

**Boards**

# **What Amazon's Board Was Getting Wrong About Diversity and Hiring**

by Stefanie K. Johnson

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**Summary.** Amazon's board recommended voting against a shareholder proposal that would require the board to consider women and minority candidates for director positions. The company's communications representative suggested that using such a policy, similar to... [\*\*more\*\*](#)

Amazon came under fire last week after its board opposed a shareholder proposal to increase the diversity of the board. (*Update: Amazon announced on Monday that it would adopt the shareholder diversity proposal.*) CtW Investment Group, an activist shareholder group, requested that Amazon implement something much like the “Rooney Rule,” a requirement instituted by the NFL in 2003 that every team must interview at least one minority candidate for an open head coach or general manager position. In Amazon’s case, the proposal requires that “the initial list of candidates from which new management-supported director nominees are chosen should include (but need not be limited to) qualified women and minority candidates.” Currently, all 10 of the directors on Amazon’s board are white, and seven are men.

Companies like Microsoft and Costco use this type of process for their board selection, as increasing diversity of candidate slates is an important step for increasing diversity of the board overall. But Amazon’s board recommended voting against the proposal. In its SEC proxy statement to shareholders, the company stated that it already has “complex processes” in place to select board members and that this new requirement would not be a good use of its time or resources. Amazon’s communications representative suggested that using a policy like the Rooney Rule is likely to create a “check the box” approach, which is something I’ve found in previous research.

However, two points are worth mentioning. First, this suggestion misinterprets my findings with coauthors David Hekman and Elsa Chan in HBR. Our research, which explored status quo bias, or the desire to preserve the current state of things, found that when there is only one woman or person of color in a finalist pool of job candidates, that candidate stands out so much that they have essentially no chance of being hired. This is consistent with the idea that simply interviewing one African American applicant — as required by the Rooney Rule — would not create change. But importantly, we also found that interviewing *two* women or minority

candidates can make the difference and lead to their hiring. So the evidence suggests that mandating diverse candidate slates can improve diversity overall.

This finding holds when we look at the Rooney Rule itself. In a paper that's currently under review, my colleagues and I researched who was interviewed for the 35 head coaching positions the NFL has seen open over the last five years (2013–2017). Of the coaches who have been hired over this period, 29 have been white men and six have been black men.

Most of the time (in 22 instances), only one black coach was interviewed, but in 12 cases two or more black coaches were interviewed. From the 22 times that only one black coach was interviewed, a black coach was only hired once, which is about 5% of the cases. (On average, about five potential coaches are interviewed for each position. So by chance alone, you'd expect a black coach to be hired 20% of the time.) But from the 12 instances where two black coaches were interviewed, a black coach was hired four times (or 33% of the time), which is closer to what you'd expect if each candidate had an equal chance of being selected. These are small numbers; however, the difference between them is statistically significant ( $B = 2.35$ ,  $p < .05$ ,  $EXP(B)=10.50$ ).

There is little doubt that the Rooney Rule brought change to the NFL: It changed the culture and increased awareness about the lack of ethnic diversity at the top of the league. But concerns that progress has been too slow (considering that 70% of players but only 25% of head coaches are African American), can be explained by the fact that interviewing one African American head coach is simply not enough. Our data would argue that if teams were required to interview two African American coaches, that number might increase to 33%.

So when it comes to companies like Amazon that are afraid of “creating token candidates” — individuals who are interviewed to “check a box” but given no real consideration — on finalist slates for board positions, I agree: Interviewing one person of color might not

necessarily lead to greater diversity. But the crucial point is that interviewing more than one might — and interviewing all white candidates will obviously not result in hiring a person of color.

The second point worth mentioning is that Amazon's resistance to a formal requirement about diversity isn't unusual. In my work interviewing CEOs of S&P 500 companies (conducted with Kim Davis), I learned that companies are often reluctant to change their board practices due to fear of change and the unknown. It feels much safer to share your greatest corporate secrets with people you already know, which probably explains the strong and consistent data showing that most new board members are recruited from the small, preexisting networks of current board members.

It's been found that CEOs who increased the demographic diversity of their boards elicited higher profit margins for the company, but it came at the expense of lower pay for themselves. And using 12 years of data on Fortune 500 companies, other researchers showed that demographically diverse boards are more likely to challenge the authority of the CEO and curtail CEO pay. A McKinsey study showed that only 14% of C-suite executives select board members on the basis of having a "reputation for independent thinking."

My research found that CEOs who did push for diversity on their boards were very focused on the benefits it would bring, while CEOs who did not tended to focus on the things they would lose (like the current group dynamic) or the risks they would encounter (like that people might think the candidate is a token hire). Psychologists have a theory differentiating between these two perspectives: They have found that a focus on playing to win (what's called a promotion focus) can result in growth and improvement in business outcomes, but a focus on trying to avoid losing (prevention focus) tends to result in stagnation.

So focusing on the potential gains in having a more diverse board — such as diversity of thought, a more comprehensive understanding of the customer base, and reduced groupthink — would seem to

encourage CEOs to be more intentional about increasing board diversity. Focusing on the risks, on the other hand, would result in maintaining the status quo — which usually means a board composed of all white members.

The truth is that the status quo is hard to overcome. Selecting a board is kind of like choosing the group of people you want to spend Thanksgiving dinner with — you want to like them and feel comfortable with them. But the magic happens when things are not quite comfortable, when you are hearing different perspectives and being challenged on how you think. Difference of thought and perspective is what makes companies great.

Compared with the other tech companies that have mostly white executives (68% at Apple, 65% at Google), Amazon is among the worst in terms of diversity, with 74% white executives. Of its 18 highest-level executives, 17 are white men. Clearly the company's employees care about increasing diversity in the upper ranks, and Amazon stands to gain by being more representative of the people it serves. Appreciating the need for diversity, and setting some real goals for achieving it at the highest levels, is the only way to ensure that it exists throughout the organization.

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