

What difference does a diverse board make?



The results of a landmark new report into the composition of executive boards suggest that a more diverse boardroom means happy shareholders. **Randall S Peterson** and **Vyla Rollins** at the LBS Leadership Institute explain why

The boards of FTSE companies today look very different to how they did a decade ago. But while many boards have become noticeably more diverse, primarily in terms of the representation of women, relatively little research into the impacts of these changes had been done until recently. In partnership with London Business School's Leadership Institute and SQW, the Financial Reporting Council (FRC) set out to change that, with the most comprehensive study of board diversity and effectiveness in FTSE 350 companies yet.

The unique research methodology used quantitative and qualitative data, including extensive interviews with over 75 senior board members in FTSE organisations and an assessment of boardroom interactions, to assess the impact of shifting dynamics in the boardroom and how progress can be accelerated. The primary focus of the report is on demographic diversity, rather than individual differences such as personality, functional diversity or neurodiversity. London Business School's Randall S Peterson and Vyla Rollins

explain why the report's findings are a watershed moment in advancing diversity in the boardroom and in business more broadly.

Why is board effectiveness so important and how does it relate to diversity?

"Look around," says Vyla Rollins. "There's no denying we're living through turbulent times. In order to operate successfully in a hyperconnected, ever-changing business landscape, organisations must be resilient. Many organisations are also becoming larger, making them more complex and putting more jobs on the line when challenges arise."

Diversity is key for organisations trying to move towards a more sustainable way of operating. Diverse perspectives at board level can help organisations better address their global and local impacts by offering additional insights into the different communities affected by their work. Vyla elaborates, "There is so much evidence-based insight out there that shows us that diverse groups or teams

that are proactively managed can make a real difference to an organisation's bottom line. That bottom line is what allows them to operate and prosper."

There have been many studies into strategies for effective leadership but, until now, researchers have been unable to prove that there is a correlation between diversity and effectiveness at board level.

Vyla explains, "We were really keen to provide substantive analysis to help us move on from the 'business-case argument' for diversity. What I mean by this is, over the past 20 years we've seen a case made based on the value a diverse board brings to an organisation, their boards and their stakeholders. This is often referred to as 'the business case for diversity'. That said, research over the past 15 years has shown that promoting the business case can be problematic, because it places an added burden on marginalised groups that is simply not expected of those who don't experience inequities. This evidence-based finding is also exacerbated by the fact that a

38 THINK AT LONDON BUSINESS SCHOOL ISSUE 2 2021

LONDON BUSINESS SCHOOL

THINK AT LONDON BUSINESS SCHOOL ISSUE 2 2021 37

Sustainability

increasing the numbers of underrepresented constituencies on your board, or within your workforce, does not automatically produce benefits. To reap the benefits of the multiple aspects of the concept of diversity, one of the critical factors required is the active and mindful facilitation of diverse groups."

What do we even mean by 'diversity'?

"One area where we've been successful in moving the conversation forward has been in interrogating what we actually mean by 'diverse'," Vyla says. "When Randall and I were putting together the research protocol, we discussed different working definitions we could use. In the end, we decided that we just needed to put the question out there and see what people came back with - we had the hypothesis that part of the difficulty boards or organisations face in cultivating 'diversity' is that people often have vastly different working definitions of what that means."

Was it worth it? "I believe it was one of the most pivotal decisions we made in thinking about how we would approach the research. As we thought, it showed us how differently people think about diversity, which types of diversity were top of mind for them and their organisations, and which types they didn't mention at all." Vyla believes there is a lesson for scholars and practitioners here. "We need to keep these variations in mind as we continue to discuss diversity and not miss the opportunity to keep on raising awareness about the full spectrum of diversity that exists."

What can we learn from progress on gender diversity?

While the report also assessed ethnic and socioeconomic diversity at board level, far more progress has already been made in terms of gender diversity - meaning there's more data available on the effects of increased numbers of women in the boardroom. While the typical board member is still a white male with at least one degree from an elite university, around 36% of board members at FTSE 100 companies are women. In fact, more than half of FTSE 350 companies have exceeded the [Hampton-Alexander Review](#) target of 33% female board members. The research also found that boards with higher levels of gender diversity enjoyed higher stock returns and were less likely to experience shareholder dissent. Common features of boards with more women include:

- a decentralised approach to how they operate, with stronger committees
 - more instances of a consensus being reached before important decisions and fewer major decisions being opposed by substantial chunks of the board
 - greater focus on a fairer approach to recruiting new directors
 - reduced overconfidence in the board's problem-solving skills.
- On top of this, the research indicates a number of other, less-tangible benefits to demographic diversity. These include increased firm reputation, greater focus on corporate social responsibility and higher levels of innovation.

Diversity is a long-term investment - but it's worth it

Diverse boards create an opportunity to draw on a wider pool of information, perspectives and competencies in order to make

decisions and drive change. This tends to lead to better, more sustainable outcomes - but it's not without challenges.

The first challenge is simply sorting through the varying perspectives to identify the ideas that will create the most impact. All too easily, board members can end up talking at cross purposes or past each other, or just trying to promote their own view. If this begins to interfere with the board's social cohesion, relationships can quickly sour. If conflicting views are allowed to morph into personal conflict, negative assumptions, factions and misunderstandings quickly flourish. This not only creates an unpleasant working environment for board members, but damages their collective output by reducing information sharing and debate. To avoid this, boards need to recognise that building and maintaining diversity requires not just proactive planning, but consistent monitoring, prioritisation and cultivation.

Moreover, leaders need to be in it for the long haul. According to Professor Peterson, "On average, our data indicate that it takes around three to five years for organisations to start seeing a marked business benefit that extends beyond the remit of an individual board member's day-to-day role."

It's helpful to think of this time as not just the cost period for an organisation, but a window to maximise opportunity. In fact, the report found, time and time again that the organisations that were willing to invest in diversity because they believed it's 'the right thing to do' were the same organisations that ultimately

enjoyed the most extensive business benefit. "If we look at the people who are doing well, it's not one demographic or sector - it's places with a positive culture around inclusion of diverse backgrounds and perspectives," says Professor Peterson.

A growth mindset is key

Leaders working to diversify their cohorts will inevitably make mistakes. The good news is that accepting that inevitability means they will be adopting a 'growth-mindset' approach to diversity - taking a learning and developmental approach to working to diversify, and focusing on building their capabilities, skills and mindsets with respect to diversity as time progresses.

Adopting a learning mindset in the boardroom helps directors overcome a sometimes paralysing fear of doing the wrong thing. "If you look at the boards that had really positive stories, it all comes down to behaviours," says Professor Peterson. The researchers suggest that board members should take a moment to ask themselves what went well after every meeting, what didn't go so well, and what could they learn. Setting aside time to reflect on this leads to more productive meetings and therefore more effective boards. As Vyla observes, "You can't think your way into cultivating diversity or making change. You have to be confident enough to actually try some different things and start having those different conversations."

Establish clear rules of engagement

Other recommendations from the report include establishing clear and transparent rules of engagement across the whole organisation, encouraging a culture that rewards information-sharing, and managing offline conversations between board members.

Many boards have also found that they need to recruit by skills, rather than position to get diverse candidates through the door. Professor Peterson explains that, all too often, directors find themselves in the difficult position of trying to hit their diversity targets while also recruiting from a small pool of mostly white, male



senior leaders. "If you're looking for a CEO or a CFO, but you're also looking for a woman or someone who isn't white, that's a very tight brief. The pool of diverse talent at that level isn't as small as some people would have you believe, but it isn't endless either. Focusing instead on how individuals could bring the desired skills to the table with a non-traditional set of experiences suddenly opens the door to a much broader range of candidates."

Board members also need to be willing to invest in building junior talent, so that they'll be ready when the time comes to step into leadership roles, says Professor Peterson. "Some of the boards that were really invested in nurturing talent had made individual directors responsible for a network of potential candidates from all kinds of backgrounds."

There's no guarantee that all these candidates will be offered a job with a specific organisation, but a willingness to mentor diverse talent in order to prepare them for future opportunities could enrich the whole sector. Vyla believes it's a question of responsibility. "We support existing guidance that states that the continued professional development of board members is one of the responsibilities of the board chair. Let's start thinking about what it would look like to expand that definition to include individuals who have a lot of potential to ultimately sit on a board, but maybe need some strong support and sponsorship to help accelerate their board readiness. I believe the business community needs to think about this as a collective action. This isn't just about altruism - it's about how organisations start to work together to tackle this phenomenon across the business community."

This is just the beginning

The report makes a strong statement about how diversity is not only an ethical imperative, but is also a tool for improving organisations - but there is still a long way to go. Despite huge advancements in gender equality, women still only account for 3% of executive director and chair roles. There's an even longer journey ahead in terms of ethnic diversity. In 2020, just 7% of directors came from an ethnic minority background. Overall, 59% of FTSE 350 companies fell short of the target set by the [Parker Review](#) in 2017 of having at least one director from an ethnic minority background, and the 2020 update revealed very little change. Professor Peterson hopes the report will motivate firms to move forward with pursuing their targets - as well as encouraging discussions about why progress can be slow. "We need to open the conversation, even when it's challenging, and be able to talk openly about how we continue to change to create boards that represent their workforce and customers."

For Vyla, getting people to think differently about diversity is key. "It's great to be able to share evidence-based insights, but for those insights to have any impact, we have to get people not only talking and thinking differently, but ultimately doing things differently. I'm proud of the conversations and actions we've already contributed to that have manifested in organisations since the publication of the report." □

Randall S Peterson is Professor of Organisational Behaviour, Academic Director, Leadership Institute at London Business School. Vyla Rollins is Executive Director of the Leadership Institute at London Business School.