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Headline: How To Get the Most Out of a Diverse Board

How To Get the Most Out of a Diverse Board



Formal and informal social structures can enhance the positive effect of deep-level diversity while weakening the negative impact of surface-level diversity.

Whether it's providing essential oversight or representing stakeholder interests, a firm's board of directors wields significant power in determining how an organisation is governed. Boards are generally seen as detached from the daily operations or research activities of a firm. However, in recent years, many boards have become more involved in a company's technology path, thus playing a key role in influencing innovation output. This is illustrated through the board's firing (and re-hiring) of OpenAI CEO Sam Altman and the establishment of technology and innovation board committees in various companies.

At the same time, there has been a strong emphasis on appointing more women and minorities to boards in order to harness the benefits of diversity. In the United States, for instance, Nasdaq-listed companies must have women and minority leaders on their boards, or provide an explanation for why they do not. In the European Union, large companies are required to ensure that at least a third of their board members are women by mid-2026.

Given these trends, my co-authors* and I wanted to investigate the potential influence of board diversity on innovation. In our study published in the *Journal of Management Studies*, we found that different forms of diversity had opposing effects on innovation within a firm. We also found that social structures, be they formal or informal, can help organisations maximise the positive effect of board diversity on innovation.

Surface-level and deep-level diversity

Our study sample consisted of data covering publicly listed US firms between 2000 and 2019. We measured a firm's innovation output by patents the firm applied for and was granted. For the purposes of our research, we separated diversity into two categories: deep level and surface level. The former refers to "less visible" functional characteristics, such as differences in knowledge, experiences, values and personalities. The latter refers to "more visible" aspects of diversity related to demographics and social categorisation, including gender, race and ethnicity.

We hypothesised that although deep-level board diversity would be positively associated with innovation, surface-level board diversity would be negatively associated with innovation. Recent research has posited that diversity can have opposing effects on group performance. Team members with deep-level diversity could make better decisions or demonstrate greater creativity due to the increased variety of information and skills. Boards that possess deep-

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level diversity can be more capable of overseeing and scrutinising a CEO's decisions on innovation-related matters and better equipped to engage in deeper and meaningful discussions with the CEO.

On the other hand, demographic-related diversity, or surface-level diversity, may trigger social categorisation processes – such as in-group and out-group biases – which can lead to weaker communication and group cohesion. These can exacerbate conflicts and fault lines between individuals. Boards that have high surface-level diversity are more likely to face sub-group conflicts, making them less able to draw on the diverse expertise and knowledge domains of their members.

The influence of social structures

Our findings supported our hypothesis of a positive association between deep-level board diversity and innovation. We also found that formal social structures strengthened the effect of deep-level board diversity on innovation. In contrast, our findings implied that surface-level board diversity had a negative effect on innovation under certain conditions – namely, in the absence of formal or informal social structures that can facilitate interactions between the board and CEO.

By providing opportunities for CEOs and board members to engage in more meaningful discussions, formal social structures such as board-CEO committees allow an organisation to leverage the positive effect of deep-level diversity. They can also weaken the negative effect of surface-level diversity by promoting interactions between board members and CEOs that otherwise may not occur due to social categorisation processes that can curb such exchanges.

In addition, external social ties between board members and CEOs – such as belonging to the same social club or community association – could mitigate the negative impact of surface-level diversity. These informal social connections can help enhance access to information, while also downplaying and blurring the social categories that are often perceived among demographically different individuals.

How to optimise a diverse board

Our findings suggest that while appointing diverse board members may provide unique expertise and resources that enhance innovation outcomes, firms can benefit further if board members are assigned to board committees and hence interact with each other more. If board members are demographically diverse, firms could additionally consider whether these individuals have external social connections that may help mitigate the negative impact of surface-level diversity.

Indeed, while much attention has been paid to the positive implications of diversity in organisations, it is crucial for firms to understand the conditions under which they can truly get the best out of diverse team members in a way that could encourage innovation. When appointing board members, it may be tempting to focus on assembling a group of people with high surface-level diversity, as these characteristics tend to be more obvious. We argue that organisations should also look deeper to consider deep-level diversity characteristics, which will enable them to create a board that's composed of both functionally and demographically diverse individuals.

Even more critical is the inclusion element – the social structures in place to ensure that members don't just have a seat at the table but also the opportunity to build connections, rapport and a sense of mutual understanding. Establishing robust social structures could enable firms to leverage the unique and diverse strengths of each individual – in terms of their

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variegated lived experiences, knowledge, information sources, networks, strengths, talents and so on – while mitigating or reducing the potentially negative effect of surface-level diversity.

Increasing board diversity should therefore not be the sole focus of firms but ought to be considered in tandem with formal and informal social structures that connect CEOs and board members. Adopting this holistic approach can allow a firm to better leverage a diverse board to support innovation.

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