Socioeconomic Board Diversity: Trend Brief

What Is Socioeconomic Board Diversity (SBD)?

Also called “board-level employee representation” or worker representation on boards, socioeconomic board diversity (SBD) refers to the presence of non-executive-level employees on boards to ensure that workers’ values and interests are considered during the corporate decision-making process.[1]

How Can Workers’ Interests Be Represented on Corporate Boards?

Socioeconomic board diversity is one of many mechanisms utilized for codetermination, meaning joint decision-making between workers, executives, and shareholders.[2] At minimum, **SBD requires the presence of current, non-executive-level employees on a board**. More importantly, **effective SBD requires an inclusive environment** where these employee representatives—collectively with other board members—can make decisions that positively influence the employees of an organization and its stakeholders.[3]

Europe Leads the Way

Conceptualized as far back as 1918 and revitalized by labor shortages and political concerns from World War II,[4] **SBD spread throughout Europe and is now the norm in most of the continent today**.[5] Of the 31 European Economic Area countries, 19 have legal frameworks supporting various models of board-level employee representation.[6] Each model is based on different factors, such as company eligibility, strength of representation, duties and responsibilities, and methods for choosing the employee representatives.[7] Often considered a role model for SBD, Germany is the focus of studies on worker representation.[8]

German law requires companies to enact a codetermination model with two boards: the executive board and the supervisory board, which includes non-executive directors, shareholders, and employee representatives.[9] Other companies in Europe, for example in Sweden, have a single board that includes employee representatives.[10] France allows companies to decide between a one-tier or two-tier board. The one-tier model is more common.[11]

An Emerging Trend in the United States

In the United States, socioeconomic class is often overlooked as a dimension of diversity; it has only recently entered conversations concerning recruitment and retention.[12] US companies have also started to understand the **significant loss of talent and perspective that results when diverse perspectives (including diverse socioeconomic backgrounds) are excluded from corporate decision-making**.[13] At the same time, many researchers, economists, and politicians are now questioning whether the current model for US boards—which prioritizes the interests of the shareholders over other stakeholders—is sustainable.[14]

The Benefits of Socioeconomic Board Diversity

“When boards think and act inclusively,
it sends a very clear message [about] what’s important to the company.”

- Billie Williamson, Director, Kraton Corporation, Cushman & Wakefield, and Pentair[15]

Research has shown that socioeconomic board diversity positively impacts key stakeholders, including employees, customers, and managers. The benefits include:

- Prioritizing long-term investment in both the organization and employees.[16]
- Higher wages for employees and greater income equality.[17]
    - A 2014 study found that the CEO-to-worker pay ratio in the United States was 354 to 1, more than twice the ratio in Germany.[18] This gap is mainly due to the difference in performance-based pay. While both US and German boards award their CEOs with performance-based pay in the form of stocks in addition to monetary compensation, the portion of performance-based pay for US CEO salaries are higher than that of its foreign counterparts.[19]
- The ability to negotiate alternative cost-reducing measures in lieu of layoffs.[20]
- Investment in upskilling.[21]
    - More than one-third of US jobs (36%) are skilled, putting the United States behind many countries with SBD practices.[22]
- Modeling inclusion.
    - Boards can set an example of an inclusive governing culture by embedding the organization's values into business strategies and making management accountable for upholding this vision.[23]

In August 2019, 181 CEOs signed the Business Roundtable statement calling on US companies to shift from an exclusive focus on shareholder interests to a new corporate social responsibility that takes all stakeholder interests into account. Increasing socioeconomic board diversity is one step US companies can take to ensure employees' interests are continually represented.[24]

Why Socioeconomic Diversity Matters

Socioeconomic diversity matters because research shows that **diverse and inclusive companies have higher levels of talent retention, productivity, and innovation**.[25] However, many companies often overlook socioeconomic diversity, especially the ways that it **intersects with race and gender**. For example, class migrants—professionals who have climbed to higher socioeconomic classes[26]—are often people of color. As employees with unique experiences and perspectives, they can offer a first-hand understanding of customers and worker populations as well as effective leadership skills.[27] Creating an inclusive culture for class migrants can contribute to diverse talent retention.[28] But it is also important to ensure that as "non-traditional" dimensions of diversity such as socioeconomic class are elevated, other dimensions such as race and gender are not subsequently de-prioritized. All of these intersectional components of identity can and should be prioritized at the same time.

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