The **Northeast Investors’ Diversity Initiative** is a coalition of institutional investors committed to increasing gender, racial, and ethnic diversity on corporate boards to maximize returns and safeguard shareholder value. To encourage boardroom change, the Northeast Investors’ Diversity Initiative (NIDI) engages companies based in the Northeast by leveraging corporate relationships and shareholder rights.

The Northeast Investors’ Diversity Initiative is a collaboration of:

- Connecticut State Treasurer
- Rhode Island State Treasurer
- New York City Comptroller
- Boston Trust Walden
- Trillium Asset Management
- Zevin Asset Management
- Massachusetts State Treasurer
- Maine State Treasurer
- Vermont State Treasurer
- Miller-Howard Investments
- Pax World Funds

For more information about the Northeast Investors’ Diversity Initiative please contact Christine Shaw, Assistant Treasurer for Policy, State of Connecticut Office of the State Treasurer at christine.shaw@ct.gov.

### ABOUT THE TOOLKIT

This Toolkit is designed to serve as a roadmap for companies to create and maintain a diverse board of directors. It is informed by the work of institutional investors from across the country over the course of years of engagement with portfolio companies, and incorporates best practices from the **Midwest Investors Diversity Initiative** and the insights of Annalisa Barrett, former Clinical Professor of Finance at the University of San Diego’s School of Business.

Inside companies will find:

- **Best Practices**
- **Search Resources**
- **Sample Language**
- **Key Insights**
- **Helpful Links**
- **Examples**
“Research has shown time and again that diversity of thought and perspective leads to better investment returns, better business strategies and stronger organizations as a whole.”

- Deborah Christie, Managing Director at Cambridge Associates & Coauthor of Gender Lens Investing: Impact Opportunities Through Gender Equity

**IT STARTS AT THE TOP**
Successful boards make for successful companies

Research indicates that when boards embrace the strategic value of diversity, they are better structured for sustainable financial success.

**BETTER FOR BUSINESS**
Diversity benefits corporate decision-making & company performance

Research shows that companies with diverse boards are more likely to have strong financial performance and fewer instances of bribery, corruption, shareholder concerns and fraud.

**EXPERTS AGREE**
Investors, Academics, Executives get it

From major investment firms like State Street Global Advisors, BlackRock and Vanguard to scholars & experts–leaders endorse the link between diversity and board effectiveness and the creation of long-term shareholder value.
A CHECKLIST: ASSESSING & INCREASING BOARD DIVERSITY

Practical implementation should not be a barrier for companies seeking to increase board diversity. To assist, companies should consider following these best practices.

PRACTICE #1: ADOPT A DIVERSE SEARCH POLICY

Nominating & 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 people of color in the initial list of qualified candidates for every open board seat. Additional examples can be found in Practice #4.

Sample Language

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.

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 people of color 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

Director Election Criteria

“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.”

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.”

Broaden the Candidate Pool

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.
PRACTICE #2: EXPAND THE CRITERIA FOR QUALIFIED BOARD CANDIDATES

Evaluate Current Minimum Requirement
Identify essential qualification, such as digital or legal expertise, to 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
- Distinctive 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

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

Establish & Maintain 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

"Given the higher returns that diversity is expected to bring, we believe it is better to invest now, since winners will pull further ahead and laggards will fall further behind."

-McKinsey & Company

"Why Diversity Matters" by Vivian Hunt, Dennis Layton, and Sara Prince; January 2015

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 & 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.
Leverage Resources of 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.

<table>
<thead>
<tr>
<th>ORGANIZATION</th>
<th>WEBSITE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ascend by Pinnacle</td>
<td><a href="http://www.ascendleadership.org">www.ascendleadership.org</a></td>
</tr>
<tr>
<td>Catalyst</td>
<td><a href="http://www.catalyst.org">www.catalyst.org</a></td>
</tr>
<tr>
<td>Directors Academy: Resource for Identification of Diverse Directors</td>
<td><a href="http://www.directorsacademy.com">www.directorsacademy.com</a></td>
</tr>
<tr>
<td>DirectWomen</td>
<td><a href="http://www.directwomen.org">www.directwomen.org</a></td>
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<tr>
<td>The Diverse Corporate Directors Coalition</td>
<td><a href="http://www.latinocorporatedirectors.org">www.latinocorporatedirectors.org</a></td>
</tr>
<tr>
<td>Equilar Diversity Network</td>
<td><a href="http://www.equilar.com">www.equilar.com</a></td>
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<tr>
<td>Hispanics in Corporate America</td>
<td><a href="http://www.hacr.org">www.hacr.org</a></td>
</tr>
<tr>
<td>Inforum Board Access</td>
<td><a href="http://www.informummichigan.org">www.informummichigan.org</a></td>
</tr>
<tr>
<td>ION</td>
<td><a href="http://www.ionwomen.org">www.ionwomen.org</a></td>
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<tr>
<td>Latino Corporate Directors Association</td>
<td><a href="http://www.latinocorporatedirectors.org">www.latinocorporatedirectors.org</a></td>
</tr>
<tr>
<td>The Leader’s Edge - Leaders by Desi</td>
<td><a href="http://www.the-leaders-edge.com">www.the-leaders-edge.com</a></td>
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<tr>
<td>Rooney Rule Compendium</td>
<td><a href="http://www.Rooney">www.Rooney</a> Rule Compendium</td>
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<tr>
<td>Thirty Percent Coalition</td>
<td><a href="http://www.30percentcoalition.org">www.30percentcoalition.org</a></td>
</tr>
<tr>
<td>Women in the Boardroom</td>
<td><a href="http://www.womenintheboard.com">www.womenintheboard.com</a></td>
</tr>
</tbody>
</table>
When Choosing 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. The probability of a woman or person of color being selected drastically increases when two or more people of color or women are in the pool of finalists.

The Relationship Between Finalists Pools and Actual Hiring Decisions

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

<table>
<thead>
<tr>
<th>COMPOSITION OF FINALIST POOLS</th>
<th>LIKELIHOOD OF HIRING A WOMAN</th>
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<tr>
<td>WOMAN WOMAN WOMAN MAN</td>
<td>67%</td>
</tr>
<tr>
<td>WOMAN WOMAN MAN MAN</td>
<td>50%</td>
</tr>
<tr>
<td>WOMAN MAN MAN MAN</td>
<td>0%</td>
</tr>
</tbody>
</table>

SOURCE: Stephanie K. Johnson et al. ©HBR.ORG

Recruit Top Talent

The supply of qualified women and people of color 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 Google's Unconscious Bias training.

Google Guide and Slides Example

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PRACTICE #6: DISCLOSE BOARD DIVERSITY TO INVESTORS

Report the Gender and Race/Ethnicity of Directors; Utilize 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.
**Sample Matrix Format**
NYC Pension Funds' National Boardroom Accountability Project Campaign Matrix

<table>
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<th>Skills &amp; Experience</th>
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<th>Name 2</th>
<th>Name 3</th>
<th>Name 4</th>
<th>Name 5</th>
<th>Name 6</th>
<th>Name 7</th>
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**Demographic Background**

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<tr>
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<td></td>
</tr>
<tr>
<td></td>
<td>White/Caucasian</td>
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</tr>
</tbody>
</table>

**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.
Notes