Diversity at senior team and board level

IES Perspectives on HR 2014

Mary Mercer, Principal Consultant

Member Paper 95

institute for employment studies

This paper explores some of the literature about achieving a diverse top team, and some of the organisational benefits that diversity brings. The literature demonstrates that the benefits flowing from a diverse top team are only achieved if they are not tokenism and the culture of the organisation supports diverse working throughout its processes. IES has been carrying out research into organisational top team diversity in the UK and our case study findings will be published in 2014.

Interest in diversity at board level grew significantly following the Higgs Report (Higgs, 2003) which reviewed the role and effectiveness of non-executive directors (NEDs) in the UK, finding that only one per cent of NEDs interviewed as part of the study were from ethnic minority groups and only six per cent of NEDs in FTSE 350 companies were female. Higgs argued that in order to be a successful governing body, boards should have an appropriate mix of skills and experiences, which are more likely to exist if board members are from different backgrounds, rather than boards comprised solely by the typical white-male nearing retirement with previous PLC director experience.

A further government report conducted by Lord Davies in 2011 focused specifically on female representation on UK boards, finding that the growth of numbers of females on boards was very slow and recommending that FTSE 100 companies should aim for a minimum of 25 per cent female representation by 2015 (Davies, 2011). Sealy and Vinnicombe (2013) analysed the number of female directors of FTSE companies and found the overall per centage of female-held board directorships in FTSE 100 companies to be 17.3 per cent, with only seven all-males boards and two-thirds of boards having more than one female director. This is still far from Lord Davies' target of 25 per cent female representation on boards by 2015, which only 25 of the FTSE 100 companies have met so far (Sealy and Vinnicombe, 2013). Furthermore, females only hold 5.8 per cent of executive directorships in comparison to 21.8 per cent of non-executive directorships, showing that women are still extremely underrepresented in executive director roles.

In his report, Davies (2011) refers to the growing literature developing a business case for diversity, through demonstrating links between board-level diversity and organisational performance. This business case can serve as motivation for organisations to take consideration of the diversity of their board and senior management team, and introduce initiatives to increase diversity at senior levels.

The business case for diversity

External relations

The Department for Business, Innovation and Skills (BIS) (2013) categorize the benefits of diversity into external business benefits, eg a diverse workforce has access and increased appeal to a broader range of markets, and internal business benefits, ie changes to internal operations such as a wider range of perspectives increasing creativity.

Having a diverse board is expected to provide organisations with access to a wider range of markets (Carter et al, 2003) as directors from diverse backgrounds are likely to operate within different networks and engage with a wider pool of stakeholders (Roberson and Park, 2006) and have understandings of different markets. These combine to form a much wider range of markets than those where board members have similar experiences and thus operate within similar networks and markets. Barkema and Shvyrkov (2007) tested the relationship between tenure (length of service) and educational diversity in top management teams and business expansion into new countries or regions. It was found that tenure diversity correlated with likelihood to expand into new geographic areas, but there was no correlation with educational diversity. The correlation with tenure diversity could relate to internal decision-making processes, but equally it could relate to broader access to markets enabling geographic expansion.

Internal relations

Carter et al (2003) suggest that internally, increased diversity can enhance innovation and creativity due to broader experience providing a variety of ideas, and that diversity can improve problem-solving, due to increased conflict and challenge. This relies on diverse boards having a wider range of perspectives on issues that those from similar backgrounds. Evidence to support this comes from Hillman et al (2002), who studied the background of directors of different genders and ethnicities from Fortune 1000 organisations and found that female and African-American directors were more likely to come from non-business backgrounds, have advanced degrees, and join multiple boards at faster rates than white male directors, giving support to the argument that female and ethnic minority directors are likely to have had different experiences developing different perspectives. In terms of gender, Huse and Solberg (2006) found that women were also able to create a 'good atmosphere' in the boardroom, referring to the atmosphere being relaxed and open. They represented diversity, soft values, women's issues, and they were asking questions a lot more than men.

Diversity and performance

There have been a number of studies that have compared organisational performance indicators against diversity indicators over a number of organisations, attempting to correlate diversity and performance. Siciliano (1996) studied 240 YMCA organisations comparing multiple measures of board member diversity with performance indicators and found that when there was greater occupational diversity amongst board members, there were higher levels of social performance (success in achieving their social mission) and fundraising. Furthermore, age diversity correlated with donation levels and higher gender diversity appeared to increase organisation's level of social performance.

Similarly, Erhardt et al (2003) found support for their hypothesis stating that executive board of director diversity (ethnicity and gender) positively correlated with return on investment and return on assets, suggesting board level diversity impacted positively on organisational performance. Herring (2009) found that both gender and race diversity was associated with increased sales revenue, more customers, greater market share, and greater relative profits in a sample of for-profit businesses. Carter et al (2003) found by comparing organisations with two or more females on their boards to those with none, that organisations with female board members tended to have a higher financial performance, as well as having larger boards, more annual meetings and more minority directors. Organisations with two or more minority board members performed better than those who had none, however this difference was less pronounced for ethnicity in comparison to gender.

Adams and Ferreira (2009) have criticised many studies for being short in scope, as this questions the causal interpretation of these studies, ie it may be that the apparent positive relationship between increased numbers of females on boards and performance exists as more successful organisations choose to recruit females to their boards rather than females enhancing performance. Interestingly, when Adams and Ferreira (2009) addressed this in their own study, they found that whilst female presence on board increases attendance and monitoring, it actually had a negative impact on performance. Yet Smith et al (2005) assessed the relationships between CEOs or board directors who are women and performance across 2,500 Danish firms from 1992 to 2001 and found there was a positive relationship between firms with female CEOs (including vice directors) and performance, whereas for female board directors, the results were more mixed. Smith et al were also able to reject the hypothesis of reduced causality, ie that high performing organisations are more likely to hire female directors/CEOs.

The variation between findings of different studies, ranging from diversity having a positive impact to a negative impact, demonstrates that the relationship between gender and ethnic diversity and organisational performance is not as straight-forward as many of these studies attempt to show. Some of the discrepancies may be explained to some extent by influences such as 'tokenism', this being the effect of increased pressure on minority groups due to higher visibility resulting in them not fulfilling their potential (Reskin et al, 1999). Research by McKinsey and Company (2007) found that organisational performance in nine criteria (leadership, direction, accountability, coordination and control, innovation, external orientation, capability, motivation, work environment and values) improved significantly when there were three women on management committees (with an average of ten members) compared to when there were no women. Similarly, Joy et al (2007) found from research on Fortune 500 companies that those with more female board members outperformed those with less in return on equity, return on sales and return on invested capital. Again they found that this relationship was most significant when there were three or more female board members (Joy et al, 2007). These findings could relate to tokenism, as when there are three female board members they are less likely to feel exposed therefore pressure on them reduces allowing them to perform.

Interestingly, Roberson and Park (2006) found that diversity within top-management positions and performance were related in a U-shaped curve, in which productivity fell with increased racial diversity to a point of 20 to 25 per cent racial diversity, after which it then increased. This research ties together many of the theories around the diversity-productivity link, as it suggests that an initial increase in diversity reduces the performance through increased conflict, poorer communication and tokenism, but as diversity becomes more accepted and incorporated into top-level management, the benefits of more diverse perspectives, greater access to networks and stakeholder engagement result in superior performance. Similarly, Nathan (2013) found a non-linear relationship between gender and ethnic diversity and productivity and innovation, with a positive impact on innovation and turnover when teams reach an 'optimum' level of diversity. He calls this an inverse U. Teams at either end (too homogenous ie all men or all women or all white or all BME) lose these advantages.

Kochan et al (2003) suggest that variations into the findings of studies investigating the impact of diversity on performance could be related to the organisational context. They suggest that when group leaders and members build on creativity and innovation, or when group members have been trained in dealing with issues such as communication and problem solving within diverse teams, then they can reap the benefits. In organisations that have little understanding of working in diverse groups, the increased conflict associated with diversity can have a negative impact on performance. Based upon this model, it is therefore imperative that HR policies, processes and training encourage and educate employees in diverse team working to ensure diversity has a positive impact on performance.

HR practices were also the focus of Armstrong et al (2010), who found that organisations with high-performance work systems (generous HR practices and policies) and equality and diversity management systems benefited from higher labour productivity, lower voluntary turnover and increased innovation. The benefits were greater when there were equality and diversity management systems in place in conjunction with high-performance work systems, which again supports the argument for embedding equality and diversity into organisations in order to benefit from it.

Barriers to diversity

It is clear from the underrepresentation of women and ethnic minorities at board level that despite the growing evidence supporting the business case for diversity, there are still barriers both for those from minority groups in reaching director level and for organisations in achieving diversity at senior levels. Singh and Vinnicombe (2004) suggest that many barriers preventing women from reaching top positions are subtle, unintentional forms of discrimination. Consultation responses in the Davies Report expressed various reasons for low numbers of women on boards: women felt they missed out on numerous development opportunities, were mentored in a different way to men, few women role models and gender-related behavioural traits, namely that women were more likely to undervalue their achievements (Davies, 2011). A lack of mentoring or networking opportunities is commonly cited as a blockage to women reaching senior positions (Fairfax, 2006).

Sealy and Vinnicombe (2013) analysed the career paths of women to the executive to see whether they had been hired directly into their Executive Committee role from a different organisation, or whether they had progressed through the organisation to that role. It was found that 75 women (48 per cent) had been internally promoted to that role and 82 (52 per cent) had been hired in to their role; therefore there was not a clear path. Analysis of a matched random sample of 157 men on executive committees and found that 62 per cent of men were internally promoted versus 38 per cent externally hired, suggesting that women are less likely to be promoted internally, thus needing to move organisation to reach executive committee positions (Sealy and Vinnicombe, 2013).

At an organisational level, Smith et al (2005) study found that across 2,500 Danish firms, organisations from the primary sector, energy or water companies were more likely to have no females in their management teams in comparison to service and retail organisations. This is likely to be due to these sectors not typically attracting female employees, therefore the pool of female talent within the organisation would be much smaller, making it more difficult to find individuals capable of filling director positions. Similarly, Higgs (2003) suggests that part of the reason for there being few female directors may be that women tend to be more strongly represented in roles such as human resources, change management and customer care which are not regarded as traditional routes to the board. Singh and Vinnicombe (2004) highlight that 60 per cent of chairmen wanted to select their non-executive directors from those who were CEOs or chairmen of similar sized companies and given that there are very few women in these positions, gender inequality at board level is perhaps unsurprising.

Such issues are only likely to be overcome by organisations thinking much more broadly about who may be able to sit on the board, or by societal change in which there is more even representation across sectors and roles, both of which are likely to take a long time to change. However, Jayne and Dipboye (2004) argue that even now diversity is a business reality, so there is a need for organisations to put in place long-term, sustainable diversity strategies to mitigate the issues diversity can cause and enhance the benefits.

References

Adams RB, Ferreira D (2009), 'Women in the boardroom and their impact on governance and performance', *Journal of Financial Economics*, 94(2), pp. 291-309

Armstrong C, Flood PC, Guthrie J P, Liu W, MacCurtain S, Mkamwa T (2010), 'The impact of diversity and equality management on firm performance: Beyond high performance work systems', *Human Resource Management*, Vol. 49, Issue 6, pp. 977–998

Barkema HG, Shvyrkov O (2007), 'Does top management team diversity promote or hamper foreign expansion?', *Strategic Management Journal*, 28(7), pp. 663-680

Carter DA, Simkins BJ, Simpson WG (2003), 'Corporate Governance, Board Diversity, and Firm Value', *The Financial Review*, 38, pp. 33-53

Davies M (2011), *Women on Boards,* Department for Business Innovation and Skills

Department for Business, Innovation and Skills (2013), BIS Occasional Paper 4: The business case for equality and diversity; a survey of the academic literature, BIS/13/556

Dobbin F, Jung J (2011), 'Corporate board gender diversity and stock performance: the competence gap or institutional investor bias?', *North Carolina Law Review*, 89, pp. 810-838

Ely RE, Thomas DA (2001), 'Cultural Diversity at Work: The Effects of Diversity Perspectives on Work Group Processes and Outcomes' A*dministrative Science Quarterly,* 46(2), pp. 229-273

Erhardt NL, Werbel JD, Shrader CB (2003), 'Board of Director Diversity and Firm Financial Performance', *Corporate Governance: An International Review*, 11(2), pp. 102-111

Fairfax LM (2006), 'Clogs in the pipeline: the mixed data on women directors and the continued barriers to their advancement', *Maryland Law Review*, 65(2), pp. 579-624

Haslam SA, Ryan MK, Kulich C, Trojanowski G, Atkins C (2010), 'Investing with prejudice: the relationship between women's presence on company boards and objective and subjective measures of company performance', *British Journal of Management,* 21, pp. 484-497

Herring C (2009), 'Does Diversity Pay?: Race, Gender, and the Business Case for Diversity', *American Sociological Review*, Vol. 74, No. 2, pp. 208–224

Higgs D (2003), Review of the role and effectiveness of non-executive directors

Hillman AJ, Cannella AA, Jr, Harris IC (2002), 'Women and racial minorities in the boardroom: How do directors differ?', *Journal of Management*, 28(6), pp. 747-763

Homan AC, van Knippenberg D, Van Kleef GA, De Dreu CKW (2007), 'Bridging faultlines by valuing diversity: Diversity beliefs, information elaboration, and performance in diverse work teams', *Journal of Applied Psychology*, Vol. 92, pp. 1189-1199

Huse M, Solberg AG (2006), 'Gender related boardroom dynamics: How women make and can make contributions on corporate boards', *Women In Management Review*, 21(2), pp. 113-130

Jayne MEA, Dipboye RL (2004), 'Leveraging diversity to improve business performance: research findings and recommendations for organisations', *Human Resource Management*, 43(4), pp. 409-424

Joy L, Carter NM, Wagner HM (2007), *The Bottom Line: Corporate Performance and Women's Representation on Boards*, Catalyst

Kochan T, Bezrukova K, Ely R, Jackson S, Joshi A, Jehn K, Leonard J, Levine D, Thomas D (2003), 'The effects of diversity on business performance: report of the diversity research network', *Human Resource Management*, 42, pp. 3-21

McKinsey and Company (2007), Women Matter: gender diversity, a corporate performance driver

Nathan M (2013), Top Team Demographics, Innovation and Business Performance: Findings from English Firms and Cities, 2008-9, SERC Discussion Paper 129

Reskin BF, McBrier DB, Kmec JA (1999), 'The Determinants and Consequences of Workplace Sex and Race Composition', *Annual Review of Sociology*, 25, pp. 335-361

Roberson QM, Park HJ (2006), *Examining the link between diversity and firm performance: The effects of diversity reputation and leader racial diversity* (CAHRS Working Paper #06-02), Ithaca, NY: Cornell University, School of Industrial and Labor Relations, Center for Advanced Human Resource Studies

Siciliano JI (1996), 'The relationship of board member diversity to organizational performance', *Journal of Business Ethics*, 15(12), pp. 1313-1320

Sealy, Vinnicombe S (2013), *Female FTSE Board Report 2013: False dawn of progress for women on boards?*, Cranfield School of Management

Singh V, Vinnicombe S (2004), 'Why So Few Women Directors in Top UK Boardrooms? Evidence and Theoretical Explanations', *Corporate Governance*, 12(4), pp. 479-488

Smith N, Smith V, Verner M (2005), Do women in top management affect firm performance? A panel study of 2500 Danish firms, IZA Discussion Papers, No. 1708

Van Knippenberg D, Haslam SA, Platow MJ (2004), Unity through diversity: Value-in-diversity beliefs as moderator of the relationship between work group diversity and group identification, Paper presented at the Society for Industrial and Organizational Psychology 19th Annual Conference, Chicago

Women's Business Council (2013) *Maximising women's contribution to future economic growth.* [online] Available at: http://womensbusinesscouncil.dcms.gov.uk/ [accessed 16 December 2013]

To find out more about the ideas in this article or how IES can help you please contact:

Mary Mercer, Principal Consultant
T: 020 7104 2072 E: mary.mercer@employment-studies.co.uk

This summary is from the IES report: *IES Perspectives on HR*. (IES Report 504, 2014). ISBN: 978 1 85184 452 4. It is available online at www.employment-studies.co.uk

Institute for Employment Studies
Sovereign House, Church Street, Brighton BN1 1UJ, UK
askies@employment-studies.co.uk
www.employment-studies.co.uk
01273 763400

Diversity at senior team and board level