouth is" is an adage that companies are beginning to apply to the diversity arena, albeit slowly, with 134 companies in the Russell 3000 index using diversity as a component of the short-term incentive program for executive compensation in 2019, an 83 percent increase from 2015 (see Figure 5).

As boards begin to strategize for 2020 and beyond, diversity, inclusion, and talent management will likely take up a larger portion of their agendas, especially with full employment and as competition for certain skills intensifies.

As such, boards should ensure they understand how their company's diversity and inclusion customs compare to their peers and evaluate their current disclosure practices. When thinking about diversity and inclusion, it's important to look outside the boardroom to the composition of senior management and the broader workforce. A good starting point is to ask: What do diversity and inclusion mean to us, and do our performance metrics ensure progress is being made? **D**

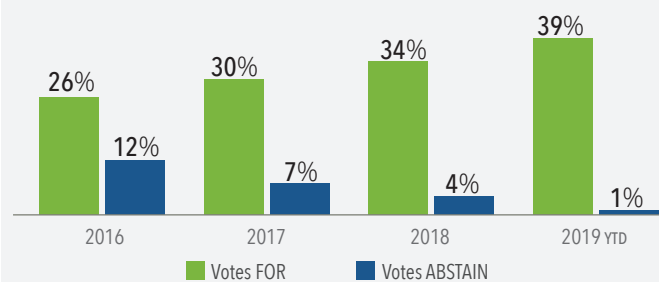
FIGURE 3
Environmental and Social Proposals Surpass Governance Proposal for Third Consecutive Year

Number of filed proposals by proposal category and by year.



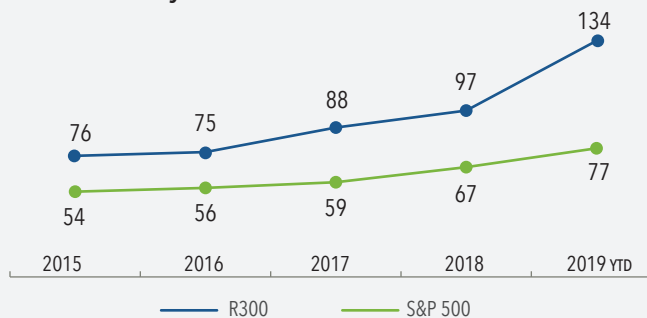
Source: ISS Analytics

FIGURE 4
Vote Percentages on Diversity Report Proposals



Source: MyLogIQ Multidimensional Public Company Intelligence, July 31, 2019

FIGURE 5
NEO Diversity Metric in Short-Term Incentive Metrics



Source: MyLogIQ Multidimensional Public Company Intelligence, August 6, 2019