

Do Diverse Directors Influence DEI Outcomes?

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Overview

Big question: What is the impact of Board Diversity on Corporate Culture?

- Different outlook: Away from profitability...
... into an important intangible, culture.
- Two challenges from the outset.
 1. Useful definition of Diversity: hand in hand with **mechanisms**.
 2. **Causal estimations** – This is not academic snobbery, this is about basing corporate policies on levers that actually deliver effects.

Interesting paper

- New granular data: employment, pay practices & culture, norms, esg ratings
- Plethora of methodologies to tease out causal effects.
- 3 Interesting mechanisms: cognitive diversity, homophily and allyship

Overview

Results based on outcomes

Board Diversity changes the composition (URG, Females, Non-white) of the organization both at the managers and staff level

Works strongly via Cognitive Diversity [Panel / RD / Shifts Supply]

Homophilly [Panel / State Legislation: staff]

Allyship (only women on others) [Panel / State Legislation: staff]

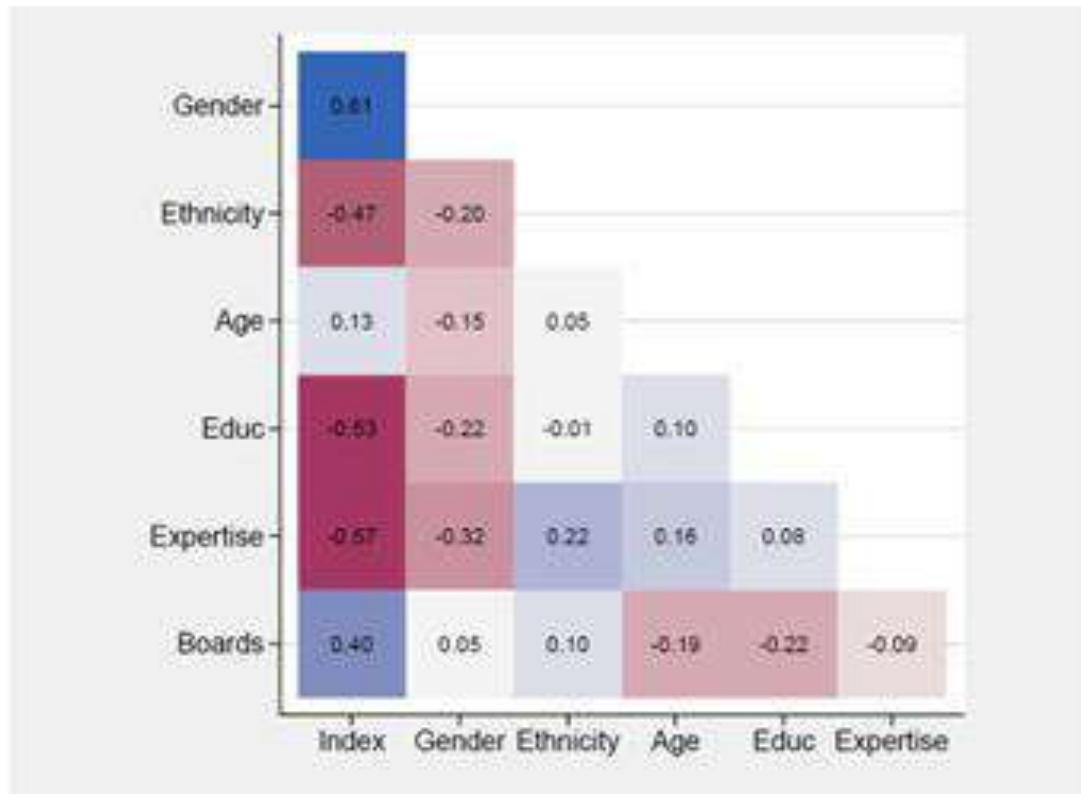
Board Diversity does not impact Pay Gap.

Board Diversity improves culture ratings and perception of “best places to work”. Weakly improves some ESG ratings.

Weak Cognitive diversity [RD / Shift Supply]

Gender & Ethnicity index [Panel]

Comment 1: Broad board diversity measure



A discussion of what drives the overall diversity board measure.

Gender is negatively associated to all the other measures: expertise, education, ethnicity and age.

Ethnicity: positively ass. with expertise; negatively with gender

Comment 1: Why explore three different mechanisms?

What do we learn beyond cognitive diversity?

How easy is to disentangle each one? Discussion on how distinct they are.

- Could Homophily & Allyship be capturing part of the cognitive diversity component.
- Could cognitive diversity lead to the same outcomes that we are observing?

Comment 2: Focus on Mechanisms rather than Methods

3 Mechanisms,

4 Econometric Methods,

4 Outcomes...

- Each methodology has a different strength. **Why keep the Panel results?**
- Identify the strength for each method: RD work well for Broad Cognitive measure, **RD less convinced about Gender & Ethnic** (however, the changes in political candidates are either females or ethnic background).
- If you focus on Mechanisms some methods are more suitable:
State legislation changes pin down Homophilly & Allyship

Comment 3: Top-Down effect versus Bottom-up

The board will have an impact on high level policies.

Your results separate managers and rank-and-file staff...

- A sense of how significant is the impact?
- Importance of magnitudes across the organization N-1, N-2... How does it trickle down?
- An important glass ceiling for women in the Executive Committee.
Is most of the effect there or does it permeate across managers of different tiers leading to a faster transformation.
- Promotion Gap: decisions based on skills & homophily/allyship: should we think of homophily as bias?

Comment 4: Boards' distinct structures

Could the structure of the Board enhance or reduce the effect?

- We all understand the weight of the Chairman – especially when is distinct from the CEO.
- What is the role of the different chairmen of the Committees?
 - Nominating Committee for Promotions.
 - Remuneration Committee for Pay Policies.
 - vs. broad business Strategy/Sustainability/Delegate Committee.
- Concerns about Tokenism

At the end of the day we are asking How is Diversity effective?

Comment 5: ESG not a checklist approach

Do “S” [ESG] practices have a real effect?

- Different providers record changes differently: Refinitiv, KLD...
- No results or some weak effect using Change in Supply of Directors
- Tyranny of the ESG check-box approach
Companies should do the right thing beyond the ESG rating.

In Sum

The paper asks a first order question

Forces us to think about the value of Board Diversity away from firm value
More subtle but important channel that is Culture.

3 ideas that I find very powerful:

- Board Diversity does change firm's employee composition & culture ratings/norms.
- It is a Top-down process.
- The channels of Homophily and Allyship are important - beyond cognitive.

Thank you!

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