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United States House of Representatives Committee on Financial Services**

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Diversity in the Boardroom: Examining Proposals to Increase the Diversity of America's Boards

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## ARTICLE BOARDS

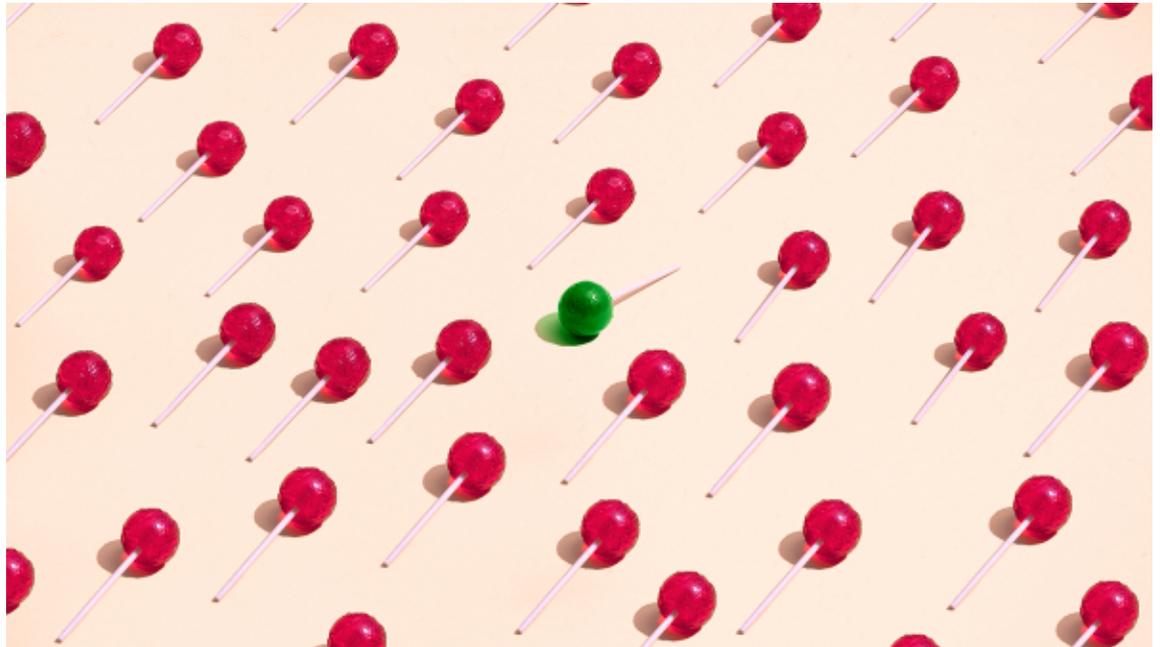
# When and Why Diversity Improves Your Board's Performance

*by Stephanie J. Creary, Mary-Hunter ("Mae") McDonnell,  
Sakshi Ghai and Jared Scruggs*

BOARDS

# When and Why Diversity Improves Your Board's Performance

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On January 1, California law said that all locally headquartered publicly traded companies must have at least one female director [by 2020](#). While new to the U.S., mandates to increase gender diversity on corporate boards [are common elsewhere](#). For example, Norway, Spain, France, and Iceland all have laws requiring that women comprise at least 40% of boards at publicly listed companies.

Evidence that board diversity benefits firms, however, has been mixed. A [2015 meta-analysis](#) of 140 research studies of the relationship between female board representation and performance found a positive relationship with accounting returns, but no significant relationship with market performance. Other research has found no [relationship](#) to performance at all.

We interviewed 19 board directors (15 women and four men) to learn whether and how corporate boards were benefiting from diversity. Combined, the board members held seats on 47 corporate boards in the U.S. across a variety of industries. The research found that diversity doesn't guarantee a better performing board and firm; rather, the culture of the board is what can affect how well diverse boards perform their [duties](#) and oversee their firms. Based on these findings, we worked with [Mike Fucci](#), Chairman of the Board at Deloitte, to develop recommendations for how board chairs and directors can create more egalitarian board cultures and improve their governance.

### **Expand the view of diversity**

Board diversity matters but concentrating on only one form of diversity isn't enough. Our interviewees suggested that social diversity (e.g., gender, race/ethnicity, and age diversity) and professional diversity are both important for increasing the diversity of perspectives represented on the board.

Many of our interviewees suggested that their boards had made progress on gender diversity but not on other forms of social diversity — such as race, nationality, and age. They also raised concerns with what they referred to as “checking the box” initiatives and “tokenism” for the sake of board diversity. One interviewee revealed how she turned down a board position because she felt that the interviewing board members were not able to comment on her expertise — only their desire to have gender diversity on the board. She shared, “I can understand what it means to be a token person. I don't like that ... I said, ‘If you think my only value is the fact that I'm a female, I can't add value to your board.’”

Other interviewees similarly addressed concerns for tokenism: “I think that there's so much conversation right now about adding more females to boards and everyone feels like, ‘Okay if we have ten board members, we should recruit three women.’ But I think we need to make sure they have the right skills. Idea diversity is also important.”

To offset these concerns, some boards are ensuring that skills and expertise, along with demographics, are front and center in their recruiting processes. One board member shared: “We look at diversity in a lot of different ways – experience, age, ethnicity, gender, etc.”

Many boards are also broadening the range of professional backgrounds considered for board member positions, allowing them to attract more socially diverse directors who bring, as one interviewee referred to it, “diversity of thought.” This is easier to achieve when boards avoid filling open seats with people already in their personal and professional networks. As one long-time board director described it: “The problem is how boards get formed and how you fill vacancies. It might be

unconscious bias. Sometimes, it's laziness. 'Oh, we have an opening, who do we know?' He shared that many times board members only knew people like them.

His current boards are shifting to a different approach: "a process of assessment where you periodically look at the skill sets that you would ideally want on the board, given the business it's in, and then the skill sets you have, and you identify any missing. That gives you an opening to say, 'Oh, okay, we need to look for somebody who understands manufacturing abroad.' So, as long as we are going to go look for somebody, let's use it as an opportunity to build some diversity."

Many boards continue to recruit directors from the pool of current or former CEO/CFOs, and changing demographics within these pools do present opportunities to recruit more diverse members. For example, our interviewees on the boards of hi-tech start-ups and cyber security firms revealed that women, minorities, and younger board members often hold these coveted roles on boards in their firms and industries.

It is also important to consider recruiting from outside of the CEO and CFO pool to increase board diversity. One interviewee commented on how having social diversity wasn't good enough if all board members were former CEOs or CFOs. She said, "Having a diversity on the board does not just mean having a bunch of CEOs or a bunch of capitalists....Having board members with different roles whether it's a CIO or a CTO or you know independent board directors that come from a different background is really good. You know you might have somebody from HR on the board. People coming from that diverse role I think really does help a board to get better results."

### **Take advantage of diversity**

Diversity doesn't matter as much on boards where members' perspectives are not regularly elicited or valued. To make diverse boards more effective, boards need to have a more egalitarian culture — one that elevates different voices, integrates contrasting insights, and welcomes conversations about diversity.

Some boards are more hierarchical in their communication orientation while others are more egalitarian. These dynamics appear to shape whether diversity on the board actually matters to the board's work. On more hierarchical boards, the CEO, Chairman, or lead independent director tends to dominate board meetings. One interviewee discussed how this was a particularly challenging dynamic on a board that was resistant to input either from shareholders or board members: "There was not a lot of open communication. The CEO tended to dominate the conversation. He'd speak like, without taking any breaths for two hours on end."

But even in hierarchical cultures, the CEO, Chairman, or lead director can help to create a more open communication environment. One board member discussed her experience on a board: "I do feel I'm listened to... The CEO makes a big difference in terms of the openness."

Similarly, another shared how a different CEO made it easier for board members to access the management team: “It starts, again, with the CEO not playing the hierarchical role and saying, ‘You can’t talk to one of my VPs unless you come through me...’ So we had access to the next level of management. The CEO would pick up the phone frequently and connect us.”

Whoever is leading the board also has the responsibility of ensuring that quieter board members speak up in board meetings. One interviewee said, “The lead director has a role here — to make sure that they invite people in and if somebody is really quiet they should go to that person...and make sure they feel comfortable saying anything that they want.”

In contrast to hierarchical boards, more egalitarian boards have a more “collegial” board culture. Interviewees who felt that their boards reflected this quality explained how all board members were able to speak openly and ask questions at meetings and, in doing so, they felt that all opinions were respected. One explained that their collegial board culture resulted from information being shared openly, with little “back channeling” or meeting outside of the formal meeting to raise concerns.

Collegial boards are more likely to accept and integrate differences of opinion. Members of these boards believe that both their expertise and willingness to learn is recognized and incorporated into the board’s work. One interviewee talked about the importance of respectful disagreement, acknowledging mishaps in communication, and in valuing different perspectives: “I haven’t had anybody shut me down or shut other people down. You know people listen. When they argue, they do it in a pretty much respectful way. Couple times it hasn’t been but someone will just say, ‘Hey that’s not very respectful, you know the way you just said that.’”

Several interviewees told us that boards that value open communication are more likely to engage in conversations about diversity — even those that believe they still have a long way to go. One interviewee commented on how the board as a whole believed in the importance of diversity, but longer-term board members still struggled to understand its value. “It would be wrong to say that we are 100% of where we ought to be. I think we all recognize the value and we all respect the diversity and the importance of diversity. I think it’s also clear to say if you’ve got the longer-term members that came from the old established approach to the way boards were run...they may just not be quite as supportive in some cases.”

In boards like these, interviewees said discussing the issues rather than shrinking away from them was of utmost importance. One explained raising issues around diversity in the leadership pipeline and his desire to make this a higher board priority: “One of our board members who is African-American came up to me afterwards and said, ‘Thank you for bringing that up because I brought it up years ago, not so delicately, and nothing ever happened.’ So, he’s like, ‘Maybe if we get more of us looking at this, it’ll move the needle.’”

Others similarly commented on the need to serve as a champion for diversity and inclusion on their boards if they wanted to keep the topic front and center. One shared: “I have some influence, and I’m trying to exert my influence.”

The benefits of having a socially and professionally diverse board cannot be realized without an egalitarian board culture. Boards that want to maximize their effectiveness need to do more to ensure that different perspectives are regularly elicited and integrated into the board’s work.

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