



The Ethics of Diversity

This board briefing presents a summary of the key conclusions and recommendations of the IBE's recent report on ethics and the diversity of boards.

The business case for diversity on boards remains compelling. The board is the most important team in the company and sets the tone for the whole organisation. It relies for its collective effectiveness on the individual contribution of every board member. It is well established that diverse teams make better decisions, and the board is no exception.

And the need for greater diversity of thought and life experience on boards has never been more acute. The resourcefulness and adaptive capacity required to address the challenges of the pandemic and beyond has demanded innovation at the very top of every organisation. The collective skillset of boards will need to continue to change and adapt, and some of the fresh thinking will need to come from broadening the experience and perspectives around the boardroom table.

2020 was a stark reminder that the world is much more interconnected than we had thought. Companies are now more aware that they are part of a delicate stakeholder ecosystem and that ensuring that 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. 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.

Our report reflects on a decade-long effort to improve gender diversity on boards. We raise some challenging questions about the pace of progress and what has been achieved. But most of all we want to look forward, to learn the lessons from that push on gender and to suggest how boards

should respond as the focus shifts rapidly beyond gender to address ethnicity and the many other dimensions of diversity.

Our conclusion is stark. Whilst there is much to feel good about in the progress that has been made and increasing evidence of the quantifiable business benefits that increased gender representation on boards has brought, 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 are approaching the various dimensions of diversity on their boards sequentially, focussed only on meeting those targets and with a compliance mindset (the 'one and done' approach). They have missed the opportunity to broaden the life experiences around the table and bring very different ways of thinking into the boardroom. Targets remain an important measure of progress but they are not the goal.

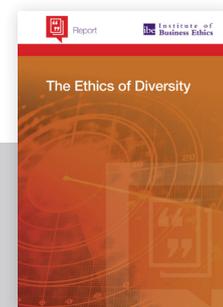
That approach is not sustainable. As society increasingly looks to companies to play their part in addressing inequalities and injustice, companies face mounting pressure for change that is coming fast, from all sides. Investors have already raised the bar for businesses and are holding accountable those that are lagging; greater transparency is allowing customers to make better informed choices; and employees increasingly want to work for businesses whose values they recognise and share. Getting ahead of the curve is the only way to avoid being overwhelmed by pressures that are not well coordinated, and real change has to start with the board, as the face of the organisation.

Our report ends with a series of practical recommendations as to how a board can embrace different life experiences and blend a wider range of thinking around the table. These are summarised below, but delivering on the promise of greater board effectiveness and closer stakeholder relationships requires an authentic drive for change and a genuine commitment to inclusion.

Diversity in the boardroom means more than gender and colour, and has to move beyond targets; it is about genuinely embracing and leveraging differences, valuing and blending very different life experiences and a much wider range of thinking around the table.

The business case for diversity is stronger than ever. The ethical case is overwhelming. Boards need to take action.

You can download The Ethics of Diversity report here:
<https://www.ibe.org.uk/resource/ethicsofdiversity.html>



The IBE's purpose is to champion the highest standards of ethical behaviour in business.

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

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Our key recommendations

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 or challenge, and an easy path to consensus as evidencing effective discussion, decision-making and oversight. Trust is not tested by focusing on areas where there is already an alignment of views.



Suggestions:

- ✓ integrate an analysis of differences in thinking and experience into the skills matrix that informs the work of the Nomination Committee
- ✓ ask board members in an informal session to reflect, share and discuss the company's values and what they mean for each person around the table, sharing examples of life experiences and values-based decisions
- ✓ consider more structured self-reflection with the help of psychologists or a wide variety of personality assessments, all of which should help surface areas where groupthink is a risk
- ✓ run scenario exercises to understand their responses to a crisis, building in ethical dimensions to tease out differences where there isn't an objectively 'right' answer

2

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

Boards should:

- understand and be able to explain how diversity links to their company's strategy
- recognise and explain 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.

Putting the business model at the heart of the discussion will help. Achieving greater clarity on why a company is in business, what it does and how it does it, and the stakeholders that the company supports and relies on, will help identify where and how diversity can be a competitive advantage (through greater employee engagement, better decision making and improved talent management, for example).



Suggestions:

- ✓ see limited diversity of thinking within the organisation as a key strategic risk
- ✓ ensure that efforts to instil broad diversity and inclusion expectations go beyond process and focus on defined and measurable outcomes and ensure that search firms play their part
- ✓ role model what they expect from the wider organisation, listening out for challenges, obstacles and potential biases that may permeate the workplace, and swiftly and openly address the challenges that they do come across
- ✓ ensure that the advantages flowing from diversity are reflected in the board's reporting on section 172 of the Companies Act, giving examples where diverse thinking has remedied issues, delivered better solutions, created untapped opportunities and facilitated more robust and effective discussions

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 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.**

It may be harder to reach consensus when a team is diverse but it will be a stronger consensus when achieved. A healthy board is one where board members do not always agree with each other, where the board culture encourages the collation and consideration of a wide range of views alongside those of management, allows thoughtful and constructive debate and disagreement, and where dissenting views are valued and heard. This requires high levels of openness and trust. If open debate is not evident, there is a risk that views are either being suppressed (with decisions dominated by the views of a dominant individual or group), that board members remain ignorant of alternative options and perspectives, or that groupthink dominates. Any of those situations will lead to poor decision-making.



Suggestions:

- ✓ allocate more time for key issues by differentiating key items for discussion and debate from those items which are routine business. Routine business should be moved to the end of the agenda, streamlined and discussed only by exception
- ✓ ensure that the board papers include 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 recommendation but to ensure that the board hears from an advocate for the alternative positions
- ✓ invite in representatives from stakeholder groups and actively listen to their views
- ✓ not forget that they can say no. If a workable compromise cannot be reached, the proposal should be rejected and sent back for more work
- ✓ spend ten minutes at the end of each meeting, as part of the private session, candidly reviewing the discussions that have just taken place
- ✓ ensure that the minutes of the meeting reflect active debate and constructive challenge

The role of the board chair is vital in setting the tone for the meetings. 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.

4

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

Boards should:

- push their 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 you want to have in the boardroom, not criteria which reinforce groupthink
- consider candidates from well 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 groups. Too often, that does not result in a sufficiently diverse candidate list. Boards have to avoid tokenism in the appointment process if they are to identify fresh thinking and different perspectives from potential new board members.



Suggestions:

- ✓ be willing to have a board nominations process that is longer and more challenging and to see more candidates
- ✓ challenge their Nomination Committees to go beyond the traditional skills matrices and industry experience gaps to include potential candidates who are new to a board or who have significantly different life experiences. Boldness is required, and many of the best candidates may not fit the mould of what, historically, the typical non-executive director looks like
- ✓ go beyond the standard language about 'welcoming applicants from a diverse background' by ensuring that the role profile reflects a genuine desire to seek out fresh views and experiences
- ✓ openly advertise board roles and commit to a more open and transparent process (along the lines of the process for appointments to public sector roles)
- ✓ hold search firms to account if they are not delivering a range of candidates that bring different thinking and different life experiences. Boards should ultimately be willing to move mandates if it appears that the 'usual suspects' are populating long lists
- ✓ be prepared for much greater challenge from shareholders on nomination processes that fail to deliver sufficient diversity

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
- look at the experience of existing board members in terms of other boards they serve on and honestly 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 fully the role they are being asked to fulfil.



Suggestions:

- ✓ 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
- ✓ look beyond the traditional skills matrix to address leadership style, and beyond traditional requirements of related industry exposure to identify complementary experiences which may come from a very different sector
- ✓ ensure that the appointments do not reinforce groupthink or unfairly pigeonhole individuals (for example, defaulting an individual with HR or legal background to the remuneration committee or a finance background to the audit committee)
- ✓ empower and encourage the chairs of board committees to innovate and challenge previous thinking and established ways of working

6

Learn from the experience of improving gender balance on boards and 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 completed 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 your 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 successfully 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 the sustained efforts to improve gender balance, including some of the pitfalls, but addressing other dimensions of diversity and breaking down the barriers to progress for other marginalised groups will require unique tools and different strategies. Progress requires an open and honest dialogue. Starting conversations about issues of power, race, representation and inequalities is often challenging and this is not helped by the constantly evolving terminology and the fear of causing offence. It is vital that the conversation happens in the boardroom.



Suggestions:

- ✓ have their own open, constructive and challenging conversation about race. If the most senior team in the company cannot do this, how can they expect the discussion to happen lower down in the organisation?
- ✓ engage groups like Open for Business and the Valuable 500 to help frame the difficult questions that boards should be asking themselves
- ✓ kick-start a broader dialogue by making executive appointments that signal diversity and inclusion is moving out of the traditional realm of HR policies and procedures

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/authoritative voices that are different to the voices of management
- anticipate rapidly evolving investor expectations on diversity and inclusion and other board governance considerations such as director independence 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 that is more representative of the company's broader stakeholders and the communities it serves will be a vital part of achieving that. Individual directors who can bring the insight and perspective of a key stakeholder group should be at a premium.



Suggestions:

- ✓ offer up their individual contacts and connections and offer to invite external voices to spend time with the board to broaden their perspectives
- ✓ reflect on the experiences of the pandemic: were directors 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?
- ✓ be prepared for much more scrutiny from investors in these areas and get ahead of the curve; playing catch up to a fragmented set of stakeholder requirements will be enormously challenging

8

Communicate your aims and milestones internally and externally

Boards should:

- **understand the importance of diversity 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. Achieving an inclusive culture needs a consistent and persistent push from the very top of the organisation; ensuring a consistent tone from above requires endorsement through all intermediate layers of management. 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 must 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.



Suggestions:

- ✓ ensure they have deep knowledge and oversight of the company's diversity and inclusion plan and hold executives to account on key deliverables and milestones
- ✓ be actively listening to identify and address any barriers that may stall progress
- ✓ consider introducing relevant key performance indicators and metrics into annual bonus plans and long term incentive plans
- ✓ be sensitised to the risk that local, micro-cultures are allowed to persist which do not reflect the standards required
- ✓ ensure that employees see decisive action being taken when there is a local failure
- ✓ ensure that gender pay gap reporting demonstrates the wider societal impact of the company's efforts (for example, by linking initiatives to the UN Sustainable Development Goals)

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.

A more challenging board evaluation process is needed to unpick existing board debate and decision-making processes and head off the risk that the evaluation process itself reinforces groupthink. The review should focus on areas where there has been disagreement and to reflect, with the benefit of hindsight, on areas where the decisions taken by the board, even if they reflected a clear and easy consensus, did not work out. The evaluation must go well beyond the board's inner workings and reflect the perspective of a broader range of stakeholders.



Suggestions:

- ✓ be prepared for far more difficult conversations in the evaluation process
- ✓ consider the view of the board from the perspective of a broader range of stakeholders, including major shareholders, as well as how the board is perceived through media reports and in customer, investor and employee sentiment surveys
- ✓ ensure that there is a robust action plan in place to address the issues identified

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 the 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 and step up to an important role in addressing inequalities in society. Stakeholders are increasingly looking to boards for leadership and only a diverse board can deliver on such expectations. Boards must seek to address the root cause of these issues, not only the symptoms.



Suggestions:

- ✓ be prepared to address 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
- ✓ ensure that there are strong ethical dimensions in the framing of the questions asked and the solutions presented. Sensitivity and understanding the perspectives and experiences of others need to be at the heart of how a board responds