



Report

ibe Institute of
Business Ethics

The Ethics of Diversity



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The Ethics of Diversity

By Deborah Gilshan with Mark Chambers

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The Ethics of Diversity

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An Ambassador for the 30% Club, the global initiative to increase gender diversity, Deborah was instrumental in building the 30% Club UK Investor Group into a global collaboration of investors with £11 trillion assets under management. She is a Fellow of ICSA: The Governance Institute and chairs the Ethics & Systemic Risk Committee of the International Corporate Governance Network. Deborah serves on the Advisory Group of the High Pay Centre's project on CEO pay ratios and holds the CFA's Investment Management Certificate. In 2011, Deborah founded The 100% Club, a multi-sector alliance dedicated to gender equality and she is a Senior Advisor to the Women Societies Alliance, an initiative to create equal opportunities in the finance industry for female graduates. Deborah has been recognised for her work on empowering the female talent pipeline and promoting gender diversity.

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Commissioning Editor

Mark Chambers is the IBE's Associate Director (Governance). He brings 30 years of experience from a successful career in business to help grow the IBE's interaction with boards, regulators and policy makers.

After graduating in Zoology from Oxford University, Mark re-trained as a lawyer and spent his early years at Slaughter and May in their London and New York offices before moving into business. He was General Counsel & Group Company Secretary at RSA Insurance Group and at Worldpay Group, and held senior positions at American Express and GE Capital. He retired as Deputy Group Company Secretary of HSBC in 2018 to pursue a second career, which also includes non-executive and advisory work. Mark is a former member of the CBI's Financial Services Committee and was a finalist in the 2014 Sunday Times Non-Executive of the Year Awards.

IBE Foreword

It is difficult to imagine anyone in business disagreeing with the premise that we should listen to our customers. Market intelligence is what gives us competitive edge and enables us to thrive.

Smart businesses also listen to their employees, their suppliers and the wider community to ensure they are in tune with stakeholders' expectations and are responsive to changes in the competitive environment. So, it cannot make sense to ignore the views and needs of significant groups in society. Yet that is what we do when we ignore the importance of diversity.



2020 saw diversity and discrimination again rise to the top of the public agenda. The death of George Floyd and the outpouring of outrage that followed should give us all cause to question whether we are taking diversity seriously enough. The extraordinary challenges that boards face in navigating a post-COVID-19 world mean that paying lip service to diversity is no longer an option.

Business Ethics is about the practical application of ethical values. It starts with tone at the top and is all about the organisation's culture. It involves giving people a voice to speak up and listening to what they have to say. It is about fairness and opportunity. This is why diversity is so important to doing business ethically. And, as this report explains, diversity of thought is much more than targets and quotas; it is about the way we do business.

The report offers a series of recommendations to help boards to embrace cognitive and experiential diversity and, as a result, unlock sustainable business benefits. We hope that boards and their advisers will find them useful.

Dr Ian Peters MBE

Director

Institute of Business Ethics

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Summary

The need for greater diversity of thought and life experience on boards has never been more compelling. COVID-19 has resulted in enormous disruption for every business; some sectors face unprecedented change and a need for fundamental reinvention in the months and years ahead to navigate new, existential risks.

The resourcefulness and adaptive capacity needed for businesses to address these challenges demands innovation at the very top of the organisation. The difficult times ahead represent a much more challenging landscape for board decision-making. Many strategic decisions will involve more nuanced choices where there is not an obvious 'right' answer or a solution that will work for all stakeholders. Boards can expect their decisions to be challenged more forcefully and publicly by a wider range of stakeholders, and decisions that do not work out well will be judged after the event, with the benefit of hindsight. The collective skillset of boards will need to change and adapt and some of the fresh thinking will need to come from broadening the experience and perspectives around the boardroom table.

Board appointments that are no more representative of the company's employees, customers or supplier base will not bring the different perspectives needed to counter groupthink. Only through systemic change will better decisions be reached by individuals who look and think differently and whose life experiences are more varied and more representative of the communities that the company serves.

Boards that are open to novel and diverse perspectives and who are prepared to challenge their established ways of working and ways of thinking will have the best opportunities to navigate through these times successfully. Boards that embrace the opportunities of diversity by leveraging differences in thinking and life experience will maximise their collective capability. By contrast, those that remain mired in groupthink will find out to their cost that the necessary innovation is stifled.

The push for more diverse boards is, of course, not new. We have had more than a decade of sustained, multi-faceted effort in the UK to improve gender diversity at board level and within senior management teams. This report looks at that experience and examines what has been achieved so far. It highlights that there is much to feel good about in the progress that has been made and the growing evidence of the quantifiable business benefits that increased gender representation on boards has brought.

However, it is also evident that, 10 years on, the sustained push for improved gender diversity has not yet delivered on its full potential. While targets have been an essential tool for demonstrating progress, too many companies have been driven by a compliance perspective (the 'one and done' mentality) and have missed the opportunity to broaden the life experiences around the table and bring very different ways of thinking into the boardroom.

As the focus shifts rapidly beyond gender to address ethnicity and other dimensions of diversity, this report reflects on some of the lessons learned from the push on gender, examines some of the pressures for change that are already being applied and highlights both the risks and opportunities for boards.

Companies that approach the various dimensions of diversity around their boardroom table sequentially, focused only on targets and with a compliance mindset, will not achieve the sustainable business benefits available from diversity.

They will also find themselves under increasing pressure from stakeholders. Investors have already raised the bar for businesses and are holding those that are lagging accountable; greater transparency is allowing customers to make better informed choices; and employees increasingly want to work for businesses whose values they recognise and share. The pressures for change will continue to grow and are unlikely to be well coordinated and uniform.

Getting ahead of the curve is the only way to avoid being overwhelmed. Only through an authentic drive for change and a genuine commitment to inclusion will businesses maximise the opportunity. This has to start with the board, as the face of the organisation.

2020 was a stark reminder that the world is much more interconnected than previously thought. Companies are now more aware that they are part of a delicate stakeholder ecosystem and that ensuring the system remains vibrant and robust is good for everyone. The best run companies have long recognised that a two way dialogue with key stakeholders is a key part of that.

Diversity in the boardroom means more than gender and colour; it is about valuing and blending the different experiences and range of thinking around the table. Embracing and leveraging differences will drive greater board effectiveness and facilitate closer stakeholder relationships.

The report ends with a series of recommendations as to how a board can embrace cognitive and experiential diversity and unlock the sustainable business benefits from making systemic rather than cosmetic changes.

Mark Chambers

Associate Director (Governance)
Institute of Business Ethics



Introduction

This report is intended to provide a practical guide to understanding why diversity matters for boards, companies and their stakeholders. It sets out how the pursuit of strategies that embrace and value diversity of thought and experience will lead to more inclusive and successful cultures. Strategies embracing diversity can also break down the barriers that marginalised groups face within and outside organisations. It argues that, fundamentally, diversity is a challenge to entrenched status quos that will sometimes resist their dismantling, but improving corporate cultures to the benefit of all stakeholders requires boards to have the courage to ask themselves searching questions and face into the consequences of their answers.

Diversity plays a multi-faceted and critical role in evolving corporate cultures that are fit for now *and* for the future. This includes effective human capital management strategies and challenging perceived norms of leadership. This report argues that pursuit of diversity on anything less than an authentic and enthusiastic basis creates more challenges than it solves. Corporate leaders, including board members, need to be clear about the reasons why they are seeking change within their organisations. By doing so, the positive impacts of diversity and the transformational business benefits will quickly flow.

Change starts at the board and needs to permeate throughout the organisation. As the public face of the organisation, the board personifies its inclusivity, or lack thereof. Homogeneity in identity, thinking and experience brings significant and multiple risks to boards and the organisations they lead, including groupthink, a pressure to conform and a lack of independent thought. These risks may not be addressed sufficiently through a narrow focus on specific elements of identity diversity, such as gender or racial diversity.

This report calls on boards to prioritise diversity as a strategic imperative for their organisations and to recognise it as being a cornerstone to delivering company success. It is intended that this report will assist boards in asking challenging questions on issues related to power, identity, status quo, representation, equality, opportunity and the inherent barriers faced by certain groups within their companies and wider society. Open and honest dialogue around the board table is the best place to drive real change.

The opportunity is enormous.

There is still much to do.

Deborah Gilshan

Advisor, Investment Stewardship & ESG

Founder, The 100% Club

The Importance of Diversity and the Challenge of Groupthink



It is hardly possible to overrate the value ... of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar ... Such communication has always been, and is peculiarly in the present age, one of the primary sources of progress.

John Stuart Mill, *Principles of Political Economy* (1848)



Diversity of thought and experience

The need for cognitive and experiential diversity on a board has never been more compelling. The global protests on racial injustices have heightened the focus on fairness and disadvantage in our society and we are already seeing how the COVID-19 pandemic has amplified existing systemic inequalities.

More broadly, the pandemic has been an accelerator of trends and triggered an unprecedented period of innovation and disruption of established ways of working. Faced with unprecedented uncertainty and change, the risk of groupthink in board decision-making is high and its impact will be increasingly detrimental. As well as being self-evidently the 'right thing to do', a focus on diversity represents a systemic opportunity for boards to broaden their thinking and maximise their collective capability. The very essence of a board, and who serves as a director, is now being debated and challenged to ensure that *all* stakeholders are fairly represented and the intrinsic advantages of board diversity are realised. ¹



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.....

Boards must be clear about why they are pursuing diversity in the first place in order to optimise its impacts and benefits. This needs to go way beyond meeting targets to embrace and leverage wider cognitive and experiential diversity. Pursued authentically, diversity will drive improved board effectiveness and facilitate closer stakeholder relationships. However, if diversity is pursued from a compliance perspective, and seen simply as an exercise to meet targets, it will create more challenges than it solves and will lead to other, unintended consequences such as heightening the risk of groupthink and collective blindness.

¹ Financial Times (22 October 2020) *Change how boards work to achieve true diversity*

Targets and disclosures are important but they must lead to changes that are systemic, rather than cosmetic, in nature. At board level, appointments that are no more representative of the company's employees, customers or supplier base than the existing board members will not bring the different perspectives that are necessary to counter groupthink. If the culture does not genuinely welcome and value challenge, those new voices and perspectives will not be heard. Only through systemic change will better decisions be reached by individuals who look and think differently and whose life experiences are varied and more representative of the communities that the company serves.

Box 1 The elements of diversity

Cognitive diversity: “differences in how we interpret, reason and solve” ²

Identity diversity: “differences in race, gender, age, ethnicity, religion, physical qualities, and sexual orientation” ³

Experiential diversity: “socio-economic backgrounds, skills, experiences etc” ⁴

Diverse teams make better decisions



Diversity is talent ... It's a mathematical fact and it's an empirical fact ... Diversity actually is a form of ability. Diversity produces a bonus ... In simple terms, one plus one can equal three but only if the two ones are different. That's the bonus.

Professor Scott E. Page, Author of *The Diversity Bonus* (2017)



The structure of organisations has changed significantly over the past 20 years, evidenced by reduced hierarchy, more decentralisation and greater emphasis on the roles of teams and groups.⁵ Team performance is critical to the success of any organisation. Successful teams thrive in diverse and inclusive cultures and the cognitive repertoire of teams has to be diverse for the organisation, as a whole, to be successful. Therefore, diversity deficits have to be addressed holistically at all levels in the company.

Figure 1 Group ability and diversity

Group Ability = Average Ability + Diversity

Professor Scott E. Page, *The Diversity Bonus* (2017)

² S.E. Page (2017) *The Diversity Bonus: How Great Teams Pay Off in the Knowledge Economy*

³ *ibid.*

⁴ A.G. Haldane (2016) *The Sneetches* – speech

⁵ K.A. Jehn, G.B. Northcraft and M.A. Neale (1999) *Why Differences Make A Difference: A Field Study of Diversity, Conflict, and Performance in Workgroups*

Research into the power of diverse teams in solving complex tasks by Professor Scott Page, who specialises in economics, political science and complex systems, evidences a “*diversity bonus*” where diverse groups almost always outperform homogenous groups. The diversity bonuses deliver improved problem solving, increased innovation and more accurate predictions. Page also found that, on complex tasks, the best performing team does not need to consist of the best individuals and a diverse group that displays different perspectives outperforms a group of non-diverse and like-minded experts.⁶ Other evidence shows that diverse teams focus more on facts, process those facts more carefully and are more innovative.⁷

Boards need to be highly effective teams

As the ultimate face of the organisation, the board is perhaps the most important team in the company, being emblematic from a representation perspective and relying for its overall collective effectiveness on harnessing the individual contributions of each board member. Diversity at board level sets the tone for the whole organisation.

The crisis from COVID-19 has been a vivid reminder that companies are part of a complex and delicate stakeholder ecosystem. Broader experiential diversity has been needed to bring the different perspectives and insights needed for a board to make the right decisions in challenging times.

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Section 172 of the UK *Companies Act 2006* requires directors to have regard to a broad range of stakeholder considerations when exercising their duty to promote the success of the company. To do this effectively, they need to take into account multiple stakeholder views and opinions when making key decisions. Wider experience around the boardroom table and a culture that encourages and listens to a broader range of perspectives will drive better board decision-making.⁸

By framing diversity more broadly as a performance enhancing tool for solving complex tasks, boards can move outside a frame of reference that justifies the effort either as a compliance exercise or from a moral perspective as being ‘the right thing to do’.

Boards already understand that diversity makes business sense

“ **Ultimately, diversity contributes not just by adding different perspectives to the group but also by making it easier for individuals to say what they really think ... independence of opinion is both a crucial ingredient in collectively wise decisions and one of the hardest things to keep intact. Because diversity helps preserve that independence, it’s hard to have a collectively wise group without it.**

James Surowiecki, *The Wisdom of Crowds* (2004)

”

⁶ S.E. Page (2007) *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies*

⁷ See H. Grant and D. Rock (Harvard Business Review, 2016) *Why Diverse Teams Are Smarter*

⁸ See the IBE’s publication on Ethics and Section 172 – Key Questions for Informed Board Decision-Making

There are multiple benefits that organisations reap from harnessing diversity, including in reducing groupthink, optimising team decision-making and making organisations more representative of their stakeholder base and the communities they serve. Diversity and inclusion contribute to a company's social licence to operate. Society is not homogenous and the companies within it should not be either.

By now, these benefits should be self-evident to boards. In a 2020 survey of 693 US public company directors undertaken by PwC, the benefits of diversity were supported with 94% of directors believing it brought unique perspectives, 83% indicating it enhanced board performance, 85% considering that it improved relations with investors and 72% agreeing that board diversity enhances the performance of the company.⁹

A commitment to diversity and inclusion carries a cost. It is very easy for diversity strategies to be deferred by the need for tough decisions in challenging times, and this is especially true given the current global environment and the economic consequences ensuing from the pandemic. Achieving a diverse and inclusive culture requires a sustained commitment and a focus on longer term returns.

The challenge of groupthink

The idea of 'groupthink' has its roots in George Orwell's 1949 novel *Nineteen Eighty-Four* and the dystopian idea of 'doublethink' as identified by the social psychologist, Irving L. Janis, in the early 1970s. Janis began to develop the theory around groupthink, and, in his 1971 essay on the subject, explained that groupthink exists when "*concurrence-seeking becomes so dominant in a cohesive ingroup that it tends to override realistic appraisal of alternative courses of action.*"¹⁰

Box 2 Eight symptoms of groupthink

In his 1971 article, Groupthink, Janis also identified eight symptoms of groupthink to look out for:

- **Invulnerability:** members of the ingroup are under the illusion of invulnerability such that they are willing to take too much risk, are too optimistic and do not react appropriately to signs of dangers
- **Rationale:** members of the ingroup rationalise away warnings and other negative feedback, which might have caused them to think differently
- **Morality:** the ingroup believes it is inherently moral and does not stop to consider the ethical and moral implications of their decision
- **Stereotypes:** those with opposing views are stereotyped as evil, weak or stupid
- **Pressure:** pressure is applied to any group member who indicates a dissenting view, even momentarily
- **Self-censorship:** the importance of the group consensus stifles individual concerns and misgivings
- **Unanimity:** there is a strong illusion of the unanimity of the majority view, amplified by false assumption that silence indicates full agreement
- **Mindguards:** victims of groupthink protect fellow group members from challenging or contradictory viewpoints.

⁹ PwC (2020) *Annual Corporate Directors Survey: Turning crisis into opportunity*

¹⁰ I. L. Janis (Psychology Today Magazine, 1971) *Groupthink*

The symptoms of groupthink shown in Box 2 indicate the extent to which the sense of belonging in the ingroup is threatened by dissenting views, and the pressures to conform to the group view stifle independent perspectives. Groupthink is particularly dangerous because it can reinforce unethical behaviours within organisations by helping individuals rationalise or ignore activities that they know to be wrong.¹¹

Groupthink and board decision-making

Groupthink is founded on the flawed notion that successful decision-making requires everyone on the team to agree with each other. This is particularly dangerous in a board decision-making process. Board chairs are often quick to attest that their board is effective because everyone agrees when it could be more credibly argued that an effective board is one that does not always agree but finds a workable compromise through open, constructive debate.

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Effective decision-making is achieved when solutions and ideas are challenged and argued through to a rough consensus after debate rather than agreeing to the proposed recommendation because dissent and disagreement are discouraged. It is a concern that, in PwC’s 2020 survey of US company directors, 36% indicated that it was *“hard to voice a dissenting opinion”* and for many, the cause of this was *“the fear that dissenting opinions will damage collegiality in the boardroom”*, with 52% indicating that *“the desire to maintain a collegial atmosphere contributes to muffled dissent.”*¹²

In bringing the board to consensus on an issue, the chair plays a vital role in fostering a culture where challenge is genuinely encouraged, welcomed and valued. This is a culture of informed, considered debate, where sharing different insights from a diversity of experience around the table and the freedom to express an opinion from an independent viewpoint are the norm. Academic research indicates that *“when we hear dissent from someone who is different to us, it provokes more thought than when it comes from someone who looks like us”* such that *“diversity jolts us into cognitive action in ways that homogeneity simply does not.”* The result is that *“simply interacting with individuals who are different forces group members to prepare better, to anticipate alternative viewpoints and to expect that reaching consensus will take effort.”*¹³

Whilst it may well be harder for a board chair to bring the board to a workable consensus, that consensus will be better informed, better tested and more robust. The discussion of dissenting opinion is not inconsistent with the unitary board; rather, it should reinforce collective responsibility since every board member will have had the opportunity to shape the resulting consensus and will understand that what emerged was the best of a range of difficult options.

¹¹ See R.R. Sims (Journal of Business Ethics, 11: 651-662, 1992) *Linking Groupthink to Unethical Behaviour in Organisations*

¹² PwC (2020) Op. cit.

¹³ See K.W. Phillips (Scientific American, 311, 2014) *How Diversity Makes Us Smarter*

The new, more challenging landscape for boards

During the pandemic and looking beyond, boards face a landscape that is much more ambiguous and uncertain. Their decision-making will be harder, more nuanced and more scrutinised. Companies will be challenged more robustly to justify their approach based on their own, individual circumstances. Boards will need to spend more time thinking about alternative options and will have to justify their decisions, and why other options were considered and rejected, to a wider range of stakeholders. This includes an increasingly more forceful, active and engaged shareholder base, more engaged employees and customers and a heightened external focus on supply chains, human rights, climate risk and community relations; a company's social licence to operate has never been more important. There is debate about the emergence of a new type of capitalism that is multi-stakeholder focused and combines profit with purpose rather than the pursuit of profit at any cost to society, with some suggesting that the proper purpose of business is to find profitable solutions to the problems of the planet.¹⁴

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The collective skill sets of a board will need to change and adapt to all of this. Even before COVID-19, there was already concern from some board directors that boards did not have the appropriate collective skill set. KPMG's 2018 survey of more than 2,300 directors and senior executives in 46 countries found that only 36% were “satisfied” and 49% were “somewhat satisfied” that their board had the right combination of skill sets, backgrounds, experiences and perspectives to probe management's strategic assumptions and help the company navigate an increasingly volatile and fast-paced global environment.¹⁵ The multidimensional impact of the COVID-19 pandemic has added to the urgent need to have a broader range of expertise on boards to address global health issues and future pandemics and in dealing with existing systemic risks such as climate change and other emerging issues.^{16 17} All of these considerations will have to be factored into board succession plans.

¹⁴ The British Academy's *The Future of the Corporation* programme <https://www.thebritishacademy.ac.uk/programmes/future-of-the-corporation/about/>

¹⁵ KPMG's Board Leadership Center (2018) *Building a great board: Global pulse survey*

¹⁶ Financial Times (17 August 2020) *Boards urged to appoint health experts*

¹⁷ International Corporate Governance Network (2020) *The Board of Directors & Climate Change*. See also the *Board Toolkit* at Chapter Zero: The Directors' Climate Forum at <https://www.chapterzero.org.uk/>

Gender Diversity – what has been done so far?



Whenever data reveals a disparity of outcome between groups, the challenge to those in power should be – explain it or change it. There can be no good explanation for the massive underrepresentation of women at the top of British business – so it must change.

Rt Hon Theresa May MP, Foreword to *Women Count* (2020)



Since 2010, there has been a sustained effort in the UK to improve gender diversity at board level, within senior management teams and across workforces. The UK's approach has been powerful because it has been multi-stakeholder, involving government initiatives, pressure from the public, the media and investors and responses from the business community, collectively and unilaterally. It has taken a holistic and systemic approach to address the root causes of the under-representation of women. The UK is an important case study in exploring the multiple drivers of change and how their success is measured.

It is important to note that greater gender diversity on boards is still relatively new. The more data, evidence and information that emerge, the better an understanding there will be of the full impact of women on boards and in the workplace, as well as the barriers that remain. Board-level discussions on gender diversity have also served as an important segue into a wider conversation about barriers to progress for all marginalised groups and what stifles progress towards a more inclusive corporate culture.

Why start with gender?

First, and most obviously, women represent approximately 50% of the population. It is quite staggering that it took so long to identify the lack of representation from half of the world's population in so much of society and on corporate boards. Secondly, there was increasing evidence that companies with stronger female representation on boards and at senior management level performed better.¹⁸ Thirdly, it was becoming visible that there was a particularly chronic lack of female representation on UK boards and studies began to emerge identifying this imbalance.¹⁹ Fourthly, gender representation is more easily measurable and comparable than some other dimensions of diversity and most companies had data to use as a starting point to measure progress.

Key developments in the UK

In 2010, an independent review into women on boards was launched by the UK Government's Department for Business, Innovation and Skills and led by Lord Davies of Abersoch (the '*Davies Review*'). The first report of the *Davies Review* published in 2011 noted that women represented 12.5% of the boards of FTSE100 companies, an increase from 9.4% in 2004, and that the rate of increase was too slow.

¹⁸ McKinsey & Company (2007) *Women Matter: Gender Diversity, a corporate performance driver*. See also L. Joy, N. M. Carter, H.M. Wagener and S. Narayanan (2007) *Corporate Performance and Women's Representation on Boards*

¹⁹ The Co-operative Asset Management in conjunction with The Observer (2009) *Diversity and Gender Balance in Britain plc*

It also referred to a 2008 report from the Equality and Human Rights Commission which suggested that “*at the current rate of change it will take more than 70 years to achieve gender-balanced boardrooms in the UK’s largest 100 companies.*”²⁰

The *Davies Review* saw the business case for gender diversity as four-fold:

- (i) improving performance
- (ii) accessing the widest talent pool
- (iii) being more responsive to the market
- (iv) achieving better corporate governance.

It recommended a “*business-led approach*” rather than the introduction of quotas, but stated that FTSE100 boards should aim for a minimum of 25% female representation by 2015. It also recommended that all quoted companies should disclose annually the proportion of women on their board, women in senior executive positions and female employees across the whole organisation. Listed companies were encouraged to establish a policy concerning boardroom diversity and to report annually on progress made in achieving the objectives. Board chairs were encouraged to disclose meaningful information about the company’s appointment process and to consider a wider range of potential female board candidates from within the corporate sector and from outside the corporate mainstream. A voluntary code of conduct, addressing gender diversity and best practice, was developed for executive search firms. This multi-stakeholder approach across companies, their boards and their recruitment processes was key to achieving progress.

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improve*

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The second major initiative to increase female gender representation at board level was the *Hampton-Alexander Review*, introduced in 2016. Chaired by Sir Philip Hampton and with the late Dame Helen Alexander as Deputy Chair, it extended its scope to improve female representation in leadership positions of FTSE350 companies, targeting executive committees and the direct reports of those committees. A new target of 33% female representation by 2020 was introduced for FTSE350 boards and a target of 33% female representation across the executive committees of FTSE100 companies and their direct reports by 2020 was introduced (later extended to the FTSE250).²¹ The review also identified a need for more female board chairs, senior independent directors and executive directors, particularly for FTSE350 companies.

One of the most effective features of the annual publication of the *Hampton-Alexander Reviews* is the ranking of companies across the FTSE350 cohort of companies and the ability to benchmark against peers. The public identification of leaders and laggards has created further pressure on laggards to improve and has showcased companies demonstrating progression and best practice.

²⁰ Davies Review (2011) *Women on Boards*

²¹ Hampton-Alexander Review (2016) *Improving gender balance in FTSE Leadership*

Other levers of change

30% Club

In addition to Government initiatives, other bodies have also been effective at advocating and delivering change. For example, the 30% Club was established by Dame Helena Morrissey in 2010, and the global mission is “to reach at least 30% representation of all women on all boards and C-suites globally.”²² This target was reached for FTSE100 boards in 2018 and for FTSE350 boards in 2019. In July 2020, the 30% Club extended its targets to 2023 and included targets for improving racial and ethnic diversity on boards.²³

Engaging male leaders

Galvanising the support of male leaders to promote gender balance and champion wider inclusion has been fundamental to achieving change. As at September 2020, the 30% Club had 35 FTSE350 chairs and 63 FTSE350 CEOs publicly committed to achieving 30% gender balance on their boards and in their senior management teams by the end of 2020. This public commitment is important for both external and internal stakeholders such as employees.

The power of investor capital

Shareholder pressure is a powerful lever of change. The revised *UK Stewardship Code 2020* reinforces the impact of targets and disclosure obligations by strengthening the expectation that diversity is a priority in terms of how investors engage as long-term stewards of capital.²⁴

The *Davies Review* identified the “critical role” that investors have in realising improved board diversity and the *Hampton-Alexander Review* introduced three specific recommendations for investors:

- **Governance:** progress on board gender balance and in leadership positions should be “assessed as a key corporate governance issue when considering [investors’] responsibilities under the UK Stewardship Code.”
- **Policy on gender balance:** “all institutional investors should have a clear process in place for evaluating disclosures and progress on gender balance” by investee companies and “a clear voting policy on gender balance which could include voting against the re-election of Chairs, Nominations Committee Chairs and the Annual Report and Accounts, where insufficient measures are in place in investee companies to address gender balance.”
- **Communication:** investors “should discuss and engage with investee companies on gender balance” and “publicly disclose their voting records.”²⁵

In recognition of the critical role that investors play in achieving progress, the 30% Club UK Investor Group was created in 2011 and has since grown to a collaboration of 39 investor members across pension funds, fund managers and charity investors, with £11 trillion collectively in assets under management. This is a strong and important market signal to the entire UK market, and globally, about how important diversity is to long-term investors. There are also equivalent investor groups in Australia, Brazil, France, Canada and Japan.²⁶

²² <https://30percentclub.org/about/who-we-are>

²³ 30% Club (1 July 2020) *Ten Years On: 30% Club sets new targets*

²⁴ Financial Reporting Council (2020) *UK Stewardship Code 2020*

²⁵ Davies Review (2011) Op. cit.

²⁶ <https://30percentclub.org/initiatives/investor-group>

One of the most effective features of the 30% Club's Investor Group has been the *Statement of Intent*, launched in October 2016, which is a public commitment by the investor members to “signal the collective voice ... to companies and the wider marketplace, and to demonstrate the ways in which their members will use their ownership rights and undertake stewardship to encourage progress on gender diversity.” The statement indicates that investors will applaud exemplars of best practice as well as pressuring laggards.²⁷

The Investment Association, the trade body and industry voice for UK investment managers, which represents 250 investor members with over £7.7 trillion invested globally, has also used its collective voice to signal the importance of diversity for institutional investors and the underlying beneficiaries they represent.

Many other investors are also now focusing on diversity and inclusion as a key priority, including activist shareholders and global pension funds. This is discussed in more detail in Chapter 4. There is also recognition that the financial services industry is not that diverse and there are key initiatives now underway that seek to address this.²⁸

“.....
The Investment Association has used its collective voice to signal the importance of diversity for institutional investors
.....

Reporting requirements as a driver of change

UK Corporate Governance Code

Since 2012, the *UK Corporate Governance Code* has asked companies to report on their board diversity policy.²⁹

Box 3 2012 UK Corporate Governance Code, Provision B.2.4

Provision B.2.4

A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. This section should include a description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.

Analysis by the Financial Reporting Council indicated that, in 2012, 56% of FTSE100 companies had a board diversity policy and all of these policies focused on gender; by 2018, 98% of FTSE100 and 88% of FTSE250 companies had a board diversity policy and approximately one third of these referred to ethnicity and gender. However, the research also found that just 15% of FTSE100 companies reported against all of the measures required by the Code at the time.³⁰

²⁷ 30% Club Investor Group (March 2020) *Statement of Intent*

²⁸ See, for example, The Diversity Project, Women in Finance Charter and 100blackinterns

²⁹ Financial Reporting Council (2012) *UK Corporate Governance Code*

³⁰ Financial Reporting Council (2018) *Board Diversity Reporting*

The Code was updated in 2018 and now states: “Companies do not exist in isolation. Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. To succeed in the long-term, directors and the companies they lead need to build and maintain successful relationships with a wide range of stakeholders. These relationships will be successful and enduring if they are based on respect, trust and mutual benefit. Accordingly, a company’s culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders.”³¹

The areas in Box 4 present key agenda points for engagement by investors and boards should ensure that their executives are delivering on these expectations.

Box 4 Principles and provisions of the 2018 UK Corporate Governance Code relating to diversity

Principle J: “Both board appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.”

Principle L: “Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives.”

Provision 23 related to these Principles states: “The annual report should describe the work of the nomination committee, including:

- the process used in relation to appointments, its approach to succession planning and how both support developing a diverse pipeline;
- the policy on diversity and inclusion, its objectives and linkage to company strategy, how it has been implemented and progress on achieving the objectives; and
- the gender balance of those in the senior management and their direct reports.”

Strategic Report

The *Strategic Report* was introduced under the *Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013*. This includes a requirement for reporting entities to disclose diversity information.³²

Gender pay gap reporting

Gender pay gap reporting has exposed the lack of female representation at the upper echelons of major companies. Introduced in 2017, the legislation requires all employers with over 250 employees in England, Wales or Scotland to publish figures comparing the average pay of male and female employees across the organisation and other key statistics as well as accompanying narrative on how to interpret them.³³ Some companies complain that the reporting is burdensome and there has been some resulting confusion between a pay ‘gap’ and equal pay for women. More positively, the exercise has offered some excellent insights in terms of the mandatory data points and the voluntary narratives that have accompanied data disclosures.

³¹ Financial Reporting Council (2018) *UK Corporate Governance Code 2018*

³² See Financial Reporting Council (2018) *Guidance on the Strategic Report*

³³ *The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017* – applying to private and voluntary-sector organisations with 250 or more employees and *The Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017* – applying to public bodies with 250 or more employees

Disclosure of these pay figures by gender and the narrative explanation which accompanies them enables investors, employees and other stakeholders to understand more about the type of roles that are performed by different genders and the seniority of those roles. Stakeholders are then able to assess the strengths and weaknesses of diversity and inclusion initiatives by cohort or by department and understand which specific initiatives may help companies improve.

“

Gender pay gap reporting has exposed the lack of female representation at the upper echelons of major companies

.....

Many UK companies are reporting their gender pay gap information as part of their annual reporting cycle in addition to disclosing via the UK Government portal.³⁴ The most effective examples of reporting are disclosures that go beyond the numbers, examine drivers of the pay gap identified and set out holistic initiatives to remedy it over a multi-year timeframe. Gender pay gap reporting has encouraged many companies to link UN Sustainable Development Goal 5 – gender equality and empowering women and girls – into their strategic objectives.

Many companies report that their boards have analysed and discussed the implications of gender pay gap reporting. The disclosures have led to important conversations about the barriers that exist for women and other marginalised groups within organisations; these data points are being taken as a proxy for corporate culture more generally, and are often proving uncomfortable reading for boards, CEOs and other senior leaders and all employees, not just female employees. Companies that have found the gender pay gap reporting process burdensome and not that insightful should reflect on this, as they risk making the same blunders in their approach to ethnic pay gap reporting should this be introduced.

The role of executive search firms

The role that executive search firms play is critical in progressing diversity at the upper echelons of companies, both in the boardroom and at executive committee level. The *Davies Review* recommended in 2011 that companies adopt a voluntary code of conduct that would address gender diversity and best practice in search criteria and processes for FTSE350 board level appointments.³⁵

Research commissioned by the Equalities and Human Rights Commission in 2012 examined the appointment process for corporate boards, including how it operated in practice and the role of executive search firms. It found that “*the Board appointment process remains opaque and subjective, and typically driven by a corporate elite of predominantly male Chairmen who tend to favour those with similar characteristics to themselves.*” A key set of recommendations were compiled to address this systemic problem in nominations processes and to highlight how executive search firms and other stakeholders could help drive a more diverse candidate list from which nominations could be chosen. Key focus areas included increased transparency around best practice initiatives on gender diversity at search firms, greater attention given to interviewing practices and induction/onboarding processes being gender-inclusive.³⁶

³⁴ <https://www.gov.uk/report-gender-pay-gap-data>

³⁵ Davies Review (2011) Op. cit.

³⁶ E. Doldor, S. Vinnicombe, M. Gaughan and R. Sealy (2012) *Gender Diversity on Boards: The Appointment Process and the Role of Executive Search Firms*

In July 2014, the *Standard Voluntary Code of Conduct for Executive Search Firms* was adopted and has now been signed by over 50 UK search firms.³⁷ This was a collaborative effort across executive search firms and in September 2014, was supplemented with an accreditation process for search firms at the forefront of helping boards to enhance their gender diversity.³⁸

Other actors in the investment chain

The impact of the drive for better diversity on boards has been felt in other parts of the investment chain. A welcome example is the announcement from Goldman Sachs in January 2020 that they will require diversity on the boards of the companies they advise which are seeking to float on public stock markets.³⁹

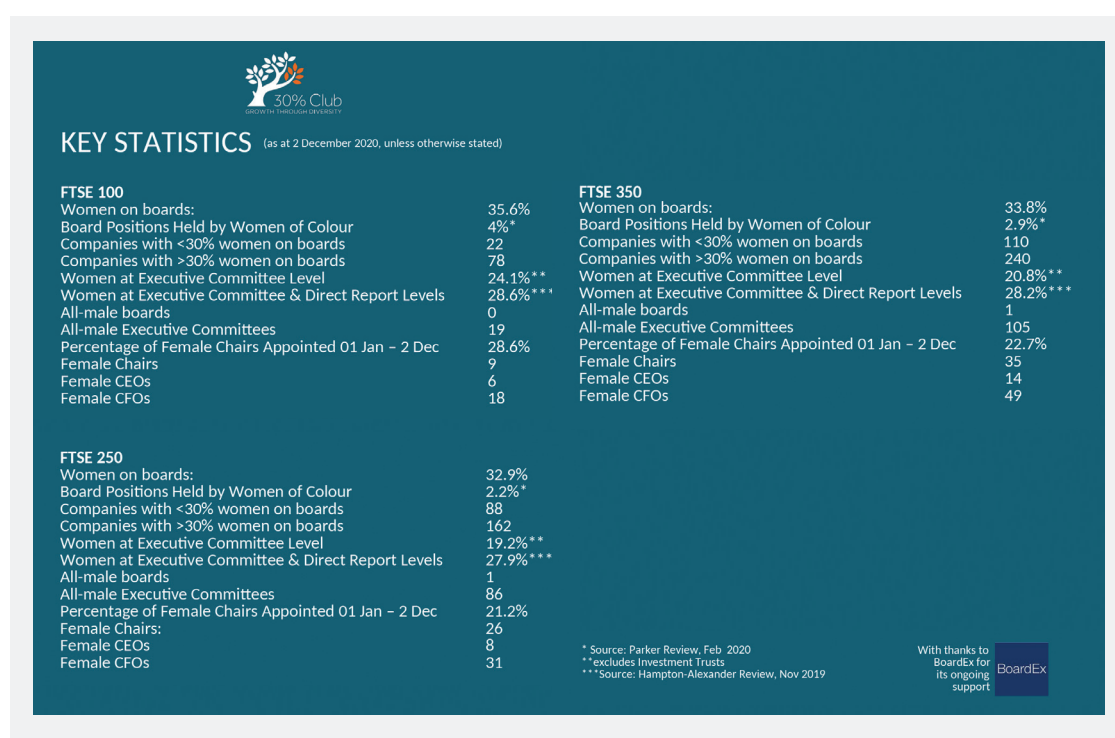
The media and academia

The media have played a vital and effective role in promoting investor initiatives, calling on investors to do more, showcasing companies that are progressive and spotlighting laggard companies. Academic research has also played a key role in providing data and insights into the state of play, areas of progress and where focus needs to be directed.

What has been achieved?

Figure 2 shows the progress in terms of gender representation on the boards of FTSE350 companies as reported by the 30% Club and BoardEx as at 2nd December 2020.

Figure 2 FTSE 350 progress on gender representation



³⁷ See <https://www.gov.uk/government/publications/standard-voluntary-code-of-conduct-executive-search-firms>

³⁸ See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/355900/bis-14-1075-the-enhanced-voluntary-code-of-conduct-for-executive-search-firms-accreditation.pdf

³⁹ Forbes (23 January 2020) *Goldman Sachs Won't Take Companies Public If They Have All-Male Corporate Boards*

One-third target for female board representation met

The UK Government announced in September 2020 that the FTSE350 cohort of companies had met the one-third target set by the *Hampton-Alexander Review* with more than a third of board members across the FTSE350 being women.⁴⁰

All male boards

As at 2nd December 2020, from Figure 2, the FTSE350 had only one company where the board had no female representation. This is a reduction from 152 all-male boards in 2011.⁴¹

Where are the biggest gaps?

‘One & done’ boards and all-male executive committees

“.....
Representation
of women in
the executive
committees
of FTSE350
companies is
poor
.....”

In March 2020, the *Hampton-Alexander Review* and the Investment Association identified 63 companies that needed to do more in terms of improving the gender balance in their leadership teams to meet the target of a minimum of 33% women on their board and in their senior leadership teams by the end of 2020.⁴² In the FTSE250, 24 companies were cautioned for having only one woman on their boards as well as 35 FTSE350 companies with all male-executive committees. In addition, there were four FTSE250 companies that had an all-male executive committee and only one woman on their board. The *Hampton-Alexander Review* considers that ‘one & done’ boards “are now seen as tokenistic in their approach to gender equality.”⁴³ According to their data in October 2020, there were 16 such boards in the FTSE350.⁴⁴

Lack of sufficient female representation in leadership roles

There is still not sufficient representation of women amongst chairs and CEOs of FTSE350 companies. Per Figure 2, as of 2nd December 2020, there were 35 female chairs in the FTSE350, 14 female CEOs and 49 female chief financial officers. In addition, representation of women in the executive committees of FTSE350 companies is also poor with 105 companies having all-male executive committees.

⁴⁰ UK Government press release (22 September 2020) *Women make up more than a third of all board members across the FTSE 350 for the first time*

⁴¹ *ibid.*

⁴² Hampton-Alexander Review and The Investment Association press release (29 February 2020) *One fifth of FTSE 350 companies cautioned for lack of gender diversity at senior leadership levels*

⁴³ Hampton-Alexander Review LinkedIn post (October 2020) *FTSE 350 one & done boards*

⁴⁴ Hampton-Alexander Review (October 2020) *FTSE 350 Companies still with one & done boards*

Smaller companies

The focus on gender diversity has been predominantly at larger companies.⁴⁵ In the UK, focus is now switching to smaller companies in the FTSE Small Cap sector and on the Alternative Investment Market.

Research from Company Matters at Link Group indicated that there is much work to do as:

- only 15% of directors in AIM UK 50 companies are women
- only 5% of executive directors in the FTSE Small Cap 100 index are women
- 42% of AIM UK 50 and 8% of the FTSE Small Cap 100 do not mention board diversity in their annual report.⁴⁶

Going beyond initial targets

The percentage targets set for female board representation are often still seen as the end game rather than the minimum threshold for boards to begin to benefit from the impact of more women on the board and in senior management teams. Meeting aspirational targets is an important part of achieving progress but now we are at a point where some of these initial targets are being achieved. This is the end of the beginning, not the beginning of the end, in terms of the push for long-term systemic change and achieving authentic diversity and inclusion.

As Denise Wilson-White, CEO of the *Hampton-Alexander Review* observed: “I think 33% is a very good start, but as we can see, we have a lot further to go before we see a good gender balance in the leadership of British business.” She also noted that some board chairs had concerns about improving board gender diversity in 2011 but now admit that “the debate is richer, the decision-making is more robust and the boardroom is a much better, more productive, progressive environment for having women around the table.”⁴⁷

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This is the
end of the
beginning, not
the beginning
of the end
.....

⁴⁵ Anne-Marie Vettorel (Investment Executive, 2020) *Where's the gender diversity on smaller boards?*

⁴⁶ Company Matters at Link Group (2020) *Board diversity in AIM and FTSE Small Cap companies*

⁴⁷ The Times (8 February 2020) *Targets for women on boards hit a year early, says Hampton-Alexander Review*

Has the Focus on Gender Diversity Delivered on its Full Potential?

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If male and female board members are fairly similar in their values, experience, and knowledge, the addition of women to an all-male board may not increase the board's cognitive variety as one might expect at first blush.

Professor Katherine Klein, *Does Gender Diversity on Boards Really Boost Company Performance* (2017)

”

“

.....
The opportunity to tap into a broader reservoir of cognitive and experiential diversity has not yet been maximised
.....

The last chapter showed how the immense effort that has been made to encourage gender diversity on boards has driven some significant, measurable improvements. But has that yet led to change that is truly systemic?

The sustained focus and effort in the UK over the last decade or so to increase female representation at the upper echelons of organisations, both on boards and in executive committees, has been a success as there can be no doubt that there has been an irreversible shift in the gender balance of corporate boards globally. Pressure will only continue. But it is a qualified success so far, and the opportunity to tap into a broader reservoir of cognitive and experiential diversity has not yet been maximised. This has as much to do with the approach by companies, which has often been driven from a compliance perspective, as it is to do with the fact that gender, as a discrete factor of identity diversity, cannot deliver all of the benefits of diverse thinking.

Gender diversity: the business case

The traditional business case for justifying diversity focuses on how corporate performance can be enhanced. Both Credit Suisse and McKinsey & Company have undertaken extensive research investigating the impact of diversity on corporate financial performance. Credit Suisse's research indicates a link between gender diversity and superior company performance; their 2019 report focused on family owned companies and found outperformance of companies with at least 10% female executives compares to male only companies by around 4.1% per year since 2014. There were also stronger financial indicators for companies with substantial female representation.⁴⁸ McKinsey & Company's body of research covers gender, ethnic and cultural diversity and their 2020 report indicates that “*the business case for inclusion and diversity is stronger than ever*” with evidence demonstrating outperformance across a range of financial measures for companies with higher female representation and higher ethnic representation in executive teams.

⁴⁸ Credit Suisse Research Institute (2019) *The CS Gender 3000 in 2019: The changing face of companies*. See also Credit Suisse Research Institute (2016) *The CS Gender 3000: The Reward for Change* and Credit Suisse Research Institute (2014) *The CS Gender 3000: Women in Senior Management*

The research also evidences that there was a higher likelihood of outperformance with ethnicity than with gender and identifies the “*widening gap between winners and laggards*” resulting in “*an increased likelihood of a performance penalty*.” The report cautions that progress overall remains slow and recommends a number of “*bold actions*” to ensure a systemic, business-led approach to inclusion and diversity, including strengthening leadership accountability and greater support for multivariate diversity.⁴⁹

The ethical dimensions of the business case



We should reflect on how seeking evidence of a business case for diversity reifies the status quo and legitimates the idea that some people belong and some people deserve to be included in organisations, while other people have to go above and beyond to prove their worth. The questions we ask about diversity have power. They have underlying assumptions that often go unspoken.

Professor Katherine W. Phillips, *What is the Real Value of Diversity in Organizations?* (2017)⁵⁰



Boards should reflect on the ethical dimensions of a singular focus on the business case. Seeking evidence of corporate outperformance inherently implies that the status quo is optimal and that any change to the current structures of boards, to include under-represented groups that bring diverse and different perspectives, requires a diversity financial dividend. Such evidence increasingly exists but should not be necessary to justify pursuing strategies that improve diversity, incorporate different perspectives and increase representation of marginalised groups. Professor Scott Page observes that pursuing diversity strategies is often presented as a choice: “*We can be excellent, or we can be diverse*.”⁵¹ By presenting diversity as a binary choice rather than a blended opportunity, we risk missing the fundamental value of diversity and the importance of prioritising its pursuit. Boards and companies need to look beyond the short-term impacts on the bottom line and think much longer term about the impacts that diversity and inclusion can deliver.



.....
Boards need to think much longer term about the impacts that diversity and inclusion can deliver
.....

Evidence of other benefits

Oversight of mergers and acquisitions

In terms of risk oversight, an academic study in 2013 examined whether board gender diversity impacted the oversight of mergers and acquisitions. It found that companies with more female directors tended to be more realistic about potential merger gains and offered lower bid premiums.⁵²

⁴⁹ McKinsey & Company (2020) *Diversity wins: How inclusion matters*. See also McKinsey & Company (2018) *Delivering through Diversity* and McKinsey & Company (2015) *Why Diversity Matters*

⁵⁰ K.W. Phillips (2017) in S.E. Page (2017) *The Diversity Bonus: How Great Teams Pay Off in the Knowledge Economy*

⁵¹ S.E. Page (2017) YouTube video – *Diversity creates bonuses. It's not just a nice thing to do*

⁵² M. Levi, K. Li and F. Zhang (2013) *Director gender and mergers and acquisitions*

Keeping the confidence of CEOs in check

Another dynamic of gender diversity on boards is that female directors can have a moderating impact on an over-confident CEO. An academic study in 2019 found that male CEOs at companies with more female directors tended to exhibit less overconfidence as they hold fewer deep-in-the-money-options. The research also found that female directors are associated with less aggressive investment policies, better acquisition decisions and improved financial performance.⁵³

Improving the sustainability profile of a company and board governance

Diversity can help boards better manage the material sources of risk and opportunity that relate to the sustainability profile of the company and can also improve board governance dynamics. The Credit Suisse research referred to above showed that where there is a greater share of women in leadership roles, there is a greater focus on sustainability, environmental, social and governance (ESG) factors and the UN Sustainable Development Goals. A 2018 academic literature review from the International Finance Corporation examined the link between a higher level of women on boards and in senior management to the performance of the company overall and against ESG factors. This research found that having more women in business leadership positions leads to higher ESG standards (with a particularly clear connection when women comprise a critical mass of about 30% of the board), enhanced ESG standards on critical metrics such as internal controls and management oversight, reduced risk of fraud or other ethical violations, positive workplace environments, greater stakeholder engagement and improved reputation and brand.⁵⁴

The review also referenced a number of other academic studies across the individual components of ESG showing the link between greater gender diversity and improved environmental performance, improved social performance and better corporate governance. This concurs with an earlier academic study from 2008 which found evidence of enhanced board governance through improved gender diversity, including better attendance records by female directors and executive compensation schemes which were better aligned to shareholder interests.⁵⁵

Leveraging gender differences in leadership

Women bring distinct skills to the workplace, including improved collaboration and a different style of leadership, which are highly useful at a time where leadership models are changing dramatically as business starts to prepare for post-pandemic norms. Lockdown and a prolonged period of working remotely have also placed a premium on empathetic leadership.

An academic study of male and female CEOs found that women tend to adopt a more “*transformational*” style of leadership, including serving as a role model, and where emphasis is placed on human relationships, a positive teamwork environment and supporting self-development of employees, whereas male leaders tend to be more “*transactional*”, where motivation of others is based on reward and punishment.⁵⁶ These are generalisations and not norms of every female and male leader, but the results are significant because they are important indicators of some of the female leadership traits organisations could benefit from.

⁵³ J. Chen, W.S. Leung, W. Song and M. Goergen (2019) *Why female board representation matters: The role of female directors in reducing male CEO overconfidence*

⁵⁴ A. Di Miceli and A. Donaggio (2018) *Women in Business Leadership Boost ESG Performance: Existing Body of Evidence Makes Compelling Case*

⁵⁵ R.B. Adams and D. Ferreira (2008) *Women in the Boardroom and Their Impact on Governance and Performance*

⁵⁶ A. Athanasopoulou, A. Moss-Cowan, M. Smets and T. Morris (2017) *Claiming the corner office: Female CEO careers and implications for leadership development*

This issue has played out through the COVID-19 pandemic. An August 2020 report from the University of Liverpool and the University of Reading analysed the impact of female leaders in the responses by countries to the pandemic. Of 194 countries analysed, 19 had female leaders and the research found that female-led countries had “*systemically and significantly better*” COVID-19 outcomes with fewer cases and significantly fewer deaths and that these countries locked down earlier and the strategy was better communicated.⁵⁷ Whilst this is only one report over a very short time frame, gender differences in leadership traits is an important area of research and needs to be better understood if organisations are to fully harness and benefit from those differences.

Improvement has not been seen consistently

There has been wide-ranging academic research over many years exploring a link between improving board gender diversity and financial performance. Two important meta-studies in this area from 2015 analysed the academic evidence:

- *Women on boards and firm financial performance: A meta-analysis* analysed 140 studies covering 90,000 companies from more than 30 countries. It found that companies with more female directors had slightly higher accounting returns but showed no improvement in share price performance or shareholder returns.⁵⁸
- *Does Gender Matter? Female representation on Corporate Boards and Firm Financial Performance – A Meta-Analysis* analysed 20 studies covering over 3,000 companies and similarly tested the relationship between board gender diversity and company financial performance. It found that the average correlation was small and not statistically significant.⁵⁹

The conclusions of these studies are very similar. Katherine Klein, Professor of Management at Wharton Business School, analysed these studies and concluded: “*In sum, the research results suggest that there is no business case for – or against – appointing women to corporate boards. Women should be appointed for reasons of gender equality, but not because gender diversity on boards leads to improvements in company performance.*”⁶⁰

A further meta-analysis from 2017 studied 146 primary studies in 33 countries and found that female representation in the upper echelons of companies was:

- positively (and weakly) related to forms of long-term financial performance
- negatively (and weakly) related to short-term stock market returns.

Furthermore, it suggested that reduced strategic risk-taking explained why financial performance was improved.⁶¹

⁵⁷ S. Garikipati and U. Kambhampati (2020) *Leading the Fight Against the Pandemic: Does Gender ‘Really’ Matter?*

⁵⁸ C. Post and K. Byron (2015) *Women on boards and firm financial performance: A meta-analysis*

⁵⁹ J.L. Pletzer, R. Nikolova, K.K. Kedzior and S.V. Voelpel, (2015) *Does Gender Matter? Female representation on Corporate Boards and Firm Financial Performance – A Meta-Analysis*

⁶⁰ K. Klein (2017) Op. cit. For a more detailed critique of the business case literature, see A. Edmans (2019) *The Business Case for Diversity: A Critical Look at the Evidence*

⁶¹ S.H. Jeong and D.A. Harrison (2017) *Glass Breaking, Strategy Making and Value Creating: Meta-Analytic Outcomes of Women as CEOs and TMT members*

Simply meeting diversity targets is not enough

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New board members need to have different life experiences and ways of thinking than those they are replacing

.....

In the search for talent, it was illogical and short-sighted to exclude 50% of the population, but a drive for gender equality alone is not enough to realise the business benefits of diversity. Research indicates that, in order to improve board effectiveness through increasing gender diversity, it needs to be undertaken authentically, with boards committed to harnessing the benefits of diversity, rather than simply in response to regulatory pressure or other external interventions.⁶² New board members need to have different life experiences and ways of thinking than those they are replacing. Simply appointing new directors from the same and existing pool of director talent will not suffice.

A more challenging response to the findings of the meta studies is to question whether the methods for selecting and appointing female candidates has brought to the boardroom the cognitive and experiential diversity that is needed and whether it has allowed that diversity of perspective to be freely expressed and reflected in improved board decision-making.

Much of the academic research described above provides encouragement that gender diversity has improved the boardroom dynamic and gives some insight into the scale of the opportunity. The academic and practitioner literature examining the influence of women on boards is rich and growing and will continue to grow as time passes and as more data emerges of the experience of corporate boards from the impact of increased female representation. For example, a study from earlier in 2020 analysed 12 years' worth of performance data across the FTSE100 cohort of companies since 2005, and specifically looked at trends in the three years after a female director was appointed. The study found a “*positive and significant relationship*” between gender diversity and firm performance and that the impact became “*highly significant and unequivocal*” when there are three or more female directors appointed to the board compared to the appointment of two or fewer females.⁶³ Significantly, the time period analysed is beginning to include a period of time when some of the sustained effort to increase gender diversity in the UK had begun (i.e. from 2010 onwards).

It is readily acknowledged that the evidence presented here, and in Chapter 2, is only a selection and not exhaustive, and that there should be appropriate caution in inferring causation from correlation. Nevertheless, the body of evidence in this area continues to grow and it is generally accepted that companies that have boards, executive leadership teams and a workforce that is more representative of the society that they are part of are stronger, more resilient and better placed to outperform. Greater visibility of diverse leaders is also a vital tool in managing the company's relationships with its wider stakeholders. These relationships are key to the reputational capital of a company, its social licence to operate and to how trusted it is.

⁶² A. S. Wahid (2011) *Director heterogeneity and its impact on board effectiveness*

⁶³ S. Brahma, C. Nwafor and A. Boateng (2020) *Board gender diversity and firm performance: the UK evidence*

Roles matter – providing clout for women on boards

Another academic study in 2018 introduced the concept of ‘substantive’ gender diversity.⁶⁴ The research highlighted that it is not only the percentage of women on a board that matters but it is also about the role that female directors are given and whether they participate in key committees. The ‘clout’ of female directors is as important as their number.

It also found that whilst the pool of female directors is smaller, they serve on more boards and for a shorter period of time relative to their male counterparts. This raises questions as to whether the pool of female talent is growing as it should or if the same female directors are being placed on numerous boards.

“

*The ‘clout’ of
female directors
is as important
as their number*

.....”

Data from June 2020 indicates that amongst the FTSE100 cohort of companies female board chairs increased from five in 2019 to eight in 2020 and, despite a significant increase in the number of board committees from 2019 to 2020 (295 to 393), the percentage of women as committee chairs fell from 31% to 29%. The most common committees for women to chair are remuneration (49) followed by audit/risk (29).⁶⁵ As at 2nd September 2020, 57% of the chairs of remuneration committees in the FTSE350 were female and in the FTSE All-Share, 52% were female.⁶⁶

It is clear from this data that female directors are still not leading boards or their committees, except the remuneration committee. Are they being allocated that role because of a gender-based skillset (perhaps because women are felt to be better at challenging other directors without coming across as challenging)? Or their background experience (many are HR professionals or lawyers)? Or is there a more worrying conclusion that the role is seen as technical and time-consuming but somehow ‘safe’? The role of the remuneration committee chair is often a front-line role, requiring a variety of skills including diplomacy, technical knowledge, emotional intelligence and negotiation, and involves engagement with many of the company’s stakeholders (shareholders, management, employees, media, other board members, and, in some cases, parliamentarians). Remuneration can be very impactful on a company’s reputation. Given there is still only a small number of women on corporate boards, why do they tend to be given this role?

By contrast, there is a low number of female board chairs at FTSE350 companies: 35 as at 2nd December 2020 (see Figure 2). Given the various responsibilities of the role of the remuneration committee chair, one might expect that this role would be a good training ground for the role of board chair. If this cohort of female directors does not become board chairs now or in the future, we should ask why.

A recent study of the composition of the nominations committees of FTSE100 companies focusing on diversity across gender, age and nationality found that nine companies have no women on their nomination committees.⁶⁷ If the gender make-up of the committee that actually decides who is appointed to boards has an added layer of homogeneity risk in its decision-making, this will only compound the problem.

⁶⁴ Y.G. Nili (2018) *Beyond the Numbers: Substantive Gender Diversity in Boardrooms*

⁶⁵ S. Vinnicombe, E. Doldor, V. Battista and M. Tessaro (2020) *The Female FTSE Board Report 2020: Taking Targets Seriously*

⁶⁶ Information provided by BoardEx to the author (September 2020)

⁶⁷ KPMG Board Leadership Centre and Ridgeway Partners (June 2020) *Nominations Committees: Membership diversity*

It is also important to challenge why the irreversible change in gender representation at corporate board level has not translated into a material increase in the number of female executives at the most senior level of organisations. A recent report on global gender diversity found that *“there remains a significant difference between the ratios achieved at executive and non-executive levels”* and suggested that *“women are more likely to be found in oversight roles rather than positions that exert more direct power or command significant resources.”*⁶⁸ Women need to be appointed to positions of greater power on executive teams and on boards, especially if companies are to harness gender differences in leadership traits.

There is also the risk of alienating the dominant group in seeking to address barriers faced by marginalised groups. For example, improving gender diversity is frequently couched in terms of what gets taken away from men and what men need to ‘give up’ rather than focusing on what women bring to the workplace and how companies harness female leadership traits.

⁶⁸ BoardEx, Quoted Companies Alliance and Sainty, Hird & Partners (June 2020) *Global Gender Diversity Report*

Inclusion Requires a Genuine Commitment to Change



Diversity generates a wider positive social externality, helping the collective far exceed the sum of its individual parts. Diversity is synergy. This has been found at almost every scale of social grouping, from small communities and organisations, to large economies and nation states.

Andrew Haldane, *The Sneetches* – speech (2016)



A focus on gender imbalances on boards and in senior leadership teams has segued into a debate about diversity and inclusion more generally and addressing the barriers that exist in companies, and in societies, for all marginalised groups. The challenges and barriers may be different in their origins but are at least as high.

This is only being accelerated by the pandemic and an economy transformed by it will demand broader thinking and wider experience at the top and throughout organisations. Successful teams rely on diversity, collaboration and inclusive cultures. Employees increasingly want to work for a company whose values they recognise and share and are much more likely to bring their true selves to work and release more of their ‘discretionary effort’ if they feel that they are safe, welcomed and valued at work. Achieving all aspects of diversity is vital for organisations to flourish and only makes more urgent the need for progress to continue.

Getting ahead of the curve on all dimensions of diversity

Even before COVID-19, there was a growing need for boards to better connect to a wider range of stakeholders amidst rapid changes to the expectations and skills requirements for boards. COVID-19 has accelerated this. Creating a properly informed board requires a balance between directors with sufficient industry and board experience and those who will bring new perspectives (for example by having not served on a board before); this may be essential in breaking free from the groupthink of industries in decline. Pressure for change is coming from many angles and at a very fast pace, accelerated by social and political pressures.

Tokenistic appointments in response to inclusion targets will not do. Trying to explain away issues rising from ethnicity pay gap reporting as misrepresentative anomalies will not work. Companies need to be ahead of the curve. They need to be honest and transparent as to their starting point but bold and brave in the commitments they make.

This has to start with the board, as the face of the organisation. By being genuinely inclusive, boards can demonstrate their understanding that diversity means more than meeting targets on gender and ethnicity and that it is about valuing and blending the different lived experiences of the directors around the board table. Boards need to be truly representative of the communities they represent in a much more connected world and their actions need to lead to sustainable change at board level and across the organisation.

Ethnicity

There has been a growing demand for boards to improve ethnic diversity and the response across society to the Black Lives Matter campaign is only increasing that pressure.

The independent *Parker Review* into ethnic diversity of UK boards was launched in 2017, setting out a framework to achieve meaningful change through engagement, reporting, recruitment and development initiatives.⁶⁹ An update report in February 2020 indicated some progress but still a long way to go. Of the 83 FTSE100 boards and 173 FTSE250 companies surveyed, 37% and 69% respectively did not have any ethnic minority representation. In addition, the drive for improved gender diversity has not delivered a greater representation of women of colour on boards as only 4% of FTSE100 board positions and 2.2% of FTSE250 board positions are held by women of colour.⁷⁰

Board discussions need to recognise that progress has been unacceptably slow in this area and understand the reasons why. It is of concern to note that, in PwC's 2020 survey, whilst 84% of directors surveyed agreed that companies should be doing more to promote gender and racial diversity in the workplace, only 34% believed it was “very important to have racial diversity on their board.”⁷¹

The UK Government ran a consultation on mandatory ethnicity reporting in late 2018 to January 2019 and is now committed to respond by the end of 2020, but regardless of whether this becomes a requirement, a number of initiatives in this space are already building momentum.

For example, the Change the Race Ratio campaign aims to get businesses to set – and publish – targets for greater racial and ethnic diversity at board, executive committee and ExCo minus one level. Led by the Confederation of British Industry, founder companies include Aviva, Brunswick, Deloitte, Linklaters, Microsoft and Unilever – and the campaign aims to get the entire FTSE350 signed up. It is also calling for disclosures on ethnicity pay gaps by the end of 2022 at the latest.⁷²

In addition, Legal & General Investment Management is also now encouraging companies to disclose their ethnicity pay gaps amidst a number of other best practice disclosures and many companies are being open about their challenges and setting goals as to how they can achieve progress and are creating specific programmes and tools to achieve that progress.^{73 74}

Companies should follow this lead and seek to get ahead of the issue by starting to gather data and, more importantly, consider what the data is telling them in terms of the experience and representation of colleagues from ethnically diverse backgrounds. Reporting should be proactive, fair and meaningful.

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⁶⁹ Sir John Parker and The Parker Review Committee (2017) *A Report into the Ethnic Diversity of UK Boards: Beyond One by '21*

⁷⁰ Sir John Parker and The Parker Review Committee (2020) *Ethnic Diversity Enriching Business Leadership: An update report from The Parker Review*

⁷¹ PwC (2020) Op. cit.

⁷² Confederation of British Industries (2020) *Change the Race Ratio*

⁷³ Legal & General Investment Management (2020) *Ethnic diversity: financially material, socially imperative*

⁷⁴ For example, see State Street Corporation (2020) *Addressing Racism and Inequality*

Additional dimensions of diversity

Diversity goes beyond gender, race and ethnicity. Considerations of the challenges faced, and the different perspectives brought to organisations by colleagues from the LGBT+ community, colleagues with disabilities and neurodiverse colleagues with conditions such as autism will drive the creation of a fairer workplace that harnesses the talents of everyone. Promoting social mobility and understanding the value of perspectives from disadvantaged backgrounds and the skill sets they bring is also vital.

The power and impact of employee networks dedicated to representing various groups within organisations is key, and boards would do well to inform themselves of the issues being discussed at such forums. Understanding of intersectionality is also vital as diversity is not a set of discrete challenges and a more inclusive culture will only be achieved through an appreciation of the interplay of the various facets of diversity. Employee networks cannot do all the work themselves. Instead, they should be part of a more holistic diversity and inclusion strategy with open communications across the organisation which reaches board and executive level.

LGBT+

It is key that investors and other stakeholders are able to assess a company's approach to LGBT+ inclusion, both within organisations and in their external communications with the LGBT+ community. Open for Business, a coalition of global businesses dedicated to LGBT+ inclusion, is developing a set of questions that can be used in understanding the corporate dynamic in this area and what needs to improve.⁷⁵ Boards can also use these questions as a guide in how they challenge their executive teams and in how they will be challenged in their oversight and understanding of corporate culture by stakeholders.

Disability

Leveraging the skills of colleagues challenged on a range of disabilities and ensuring they are fairly represented is also important. The Valuable 500 is a campaign to put disability on the business leadership agenda and it is seeking to recruit 500 global businesses to make disability a boardroom issue. Guidance involves leading from the top in developing a global disability performance strategy, appointing a board-level champion and reviewing media to consider how to represent and speak to a broader spectrum of people.⁷⁶

Customer-facing organisations are being inventive as to how to understand better the experience of their disabled customers and what improvements can be made to those experiences. Boards should understand those initiatives and how they are helping the company connect better to a more diverse customer base. For those able to work from home, remote working through the pandemic has demonstrated some of the positive benefits of lockdown where participation by all colleagues has been facilitated and virtual meetings, to some extent, have been a great leveller.

Social mobility

Organisations are now seeking to tap into pools of talent from demographics of the population that previously would not have been considered for certain roles and occupations. At board level, appointing members who have different lived experiences, and who bring diverse perspectives from those lived experiences, impacts the board's collective diversity and matters from a representation perspective.

⁷⁵ See <https://open-for-business.org/>

⁷⁶ See <https://www.thevaluable500.com/>

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*The board,
collectively,
needs to be
able to represent
the full range of
stakeholders in
the company*

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The challenge for boards is to recruit from a much wider pool of director talent and extend diversity considerations to include: younger directors; directors from disadvantaged social backgrounds; directors who have not previously served as CEOs; directors who have not previously served on boards; and directors who can connect to different communities, such as indigenous communities. Research into the interconnectivity of new director appointments in Australia’s top 300 companies over the last 15 years found that more than one third of the director appointments came from within ASX300 companies.⁷⁷ The board, collectively, needs to be able to represent the full range of stakeholders in the company and continuing to appoint directors from the same existing talent pool will simply hinder this process further.

Linking diversity to strategy

A key requirement of the *UK Corporate Governance Code* is how diversity supports strategy. Recent research on reporting by FTSE100 companies found that, whilst 80% discuss diversity beyond gender, only 7% “provide a clear explanation that goes beyond statements of appreciation.”⁷⁸ This should be a key priority area for executive committees and their boards.

Evolving investor expectations are driving change

Diversity is now established on the agenda for many shareholders and their expectations are evolving rapidly. Shareholder engagement and activism related to gender diversity will continue to increase and is now extending to other dimensions of diversity such as race and ethnicity.⁷⁹ Boards need to understand the fast moving expectations of investors across the investment chain, from pension funds and asset managers as well as activist shareholders. There appears to be an increasing willingness for shareholders to use the full spectrum of shareholder rights available to them, including public commentary, shareholder proposals and investor collaborations. Equally, there is clearly more to be done by investors to ensure there is consideration of gender diversity in their selection of investee companies.⁸⁰

Activist shareholders are increasingly using diversity information, including policies and data, to identify and target underperforming companies. For example, Barington Capital Group, L.P. consider that “the most common corporate governance weaknesses ... are issues with the composition of their boards.” From their experience as an active shareholder in underperforming companies, they believe that “a cognitively and demographically diverse board is best equipped to perform its obligations and help a company compete, innovate and respond to disruption in today’s challenging international markets” and “for boards interested in avoiding shareholder activism, recruiting [diverse] directors may be one of the most effective steps they can take.”⁸¹

⁷⁷ Ownership Matters (2020) *Many are called, few are chosen*

⁷⁸ Black Sun plc (2020) *The 6 Principles of Trust: Cognitive Diversity*

⁷⁹ Legal & General Investment Management (2020) Op. cit.

⁸⁰ Financial Times (19 October 2020) *Asset managers ignore diversity when buying*

⁸¹ J.L. Landaw, Barington Capital Group, L.P. (2020) *Maximising the Benefits of Board Diversity: Lessons Learned from Activist Investing*

Diversity funds and indices are helping focus demand

A number of funds are being created to respond to consumer demand for investment products that reflect drivers of equality and social justice. There are investment products focused on gender diversity, such as Legal & General Investment Management's *The Future World GIRL* fund and indices such as State Street Global Advisors' *Gender Diversity Index ETF*. Inclusion in such products will reflect well on companies as they are identified as leaders compared to peers.^{82 83}

Diversity-focused investment products are not limited to equity. AP2, a Swedish pension fund, began investing in a World Bank social bond linked to gender equality in 2018, in alignment with the related UN Sustainable Development Goal.⁸⁴ Companies are also linking their debt issuance to reflect social justice themes such as Alphabet's \$10 billion sustainability bonds, issued in August 2020, where one of the seven themes is racial equity.⁸⁵

Executive search firms need to raise their game

Executive search firms are key to facilitating diversity into the boardroom and at executive level. Firms that simply use their familiar databases and do not try hard enough in identifying diverse candidates (e.g. from the third sector or directors who have not yet had any board experience) should be replaced with firms that can deliver. Simply selecting candidates of colour or gender from the same familiar privileged backgrounds will not bring the benefits of diversity and, indeed, may add to existing social divisions. Setting clear expectations for search firms and, most importantly, holding them to account by changing firms if necessary, are actions that all boards and executive teams need to be prepared to take.

Stakeholder expectations are growing

Unless boards take strong, decisive action to get ahead of the curve on the broader dimensions of diversity and inclusion, they will be playing catch up and will struggle to respond to a complex, uncoordinated range of stakeholder demands. Boards that ultimately fail to embrace the opportunity will simply be seen as out of touch and disconnected from the societies and communities they serve. They will pay the price in lower levels of trust and confidence from customers, staff and investors. This will quickly translate into high votes against director elections at shareholder meetings as investors flex their stewardship muscles even more. Other stakeholders, such as the media, will also criticise in an increasingly public way.

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⁸² See <https://www.legalandgeneral.com/investments/investment-content/girl-fund/>

⁸³ See <https://www.ssga.com/us/en/institutional/etfs/funds/spdr-ssga-gender-diversity-index-etf-she>

⁸⁴ AP2 press release (12 January 2018) *AP2 invests in a social bond with focus on gender equality*

⁸⁵ Alphabet press release (3 August 2020) *Alphabet issues sustainability bonds to support environmental and social initiatives*

A Call to Action



If we really want to change things, we need to find people who represent not only our investors, but everyone else – from buyers, to suppliers, to local communities, to our natural environment. To do that, we need to go out and find board directors who have different experiences, skills and backgrounds. ... We must explain who our directors are and what makes them fit to govern. We also need to be more open about the decisions the board makes.

Dame Vivian Hunt, Financial Times op-ed: *Change how boards work to achieve true diversity* (22 October 2020)



Boards should need no more persuasion of why diversity should be a strategic priority and why it matters. Those that have not embraced diversity are more at risk of groupthink at a time when adaptability, collaboration and innovation will be vital for economic recovery. They will be held much more accountable, and in a much more public way, by shareholders, non-governmental organisations, governments, media, customers, employees, suppliers, creditors and other stakeholders.

Boards will need to engage ever more actively to meet the increased expectations on transparency of board decision-making and outcomes of board reviews. We are in a period of intense change and innovation as whole sectors are disrupted and reinvented. Companies and their boards need to think how their strategies reflect cultures that embrace diversity and inclusion at their core.

The opportunities are significant and go far beyond a frame of reference focused only on company performance. Diversity is expected to drive strategy, permeate every part of an organisation and be reflected across the supply chain. Experiential diversity will be key to allowing the board to connect to its customers, employees and wider stakeholders, to understand their perspectives and reflect those considerations in their decision-making. Diversity will bring a powerful competitive advantage only if boards and their executive teams embrace it effectively and authentically.

Establishing a board diversity policy and seeking to meet targets related to gender and ethnicity from a compliance perspective will not lead to long-term, sustainable change that addresses groupthink. Boards need to see diversity as a route to more effective decision-making and an improved board culture. This culture needs to extend throughout the organisation such that diversity and inclusion is welcomed.



.....
Boards need to see diversity as a route to more effective decision-making and an improved board culture



Biases, both overt and unconscious, often pervade organisations, in performance management systems, in succession planning, in recruitment and in procurement processes. Until they are identified and eliminated, they only perpetuate the problem and reinforce the status quo. Companies can commit to understand and address unconscious biases as part of their cultural evolution.

Establishing a corporate culture that encourages debate and constructive challenge requires both robust human capital management processes and endorsement from the very top of the organisation. Ensuring that all board members are champions of change and that they role model the target culture in everything that they say and do is critical.

These are extraordinary times and many companies will face unprecedented challenges. The lasting business benefits from embracing diversity and inclusion will be more valuable than ever and boards that seek out the broader cognitive and experiential diversity that they will need will enjoy a strong competitive advantage.



Key Recommendations

Set out below are ten key recommendations as to how a board can embrace diversity:

- 1 Understand and explore the diversity of thought and experience on the board**
- 2 Ensure that the organisation's push for diversity and inclusion is a strategic and commercial imperative**
- 3 Look critically at the culture in the boardroom**
- 4 Review nomination and succession planning processes for all board and executive committee appointments**
- 5 Look critically at the individual roles assigned to board members**
- 6 Learn from the experience of improving gender balance and learn from the experience of other sectors**
- 7 Understand the company's stakeholders. Actively listen and respond to them**
- 8 Communicate aims and milestones internally and externally**
- 9 Learn from a more challenging board evaluation**
- 10 Recognise inequalities and racism as systemic risks to the economy and see diversity and inclusion as an opportunity for long-term change**

1

Understand and explore the diversity of thought and experience on the board

Boards should:

- embrace cognitive diversity as a driver of board effectiveness
- undertake an audit of the cognitive styles of current board members
- better understand the work and life experiences of board colleagues and leverage the differences in thinking that this generates
- accept that this may be new and, at times, uncomfortable
- recognise that the collective skill set of the board needs to change to adapt to the evolving challenges of the pandemic.

It would be courageous for a board to report that its annual self-assessment had concluded that it was less than effective, yet boards should not misinterpret a tension-free meeting, a lack of robust debate and an easy path to consensus as evidencing effective discussion, decision-making and oversight. Boards should assess how gaps in cognitive diversity may be hindering the challenge from diverse perspectives and an assessment of the different perspective that each director brings is vital.

Boards should try to integrate an analysis of differences in thinking and experience into the skills matrix that informs the work of the nomination committee. A valuable exercise would be for board members to be asked to reflect, share and discuss the company's values and what they mean for each person around the table – what resonates most for them and how the company's values blend with their own personal values. Sharing examples of life experiences and values-based decisions that directors have taken in the past can be very powerful. More structured self-reflection can be done with the help of psychologists or a wide variety of personality assessments, all of which should help surface areas where groupthink is a risk, but it can also be tested through collective experiment.

High performing boards are used to running scenario exercises to understand their role in a crisis and to test their responses to challenges such as a cyber security attack. Building in finely balanced ethical dimensions to these exercises will help tease out differences of views on decisions where there is not an objectively 'right' answer.

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A valuable exercise would be for board members to be asked to reflect, share and discuss the company's values and what they mean for each person around the table

2

Ensure that the organisation's push for diversity and inclusion is a strategic and commercial imperative

Boards should:

- be able to explain how diversity links to their company's strategy
- recognise how diversity and inclusion is a commercial and competitive advantage for their business
- leverage that advantage in all aspects of the board's activity
- instil diversity expectations in recruitment, training, performance management and talent progression.

Boards and their executive leadership teams should prioritise diversity as a strategic imperative. Putting the business model at the heart of the discussion will help. It is often quite difficult to get a clear, simple and consistent overview of why a company is in business, what it does and how it does it and how it fits in with stakeholders that the company supports and relies on. Achieving greater clarity on the business model will help identify where and how diversity and inclusion might be a competitive advantage, through greater employee engagement, better decision-making and improved talent management.

For larger UK companies, the advantages flowing from diversity should be reflected in the board's reporting on Section 172 of the *Companies Act 2006* and how stakeholder considerations have been taken into account in board decision-making. Board members ought to be able to give examples where diverse thinking has remedied issues, delivered better solutions, created untapped opportunities as well as how diversity has facilitated more robust and effective discussions.

Board members need to see limited diversity of thinking within the organisation as a key strategic risk. Challenging executives on the risks of groupthink in decision-making is as important as ensuring it does not exist around the board table.

Diversity expectations need to be instilled across all aspects of recruitment, training, performance management and talent progression. Boards need to ensure this goes beyond process and focuses on defined and measurable outcomes.

Boards have a vital role to play in ensuring that they role model what they expect from the wider organisation in everything they do and to avoid reinforcing stereotypes. They must listen out for challenges, obstacles and potential biases that may permeate the workplace, and swiftly and openly address the challenges that they come across.

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Board members need to see limited diversity of thinking within the organisation as a key strategic risk

3

Look critically at the culture in the boardroom

Boards should:

- **assess whether debate is encouraged during board meetings and whether challenge and the expression of dissenting opinions is genuinely welcomed**
- **ensure the board agenda and papers help generate the right discussion, challenge and debate**
- **ensure the board look at options, not a single recommendation**
- **encourage the devil's advocate perspective in discussions to ensure better decision-making.**

More effort is needed to build consensus when a team is diverse but that makes for more effective decision-making through healthy challenge and debate.⁸⁶ A board can only be truly effective in its decision-making if it is fully informed. Effective boards are ones that challenge management and encourage the collation and consideration of a wide range of views alongside those of management. Effective management teams are those that actively seek out and welcome alternative perspectives. This requires high levels of openness and trust. Many boards have built much closer working relationships with their management teams during the COVID-19 crisis and have found that the heightened levels of empathy and understanding that have been built have made their interactions more effective.

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A healthy board is one where board members do not always agree with each other

A healthy board is one where board members do not always agree with each other, where dissent is valued and heard and where the board culture allows thoughtful and constructive debate and disagreement. If that debate is not evident, there is a risk that views are either being suppressed (with decisions led by the views of a dominant individual or group), that board members remain ignorant of alternative options and perspectives, or that groupthink dominates. Any such situations will lead to poor decision-making.

Boards should usefully spend ten minutes at the end of each meeting, as part of the private session, candidly reviewing the discussions that have just taken place to ensure that they effectively pushed back on management, there was real debate and alternative perspectives were aired. Boards should ensure that their oversight is not simply rubber-stamping the proposals from management. Unless the minutes of the meeting reflect active debate and constructive challenge, it may be difficult later to demonstrate that there has been the appropriate quality of debate in relation to a decision that has worked out badly. Diversity of thinking and life experience around the board table will generate better debate and ensure that independent, dissenting opinions can be freely expressed.

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⁸⁶ K.W. Phillips (2014) Op. cit.

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continued

The role of the board chair is vital in setting the tone for the meetings. Much can be done in the board papers, by including information about options that have been considered and discounted, as well as a clear management recommendation.

Occasionally, for a difficult and finely balanced issue, it might be appropriate not to have a management recommendation but to ensure that the board hears from an advocate for the two alternative positions. Even for situations where there is a compelling recommendation from management, the chair should lead by example in teasing out alternate views and a wider range of stakeholder perspectives. It may be helpful for the chair to invite in representatives from stakeholder groups to actively listen to their views.

All of this means that the board may need to take more time on key issues. The answer is not to stifle or curtail debate but to differentiate the items for discussion and debate from those items that are routine business. On the more significant items, bringing the discussion to consensus may be more difficult, but it will be a stronger consensus when achieved. If a workable compromise cannot be reached, the proposal should be rejected and sent back for more work. Boards must not forget that they can say no.

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*The board may
need to take more
time on key issues*

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4

Review nomination and succession planning processes for all board and executive committee appointments

Boards should:

- push their executive search firms to generate candidates well beyond the usual boundaries
- be bold in setting criteria for board appointments that are about the thinking and life experiences the board needs to have in the boardroom, not criteria which reinforce groupthink
- consider candidates from beyond the company's sector who may bring more valuable perspectives than industry peers
- recognise the value of candidates without established PLC board experience and what they will bring to a board, especially in terms of independence of thought and ability to challenge established board customs.

It is very easy for boards to continue to appoint board members from their networks or to consider only candidates identified from other established processes. Too often, that does not result in a sufficiently diverse candidate list. A review of the entire board nominations process may be necessary and boards should be willing to undertake this, even if it makes the process harder.

Nomination committees usually base their assessment on the skills and industry experience gaps identified by traditional skills matrices. Yet these are no protection against groupthink and are not likely to direct the process towards a potential candidate who is new to a board or who has a significantly different life or sector experience. Boldness is required in terms of criteria for appointment and in challenging the outcomes of processes that do not facilitate diversity.

Search firms have a key role to play here and the way they are briefed needs to change if long lists and short lists are to evolve. Boards need to hold search firms to account for the role they play in achieving outcomes. Boards should challenge their search firms robustly if they are not delivering a range of candidates that bring different thinking and lived experiences and ultimately be willing to move mandates, if it appears that the 'usual suspects' are appearing on long lists. At the very least, boards and CEOs should expect their executive search firms to have committed to the *Standard Voluntary Code of Conduct for Executive Search Firms* which "provides entry-level best-practice requirements for all search firms working on FTSE 350 Board appointments."⁸⁷

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⁸⁷ Hampton-Alexander Review (2019) Op. cit.

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In turn, boards need to accept that a more challenging process may require them to see more candidates and for the process to take longer. Search firms should also feel more confident in challenging their clients if they find a board that is not doing its job to inculcate diversity into the search process. The standard language about ‘welcoming applicants from diverse backgrounds’ is not meaningful unless the role profile reflects a desire to seek out the views and experiences that such a candidate might bring. Very few PLC board roles are advertised, so a more open and transparent process (along the lines of the process for appointments to public sector roles) could be a way to get more diverse candidates into boardrooms.

Outcomes will matter. Boards need to be prepared for much greater challenge from their shareholders on nomination processes that fail to deliver sufficient diversity. Boards have to avoid tokenism in the appointment process if they are to identify fresh thinking and different perspectives from potential new board members. Questions will be asked around the credibility of nomination processes where a certain type of individual tends to *always* be the best candidate for particular roles. Going forward, many of the best candidates may not fit the mould of what, historically, the typical non-executive director looks like.

These issues need to be considered holistically in board succession planning processes. Space can be created for more diversity on boards by limiting the expectations of how many other appointments a director is allowed to undertake and taking into account tenure considerations.

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Outcomes will matter

5

Look critically at the individual roles assigned to board members

Boards should:

- be aware of the risk of reinforcing groupthink and/or following stereotyping in assigning roles to board members
- ensure that board committee chairs have a mandate to innovate and transform established structures, processes and ways that decisions are made
- look at the experience of existing board members in terms of other boards they serve on and assess whether they are the right person for the role they have been assigned
- ensure that board members are not too busy with other commitments to undertake the full role they are being asked to fulfil.

Boards should examine the processes used in selecting the board chair and the chairs of board committees to ensure that these processes are robust, transparent and free from inherent bias. There should be a wider focus, built in to board succession planning, on the requirements for the role to ensure that the appointments do not reinforce groupthink (for example, by only considering an ex-HR executive for a role chairing a remuneration committee) or unfairly pigeonholing individuals (by assuming the person who was not an ex-finance professional could not add value to an audit committee). Those requirements should look beyond the traditional skills matrix to address leadership style, and beyond traditional requirements of related industry exposure to identify complementary experiences that may come from a very different sector.

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*Requirements
should look beyond
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leadership style*

The chairs of board committees need to be empowered and encouraged to innovate and challenge previous thinking and established ways of working in their committees.

COVID-19 has brought a focus on the numbers of appointments that directors have when board committee chairs are appointed, as boards across each director's portfolio have all faced a crisis at the same time. Boards and investors should be more open to appointing board directors with no other appointments, no previous board experience, directors who are younger and from different social demographics.

6

Learn from the experience of improving gender balance and learn from the experience of other sectors

Boards should:

- understand the various levers of change that have led to increased gender diversity on boards, at executive committee level and across organisations
- recognise that this work is not yet complete and pressure for progress will continue
- recognise that discussions about race and ethnicity on the board and within the organisation will be similar to gender but will also be very different and harder
- explore and understand the barriers that all marginalised groups face; support and listen to employee networks; ensure they see the board as allies
- reach out to organisations that can help ask the awkward and challenging questions
- learn from the experience of private companies in addressing similar challenges
- encourage an inclusion strategy that is inclusive of *everyone* in the workforce and across the organisation.

There is much to learn from efforts to improve gender balance in the workplace, including some of the pitfalls.⁸⁸ The setting of time-limited, clear targets and consistently disclosing and measuring progress against them, has been a key tool to achieving progress. This is now being applied to improve racial and ethnic diversity on boards.⁸⁹ However, measurement of the different dimensions of diversity beyond gender presents additional challenges and the drivers of barriers to progress for women will not be the same for other marginalised groups. Addressing racial inequalities and improving ethnic representation will need unique strategies and different solutions. Equally, there needs to be an understanding of the barriers faced by disabled colleagues and colleagues from the LGBT+ community and how these can be addressed.

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*The drivers of
 barriers to progress
 for women will not be
 the same for other
 marginalised groups*

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⁸⁸ Ann Francke (2019) *Create a Gender-Balanced Workplace*

⁸⁹ For discussion about the use of voluntary targets see S. Vinnicombe, E. Doldor, V. Battista and M. Tessaro (2020) Op. cit.

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Progress requires an open and honest dialogue. Starting conversations about issues of power, race, status quo, representation and inequalities is often challenging and this is not helped by the constant evolution of terminology. Often, well-meaning individuals are afraid to open a discussion at the risk of causing offence by inadvertent use of terminology and language that is not up to date. Some organisations, such as Standard Chartered, have developed toolkits to assist their organisations in initiating conversations about race with a toolkit as a practical, informative guide to empower and assist all managers to lead change. That shift is a crucial starting point for progress.⁹⁰

It is vital that the conversation happens in the boardroom. If the most senior team in the company cannot have an open, constructive and challenging conversation about race, disability, ethnicity and sexuality then how can they expect that to happen lower down in the organisation? Boards need to have their own conversation first and then agree the company's strategy for addressing these critical and difficult issues. Groups like Open for Business and the Valuable 500 can help frame the difficult questions that boards should be asking themselves. Companies that want to kick-start a broader dialogue should consider following the lead of ITV in making executive board appointments that signal diversity is moving out of the traditional realm of HR policies and procedures and is now “*part of business discussion and decision making at the most senior level.*”⁹¹

Whilst the focus of attention has been directed to large public companies, it is clear that the benefits of diversity apply to all companies. *The Wates Corporate Governance Principles for Large Private Companies* issued in December 2018 advocate that “*appointments to the board should promote diversity in line with the protected characteristics within the Equalities Act 2010*” and recommends a policy on diversity and inclusion and that it be aligned to company strategy which “*can support appointments to the board and succession planning.*”⁹² There may be useful and informative disclosures and practices from exemplar private companies who report in line with the *Wates Principles*.

⁹⁰ Standard Chartered (2020) *How to have conversations about race*

⁹¹ ITV press release (14 August 2020) *ITV appoints Ade Rawcliffe as Group Director of Diversity and Inclusion*

⁹² Financial Reporting Council (2018) *The Wates Corporate Governance Principles for Large Private Companies*

7

Understand the company's stakeholders. Actively listen and respond to them

Boards should:

- recognise the need for the views of all stakeholders to be represented on the board and how diversity in the boardroom facilitates this
- ensure that individual directors know that they must understand and represent the perspectives of various stakeholders
- bring the voices of stakeholders into the boardroom to inform the discussion and challenge management
- find subject matter experts and authoritative voices that are different to management's
- anticipate rapidly evolving investor expectations on diversity and inclusion and other board governance considerations such as director independence, tenure and over-committed directors
- help shareholders and other stakeholders to see the competitive advantage of the company's approach.

The impact of the pandemic and the realisation that the world is much more connected than we thought has accelerated the move away from traditional notions of shareholder primacy. Expectations from stakeholders are only increasing and it is vital that boards reflect and anticipate their perspectives. Boards will not be able to fulfil their reporting requirements in this area without a genuine understanding of those perspectives and a diverse team will be a vital part of achieving that.

In addition to reporting requirements, boards need to be prepared for much more scrutiny from investors in these areas. Getting ahead of the curve will be essential; playing catch up in what may well be a fragmented set of stakeholder requirements will be enormously challenging.

Boards should reflect on the experiences of the COVID-19 crisis. Were their directors 'overboarded' and pulled in too many directions? Did they bring the fresh ideas and stakeholder insights needed to successfully navigate through turbulent times? Was the board able to have fully informed discussions where stakeholder perspectives were accurately and impartially presented?

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Boards need to be prepared for much more scrutiny from investors

continues



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continued

The best boards are ensuring that the successful elements of the crisis are built into their governance and operation going forwards. It is a time for boards to transform their operation, permanently sideline routine reporting and ensure that their discussions are strategic and externally focused. This will not happen without a board that is more representative of the company's broader stakeholders and the communities it serves.

Boards should invite external voices to spend time with the board to broaden their perspectives. Individual directors who can bring the insight and perspective of a key stakeholder group should be a key consideration in board succession planning processes and such directors will be at a premium.

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*It is a time for
boards to transform
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8

Communicate aims and milestones internally and externally

Boards should:

- understand the importance of diversity and inclusion in delivering a transformed corporate culture
- hold management to account on key deliverables and milestones
- communicate those milestones internally and externally, and encourage challenge
- incorporate diversity targets into pay and incentive structures.

Transparent aims and milestones are key to delivering transformational cultural change. Delivering meaningful and sustainable change on diversity takes time and involves a range of strategies including unconscious bias training, leveraging employee networks for marginalised and under-represented groups, employee surveys and cultural audits. Achieving an inclusive culture needs a consistent and persistent push and endorsement from the very top of the organisation.

Boards must ensure they have deep knowledge and oversight of the company's diversity and inclusion plan and need to be prepared to hold CEOs and executives to account on key deliverables and milestones. Open, honest and challenging conversations with executives, and with other board members, will be necessary if change is not occurring at the pace expected. This requires leadership at all levels in the organisation. Active listening by the board will be essential to identify and address any barriers that may stall progress. The tone for most employees is set by their immediate manager and boards need to be sensitised to the risk that local micro-cultures, which do not reflect the standards required, may persist. Employees need to see that decisive action is taken when there is a local failure.

Remuneration plays a critical role in driving diversity. Boards should consider introducing relevant key performance indicators and metrics into annual bonus plans and into long-term incentive plans. By linking gender pay gap reporting and related remedies to the UN Sustainable Development Goal on gender equality, companies can also demonstrate the wider societal impact of their efforts.

Unless boards are clear about the role that diversity plays as a strategic priority, and how this is reflected in their business model, targets and measurement will risk being an abstract exercise disconnected from the 'real' business. Companies that bring this together by focusing their governance and their reporting around a clear description of their business model will be able to show the role that diversity plays, how it is enabling and driving better business outcomes and the quantifiable progress that is being made.

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Achieving an inclusive culture needs a consistent and persistent push and endorsement from the very top of the organisation

9

Learn from a more challenging board evaluation

Boards should:

- embrace a more challenging board evaluation process
- understand how existing board processes, from debate and decision-making through to nominations processes and succession planning, may be hampering drives to improve board diversity
- understand that board evaluations need to focus on the outward role of the board and incorporate the views of stakeholders in addition to an assessment of the inner, private workings of the board.

Board evaluation and reviews play a critical part in ensuring diversity is instilled in a board's thinking and debate. Boards should embrace a more challenging board evaluation that seeks to unpick existing board debate and decision-making processes to head off the risk that the evaluation processes itself reinforces groupthink.

Boards need to be prepared for difficult conversations in the evaluation process if they are to harness the true benefits of diversity in the boardroom. A more authentic and challenging board evaluation will ensure that the board is truly effective and not rushing to an easy consensus.

The review should focus on areas where there has been disagreement and the following questions should be considered:

- Did the relevant board paper assess a range of options?
- Do the minutes reflect rigorous debate?
- Did board members get the opportunity to express their views?
- If not, why not?

Areas where the decisions taken by the board did not work out, even if they reflected a clear and easy consensus, should also be examined:

- What other options should have been considered?
- Were there relevant stakeholder perspectives that were not put forward?
- With the benefit of hindsight, but with the same information available to the board, would the board take the same decision again?

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Boards need to be prepared for difficult conversations in the evaluation process if they are to harness the true benefits of diversity in the boardroom

continues



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continued

It is also necessary to consider how the view of the board from the perspective of a broader range of stakeholders is incorporated into the board evaluation process. Boards need to consider whether their existing evaluation process is too inward looking and relates only to the board's inner workings.

Board evaluations should include the views of major shareholders as well as how the board is perceived through media reports and in customer, investor and employee sentiment surveys.

If the board starts to show that it is out of touch, this is likely to manifest itself in negative media commentary and a more negative view of the board's competence among investors, large and small.

A board review which concludes that a board is effective when many stakeholders consider the opposite is an indication not only of a poor evaluation review but may cause concerns as to the willingness of the board to hear and respond to alternative perspectives.

10

Recognise inequalities and racism as systemic risks to the economy and see diversity and inclusion as an opportunity for long-term change

Boards should:

- recognise the role that all companies and their boards have in being part of the solution
- encourage and lead conversations about status quo, power, representation, fairness, meritocracy, equality and opportunity
- recognise that under-representation at board level on gender and ethnicity is part of a wider framework of systemic inequalities which are risks to the economy and to wider society
- see the value in the opportunity that diversity and inclusion represent to instil long-term and sustainable change.

Boards need to recognise the wider societal and economic frameworks at play when they consider diversity and inclusion. Improving ethnicity on boards should not be seen as just the latest in a series of discrete tasks. All efforts to improve opportunities for those who are less well represented are part of the same continuum of addressing inequalities, which are systemic risks to the economy.

These considerations lead boards to deeply difficult and complicated issues about power, status quo, identity, representation, equality, opportunity and the inherent barriers faced by certain groups within companies and wider society. There are strong ethical dimensions in the framing of the questions asked and the solutions presented. These conversations are now very much expected to be part of the boardroom conversation and debate, not least because of the pandemic and the pressures for improved social and racial justice that are now deeply embedded in our cultural narrative.⁹³ Sensitivity and understanding the perspective and experiences of others need to be at the heart of how a board responds. Stakeholders are looking to boards for leadership and for solutions. Only a diverse board can deliver on such expectations.



The IBE would welcome expressions of interest to collaborate with us in identifying and disseminating good practice about boards embedding diversity and inclusion.

⁹³ A.B. Matuszewicz and H. Mason (2020) *Facing hard truths: How a pandemic brought inequality into the boardroom*

Further reading

This is a short selection of reports and books available to further understanding of the issues discussed in this report.

30% Club (2019) *Are you missing millions? The commercial imperative for putting a gender lens on your business*

Financial Reporting Council (2020) *Review of Corporate Governance Reporting*

Ann Francke (2019) *Create a Gender-balanced Workplace*

Hampton-Alexander Reviews (2016-2019)

Ijeoma Oluo (2019) *So you want to talk about race*

Scott E Page (2007) *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies*

Scott E. Page (2017) *The Diversity Bonus: How Great Teams Pay Off in the Knowledge Economy*

James Surowiecki (2005) *The Wisdom of Crowds: Why the Many Are Smarter Than the Few*

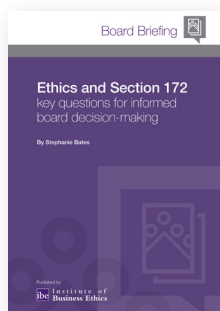
The Good Side and Financial Reporting Council (2020) *Building more open business: Supporting the progression of LGBTQ+ people to senior leadership positions through inclusive company policies*

The list above is not exhaustive. There is also a wealth of material on the websites of the following organisations:

- 30% Club
- Hampton-Alexander Review
- Open for Business
- The Black British Business Awards
- The Good Side
- The Valuable 500

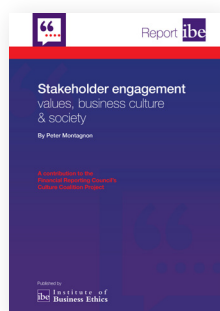
Recent IBE Publications

IBE publications provide thought leadership and practical guidance to those involved in developing and promoting business ethics, including senior business people, corporate governance professionals and ethics and compliance practitioners. Some recent publications related to this topic which you might be interested in include:



Ethics and Section 172: key questions for informed board decision-making

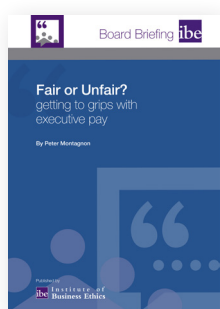
The aim of this board briefing is to help companies benefit from the new reporting obligation under Section 172 of the *Companies Act 2006* (S172), and to encourage them to go beyond legal requirements. It will help boards navigate through their own decision-making, giving consideration to ethical values in a way that will lead to meaningful reporting to stakeholders in the new S172 statement.



Stakeholder Engagement: values, business culture & society

Companies do not exist in isolation. They depend on society for their franchise. So they need to maintain relationships of trust with a wide range of stakeholders. In order to foster trust, external engagement should always be driven by ethical values.

Stakeholder Engagement: values, business culture & society forms the IBE's contribution to the Financial Reporting Council's Culture coalition in 2016.



Fair or Unfair? getting to grips with executive pay

Executive remuneration plays an important part in establishing an ethical culture, but it is also very complex and hard for boards to manage. There is a widespread view that the present system in the UK does not deliver the right incentives, and may even be fundamentally broken. In IBE surveys it consistently ranks as one of the top issues the public think business needs to address.

Fair or Unfair? getting to grips with executive pay offers both practical advice on how remuneration committees can address the challenge and some pointers to possible reform centred around the need to be clear about the value of what is being awarded and the pace at which remuneration is earned.



Corporate Ethics in a Digital Age

Managing the consequences of AI is a major challenge from which boards and corporate leadership cannot abstain. Boards not only have to manage a new set of risks and opportunities – they do so in a world that is rapidly changing in ways that make it harder for them to exercise control. The decisions that boards must take will fit into their general view of risk appetite, risk management and oversight.

Corporate Ethics in a Digital Age offers practical thoughts about how the challenges of AI can be addressed and looks at the expertise that is required in the boardroom. These challenges are less about the technology itself than how it is applied, requiring a philosophical and ethical approach to resolving the dilemmas which AI provokes.



Culture Indicators: understanding corporate behaviour

Boards are increasingly focused on corporate culture, yet they often struggle to understand the forces that drive behaviour in their business. Culture cannot easily be measured, but boards can and do have access to a range of information that will shed light on the culture of their organisations.

Culture Indicators: understanding corporate behaviour analyses survey data and draws on interviews with directors and those who advise them to provide practical and tangible assistance for boards in how to understand the corporate culture of their organisations. It examines a wide range of relevant indicators and how to interpret them in order to produce a useful and authentic picture of the culture of a business.



Culture by Committee: the pros and cons

Shifting perceptions of risk have increasingly encouraged companies to form special board committees to deal with broad questions of corporate responsibility, sustainability and ethics.

This IBE survey report looks at the nature and role of these board committees, and also at the way companies that choose not to have such committees handle this growing range of non-financial risks.

It is based on research into companies in the FTSE 350, including the mandates of the board committees, and was prepared in collaboration with ICSA: The Governance Institute and Mazars.

Other IBE Resources



The IBE Speak Up Toolkit

The freedom to raise concerns is a core component of a supportive ethical culture where employees are confident they will be supported to 'do the right thing'.

Yet, despite increasing encouragement from organisations, employees still remain reticent. Speaking up can be an experience that provokes a mix of emotions; it may feel complex and daunting.

This is why the IBE has developed *The IBE Speak Up Toolkit*, to empower employees by demystifying the process and managing expectations.

The IBE Speak Up Toolkit helps employees prepare for raising a concern at work. It answers any questions you may have about the process – from noticing a problem and having a conversation through to what to expect if you call a Speak Up helpline or if your concern is investigated.

The IBE Speak Up Toolkit can be accessed free of charge or can be tailored for organisations wishing to link to their own policies and resources.

www.ibe.org.uk/speakuptoolkit



The IBE Say No Toolkit

The IBE Say No Toolkit is a decision-making tool to help organisations encourage employees to make the right decision in difficult situations.

The IBE Say No Toolkit delivers immediate guidance to employees on a wide range of common business issues, especially those that could lead to accusations of bribery.

Employees tap through a series of questions about the situation they face and the tool will provide the right decision to take: Say No, Say Yes or Ask. The answer also makes it clear why it is important to make that decision so your employees can have the confidence and the knowledge to respond correctly.

Organisations can use both *The IBE Say No Toolkit* app and website for free. The app can be downloaded on to any smartphone or tablet.

Simply go to www.saynotoolkit.net

The IBE Say No Toolkit can be customised and branded to suit your organisation's needs and detailed procedures. For more information email info@ibe.org.uk or call the IBE office on +44 20 7798 6040.

The Ethics of Diversity

Now more than ever, boards need diversity of thought and experience in tackling the challenges ahead.

Board appointments that are no more representative of the company's employees, customers or supplier base will not bring the different perspectives needed to counter groupthink. Only through systemic change will better decisions be reached by individuals who look and think differently and whose life experiences are more varied and more representative of the communities that the company serves.

In this report, the IBE looks at the experience of gender on boards, one dimension of diversity that has been the focus of a sustained, multi-faceted push for some time. It examines what has been achieved so far and some of the lessons learned as the focus shifts rapidly to address other dimensions of diversity.

Companies that approach these dimensions sequentially, focused on targets and with a compliance mindset, will not achieve the sustainable business benefits from diversity around their boardroom table and will be under increasing pressure from investors.

This report offers a series of recommendations as to how a board can embrace cognitive and experiential diversity and unlock the sustainable business benefits from making systemic rather than cognitive changes.