

Cognitive Diversity and Board Performance

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*Team @ Nasdaq Governance Solutions

DIVERSITY, or rather its absence, continues to generate headlines. A lack of diversity in the workplace can happen for many reasons, but unconscious bias is high on the list of causes. This results in bias against groups of people, often because of their gender, ethnicity and culture. Whatever the reasons for stifling diversity, it matters. It matters for diverse people who are stopped from realising their potential and life chances. It matters for the well-being of greater society, whose cohesiveness depends on people being treated fairly, and it matters for organisations, who are cut off from a rich source of human capital.

In this article we look at diversity through the narrower lens of diversity in the boardroom, the lens being narrowed further still to look at a board's cognitive diversity (i.e. diversity of thought) as distinct from its identity diversity (i.e. diversity by group, such as gender and ethnicity). As we shall see, cognitive diversity is a prerequisite for effective decision-making by boards. It's not enough for directors to be gender and ethnically diverse: improved board performance demands they are cognitively diverse.

This article looks at the transformative effect of cognitive diversity on board performance, and in doing so considers:

- How cognitive diversity differs from other forms of diversity and why this matters
- Why some commonly articulated criticisms of cognitive diversity are “fake news”
- Why boardroom dynamics can undermine cognitive diversity
- How board evaluations can help
- What are the situations where diversity can actually hinder board performance

Cognitive diversity is not the same as identity diversity

To date, public debate about diversity has tended to focus on the lack of gender and ethnic diversity. A number of organisations have responded by embracing greater diversity in the workplace, some going on to adopt the SDGs (Sustainable Development Goals) concerned with gender equality and inequality. Whilst many people unhesitatingly say that greater gender and ethnic diversity is good for both business and society, if looked at in terms of company boards, it's not so clear cut. To improve board performance, studies suggest that a different form of diversity is needed, one that captures directors' backgrounds, thinking styles and perspectives, namely cognitive diversity.

Why does cognitive diversity matter so much to board performance? In short, it's because the “collective intelligence” that a board brings when looking at a problem is limited if directors have similar backgrounds. Expertise is not enough for effective decision making. If a board lacks cognitive diversity, directors tend to look at issues from a similar perspective, meaning they have similar “blind spots” when looking at problems collectively, not seeing the “full picture”. By contrast, if a board is cognitively diverse these blind spots will be “cancelled out” because directors will have different backgrounds, different frames of references and different thinking styles. The board will therefore have a much more complete picture when discussing issues and making decisions. This is why cognitive diversity is so important to boards, and why gender and ethnic diversity alone is not enough.

Diversity science and board performance

Diversity has been divined by some as a new science. This is the theme of Matthew Syed's recent book on diverse thinking, which

explores how bringing together people who think differently can significantly improve group outcomes. Leaving aside the question of whether diversity is a science, it can certainly be harnessed to improve board effectiveness, and the rewards can be substantial for those companies get it right.

In one US study, 28,000 professional economists were polled to predict a number of future economic indicators (e.g. GDP growth and inflation). The results showed that the predictions of the highest performing economist were an impressive 5% more accurate than the average score of the other economists. What's really interesting, however, is that if the scores of the six highest performing economists were aggregated and averaged, they beat the highest performing economist by a huge 15%. At first, this appears to make little sense: how can a group made up of economists with scores less than the highest performing economist post a (much) better average score? This is a great example of the power of cognitive diversity. It shows that a cognitively diverse group looking at a complex problem has fewer blind spots than an individual looking at the same problem, even if that individual happens to be the best performer. This is relevant to boards who are increasingly required to make decisions where a number of factors are at play. No one director can reasonably possess all the skills, knowledge and experience necessary for complex problem. Problem solving needs the collective intelligence that a diverse group – a board – can provide.

“Fake news” – don't believe everything you hear

Cognitive diversity clearly has a role to play in board effectiveness. It follows from this that organisations should therefore be looking at how they can benefit, but are they? Unfortunately, there are some commonly held pejorative misconceptions about diversity that may act as a barrier.

These misconceptions include:

1. “Diversity means a trade-off with excellence”
2. “We simply need the smartest, most capable and knowledgeable directors, diversity doesn't come into it”
3. “When all is said and done, it's about the board making correct, accurate decisions; diversity is a distraction”

These misplaced notions need to be debunked, so let's look at each of them in turn.

“Diversity means a trade-off with excellence”

If diversity was the sole criterion when making board appointments, there might indeed be a “trade off with excellence”. But appointments to the board should not be made on cognitive diversity alone; it's imperative that individuals should also possess the relevant skills and expertise. To give a simple example, if, say, a non-diverse group of mathematicians

added a person to the group possessing a diverse background but who was innumerate, the diversity would count for nothing if that person was unable to contribute to discussions. The group's blind spots would remain unchanged. In summary, if promoting board diversity was simply about appointing directors with different backgrounds, those critics who point to a “trade-off in the excellence of board quality” would be right. The mistake they made - and it's probably the biggest misunderstanding - is that people need to bring diversity and relevant skills, knowledge and experience. Diversity should not mean compromising quality.

What's required, then, is for boards to widen the net when recruiting so that contact can be made with people who have relevant skills and different backgrounds. It's true that these people may be fewer in number than “traditional candidates”, which means that boards and their recruiters need to spend more time looking for candidates outside of the traditional pool. This could well mean looking for candidates who do not have the traditional background of a director, and who are consequently out of the line of sight when shortlists are traditionally compiled. This, of course, goes to the very heart of the matter.

“We simply need the smartest, most capable and knowledgeable directors on the board”

Bringing diversity to the board, as we have seen, does not mean appointing individuals lacking relevant skills. Diversity is about bringing different perspectives to bear on problems, which is only possible if individuals have appropriate expertise. Diversity would not be needed if the problems faced were straightforward, boards could rightly rely on relevant experts. In reality, however, board decisions are complex and multifaceted, with judgements needing to be made. Board appointments should not, therefore, simply be about looking for the smartest people; candidates need to be cognitively diverse as well.

“It's about the board making correct, accurate decisions; diversity is a distraction”

This is an extension of the above thinking. Boards of today are having to deal with complexity, requiring finely balanced arguments and judgements to be made. Problems of this nature are best resolved by diverse boards.

Board Dynamics

Meetings can be unproductive

We have seen that improving cognitive diversity in the boardroom should improve decision-making. However there is an important proviso, which is that the meeting dynamics need to be functioning as they should, which is unfortunately not always the case.

According to the consulting firm Lucid Meetings, in 2014 something between 39 million and 56 million meetings were



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held each day in the United States alone. A separate article in the Harvard Business Review reported that employees are on average spending six hours in meetings each week, increasing to 23 hours for a typical manager. Meetings therefore matter. This is particular the case with inefficient meetings, which sap time, money and morale.

The principal reason for holding a meeting is sound enough, namely to bring together the relevant knowledge of a group of individuals - providing they are diverse of course. The meeting forum provides an excellent platform for effective decision making, collaboration, innovation and creativity. But meetings are only as good as their dynamics. If the dynamics are distorted for any reason, meetings will be rendered ineffective at best and dangerous at worst.

When we talk of board dynamics, we mean the behaviours of directors, and how they interact with each other, particularly when arriving at decisions. Unfortunately, board dynamics can all too easily become skewed, with board meetings becoming dysfunctional. Two of the most common dynamics problems witnessed in the boardroom are (i) dominance dynamics and (ii) information cascades.

Dominance dynamics

One reason for a malfunctioning board can be laid at the door of “dominance dynamics”. This occurs when one or more people “dominate” or “take over” a meeting. This phenomenon is also known as the “uneven communication problem”. When this happens, others in the meeting are much less inclined to contribute, which completely undermines the reason for their being appointed to the board. Not unsurprisingly, the deleterious effect of dominance dynamics is made worse if the dominant member also happens to be the CEO. This becomes more insidious when dominant individuals lack self-awareness to the extent they are unaware they are acting in a domineering manner. This presents a real problem for governance professionals: self-awareness has long been regarded as a key attribute for directors, let alone the CEO.

Dominance dynamics is affected by meeting size. In a six to eight person meeting, it has been found that two people do 60% of the talking, the problem getting progressively worse as the group gets bigger. Dominance dynamics is particularly destructive for cognitive diversity. This is because if board meetings are characterised by a CEO or small cabal of executive directors dominating proceedings, the benefits of diversity will likely be lost, being “squeezed” from the boardroom.

Dominance dynamics often occurs when directors are asked to comment after the CEO has spoken on a proposal. The problem is that if the CEO speaks first, other directors may withhold their thoughts either because they are concerned about how this might look to the CEO or because they believe the CEO has

already considered the points they were going to make. Either way, holding back information from the meeting undermines the very reason for instilling cognitive diversity in the boardroom.

Information cascade

Another problem affecting the dynamics of board meetings is the appearance of information cascades. This happens when decisions are made based not on what is known, but instead on inferences made from observing the actions of others. Information cascades happens when people in the group mirror the actions of those who enjoy a particular rank or status, reinforcing what's been said or done. The effect can be destructive, even fatal in some cases.

In board meetings, information cascades can be found where, for example, the practice is for the CEO to start discussions on topics, perhaps by commenting first on a presentation. The effect is much the same as seen with dominance dynamics, with directors following the CEOs lead without offering constructive challenge. When this happens, the first director speaking after the CEO supports (mimics) what the CEO has said and subsequent directors do the same, becoming progressively more difficult for those directors “down the line” to voice alternative views.

Dealing with board dynamics problems

There are some simple strategies that can be used to alleviate a dominance problem in the boardroom. For example, each director can be asked to comment on a proposal or topic before the CEO has spoken. Another technique is to pause the meeting so that directors can reflect on what's been said. However, it must be said that a dominant CEO lacking self-awareness could well defeat these strategies and others.

The takeaway from this brief review of board dynamics is that appointing new directors with diverse backgrounds will only improve cognitive diversity in the boardroom if the board dynamics are sound.

Board evaluations

The important role played by board dynamics in improving diversity is an important reason for boards to be evaluated annually, with an independent third party evaluator periodically conducting this. An essential element of the evaluation process is to review the functioning of a board's dynamics, identifying any relationship issues and providing insightful recommendations. This requires a skilled evaluator, trust, and a robust peer review process.

Why greater diversity is not always the right answer

This article has so far posited cognitive diversity as an unalloyed good in the boardroom. However, there are some scenarios

where introducing different thinking styles may hinder rather than help boards. The first situation is if boards are required to deal with problems requiring objective solutions. Problems of this nature are best served by an expert in the field; diverse opinions will be an unnecessary distraction. In practice, however, most boards are having to grapple with complex problems, requiring consideration of many factors with different outcomes. For these types of problems, boards need diverse thinking and a holistic approach to decision-making. A second scenario where diversity can be unhelpful is after a decision has been made and needs to be implemented. A good example is where the board has approved a strategy. What's needed at this stage is for the CEO to deliver on that strategy; to get the job done. Offering diverse opinions in the execution phase of a decision is likely to confuse and procrastinate.

Cognitive diversity in a nutshell

All boards have an overriding duty to carry out their stewardship duties effectively. This requires directors to have an effective decision-making process, which in turn means they must be

capable of diverse thinking. Possessing the necessary skills, knowledge and experience is not enough for board directors. Effective problem solving needs boards to see the full picture when deliberating, meaning a picture that's free of the blind spots otherwise present if directors were not diverse. Cognitive diversity – or diversity of thought – is much more than something that's nice to have, it's a fundamental requirement for all boards. ■

*The article has been authored for **Nasdaq Governance Solutions** by their internal team.*

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