

7.9 “DIVERSE WE STAND!” ORGANIZATIONAL LEADERSHIP DIVERSITY AND SUSTAINABLE VALUE CREATION IN PERIODS OF CRISIS

Aim of the Project

This project has two primary objectives. First, it aims to explain to what degree diversity in corporate boards and directorates of large Dutch corporations affects value creation for diverse stakeholders the firms engage with, such as investors, employees, and communities. Second, the project assesses to what degree recent crises like the COVID19 pandemic of 2020 and the Great Financial Crisis of 2008 affect the relation between leadership diversity and stakeholder value creation.

Theoretical Background

There are long-standing societal and academic debates on the need for and benefit of diversity in organizational leadership (concerning, among others, gender, age, education, ethnicity, citizenship, sexual orientation, or former business experiences). However, we have surprisingly little knowledge of the benefits and pitfalls of diverse leadership during large-scale economic and societal crises that fundamentally reshaped the economy and society in recent decades. An extensive literature has investigated the impact of leadership diversity on diverse aspects of value creation for stakeholders of the firm, such as financial performance (investors and shareholders), good employership (employees), and environmental impact (communities) (e.g., Bear et al. 2010; Beji et al. 2021; Herring 2009; Reagans & Zuckerman 2001).

The literature has proposed various contrasting psychological mechanisms linking diversity or crises to firm performance. The *value-in-diversity* perspective (Cox et al. 1991) argues that diverse management teams bring in varied information, knowledge, and pluralistic values and form better relations with and are more able to incorporate the needs of various stakeholders in organizational decisions (Harjoto et al. 2015). In contrast, the *intergroup tension perspective* (van Knippenberg et al., 2020) emphasizes the challenges of potential inter- and intragroup tensions, coalition-forming, and conflict in diverse teams and are less able to respond to and manage diverse stakeholder needs effectively. There is a small but growing literature on leadership and crises (e.g., Stoker et al. 2019 & 2021), including studies focusing on how organizational leadership manages stakeholder expectations in crisis periods (Wu et al. 2021). These studies address the *threat-rigidity* hypothesis (Staw et al. 1981), according to which crises result in more rigid, rule-oriented, authoritarian leadership, and the loss effect from *prospect theory* (Kahneman and Tversky, 1979), according to which crises lead to more risk-taking and participative leadership.

The two fields are so far disconnected. The literature on leadership diversity has little to say about how diversity in leadership teams works out when a crisis hits except for a study on gender diversity and strategic organizational change during financial downturns (Triana et al. 2014). The crisis literature elaborates on leadership styles in crises but focuses on individual leaders and neglects diversity issues or leadership teams. The proposed project aims to bridge this gap. We further both strands of literature study how leadership diversity impacted value creation during external crises (the 2008 Global Recession and the 2020 COVID-19 pandemic).

The recent crises put organizations and leadership to complex challenges. Under the COVID19 lockdown regulations, many industries faced operational difficulties in coordinating and controlling processes without a physical office. In many, but not all, industries, COVID19 presented even a double crisis: economic and management. Lack of physical interaction and less intensive contact may impede information exchange between organizational leadership and stakeholders and facilitate authoritarian decision-making, reducing the benefits of diverse leadership. On the other hand, a

more varied leadership could better understand the various needs arising from stakeholders (employees and business partners) during a crisis. (e.g., divergent problems arising from work and family, managing external resource demands in a rapidly changing crisis environment). As a result, diverse leadership could perhaps respond better to these challenges.

The combination of stakeholder perspective on value creation (Harrison & Wick 2013), theories and mechanisms from social and organizational psychology, and contextualized accounts of how large-scale crises impact leadership and organizations has the potential to reveal hitherto unknown context-dependencies of diversity and advance our understanding of the processes behind leadership diversity, crisis, and value creation.

Research Design

The current project integrates strategic management, social psychology, and organizational sociology to investigate how diverse boards contribute to value creation. The focus lies on conditions when organizations face external economic and societal shocks (the 2020-2022 COVID19 crisis and/or the 2008 Recession as a comparison). We will focus on large corporations (listed and largest unlisted corporations).

The project builds primarily on the Social-Statistics Database (SSB), a linked employer-employee tax, municipal, and Chamber of Commerce register data from the Netherlands provided by Statistics Netherlands (CBS). The unique linked longitudinal organization, leadership, and employee data contain the entire population of organizations, their appointments of leaders, and their employees for more than 20 years (early 2000 and 2022).

The concept of value creation builds on the premise of stakeholder theory that attending to the needs of multiple stakeholders contributes to long-term and sustainable value creation in corporations. Based on recommended stakeholder performance measures (Harrison & Wick, 2013), we address corporate financial indicators (shareholder value creation), employee compensation/benefits and turnover (employee value creation), and (from legal databanks) legal actions and grievances against corporations (value creation for employees, communities and consumer groups).

Leadership diversity will be conceptualized according to both surface-level (demographic characteristics, such as age, gender, ethnic background, and citizenship) and deep diversity (education and past career experiences) (Harrison et al. 1998). In addition, demographic and career data on individual leaders present opportunities to study the role of faultlines (Thatcher & Patel 2012) and power differences (Triana et al. 2014) in diverse leadership teams. The project could capture mediating mechanisms of cooperation within the leadership and durable relations with stakeholders with proxy indicators, such as directorate turnover.

We use a difference-in-difference design to capture the moderation by crises (Callaway et al. 2021): we compare the impact of leadership diversity on value creation before, during, and after crisis periods and between industries that are globally differentially affected by the crisis.

The project has the entire organizational population at its disposal. For subprojects analyzing legal actions and grievances, it is possible to collect publically available online data on court cases (e.g., rechtspraak.nl) and link it with the SSB.

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PhD

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Location

Groningen

Expertise

Sociology, Social and Organizational Psychology