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SSGA to Impose Shareholder Consequences for Withholding Racial Diversity Stats

By Dervedia Thomas, Mariana Lemann January 12, 2021

State Street Global Advisors (SSGA) has outlined steps to hold portfolio companies accountable for not making information about the racial and ethnic composition of their boards and workforces available.

The actions, shared in a Jan. 11 letter on the firm's 2021 proxy voting agenda, include willingness to vote against nominating and governance committee chairs at S&P 500 and FTSE 100 companies this year if they don't provide the requested disclosures.

In 2022, the firm is prepared to vote against compensation committee chairs at companies that don't give SSGA the responses to their **Equal Employment Opportunity Commission** Employer Information Report, known as the EEO-1 survey. The firm also plans to vote against the chair of the nominating and governance committee for companies that don't have at least one director from an underrepresented community on their boards.

"[The guidelines outline] … how we intend to use our voice — and our vote — to hold boards and management accountable for progress on providing enhanced transparency and reporting," SSGA's president and CEO, **Cyrus Taraporevala**, writes in the letter.

The new guidance builds on the asset manager's Aug. 27 shareholder letter, which asked companies to reveal strategies, goals, metrics and board-oversight measures aimed at mitigating inequality and racism, as reported. It also expands the firm's focus on social issues, which began with its Fearless Girl campaign to highlight gender diversity, says the firm's global co-head of asset stewardship **Ben Colton**.

"Gender diversity and racial and ethnic diversity are observable proxies for what we're trying to get, which is cognitive diversity," he says. "Gender diversity we focused on first because the information was readily available. It was relatively easy for us to monitor and track, but still, the academic evidence points towards the benefits of racial and ethnic diversity, increasingly. So, we really took this as a step to call for action from companies."

The police killing of **George Floyd** last year and the protests for social justice also stirred SSGA to take action, Colton says.

"Certainly, the events of last year highlighted the reputational risks and the other material risks that companies face for not appropriately addressing these issues and systemic risks," he says.

Since releasing the letter in August, SSGA had more than 70 engagements with board members on risks related to a lack of racial and ethnic diversity, Colton says. The main impediments include access to talent, barriers within the organization, and the ability to access talent quickly, he adds.

Despite these hurdles, Colton expects a "critical mass" of companies to disclose their EEO-1 survey responses, which show employment data by race and ethnicity, gender and job category, because most companies see diversity as an important issue. The $226 billion New York State Common Retirement Fund last year filed a shareholder resolution calling on online retail giant **Amazon.com** to conduct an internal audit on racism and diversity, as reported.

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SSGA is encouraging companies to share data even if their numbers are lacking because this when the company can achieve "high-quality engagement," Colton says. For example, the firm viewed a presentation from a company that had "We are not doing good enough," as one of its slide decks because it experienced upward employment trends for all races and ethnicities, except Black employees, for whom the numbers deteriorated, he adds.

"For us,… identifying an issue and taking steps to address that issue… was very powerful," Colton says. "Yes, it wasn't where we wanted the company to be, ultimately, but… addressing those issues proactively is the way that we want to see companies on this journey. What is measured is managed, we understand that… there's more context around [EEO-1] data, and that's where the power of engagement comes through."

SSGA has long engaged companies on race and ethnicity, but it did not previously include failure to provide EEO-1 data as the basis for a ‘no’ vote, says **Boston Trust Walden**’s director of ESG shareholder engagement **Timothy Smith**. Firms want access to EEO-1 reports because they contain race and ethnicity data across a wide list of job categories, and it includes historical information to gauge progress, Smith adds.

“Whether you’re State Street or BlackRock or many other firms, you think that board accountability is very important,” he says. “In this case, State Street is saying the lack of diversity disclosure is a significant problem to hold boards accountable for.”

Not many large investors vote against boards, but this tactic is increasingly gaining popularity, Smith adds. The message State Street is trying to send by voting against compensation committee chairs is that incentives should be tied to progress in this area, he says.

In August, SSGA also unveiled 10 steps to improve the diversity within its workforce, designed to triple its Black and Latino leadership at the senior v.p. level and doubling its percentage of Black and Latino staff over the next three years, as reported. Just 1.7% of State Street senior executives are Black or African American, 2.6% are Hispanic or Latino, 9.9% are Asian, while 80.5% are white, according to the firm’s 2019 Corporate Responsibility Report.

Asian Americans and Pacific Islanders are also facing barriers in the asset management industry, and firms should make efforts to boost headcount in this demographic, says **Association of Asian American Investment Managers** board co-chair **Brenda Chia**. Asian Americans and Pacific Islanders manage only 0.7% of AUM in the U.S. asset management space, although they account for 14% of students attending the top 25 U.S. business schools and 15.6% of financial analysts in the U.S., says Chia, who is also the director of capital development at investment firm **Paladin Capital Group**.

“Many [Asians and Pacific Islanders] are at the frontline of the investment business today, however, this strong representation at the foundational level of the investment business has not converted into proportional promotion into the senior levels,” she says. “The lack of upward mobility, …known as the bamboo ceiling, has been one of the catalysts for [Asians and Pacific Islanders] to go out and start their own firms.”

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