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Urban Outfitters names CEO's wife to board to quiet diversity demands

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May 30, 2013 | By Sheryl Nance-Nash

Shareholders, governance experts argue the new board member is not independent and the company's top management doesn't grasp the significance of true diversity.

In a move to quell the furor over the lack of diversity on the board of Urban Outfitters, management said this week it would add a woman to its board. The only problem is that their appointee is Margaret Hayne, the wife of CEO, co-founder and chairman of the board Richard Hayne, who would certainly fail a litmus test for independence.

Ms. Hayne was elected to the board at the company's annual meeting on May 28, according to Christine De Groot, associate sustainability analyst for Calvert Investment Management, one of several large investors that have been pushing for board diversity.

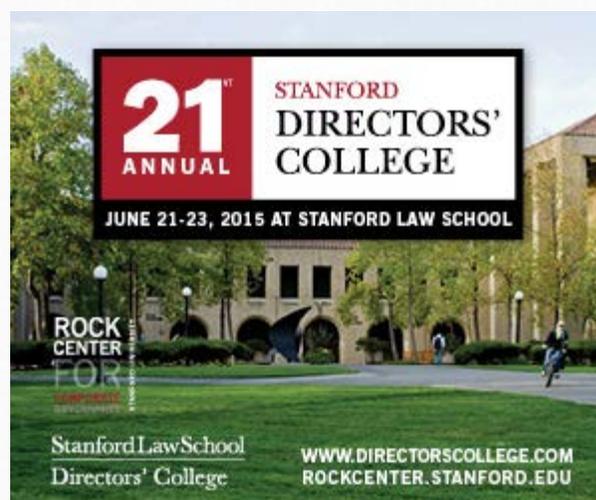
Calvert, the New York State Common Retirement Fund, and other institutional investors sponsored a shareholder resolution calling for corporate diversity that would include women and racial minority candidates, which was presented at the annual meeting. In a press release issued by Calvert the week before the meeting, the co-sponsors said the appointment of the CEO's wife should not cause any 'serious-minded investor to waver in support of the move to identify

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women and minorities for the company's board of directors who are both qualified and independent.'

A separate resolution by the New York City Employees' Retirement Systems requested adoption of a policy stating that the board's chair be an independent director who is not a current or former employee of the company.

Until now, Urban Outfitters' all-male board has stood in stark contrast to key competitors such as Nordstrom and Gap, where women fill three of 11 board seats and two of 10 board seats, respectively. In the largest US companies the addition of women to boards has stalled, with women holding less than 17 percent of board seats in 2012, the seventh consecutive year of no growth, according to the *2012 Catalyst Census: Fortune 500 Women Board Directors*.

Urban Outfitters' move appears to be 'tokenism and it fails to meet the generally accepted standards for board member independence,' sponsors of the resolution said in Calvert's press release.

Ms. Hayne fails the test for independence on more than one count.

While she has retail industry experience, nearly her entire career has been within Urban Outfitters, having worked at Free People, a division of the company, for more than 30 years, says Patricia Lenkov, president of Agility Executive Search. 'She does not have a broad perspective nor varied experience. She has no board experience,' she says.

Moreover, her appointment highlights the lack of apparel or retail industry experience among all the other board members except her husband, says Lenkov. 'This board should have added a woman who has run a business, ideally apparel or retail, and not part of Urban Outfitters, who perhaps has international experience and who above all is independent.'

The appointment of the current CEO and Chairman's spouse can be read either as 'an extremely lame board diversification effort or corporate leadership hubris,' says Linda Bollinger, founder of Boardroom Bound, a non-profit organization that established the Boardology Institute, which trains members of minority groups and

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women to prepare for board service. 'Urban Outfitter's corporate leadership struck out at bat, since today the trend is for director independence and including racial and gender diversity.'

Naming family members to boards is common practice in Latin America and Asia, where family-owned or dominated businesses are prevalent, but it's not customary in the US, says John Allen James, executive director of the Pace Global Governance Center.

'She is clearly not independent,' agrees Charles Elson, director of the Weinberg Center for Corporate Governance at the University of Delaware. 'This is highly controversial and will attract a lot of negative attention for the company.'

The addition of independent women and minorities to the board will further facilitate innovation in director discussions by injecting new perspectives, skills and experiences that may very well not be present on a board that lacks diversity or independence," Barbara Krumsiek, president and CEO of Calvert, said in the investment firm's press release.

The push by activist shareholders for greater diversity, however, may stem more from ideology than from concerns about the impact on financial performance, says Lori Verstegen Ryan, director of the Corporate Governance Institute at San Diego State University. 'They claim that firms require more independent and more diverse boards to be financially successful, but research has not demonstrated conclusively that either characteristic improves firm performance,' she says. 'The company's financial performance has been very strong under [an all-made board], and the company's largest shareholders are likely to be quite satisfied.'

The company did not respond to requests for an interview. Urban Outfitters typically does not publish shareholder vote results until five to seven days after the annual meeting, according to De Groot.

Richard and Margaret Hayne are the largest shareholders in Urban Outfitters, owning a combined 31.2 million shares, or 21.4 percent of the company as of January 31, 2013, while co-founder Scott Belair is the third largest shareholder with 2.7 million shares.

The company is sending a strong message that it wants to appease shareholders but doesn't appreciate the significance of diversity, says Lenkov. 'The company really needs to understand the value of having a woman on the board, particularly because women are the main target market for this company.'

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