BOARD DIVERSITY: GETTING FROM HERE TO THERE

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I appreciate the opportunity to be with you today. I would like to begin my remarks with an expression of appreciation for the role woman have played and do play in North Carolina banking. I will spend the balance of my time discussing the need for diversity on corporate boards of directors generally and bank boards in particular.

Among the many significant events in North Carolina Banking recently are the retirements of two women who have made extraordinary contributions to the industry and to our State. Helen Powers, a former bank president, state agency leader and long-time member of the North Carolina Banking Commission, left the Commission last year. With the acquisition of Avery County Bank by First-Citizens, Ms. Martha Guy has stepped down as President of one of the best performing banks in the Tar Heel State. Ms. Powers and Ms. Guy are preceded in retirement by Julia Taylor, who was a distinguished and able chief executive of Mechanics and Farmers Bank. Each of these women is sorely missed. They will be very hard to replace.

This is not to say that women do not play a crucial role in North Carolina banking today. Nothing could be further from the truth. The people in this room don't need me to tell them that without the contributions of women, the growth and continued success of North Carolina banking would not have been possible. The purpose of today's program is to acknowledge that contribution and to ensure that it is appropriately recognized in terms of compensation and opportunities for advancement. The banking industry and North Carolina need successors to Helen Powers, Martha Guy and Julia Taylor, but we won't get them if we don't give the candidates a chance.

Among the factors that can ensure fair treatment for women and for ethnic minorities is diversity at the top of the corporate ladder: the board of directors. Board diversity has been a topic of concern for corporate leaders for a number of years. I believe it is fair to say that progress has been made over the recent past on this front. However, recent events involving the failure of corporate governance in a number of major corporations suggest that a little humility is in order. As in many other areas of corporate governance, more needs to be done with respect to board diversity. Let me make a few suggestions about what "more" might be.

To begin with, let's look at where North Carolina boards of directors are today with regard to diversity. A recent article in the

Greensboro News & Record[1] examined the State's fifty largest public companies (seven of which are banking organizations) and determined that just over ten percent of their corporate directors were women and only 5.3 percent were members of ethnic minorities. This compares with ten percent nationally for women (as measured by seats on the boards of S&P 500 companies) and 8.8 percent for ethnic minorities. North Carolina board representation of women and minorities compares less favorably with their representation in the workforce: 46 percent for women and 25 percent for minorities. While North Carolina's board diversity numbers today are better than they were ten years ago (according to a comparable 1992 survey by the *Greensboro News & Record*, 4.3% of board seats in the top 50 companies were held by women and 1.8% by minorities), they aren't great.

But why is board diversity desirable: because it is equitable or because it is efficient (good business)? The answer, of course, is: both. In the first place, there is nothing wrong with doing something – *e.g.*, improving board diversity – solely because it is the right thing to do. However, I would submit that a better argument for board diversity is that it is desirable, and probably

[1] Joyner, "Companies Seek Balance on Boards," *Greensboro News & Record*, September 28, 2003.

necessary, for sound business reasons. This is particularly true for banking organizations because of:

- <u>Demographic trends generally</u>. It is increasingly clear that profound demographic changes are occurring in the United States and that these trends will have an impact on future economic activity. A recent study by the Joint Center for Housing Studies of Harvard University points out that:

> Household growth … may well exceed 12 million between 2000 and 2010. Immigrants are expected to contribute more than one-quarter of this net increase and minorities fully two-thirds.[2]

  Board diversity can lead to an understanding of these new markets and, as a result, to growth of an institution's franchise.

[2] Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing: 2003," p. 4, available at http://www.jchs.harvard.edu/publications/markets/son2003.pdf [last downloaded October 30, 2003].

- Customer trends. The demographic trends just mentioned have an impact on future customers of banking organizations; the continuing difference in life expectancy between men and women would seem to me to have an impact on current customers. Understanding the financial services needs of women will have a lot to do with how successful an institution is in attracting and retaining the segment of the market that has real cash money.

- Workforce composition. The same considerations mentioned above with regard to customers apply to a banking organization's workforce. It takes only one trip to a bank branch to see the real and tangible contribution that women and, more and more frequently, members of ethnic minority groups are making to banking in North Carolina. Attracting, retaining and motivating these employees can be a key contributor to success today and in the future.

- New ideas. Adding people of different backgrounds will almost certainly bring new ideas to the boardroom. This is a source of concern to some corporate leaders; however, it should also be viewed as a significant opportunity. An example of the upside of diversity is the experience that Nike had when it added Jill Ker Conway, former President of Smith College, to its board as its sole female director. Ms. Conway suggested that Nike set up a female sports apparel division. Management took up this suggestion and today the women's division is a significant contributor to Nike's revenues and profits.

While there are other reasons that support bank board diversity, I believe the ones just quoted are more than sufficient.

If diversity has such obvious advantages, why does anyone need to be talked into it? While "cultural" issues may be a factor in some firms, I believe that they are much less prevalent than in the past. More important obstacles relate to concerns about the risks attendant on adding a person or persons to a board to increase diversity. The stated reason often is that the boards can't find any qualified women or minority group members to serve. In my opinion, this is really the statement of two concerns: (i) that a director selected for diversity purposes will bring with her an agenda – hidden or not so hidden – that is not consistent with the corporate mission; and (ii) that such director does not have sufficient practical experience to make a meaningful contribution.

It is easy enough to dismiss the concerns just mentioned out of hand, but I would urge those who favor board diversity not to do so. The better course is to address them in an affirmative way by (i) making boards aware of the qualified female and minority board candidates who are available to them; and (ii) pointing out to boards that differences in point of view from the right person or persons will strengthen the board and, by extension, the corporation. This approach to the diversity issue is being taken by a venture with which I am associated and about which I would like to tell you.

The University of North Carolina Law School's Centers on Banking and Finance and Civil Rights, the Z. Smith Reynolds Foundation, and a number of interested citizens, including former Chief Justice Henry Frye, have undertaken a project to facilitate diversity on the boards of directors of North Carolina's public companies by establishment of (i) a training program on corporate directorships for female and minority candidates and (ii) a database of available and qualified candidates for the use of North Carolina companies. This project is similar to a successful venture in the Chicago area involving Northwestern University's Kellogg School of Management's Center for Executive Women. As part of this project, I have invited five highly qualified people who are women or minority group members, but who are not now bank directors, to attend the North Carolina Bank Directors College that is sponsored by my office and UNC. The purpose of such attendance is to prepare these people for service on bank boards in the future. I intend to invite similarly qualified people to attend the college in each of its sessions for the foreseeable future. I am proud to be associated with these efforts and encourage all of you to become familiar with it and support it.

The governance of public companies is a major issue of national concern. The structure and composition of boards of directors is at the center of the debate about corporate governance. Addressed through affirmative efforts of the kind I have just mentioned, I believe that the move toward diversity can contribute to fixing a system that is clearly in need of repair. Properly conducted, programs to promote board diversity can lead to results that are both equitable and efficient. Let us all work to that end.

Thank you for your attention.