

Board Diversity and Effectiveness in FTSE 350 Companies

These questions were submitted at the report launch and we were unable to answer them due to time constraints. The partners on the research project agreed that it would be useful to answer these questions as they add to the richness of the debates and the reflection that we want to cultivate as part of the research effort.

Definition of diversity & types of diversity

Q. The research sets out that Personal / Neuro / Personality are top of mind when it comes to diversity - presumably to bring in different perspectives. I wonder how many boards seek to 'measure' cognitive [diversity?] in a robust manner?

A. We find that boards, largely, do not formally assess this. They make judgment calls in interviews, which as we know often leads to bias in selecting people from similar backgrounds. There is an opportunity here, as board evaluators and educators could help boards to do this in a systematic way.

Q. What is 'other' in terms of 72% of conversation re definition of diversity?

A. The chart referred to (p.27 of the report) shows the original definition of diversity provided by directors. As we gave them freedom to define diversity in any way they liked this gave rise to a wide range of definitions, many of which were unique or infrequent responses, which are categorised as 'Other'. We felt it was more meaningful to examine the prioritisation of responses, which we did in two additional charts showing 1) the first response given by directors and 2) those deemed to be 'most important' (emphasised or repeated). The 'Other' category is extrapolated further in these analyses, which can be found on page 28 of the report.

Q. Did these results of how diversity is defined / how it matters vary depending on how diverse board is today?

A. It did depend on how diverse the board is in two ways: 1) More diverse boards talk more about demographic diversity, and 2) only low diversity boards talk about merit and judging each individual regardless of gender or ethnicity.

Q. Neuro diversity is usually applied to mental health e.g. autism spectrum. Do you mean cognitive diversity i.e. different perspectives and approaches in terms of thinking?

A. Neurodiversity, in the way we have conceptualised it, stems from the belief that all humans vary in terms of neurocognitive ability (e.g. the range of cognitive functioning, associated structures and processes of the central nervous system). For some people the ways they learn and where they operate on that continuum can be more pronounced; and yield different results depending on the environment they operate in, role expectations, and awareness and skills of others engaging with them. Our belief is being neurodivergent is not a deficit but simply a difference in processing and seeing the world in which

we live, and can lead to individuals to see business challenges and opportunities in unique and innovative ways.

Q. Were there boards who said neuro/personality diversity matter, generally more white or male? Were they more, less, or neutral in effectiveness?

A. No particular pattern here.

Research methods

Q. So there were 25 companies [just 7% of the FTSE350] - what does the 71 Directors views represent as a % of FTSE350 Directors. ? maybe only c2% - thinking about the population size being representative of overall views

A. Because we have data on the entire 350, we looked closely at how our sample compared to those data, and they are remarkably similar. This would suggest that our interview sample reflects the full 350.

Q. Do you think the huge difference in firms' size would have effect the level of diversity between small and large companies?

A. Yes, this is a study of the FTSE 350, and by definition they are large. That being said, they probably represent many other firms as well. What we do see is the bigger the firm, the better they do on diversity of all types, suggesting that smaller companies are struggling to deliver on diversity.

Q. Do you think the lack of other diversity metrics, besides gender or ethnicity, had an impact on the findings of the research?

A. Perhaps, but as we saw, each different type of diversity has its own challenges and success in one is no guarantee of success in the next. There is a degree of independence about each type of diversity.

Q. Q-Sort perspectives are very interesting; eg: what does a "bottom-up" board style actually imply?

A. It is letting many ideas come from the directors themselves so as to 'hear' different perspectives on important issues rather than a chair/CEO proposing things and everyone saying yes or no.

Q. Did you explore the interaction between both gender and ethnic diversity on board effectiveness?

A. We did consider the interaction between gender and ethnicity - at this point we found no statistical significance (see p. 89 of the report).

Q. Slide 14 shows financial literacy at 15% in terms of importance for the board of the future - do the researchers think it looks like there is a much more fundamental problem with boards for the FRC to address?

A. This is most likely because the finance function has taken over boards during the last two decades, with most directors having a background in finance: 49% of board members in 2017 met this definition, compared with 38% in 1996*. So this skill is not high on the priority list because it is already covered.

Source: A View at the Top: Britain's Boardroom Trends in Britain's Top 100 Companies, 2019. Hyperlink: <https://www.cgi./assets/files/free-guidance-notes/a-view-at-the-top-report.pdf>

(Also answered in [webinar](#))

Q. What does the panel think what is an effective board before the Q sort score is achieved

A. Research on elite teams suggests that there are a couple of key indicators of team effectiveness, that we anticipated we would see in the most effective boards: 1) a learning culture, and 2) an openness to different views. These things did indeed appear in the Q-sort data.

Research Findings

RQ 1: How have board effectiveness and dynamics been impacted by the gender and ethnic diversity of board membership?

Q. It was mentioned that the research shows that Boards adopting diversity of thought at a slower rate have stronger performance in the long term. (i.e. Investors are most supportive of a gradual approach) Do you think this trend will continue post Covid-19?

A. One of our hypotheses about the measured rate of progress on adopting diversity of thought is a recognition that this cannot be done overnight. Its not just about dictating action; it also involves fundamental culture change which requires changing awareness, mindsets, and ultimately behaviours. However what will be interesting to watch is how boards tackle the emerging post-COVID realities (hybrid working, virtual board meetings and the impact of this on creating more diverse boards) and if this might influence their speed in dealing with expanding their thought diversity capabilities.

Q. I have noticed that there isn't much on ethnic diversity do we need to target young people of colour to encourage them to go into business?

A. Yes, the pipeline of ethnically diverse candidates is low. One way of starting to address this is engaging ethnically diverse young people as early in their life / educational / professional journey as possible. It also about fixing the leaky pipeline of people who leave mid-career, and being curious about why this is in your organisation. Often the answers you receive require a significant culture change effort to address, as opposed to just changing processes and policies or sending communiques to managers.

RQ 2: What attributes, skills and experience do today's board members expect to be needed in boardrooms of the future?

Q. How do you create Board diversity and effectiveness on Boards if Board Members cannot recognise their lack of cultural and structural competency to practically address their issues with equity, diversity and inclusion?

A. Board assessors, shareholders, and the FRC have a role to play in bringing this to light and helping boards improve in this respect. Our data suggest most boards do not have this problem, but there were a few instances.

Q. Research by the Sutton Trust in 2019 found that 34 per cent of FTSE 350 chairs had been educated at public school (the national average is 7 per cent). Wouldn't addressing this 'educational' background disparity - perhaps by quotas - automatically address

A. We find this to be true in our study as well, that public school is heavily overrepresented in the boardroom. We agree it is something that needs to be addressed but we would take a broader frame on socioeconomic status beyond just education. Requiring boards to report on socioeconomic status as a measure of diversity would enable researchers to study it, regulators to assess it, and boards themselves could use the resulting data as a consideration as they appoint the next generation of directors.

RQ3: How can nomination committees be helped to take a more objective and diversity-friendly approach to board recruitment?

Q. Within the Pandemic context, what are your views / findings about the induction process for new (& hopefully diverse) board members?

A. Boards need to recruit in ways that directors succeed. The new board member needs to be provided with honest information about the company and the board, even before they commit. Research shows that inductions which focus on what the new person brings to the table, rather than what they need to do, are more effective. It is also worth reflecting on if the board is willing to allow individuals to observe the Board in operation before they take up their offer to join. As well as what processes need to put in place to maintain confidentiality and non-disclosure. Its also important to review the processes you use to expose board members to the organisation, so they can develop a sense of how it operates and the culture. In a world where many organisations are starting to embrace the concept of hybrid working or long-term virtual working for some roles, this will be even more critical for the board to think about going forwards.

Q. Only 23% of research respondents said that ensuring the Nomination Committee was itself diverse was an important action in recruitment. What do you think that this is telling us?

A. We think this could suggest a couple of things. First, it could suggest that diversity of the Nominating Committee may "blind spot" for many boards; they may not be conscious that the

committee is diverse in itself and may influence the lenses/perspectives that are being brought, or not being brought, to the committee's remit. Secondly, it could suggest that boards are not conscious that under-represented candidates are more likely to ask difficult culture questions of others who are demographically similar to themselves, resulting in a higher likelihood of that person joining and succeeding. If candidates do not see diversity or representation in the Nomination Committee, opportunities to showcase diversity and inclusion "in action" on the board might be missed

Q. Could the speakers say a little more about how boards could increase their racial & ethnic diversity from currently very low rates? Aside from changing search firm and NOMS Cos taking more time to make diverse appointments.

A. One way of increasing racial and ethnic diversity is for board members (including the Chair) to commit to engage in activities outside the boardroom that will expose them to individuals with profiles of those that they want to recruit. There are a number of professional associations and concerns that have activities/events that board members could attend to increase their contact with underrepresented groups and develop/nurture relationships. Research has also found that those in underrepresented groups benefit more from individuals who are willing to actively sponsor their inclusion in groups than just act as mentors who simply offer advice.

Other ways include considering the concept of "shadow boards" to provide a development platform for underrepresented groups to tackle real board challenges. This also yields a side benefit of providing additional catalysts to board thinking and decisions that can easily be fed into main board discussions.

Q. As a recruiter, one of our frustrations is that the brief for new NEDs is so narrow and precise that our opportunity to present a pool of astute, talented and diverse possibilities is already limited before we have even got started on search. Do the panel

A. Sometimes a very narrow brief is necessary. If, as a recruiter, you have gaps in your network and talent portfolio, such briefs from your customer offer important insight as to where you need to focus on adding talent to your books. This is why many FTSE boards are walking past the big firms and working with smaller specialist firms who have developed networks in these very specific mandate areas. However we would say in a "narrow brief" scenario maintain your resolve to present a smattering of candidates that represent the pool of astute, talented and diverse candidates you have. That said, ensure you accompany this with insights on what specifically you believe these individuals could contribute to increasing stakeholder/shareholder engagement, as well as board effectiveness and impact.

The other challenge we would put to recruiters is to treat every engagement as an "educational opportunity" not just a "sales opportunity". It's not simply about "convincing or selling" the concept of diversity. It's about using evidence-based insights and research to raise awareness and contributing to the educational process; about the concept of diversity and how the cultivation of it can be approached in the boardroom. As well as helping Boards understand the processes that can be used to increase the effectiveness of on-boarding, inclusion, engagement, development and retention of underrepresented groups on the board. It requires focused, proactive work from each and every board member for the latter to happen, and we see recruiters and search firms as well placed to contribute to this process.

Role of investors

Q. It is to be welcomed that this important report seeks to move past the business case. I particularly welcome the acknowledgement that this has led to a pressure on marginalised and underrepresented groups to prove their value to business and to the bottom

A. As mentioned on the webinar, the scope of our research did not include looking at the concept of stakeholder engagement in regard diversity and inclusion efforts. However we feel confident that investors will have an increasing influence on the importance of having a diverse board and in ensuring an organisational is proactively embracing the concept of cultivating a diverse culture. We've seen how investors have proactively shaped the composition of boards to more effectively address areas such as ESR. There is no reason to believe this won't extend to diversity efforts emerging from boards in the future.

For more information on the research: [Board Diversity and Effectiveness in FTSE 350 Companies](#)