Board Composition, Inclusivity, Diversity, Equity for Real – How Should Boards Actively Respond?

Marlene Janzen Le Ber, PhD
Brescia University College @ Western University
June 19, 2021
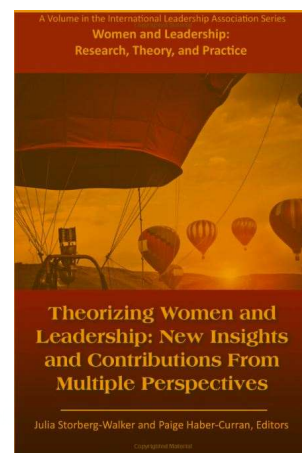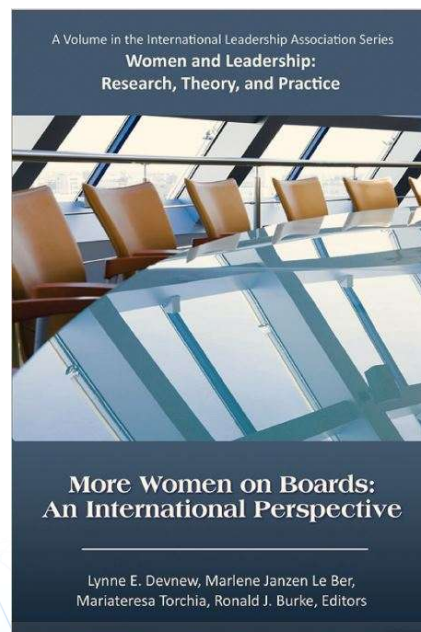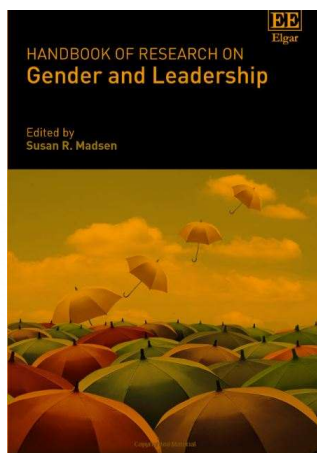
What shall we discuss today?

- An overview of the research in Board diversity
- Board diversity impact on Board and organizational success
- How are we progressing at building Board diversity and inclusivity?
- As Boards focus now more than ever on attracting and recruiting new Board Members with diverse perspectives and insights, how can Boards achieve this?
- How can Boards make the most of diverse perspectives?

Overview of Research in Board Diversity

The materials provided by the faculty for this GOVERN for IMPACT 2021 Virtual Conference are of a proprietary nature. Any replication of the materials or providing them to a third party without the explicit consent is prohibited.

Overview of Research in Board Diversity

- Moral imperative (> 5 years)
  - Where is the context going? Where are we in history?
  - Discontinuity evident
- Risk Mitigation (> 10 years)
  - "thin" culture
- Business Case (> 20 years)

With credit and appreciation to the New Yorker

"Actually, Lou, I think it was more than just my being in the right place at the right time. I think it was my being the right race, the right religion, the right sex, the right socioeconomic group, having the right accent, the right clothes, going to the right schools . . ."

Board Diversity Impact on Board and Organizational Success

Diversity & Inclusion are Key to Healthy Organizations

- Leverage Diversity & Inclusion to Engage Talent
- Foster Innovation with Diverse Perspectives & Inclusive Cultures
- Boost Your Reputation as a Responsible Employer
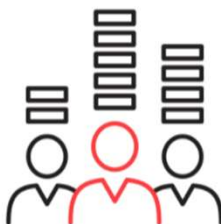- Deliver Strong Financial Performance

(Catalyst, 2020)

Leverage Diversity & Inclusion to Engage Talent

- Recruit and retain diverse workforces
- Increase job satisfaction and commitment
- Reduce discrimination and harassment
- Establish climate of trust
- Enhance productivity
- Decrease absenteeism and turnover

Diverse Organizations are more Successful at Recruiting and Retaining Talent (Madera et al, 2019; Maurer & Qureshi, 2019)

Companies with higher levels of gender diversity and with HR policies and practices that focus on gender diversity are linked to lower levels of employee turnover (Maurer & Qureshi, 2019)

- Women are more likely to express interest in an organization and perceive it as fair when women are highly represented in top management positions (Madera et al., 2019)

An inclusive environment is especially important for employees of colour. 50-69% of professional Canadians of colour who anticipate or consciously prepare for potential bias report a high intent to leave their jobs (Thorpe-Moscon et al., 2019)

- Employee experiences of inclusion contribute to engagement and retention (Travis et al., 2019)
- 35% of an employee's emotional investment to their work and 20% of their desire to stay at their organization is linked to feelings of inclusion (Travis et al, 2019)

Inclusive Workplaces Maximize Talent and Productivity (ILO, 2019)

Organizations with strong "diversity climates" (i.e., inclusive work cultures characterized by appreciation of individual differences and the adoption of practices to advance underrepresented groups) are likely to increase employees' job satisfaction and commitment to the company. (McCallaghan et al., 2019; Perry & Li, 2020)

- Strong diversity climates are also associated with reduced instances of interpersonal aggression and discrimination (Perry & Li, 2020)

Women experience less discrimination and sexual harassment in inclusive workplace cultures (Yu & Lee, 2020)

When employees feel both included and that their employer supports diversity, they report experiencing trust and increase engagement at work (Tuan et al., 2019)

- A 10% increase in perceptions of inclusion improves absenteeism, adding nearly one day a year in work attendance per employee (Bourke & Espedido, 2019)

Foster Innovation with Diverse Perspectives & Inclusive Cultures

- Improve quality of decisions
- Spark creativity
- Align with consumer demands
- Reduce groupthink
- Solve problems faster

Diverse Teams are Critical for Innovation (Lorenzo et al., 2017)

When companies establish inclusive business cultures and policies, they are more likely to report: (ILO, 2019)

- 59.1% increase in creativity, innovation, and openness
- 37.9%etter assessment of consumer interest and demand

Diverse management teams are innovative and earn a premium for their innovation. According to one recent study, over a period of three years companies with higher diversity in management earned 38% more of their revenues, on average, from innovative products and services than those companies with lower diversity (Lorenzo et al., 2017)

- Diversity in gender, country of origin, career path, and industry background among managers are all highly linked to innovation (Lorenzo et al., 2017)

Diversity Reduces Groupthink & Enhances Decision-Making (Gaither et al., 2018; Homan, 2019)

Diversity is a key ingredient for better decision-making among teams

Homogenous groups may be susceptible to groupthink (Sommers, 2018), while diverse teams can leverage a greater variety of perspectives and are likely to consider information more thoroughly and accurately (Homan, 2019)

- Teams that include different viewpoints or thinking styles (cognitive diversity) solve problems faster (Reynolds & Lewis, 2017) and produce more and higher quality intellectual property such as patents (Corritore et al., 2020)
- Mixed-gender teams can better manage group conflict compared to homogenous teams and can better maximize creativity among team members (Lee et al., 2018)

## Inclusion is Key to Team Performance (Shoreibah et al., 2019)

Increasing the representation of women on sales teams contributes to improved team performance through enhanced relational skills and organizational citizenship behaviors, among other factors. However, teams are more likely to reap the benefits of diversity on team performance when inclusion is part of the organizational culture (Shoreibah et al., 2019)

Employees experience inclusion at work when they feel valued, trusted, authentic, and psychologically safe (Travis et al., 2019)

- Overall experiences of inclusion explain (Travis et al., 2019)
  - 49% of team problem-solving.
  - 18% of employee innovation.

Organizations can maximize the benefits of diversity in teams by cultivating "diversity mindsets," defined as the shared understanding of a team's diversity and its positive benefits to group performance (Homan, 2019).

- Key characteristics of effective diversity mindsets include cultural intelligence, openness to different ideas and experiences, multicultural experiences, and work climates that emphasize the value and potential of diversity (Homan, 2019).
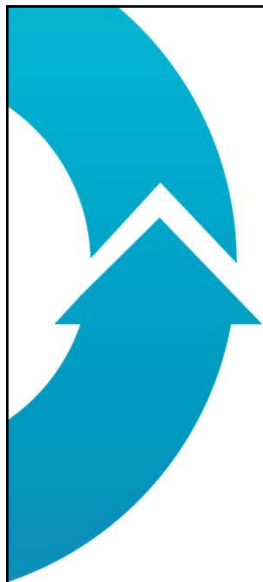
Boost Your Reputation as a Responsible Employer
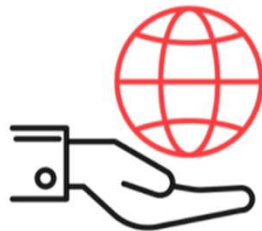
- Build brand value
- Improve reputation, consumer interest, and goodwill
- Manage risk
- Integrate environmental, social, and governance performance

Inclusion Boosts Company Reputation (ILO, 2019)

Organizations with inclusive business cultures and practices are 57.8% more likely to improve their reputations (ILO, 2019)

- Consumers are more likely to purchase, or consider purchasing, a product after viewing an advertisement perceived to be diverse or inclusive (Zalis, 2019).
- Employees who view their workplace as inclusive are also likely to consider their organization to have ethical value (Rabl et al., 2020).

- In economic downturns, companies recognize that investment in diversity contributes to public goodwill. An analysis of organizations during the Great Recession of 2008 found that investment in diversity tended to increase, even when other Corporate Social Responsibility (CSR) activities decreased (Sakunasingha et al., 2018).

Mixed-Gender Boards Have Fewer Instances of Fraud
(Wahid, 2019)

Gender-diverse corporate boards are associated with:

- Effective risk-management practices. Adding women to a board can improve investment efficiency and prevent risky overinvestment decisions (Shin et al., 2019) as well as reduce the overconfidence of male CEOs (Chen et al., 2019; Chen et al., 2019)
- Increased engagement among board members, including behavior like requesting additional information or updates on subjects being discussed and acting on specific tasks after board meetings (Schwartz-Ziv, 2017)
- Fewer financial reporting mistakes and controversial business practices such as fraud (Wahid, 2019) and earnings manipulation (Fan et al., 2019)
- Investment in higher-quality audits (Lai et al., 2017)

Companies with gender-diverse management teams experience fewer operations-related lawsuits (Adhikari et al., 2019)

Boardroom Diversity Strengthens Environmental, Social, and Governance (ESG) Performance (Banahan & Hasson, 2018)

When corporate boards include members with diverse backgrounds and experiences, they are better able to recognize the needs and interests of different stakeholder groups (Banahan & Hasson, 2018)

Gender-diverse boards outperform non-diverse boards in ESG activities (Banahan & Hasson, 2018)

- Women board directors are more likely than men to identify social issues like human rights, climate change, and income inequality as critical to corporate strategy (Loop & DeNicola, 2019)
- Gender-diverse boards also tend to adopt more progressive organizational management practices, such as work-life support programs, which increase employee satisfaction (Creek et al., 2017)

Deliver Strong Financial Performance

- Outperform competitors
- Demonstrate return on investment to stakeholders
- Thrive during economic recessions and periods of uncertainty

Diversity is Associated with Improved Financial Performance (Catalyst, 2020; Eswaran, 2019)

- Business case for diversity documented for over two decades by Catalyst, McKinsey, Credit Suisse, and others. Includes
  - Cash flow return on investment
  - Earnings Before Interest and Taxes (EBIT) margins
  - Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) margins
  - Gross and net margins
  - Internal rate of return
  - Investment performance
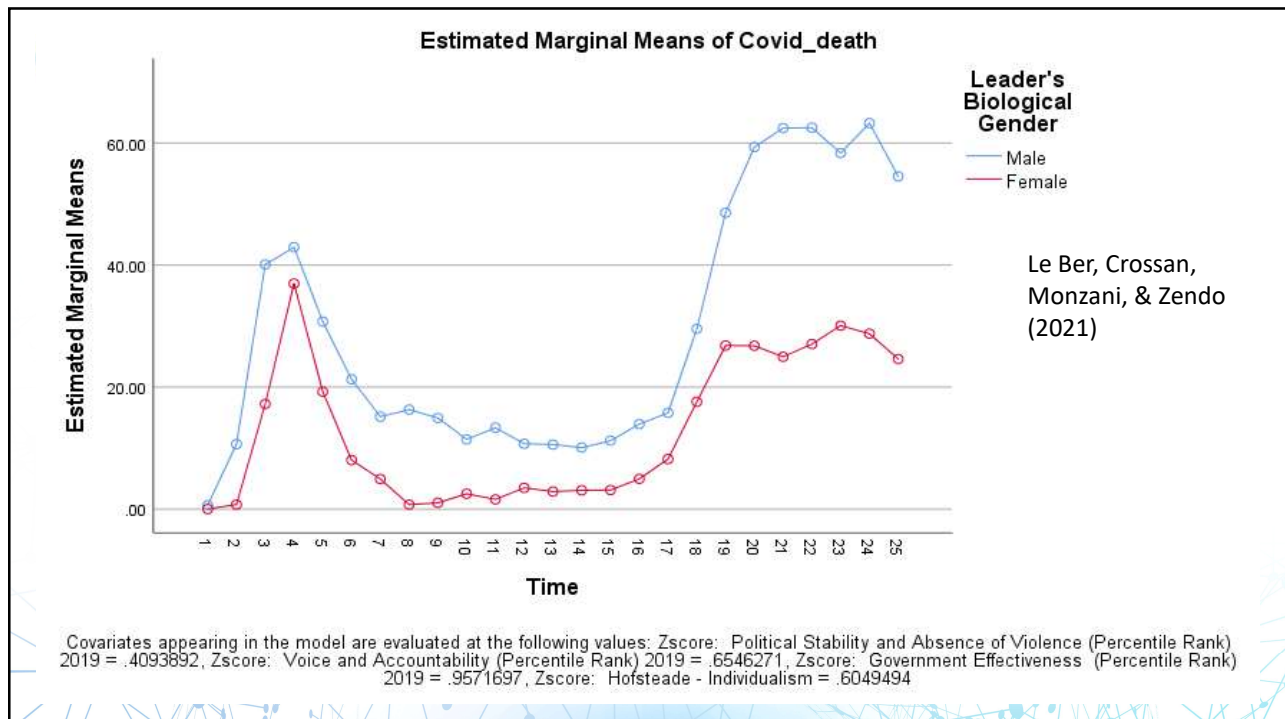 - Market value
  - Operating profit margin

Diversity is Associated with Improved Financial Performance (Catalyst, 2020; Eswaran, 2019)

- Business case for diversity documented for over two decades by Catalyst, McKinsey, Credit Suisse, and others. Includes etc.
  - Return on Assets (ROA)
  - Return on Equity (ROE)
  - Return on Sales (ROS)
  - Revenue
  - Sales performance
  - Stock returns
  - Tobin's Q

Inclusion Can Help Organizations Thrive During Economic Recessions (Great Places to Work, 2020)

Companies with consistent, inclusive workplace cultures—especially as experienced by historically underrepresented groups—outperformed the S&P 500 in average annual stock returns during the Great Recession (measured from 2006-2014) (Great Places to Work, 2020)

Estimated Marginal Means of Covid_death

Le Ber, Crossan, Monzani, & Zendo (2021)

Covariates appearing in the model are evaluated at the following values: Zscore: Political Stability and Absence of Violence (Percentile Rank) 2019 = .4093892, Zscore: Voice and Accountability (Percentile Rank) 2019 = .6546271, Zscore: Government Effectiveness (Percentile Rank) 2019 = .9571697, Zscore: Hofsteade - Individualism = .6049494

COVID-19 Deaths per 100,000 population

Fewest Deaths	Most Deaths
New Zealand	Romania
Singapore	Sweden
South Korea	Slovenia
Cuba	France
Japan	Czech Republic (Czechia)
Australia	United States
Cyprus	United Kingdom
United Arab Emirates	Italy
Norway	Spain
Finland	Belgium

How are we progressing at building Board diversity and inclusivity?

Canadian Statistics – Diversity on Boards

As of January 1, 2020, Bill C-25 requires that distributing corporations governed by the Canada Business Corporations Act (CBCA), provide their shareholders and Corporations Canada with information about representation of the following groups of people:

- Women
- Indigenous peoples (First Nations, Inuit, and Métis)
- Persons with disabilities
- Members of visible minorities

Comply or explain approach

Canadian Statistics cont'd

Findings for 2020:

- 50% of distributing corporations have at least one woman on the board of directors
  - 16% have at least one member of a visible minority
  - 1.7% have at least one Indigenous person, and
  - 1.7% have at least one person with disabilities.
- Women hold 17% of board seats,
  - members of visible minorities hold 4%, and
  - persons with disabilities and Indigenous persons hold 0.3% each.

Canadian Statistics cont'd

Findings:

- Women hold 25% of all senior management positions, members of visible minorities hold 9%, persons with disabilities hold 0.6%, and Indigenous persons hold 0.2%.

- 14% of distributing corporations have set targets for the representation of women on their boards, and 1% have set targets for at least one of the other designated groups

Canadian Statistics cont'd

Findings:

- 32% of distributing corporations have adopted written policies relating to the identification and nomination of women on their boards, and 26% of have adopted similar policies relating to Indigenous peoples, members of visible minorities and persons with disabilities.

- 52.7% of the Canadian population available to work are women, 15.3% are members of visible minorities, 9% are persons with disabilities & 4% are indigenous

Catalyst, Pyramid: Women in S&P 500 Companies (January 15, 2020).
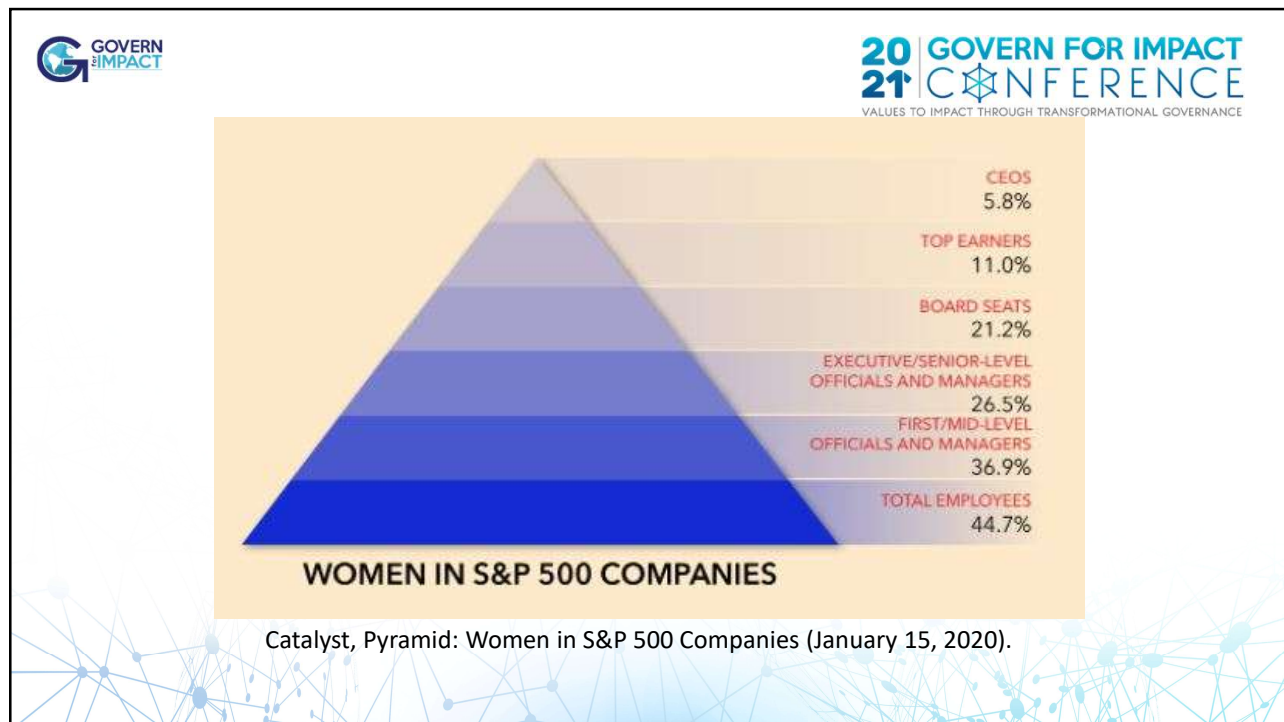
Missing Pieces Report:
The Board Diversity Census
of Women and Minorities on
Fortune 500 Boards, 6th edition

Fortune 100 & 500 - Changes 2018-2020

White **women made the largest percentage increase in board seats gained in both the** *Fortune* **100 and** *Fortune* **500**, larger than any other group or gender, a gain of 34 seats (15%) in the *Fortune* 100 and 209 seats (21%) in the *Fortune* 500.
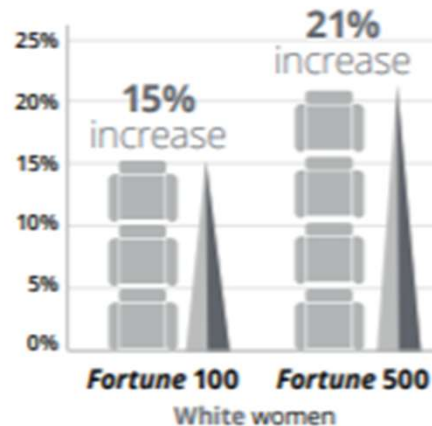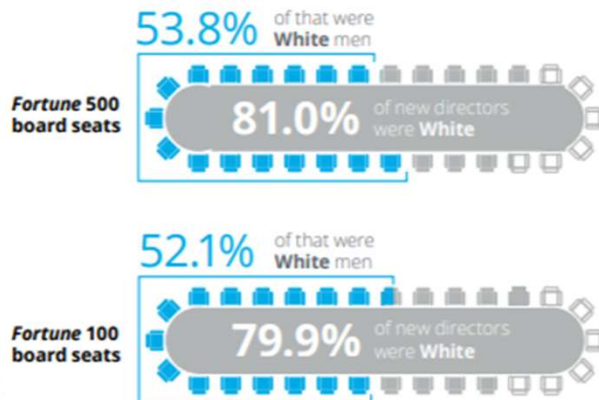

Fortune 500 2020

In 2020, nearly 36% (more than one-third) of diverse board seats are occupied by persons on multiple *Fortune* **500 boards.** Clearly, the opportunities need to be spread more widely among eligible women and minority board candidates. In fact, we may be underestimating the "overreliance" on these board members, as we are not accounting for their board seats outside the *Fortune* 500.
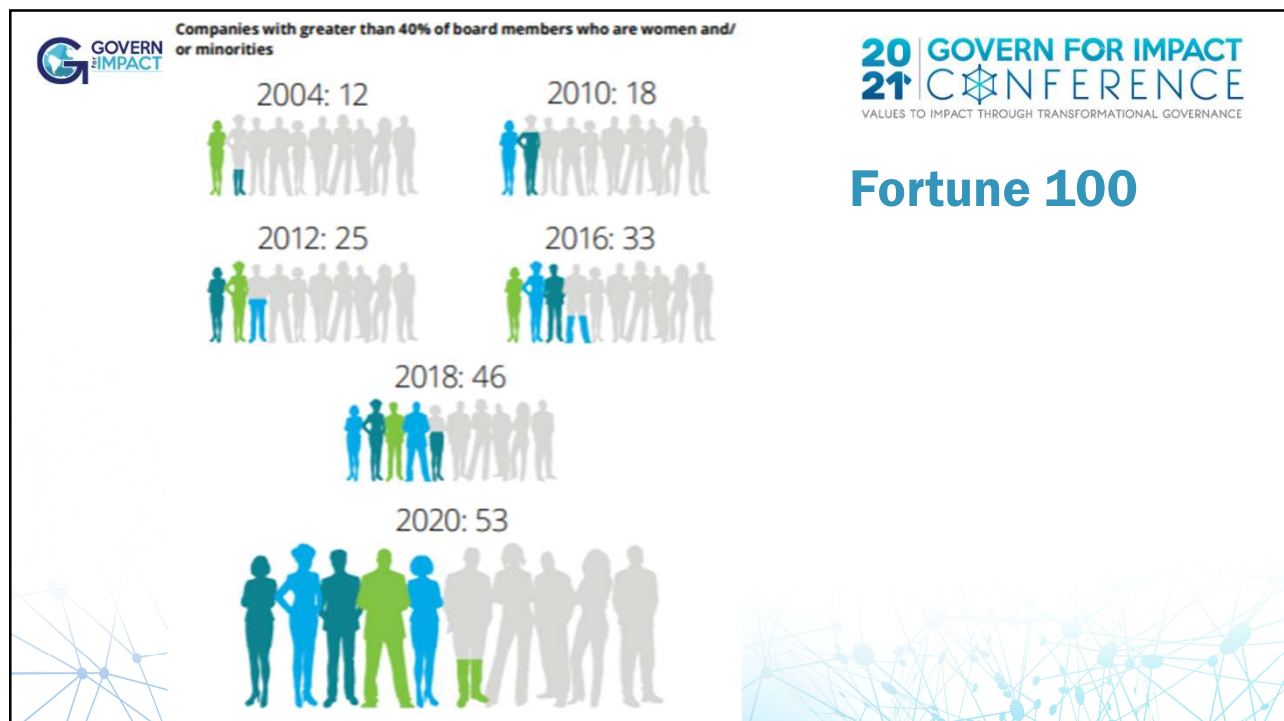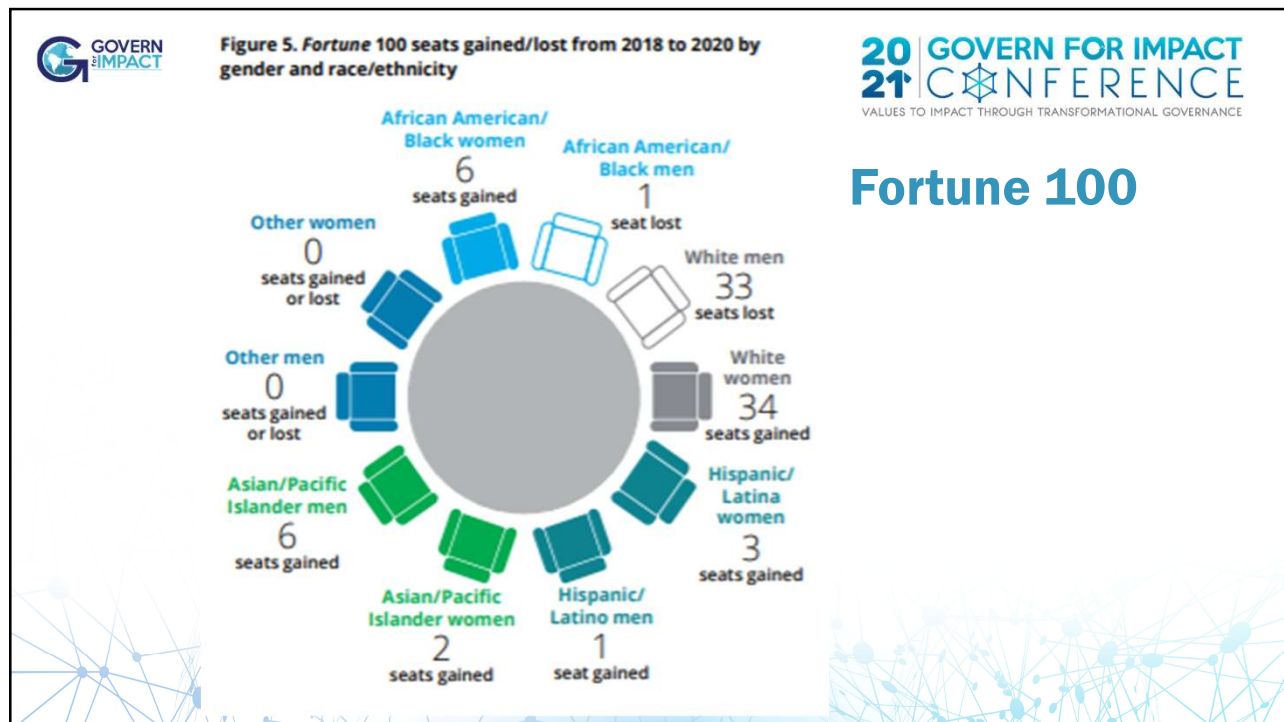
Very Gradual Progress but Accelerating

Across the board, women and minorities have made more progress in board representation for the Fortune 500 between 2016 and 2020 than between 2010 and 2016. This increased rate of change, while encouraging, still requires, in some cases, decades more for the achievement of equitable gender and minority board representation.

Fortune 100 2020

Figure 1. *Fortune* 100 percentage of board seats by gender and minority status

Figure 5. *Fortune* 100 seats gained/lost from 2018 to 2020 by gender and race/ethnicity

Fortune 100

Companies with greater than 40% of board members who are women and/or minorities

Fortune 100

Global Board Diversity 2020 (EgonZehnder)

- Overall, 23.3 % of board positions are now held by women globally, up from 20.4% in 2018
- When it comes from other types of diversity, it is difficult to even find numbers to create a base case
- # of boards with at least 1 woman risen to 89% in 2020 from 85% in 2018; much depends on location
- 19 of 44 countries have at least 1 woman; 9 of those countries instituted a quota
- 18 countries average 3 or more women on boards; 8 of these countries have quota

As Boards focus now more than ever on attracting and recruiting new Board Members with diverse perspectives and insights, how can Boards achieve this?

Set Diversity Goals

- Set intentional, deliberate, and calculated targets for gender, race, and ethnicity to drive results within a given time period
- Measure your progress at regular intervals
- Consider or review board refreshment mechanisms such as retirement age requirements and term limits
- Don't let goals for women of color be diluted by subsuming them under broader diversity goals.

Mitigate Bias

- Recognize the role that unconscious bias plays in the selection process and as a systemic barrier to advancement
- Expand search for Board members beyond the current Board's network and external advertising – e. g. Board Readiness Training graduates from organizations, such as 30 Percent Coalition, Catalyst Women on Board; and Executive Search Firms
- Make sure your nominating committee and director selection panels are diverse
- Break out of the habit of looking for candidates who already have board or CEO experience, who historically have been white men
- Get to know potential members and the cognitive diversity they would bring to the table rather than diversity in what they look like (race, gender, religion, age)

Build a Pipeline of Diversity

- Make it everyone's job to track promising women of color earlier in their careers and devote resources to their development
- Appoint women of color executives to subsidiary boards to build their skills and experience
- Cast a wider net—relying on limited networks to fill board seats shrinks the pool of board-eligible women of color to a puddle

How can Boards make the most of diverse perspectives?

How can Boards make the most of diverse perspectives?

- Develop shared values regarding Board relationships and hold each other accountable to these values (high performing team development)
- Explicitly describe the ideal prototypical Board member in terms of leader character (along with commitment and competencies but much less focus on specific professions); recruit and appoint accordingly
- Develop a culture of psychological safety on the Board where a shared belief is held by its members that others on the Board will not embarrass, reject, or punish them for speaking up with ideas, questions, concerns, or mistakes. This needs to be modeled by the Chair by seeking out diverse opinions; creating a safe space to speak
- Inclusion is about a sense of belonging; thus aspects of practices and processes familiar to the diverse individual should be incorporated

How can Boards make the most of diverse perspectives?

- Decolonize policies, practices, and routines
  - E.g. inclusion of indigenous elders as PhD examiners on dissertations claiming indigenous knowledge – Western University
  - E.g. Decision-making processes such as consensus decision-making
  - E.g. Starting meetings with invocation
  - E.g. In Canada – implement Truth & Reconciliation recommendations

Marlene Janzen Le Ber, PhD
Professor, Leadership Studies
Distinguished Chair, Centre for Women and Leadership
Brescia University College @ Western University
London, ON
mleber@uwo.ca