



**NORTHEAST  
INVESTORS' DIVERSITY  
INITIATIVE**

**DIVERSE SEARCH  
COMPANY TOOLKIT**



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](mailto: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

# BOARD DIVERSITY MATTERS

***"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*

## MORE LIKELY TO OUTPERFORM

**33%**

McKinsey found that companies in the top quartile for racial and ethnic diversity are 33% more likely to outperform on profitability than companies in the bottom quartile.

## MORE LIKELY TO EXPERIENCE ABOVE- AVERAGE PROFITABILITY

**21%**

McKinsey observed that companies in the top quartile for gender diversity on their executive teams were 21% more likely to experience above-average profitability than companies in the fourth quartile.

## 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.”<sup>2</sup>

#### *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

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.



## **PRACTICE #4: EXPLORE DIVERSE CANDIDATE SEARCH RESOURCES**

### **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.

<b>ORGANIZATION</b>	<b>WEBSITE</b>
Ascend by Pinnacle	<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://www.directorsacademy.com">www.directorsacademy.com</a>
DirectWomen	<a href="http://www.directwomen.org">www.directwomen.org</a>
The Diverse Corporate Directors Coalition	<a href="http://www.latinocorporatedirectors.org">www.latinocorporatedirectors.org</a>
Equilar Diversity Network	<a href="http://www.equilar.com">www.equilar.com</a>
Hispanics in Corporate America	<a href="http://www.hacr.org">www.hacr.org</a>
Inforum Board Access	<a href="http://www.inforummichigan.org">www.inforummichigan.org</a>
ION	<a href="http://www.ionwomen.org">www.ionwomen.org</a>
Latino Corporate Directors Association	<a href="http://www.latinocorporatedirectors.org">www.latinocorporatedirectors.org</a>
The Leader's Edge - Leaders by Desi	<a href="http://www.the-leaders-edge.com">www.the-leaders-edge.com</a>
Rooney Rule Compendium	<a href="http://www.Rooney Rule Compendium">www.Rooney Rule Compendium</a>
Sigma Pi Phi: African American Board Talent in the 21st Century	<a href="http://www.bouledirectors.org">www.bouledirectors.org</a>
Thirty Percent Coalition	<a href="http://www.30percentcoalition.org">www.30percentcoalition.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://www.womenintheboard.com">www.womenintheboard.com</a>

# 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.



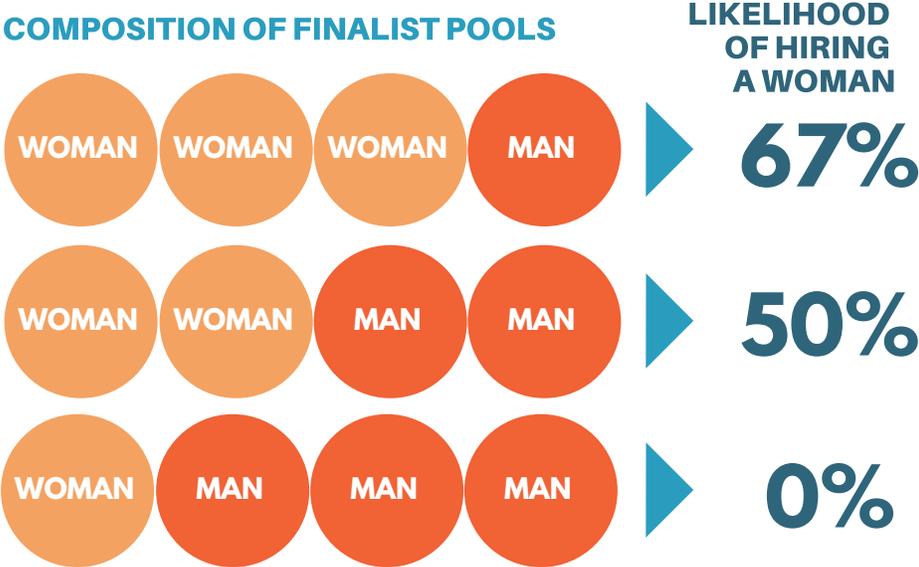
## PRACTICE #5: ELIMINATE UNCONSCIOUS BIAS

### 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.<sup>4</sup> 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.



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



The screenshot shows the re:Work website interface. The top navigation bar includes 're:Work' logo, 'SUBJECTS', 'GUIDES', 'CASE STUDIES', 'BLOG', and a search icon. The main content area features a dark sidebar on the left with the heading 'UNBIASING' and a list of items: 'Guide: Raise awareness about unconscious bias', 'Introduction', 'Understand the science', 'Partner with leadership', 'Watch Unconscious Bias @ Work', and 'Learn about'. The main article is titled 'Tool: Give your own unbiasing workshop' and includes a paragraph of text: 'Once the workshop was piloted and its impact evident, the team worked to make it available to all Googlers by using a "train-the-trainer" approach - getting Googlers to teach other Googler facilitators. Tapping into a passionate group of employees across the company, the team equipped facilitators to teach Googlers on their own. In order to both recognize the contributions of volunteer facilitators and help hold them accountable, their managers were also made aware of the teaching commitments and the employee and cultural impact of the efforts.'



## 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

[Insert Your Organization Name]

#### Board Matrix

This sample matrix can help boards and investors assess the level of experience each company director/nominee has in various areas, as well as in the areas of gender, sexual orientation and racial/ethnic diversity, age and tenure.

		Board of Directors							
		Name 1	Name 2	Name 3	Name 4	Name 5	Name 6	Name 7	Name 8
<b>Skills &amp; Experience</b>									
Board of Directors Experience		X			X				
[Specific] Industry Experience			X					X	
CEO/Business Head		X			X				
International		X					X	X	
Human Capital Management/Compensation				X				X	
Finance/Capital Allocation			X			X		X	
Financial literacy/Accounting (Audit Committee Financial Expert or "ACFE")				X			X		
Government/Public Policy		X			X				
Mark	<b>Demographic Background</b>								
Environ	<b>Board Tenure</b>								
Acad	Years	15	15	10	8	7	7	4	1
Risk I	<b>Sexual Orientation (voluntary)</b>								
Corpor	LGBTQ	X							
Tech	<b>Gender</b>								
Busin	Male		X	X	X	X	X		X
Real	Female	X						X	
	Non-Binary								
	<b>Age</b>								
	Years old	60	63	65	62	60	67	55	47
	<b>Race/Ethnicity</b>								
	African American/Black	X							
	Asian, Hawaiian, or Pacific Islander								
	White/Caucasian		X	X	X		X	X	X
	Hispanic/Latino					X			
	Native American								
	Other								

## 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

- 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-ac-ee-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>
- 2 [https://s21.q4cdn.com/991982067/files/doc\\_downloads/gov\\_doc/2018/Diversity-Policy-October-2017.pdf](https://s21.q4cdn.com/991982067/files/doc_downloads/gov_doc/2018/Diversity-Policy-October-2017.pdf)
- 3 <http://investors.tilesshop.com/phoenix.zhtml?c=241568&p=irol-govhighlights>
- 4 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>