

Benefiting from diversity in the boardroom

Governance Leadership Centre Deputy Executive Director, Louise Pocock, discusses how diversity can improve board decision-making

The push for diversity in the boardroom is in the spotlight again following the recent resignation of high profile female directors in the banking sector. Some commentators have pronounced a failure of board diversity generally; more measured commentary has overlooked the underlying rationale for board diversity. There are two main arguments in support of board diversity: first, that diversity is an end in itself, and second, that there is a 'business case' for diversity. The first is an ethical argument for equal opportunity and fairness. Though appealing, it rarely persuades companies to change their practices as they seek to achieve the highest returns for members. The gender, and other dimensions of identity, of the individuals who lead and comprise organisations is a subordinate concern.

So, public debate on the diversity issue has largely been shaped by empirical evidence supporting the 'performance' or 'business case' for diversity. Though a number of studies have shown that diversity improves organisational performance (see for example, Catalyst, 2007; Credit Suisse, 2012 & 2014), results overall have been mixed. Research methodologies are imperfect and it is difficult to draw conclusions from correlations, given all the variables that affect organisational performance and the complexity of how these variables interact.

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A pertinent but often neglected consideration is how diversity can improve board decision-making and bring gains to organisations. Boards can benefit by accessing a broader range of insights, data and perspectives on issues affecting their organisation; that is, they benefit from greater diversity of thought. Diversity of thought may encourage open-mindedness, innovation and creativity among directors, thereby assisting problem-solving. It also helps avoid the problem of 'group think'. Like anything, diversity of thought needs to be managed and not come at the expense of board cohesion or a collegiate approach to decision-making.

Since diversity of thought is difficult to measure, dimensions of identity – such as gender, race and age – are relied on as proxies for different ways of thinking. It is

thought that dimensions of identity are correlated with particular and common life experiences, perspectives and strengths that materially affect how those individuals approach issues and decisions in the boardroom. While this may be true sometimes and to an extent, it is only an assumption.

Boards will benefit from viewing diversity not merely as a governance criterion to meet, but as a tool to increase diversity of thought, improve board decision-making and grow innovation capacity. It is practical for boards to rely on the assumed correlation between dimensions of identity and particular ways of thinking as a starting point for increasing diversity of thought. Ultimately, however, boards need to reflect on the unique contribution that any individual brings. There may also be a greater role for psychometric tests to assess current and prospective directors' personalities, behaviours or attitudes.

It is worth noting that an important mechanism to increase board diversity is a rigorous and fair selection process. As highlighted in a recent [article](#) in The Conversation, board appointments are often driven by social connections and qualified 'outsiders' are excluded as a result of the unstructured way in which board members are recruited. These 'outsiders' are often individuals with different dimensions of identity.

Boards need to be alive to in-group selection bias or favouritism and actively seek to include 'outsiders' through board recruitment processes. There will be a ripple effect: a diverse board will be more likely to draw on a wider and more diverse pool of potential candidates for any refresh of the board itself and also CEO selection.

At the end of the day a board should be comprised of individuals who, collectively, add real value to an organisation. Boards that take into account diverse perspectives and different ways of thinking about the issues affecting their organisation will likely make more informed and measured decisions. Greater diversity of thought in the boardroom can be achieved by casting a wider net in board selection processes and bringing in more female directors and directors of different ethnicities, ages and socio-economic backgrounds.