

Professor finds diversity of experience among board members leads to innovation

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While gender, racial and ethnic diversity bring value to U.S. companies, research from the Indiana University Kelley School of Business has found that diverse educational, industrial and organizational experiences

among managers and board members leads to R&D innovation creating economic and social value.

"We looked at their experiences and not just their demographic background—the more functional aspect of [diversity](#). We looked at outcomes and found radical [innovation](#) when directors had more diverse experience, helping to guide firms toward more cutting-edge exploration and success," said Aurora Genin, assistant professor of management and entrepreneurship.

In other words, corporate leadership that includes people from educational backgrounds other than business and finance might be less myopic when facing uncertainty.

Genin is co-author of the article "Board experiential diversity and corporate radical innovation," in *Strategic Management Journal*. Other authors are Wenting Ma, assistant professor of finance at the University of Massachusetts Amherst; Vineet Bhagwat, associate professor of finance at George Washington University; and Gennaro Bernile, associate professor of finance at the University of Miami.

Many firms are responding to market and regulatory pressures to make the composition of their corporate boards more demographically diverse. Use of the "traditional pedigree" for directors limits the pool of possible candidates, creating a scarcity among those who are women or of color.

"Noting the benefits of diverse experiences in the board room, corporate executives can search beyond the tradition director pedigree (e.g. Ivy League-educated financiers), where female and minority individuals remain underrepresented," she and her colleagues wrote. "In doing so, the firm can find more qualified candidates to assemble a demographically and intellectually diverse board, thus cultivating an inclusive corporate culture conducive to shareholder and stakeholder

value creation."

For example, Genin said, the limited supply of [women](#) in the director pool makes them a scarce commodity.

"Companies are trying to recruit this limited number of female director candidates," she said. "If you have one woman sitting as a director on 20 company boards, how much can they really contribute to the decisions, in terms of monitoring and advising?"

The researchers reviewed a sample of more than 11,000 observations of 971 firms with one or more patent applications between 1996 and 2014.

One example cited in the paper of a highly innovative company that values diverse experiences and collective literacy in the board room is pharmaceutical and biotech leader Moderna, which used a non-traditional approach—RNA technology—to develop one of the COVID-19 vaccines. It has an advisory board that includes those educated in medical sciences, economics, and journalism—as well as finance. Other firms may include [board members](#) with backgrounds in computer and political science.

"From leadership's perspective, critical thinking is very important in terms of guiding companies to take higher risks and evaluating the trajectory of their R&D efforts," she said. "If some of the people in the board room aren't trained in the more pragmatic disciplines—such as someone trained in journalism—it helps them to think between the lines and beyond the face value of a decision."

This is important because radical innovation involves high risks early on. Directors with an open and long-term mindset "can steer the upper echelon to emphasize frontier exploration in the firm's R&D strategy," researchers said.

"While there can be tension between short- and long-term value creation, it is not irreconcilable," they added. "Firms can potentially achieve the best of both worlds by recruiting female and minority directors with non-traditional experiences, who are likely mindful of both current shareholder value and future growth opportunities."

More information: Aurora Genin et al, Board experiential diversity and corporate radical innovation, *Strategic Management Journal* (2023). [DOI: 10.1002/smj.3499](https://doi.org/10.1002/smj.3499)

Provided by Indiana University

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