Board Diversity in Corporate America: Time for a Governance Makeover

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Board diversity is championed by companies, investors and regulators alike—and for good reason. Boards need talent and fresh thinking to ensure that companies flourish.

Yet the warm words on diversity are too often met with a lukewarm response in practice. What Sir Derek Higgs dubbed the “male, pale and stale” corporate board is still ubiquitous.

However, shareholders are beginning to stir—and not just ask, but insist—that boards take action.

Urban Outfitters, which holds its annual shareholder meeting today, is a prime example of a company that desperately needs a board makeover. The company will (again) face a shareholder proposal calling on its board to address diversity and our city and state pension funds will (again) be voting in full support. Here’s why.

The company has a core business selling fashion and accessories to young women, and yet until a year ago, had an entirely male board with an average age over 60.

Last year, facing the board diversity shareholder proposal for the third time, Urban Outfitters reached into its executive ranks and appointed a female board member. The new director is Margaret Hayne, a long-standing executive at the company, whose spouse is the board’s chairman and CEO, Robert Hayne.

The New York State and Connecticut pension funds have come back this year, to patiently explain that improving diversity requires more. Board quality is vital to a
company's success, and diversity is an essential element to robust decision-making. The point is to strengthen the board's independent thinking and oversight.

Credit Suisse has released a careful analysis of the performance of 2,360 companies around the world over a six-year period. Its analysis clearly determined that it would have been better to have invested in corporations with women on their boards than those without.

Why? Companies with one or more women on the board delivered higher average returns on equity, better average growth and higher price or book value during those six years.

Corporations must go beyond the comfort and convenience of current contacts and family members. They must develop policy and process to ensure that the board taps into the full pool of talent—and goes beyond fishing from the end of the pier.

In fact, diversity should be a factor in performance assessments for more CEOs and more board chairs. That's rather self-explanatory. There's no better incentive than self-interest.

Including diversity into board search criteria, and nomination committee charters, is vital. Think of it as the Rooney Rule, which requires National Football League teams to interview minority candidates for head coaching and senior football operations openings, for the boardroom. Leading companies are starting to take notice, and to their credit, are formalizing their commitment to diversity in this way. Apple is a prime example, and one to follow.

Shareholder proposals on board diversity are on the rise—over 25 resolutions were filed this year. Most are withdrawn following companies agreeing to make change. Those resolutions that do go to a vote are seeing rising support. Last year, the New York City pension funds' board diversity proposal at CF Industries received the first-ever majority vote. The company's board took notice and put in place a diversity policy, though it has yet to name any minority or women directors.

The pace needs to pick up. The trends on board diversity do not make for inspiring reading. Tenure has increased, meaning that incumbents are staying longer, leaving little
room for new candidates and thereby delaying the board refreshment that will allow
diverse candidates an opportunity to bring new talent to the table.

The time for delay is over. The talent is available. The task of board leadership demands
that talent. The days of male, pale and stale should be a look back on how we were, not
where we need to be.

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