



MIDWEST INVESTORS DIVERSITY
I N I T I A T I V E

Diverse Search

COMPANY TOOLKIT

How to Use this Toolkit

This Toolkit, compiled by the Midwest Investors Diversity Initiative and informed by the Initiative's dialogues with companies, provides a useful framework for firms to establish and sustain a diverse board of directors. The toolkit also reflects insights from Professor Annalisa Barrett, Clinical Professor of Finance at the University of San Diego's School of Business.

Included is a checklist of the essential practices, key insights, and resources available to help companies self-assess their current practices regarding board diversity, execute a search for diverse board candidates, and provide meaningful disclosure to investors.

WHY BOARD DIVERSITY MATTERS

It All Starts with the Board

Successful boards make for successful companies, and research indicates boards that embrace the strategic value of diversity are better structured for sustainable financial success.

Diversity is Good for Business

A wealth of research shows diversity benefits corporate decision-making and company performance. Companies with diverse boards are more likely to have strong financial performance, and fewer instances of bribery, corruption, shareholder concerns, and fraud.¹ Diversity is inclusive of, but not limited to, skill sets, professional backgrounds, gender, race, ethnicity, age, culture and LGBTQ status.

Business Leaders, Investors, and Experts Agree

Executives, scholars, and major investment firms such as State Street Global Advisors, BlackRock, and Vanguard strongly endorse the link between diversity and board effectiveness, and the creation of long-term shareholder value.

CHECKLIST FOR ASSESSING AND INCREASING BOARD DIVERSITY

Many companies have a commitment to increase board diversity but face challenges with the practical implementation. To that end, companies may consider implementing the following essential practices.

PRACTICE #1: ADOPT A DIVERSE SEARCH POLICY

Nominating and Governance Committee Charter Policy (“Rooney Rule”)

The board’s Nominating and Governance Committee Charter should formally adopt a policy requiring director searches to include (but need not be limited to) women and minorities in the initial list of qualified candidates for every open board seat. Sample language is included below and more examples can be found in Practice #4.

“Require the initial list of candidates from which new management-supported director nominees are chosen (the “Initial List”) by the Nominating and Governance Committee Charter include (but need not be limited to) qualified women and minority candidates.

¹ Hunt, Vivian. “Why Diversity Matters.” McKinsey & Company. January 2015. <https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>;

Eastman, Meggin, Damion Rallis, and Gaia Mazzucchelli. “The Tipping Point: Women on Boards and Financial Performance.” MSCI. December 2016. <https://www.msci.com/documents/10199/fd1f8228-cc07-4789-acee-3f9ed97ee8bb>;

Lee, Linda-Eling, Ric Marshall, Damion Rallis, and Matt Moscardi. “Women on Boards: Global Trends in Gender Diversity on Corporate Boards.” MSCI. November 2015. <https://www.msci.com/documents/10199/04b6f646-d638-4878-9c61-4eb91748a82b>

Policy Application to Third-Party Consultants

The policy should state that any third-party consultant or search firm asked to furnish a list of candidates be required to include qualified women and minority candidates. Sample language:

“The Policy provides that any third-party consultant or search firm asked to furnish an Initial List will include such candidates.”

Example Policies

Thor Industries (Director Election Criteria, DEF 14)

“Because research demonstrates that diversity enhances performance, the Company is committed to having a diverse Board. In furtherance of this commitment, the Nominating and Corporate Governance Committee shall require that the list of candidates to be considered by the Committee and/or the Board for nomination to our Board include candidates with diversity of race, ethnicity, and gender. Any third-party consultant asked to furnish an initial list will be requested to include such candidates.”²

The Tile Shop, Inc. (Nominating & Corporate Governance Committee Charter)

“*Search Firms.* The Committee shall have the authority to retain and terminate any search firm to be used to identify director nominees, including the authority to approve such firm’s fees and other retention terms. The Committee shall direct any search firm it retains to include in the firm’s list of potential director candidates one or more qualified women and minority candidates. The Company shall provide funding, as determined by the Committee, for the payment of compensation to any such search firms.”³

Broaden the Candidate Pool

In addition, the policy should expand the traditional candidate search criteria to seek qualified candidates from both non-executive corporate positions (e.g. looking beyond the C-Suite or CEOs) and nontraditional environments such as government, academic or non-profit organizations. This will help create a rich balance of perspectives in the boardroom.

² https://s23.q4cdn.com/270606922/files/doc_financials/annual/2018/Thor-NPS_93457_PROOF_rev2_MS.pdf

³ <http://investors.tileshop.com/phoenix.zhtml?c=241568&p=irol-govhighlights>

PRACTICE #2: EXPAND THE CRITERIA FOR QUALIFIED BOARD CANDIDATES

Evaluate Current Minimum Requirement

Identify what qualifications are essential – such as digital or legal expertise – and ensure any additional requirements are not unnecessarily restrictive. Consider key attributes as part of the desired director qualifications, such as:

- High level of personal and professional integrity
- High level management experiences with strategic oversight responsibility
- Significant understanding of, and experience in, the industry or business environment
- Ability to work effectively with current board members and enhance board room deliberations

Consider First-time Directors with Skills and Experiences Meeting Criteria Agreed to by the Board and the Nominating and Governance Committee Charter, and Look Beyond Current CEOs and C-suite Executives.

- First-time directors can be more likely to challenge the status quo and may be more willing to ask questions that encourage the board to consider more perspectives during deliberations.
- Younger directors can bring fresh perspectives to the boardroom and may better understand the company's target customers and employees.
- Business unit heads and others from outside the C-suite often have financial and operational experience that is just as relevant to board responsibilities as do CEOs and other C-suite executives.

PRACTICE #3: DEVELOP A BOARD COMPOSITION STRATEGY

Evaluate the Current Level of Board Diversity

Implement a standardized process regularly examining the level of diversity on the board. Assess how the company's board diversity compares to the diversity of its customer base, its current and future workforce, and its company peer group, and discuss the implications for strategy and risk management.

Consider Establishing, and Maintaining Concrete Goals

Consider setting goals for gender and racial diversity on the board. There is broad consensus calling on companies to have at least 30 percent of board members be diverse. Consider communicating these goals externally and including this information in the Nominating and Governance Committee Charter.

Establish a Board Composition Strategy

Establish both a short-term and long-term board composition strategies, including a focus on ensuring a sustainable level of board diversity. This strategy could include an assessment of the diversity of each board level committee.

As recommended by the Association of Executive Search and Leadership Consultants, “Create a matrix of current expertise and diversity, together with an understanding of term and age limits and overall board refreshment strategies. Consider the following:

- Changing business strategies.
- Strong board governance and risk management.
- Requisite board expertise and diversity mix, including specific targets.
- Board refreshment strategies.
- Succession planning.⁴

Leverage the Board’s Succession Planning Process

- Identify current board members planning or considering retirement.
- Identify committees with open positions or near term retirements.
- Incorporate diversity goals into the board’s consideration of composition, succession planning, board refreshment, and the board evaluation process.

Vest Accountability in the Nominating and Corporate Governance Committee Charter

Ensure the Nominating and Corporate Governance Committee Charter assume responsibility for developing and executing the strategy to achieve board diversity with guidance and/or suffrage goals articulated in the committee’s charter. The committee should review the current level of board diversity and the effectiveness of the search process in reaching the company’s target at least annually and make updates as necessary.

⁴ <https://www.aesc.org/insights/press-releases/diversity-and-inclusion-and-role-executive-search>

PRACTICE #4: EXPLORE DIVERSE CANDIDATE SEARCH RESOURCES

Leverage Resources from Organizations, Directories, and Specialty Firms

There are numerous organizations and service providers assisting companies in conducting a diverse board candidate search. Below are some helpful resources. *Note: References to the organizations listed below do not constitute or imply an endorsement by the Midwest Investors Diversity Initiative.*

ORGANIZATION	WEBSITE
Ascend by Pinnacle	www.ascendleadership.org
Athena Alliance	https://athenaalliance.org/
Boston Club	www.ascendleadership.org
Catalyst	www.catalyst.org
Directors Academy: Resource for Identification of Diverse Directors	http://directorsacademy.com/
DirectWomen	www.directwomen.org
Diverse Directors DataSource – 3D	https://www.calstrs.com/general-information/3d-diverse-director-datasource-benefits
The Diverse Corporate Directors Coalition (DCDC)	http://latinocorporatedirectors.org/wp-content/uploads/2018/10/DCDC-About-the-Coalition-8-14-18.pdf
Diversified Search	https://diversifiedsearch.com/
Diversity in Boardrooms	www.diversityinboardrooms.com/
Equilar Diversity Network	www.equilar.com/boardedge-issuers.html
HACR Hispanics in Corporate America	www.hacr.org
Inforum Board Access	https://inforummichigan.org/talent-development/inforum-boardaccess
ION	www.ionwomen.org/
Latino Corporate Directors Association	http://latinocorporatedirectors.org/
The Leader's Edge – Leaders by Design (TLE/LBD)	http://the-leaders-edge.com/
Rooney Rule Compendium	Rooney Rule Compendium
Sigma Pi Phi: African American Board Talent in the 21 st Century	https://bouledirectors.org/
Thirty Percent Coalition	www.30percentcoalition.org
Watermark	www.wearewatermark.org/
Women Business Leaders of the U.S. Health Care Industry Foundation	www.wbl.org/
Women in the Boardroom	http://womenintheboardroom.com/
Women's Leadership Foundation	https://womensleadershipfoundation.org/

If the Board Chooses to Hire a Search Firm, Select One with a Proven Track Record of Recruiting Diverse Candidates

Companies engaging third-party search firms to identify candidates should employ firms with a proven track record of placing diverse director candidates, and have access to a diverse candidate pool. Search firms should be able to show a clear and convincing strategy as to how they identify candidates' slates of adequate diversity, and be able to share explicit features of their search process that garner more diverse candidate slates, eliminate bias, and improve success of diverse candidates.

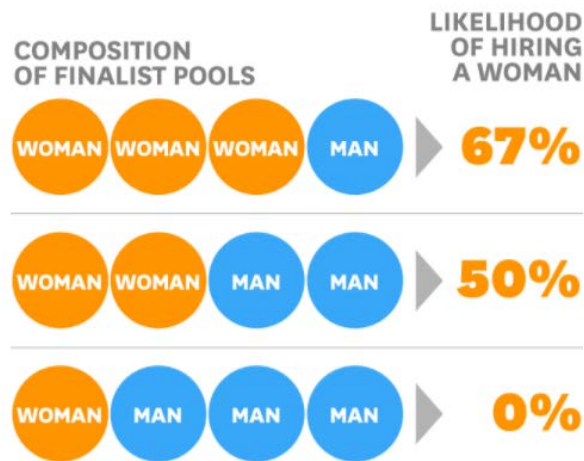
PRACTICE #5: ELIMINATE UNCONSCIOUS BIAS

Avoid Tokenism

Numerous studies have identified unconscious bias as a key driver of the lack of diversity on corporate boards. A 2016 study published by the Harvard Business Review found that including more than one woman or minority in a finalist pool lessens unconscious bias.⁵ The probability of a woman or minority being selected drastically increases when two or more minorities or women are in the pool of finalists.

The Relationship Between Finalist Pools and Actual Hiring Decisions

According to one study of 598 finalists for university teaching positions.



SOURCE STEFANIE K. JOHNSON ET AL

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⁵ Johnson, Stefanie, David Hekman, and Elsa Chan, "If there's Only One Woman in Your Candidate Pool, There's Statistically No Chance She'll Be Hired," Harvard Business Review. April 26, 2016. <https://hbr.org/2016/04/if-there-is-only-one-woman-in-your-candidate-pool-theres-statistically-no-chance-shell-be-hired>

Recruit Top Talent

The supply of qualified women and minorities exists and an expectation of diversity does not negate an expectation of skills or expertise. A board skill matrix can assist companies in aligning their strategic vision with the necessary mix of talent.

Conduct Unconscious Bias Training

Many training guides and resources are available to conduct unconscious bias training, such as the example provided below.

- [Google's Unconscious Bias Facilitate Guide and Slides](#)

PRACTICE #6: DISCLOSE BOARD DIVERSITY STATUS TO INVESTORS

Report the Gender and Race/Ethnicity of Directors in Matrix Format

Investors rely on board diversity data to understand a company's board composition and to assess governance strengths and weaknesses. There is wide agreement among institutional investors that this information should be provided in the context of an overall director skill matrix included in the company's annual proxy statement. While companies can and should customize the director skill matrix to match their unique circumstances, all matrices should include director-level information on gender and race/ethnicity.

- Board matrix examples can be found at the following webpage:
<https://comptroller.nyc.gov/services/financial-matters/boardroom-accountability-project/boardroom-accountability-project-2-0/>

Memorialize Diversity Considerations in Policy

Incorporate any relevant diversity practices, priorities, and targets into corporate governance guidelines, director refreshment policies, and the Nominating and Corporate Governance Committee charters.

About the Midwest Investors Diversity Initiative

The Midwest Investors Diversity Initiative is a coalition of institutional investors dedicated to increasing racial, ethnic, and gender diversity on corporate boards to protect shareholder value and maximize returns. The coalition uses corporate engagements and shareholder rights to encourage boardroom change. Members include the Chicago City Treasurer's Office, Illinois State Treasurer's Office, Ohio Public Employees Retirement System, Minnesota State Board of Investment, School Employees Retirement System of Ohio, SEIU Master Trust, Sundance Family Foundation, Segal Marco Advisors, Seventh Generation Interfaith, Trinity Health, UAW Retiree Medical Benefits Trust, and Wespath Benefits and Investments.

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