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Women Directors Change How Boards Work

by Laura Liswood
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We know that getting more women on teams can boost performance. The examples are numerous: Citing private internal research of 20,000 client teams, EY's vice chair Beth Brooke has said that the more diverse teams had higher profitability and great client satisfaction than non-diverse teams. And professors Anita Woolley and Thomas W. Malone have learned that increasing the number of women on a team **also increases its collective intelligence**.

Yet when it comes to one of the most important "teams" a company has - its board of directors - the United States seems to have **hit a ceiling of about 16% women**, with little by way of national efforts by government or business to increase that number.

Whether one agrees with quotas as a mechanism for an increase or not (spoiler: **men are less likely to**), a new look at Norway, which has a mandatory quota system of 40%, is helpful in understanding why having *at least* three women on a board is important. And while research about financial performance is still in its infancy - **Catalyst has found a strong correlation** between the number of women on boards and in the C-Suite and ROI and ROE of company returns - we're starting to learn more about the important ways women are changing the inner workings of boards.

Aaron A. Dhir, an associate professor at York University's Osgoode Hall Law School, has done extensive research for his forthcoming 2015 book, *Challenging Boardroom Homogeneity: Corporate Law, Governance and Diversity*. Professor Dhir did a qualitative, interview-based study of Norwegian corporate directors, looking deeply into the experiences of 23 Norwegian directors, men and women who had appointments both pre- and post-quota. He wanted to understand, from the directors' point of view, the actual meaning and effects of the quota's impact, from cultural dynamics and decision making to the overall governance approach of the affected boards. Focusing on the human side of governance, he makes several observations, some familiar and others surprising.

First, many women brought to the boardroom, and to decision making, a different set of perspectives, experiences, angles, and viewpoints than their male counterparts. Board members also observed that female directors are "more likely than their male counterparts to probe deeply into the issues at hand" by asking more questions, leading to more robust intra-board deliberations. Most women appeared to be uninterested in presenting a facade of knowledge and were loath to make decisions they did not fully understand (something **recent McKinsey research suggests might be fairly common**). Board members observed that female directors tended to have a different style of engagement, seeking the opinions of others and trying to ensure that everyone in the boardroom take part in the discussion.

Outsider status and independence were also particularly powerful forces in board dynamics, helping to open up close ties and expand and rearrange social bonds between directors, the CEO, and high-level management. The quota also forced a movement away from closed social groups and in-group favoritism - that is, people tapping only their own networks. One question for future research is whether women, over time, lose their outsider status and the effects of that status.

Interestingly, Professor Dhir found that the concern about being stigmatized as a "quota woman" was not experienced by the women who became new board members, particularly because there was a critical mass and not token representation.

Taken together, Professor Dhir identified seven consequences of gender-based heterogeneity for boardroom work, board governance, and group dynamics:

- Enhanced dialogue
- Better decision making, including the value of dissent
- More effective risk mitigation and crisis management, and a better balance between risk-welcoming and risk aversion behavior
- Higher quality monitoring of and guidance to management
- Positive changes to the boardroom environment and culture
- More orderly and systematic board work
- Positive changes in the behavior of men

This doesn't mean there weren't challenges. Some included more prolonged decision-making, less initial bonding, and additional conflicts due to the increase in different perspectives. Management had to get used to being deeply and fully prepared for the questions being asked.

In addition, diverse boards that were not properly managed created distrust and dissatisfaction. In part this is due to a common bias groups have. Homogeneous groups don't come to better solutions, as Columbia University's Katherine W. Phillips, the Paul Calello Professor of Leadership and Ethics, and others have found. They're simply convinced that they did.

Heterogeneous groups, on the other hand, come to better solutions. They just don't think that's the case.

There is heated discussion about the various mechanisms in place, and proposed, to include more women on boards. Amidst the debate, what seems clear, as Professor Dhir indicates, "the forced repopulation of boards along gender lines has disturbed the traditional order of corporate board governance systems, dislocating established hierarchies of power and privilege in key market-based institutions." In other words, having more women *does* change the dynamics of a board and its governance. The Norwegian experience has provided a window into what might happen if and when board leaders and companies elsewhere decide to seriously commit to making sure their boards are truly diverse, moving consciously from homogeneity to heterogeneity.

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Reference:

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