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White males continue to hold approximately three out of every four public company board seats. In 2015, women directors at Fortune 1000 companies held less than 20 percent of the board positions, and ethnic minority directors of S&P 500 companies held approximately 13 percent. At smaller companies, those percentages are lower. Despite active promotion from national campaigns, like 2020 Women on Boards, the percentage of women and ethnic minorities on boards of directors is gaining little traction.

While typically focusing on gender and ethnicity, the term diversity also encompasses many other characteristics, such as age, geography, skills, and experience. For a board, the overarching goal with respect to diversity should be to assemble directors that deliver a diversity of thought.

One strategy to increase diversity is to plan for it. Boards can readily identify areas of improvement for diversity by implementing an effective board succession plan. Using a process that thoughtfully considers the board's desired skills and diversity facets will define what diversity means to your company, identify areas of need and forecast the timing of those needs. With that knowledge, you will build a bridge to increased diversity for your board.

What does diversity mean to you?

The first question your board needs to answer as part of its succession planning process is: What does diversity mean to your company? The answer will identify the types of diversity needed to help your board carry out its duties.

Without question, seeking gender and ethnic diversity for your board is of primary importance to develop the diversity of thought, but do not overlook the richness of perspectives from directors who offer insights from other industries, who are in different stages of their careers or who live in different parts of the country or world. Your organization will derive a tremendous value for your stakeholders from board members who draw on varying perspectives to direct management.

At NorthWestern Energy, a regional gas and electric utility, our board relies on many facets of its diversity to direct our business – female and minority directors,

A BRIDGE TO DIVERSITY

How Board Succession Planning Will Improve Diversity

Written by Timothy Olson

Board diversity is of increasing importance for many boards today. However, the effort seems to end in the board room.



Photo Credit: Susan Malee, NorthWestern Energy

utility executives, utility regulators, executives from other industries, directors from both around the country and who live in our service territory. The diversity of these qualities are important to our board, and at any given time a particular quality may gain prominence depending on the issue under consideration.

How diverse is your current board?

Once your board has defined diversity and determined the facets of diversity that are important, it should compare those facets to the characteristics of its current members. You may find it helpful to incorporate an annual skills matrix analysis into this discussion to help identify and target specific gaps in your board's composition.

Many diversity characteristics likely already are or would be reflected in your board's skills matrix. In addition to a simple breadth of skills assessment to determine a board member's qualifications, this is an ideal opportunity to appraise

the depth of skills. For each director, measure not only whether a skill is possessed (the breadth of skills) but also the depth of each skill possessed (e.g., rating from 1-10; or proficient / highly skilled / master).

Board discussion of the skills matrix analysis will identify the gaps that exist on your board's current roster and enhance the development of its board succession planning process. Perhaps more importantly, it leads to a discussion of the timing of future needs.

What are the needs of your future board – and when?

To help build a bridge to increased diversity, your skills assessment also needs to be forward looking and evaluate which skills and diversity facets will be important for your company in the future. How will your industry look in five years or 10 years? Is it changing slowly or rapidly? How will your strategic plan change your diversity needs over time? Will your current board composition address those

changing needs or do you need to plan for membership rotation?

When you are able to answer these questions, you will have laid the foundation for addressing your board's future diversity and skill gaps. Equally important is an understanding of the timing of when current directors may be resigning.

Check director age limits. Review term limits. Attempt to gauge longevity through discussions with directors. Use this information to develop a timeline of potential departures. It's worth noting that public companies should be cautious with longevity discussions and provide a reminder of disclosure obligations at the outset of each discussion. Your obligation to publicly disclose a director resignation arises at the time the director provides definitive notice (written or verbal), even if the date of resignation is many weeks or months away.

Understanding the timing allows you to paint a more accurate picture of what future diversity facets and skills your board will have and need, what facets and skills will be lost and when gaps will exist. This picture of the future will guide your director succession planning process.

Bridging the gaps

Now that you have identified what diversity means to your board and its potential diversity gaps, your board succession plan will be able to outline your board's specific needs. It will be able to forecast when gaps will arise. Moreover, your plan will be able to serve as an enhanced roadmap for recruiting new board members with the specific diversity characteristics and skills to bridge your gaps. Armed with this knowledge, your board will be in a position to stop discussing and start implementing a succession planning process to bridge the gap and increase diversity.



Author Biography

Timothy Olson is Senior Corporate Counsel and Corporate Secretary for NorthWestern Energy and a former Skadden Chicago attorney. He oversees NorthWestern's corporate governance and board of directors meetings. Tim also leads NorthWestern's proxy statement which, in June 2015, received the NYSE Governance Services award for Exemplary CD&A, and in November, 2014 Corporate Secretary's award for Best Proxy Statement (Small to Mid-Cap). He holds an AB from the University of Chicago and a JD from DePaul University.