Susan Shultz directs searches for companies looking for new board members, and always includes a woman on her short list of candidates. One woman particularly impressed her in a board search about a year ago for a New York Stock Exchange-listed company. The chief executive officer of the company, however, was not enthusiastic. "Our culture is not ready for a woman," he told Shultz, chairman of the global board practice for New York-based executive search firm Barker Gilmore.

There are many reasons why women and minorities are not well represented on corporate boards, including bank boards, and the fear that a woman or racial minority might upset the culture and dynamic of the board is just one of them. Many times, CEOs and boards look for candidates exclusively among the people they know who inhabit the same social circles. Often they look for board members who have previous experience on the boards of publicly traded companies, or are CEOs or former CEOs of major companies, and those jobs are rarely filled by women or minorities.

Despite making up nearly half of the labor force and more than half of management and professional jobs, there are only 23 women heading Fortune 500 companies (less than 5 percent). In the finance industry, women make up 34 percent of the workforce—but exactly zero head Fortune 500 finance companies, according to Catalyst, a non-profit organization trying to expand opportunities for women at work.

Women and minorities are making some progress getting on corporate boards, including bank boards, but the change has been slow. There are some who believe the pace of change will pick up shortly. In particular, there is increased pressure from shareholder activists to diversify boards. There are also studies, including a 2012 report from global bank Credit Suisse, that have found companies with more women on their boards perform better financially. And there is increased focus on the benefits of turnover in corporate boardrooms, which could lead to more diversity in the years ahead as new board members are appointed.

About 16.9 percent of Fortune 500 corporate board seats in 2013 were held by women, a negligible increase from the previous year, according to Catalyst. In fact, the percentage of women on Fortune 500 corporate boards has risen by just 3.3 percentage points in a decade. Spencer Stuart, a Chicago-based global executive search consulting firm, says about 18 percent of S&P 500 financial company board seats in 2013 were filled by women, up slightly from 16 percent in 2012.

Minorities are even worse off in terms of board representation. Despite making up nearly 40 percent of the overall U.S. population, racial or ethnic minorities held just 13 percent of Fortune 500 board seats in 2012, according to the latest figures from the Alliance for Board Diversity, a non-profit that tracks minorities on boards. That figure didn't change much from two years prior. In fact, African-Americans actually lost board seats on Fortune 500 companies during that time, the group said. "What we have found over the last couple of [years], it is not in fact increasing," says Patrick Prout, the CEO of The Prout Group, an executive search firm in Cleveland, Ohio, and a board member with the Alliance for Board Diversity. He previously worked as chief operating officer for the former BancOne Cleveland, BancOne Corp.'s bank subsidiary in Cleveland, during the 1990s. He attributes the lack of change on boards to the lack of turnover of corporate board seats, as well as a tendency for CEOs to choose other CEOs to fill board seats.

Smaller company boards tend to be even less diverse than large company boards, and that's true for banks as well. "There is a historical tendency [for boards] to put someone on the board they know," says Alan Kaplan, president and CEO of executive search firm Kaplan & Associates in Wynnewood, Pennsylvania. "It's someone they play golf with or is in the country club, or owns a business down the street. On the one hand, there can be some positives. You want to find someone who fits in the culture of the board. You want someone who will participate in a constructive way." On the other hand, filling up a board with people you know might limit diversity of thought, and not always provide a broad range of experiences to draw from, he says.
William Reeves, a partner who specializes in financial institution executive and board searches at Spencer Stuart, says there is a demand for women candidates on boards, but the commitment to getting them there is not as strong as it could be. “You don’t have to compromise your standards [for new board members],” Reeves says. “You might need to be a bit creative in terms of what you consider.” While it is desirable to have a retired CEO on your board, there are many skill sets that are present in other people.

For instance, there are many more female chief financial officers than CEOs. Law firm partners and partners in audit firms also make desirable bank board candidates, he says.

Allie Rutherford, the director of the Center for Board Matters at tax and advisory firm Ernst & Young LLP, says the slow growth in the number of female directors is a reflection of slow turnover on boards. To get a woman on your board, “there has to be a board seat to fill.”

She said that when some directors retire, many boards just shrink. That is especially true for bank boards, which historically have had larger boards compared to other industries. Bank boards often grow in size when there have been multiple acquisitions and directors from the acquired banks have been incorporated into the acquirer’s board as a condition of the deal. Those seats were not necessarily given in consideration of diversity.

Not all banks, of course, are lacking in board diversity, and some have taken aggressive action to diversify their boards. For instance, Bryn Mawr Bank Corp., a $2.1-billion asset holding company in Bryn Mawr, Pennsylvania, recruited only women two years ago when two board seats opened up. Ted Peters, the chairman and CEO, says he told the board he thought it should stick to only female
**M&A**

**Becoming a Successful Acquirer**

Now that the banking industry's asset quality problems are easing, valuations are rising and M&A deal pricing is picking up, many banks may consider jumping into the fray and becoming acquirers. But before they do that, learning from experienced advisors and acquirers would be wise. Daniel Pake, a managing director at investment banking firm the Hovde Group, talks about the common elements of successful deals and what to avoid.

What are some attributes of successful acquirers, that is, companies that have executed successful transactions? The best and most successful acquirers are well-prepared, disciplined and patient. To these acquirers, M&A has become almost a line of business, and they are ready to undertake a potentially arduous M&A process (or multiple processes at once). Being prepared means understanding how a transaction fits into your overall business strategy and how it will add to shareholder value. In which markets do you want to grow, what targets are worth approaching and what is their value? Management teams interested in M&A need to develop procedures with their boards to determine how deals are sourced, the key factors to be considered and how the transaction should fit within the overall corporate strategy. When a potential deal presents itself, it can then be examined through that existing structural framework. If a target doesn't fit the parameters or the required price is too steep, good buyers will walk away. They have due diligence and integration teams in place, as well as trusted advisors ready to assist. A full M&A process, going from negotiation to integration, can take up to a year or longer, so management needs to be deep enough and strong enough to run the existing bank throughout the merger and integration process. Successful buyers are also typically well-capitalized, have excellent regulatory relations and trade at a premium valuation.

What mistakes do acquirers commonly make? Being reactionary when it comes to M&A will lead to problems. If your game plan is to wait for an invitation into an auction process, you're putting yourself at a disadvantage. If management and boards aren't prepared, there is potential to overpay and mismanage the integration process. Also, if you are out courting M&A targets, you need to be tactful in your approach. Telling another bank that they have limited future prospects, weak management or no ability to pay off the Troubled Asset Relief Program (TARP) money won't make them want to do a deal with you.

If you could pick a few things that are very important in any transaction, what would they be? On the front end, understanding the merger math is most important. Using realistic assumptions about future earnings because the deal really needs to be nicely accretive to the buyer's earnings per share (EPS) and not cause long-term dilution to its tangible book value per share. The buyer needs to accurately quantify the synergies and aggressively achieve those cost savings after the close. That said, high performing employees need to be retained. If you lose the people with the best customer relationships, making the deal work will be a challenge. Ultimately, successful integration of employees and customers is the key to any acquisition.

What questions should the board ask to make sure due diligence is done well? Asset quality remains the key due diligence focal point. Boards need to ask about the review process on the target's loans and how the accounting marks were calculated. In addition, boards must consider all other strategic alternatives and whether a particular acquisition will enhance shareholder value versus pursuing a different course of action.

What aspects of investor reaction do companies sometimes fail to understand? Investors won't always applaud M&A transactions. Good investors will do their own math and if they calculate low/no EPS accretion and significant tangible book value dilution, they are likely to sell their shares. A bad deal, no matter how small, can have a long-lasting impact on a company's share price.
candidates, and the other directors agreed. "We felt like we needed a minimum of two women," he says. "Sixty percent of our employees are women and at least half of our wealth clients are women. To not have women on our board would be short-sighted." Peters says that the company, whose principal subsidiary is The Bryn Mawr Trust Co., didn't compromise on the skill sets it wanted, nor did the board want to hurt the chemistry of the board. "We have a board that is very active and engaged," he says. "We all have [had] different life experiences."

Bryn Mawr ended up picking Lynn McKee, the executive vice president of human resources at Aramark, a Philadelphia-based uniform, facilities management and food service company with 270,000 employees. It also added Andrea "Andy" Gilbert, the top executive at Bryn Mawr Hospital, to its board. Since the bank already had two African-American board members, Wendell Holland, an attorney and former public utility commissioner, and Jerry Johnson, a former principal in the accounting firm Heffier, Radetch & Sailla, the make-up of the board is now 40 percent women and minorities.

Another way Bryn Mawr tries to make sure the bank has fresh perspectives is to periodically review the performance of board members when their terms end. Although it’s important to have long-term board members who understand the organization well, it’s also important to have new ideas, Peters says. "We are clear with directors that this is not a lifetime appointment," he says. "We are not shy about that." In his 14 years at the company, the board has turned over almost completely, with the exception of Holland.

While Bryn Mawr’s board may not be typical, there is growing pressure on a number of companies to change their boards. Big proxy advisory firms are reporting on the diversity of board members at corporations and sending this information to institutional investors. Patrick McGum, the special counsel for one of them, Institutional Shareholder Services (ISS), says there is more attention to diversity on boards today because of pressure from several shareholder activist groups. The Thirty Percent Coalition, for example, is trying to increase the percentage of women serving on public company boards to 30 percent overall. The group has backing from women’s organizations and several institutional investors, including the California teachers’ pension group CalSTRS. The Thirty Percent Coalition sent letters to about 160 companies starting in 2012 that didn’t have any women on their boards and followed up with proposed shareholder resolutions for those who didn’t respond adequately.

"We have to change the mindset," says Charlotte Laurent-Ottomane, the executive director. "The demand for women on boards isn’t changing."

Also, institutional shareholders are keeping an eye on countries such as France, Iceland and Norway that have instituted mandatory gender quotas for corporate boards, says McGum. A contentious proposal to enact quotas across the European Union was vetoed by German Chancellor Angela Merkel. Ottomane says her group does not advocate for quotas and she doesn’t think they would be popular in the United States.

What is in the works in the United States is a new requirement of the Dodd-Frank Act: Banks and thrifts of all sizes must soon have diversity policies for their workforce, contractors and the selection of board candidates, and publicly report what those policies are. The bank regulatory agencies have issued joint proposals to institute the new law, but Ottomane doesn’t think they will have a significant impact. Similar rules for public filers through the Securities and Exchange Commission don’t have repercussions for lack of diversity within a company or board, she says.

"There is no follow up," she says. "Diversity is not defined. It could be anything. It could be geography. It could be the color of your hair."

What could have real impact on board diversity, according to several people who follow the issue, is the increased attention on board tenure. Mandatory age limits have been creeping up on corporate boards, with more and more companies raising their age limits to 75 from 72, McGum says. As people live longer and continue their professional careers later in life, they may be more able to serve productively on boards. But board members serving 20- or 30-year terms may hurt the board’s ability to bring in fresh talent, and their long tenure raises questions about their independence from management. According to ISS, 74 percent of 500 investor groups responding to a 2013 poll found that long-term tenure was problematic on boards. "Board members believe they are there in perpetuity. That is a number one issue on boards: How to fire board members."

There is a historical tendency [for boards] to put someone on the board they know. It’s someone they play golf with or is in the country club, or owns a business down the street.”

ALAN KAPLAN, KAPLAN 6: ASSOCIATES

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According to Ernst & Young, almost half of all board seats are held by individuals who have served 10 years or longer, and 88 percent of those are men. "I have heard more about term limits for directors in the last two years than I've heard in the past 25 years," says McGurn. Most of that discussion about term limits hasn't evolved into actual term limits. But there is an increasing number of companies evaluating individual board members' performance and reducing the time before their terms come up from renewal from three years to one year. According to Spencer Stuart, 92 percent of S&P 500 financial services companies had one-year terms for their directors in 2013, up from 78 percent in 2011. Thirty-nine percent of S&P 500 financial services companies said they performed individual director, committee and board performance evaluations in 2013, up from 27 percent in 2011. Ernst & Young thinks that with pending retirements as boards continue to age, more women could find themselves picked for board seats. The firm estimates that 27 percent of current boards seats could turn over in the next five years because they are held by people 68 years of age or older, and 94 percent of those are men.

Sandy Spring Bancorp, a $4.1-billion asset bank holding company for Sandy Spring Bank in Olney, Maryland, has annual performance reviews for board members and a mandatory retirement age of 70. Some board members have lost their jobs before they hit retirement age, as well. A few years ago, the bank's board recruited a woman and an African-American to join it. Mei Xu, the president and CEO of Pacific Trade International, which operates Chesapeake Bay Candle, came onto the board in 2012. Ralph Boyd, the former general counsel of Freddie Mac, joined in 2012. With three women, two Asian-Americans and one African-American, the board of Sandy Spring Bank is now 45 percent women or minorities. "It was very intentional for us," says president and CEO Dan Schrider. "It wasn't just diversity in terms of women and minorities but also in terms of backgrounds and skills. If I surround myself with people who have similar experiences to my own, I'm not going to stretch myself."

Schrider says the nominating committee was the decision maker on adding the new board members, but he gave his opinion. "In choosing to have a more diverse board, the diversity of perspectives, that can be challenging for some CEOs. The bank is not about me. I'm just a steward in a leadership role," he says. Schrider considers other factors such as the opinions of institutional shareholders and their proxy advisory firms, as his bank's stock ownership is 65 percent institutional. "In terms of diversity and tenure, paying attention to them leads us to want a robust assessment of ourselves and our committee chairs and making sure we have the right skills on our board and our committees," he says. "We had a number of directors who would have loved to have contributed longer, but one way to manage that is to have that mandatory age limit."

Despite Sandy Spring's aggressive plan to diversify its board, Schrider says that the most important qualifications for new board members are their skills, not their race or gender. He poses it as a question: "If we are going to go in search of certain skill sets, can we also bring diversity?"

Other companies looking for diversity on the board often ask the same question. Prout says that in hires for diverse board candidates for companies, those companies are looking for certain skills and competencies above all. They are not willing to compromise. He can find diverse candidates, as long as companies are willing to look outside the role of big company CEO. "The pool is out there," he says. "Nominating committees and the board need to have a shift in attitude."

Rutherford says boards are more open now to recruiting first-time public company board members than in the past, which could increase diversity. A mix of experiences and skill sets is more valued today than it was years ago, she says. "Are there new, fresh perspectives being brought in?" she says. "Is there a good mix of experienced and new members?"

Charlotte, North Carolina-based Bank of America Corp. director Susan Bies, a former Federal Reserve Board governor, got a call in 2009 that Bank of America needed new directors because regulators wanted to shake things up at the global bank following the financial crisis. Bank of America is now listed as one of the most diverse Fortune 500 companies, according to the Alliance for Board Diversity. It has four women, one of whom is Hispanic, and two African-Americans on its board of 13, according to its 2013 proxy statement. Many of the nation's largest banks are equally aggressive in their diversity recruitment for the board, including Wells Fargo & Co., Citigroup, and U.S. Bancorp.

Bies, who spoke at a women's organization in Nashville in March, said she made sure her influential contacts knew that she was looking for board seats, and turned down other offers to get on the board of the second largest bank in the nation.

She is a testament to the fact that things are changing on many corporate boards. When she rejoined the board of Zurich, Switzerland-based Zurich Insurance Group Ltd. in 2008, "I was the only woman on the board. Now there are three."

Whether or not the diversity evident at the nation's largest bank boards works its way down to smaller banks across the nation remains to be seen. However, the new attention to diversity of thought, board evaluations and term limits could obviously have an impact. And that in itself could be a very good thing. BDI