

# BOARD GENDER DIVERSITY AND IMPRESSION MANAGEMENT

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AN ANALYSIS OF THE RECYCLING PHENOMENON

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## Executive Summary

With growing attention on companies' stance related to sustainable and social activities, an increasing number of corporations have set in place measures to improve their impact on the world. However, these efforts have sometimes been tempered by the question of whether these apparent improvements are a result of a genuine reassessment of corporate responsibility or whether increases in diversity or reductions in environmental impact are related to a form of impression management with less impact. This paper focuses on corporate board diversity and to what extent the recent increase in minority group representation could be related to a form of diversity washing.

To establish a correlation between corporate board diversity and diversity washing, we observe a phenomenon called recycling, in which multiple companies appoint the same minority person to their board to increase observed diversity on the individual boards while minimally increasing the number of minority people at the board level. For this, we looked at the board members of the S&P500 corporations and analyzed whether individuals from certain minorities held more board positions on average than their majority counterparts. We also looked at the proportion of minority individuals that held more than one board position compared to the proportion for the majority group. We found that individuals from certain minority groups were recycled significantly more than others. Especially African ethnicities were recycled more than average, while Asian ethnicities were recycled less than average.

This phenomenon was then observed in the context of tokenism, critical mass, and a comparison between diversity on boards and in top management teams. We found that S&P500 corporate boards were significantly more diverse than their top management, and that the critical mass threshold for women on boards was not always met. We further found that ethnic minorities were heavily underrepresented in corporate boards, with an average representation far below the critical mass threshold of three seats.

However, we recognize the limitations of our study emanating from the impossibility to pinpoint exact intentions and thereby differentiate between a genuine will to increase diversity, unconscious bias, and deliver impression management. The lack of research

regarding the recycling phenomenon, particularly in the context of diversity washing, weakens the results of our study as it makes it difficult to contextualise our findings.

## Introduction

Over the last few decades, businesses have become increasingly more socially conscious, motivated by the introduction of additional social and environmental measures of performance (ADB, 2012). As part of this movement, companies have been pressured to increase diversity and inclusion at all levels of their business. One tangible measure of diversity is to look at gender and ethnicity in board positions. Based on this measure, companies seem to have become much more diverse in recent years. One study shows that the number of companies with at least 40% minority members on boards was four times higher in 2021 than in 20110 (The Wall Street Journal, 2021). While clear improvements have been made in terms of parity and diversity, research has brought to light certain phenomena, such as *tokenism* or *recycling*, which potentially cast a shadow on the recent board diversity increase. We ask ourselves if it is possible that some of this recent increase in gender and ethnic representation could be linked to a form of impression management rather than genuine diversity efforts?

This paper explores the area of diversity washing by looking at what we will refer to as *recycling* of minority board members. This entails having the same individuals from certain minority groups appear on multiple different boards at the same time. We ask ourselves if such a pattern exists in large organizations and, if so, whether this phenomenon should be linked to diversity washing. To investigate this, the paper will perform a quantitative analysis seeking to determine if the presence of such a recycling phenomenon can be statistically confirmed.

Minority groups can be defined along multiple dimensions, but for the purpose of this study, we focus on minority groups in terms of gender and ethnicity. The study is limited to the S&P500 based on data from the Denominator<sup>1</sup> DEI database with information on 4.770 board

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<sup>1</sup> Denominator provides a global DEI database, covering more than 1.5 million companies across 220+ countries and 85+ industries on more than 200 DEI-specific variables. <https://denominator.one/>

members, 6.292 executives, and 598 individuals serving on both the board and in executive management. This edition is a shortened version aimed at highlighting our main findings.

## Diversity and Tokenism

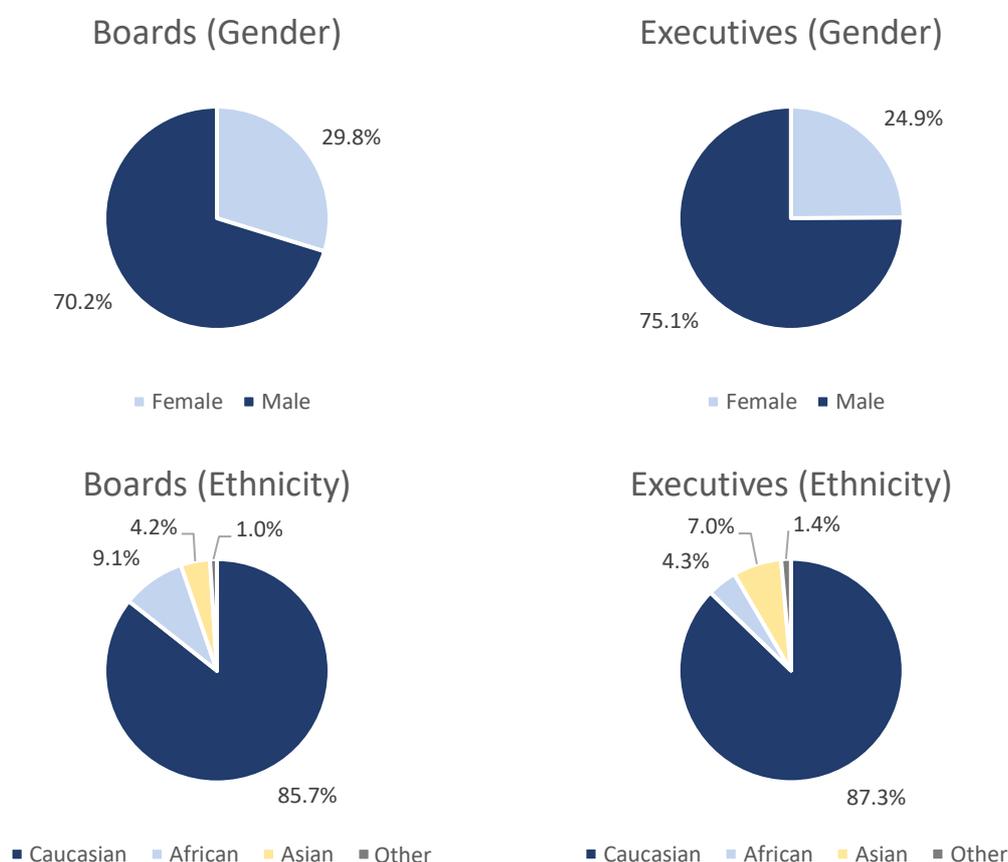
Extensive literature has been published on the potential benefits of diversity in organizations. These include both ethical benefits stemming from the logic behind universal human rights and more performance-related benefits suggesting that companies with diverse boards face lower corporate risks (Bozorgnia & Söderlind, 2021), are more innovative, and have better reputations (Miller & del Carmen Triana, 2009) than companies with less diverse boards. Research suggests that such benefits can be attributed to minorities' ability to bring in new perspectives on different issues, expand the content of board discussions, raise issues that impact multiple stakeholders, and use interpersonal skills to positively influence board processes (Konrad, Kramer, & Erkut, 2008).

These outlined benefits are however potentially overshadowed by phenomena such as tokenism suggesting that some firms' diversity efforts might not stem from genuine intentions but rather a form of impression management. *Tokenism* refers to "the practice of making only a perfunctory or symbolic effort to do a particular thing, especially by recruiting a small number of people from underrepresented groups in order to give the appearance of sexual or racial equality within a workforce" (Jackson et al., 1995). In such situations, theories suggest that the minority person hired as a token is more likely to feel isolated and pressured to show greater competence and thereby overburden themselves (ibid.). Therefore, tokenism is seen as a counterproductive way for companies to increase diversity in their corporate boards and management. Furthermore, the concept of *twookenism*, coined by Chang et al. 2019, suggests that when companies are scrutinized, they become pressured to increase diversity on their boards. The study showed that a significant number of S&P1500 companies counted exactly two women on their boards (the descriptive social norm), which is more than what would be expected by chance. The authors found that this *twookenism* consequently made decision-makers discontinuously less likely to appoint women on the board once the two-women threshold was reached (ibid.). In this sense, the slight increase in diversity for the sake of impression management also has a negative impact on the prospect of further improvements in diversity.

## Recycling of Minority Board Members

As a first step to understand the potential recycling of minority board members, we compared the minority representation in S&P500 boards and executive management in terms of gender and ethnicity. This comparison confirmed that the composition of boards appears more diverse than executive management. From the numbers, it is for example evident that the share of males is 5 percentage points higher among executives than board members. A similarly significant finding was that almost 5 percentage points fewer African ethnicities sit in executive management as compared to boards.

**Figure 1 – Board and Executive Teams Composition**



With this information in mind, we zoomed in on the composition of boards and the potential recycling of board members as a possible explanation for these differences. One potential indication of the presence of such recycling phenomenon is the share of gender and ethnicity groups that serve on more than one board. Figure 2 shows that 4 percentage points more women than men serve on multiple boards in S&P500 companies.

**Figure 2 - Gender Groups Serving on Multiple Boards**

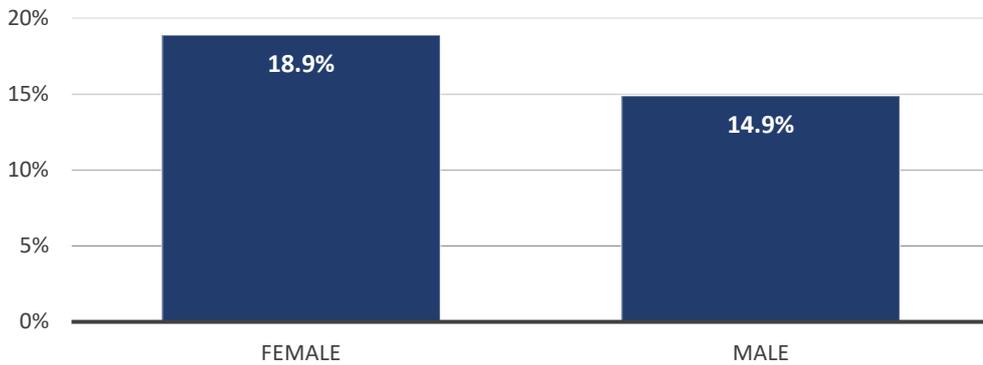
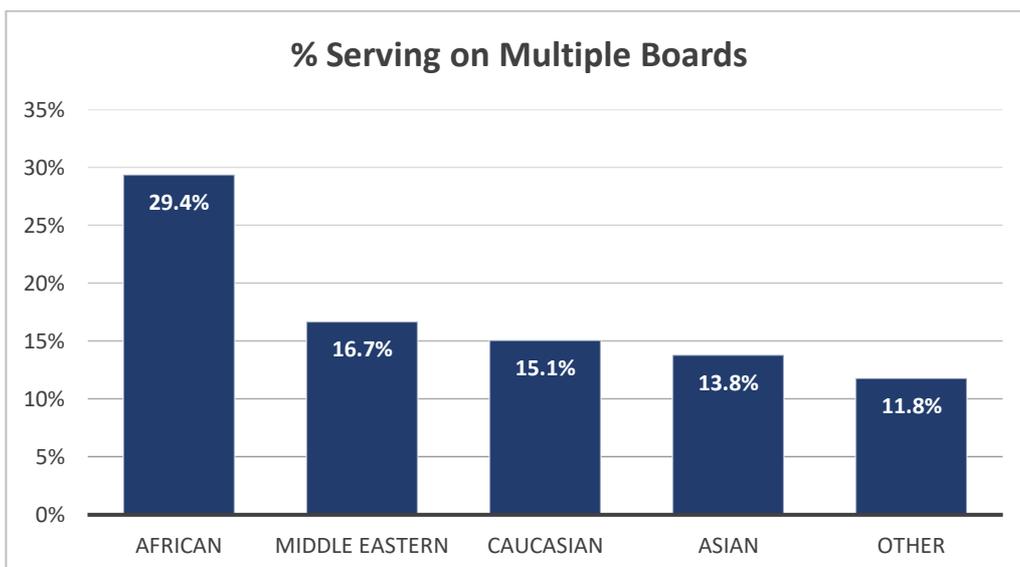
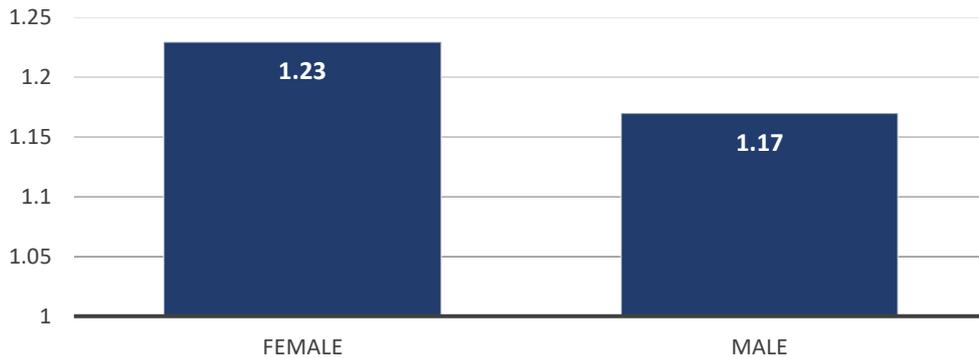


Figure 3 shows that almost 30% of African ethnicity board members serve on more than one S&P500 board. This is significantly more than other ethnicities, with the least Asian ethnicities serving on multiple boards.

A similar tendency is observed when looking at the average number of board seats per gender and ethnicity group. In Figure 4, it is shown how women on average hold 0,06 more board roles per person than men. This difference appears small but performing an independent t-test for significant differences between the means provides a p-value of 0,0005, which indicates a significant difference. Thus, there is a tendency that women on S&P500 boards on average hold more seats per person than men.

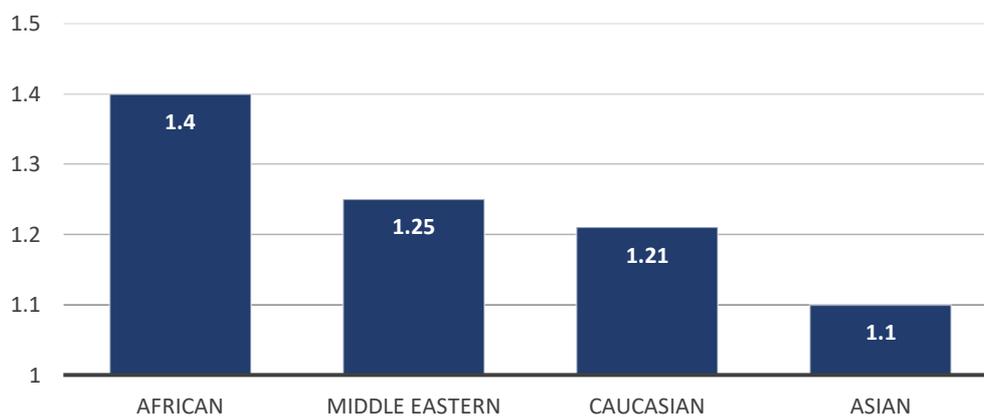


**Figure 4 - Average Number of Board Seats (Gender Groups)**



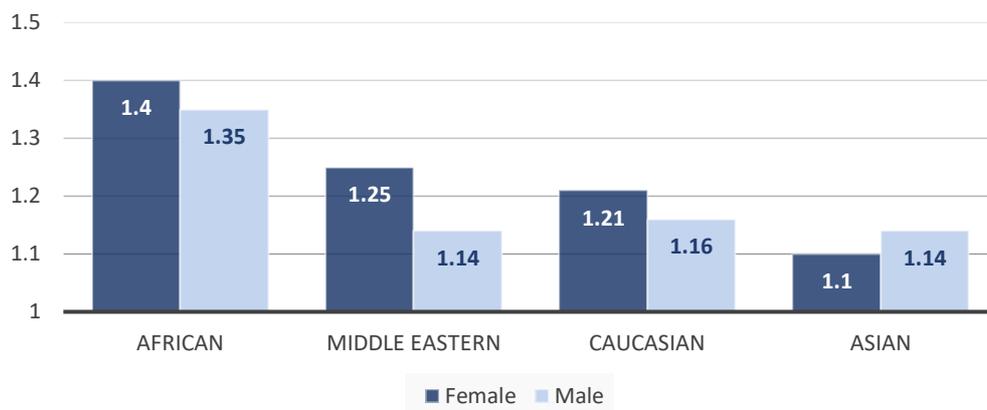
This tendency is even more significant when comparing the average number of board seats between ethnicities. On average, African ethnicities hold the most S&P500 board roles per person with 1,37 seats, which is much more than any other ethnicity group. African ethnicity board members serve on an average of 0,20 more boards than their Caucasian ethnicity colleagues and on average 0,24 more board roles than Asian ethnicities. Again, these differences may seem very small but considering that the vast majority (around 84%) of board members only serve on one S&P500 board, these small differences do signal quite significant tendencies. Statistically, an ANOVA test comparing the different means also produces a p-value of  $9,41e-13$ , which also supports that the differences are highly significant.

**Figure 5 - Average Number of Board Seats (Ethnicity Groups)**



This picture becomes even more clear when classifying S&P500 board members based on both ethnicity and gender. This shows that African ethnicity women sit on the most boards with an average of 1,4 boards per person, while Asian ethnicity women sit on the least boards with an average of 1,1 boards per person. Statistically, this provides a p-value of  $1,68e-13$  from an ANOVA test.

**Figure 6 - Average Number of Board Seats (Ethnicity & Gender)**



To ensure statistical robustness, the statistical tests were also performed excluding the groups with the smallest sample sizes and the groups with variances not fulfilling the criteria of equal variances. This included tests excluding Middle Eastern, Hispanic, and Asian ethnicity groups and tests for differences between African and Caucasian ethnicities, African ethnicity women and men, and Caucasian ethnicity women and men. These tests all resulted in p-values below 0,05 except for the comparison between African ethnicity women and men.

Thus, our tests of statistical significance allow us to conclude with very high certainty that there are significant differences in the average number of S&P500 board roles between different gender and ethnicity groups. Our statistical analysis does not necessarily allow us to say how they differ, but based on the first part of our analysis we can with reasonable certainty make the following general conclusions:

C<sub>1</sub>: Women are recycled more than men in S&P500 boards

C<sub>2</sub>: African ethnicities are recycled more than other ethnicity groups S&P500 boards

C<sub>3</sub>: Asian ethnicities are recycled less than other ethnicity groups S&P500 boards

## Diversity Washing or Sign of Progress?

After identifying significant differences in recycling patterns between gender and ethnic groups, we turn to an understanding of if, and to what extent, this phenomenon can be related to impression management. For recycling to be a sign of diversity washing would entail that companies, rather than actively engaging in promoting diversity, would

intentionally recycle certain minorities among several boards to appear more diverse. In an attempt to uncover organizations' intentions, we use the discrepancy in diversity between executive management and boards as an indicator of impression management. Indeed, as we consider it easier for companies to appoint minority individuals to their boards rather than to their management, having significantly more diversity in the corporate boards than in executive management could be perceived as a short-cut solution to signaling diversity. This seems to be supported by our finding that the S&P500 boards appeared more diverse than S&P500 company executive management teams. Assuming it is easier to increase diversity among board members than in executive management, this could be a sign of companies using minority people as tokens for impression management. On the contrary, it could also indicate that companies are actively seeking to improve on diversity but that this currently mostly shows in boards, as it is faster to bring in people on boards than have people develop through the ranks of a company, which is often the case for executives.

Our study has the strong drawback of not being able to provide any concrete information on the intentions behind the choices of board member appointments, or how to objectively assess the quality of companies' diversity efforts. There could be several alternative explanations for why certain minority groups on average hold more board seats than their colleagues of other genders and ethnicities. One such alternative explanation could be that the recycling of minority board members is caused by a good intention of companies to become more diverse, combined with a limited number of available qualified minority candidates. This could be the case for a number of reasons such as fewer minorities obtaining an MBA, differences in working cultures, or something entirely else, but such root causes would have to be investigated separately. As a result of such potential limited selection, companies would have to seek to existing board members in other firms to increase diversity.

Another alternative explanation for the recycling phenomenon could be that companies are, to a higher degree, recognizing the benefits that minority members bring to boards. Therefore, the recycling of these should be seen as a recognition of their individual contributions. Following the logic that board members with a higher impact would also sit on more boards, it would be plausible for them to have multiple offers and board seats. This entails assessing and viewing the minority board members based on their performance and

impact rather than their gender and ethnicity, which could also be considered to be in accordance with principles of diversity and inclusion.

These reasonings, however, do not necessarily explain the tendency we saw regarding a higher recycling rate of certain minorities compared to others. The differences in average board roles between African ethnicities and Asian ethnicities especially may suggest that the recycling phenomenon can be perceived as a form of tokenism. This causality is based on the assumption that the impression management benefits of having an African ethnicity member are higher than those of having an Asian ethnicity member. This indicates exactly the symbolic effort to achieve an appearance of a diverse board that tokenism suggests. If the recycling phenomenon is simply due to a limit in available candidates or a recognition of the advantages that minorities bring, then we would expect to see a higher recycling rate for those minorities with the smallest presence on boards. The share of Asian ethnicities on boards is less than half the share of African ethnicities, but still, we find that African ethnicities sit on an average of 0,24 more boards per person than Asian ethnicities. This could suggest that African ethnicities are valued higher than Asian ethnicities in terms of diversity value, which could be interpreted as a sign of tokenism whereby African ethnicities would “look better” in terms of diversity than Asian ethnicities.

Another topic for discussion is, if this phenomenon of recycling in itself is a sign of less diverse boards and if it has a negative impact on performance. One might argue that since the recycled individuals cannot have several seats on the same board, it would not matter if they sit on several different boards – especially since most companies are not connected. If every board is diverse in itself, does it then matter if the people appear on multiple boards? In fact, it could even be an advantage to have more experienced people on boards. However, these boards might be diverse, but they would probably not be considered very inclusive. Therefore, we argue that the phenomena, without regarding underlying motives, is an obstacle to diversity and inclusion. As a consequence, it could also be that this phenomenon is a hindering to achieving the benefits of diversity. This could both concern the performance-related measures but especially the ethical measures. Moreover, this should be seen in comparison to similarly diverse boards without the phenomenon of recycling, as it would

most likely still be preferable to have recycling of minorities than fewer minorities represented.

Thus, although we can conclude that recycling of minority board members is a real phenomenon in large North American organizations, our method of study is not able to determine the potential intentions behind this tendency. It could be that the phenomenon is a sign of impression management and diversity washing, but it could also be seen as an indication of a willingness to include diversity in boards. Nevertheless, we argue that recycling results in less inclusive corporate boards which potentially could limit some of the benefits associated with diversity and inclusion.

## Limitations and Areas for Future Research

As discussed throughout our paper, our research faces several limitations. One such limitation pertains to the fact that, for the scope of our study, we limit the concept of diversity only to gender and ethnic diversity. The amount and quality of the data available for the research, as well as the smaller body of literature available dedicated to diversity types other than gender, made using these two factors as representative of diversity more favorable to answer the research question. Diversity theory would therefore benefit from more research being conducted on different types of minorities to compare how they are affected by phenomena such as tokenism or recycling.

Another limitation regards the absence of concrete knowledge on the intentions behind recycling. Although it might be difficult to determine the exact motives driving it, an understanding of the underlying causes behind recycling would lead to a more holistic depiction of the phenomenon. These could be inferred from more qualitative research, as it is impossible to draw clear causality conclusions based on quantitative research alone about whether the observed recycling is due to impression management or other factors beyond the decision maker's control (e.g., a smaller pool of qualified minority individuals to choose from). Another approach could be to follow the trends in the following years to observe if the diversity gap between boards and management decreases or if the observed recycling becomes less skewed towards certain ethnicities or gender. It would also be relevant to analyze the board roles of recycled minority members to determine whether they are given

roles of less significant responsibility, thus possibly pointing more towards impression management. More explanatory research could further our understanding of the effects of the recycling phenomenon and establish whether it has negative implications for the earlier-mentioned benefits of diversity or whether the impact is negligible.

Lastly, as the small and specific sample used for research makes our results not universally applicable, the study should be replicated across different regions and company types to determine if this is a generalized phenomenon or only specific to the companies included in our study.

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