# BEYOND the PALE

# CULTURAL DIVERSITY
# on ASX 100 BOARDS

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"AUSTRALIA IS A MULTICULTURAL TRIUMPH. IT'S TIME WE START SEEING MORE CULTURAL DIVERSITY IN THE LEADERSHIP OF OUR ORGANISATIONS. THERE'S A CHALLENGE TO GET BOARD DIVERSITY RIGHT – AND NOT JUST ON GENDER. THIS RESEARCH WILL GUIDE THE ACTION LEADERS NEED TO TAKE."

DR. TIM SOUTPHOMMASANE
*Race Discrimination Commissioner, Australian Human Rights Commission*

"THE AICD IS PLEASED TO SUPPORT THIS STUDY WHICH AIMS TO CONTRIBUTE TO THE UNDERSTANDING OF THE DRIVERS AND INHIBITORS TO CULTURAL DIVERSITY ON AUSTRALIAN BOARDS. WHILE THE AICD IS AN ACTIVE VOICE ADVOCATING FOR INCREASED GENDER DIVERSITY IN AUSTRALIAN BOARDROOMS, WE RECOGNISE THAT CULTURAL DIVERSITY IS AN IMPORTANT, AND TO DATE, UNDER-RESEARCHED TOPIC. WE WELCOME THE INSIGHTS OF PRACTICING DIRECTORS WHO HAVE CONTRIBUTED TO THIS REPORT."

ANGUS ARMOUR FAICD
*Managing Director and CEO, Australian Institute of Company Directors*

# EXECUTIVE SUMMARY

**AUSTRALIA'S POPULATION AND THE AUSTRALIAN WORKFORCE ARE CULTURALLY DIVERSE. THE MOST RECENT CENSUS IN 2016 SHOWS THAT OVER 26% OF THE POPULATION WAS BORN OVERSEAS (AUSTRALIAN BUREAU OF STATISTICS, 2017).**

The cultural diversity of Australia is even richer when considering parent country of birth, with almost half of the population (49%) either born overseas or having at least one parent born overseas (Australian Bureau of Statistics, 2017).

The Australian Human Rights Commission (AHRC) defines cultural background as a person's ethnicity and ancestry. First, the concept of ethnicity is seen to "relate to a human group or population that has a common origin, and which may exhibit shared defining features such as homeland, language, customs, historical tradition, religion and physical appearance." Second, the concept of ancestry is defined as "a person's descent and family background – as inextricably tied to ethnicity" (AHRC, 2018: 4).

The AHRC recently estimated that "58 per cent of the population has an Anglo-Celtic background. An estimated 18 per cent of the population has a European background, 21 per cent has a non-European background and 3 per cent of the population has

an Aboriginal or Torres Strait Islander (Indigenous) background. According to these estimates, Australia's cultural diversity has increased over time" (AHRC, 2018:7)[1]. With this breadth of cultural diversity in the workforce and population, it is both troubling and curious that this diversity is not reflected in Australian corporate leadership (AHRC 2016; 2018, DCA, 2017).

Australian data consistently reveals that culturally diverse individuals are underrepresented in the leadership of the public and private sector. For instance, AHRC research shows that men with Anglo-Celtic heritage overwhelmingly dominate the senior executive level of large private sector organisations (AHRC, 2016; 2018; see also Diversity Council Australia, 2011; 2013; 2014). Specifically, the AHRC's *Leading for Change: A Blueprint for Cultural Diversity in Leadership* (2016) illustrates that in ASX200 companies, over 75% of CEOs are of Anglo-Celtic heritage, 18% have European heritage, 5% are from a non-European background and no CEOs whatsoever



**26%**
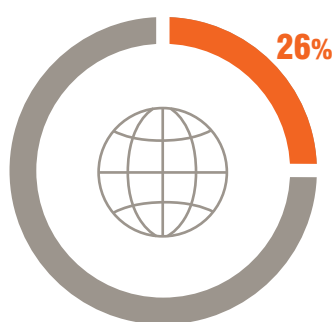
**26% of AUSTRALIANS ARE BORN OVERSEAS**

**49%**

**49% of ONE or BOTH of AUSTRALIAN'S PARENTS ARE BORN OVERSEAS**

**3%**
**21%**
**58%**
**18%**
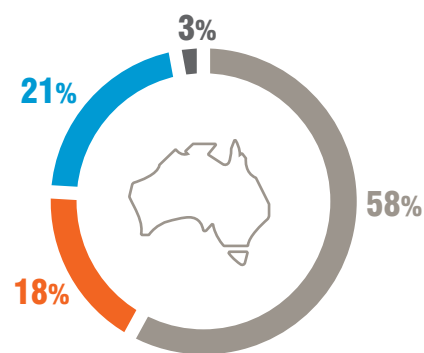
**AUSTRALIAN POPULATION BACKGROUNDS: 58% ANGLO-CELTIC, 18% EUROPEAN, 21% NON-EUROPEAN AND 3% INDIGENOUS AUSTRALIANS**

1. The Australian Human Rights Commission (AHRC, 2016: 75-76) uses four broad classifications for cultural background defined as:
   1. Indigenous background: 'Indigenous' designates those who have an Aboriginal or Torres Strait Islander background
   2. Anglo-Celtic background: 'Anglo-Celtic' describes those cultural backgrounds that are English, Scottish, Welsh and Irish
   3. Euroopean background: 'European' includes all European sackgrounds other than Anglo-Celtic – including North-West European (e.g. German, French, Dutch) and Southern and Eastern European (e.g. Italian, Greek, Polish)
   4. Non-European background: 'Non-European' encompasses all other cultural backgrounds, including South-East Asian (e.g. Vietnamese, Malaysian), North-East Asian (e.g. Chinese, Japanese, Korean), Southern and Central Asian (e.g. Indian, Sri-Lankan, Afghani), Latin American (e.g. Mexican, Colombian), Middle Eastern and North African (e.g. Turkish, Egyptian), Sub-Saharan African (e.g. Nigerian, South African) and Oceanic and Pacific Islander (e.g. Maori, Tongan).

have Aboriginal or Torres Strait Islander heritage. Similar findings were also reflected in examinations of federal and state parliaments and ministries of governments, in senior public service roles and in the leadership of universities, and were reinforced in subsequent research (AHRC 2016; 2018). The AHRC's follow up *Leading for Change* report (2018) noted that up to 95% of the nearly 2,500 executives and up to 97% of chief executives surveyed had Anglo-Celtic or European backgrounds.

Boards are crucial to organisational success due to the influential role they play in determining organisational strategy, driving decision making, controlling and counselling the senior executive team, monitoring and ensuring compliance with regulations, connecting organisations to the external environment and making important personnel decisions including CEO appointments (Carter, D'Souza, Simkins, & Simpson, 2010; Erhardt, Werbel, & Shrader, 2003). The serious underrepresentation of culturally diverse board members

means that a large segment of the community and workforce are not included or heard in conversations at some of the most powerful tables in corporate Australia.

Much of the national and international research has highlighted the financial impact and benefits of board diversity, the rationale being that diverse boards produce better firm performance by providing a broader range of perspectives. This evidence has driven action toward building greater gender diversity on boards. While it would be wrong to characterise the issue of gender diversity as 'settled' in relation to board leadership, as there is still much work to do, there has nevertheless been more discussion and action here than we have seen in relation to cultural diversity and board leadership. In addition, while a focus on firm performance is valuable for building the case for board diversity in all its forms, it does little to assist our understanding of the career trajectory, opportunities, barriers and choices of culturally diverse individuals into board roles (McKinsey, 2015).

This report presents a qualitative study of the cultural diversity of Australian boardrooms, a significantly under-researched, yet critical area of organisational leadership. The evidence we present was gathered through in-depth interviews with 18 ASX100 board members who were questioned on aspects of cultural diversity on boards; and 9 representatives from leading executive search firms responsible for board recruitment.

The interviewees are key insiders into the dynamics of boards and gave fascinating insights into the research question: *What are the key inhibitors and enablers for cultural diversity on Australian boards?*

The findings indicate that there are both perceptual and systemic barriers to cultural diversity on boards and also highlight the complexity of cultural diversity, raising issues around how we define cultural background and 'fitting in', influence, contribution, voice and leadership.



**5%**
**18%**
**75%**

AUSTRALIAN
CEO BACKGROUNDS:
75% ANGLO-CELTIC,
18% EUROPEAN,
5% NON-EUROPEAN AND NO
INDIGENOUS AUSTRALIANS



**3%**
**97%**
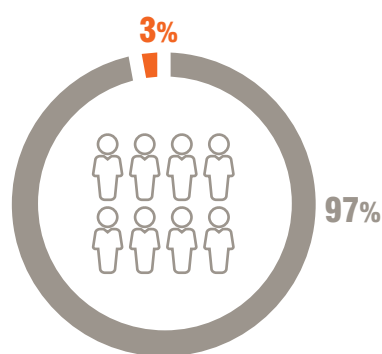
Up to 97% of the
NEARLY 2,500
EXECUTIVES SURVEYED
HAD ANGLO-CELTIC
AND EUROPEAN
BACKGROUNDS

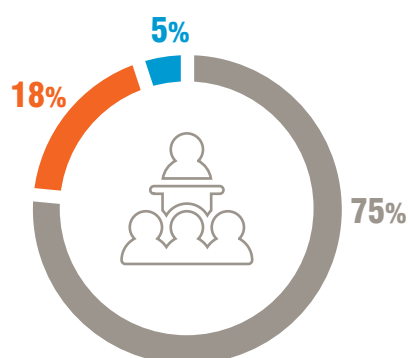THE SERIOUS UNDERREPRESENTATION OF CULTURALLY DIVERSE BOARD MEMBERS MEANS THAT A LARGE SEGMENT OF THE COMMUNITY AND WORKFORCE ARE NOT INCLUDED OR HEARD IN CONVERSATIONS AT SOME OF THE MOST POWERFUL TABLES IN CORPORATE AUSTRALIA.

# RESEARCH APPROACH

**TO BUILD A DEEP AND NUANCED UNDERSTANDING OF (i) THE PATHWAY TO BOARD DIRECTORSHIP, (ii) THE PRACTICES OF BOARD MEMBER SELECTION AND (iii) THE CONVERSATIONS IN RELATION TO CULTURAL DIVERSITY IN AUSTRALIAN BOARDROOMS, WE CONSTRUCTED A QUALITATIVE STUDY TO UNDERSTAND FROM INSIDERS THE ANSWER TO OUR KEY RESEARCH QUESTION: WHAT ARE THE KEY INHIBITORS AND ENABLERS FOR CULTURAL DIVERSITY ON AUSTRALIAN BOARDS?**

We undertook in-depth interviews with 18 non-executive directors and 9 representatives from leading executive search firms to hear their perspectives on cultural diversity on ASX100 listed boards.



*Figure 1: Interviewees: NEDs and Executive Search Firm Representatives*

OUT OF 27 INTERVIEWEES

**18** Non-Executive Directors

**9** Executive Search Firm representatives

**17** Female

**10** Male
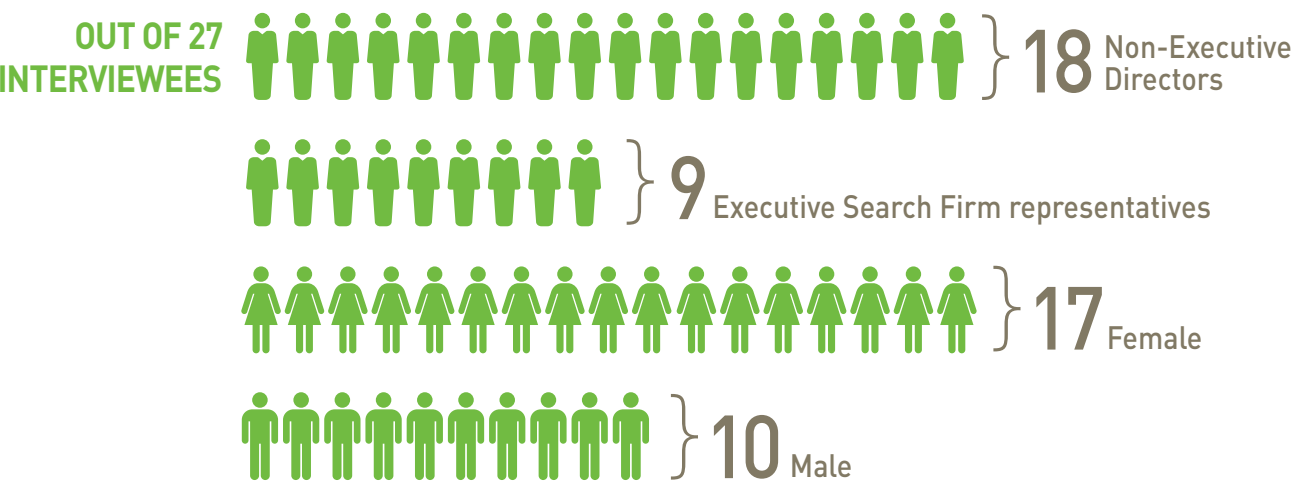
A demographic breakdown of the NED respondents is as follows:



*Figure 2: Characteristics of NED participants*

BREAKDOWN OF NED RESPONDENTS

**56%** Born overseas

**56%** Culturally diverse

**61%** Female

**39%** Male
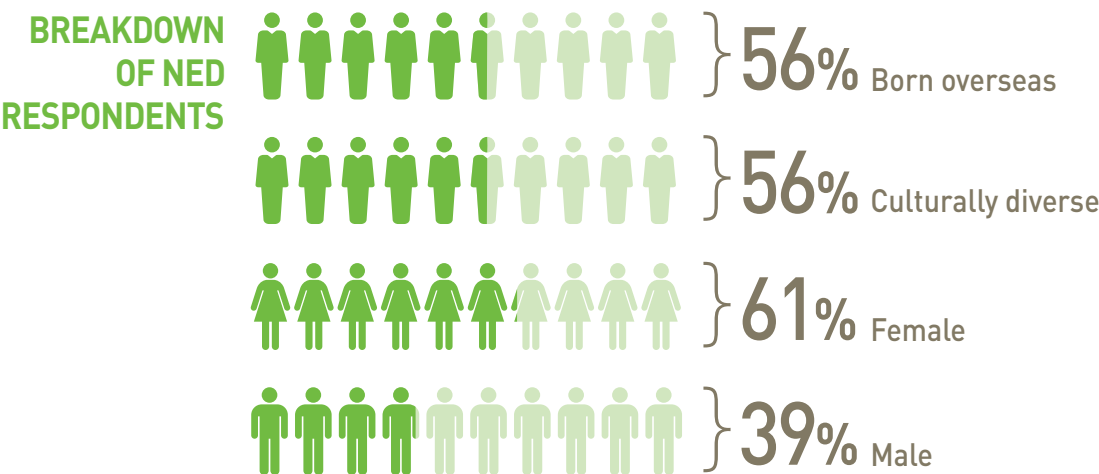
Interviewees were recruited via an email call for expressions of interest in the study sent to members of the Australian Institute of Company Directors (AICD) by AICD staff. On responding to the email, interviewees were sent information about the project and a consent form, following the University of Sydney ethics approval guidelines.

Interviews were undertaken between December 2017 and June 2018 and were typically held over the phone or via Skype, lasting between 40 minutes and 2 hours.

Interviews followed a thematic and semi-structured protocol and the conversation flowed in a natural style.

Informed by the literature (see *Appendix 1* on page 20), the interviews focused on the pathway to board membership, the importance, or not, of cultural diversity on boards, the discussions (or lack thereof) around cultural diversity at the board level, and the perceptual and structural barriers impeding cultural diversity on Australian boards.

Interviews were recorded and transcribed, and then coded to extrapolate key themes on cultural diversity in Australian boardrooms.

The report includes quotes drawn directly from interview transcripts. We have excised personal and career data to ensure interviewees are not identified in these quotes.

*Appendix 2* on page 27 provides more detail on the research approach.

# FINDINGS:
## ENABLERS AND INHIBITORS TO CULTURAL DIVERSITY ON BOARDS

**IN THIS SECTION OF THE REPORT WE OVERVIEW THE THEMES WHICH EMERGED FROM THE IN-DEPTH INTERVIEWS UNDER FOUR BROAD HEADINGS:**

**PATHWAYS TO BOARD PARTICIPATION**

First, we examine **pathways to board participation** with interviewee experience in accessing board positions and how pathways to board positions are viewed more broadly.

**PERCEPTIONS OF DIVERSITY**

Second, we examine how board members and representatives from executive search firms view the composition of Australian boards: that is, their **perceptions of diversity (or lack thereof) on Australian boards.**

**BOARD COMPOSITION**

This is followed by insights into **board composition** and the strategies used to construct successful boards. Questions are raised around the focus on cultural diversity as an 'add on' competency to the skills matrix determining board composition.

**DIVERSITY CAMPAIGNS**

Finally, we examine lessons drawn from other **diversity campaigns** which have successfully driven transformational change in board composition.

## MAIN BARRIERS TO CULTURAL DIVERSITY ON AUSTRALIAN BOARDS?

Limited supply at the executive level

Assimilationist attitudes and a preference for a Western leadership style

Biased filters in promotion and recruitment and selection

Lack of awareness and contact with culturally diverse talent

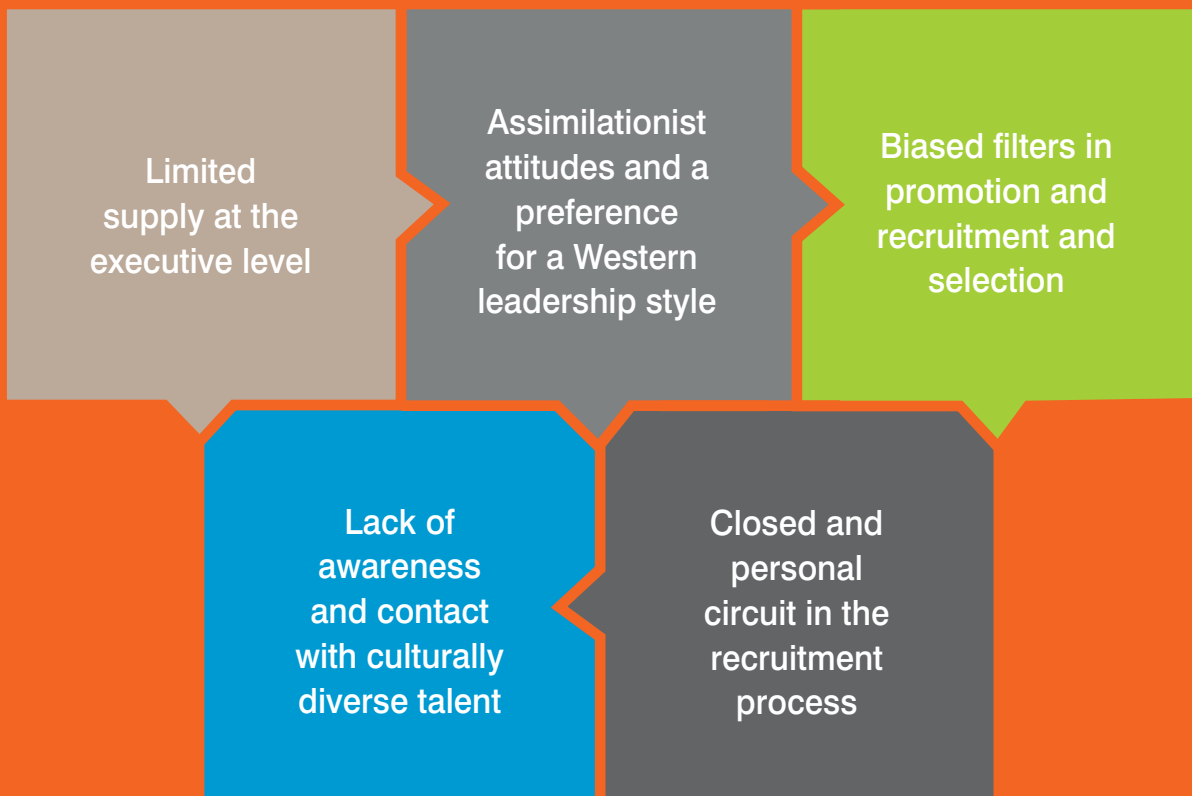Closed and personal circuit in the recruitment process

*Figure 3: Barriers to cultural diversity on Australian Boards*

*"Boards are just the symptom, not the root cause"* (Int.11)

# PATHWAYS TO BOARD POSITIONS: REPUTATION, TRUST AND TRACK RECORD

When we asked interviewees to explain how pathways to board directorship were constructed, four key features were noted: (i) a solid and visible reputation, (ii) trust amongst 'trusted' networks, (iii) a strong and tested track record, and (iv) promotion of capabilities by executive search firm representatives.

In disentangling these elements we draw out two key criteria as crucial enablers to accessing board positions:

- merit-based and measurable criteria such as qualifications, a relevant and recognisable skills set and experience as a senior level executive.

- non-measureable criteria and personal contacts and networks, which can leverage and promote the candidate and vouch for their expertise and character, highlighting the important role of 'trusted' networks and trust in the candidate.

The pathway to board membership therefore includes both transparent processes such as executive search firm nominations and opaque processes such as network nominations, as shown in *Figure 4*.

Half of all director interviewees said that having had experience as a member of a senior executive team was a key reason for them being deemed qualified for a board position. This is important to note, because according to all but one of the NED interviewees, the problem of board homogeneity is linked with, and to an extent driven by, the lack of diversity in the senior executive suite. The importance of a steady supply of candidates from the executive level through to the board level is therefore clearly understood by directors (Int.16, Int. 25). Some interviewees suggested that it is simply a matter of time before the supply of culturally diverse leaders moves into board positions (Int. 22,

*Figure 4: Typical pathway to board membership*
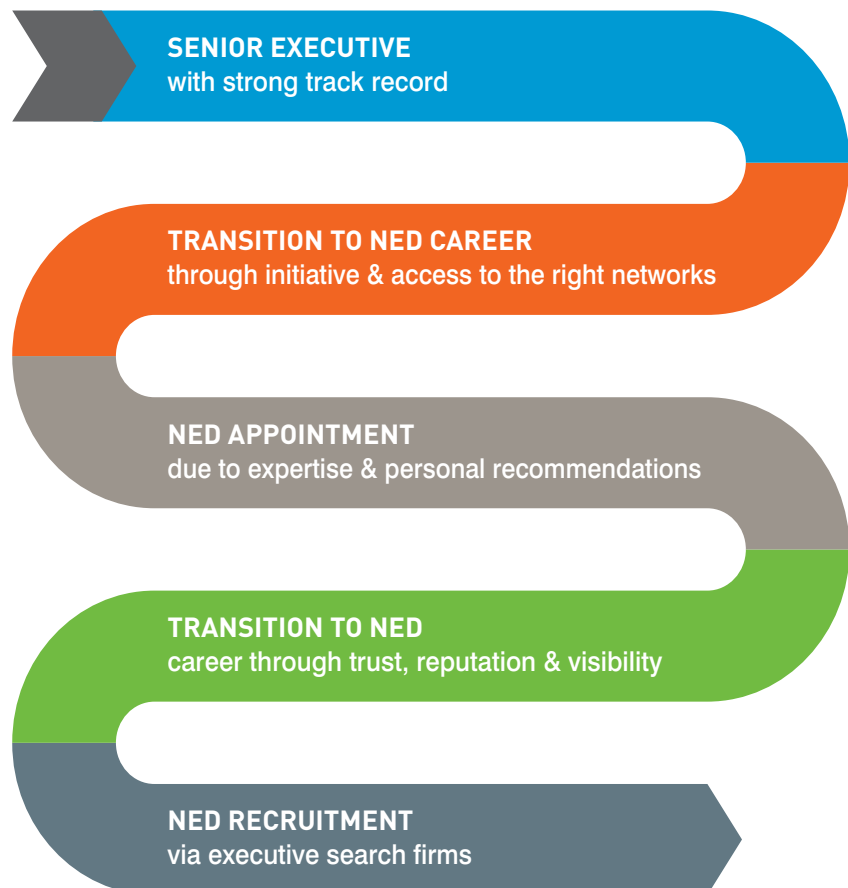


Int. 24), suggesting that we are 'on track'. However, others were very pessimistic and the 'matter of time' in which this would emerge was seen not as a number of years but as long as a generation (Int. 12, Int. 18, Int. 20). Sadly, the extant research suggests that the pessimistic view may be more realistic (Diversity Council Australia, 2015; 2017). Echoing this sentiment, one interviewee posited:

*I think the cultural diversity in the companies that I've seen in the top ASX companies is entirely absent really… I attended a presentation last year where the Human Rights Commissioner spoke, and he talked about his recent research which showed that the majority of ASX100*

*or 200 companies by the time you got to middle management, it was almost entirely Anglo-Saxon and mainly men, and I thought goodness... you know, here we have the diversity of kids at school, the diversity of kids, you know, people going to university, the diversity of the graduate intake, etc, and it's somehow then filtered through the process that when you get to senior management, many of these companies, perhaps with the exception of the little start-ups or the rising start-ups, they're very Anglo-Saxon. (Int. 8)*

Unfortunately, while the workforce of Australian organisations is diverse, senior executive and board members do not reflect and represent this

diversity (Diversity Council Australia, 2011). The question is why does cultural diversity disappear in the leadership of Australian corporations? What opportunities does culturally diverse talent forgo in either opting out or being nudged out of senior leadership positions? What needs to be done differently to create pathways to board members via entry to the executive suite?

While there is no indication that deliberate exclusion of culturally diverse potential leaders occurs in executive recruitment, it was suggested by many interviewees that some form of bias filters out particular groups in promotion decisions. A particularly important filter is found in the personal and professional networks permeating Australian business' upper echelons, which create an 'in group' that is key to information sharing, visibility, trust and reputation building.

As noted, according to interviewees, being a member of a senior executive team is a key pathway to directorship. The interviewees who identified as culturally diverse all emphasised the need to be known as a 'trustworthy' person with industry insights, owing to the responsibility and risk involved in board positions. Just as important as trust – in capabilities and knowledge of the industry – is 'personal trust' (emphasised by Int. 18, Int. 20 and Int. 21). Many recalled their experiences during director interviews where a board chair evaluated whether their character 'matched' the board and whether they could be trusted to 'not bail' when things 'got tough'. As noted by one interviewee: 'There is too much risk involved in taking on a candidate that no one knows' (Int. 21, also emphasised by Int. 5, Int. 17, Int. 18, Int. 19). As such, trustworthiness and the personal character of the

board member were verified through networks and through personal recommendations. According to the majority of board members interviewed executive search firms were largely absent from this trust- framing process.

Trust and networks within an Australian business context were particularly important as noted by many interviewees who stressed that their reputation in the Australian market enabled their entry to their first non-executive director position. Some culturally diverse board members noted that they experienced more acute difficulties in gaining a board position as they lacked visibility, particularly in what they saw as the 'right circles' in the country. As a consequence, they were not 'on the radar' of chairs and members of important board committees such as the nominations committees.

One interviewee recalled their experience of being relatively unknown in Australia due to working overseas as an executive for many years. They noted that help from head hunters was invaluable in fulfilling their aspirations to gain a board position (Int. 13). Others noted that the role of some executive search firms was dependent on the same trust relations as was evident with direct board networks and candidates therefore needed to have the same qualities (visibility, reputation and trust) and experiences in order to be 'backed' by executive search firms (Int. 14).

Interviewees from professional search firms (Int.1, Int. 6, Int. 14) agreed in interviews that their practices of scoping for talent both in Australia and abroad, and including names on the list of candidates, can be beneficial for boosting cultural diversity on boards and for providing access to culturally

diverse board members who would not otherwise gain entry. But several interviewees from the premier executive search firms noted that the 'mandate the client gives you is strongly adhered to' (Int. 22), which at times interfered with the aim of broadening the mix of candidates (Int. 14). One search interviewee noted of the practices of their peers:

*I think they're [search professionals] all very conservative in what they present … so they always feel a lot safer if they know the candidate is already on an ASX board or if they have the endorsement from the chair of a big board… Then they will be more likely to present them. They aren't particularly brave I don't think, in terms of taking some bets on people that, you know, are very good operators, yeah, they don't really step up. (Int. 25)*

Interviewees argued that another practice that interfered with a process of building director cultural diversity was the tendency to concentrate the recruitment process amongst board member networks. For instance, some boards decided to conduct the search and appointment of new members themselves. One interviewee argued that this approach to recruitment was 'done poorly due to a lack of strategy and know-how' (Int. 17).

Consequently, there was an emphasis placed on 'settling for an easily accessible candidate instead of putting in more effort to find the right candidate' (Int. 1). One board member noted that in their experience executive search firms are enlisted as a 'tick box' exercise while board members were recruited through board member networks to ensure that the all important trusted candidate was appointed (Int. 17).

# PERCEPTIONS OF BOARD COMPOSITION: 'MALE, PALE AND STALE'

*My own view, as a chair and as a NED, is that you should always involve head hunters when you're making board appointments. I don't believe in the recirculation of the same old names through who you know… I think it leads to a constrained pool of talent. (Int. 3)*

Even though the recruitment process was described by some of the interviewees as highly professionalised, particularly as a result of the involvement of executive search firms, all board members had experienced the workings of personal networks in putting 'mates' names forward for consideration and therefore blurring the pathway to board positions. The presence of a 'closed circuit' was brought up on several occasions as a result of much of the networking and recruitment done amongst directors themselves.

Furthermore, the focus on a particular style of leadership created a barrier for particular groups of candidates who may as a result opt out of pursuing such aspirations or who may be overlooked as they do not display the 'ideal' type leader style. One interviewee from an executive search firm said:

*When you look at who gets promoted and who doesn't, that's really around their traditional form of what a leader looks like and it's not somebody from a culturally diverse background who doesn't speak up and … you know… has strong ego and all the things, leadership traits, that have been sort of the traditional male leadership traits. You don't find them in other different cultures, especially Asian cultures. That's really prevented quite a few people that I've seen being able to reach the next level. (Int. 25)*

There was a chorus of response describing the average board in Australia, especially in the private sector, as 'male, pale, and stale'. As such, it was noted that through limited practices of 'growing' a more diverse supply, the pathways to board membership will likely continue to reproduce the same type of candidate (Int. 19).

*The natural human instinct is we like to associate with people that look and feel and speak like us. We hang around with the crowd. That's the pack mentality, and you know, the pack then tries to ostracise or destroy the outliers. (Int. 8)*

Unsurprisingly, culturally diverse interviewees noted negative experiences with what one described as the 'old-white-men's club' (Int. 23). When asked how someone who identifies as culturally diverse should navigate a course within the Australian corporate board world, one interviewee stated that they were advised to 'keep your head down, speak the Australian accent, be part of the matey club, and you may get somewhere' (Int. 12).

Another noted that: 'If they (boards and leadership teams) truly believe in diversity being of value, then they should be willing to have different perspectives. If all they want is for you to look different but sound the same, that is not diversity' (Int. 23).
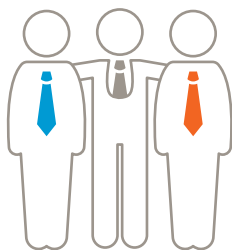


ALL BOARD MEMBERS HAD EXPERIENCED THE WORKINGS OF PERSONAL NETWORKS IN PUTTING 'MATES' NAMES FORWARD FOR CONSIDERATION.



'KEEP YOUR HEAD DOWN, SPEAK THE AUSTRALIAN ACCENT, BE PART OF THE MATEY CLUB, AND YOU MAY GET SOMEWHERE.'



'TRAITS THAT HAVE BEEN SORT OF THE TRADITIONAL MALE LEADERSHIP TRAITS. YOU DON'T FIND THEM IN OTHER DIFFERENT CULTURES, ESPECIALLY ASIAN CULTURES.'

Some candidates who identified as culturally diverse and were themselves born and educated in Australia noted that their 'diversity' was often caricatured and they felt patronised in the process. One interviewee noted they grew tired of being 'asked about recipes' from their homeland rather than being 'listened to' and 'asked about' their strategic insights. They felt their presence was token rather than signalling a strong desire to engage with the strategic insights their diversity provided for the organisation (Int. 14).

The majority of interviewees agreed that there is something of an assimilationist mentality to boardroom culture (Int. 15) which motivates a director to change themselves to 'fit in' (Int. 17, Int. 18), rather than the board valuing and capitalising on cultural difference as a key differentiator in decision making.

*The Australian corporate culture, like all cultures, has got certain ways of doing things, and so you have to conform to that otherwise you are forever going to be the odd person out, and so it makes it difficult for those people, who have got a diverse background and who perhaps want to say something different. (Int. 12)*

Extending this point, one interviewee stated:

*I think that you have to be very careful how far you push down the diversity road, because I don't think it would be the right thing to put say an Asian person on the board if you had no aspirations [to enter an Asian market] and he didn't work in Asia. That person's going to find it very difficult to understand the culture of the board and the business, and in fact in some of my boards, we have to put Asian people on the board because we've got aspirations into Asia. We've found the best people are the ones actually that have studied in Australia, because they then understand our culture and you know, it cuts both ways. If somebody can't understand your culture and can't add value, then they're taking up a board seat that's a waste. (Int. 15)*

For those directors born and educated overseas the barriers were described as more challenging, with one's accent for one posing an 'efficient' filtering out process. Overseas-born board members noted that Australian-born board members are reluctant to make concessions on differences such as accent.

It was seen as easier to screen out such candidates in favour of a local with a more typically recognised Australian accent and tone. The culture of the board was also described as 'Western' and this added another layer of exclusion for particular candidates.

*When you do a search, you're saying, can we actually find someone who understands that culture, but is able to contribute in the way that our Western board performs and behaves? Because if they can't, they have a lot of knowledge they'll never share, so it's useless. (Int. 7)*



ONE INTERVIEWEE NOTED THEY GREW TIRED OF BEING 'ASKED ABOUT RECIPES' FROM THEIR HOMELAND RATHER THAN BEING 'LISTENED TO'.
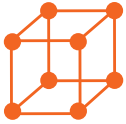


'IF SOMEBODY CAN'T UNDERSTAND YOUR CULTURE AND CAN'T ADD VALUE, THEN THEY'RE TAKING UP A BOARD SEAT THAT'S A WASTE.'



OVERSEAS-BORN BOARD MEMBERS NOTED THAT AUSTRALIAN-BORN BOARD MEMBERS ARE RELUCTANT TO MAKE CONCESSIONS ON DIFFERENCES SUCH AS ACCENT.

# STRATEGIC BOARD COMPOSITION

Boards often conduct performance reviews and formulate a desired board 'skills matrix'. If the board has a strategic outlook on the future, it will attempt to source a candidate or several candidates who will respond to future-focused skills and capabilities required by the organisation, while also balancing this with board dynamics and smooth functioning.

The majority of directors interviewed argued that having a desired skills set plays the most significant role in securing board membership. Key skills and attributes include for instance financial expertise, and technological savvy. Logically, as noted by several interviewees, this also means that whether a person is culturally diverse or diverse in any sense of particular identity characteristics is largely irrelevant (Int. 5, Int. 11, Int. 15).

And yet, paradoxically for some, the skills matrix raised the need to recruit for diversity, therefore adding diversity to the skills matrix as if it is a key competency (Int.15, Int. 16). The question from this is how is this measured? How is this valued?

All interviewees recognised that Australian board leadership does not reflect the multicultural Australian society. On multiple occasions the interviewees noted the risks arising from a homogenous board, such as 'group think' and poorly informed decision making.

According to many of the executive search firm interviewees, Australian companies have increasingly recognised the value of having people in leadership positions who are part of the 'in-group' in a different geographical and business market and who therefore possess intimate

knowledge and experience in that specific geographic area (Int. 1, Int. 6, Int. 10, Int. 19, Int. 22). For instance, the importance of cultural diversity on boards was presented in the following way:

*Most organisations now, either have customers who are culturally diverse or suppliers who are from culturally diverse backgrounds, or you're dealing with countries in your supply chain that require the board to understand what the dynamics are in that country. I don't know that there's enough recognition on boards that cultural diversity could be really useful in tapping into these areas. (Int. 23)*

Overall, the discussion about cultural diversity in director recruitment has largely taken a somewhat different direction than perhaps anticipated in the literature. Instead of including

## THE BENEFITS OF CULTURAL DIVERSITY FOR AUSTRALIAN BOARDS

*'For me diversity on a board, where there's a diversity of experience, a diversity of background, a willingness to express opinions and those opinions come from different perspectives – materially enhances the quality of decision-making.' (Int. 4)*

*'Well, the whole point of board diversity is to be able to offer opinion and ask questions of the business. So, if the business is facing a diverse market, then if you can understand that diverse market better because you've got some background that reflects it, then you can ask better questions. My feeling is if people focused on business, diversity is automatic.' (Int. 7)*

*'So, if you're looking to – particularly for Australian businesses moving into Asia – I think those boards need to find ways to really understand the culture in the countries that they're going to be dealing with… So, I think it's horses for courses depending on what the business focus is for the company and therefore the board.' (Int. 2)*

*'Without cultural diversity, I would consider those boards are non-progressive thinking boards, because you want to tap into talent that is most valuable and can contribute to the board and senior management.' (Int. 16)*

**DIFFERENT PERSPECTIVES**   **DIVERSE MARKETS**   **GLOBAL REACH**   **DIVERSE TALENT**
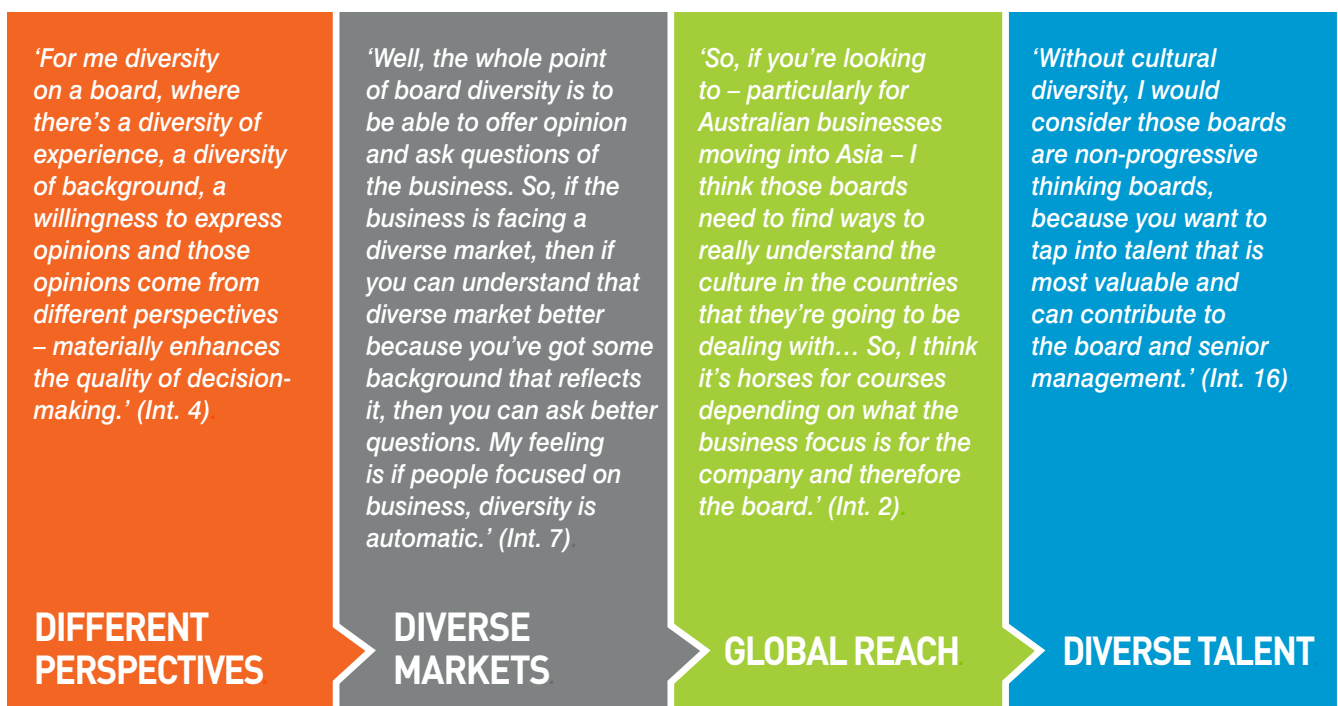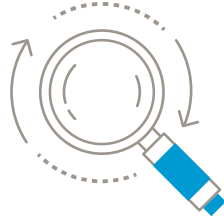
Figure 5: Why is cultural diversity beneficial for Australian boards? Our interviewees' views.

more culturally diverse board members to the mix of board members, our interviewees argued that organisations are preferring people with 'cultural awareness' and/or what interviewees referred to as a 'global mindset'. While these characteristics are important and may reflect market knowledge around cultural competence: as concepts and in practice, cultural awareness and a global mindset are different to cultural diversity. Several of the interviewees tended to collapse these categories, using them interchangeably and as such noted that any discussion about cultural diversity was irrelevant to Australian boards. As noted by one executive search firm representative:

*Cultural diversity has not been part of the narrative. When we're talking to our clients that's not been something they've looked for. What they sometimes talk about though is cultural fit and that can sometimes have a cultural dimension rather than just a personality dimension. And sometimes they'll have an interest in people who have got in-country experience. So, if they've got activities in Africa they'd want executives and directors who understand that operating environment. And similarly, in Australia there might be some taste for people who have perhaps got regional experience. I do a lot of work with Aboriginal corporations and trusts. Obviously, people who are culturally aligned with Aboriginal communities are important. In terms of culture that's kind of where that discussion goes. (Int. 1)*

Notably, many interviewees took their observations beyond cultural diversity while also intersecting their views with cultural diversity. For instance, a key area identified as part of the future of strategic board composition was the digital transformations driving and defining many industries and sectors which consequently require more

tech-savvy people to be appointed to leadership positions. Many interviewees argued that the majority of Australian boards are comprised primarily of seasoned executives over 60 years of age. Interviewees argued that emerging technological disruptions demand the presence of more youthful directors. In addition to filling the knowledge gap, younger appointees with different experience can provide a 'diversity of thought' or as noted by one interviewee 'experiential diversity' (labelled by Int. 1):

*I've got children in their 20s and 30s who bring a very different perspective to a lot of issues, in terms of technology and connectedness and social interactions. I think you need that on boards, particularly if you're selling into markets that have a lot of young people. (Int. 5)*

In terms of further gains from the perspective of strategic board composition, a number of interviewees noted that millennials are purpose-driven employees and consumers and are attracted to products, services and companies that value diversity and seek to operate for a higher purpose. Board diversity was therefore seen as a strong market attraction and retention strategy for the largest group of employees and a strong consumer group (Int. 5, Int. 22, Int. 23).

For all the NED interviewees, their experience had been that board composition has certainly evolved to be significantly more strategic than many had experienced in the beginning of their board director careers, which commenced typically over a decade ago.

They argued that board directors are now more acutely interested in better reflecting and understanding both the workforce and the customer base, and as some interviewees noted, they do not shy away from what are sometimes uncomfortable and heated debates and discussions at the board table.

Overwhelmingly, it was reinforced that this was because diversity on boards is considered to be a wise business decision.

*For me diversity on a board where there's a diversity of experience, a diversity of background, a willingness to express opinions and those opinions come from different perspectives, materially enhances the quality of decision-making. (Int. 4)*

# LEARNING FROM DIVERSITY CAMPAIGNS

Every one of the interviewees highlighted that gender diversity is at the forefront of diversity discussions among corporate Australian leaders. Almost all director interviewees referred to gender diversity when expressing their thoughts and observations of practices.

Interviewees did not see the challenge of greater gender diversity on boards as 'solved' but they certainly saw gender diversity as being more advanced in terms of debate and action than was the case of cultural diversity on boards. Therefore, the progress and (perceived) success of gender diversity provides lessons for the advancement of cultural diversity on Australian boards.

*There needs to be greater discussion about the importance of cultural diversity. On the boards that I sit – there is no discussion beyond gender … And even that is rarely discussed. We need to start the discussion about how diversity adds value. It is a no brainer – it is great for business. I am certain there are both financial and non-financial, direct and indirect costs and benefits. (Int. 21)*

The interviewees all noted that key forces driving the increase in female representation on Australian boards were 'transformative initiatives' such as the ASX Corporate Governance Council's Principles and Recommendations and the advocacy of key individuals and organisations including the AICD, the Australian Human Rights Commission, Chief Executive Women and Male Champions of Change. It was suggested by interviewees that similar governance and reporting guidelines and awareness-raising campaigns should be considered and implemented to generate momentum toward achieving cultural diversity on boards.

## TARGETS OR NO TARGETS FOR CULTURAL DIVERSITY?

**TARGETS, BECAUSE…**

*'You only force a debate if you put something out that's controversial enough to provoke debate. If you don't do something like that, then we will be waiting a whole generation. You just look at gender diversity; so we didn't get to quotas, we got to targets, those targets made people debate and think, right? (Int. 18)*

*'What gets measured, gets monitored, right. So at the moment you have to report against gender targets not cultural diversity targets. In Europe and in America you have to report against others sorts of targets. So unless you have targets, it's more sort of good intent rather than in front on mind.' (Int. 11)*

*'As soon as you have to report on it, one way or the other, formally or informally, it becomes a conversation. It becomes a part of almost, you know, a so-called compliance regime, so it gets more attention.' (Int. 8)*

**NO TARGETS, BECAUSE…**

*'It's got to be a long-term objective, and it's just got to be based on the fact that, you know, diversity is good for business, and the more diverse you are, the more likely you are to have a better board and the more likely you are to have a better business… I shudder at the word quota, because, you know, it sort of has the – it forces consequences, which may be undesirable.' (Int. 5)*

*'Targets are really difficult. I think they push the story and make it happen. What worries me about targets, and I might be a lone wolf here, is that I never want a target to make an appointment a token one and I never want a target to promote frustration in those that don't get it.' (Int. 19)*

Figure 6: Targets or no targets? Our interviewees' voices

Some interviewees pointed to the need to publicly call out the negative implications of exclusion and the benefits of inclusion for boards (Int. 2, Int. 13).

Female interviewees noted that it had been important to have advocates making their case and providing valuable advice on how to gain access to and consequently work on boards (Int.12, Int. 6).

The transformational and awareness-raising campaigns, with a focus on building gender diversity, have been long-term and ongoing, and in many places the process of change and the inclusion of diverse board members is still very much a work-in-progress.

Many interviewees observed that on many important Australian boards women's voices are still under represented. They argued that achieving a 'critical mass' is key to create genuine diversity around the board table.

Beyond numbers, our interviewees argued that simply being present does not guarantee that culturally diverse individuals or women are 'heard' at the board table. As one female board member noted:

*At almost every board meeting that I attend you're in the minority, and often you're on your own, but when you're in the minority – something that you say that won't get picked up, and one of the people who is in the majority – so one of the men – will say that same thing, and the idea will then get a life. People go that's a great idea, or we really should be thinking about that, or that's a good point. That happens all the time….It's not good enough just to have culturally diverse people on the board, you have to allow them to have a voice. An openness from the majority, whoever the majority culture is, to not try and get people who have got a diverse background look and feel like them. It's the celebrating. (Int. 9)*

Culturally diverse women directors highlighted in our interviews that they experience what is termed in the research literature a 'double jeopardy' (a product of the intersection between their gender and cultural background) as the supply of culturally diverse women is stunted at the executive level, making it difficult, if not impossible, to rise to the board level (Int. 16).

The culturally diverse women who have made it into the boardroom noted that 'luck', 'a moment in time', 'mentoring and networks' all played a role in accessing board directorships.

Others noted that experience on the boards of not-for-profit or public sector organisations, which they perceive as being more open to diversity, provided the confidence building and the capability development required to later pursue corporate board roles (Int. 14, Int. 23).

Interviewees noted that for real systemic and radical change to occur there is a need to build an inclusive corporate culture in tandem with measuring , reporting and monitoring as a way of showing that good governance underscores and supports the culture of inclusivity.

*I don't actually believe it's fair that a group of older white men can control such large parts of our economy, just because it's always been the way. I think that if we aim to have a much fairer culture in our organisation, then boards need to understand that they contribute to culture and the more they bunker down and fail to lift their gaze and say okay we're part of how we define this organisational culture and we need to do some things to renovate how we are formed, then I think they diminish the quality of the organisation on employment brand. And fairness is often so important in an organisation. Its employees and increasingly customers and clients will judge you on fair process within your organisation. (Int. 1)*



THE INTERVIEWEES ALL NOTED THAT KEY FORCES DRIVING THE INCREASE IN FEMALE REPRESENTATION ON AUSTRALIAN BOARDS WERE 'TRANSFORMATIVE INITIATIVES.'
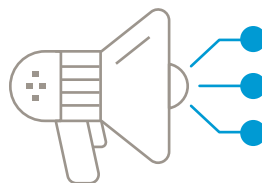


AWARENESS-RAISING CAMPAIGNS SHOULD BE CONSIDERED AND IMPLEMENTED TO GENERATE MOMENTUM TOWARD ACHIEVING CULTURAL DIVERSITY ON BOARDS.

# CONCLUSION

THE FINDINGS OF THIS REPORT, DRAWING ON IN-DEPTH CONVERSATIONS WITH 18 NON EXECUTIVE DIRECTORS AND CHAIRS OF ASX100 LISTED COMPANY BOARDS AND 9 REPRESENTATIVES OF LEADING EXECUTIVE SEARCH FIRMS, PRESENT CONSIDERED AND THOUGHTFUL PERSPECTIVES ON CULTURAL DIVERSITY ON AUSTRALIAN BOARDS.

The findings reveal in order for cultural diversity on boards to increase, there is a need to take action at a number of levels. There is a need to:

- **grow and develop the 'supply' of culturally diverse leaders** in the pathway to board positions with special attention placed on the senior executive ranks of Australian business

- **develop transparent pathways to board membership** to allow greater visibility for aspirants to director positions

- **broaden networking arrangements** to open up access for potential directors from culturally diverse backgrounds

- **learn from other diversity campaigns**, including the progress to date to improve gender diversity around the board table

- **clarify definitions around cultural diversity and make cultural diversity part of the narrative,** going beyond the focus on a global mindset and cultural awareness

- **consider setting targets and report on progress** toward cultural diversity in order to drive change

Progress to date in these areas has been limited. We encourage stakeholders in the Australian business community to engage in a conversation about cultural diversity and the mechanisms to drive it.

We look forward to our research informing future strategies.

WE ENCOURAGE STAKEHOLDERS IN THE AUSTRALIAN BUSINESS COMMUNITY TO ENGAGE IN A CONVERSATION ABOUT CULTURAL DIVERSITY AND THE MECHANISMS TO DRIVE IT.

# APPENDIX 1:
## LITERATURE REVIEW AND GAP ANALYSIS

THE 2016 CENSUS ILLUSTRATES THAT AUSTRALIA IS NOW MORE CULTURALLY DIVERSE THAN EVER, WITH THE POPULATION REPRESENTING A BREADTH OF COUNTRIES OF ORIGIN AND ANCESTRIES.

**Despite this, Australia's culturally diverse landscape is not reflected in the corporate leadership of its institutions and businesses, most particularly at the board level.**

The Australian Human Rights Commission *Leading for Change* report (2018) provides compelling evidence of this. It notes that up to 97% of the nearly 2,500 executives surveyed for the report, which represented a broad spread of Australia's corporate leaders, had Anglo-Celtic and European backgrounds.

Similarly, Diversity Council Australia (2017) has reported that in 2015 if ASX directors were 100 people, approximately 2 would be culturally diverse women, 6 would be Anglo-Celtic women, 28 would be culturally diverse men and 64 would be Anglo-Celtic men. It is clear that culturally diverse aspiring leaders are locked out of the corporate leadership positions in Australia.

For an individual, appointment to a board can signify accomplishment, influence and legitimacy within the corporate elite (Hillman, Cannella, & Harris, 2002). At an organisational level, a board plays a significant role in the monitoring and decision-making functions required for organisational success with decisions made about the financial and human resource allocation at defining points in the organisation's evolution.

Much of the national and international research has granted primacy to the financial (and to a lesser extent non-financial) impact and benefits of board diversity. The rationale here offered is that diverse boards produce better firm performance by providing a broader range of perspectives

(Kang, Cheng & Gray, 2007). While we are a considerable way from achieving gender diversity in board representation, there has certainly been more focus and action on this aspect of diversity on boards than has been the case with cultural diversity.

Although a focus on firm performance is valuable for building the case for board diversity, it does little to assist our understanding of the career trajectory, opportunities, barriers and choices of culturally diverse individuals into board roles (McKinsey, 2015). With such low representation in senior leadership and at the board level in Australia (AHRC 2016, 2018; Diversity Council Australia, 2017), the question remains: what are the key inhibitors and enablers for culturally diverse individuals seeking board positions?

This review aims to address this question by examining the body of literature on board diversity. The first section examines the perceptual barriers that block cultural diversity on boards and the second section explores the structural barriers to board membership and senior leadership. As this is an emerging body of literature, research is fragmented across many areas of scholarship.

Overwhelmingly, research on the experience of culturally diverse men and women in accessing board positions remains fragmented and small, with the existing body of work largely focusing on senior management diversity rather than board diversity which is why we examine a broader pool of scholarship.

Very few studies take an exploratory approach to the underrepresentation of cultural diversity on boards. Consequently, this review also

incorporates findings from studies on broader leadership and management, in addition to studies on racial and ethnic diversity. The terms ethnic/'minority' are also used as a term of reference for culturally diverse individuals.

## CULTURALLY DIVERSE BOARD MEMBERS – BARRIERS AND OPPORTUNITIES

Despite the increasing push for diverse boards and growth in research examining the financial and non-financial or broader social impact of board diversity, there has been little attempt at understanding the factors contributing to diversity on boards. A small amount of research indicates that board size, organisational size, and industry are positively correlated with board diversity (Hyland & Marcellino, 2002; Arnegger, Hofmann, Pull, & Vetter, 2014). For instance, research suggests that larger organisations invest in and are more attuned to diversity and inclusion related issues and initiatives, placing a primacy on creating pathways for diversity amongst board membership (Nguyen & Faff, 2007; Wang & Clift, 2009; Kang et al., 2007). Likewise, industries with a diverse labour force tend to reflect more seriously on the importance of board diversity. Also, the initial entry of diversity on the board is professed to create ongoing diversity. For example, gender-focused research finds a positive correlation between the number of women on a board and the likelihood of greater and ongoing representation of women on the board (de Cabo, Gimeno, & Escot 2011).

Several barriers to accessing senior leadership are proposed in the literature, including inhibitors to quality mentoring and networking opportunities, a lack of challenging opportunities and relatedly visibility, and finally, the experience of bias and stereotyping (Vinnicombe, 2011; see also Edmondson, 2012; McCarty Kilian, Hukai, & McCarty 2005). Given the small number of culturally diverse individuals on Australian boards it is likely there are a confluence of factors at play which create barriers. We explore these barriers, classifying them as either perceptual barriers resulting from bias, stereotypes or invisibility, or structural barriers, arising from a lack of quality networking and mentoring and barriers to opportunities.

## PERCEPTUAL BARRIERS

Perceptual barriers are challenges culturally diverse individuals face arising from bias and stereotyping about their abilities, skills and personal attributes. The influence of these barriers is present at many levels of organisational life, including pathways into board membership. The presence of bias is identified in the way leadership opportunities are often provided to culturally diverse individuals. Collins (1997) found that African American executives felt pressure to take on promotions that were known to stifle long-term mobility for fear it would be the first and only opportunity they would receive. Others felt pressured to accept risky appointments when sponsors and mentors framed positions as pivotal for career advancement. More recently, examinations by Cook and Glass (2014) of Fortune 500 CEO transitions reflect the pressure expressed by Collins' participants. The study revealed female and ethnic minorities were more likely to experience "glass cliff" promotions, being promoted to CEO in companies experiencing short, medium, and long-term declines. Not yet studied from a cultural diversity perspective, US based gender

research finds the appointment of women to boards is most common when an organisation is in a state of crisis (Bruckmüller, Ryan, Rink, & Haslam, 2014). In these instances, the perception of risk associated with appointing a female or ethnic minority to leadership is connected to the turbulent organisational context.

In stark contrast, another body of literature notes that the perceived risk associated with female and minority leaders results from the prevailing bias present in the Western business model that presents the Anglo male as the 'ideal' type leader, decision maker and person of influence. Reflecting this, is an important finding from Cook and Glass's work on CEO transition that companies with female or ethnic minority leadership which experience negative performance often replace this leadership team with white Anglo males, a phenomenon Cook and Glass term the "saviour effect" (2014: 1081).

This process stems from bias present in Western business that views Anglo males as the most reliable and effective leaders (Gündemir, Homan, de Dreu, & van Vugt, 2014). According to Leadership Categorisation theory this is due to the prototypical characteristics and behaviours that have been attributed to an effective leader. Accordingly, potential senior leaders and board members are mentally evaluated to assess whether or not they meet the 'ideal' type leadership prototype (Gündemir et al., 2014). The prevailing strength of the Western leadership model reinforces a perceptual bias where effective leaders are assumed to be Anglo and male (Hoyt & Simon, 2016), leaving out those who do not display the prototypical characteristics valued by the Western business model of leadership.

For a minority individual, leadership positions and appointment to boards can provide legitimacy, signalling success that operates to dismantle negative bias associated with being different from the prototypical Western

leader. However, as minorities are often viewed as less capable for leadership positions, their leadership tenure is often fragile (Cook & Glass, 2014). The presence of diversity fatigue and resentment may also contribute to a minority leader's access to board membership due to assumptions by others that they received 'special treatment' to advance their career rather than displaying actual performance (McCarty Kilian et al., 2005). If organisational performance is poor, minority leadership can be scrutinised for evidence to confirm Western leadership based bias about the capability of minorities to lead. Leader performance management research supports this, indicating that when minority leaders perform well they are subject to positive bias as a means of explaining their performance (Carton & Rosette, 2011).

Conversely, if minority leaders fail they are subject to negative bias about their leadership abilities and negative outcomes with their minority status playing a role in their negative assessment. A study by Walker, Madera, and Hebl (2013) illustrates this. In the context of leader-led mistakes which were held as being the same for both groups under investigation, African American leaders were given lower salaries and offered less access to limited resources than their non-African American leader counterparts, highlighting an ethnic penalty for mistakes.

Due to the strength of the leadership characteristics valued in Western business, behaving in ways outside of associated prototypes has consequences for culturally diverse individuals. These consequences appear to be amplified when culturally diverse individuals seek to actively display their culture. A small body of research shows that individuals wishing to express their cultural identity in the workplace, that is, displaying cultural maintenance, are consequently subjected to greater bias (Hofhuis, van der Zee, & Otten, 2016). For

example, using a sample of majority group participants Kaiser and Pratt-Hyatt (2009) consistently found cultural minorities classified as having strong identification with their culture were more likely to experience negative attitudes and discrimination in the workplace. In contrast, majority group participants expressed far less negative attitudes towards weakly identified cultural minority individuals.

Influence of this phenomenon is also found at the very beginning of a minority individual's organisational experience in the recruitment stages. Hofhuis et al. (2016) found that the level of cultural maintenance displayed by an individual affects the social rating minority members receive in recruitment assessment procedures. When candidates displayed high cultural maintenance, they received lower assessment ratings.

This relationship appears to be moderated by those in charge of recruitment decisions. Those who perceived diversity as a source of negative outcomes viewed cultural difference as something to avoid, while recruiters who perceived diversity as beneficial viewed differences as desirable. This has implications for culturally diverse individuals seeking board member positions, especially if those tasked with appointment decisions perceive diversity as a hindrance rather than a benefit. The implications for the individual are a desire to mask their cultural difference to 'fit in' and to 'assimilate'.

Hofhuis et al. (2016) also observed that minority individuals who displayed lower cultural maintenance and chose to adapt to organisational norms increased their chance of receiving higher social ratings. This signifies that culturally diverse individuals are presented with the option to either display their cultural heritage at the potential detriment of progressing their career, or risk personal authenticity by instead adopting Western based, majority leader behaviour to better their chances at career progression. Minority

directors have reported experiencing pressure to adopt the ideals of the Western leadership model to appear qualified and credible in the eyes of decision makers to board appointment (Wang & Clift, 2009). A cross cultural study by Kakabadse et al. (2015) supports this, with a sample of female board members in Ghana, the UK, and the US citing they felt the need to match the behaviour of male board members to fit in and garner credibility.

Feeling the need to adopt behaviour valued by the male Western leadership model is also suggested as a contributing factor to inconsistent findings on board diversity and performance research. For example, Rose (2007) suggests that a socialisation process occurs where minority board members must adopt the behaviour and norms of the majority board members. This results in a continuation of the status quo, and hence reduces the impact of diversity on performance.

Kakabadse et al.'s finding is indicative that not only is the male Western leadership model culturally biased, but gender biased as well. Traits classified as desirable for leaders such as assertiveness and firmness are typically associated with masculinity (Powell & Butterfield, 2017).

With bias prototyping effective leaders as white Anglo males, the current model of Western leadership does very little to support culturally diverse men and particularly women seeking board member positions. Recent examinations of Australian organisations echo such findings showing that a significantly higher proportion of culturally diverse men have reached leadership positions compared to culturally diverse women (Diversity Council Australia, 2017).

Research examining the experiences of culturally diverse women suggests the inequity and disparity associated with being both female and culturally diverse intersect to create greater barriers to leadership progression.

Referred to as the 'double jeopardy' phenomenon, findings consistently show culturally diverse women face more acute disadvantage, discrimination, and harassment in the workplace than culturally diverse men, or ethnic majority women (Combs, 2003; Berdahl & Moore, 2006; Greenman & Xie, 2008; Carter-Sowell & Zimmerman, 2015).

With the prototypical culturally diverse individual a male, and the prototypical female an ethnic majority woman, relative to members of a single identity group culturally diverse women are non-prototypical members of both their identity groups.

The result is that culturally diverse women seeking leadership roles find themselves perceived to be either too visibly different to the prototypical leadership characteristics, which results in the perception that they are too risky for leadership appointment; or contrastingly, their difference renders them 'invisible' when accessing leadership positions.

Awareness of the biases associated with both identities can result in culturally diverse women lowering their career expectations (Taylor, Charlton, & Tanyard, 2013). For these women, low organisational support and knowledge of the challenges ahead can lead them to question the value of the immense effort required to overcome bias and to progress into leadership and more specifically board positions.

## STRUCTURAL BARRIERS

The influence of stereotypes and bias associated with the Western business model has a flow on effect to many aspects of organisational life and structures. The structural barriers which have been reinforced and reproduced over time in response to the perceptual barriers present a major challenge to a culturally diverse individual's career ascent into the boardroom.

Structural barriers are certainly shaped by an acceptance or rejection of prevailing wisdom around the financial and non-financial contribution of board diversity – which are considered markers of board success. Entry into the boardroom is based on formal and informal processes. This can include enlisting an executive search firm to field and vet potential board member applications for available positions and/or business and personal networks. The interplay within and between these processes creates either a structural impediment or a super highway to the boardroom.

There are various approaches to overcoming structural barriers. First, there are diversity related initiatives which are part of organisational strategies and policies which could be taken into the boardroom. For instance, initiatives may include accountability based enablers such as holding leaders (or the board chair for instance) to account for progress on board diversity metrics, and opportunity based enablers such as diversity training, high-potential talent identification and formal programs (McCarty Kilian et al., 2005).

While the research on these processes is limited, evidence shows these to be effective enablers in increasing the number of minority individuals in leadership ranks (Richard, Roh, & Pieper, 2013), which could be used as part of boardroom good governance practices.

Mentoring and networks are consistently identified as two of the most powerful structural enablers for career progression (van Emmerik, 2004), especially for minority individuals. Minority leaders require considerable psychosocial support to mitigate and continue to work against the perceptual barriers discussed earlier. Effective and quality mentoring and networking opportunities are seen to provide such support (Chanland & Murphy, 2017).

Despite being immensely valuable to minority individuals, bias and stereotypes often make accessing mentoring and the right networks difficult.

## STRUCTURAL ENABLER: MENTORING.

Mentoring is widely recognised as essential to career progression, particularly into senior leadership ranks. Formed either formally through organisational programs, or informally through mutual friendship networks and taking place either within or outside the organisation, mentoring provides a developmental relationship between a mentor and a protégé (Bozionelos, Bozionelos, Kostopoulos, & Polychroniou, 2011). Effective mentors can provide career advice, model successful behaviours, develop protégé networks, provide personal support, and increase visibility in an organisation (Knouse, 2013).

Mentoring is consistently associated with benefits such as greater career outcomes, career satisfaction and commitment for both mentors and protégés (Orpen, 1997; van Emmerik, 2004; Lo & Tamayah, 2011; Bozionelos et al., 2011). While less work examines mentoring outcomes for minority individuals, research does show minorities receiving mentoring report higher job satisfaction and organisational commitment compared to those who do not (Robinson & Reio, 2012).

However, minorities appear to face barriers in accessing quality mentoring. An examination of the four stages of mentoring highlights where minorities may be experiencing barriers. The first stage is initiating the relationship, either formally or informally by the mentor and protégé. Once this is established, the next phase is to develop the relationship, allowing the mentor to provide career enhancing assistance.

Once this assistance is provided, the third stage is to end the relationship, which then allows the protégé to enter the final stage of becoming a mentor themselves (Knouse, 2013). Research suggests minority individuals face challenges particularly with the first two stages: that is, they find it harder to access quality and matched mentoring relationships, and as such experience difficulties with developing effective and useful mentoring relationships.

The first barrier appears to occur in the initial stage of establishing a relationship. Literature has long shown minority members to have less access to mentoring and sponsorship required to further career development (Giscombe & Mattis, 2002). Applying the attraction-similarity paradigm helps to illustrate this lower access. It is well documented in sociology research that individuals are drawn to and prefer to interact with similar individuals, with perceived similarity fostering trust, knowledge sharing and cohesion (Jackson & Johnson, 2012; Richard, McKay, Garg, & Pustovit, 2017).

In mentoring, this translates into mentors preferring to take on protégés similar to themselves in terms of demographic and psychological traits (Thomas, Hu, Gewin, Bingham, & Yanchus, 2005). Prevailing bias and stereotyping of minority members may also influence majority member willingness to provide mentoring to protégés who are different to them. For example, Elliot, Leck, Orser and Mossop's (2007) study on gender differences in mentoring revealed male CEO perceptions of female abilities led them to feel they can trust male protégés more than their equally qualified female counterparts.

A tendency to establish relationships in the initial stage of mentoring with those identified as 'similar' may be viewed as perpetuating a cycle of exclusion. With so few minority members accessing senior leadership and board positions, there are fewer potential choices in the provision of mentoring opportunities to other minority individuals.

In turn, fewer minority members can progress through the phases of mentoring to provide mentoring to others.

Given the small number of culturally diverse individuals progressing to senior leadership and board positions, they are significantly more likely to be in diversified rather than homogeneous mentoring relationships (Meyer, 2015; Richard et al., 2017). Although benefits are associated with diversified mentoring such as increased legitimacy and access to power and information, research consistently shows mentoring quality to be higher in homogeneous relationships (Thomas, 2001; McCarty Kilian et al., 2005). It is here that minority individuals again appear to struggle with progressing through the mentoring cycle.

Once they have established a relationship, the increased likelihood of a diversified mentoring relationship also increases chances that the quality of the relationship is poor (see also Bhal, Ansari, & Aafaqi, 2007; Henderson, Liden, Glibkowski, & Chaudhry, 2009; Chang & Johnson, 2010). Richard et al. (2017) examined the relationship between racial dissimilarity, mentoring quality, and turnover intentions, and observed racial dissimilarity to negatively relate to mentoring quality. Mentoring quality was also found to mediate the relationship between racial dissimilarity and turnover intentions, with negative impact of mentoring quality increasing turnover intentions.

Gender focused research shows that women who are mentored by women typically report receiving greater psychosocial support than women mentored by men (Fowler, Gudmundsson, & O'Gorman, 2007; Okurame, 2007). In sum, access to quality mentoring for culturally diverse men and women seeking leadership and more particularly board positions is stymied by nature of the small pool of potential mentors.

If a diversified mentoring relationship is established formally through an organisation, it is also subject to issues such as stereotypes, bias, low perceived competence, and communication differences from both the mentor and protégé (Ragins, 1997; Meyer, 2015). Further, due to the differences in identity and backgrounds, diversified mentoring relationships may lack interpersonal comfort and understanding (Ragins, 1997).

For diversified relationships to be effective, Thomas (2001) suggests mentors must be willing to overcomes negative stereotypes, openly discuss demographic differences, and acknowledge that demographic differences present a challenge for minority career progression. These can be quite difficult to address, and as such, homogeneous inter-organisational formal mentoring programs may instead provide a potential solution to support minority career progression and leadership access (Ragins, 1997; Murrell, Blake-Beard, Porter Jr., & Perkins-Williamson, 2008), or ideally a combination of both a diversified and homogeneous mentor program.

Few studies examine the specific interplay between board membership and mentoring. Mentoring on boards provides the opportunity to learn from the experience of others, and supports the important task of acquainting directors with the routine, contacts, practices and procedures of the board (Coulson-Thomas, 2008).

In a recent study of the underrepresentation of women and minorities on boards McDonald and Westphal (2013) observed that first-time minority directors typically receive less mentoring from other directors about the norms and behaviours expected when belonging to a board.

Informed by the attraction-similarity paradigm, they suggest that majority board members are more willing to offer support to others belonging to the in-group rather than minority members. The study also found that when a board already has a female or ethnic minority member, first-time female and minority directors were less disadvantaged in their board experiences.

Without mentoring on the norms and behaviours of participating in board deliberations and navigational information on the pathways into boards study participants were less likely to have multiple board positions. Importantly, holding multiple board seats is significant as it provides greater legitimacy in the eyes of other directors, increases decision-making influence over corporate policy, and places directors in the corporate elite (Westphal & Stern, 2007). Although there is currently no comparable Australian data, international findings reveal that while minority board membership may be slowly increasing, the number of minority members belonging to more than one board remains very small. This lack of boardroom mentoring means minority members continue to be excluded from the most powerful positions in the corporate world.

## STRUCTURAL ENABLER: NETWORKS

It has become increasingly recognised that in addition to mentors, network relationships are also essential for career progression success. Networks provide "information, resources, perspectives, visibility, and advocacy needed for career ascension" (Chanland & Murphy, 2017: 3). Ability to network is often perceived as a sign an individual is serious about their career progression (Anderson-Gough, Grey, & Robson, 2006).

Networks range from formal official organisational structures, to informal based arrangements comprised of voluntary relationships outside of formal organisational interactions, while feeding into and critical to organisational interactions (Combs, 2003).

The effectiveness of an individual's ideal network relies on achieving a fit between their developmental needs, developmental structure and developmental content (Shen, 2010). Given the small number of culturally diverse individuals accessing senior leadership positions, it appears that they face challenges in achieving 'fit' between their networks and development. In turn, without strong and quality network connections, culturally diverse individuals may be perceived as having a weak approach to their career progression. Although research shows minority individuals to be more likely to obtain a job through informal networks than majority individuals (Fernandez & Fernandez -Mateo, 2006), they are also more likely to be paid less in these jobs than jobs obtained by other means (Elliot, 2000).

Like mentoring, social and strategic networks are typically guided by a desire to interact with and to form relationships with others who are similar. Sociology research indicates this is due to demographics such as race and ethnicity creating a baseline homophily, which becomes exacerbated by differences in other demographics (such as education or religion), and personal prejudices which feed into creating a visible network divide (McPherson, Smith-Lovin, & Cook, 2001).

While this is no exception for minority individuals (Mehra, Kilduff & Brass, 1998; Brutus & Livers, 2000; Mollica, Gray, & Treviño, 2003), a lack of minority representation in senior leadership ranks also means that minority individuals often have no choice but to engage in diverse formal and informal networks.

As with mentoring, benefits exist for homogenous networks in the workplace, such as reduced voluntary turnover (Kmec, 2007). However, diverse networks provide minority individuals with further reach in terms of access to information and resources required for career progression (Chanland & Murphy, 2017).

Observed in seminal work by Ibarra (1995), high potential minority managers balance same and cross-race contacts, resulting in more racially heterogeneous and fewer intimate relationships than majority participants. With so few minority individuals in leadership positions, the study also found some minority individuals to have networks dominated by ties to majority groups. More recent work supports this, demonstrating that while ethnic minorities tend to form organisational network ties within their ethnic group, many are equally connected to individuals belonging to the majority ethnic group (Leonard, Mehra, & Katerberg, 2008).

Although this stream of research illustrates minority individuals as being able to balance diverse networks, the reality is that challenges exist where exclusionary pressures place minority members on the margins of social and strategic networks. If network baselines are strongly in favour of a demographic in-group, those who are outside of this group can find it harder to integrate into the network. Minority individuals have reported finding it harder to access quality informal networks to increase their visibility and reputation with senior decision-makers.

Limited network access for minority individuals has several disadvantages, including restricted knowledge transfer and difficulties in forming mentoring alliances (Ibarra, 1993). These individuals must instead rely on formal processes such as focusing on working longer and harder in their roles, learning how to pass formal promotion assessments, or participating in formal organisational networks, development

and mentoring schemes (Thomas, 2001; Wyatt & Silvester, 2015). Given the strong prevalence of bias associated with the Western business model in formal processes, culturally diverse individuals on the margins of social and strategic networks face multiple visible and invisible challenges in accessing leadership positions (Giscombe & Mattis, 2002).

With diversity increasingly becoming a concern for shareholders, director networks that are homogeneous risk negative perceptions about a board's legitimacy (Perrault, 2015). Despite this, there has been little research examining director networks and diversity. Cross-cultural studies (e.g. Kakabadse et al., 2015) have revealed directors feel they require a good education, proven background, and strong networks to be taken seriously in the boardroom. Beyond this small body of work, a smaller stream of research examines minority director experience with belonging to multiple boards. The presence of directors on multiple boards creates an interlocking network between multiple boards (Caiazza & Simoni, 2015). These networks expand opportunities for multiple director memberships, with research showing directors with the highest number of connections to occupy the most central and powerful positions in director networks (Avina-Vazquez & Uddin, 2016).

As discussed earlier, belonging to multiple boards has benefits for individuals looking to enter the corporate elite in terms of increased influence and power. The likelihood of expanding reach into multiple boards though is clearly dependent on and influenced by one's networks.

From an organisational perspective, having board members who belong to more than one board is potentially advantageous. Organisations with directors belonging to multiple boards and director networks provide a resource that establishes channels of power, increases corporate

performance, and encourages the transfer of valuable information on business practices (Hawarden & Marsland, 2011). Increased flow of information is shown to enhance corporate governance effectiveness, decrease uncertainty and allows directors to make better and informed decisions (Clements, Neill, & Wertheim, 2015). For instance, research illustrates organisations with female interlinked directors and CEOs to have significantly stronger records on governance, product strength, diversity, and community engagement (Cook & Glass, 2017).

Engaging in director networks is often crucial to securing multiple appointments as fellow directors belonging to other boards are well positioned to influence and facilitate appointments (McDonald & Westphal, 2013). Minority directors have reported experiencing more influence if they have social network ties to majority directors through common memberships on boards (Westphal & Milton, 2000).

Research also shows that female and minority directors holding at least two seats join subsequent boards at a faster rate than majority males (Hillman, Cannella, & Harris, 2002; Hawarden, 2010). Hawarden (2010) suggests this is especially the case where affirmative action policies place pressure on boards to appoint female and minority directors.

Boards respond to these pressures by appointing minority and female directors who already have perceived experience, legitimacy, and network connections. As such, the use of targets to increase the number of culturally diverse directors may prove valuable, as witnessed in Australia with implemented targets for female representation.

However, as discussed earlier, first time minority directors typically receive less mentoring and support required to belong to more than one board, limiting their access to director networks (McDonald & Westphal, 2013). Without this mentoring and support, culturally diverse men and women may lack perceived credibility in the eyes of appointment gatekeepers and decision makers.

## CONCLUSION

While Australia is one of the world's most culturally diverse nations industry analysis shows that this rich cultural landscape is not reflected in the most senior positions of the corporate world, including those of the boardroom.

Although board diversity and performance research is extremely valuable in encouraging organisations to actively seek diverse boards, it provides little understanding or guidance in how culturally diverse individuals navigate through the number of barriers present in their journey to senior leadership and director appointment.

Aside from some conceptual papers (e.g. McCarty Kilian et al., 2005) literature applicable to culturally diverse leadership comes from a broad range of focus areas, but has been limited in scope within an Australian context (see for instance Groutsis et. al, 2018; Lee Cooke et. al, 2013; Shen et. al, 2009; Syed & Kramar 2010). Piecing together this fragmented information reveals that culturally diverse individuals face challenges in accessing leadership and directorship roles as a result of perceptual and structural barriers.

The Western business model's bias towards Anglo males often results in culturally diverse individuals being perceived as too much of a risk for leadership appointment. This bias flows on into structural barriers faced by culturally diverse individuals, where poor access to essential and quality mentoring and network opportunities places their career progression at a significant disadvantage.

Similar to board diversity and performance research, issues are also present in research on cultural diversity and leadership progression. Research is spread across various points of focus on culture, ethnicity, and race. With most research emerging from the US and UK, this research has a narrow concentration on specific cultural groups, such as those identifying with African American, Hispanic, and to a lesser extent, Asian cultural backgrounds.

Very few studies examine a broader range of cultural backgrounds when looking at minority representation in leadership. This is problematic given the different cultural landscape of Australian society. Issues also exist with the range of barriers examined, with a limited number of studies looking at more than one or two barriers or enablers to the progression of culturally diverse individuals into leadership. An overwhelming number of quantitative based studies in this area compared to exploratory qualitative studies may contribute to this fragmentation and limitation.

Reviewing the literature, it is clear there has been a failure to adequately and comprehensively understand the journey to the boardroom for culturally diverse directors, especially in the Australian context. As such, research taking a broad view of the barriers and enablers to culturally diverse leadership representation from the Australian perspective is required to expand the narrative. If neglected, culturally diverse individuals will continue to be underrepresented in the most influential leadership positions in Australia.

# APPENDIX 2:
## METHODOLOGY

**THIS REPORT GOES BEYOND A QUANTITATIVE SURVEY-BASED APPROACH TO COLLECTING EVIDENCE ON AND ILLUSTRATING THE EXPERIENCE OF CULTURALLY DIVERSE LEADERS ON AUSTRALIA'S BOARDS.**

Such an approach has overwhelmingly dominated and supported evidence building in the majority of the policy reports and scholarly publications produced to date. While important in illustrating the need for radical change in the approach to recruitment into and the creation of pathways for diversity in the senior ranks of Australia's corporate elite, the voice and experience of key insiders on cultural diversity on boards is neglected.

This report addresses this neglect and adds to the current policy and scholarly landscape by undertaking a qualitative analysis which allows us to explore the perspectives of board directors and chairs and representatives from leading executive search firms on cultural diversity on Australia's most successful companies as defined by their ASX-listing and membership of the Australian Institute of Corporate Directors (AICD).

The empirical contribution of this research consisted of in-depth semi-structured interviews with 18 board members of ASX100 boards and 9 representatives from leading executive search firms in Australia. Interviews lasted from 40 minutes to 2 hours. The interviews were all recorded and transcribed before coding was undertaken using Atlas.ti. The analysis of the interviews revealed several themes which illustrate the pipeline to board roles; access to board roles; board (and committee) dynamics; and board interest and agency in relation to workforce diversity matters with a particular focus on cultural diversity.

The process of participant recruitment adhered to University of Sydney Ethics guidelines, whereby participants were contacted through a third party. The AICD sent out an email and link inviting participants. Following completion of an expression of interest to participate in an interview for the research project, the researchers contacted the interested parties to arrange an interview. The AICD and the researchers collaborated to target an appropriate mix of directors from different industries, sectors and specialisations representing the breadth of the ASX100 and the AICD's membership within this group.

Key informants from executive search firms were also identified and contacted in consultation with the AICD, who assisted the researchers in accessing potential interviewees by sending an introductory email to which potential interviewees could respond if they wished to participate.

In contrast to a quantitative approach which relies on survey data and a statistical analysis of conditions, qualitative research allows the researcher to capture experiences through a reliance on the informant's words and interpretation of events and perspectives and observations shaped by their experience (Johnson & Onwuegbuzie, 2004; Savin-Baden & Howell Major, 2013).

As such a semi-structured interview was deemed to be the best way to collect in-depth details on the observations and experiences of key stakeholders (Fusch & Ness, 2015; Perry, 1998). A semi-structured interview provided participants with space to present and elaborate on their views of cultural diversity on Australian boards: that is, to discuss how, if at all, cultural diversity is being discussed on Australian boards, what they understand of cultural diversity on boards, board access and pathways and approaches to board recruitment.

The discussion was framed by open ended questions in order to explore the experience and perspectives of the interviewees. The semi-structured interview process was used flexibly in each of the interviews where prompts were used to garner deeper information in some of the interviews while in others participants drove the discussion themselves (Rabionet, 2011).

While very useful in providing deep insights, the qualitative approach has limitations. The sample size presents limitations to generalising outcomes across the ASX listed company boards.

We hope that in the future we will be able to undertake more extensive interviews with a broader suite of board members. Further, other important stakeholders such as networks, shareholders and the executive suite could also present insights into board diversity which the insights of board members did not reveal.

The second limitation was difficulty in recruiting informants. Indeed we would have welcomed more participants however the uptake presented challenges. We understand and respect the sensitivities around such high profile positions and the sharing of opinions where one's identity is revealed – albeit only to the researcher – is confronting.

Overall, the strength of this report is found in the insights presented by the interviewees who generously gave of their time and who provided compelling insights into issues around cultural diversity on Australian boards.

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