Harvard Business Review

DIVERSITY

Research: When Boards Broaden Their Definition of Diversity, Women and People of Color Lose Out

by Marta Geletkanycz, Cynthia E. Clark, and Patricia Gabaldon

OCTOBER 03, 2018

FOTOGRAFIABASICA/GETTY IMAGES

Over the last several years, competing notions of "diversity" have emerged. In many corners, the traditional definition, focused on demographic diversity, has been eclipsed by a new concept centered on experiential or cognitive differences. Deloitte, a provider of advisory services to firms around the globe, including 85% of the Fortune 500, encapsulates the trend, noting, “Up to now, diversity initiatives have focused primarily on fairness for legally protected populations. But organizations now have an opportunity to harness a more powerful and nuanced kind of diversity: diversity of thought.” Similarly, Korn Ferry, a global management consulting firm, urges firms to reorient their recruiting efforts to emphasize “diverse perspectives, experiences, and contributions.”

This conceptual shift has had real-world consequences extending to the very apex of firms — the board of directors. We have been studying corporate governance for nearly two decades. Through a combination of interviews with board directors and analysis of statements and documents, our work has uncovered a clear shift in how corporate boards approach diversity. Whereas a mandate of diversity once inspired attention to demographic differences, including gender, race, and ethnicity, it now increasingly prioritizes differences of functional and industry experience.

This shift coincides not only with general trends but also with the investment industry’s embrace of a revamped definition of diversity. More than 50 institutional investors, controlling more than $22 trillion of financial capital, have joined as signatories to a set of governance principles mandating that “boards should be composed of directors having a mix of direct industry expertise and experience and skills relevant to the company’s current and future strategy. In addition, a well-composed board should also embody and encourage diversity, including diversity of thought and background.” Many financial intermediaries, ratings agencies, and even the business press now embrace this as the standard by which to assess board diversity practices. Meanwhile, key regulatory bodies, such as the U.S. Securities and Exchange Commission, accept an even broader interpretation of diversity. While mandating disclosure of boards’ diversity efforts, the SEC recognizes “any differences in the manner in which the nominating committee evaluates nominees for director.”

Our research shows this conceptual remaking has heralded a fundamental change in board treatment of diversity. Attention once oriented toward underrepresented groups (women and racial and ethnic minorities) is increasingly centered on technical attributes, such as experience and skills.

Mandatory proxy disclosures offer plain evidence of this shift. Among the largest U.S. firms last year, less than 45% attended to traditional measures of diversity (for example, gender) in their proxy disclosures. Director and recruiter interviews confirm evidence procured from company disclosures.

One result has been a noticeable slowdown in the rate of appointment of women and other minorities to board seats. Globally, women hold only 15% of all corporate board seats, a mere increase of 2% since 2015. Among large U.S. companies (S&P 1500), women hold just 16% of seats — fewer seats than are held by directors named John, Robert, and William. Moreover, among the premier Fortune 500, women's share of board seats actually declined by two percentage points in 2016. Overseas, similar trends are noted. In the United Kingdom, for example, women made up 29% of hires to UK boards in 2017, down from 32.1% in 2014 and 31.6% in 2012, according to Egon Zehnder. The Alliance for Board Diversity's multiyear study of Fortune 500 companies found that Hispanic/Latina women have lost board seats, Asian/Pacific Islanders represent only 3.1%, and African-American males have had an increase of only 1%. More broadly, the number of top firms with even a single racial or ethnic minority director has declined over the last 10 years.

In plain terms, broadening the definition of diversity has allowed boards to claim inroads regarding experience-based diversity at the expense of demographic diversity.

A redesign of the director selection process would allow meaningful success on *both* scores — achievement of diversity along dimensions of experience and greater minority representation. Its cornerstone involves purposefully seeking out underrepresented groups and focusing on the benefits of identity-based diversity to boardroom dynamics, an initiative which would be complementary to the current experience-based emphasis. To that end, a redesigned process should include anti-bias training for the nominating committee and other board members involved in the selection process; employment of wider recruitment networks to tap a broader range of candidates and director qualities; and, ideally, a blind review process wherein demographic identifiers are removed (name, gender, age, and so on).

Our research shows firms can and have applied many of these new approaches to important effect. Bank of New York Mellon is illustrative. The company has instituted a specific diversity initiative dedicated to minority inclusion. Its director nomination processes incorporate both experiential and identity-based differences, each critical to governing effectiveness. Of the current 12 directors, one is Latino, another African American, and three are women. Ten of the 12 directors are new following the enactment of the policy. Individually, these directors were identified through expansive networks, and their selection is reflective of a nominating committee dedicated to preventing bias.

Ultimately, board selection is what defines the board's effectiveness, whether in terms of monitoring, strategy, or overall accountability. Moreover, the long-term financial success of firms is enhanced when boards better reflect the demographically diverse diverse nature of customer groups, communities, and other stakeholders.

Better board selection also contributes to diversity outcomes throughout the organization. For example, evidence shows gender equality at the top contributes to equality at lower managerial levels, together with lessened pay gaps. Likewise, board diversity along traditional lines contributes to a lower level of gender and racial/ethnic segregation of nonmanagerial workers.

In sum, while experiential breadth is clearly important, recent definitional broadening of diversity overlooks the many unique advantages afforded by talented women and other underrepresented minorities. Their distinctive perspectives, insights, and networks advance many of the most meaningful organizational outcomes. The broadening of diversity diminishes attention to these critical advantages, and companies' ability to capitalize on them.

Marta Geletkanycz is an Associate Professor of Strategic Management at Boston College's Carroll School of Management. Her work focuses on top executives' and board members' human and social capital, and how these factors interact to affect firm strategy and performance.

Cynthia E. Clark is a Professor of Management at Bentley University. She serves as the director of the Harold S. Geneen Institute of Corporate Governance, an institute dedicated to social, comparative and reformative approaches to governance. She is also a research fellow at the W. Michael Hoffman Center for Business Ethics.

Patricia Gabaldon is an Associate Professor at IE Business School. She holds a Ph.D. in economics from the University of Alcala, Spain. Her research interests include gender, social science, and the economy.
