

Cognitive Diversity and Board Performance

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 or culture. Whatever the reason for stifling diversity, it matters. It matters for diverse people who are prevented from realising their potential and life chances. It also matters for the well-being of greater society, whose cohesiveness depends on people being treated fairly. Lastly, it matters for organisations that are cut off from a rich source of human capital.

We look at diversity through a narrower lens, focusing on diversity in the boardroom. We narrow the lens further 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). 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.

In taking a closer look at the transformative effect of cognitive diversity on board performance, we consider:

- 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 Sustainable Development Goals (SDGs) concerned with gender equality and inequality. Whilst many people unhesitatingly say that greater gender and ethnic diversity is good for 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.¹

¹ Matthew Syed: The Power Of Diverse Thinking (2019). <https://www.matthewsyed.co.uk/resource/rebel-ideas-the-power-of-diverse-thinking/>. (www.matthewsyed.com.)
Prof Leigh Thompson, Kellogg School of Management - various publications. (www.leighthompson.com).
Prof Scott E Page: "The Diversity Bonus: How Great Teams Pay Off In The Knowledge Economy" (Princeton University Press 2017) <https://press.princeton.edu/books/hardcover/9780691176888/the-diversity-bonus>.
Prof Scott E Page: "The Difference: How The Power Of Diversity Creates Better Groups, Firms, Schools and Societies" (Princeton University Press 2007). <https://press.princeton.edu/books/paperback/9780691138541/the-difference>.
Case Sunstein and Reid Hastie - Wiser: Getting Beyond Groupthink To Make Groups Smarter (Harvard Business Review Press 2014): <https://store.hbr.org/product/wiser-getting-beyond-groupthink-to-make-groups-smarter/2299>.

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, frames of references and thinking styles. The board will therefore have a 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 is not enough.

Diversity Science and Board Performance

Diversity has been defined 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 that get it right.

In one U.S. study, 28,000 professional economists were polled to predict a number of future economic indicators (i.e. GDP growth and inflation).² The results showed that the predications 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 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 that 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 a complex problem. Problem solving needs the collective intelligence that a diverse group – like a board – can provide.

"Fake News": Don't Believe Everything You Hear

Cognitive diversity clearly has a role to play in board effectiveness. Organisations should therefore be looking at how they can benefit. But are they benefiting? 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 be a "trade off with excellence". But board appointments should not be made based on cognitive diversity alone; it's imperative that individuals also possess the relevant skills and expertise. To give a simple example, if 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, relevant skills, knowledge and experience. Diversity should not mean compromising quality.

² <https://faculty.wharton.upenn.edu/wp-content/uploads/2012/09/The-Wisdom-of-Small-Crowds.pdf>.

What's required, then, is for boards to widen the net when recruiting in order to make contact with people who have relevant skills and different backgrounds. It's true that these people may be fewer in numbers 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 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 the 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 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 complexities 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. This is unfortunately not always the case.

According to the consulting firm Lucid Meetings, in 2014 somewhere between 39 million and 56 million meetings were held *each day* in the U.S. alone.³ In addition, a Harvard Business Review article 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 specific to 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.⁴

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, causing board meetings to become dysfunctional. Two of the most common dynamics problems witnessed in the boardroom are (i) dominance dynamics and (ii) information cascades.

³ <https://blog.lucidmeetings.com/blog/fresh-look-number-effectiveness-cost-meetings-in-us>.
See as well: <https://hbr.org/2017/07/stop-the-meeting-madness>.

⁴ Prof Leigh Thompson, Kellogg School of Management: <https://hbr.org/2013/11/the-new-rules-of-breakthrough-collaboration>,
<https://store.hbr.org/product/creative-conspiracy-the-new-rules-of-breakthrough-collaboration/10617>.
Reid Hastie and Cass Sunstein: Wiser: Getting Beyond Groupthink To Make Groups Smarter (2015) <https://store.hbr.org/product/wiser-getting-beyond-groupthink-to-make-groups-smarter/2299?sku=2299E-KND-ENG>.
Cass R. Sunstein and Reid Hastie: Making Dumb Groups Smarter (2014): <https://hbr.org/2014/12/making-dumb-groups-smarter/> /
Matthew Syed: <https://www.cityam.com/swap-your-offices-dominance-dynamics-for-cognitive-diversity/>.

Dominance Dynamics

One reason for a malfunctioning board can be laid at the door of "dominance dynamics".⁵ This occurs when one or more people "dominate" or "take over" a meeting. This phenomenon is also known as the "uneven communication problem".⁶ When this happens, others in the meeting are much less inclined to contribute, which completely undermines the reason for them being appointed to the board. It's no surprise that 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 corporate governance professionals: self-awareness has long been regarded as a key attribute for directors, let alone the CEO.

Dominance dynamics are 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.⁷ Dominance dynamics are particularly destructive to 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 and "squeezed" from the boardroom.

Dominance dynamics often occur when directors are asked to comment after the CEO has spoken on a proposal. The problem is that if the CEO speaks first, directors may withhold their thoughts either because they are concerned about how it 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 Cascade⁸

Another problem affecting the dynamics of board meetings is the appearance of information cascades. This happens when decisions are made based 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 occur when 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 CEO's lead without offering constructive challenge. When this happens, the first director to speak 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.

⁵ Matthew Syed: <https://www.cityam.com/swap-your-offices-dominance-dynamics-for-cognitive-diversity/>.

⁶ Prof Leigh Thompson, Kellogg School of Management: <https://scholaron.com/textbook-solutions/solutions-for-making-the-team-4th-edition-chapter-6-3-92275-9780136090038>.

⁷ Prof Leigh Thompson and Prof J. Jay Gerber, both Kellogg School of Management: <https://hbr.org/podcast/2013/04/the-truth-about-creative-teams.html>.

⁸ https://en.wikipedia.org/wiki/Information_cascade#:~:text=An%20Information%20cascade%20or%20informational,as%20a%20two%2Dstep%20process.

Board Evaluations

The role that board dynamics play 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 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

Cognitive diversity is 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 have 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 have 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 may not be helpful is after a decision has been made and needs to be implemented. A good example is when 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 requires 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 (diversity of thought) is much more than something that's nice to have, it's a fundamental requirement for all boards.

Nasdaq Governance Solutions supports organizations worldwide with innovative corporate governance solutions. Ranging from board portal technology to board engagement services, these solutions are designed to help boards, committees, and executive leadership teams optimize their collaboration activities and evaluation processes and drive governance excellence. To learn more, visit: www.nasdaq.com/solutions/board-evaluations.