



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

# Board Diversity & Disclosure

## 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, as well as other company best practices related to equity, diversity and inclusion. 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.<sup>1</sup> 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.*

<sup>1</sup> 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 also 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.”<sup>2</sup>*

### 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.”<sup>3</sup>*

## 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.

<sup>2</sup> [https://s23.q4cdn.com/270606922/files/doc\\_financials/annual/2018/Thor-NPS\\_93457\\_PROOF\\_rev2\\_MS.pdf](https://s23.q4cdn.com/270606922/files/doc_financials/annual/2018/Thor-NPS_93457_PROOF_rev2_MS.pdf)

<sup>3</sup> <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.<sup>4</sup>

## **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.

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<sup>4</sup> <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
Agility Executive Search	<a href="http://www.agilityexecutivesearch.com">www.agilityexecutivesearch.com</a>
Ascend by Pinnacle	<a href="http://www.ascendleadership.org">www.ascendleadership.org</a>
Athena Alliance	<a href="https://athenaalliance.org/">https://athenaalliance.org/</a>
Boston Club	<a href="http://www.ascendleadership.org">www.ascendleadership.org</a>
Catalyst	<a href="http://www.catalyst.org">www.catalyst.org</a>
Directors Academy: Resource for Identification of Diverse Directors	<a href="http://directorsacademy.com/">http://directorsacademy.com/</a>
DirectWomen	<a href="http://www.directwomen.org">www.directwomen.org</a>
Diverse Directors DataSource – 3D	<a href="https://www.calstrs.com/general-information/3d-diverse-director-datasource-benefits">https://www.calstrs.com/general-information/3d-diverse-director-datasource-benefits</a>
The Diverse Corporate Directors Coalition (DCDC)	<a href="http://latinocorporatedirectors.org/wp-content/uploads/2018/10/DCDC-About-the-Coalition-8-14-18.pdf">http://latinocorporatedirectors.org/wp-content/uploads/2018/10/DCDC-About-the-Coalition-8-14-18.pdf</a>
Diversified Search	<a href="https://diversifiedsearch.com/">https://diversifiedsearch.com/</a>
Diversity in Boardrooms	<a href="http://www.diversityinboardrooms.com/">www.diversityinboardrooms.com/</a>
Equilar Diversity Network	<a href="http://www.equilar.com/boardedge-issuers.html">www.equilar.com/boardedge-issuers.html</a>
HACR Hispanics in Corporate America	<a href="http://www.hacr.org">www.hacr.org</a>
Inforum Board Access	<a href="https://inforummichigan.org/talent-development/inforum-boardaccess">https://inforummichigan.org/talent-development/inforum-boardaccess</a>
ION	<a href="http://www.ionwomen.org/">www.ionwomen.org/</a>
Latino Corporate Directors Association	<a href="http://latinocorporatedirectors.org/">http://latinocorporatedirectors.org/</a>
The Leader's Edge – Leaders by Design (TLE/LBD)	<a href="http://the-leaders-edge.com/">http://the-leaders-edge.com/</a>
Rooney Rule Compendium	<a href="#">Rooney Rule Compendium</a>
Sigma Pi Phi: African American Board Talent in the 21 <sup>st</sup> Century	<a href="https://bouledirectors.org/">https://bouledirectors.org/</a>
Thirty Percent Coalition	<a href="http://www.30percentcoalition.org">www.30percentcoalition.org</a>
Watermark	<a href="http://www.wearewatermark.org/">www.wearewatermark.org/</a>
Women Business Leaders of the U.S. Health Care Industry Foundation	<a href="http://www.wbl.org/">www.wbl.org/</a>
Women in the Boardroom	<a href="http://womenintheboardroom.com/">http://womenintheboardroom.com/</a>
Women's Leadership Foundation	<a href="https://womensleadershipfoundation.org/">https://womensleadershipfoundation.org/</a>

## **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: DISCLOSE BOARD DIVERSITY ATTRIBUTES TO INVESTORS**

### **Report the Gender and Race/Ethnicity of Individual 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, which enables investors to clearly ascertain the level of racial/ethnic and gender diversity among individual board directors, and it enables comparability across companies. While companies can and should customize the director skill matrix to match their unique circumstances, all matrices should include *individual director-level information on gender and race/ethnicity* at a minimum, as well as consider including other diversity attributes as well.

- To view a model company disclosure in this regard, see:
  - Page 21 of the [2021 Proxy Statement of Crown Castle International](#), or
  - Page 6 of the [2021 Proxy Statement of IDEX Corporation](#).
- Additional 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.

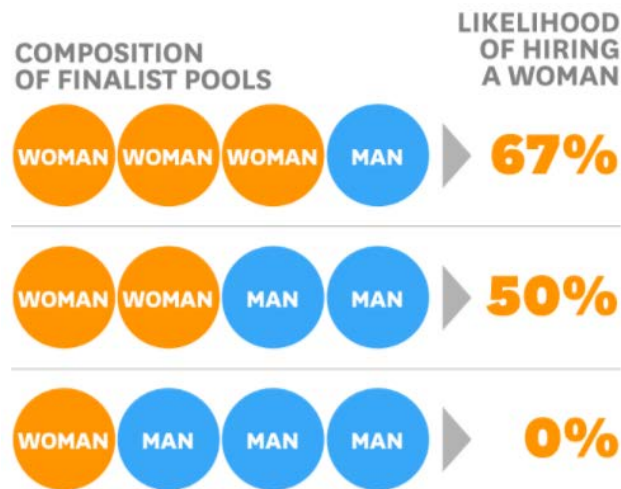
## PRACTICE #6: ELIMINATE UNCONSCIOUS BIAS

### 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.<sup>5</sup> 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.



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### 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 #7: DISCLOSE YOUR COMPANY'S CONSOLIDATED EEO-1 REPORT**

### **The Consolidated EEO-1 Report is the Gold Standard for Workforce Diversity Disclosure**

Numerous studies have found companies with diverse and inclusive workplaces provide a competitive advantage by encouraging varied perspectives that can better anticipate shifts in consumer preferences, reducing costly turnover, and increasing productivity and morale.<sup>2, 3</sup> Such companies are better positioned to recruit the most talented employees from the broadest possible labor pool, a particularly critical benefit in the context of the current U.S. labor shortage.

Given the link between diverse and inclusive workplaces and long-term shareholder value, institutional investors seek greater transparency and accountability on workforce composition to better assess the efficacy of diversity, equity and inclusion programs and policies. The world's largest asset managers, including BlackRock<sup>4</sup> and State Street Global Advisors,<sup>5</sup> have specifically asked companies to disclose workforce demographics included in EEO-1 reports.

The Consolidated EEO-1 Report is the "gold standard" for workforce diversity disclosure, enabling companies to clearly demonstrate their commitment to diversity and their ability to hire, retain, and promote employees of color and women. As such, investors encourage companies to publicly release its Consolidated EEO-1 Report.

### **Post the Report on Your Company Website Annually**

Numerous companies have placed a scanned copy of their annual Consolidated EEO-1 Report on their public website. Others have included it within their annual sustainability or corporate responsibility report. It is vital for comparability purposes that companies release their official EEO-1 submission as provided to the U.S. Equal Employment Opportunity Commission, as opposed to providing a customized or slimmed down version. It is also vital that companies provide this Report on an annual basis to establish a historical record and demonstrate progress.

### **Provided Supplemental Information on Progress Made to Manage Diversity, Equity, and Inclusion within the Company's Workforce**

If your firm is concerned that EEO-1 data does not accurately depict its commitment to diversity, equity and inclusive, it can provide additional context to investors. Just as with traditional financial reporting, supplemental information is extremely useful and can lead to more nuanced and accurate interpretation of data by investors.

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<sup>2</sup> <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

<sup>3</sup> <https://www.americanprogress.org/issues/economy/reports/2021/08/23/502287/time-workforce-disclosure-reset/>

<sup>4</sup> <https://www.bloomberg.com/news/articles/2020-12-10/blackrock-plans-to-push-companies-on-racial-diversity-in-2021>

<sup>5</sup> <https://www.ssga.com/us/en/institutional/etfs/insights/diversity-strategy-goals-disclosure-our-expectations-for-public-companies>

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## **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 Ariel Investments, the Chicago City Treasurer's Office, Illinois State Treasurer's Office, Illinois State Board of Investment, Ohio Public Employees Retirement System, Minnesota State Board of Investment, School Employees Retirement System of Ohio, SEIU Master Trust, Sundance Family Foundation, Saint Paul and Minnesota Foundation, Segal Marco Advisors, Seventh Generation Interfaith, Trinity Health, UAW Retiree Medical Benefits Trust, Wespeth Benefits and Investments, and YWCA Metropolitan Chicago.

For more information, please visit the [Midwest Investors Diversity Initiative's website](#) or contact Max Dulberger, Director of Corporate Governance & Sustainable Investment, Illinois State Treasurer's Office, at [mwvd@illinoistreasurer.gov](mailto:mwvd@illinoistreasurer.gov).