

Board diversity good for business, researcher says

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Having diversity among members on a corporate board of directors can be good for business, according to Penn State Harrisburg researcher Lu Zhang. Credit: Photo provided by Penn State Harrisburg

(PhysOrg.com) -- When it comes to building a personal financial portfolio, “diversify, diversify, diversify” is a common mantra. According to research by Penn State Harrisburg Assistant Professor of Management Lu Zhang, the same mantra is good advice when it comes to building a corporate board of directors.

Pressure for board diversification grew in the 1980s, but actual diversification has flat-lined recently. A 2008 report by The Alliance for Board Diversity found that women and minorities held 28 percent of Fortune 100 board seats, unchanged from a previous study.

Zhang says businesses would benefit by reversing this trend. Companies represent increasingly diverse stakeholders, she said, so board leadership must be equally diverse to improve the effectiveness of relationships with all interested parties.

Zhang overlaid director information from 475 publicly traded Fortune 500 companies with categories rating their social dynamics, such as community or employee relations and environmentally-friendly practices. Zhang assessed relationships with core members, such as consumers, stockholders, and employees, and with external factors such as the environment and the community -- all of which play vital roles for a business.

Boards with higher percentages of women, Zhang found, were more likely to exhibit stronger relationships with all stakeholders than those made up mostly of men. According to Zhang, female board members tend to be more concerned with improving corporate governance, whereas male members, who have traditionally held ownership and control of businesses, generally focus more on profit-making than satisfying stakeholders. “Females may bring valuable resource advice and social networking skills to firms,” said Zhang.

Zhang found that boards with higher percentages of minorities were more likely to exhibit stronger relationships with external stakeholders than racially similar groups were, but weaker relationships with internal stakeholders. Zhang said that minority directors, like women, tend to develop more community ties than male, nonminority directors. However, due to wide-ranging ideas, Zhang said, more diverse groups may not function or cooperate as cohesively as similar ones, possibly resulting in poorer relations among internal members.

The research offers positive implications for female directors, who create stronger bonds with all involved, Zhang said. And, to increase the

efficiency of heterogeneous boards, Zhang recommends that businesses hold diversity training so directors may better understand each other.

Provided by Pennsylvania State University

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