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Friday, November 13th, 2020

12:00 p.m. – 1:30 p.m. CST

NATIONAL DIRECTORS INSTITUTE

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ROUNDTABLE

Diversity and Inclusion: Beyond the Boardroom

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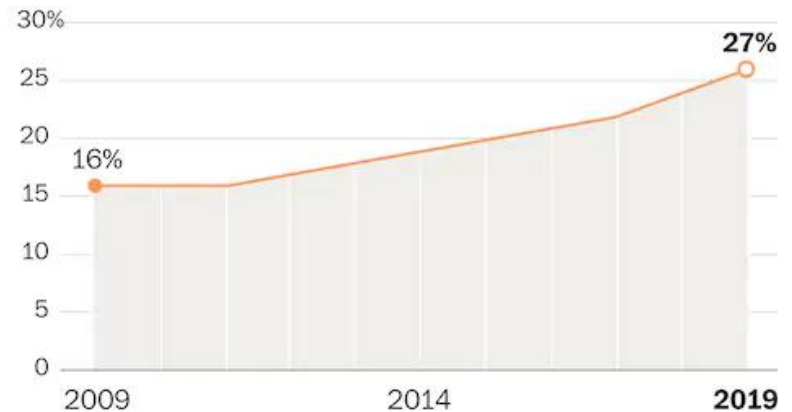
Journey to Board Service

- Often, a Board begins its search to fill a vacant seat by asking existing board members for referrals that meet the criteria for what the Board is looking for, as well as engaging a search firm to identify and/or vet potential candidates.
- Securing a Board seat can be the result of:
 - Serving as the Corporate Secretary in addition to the General Counsel of your company.
 - Leveraging your broad network, including a network of individuals who sit on various Boards.
 - Having a relationship with a search firm that will put your name forward.
 - Making it known to your contacts and company C-suite of your interest and having a Board-ready profile.
- Before embarking on a journey to sit on a corporate board, understand your current company's culture and whether your CEO is supportive of you serving on another company's board.

Corporate Boards – Gender Diversity

- After being stuck at 16% for several years, the percentage of women-held board seats in the S&P 500 now reaches nearly 27%.¹
- Women now hold 20.4% of the board seats of Russell 3000 companies, an increase from 17.7% in 2018.²
- The recent uptick in gender diversity has been driven by increased scrutiny by investors and the fear of being called out in the media.
- The “Me Too” movement has encouraged boards to add women so that top investors do not withhold support in corporate elections.³

Percent of S&P 500 board members who are women



Data as of July 15, 2019.

Source: ISS Analytics

ADRIAN BLANCO/THE WASHINGTON POST

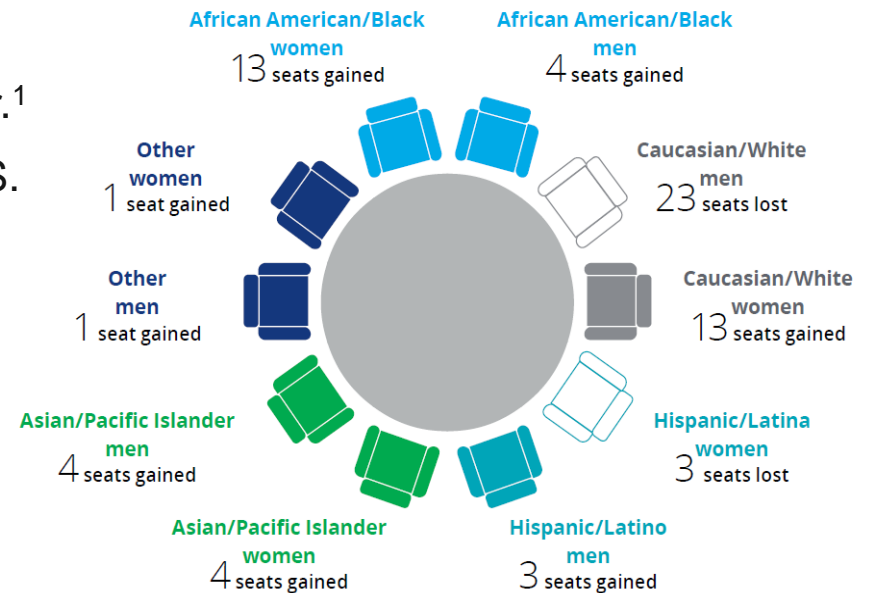
Corporate Boards – Gender Diversity

- Recent research has shown that boards tend to diversify to the point where they meet what is considered the norm and then do little to continue to increase gender diversity.¹
- Research also shows that first-time female directors tend to receive far less mentoring about boardroom service than white men.²
 - This makes appointments less likely and shorter tenures more likely.
- Although women still are underrepresented, their gains have been more substantial than racial minority groups.³
- Companies must be deliberate about diversifying their boards.⁴
 - Best Buy and e.l.f. Cosmetics are examples of the positive impacts of a diverse board.

Corporate Boards – Racial Diversity

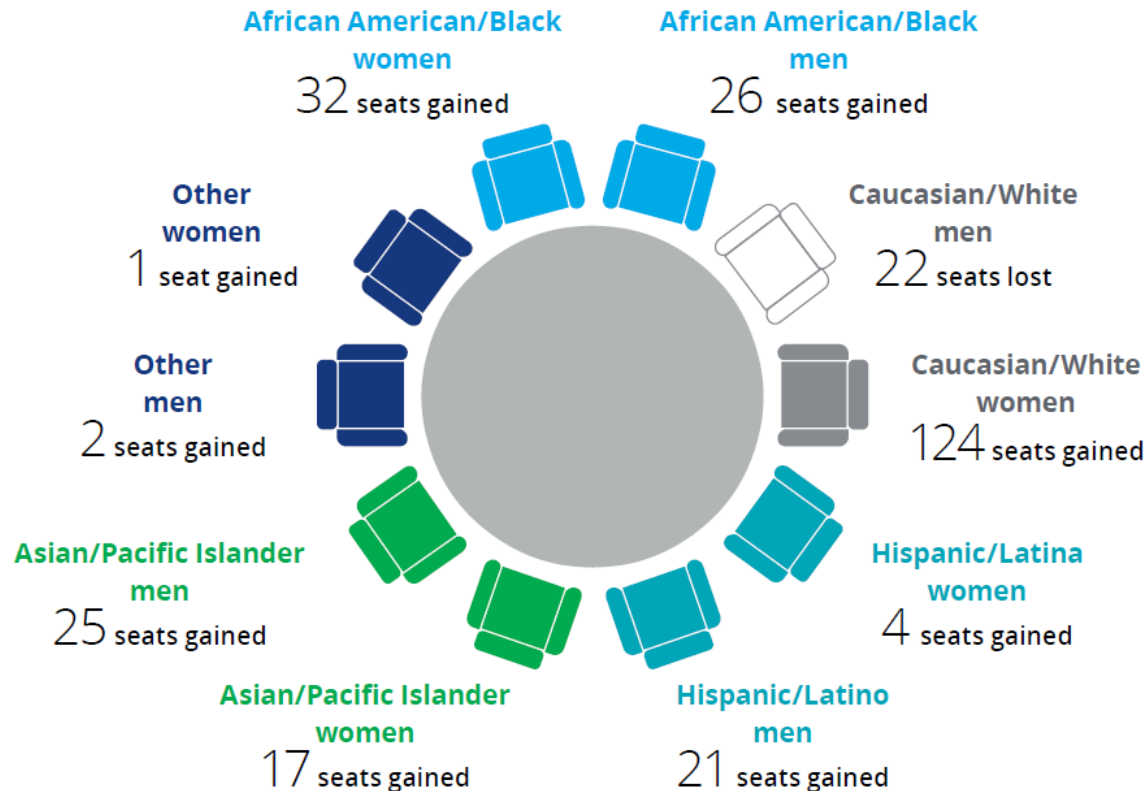
- The underrepresentation of Black professionals is especially bleak in terms of board service.
- Although newly-appointed directors are increasingly diverse, 37% of S&P 500 firms did not have any Black board members in 2019, and Black directors comprised just 4.1% of Russell 3000 board members that same year.¹
- Nearly one in five (18.3%) residents of the U.S. is Latino; among the 10,166 board seats of companies on the Fortune 1000 list, only 2.7% are held by Latinos.²
- Boards will frequently select from a pool of existing minority board members rather than bringing in new directors.³
- Boards can expand the pool by appointing individuals who have not served on a board and not creating barriers for individuals who have a legal background (*i.e.*, overlooking GCs for board seats).

Fortune 100 seats gained/lost from 2016 to 2018 by gender and race/ethnicity



Corporate Boards – Racial Diversity

Fortune 500 seats gained/lost from 2016 to 2018 by gender and race/ethnicity¹



Why Diversity Matters

- Diversity promotes creativity, encourages greater consideration of alternatives, and provides access to a wider range of perspectives.
- Diversity advocates say greater gender diversity can bring better financial performance and improve public image.¹
- A lack of diversity in background and experience can stifle innovation and promote group think.²
- Companies that do not prioritize inclusion may struggle to attract and retain top talent and younger workers.³
- Boards and management teams should be reflective of the people that they serve, and lack of diversity can result in leaders saying and doing things that could be detrimental to a company's stock or their own careers.
 - CrossFit CEO Greg Glassman resigned after his comments about not mourning George Floyd's death incited significant backlash from the public and corporate partners.³

Why Diversity Matters

- Following investor pressure, Amazon committed to including women and minorities in all candidate slates for director openings in 2018.¹
- Reddit's co-founder and executive chairman of the board, Alexis Ohanian, recently stepped down, stating: "I've resigned as a member of the Reddit board, [and] I have urged them to fill my seat with a Black candidate."²
 - Reddit has since appointed its first Black board member: Michael Seibel, Chief Executive Officer of Y Combinator.

Legislative Efforts to Improve Board Diversity

- **California**

- Every publicly held domestic or foreign corporation whose principal executive office is in California is required to have a minimum of 1 female director on its board. By the end of 2021, each one with 6+ board seats must have at least 3 women, those with 5 seats must have at least 2 women, and those with 4 or fewer seats must have at least 1 woman.¹

- **Illinois**

- All publicly held domestic or foreign corporations whose principal executive offices are in Illinois must annually file public disclosures regarding the racial, ethnic, and gender demographics of their board.²

Legislative Efforts to Improve Board Diversity

■ New York

- Amended the Business Corporation Law to conduct a “women on corporate boards study” aimed at collecting data about board diversity. Domestic and foreign corporations conducting business within New York are required to report the number of directors and the number of women on their boards. By February 1, 2022, the Department of State will publish the findings and repeat the process every 4 years.¹

■ Maryland

- Included annual data reporting requirements for corporate boards that will last through September 30, 2029. Tax-exempt domestic nonstock corporations with operating budgets exceeding \$5M and domestic stock corporations with total sales exceeding \$5M will have to include the number of women and total members on their annual reports to the State Department of Assessments and Taxation. Private companies where at least 75% of shareholders are family members are exempt from reporting.²

Legislative Efforts to Improve Board Diversity

- **Europe**

- France's corporate governance code requires that both genders hold at least 40% of the board seats. ¹
- Norway passed gender related legislation in 2014 that requires companies to have at least 40% of their board positions filled by women. ²
- Germany's corporate governance code requires companies to have at least 30% representation of both genders on their boards. ³

How to Be Board Ready

- Corporations are feeling the pressure to adjust the makeup of their boards, and now is the time to make the jump into these high-profile roles.
- **Promote:** Speak up about your contributions, the value you have created in prior positions, and highlight your interest in serving on a board.¹
- **Nurture:** Cultivate your existing relationships because board members often earn their positions through existing connections.² Develop relationships with search firms because they work closely with companies when vacancies arise.
- **Develop:** Become an expert in emerging areas, such as artificial intelligence or cybersecurity.³
- **Join:** Join the board of a relevant nonprofit organization where you can gain skills and experience. Numerous organizations, such as National Association for Corporate Directors, Stanford Law School's Directors' College and Northwestern University's Kellogg Center for Executive Women are invested in diversity efforts for boards.⁴

Top Executive Search Firms¹

- Korn Ferry
- Heidrick & Struggles
- Spencer Stuart
- Robert Half
- Diversified Search
- Russell Reynolds Associates
- Egon Zehnder International
- Lucas Group
- Linked Executive Search
- Boyden
- N2GROWTH
- Tatum, a Randstad company
- DHR International
- Cabot Consultants
- 20/20 Foresight Executive Search
- Stanton Chase International
- Crawford Thomas Recruiting
- WittKieffer
- Salveson Stetson Group
- MRINetwork

How to Be Board Ready

▪ **Suggestions for New Directors:**

- Have a board-ready bio that distinguishes you.
- Beware of trying to make drastic changes at the outset.
- Learn the basics of the company.
- Understand where you can provide the most value.
- Identify mentors.
- Know how to manage conflicts and build relationships.
- Know your responsibilities as a board member.
- Avoid a conflict of interest.
- Maintain confidentiality.

Key Takeaways

- Board diversity is becoming increasingly important to major investors like State Street Global Advisors because it is needed to meet Sustainability Accounting Standards and Environmental, Social and Governance Standards. As such, board diversity should be important to companies, too.¹
- Along the path to securing a board seat, it is important to build and maintain relationships; know and highlight the mix of skills, expertise and experience you have; and look for opportunities to serve in positions that may lend themselves to becoming a board member.
- Legislation to encourage, or even mandate, board diversity is gaining traction nationwide, as well as worldwide.
- Companies willingness to increase the diversity of the pool of qualified candidates will result in more diverse candidates being considered throughout the selection process and ultimately becoming board members.

Thank You



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