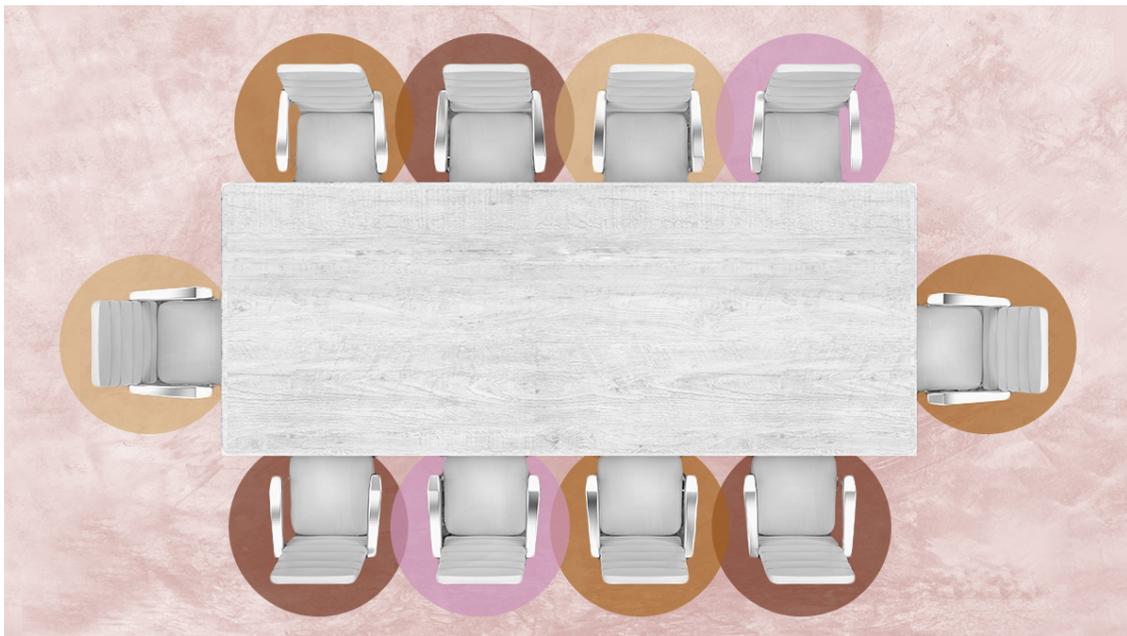


Is Your Board Inclusive – or Just Diverse?

by Randall S. Peterson and Heidi K. Gardner

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Summary. In recent years, many boards have made substantial progress when it comes to increasing diversity. But the authors' research suggests that simply increasing representation of women or ethnic minorities isn't necessarily enough to achieve true inclusion in the... [more](#)

The need for boardroom diversity is well-established. Many European countries have mandated that at least 40% of directors of publicly listed companies must be women, and similar laws have been passed in several U.S. states establishing gender- or

race-based quotas. And to be sure, these policies have led to substantial progress: For example, one report found that representation of women on FTSE boards has grown eightfold in the last 25 years, from 5% up to 40%. But is simply changing the composition of boards enough to ensure that diverse perspectives are actually integrated into decision making?

Our new research goes beyond representation to explore both how boardroom behaviors change when boards become more diverse, and what boards can do to ensure that increasing diversity actually has a positive impact on both the board and the organization at large. Specifically, we first analyzed data regarding the link between director diversity and financial performance for the entire FTSE 350. We then conducted a series of in-depth interviews with nearly one hundred global board directors in which they shared qualitative descriptions of their boardroom dynamics and completed a structured, 40-question survey designed to quantify their board's inclusivity and behavioral patterns. Through these analyses, we found that diversity can substantially benefit boards — but only when directors' input is heard, valued, and truly incorporated.

The Benefits of Moving Beyond Representation

Our research identified two main benefits of inclusion. First, when directors from underrepresented groups are effectively integrated, boards exhibit a **more collaborative decision-making process**. In particular, we found that boards where female directors were less integrated tended to use more competitive communication styles, and they would often resort to preemptive voting on issues rather than fully discussing differing viewpoints. This often masked underlying disagreements, increased the chances that certain perspectives would be overlooked, and made these boards overconfident in their decisions. In contrast, boards with more-engaged women tended to take the time to reach a common understanding of the problem

when disagreement occurred, resulting in more-unified decisions in which everyone understood what was at stake and no one's voice was disregarded.

Second, this more inclusive, collaborative decision-making process drives **better firm performance and shareholder relations**. Specifically, companies whose boards had well-integrated female directors experienced 10% higher stock returns, and their shareholders were 8% less likely to formally dissent to board decisions, than those that diversified without prioritizing real inclusion — even if the board only had one woman.

The Challenges of Moving Beyond Representation

Of course, moving beyond representation toward actual inclusion is no small feat. In our research, we identified several common challenges that kept women and people of color from becoming integrated into their boards.

Integration takes time

First, it takes time to build credibility in the boardroom. A board may recruit directors from underrepresented groups, but existing members generally don't feel confident in those new members right away, and they may even see them as disruptive and inefficient. Furthermore, we found that the measurable performance benefits of adding women to the board — increases in metrics such as stock price and EBITDA margins, for example — only emerged three to five years after the women joined.

Prior roles convey status

Second, directors from underrepresented groups often have resumes that cause them to be viewed as lower status than their white male counterparts. Directors with prior experience serving as the CEO or CFO of a public company tend to be regarded as higher status, and people who have held these sorts of roles are far more likely to be white men. Conversely, directors from

underrepresented groups are less likely to have held these roles, and so despite their other experiences, they are often regarded as lower status.

Disadvantages compound

Finally, we found that many new directors who were from underrepresented groups also came from relatively high socioeconomic class backgrounds, making it easier for them to build trust with existing directors. They went to the same colleges, they shared similar hobbies, they followed the same sports — and so they assimilated relatively easily, because they were entering a culture that was familiar to them. However, directors who were from lower-class backgrounds found it much harder to connect with their new peers. They often rubbed people the wrong way because their questions and communication styles made other directors feel awkward, and they generally didn't understand the “rules of the game.” For example, as one female Latina director explained, “Board meetings for me were like watching a foreign film without subtitles: I had a vague idea of the plot and characters, but no real understanding of the implications. There were so many code words, inside jokes, and cultural references that meant nothing to me, given that I'd grown up in a poor ethnic neighborhood. It took me years to truly participate.”

Our research found that while boards have been appointing a lot more women, those women are almost exclusively white and from high social class backgrounds. These higher-class, white female directors tend to bring fairly similar perspectives as existing directors, meaning that even boards that have become more gender inclusive often still have a lot of work to do when it comes to recruiting and embedding people with multiple compounding disadvantages. To gain access to truly diverse perspectives, it's critical to acknowledge the importance of social class and other intersectional identities beyond just gender and race.

What It Takes to Move Beyond Representation

Despite the challenges, some of the boards in our study did manage to successfully recruit, retain, and engage a diverse group of directors. These boards adopted many of the following strategies:

Select a chair who's a good listener

Across our interviews, we consistently heard that the single most important ingredient for a diverse and inclusive board was a chair who was considered to be a good listener. As a board diversifies, it becomes all the more critical for the chair to actively seek out and understand different directors' perspectives, and help the whole board appreciate contributions from *all* their peers. "The best board chairs I've observed," one director noted, "make extra efforts to listen intently for people's real insights, and not be fooled if people aren't using the buzzwords or 'in my experience' phrases that tend to signal credibility."

Collect diversity and inclusion data — and learn from it

True inclusion is impossible without explicit coordination around measurable targets. In our study, we found that the most inclusive boards were those that tracked and communicated metrics not just around numbers of female or minority directors, but also around socioeconomic class and intersectional identities. And of course, beyond just tracking representation, the most effective boards used frequent surveys and interviews to measure qualitative indicators of inclusion. It's particularly important to gather input around patterns of inclusion over time, as the positive impact of diversity on company performance can take years to emerge, but evidence of shorter-term progress on diversity and inclusion can help directors stay motivated and confident that they're moving in the right direction.

Engage with diverse candidates and mentees

Moving from representation toward real inclusion starts with engaging and genuinely connecting with people from different backgrounds — and this generally doesn't happen without proactive effort. The successful boards in our study explicitly asked existing directors to identify and mentor one or two executives with board potential from a different ethnicity or lower social class than themselves. As one director observed, “even if those candidates are not appointed, it effectively diversifies the network of existing directors and helps them understand the barriers other candidates from a similar background face.”

Empower sub-committees

The boards that became most collaborative and exhibited the strongest shareholder relations after increasing diversity generally had strong sub-committees with explicit decision-making power in certain clearly defined domains. These committees offer new directors the chance to better understand the board's politics, culture, and processes, giving them the tools they need to be effective in dealing with the broader board. One female director told us, “I found my ‘voice’ in the audit committee. I felt like an imposter in the big [main board] meetings, but I could definitely hold my own when it came to numbers. So I figured out how to craft a rationale that resonated with my fellow quant peers, and over time used that approach to gain a lot more influence with the broader group.”

Prioritize culture

Culture cannot be an afterthought. To that end, boards should either proactively charge their nominations committee with responsibility for creating an inclusive board culture, or create an independent committee for this task. Board members should also spend time together outside of meetings to build trust, forge lasting personal relationships, and gain insight into the value that other directors' perspectives bring. And remember: The more dimensions on which a director differs from their “typical” peers

on a board, the more effort it takes to build mutual trust and understanding. As the company secretary of a large multinational explained to us, when directors take the time to get to know each other, it makes it easier for them to challenge each other and ask important questions, and thus makes it more likely that everyone's voice will be heard and considered. The goal here isn't for diverse board members to assimilate to the existing culture. Rather, the culture must shift to embrace the new perspectives and ways of operating that diverse members bring to the table.

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Ultimately, representation is important — but it isn't enough to make meaningful progress alone. To get the most out of a diverse board, it's critical not just to recruit a few women or people of color, but to take an intersectional approach to diversity, challenge assumptions around status and experience, and invest in building a culture of true inclusion.

Randall S. Peterson is the founding director of the Leadership Institute and a professor of organizational behavior at London Business School. He is a coauthor (with Gerry Brown) of *Disaster in the Boardroom: Six Dysfunctions Everyone Should Understand* (Palgrave Macmillan, 2022).

Heidi K. Gardner is a distinguished fellow at Harvard Law School and a faculty chair in the school's executive education programs. She is also a cofounder of Gardner & Collaborators.

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