

# You Need Board Diversity, but not only for the Reason you think



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There is a general ethical imperative to create equal opportunities at the top of organizations and a long way to go to achieve this in many parts of the world. But there are also some very specific business reasons for doing so too. Diversity in top management positions support better financial performance, faster growth, and more nuanced strategy.

## Diversity drives Performance

Diversity in top management positions is a driver of greater innovation and outperformance. Surveying more than 1,700 companies across eight countries (the U.S., France, Germany, China, Brazil, India, Switzerland, and Austria) and a variety of industries and company sizes, we examined diversity in management positions, measured with respect to six different factors of diversity: gender, age, national origin, career path, industry background, and education. Across all industries and countries, we found a statistically significant relationship between diversity and innovation outcomes. The most-diverse enterprises were also the most innovative, as measured by the freshness of their revenue mix. (*Harvard Business Review, How and Where Diversity Drives Financial Performance, 2018*)

In fact, companies with above-average total diversity, measured as the average of the six dimensions of diversity, had both **19%** points higher innovation revenues and **9%** points higher EBIT margins, on average.

All six dimensions of diversity had statistically significant correlations with innovation individually – meaning each type of

diversity delivers value in isolation. When analyzed in combination, different dimensions of diversity delivered additive effects, meaning multi-dimensional diversity delivers greater company outperformance. Companies today can therefore benefit from accelerating their current diversity initiatives, but also expanding their diversity efforts to include additional sources of heterogeneity analyzed in this study.

## Diversity accelerates Growth

Furthermore, diversity plays a role not only in improving performance today, but in enabling future growth. In partnership with Fortune magazine, we developed an index of corporate vitality using machine learning methods that identifies and quantifies the factors predictive of long-run growth. Among the 19 factors enabling future company growth were gender, age, and geographic diversity of company directors and executives. Diversity in top leadership positions was predictive of future growth. (*Boston Consulting Group, The Durable Benefit of Corporate Vitality, 2020*)

For example, the top 50 companies with the highest future growth potential were twice as likely to have at least 25% of their top executives be female. Companies that embrace the business imperative of board diversity will be better positioned to generate the wide range of ideas required to build future growth potential. We posit that the value of diversity we saw in supporting greater innovation drives the future growth also experienced by these more diverse companies.

## Diversity deepens Strategy

Perhaps least well appreciated is the role that board diversity can play in the making of good strategy. Corporate strategy is increasingly challenging for today's leaders. More varied business environments require companies to adopt different strategic approaches to match their specific situations. And the accelerating pace of change requires strategic assumptions to be re-evaluated constantly.

At the same time, corporate strategy is also becoming more important: Aggregate long-term growth is trending downward globally and new competitors present a constant threat of disruption. As a result, CEOs are turning to their boards for help navigating these difficult strategic environments. Nearly all CEOs say that their boards should spend more time on strategy. (*Boston Consulting Group, How Nordic Boards Create Exceptional Value, 2016*)

As boards lean in more to this new imperative to renew and de-average strategy, neuro-cognitive diversity can provide an advantage. Research conducted in collaboration with Pymetrics assessed strategists' performance in different strategic games and used artificial intelligence algorithm to analyze patterns of 90 brain traits, including memory capacity and speed, learning skills, speed of reaction, risk aversion, planning aptitudes, and impulsivity. The results indicated that different types of problem solver, with different profiles of neuro-cognitive skills are successful in specific types of strategic environment. Very few individuals are successful in all strategic environments. For companies this means a mix of neuro-cognitive types will be essential to rounding out the required skillset to securing strategic success in the varied competitive environments that large companies operate in. (BCG Henderson Institute, Strategy, Games, and the Mind, 2018)

## Despite the clear ethical, financial, and strategic case for board diversity, progress to get there remains slow.

Why, given the overwhelming evidence of benefit, is there so little progress? Research indicates it's an issue of talk over action.

Corporations increasingly recognize the need for top management diversity. We found diversity has gained

momentum as a topic in more than 70% of the enterprises surveyed, especially in developing economies.

And the enabling conditions required to achieve board diversity are known and actionable. Fair employment practices (such as equal pay), participative leadership, top management support for diversity, and open communication practices can enable the attraction and retention of diverse talent and firms that had such practices in place had better diversity scores, and as a result better innovation performance.

Yet, less than 40% of firms employed these practices. This strongly suggests that diversity represents a tangible missed opportunity and significant potential upside for many companies. In total, the presence of these enabling factors is worth up to 12.9% points of innovation revenue.

## Pursuing diversity with diversity

Making diversity **work** requires pursuing multiple dimensions of diversity and being open to exploring new routes to achieving success. Diversity must not be approached as a push to reach static quotas, but a constant evolution towards greater variation and more types of variation within the company. The power of diversity must then be unlocked with enabling practices, like a non-hostile work environment, an inclusive culture, and a culture where diverse ideas resulting from a diversity of backgrounds are free to compete. Company culture will be the selective pressure, supporting or undermining the diversity efforts underway. The role of boards in establishing the diversity imperative and ensuring that a suitable culture is established is yet another role which is critical. ■

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