

Diversity and Future Corporate Boards

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Expectations of boards, the challenges, pressures and opportunities they face, and the environments, situations and contexts in which they operate are changing. The approaches and strategies boards adopt, the strategic direction they provide, and even their role, purpose and priorities may also need to change. The very notion of single solutions, universal approaches, and a board determining the best option and particular and homogenous policies to be applied across an organisation may need to be questioned. When there is a limited window of opportunity to respond to the emerging or growing impacts of an existential threat, and/or develop viable alternatives, it may be necessary to simultaneously explore a variety of possibilities and initiate multiple projects with similar aims and ambitions.

There are alternative approaches to governance that could be adopted to complement or replace a prevailing model that has been widely used beyond the jurisdictions from which it initially emerged to address deficiencies and scandals involving certain quoted companies. The need for a rethink is increasingly recognised, for example with attendees at the **2023 Annual Directors' Conclave** encouraged to consider and discuss future boards, the role they should play and the form they might take. Given lead times for consultations on any related and enabling changes of legal, regulatory and listing requirements that might be required and their implementation, reviews are urgently required. What role could and ought diversity play in deliberations on the form, membership, operation and effectiveness of future boards?

Assumptions, expectations, perceptions and practices that ensure relatively homogenous boards may be deeply entrenched. Directors might not be conscious of their operation and impact. In the rush to 'catch up' and follow others in embracing AI, do they consider how resulting biases in AI applications used in recruitment, selection and promotion decisions might perpetuate them and continue the under-representation of hitherto excluded groups? When calling for greater diversity on corporate boards, do they think through requirements relating to both current board dynamics and future strategic priorities? For example, if collaboration, innovation and collective responses are required to address climate change, does the board need more expertise on working and partnering with the public sector?

Addressing Groupthink

There was a time when directors on many boards may have given less thought to the risks of groupthink and its consequences. Unity and consensus were assumed to be important for moving forward. Their display and getting behind the leader or team was often regarded as evidence of loyalty. Much of the preparation of candidates for the boardroom consisted of a process of socialisation. It involved learning about a company's history and what it did, the market within which it operated and how the board was structured and its meetings operated, and expectations of new directors. Initiates would endeavour to absorb the ethos of a company and its traditions, observe and endeavour to fit in. For some it might have seemed rather like joining a club whose membership was restricted and a privilege.

For many companies today, groupthink could prove fatal for their survival and prospects. Situations, prevailing views within boardrooms and contexts are more uncertain and fluid. Commitment is to purposes and the achievement of outcomes, rather than to particular individuals. Preparation might involve opening up, monitoring trends and developments, identifying possibilities, understanding differences and considering options. Candidates are expected to engage, think critically and discuss as well as absorb and learn. Diversity, debate, questioning and challenge are required as events unfold and developments occur. Attention is focused on where a company should go rather than where it has been. Confirmation bias should be avoided. New members are joining a journey rather than arriving at a destination.

Groupthink and its consequences should be avoided in various other situations, for example consultation exercises, opinion polling and the collection of evidence. How a situation is perceived and what is considered significant can reflect past experiences, previous encounters, and a person's upbringing. The biases of a relatively homogenous development team may

be reflected in an application or tool and the results of its use. People sometimes assume that when technology is involved, it is 'neutral' in a way that people are not and is more objective or less biased. In reality, applications of AI and other tools can reflect the biases and priorities of those who design, programme, test and use them. Their outputs may mirror prejudice, favouritism and misinformation and discriminate rather than be inclusive.

Embracing Diversity

Greater diversity can be conducive of creativity, innovation and entrepreneurship. It could be helpful when devising more inclusive criteria and guidance and when developing AI applications. Diversity of thought, experience and backgrounds can be important when confronting groupthink, determining strategy and assessing candidates, options, opportunities, and potential collaborators or partners. These activities should be undertaken thoughtfully, as there are many aspects of diversity to consider, and individuals are the result of a mix of factors. The results of decisions may need to be monitored. For example, selecting a woman director who is likely to 'fit in' because of the same or a similar age, ethnicity and educational and social background as existing board members may achieve greater gender diversity, while missing an opportunity to extend it in other dimensions.

Discussions of diversity, enquiries and resulting reports often focus upon particular factors, whether gender, race or age. These may be important, and often are, when building a boardroom team that can relate to the aspirations, concerns and priorities of distinct elements of stakeholder groups. Observation and surveys may reveal variation in the boardroom behaviours of different communities, groups and sets of characteristics, and provide further evidence of the advantages of diverse membership. However, diversity in relation to certain factors may be accompanied by homogeneity in others, whether attendance at the same or similar schools and universities, following an established path to a board through certain roles, or participating in a development process that results in a degree of conformity.

Early and social backgrounds can sometimes have a lasting impact upon aspirations, perceptions and confidence. They can affect how someone is perceived, their career prospects and lifestyle chances. Someone from a middle-class background might assume an air of effortless superiority after graduation from a leading school and elite university. In contrast, a candidate from a poor working-class background or caste may feel an outsider and might benefit from mentoring and support. Existing directors may be unaware of those who feel 'different' in some way from other members of their peer group and find themselves in a minority. In contexts in which large numbers of

people experience economic or other pressures, it may help to have people that others who are more vulnerable might relate to.

Pushing the Boundaries

Some individuals and groups may feel more overlooked, ignored or ostracised than others. What about those from excluded communities, 'lower' castes, or who belong to the 'wrong tribe'? What about indigenous people or those with various disabilities? How might they have a voice and/or their views be represented? Should an inclusive governance system have arrangements to ensure that the interests of those likely to be affected by board decisions and corporate operations and activities are considered? The interests of future generations and other species are rarely considered by many boards. They may select new members with considerable experience of activities that damage the environment, but do not consider those from indigenous communities with a deep and instinctive understanding of living in harmony with the natural world. How might their views and wisdom be captured?

The desirability, requirements and advantages of more diversity can often also apply to other bodies and activities, such as ad hoc and more permanent board committees, advisory boards, reviews and consultations. However, not all directors and boards are sufficiently self-aware or motivated to identify or acknowledge the potential drawbacks and possible impacts of their views, perspectives and biases, and address their possible consequences. Greater diversity, like questioning and challenge, may be less welcome when encountered in the form of scepticism, probing, or even opposition to a cherished belief, development, objective, activity or initiative. It may trigger resistance and defence of the status-quo. There may also be a limit to how much change an individual or group might be willing to tolerate.

Despite an imperative for adequate diversity, care should be taken to ensure those considered for board appointments have integrity and the courage to do what is right and required, even when this is difficult. Directors should be competent and boards effective. Candidates should be able to engage in critical thought and exercise independent judgement. When radical change is needed and a board is complacent or inactive in the face of pressing challenges, looming threats or promising opportunities, some directors might need to be made uncomfortable and insecure. Carrying on as before with a cosy consensus could be a high-risk course of action. Traction and progress may require some friction and disruption, as assumptions and beliefs are challenged and new possibilities and alternatives are explored.

Considering Opportunities

Some directors are likely to have existing terms of office to run. If a board is not to become too unwieldy it may be circumspect in relation to how many new directors to appoint at any one time. Diversity may be but one factor to simultaneously consider when searching for possible candidates. Others could include the degree of change and/or risk a board is prepared to tolerate, compared with what is required. Incremental improvement may be accepted, but much needed transformational change might be resisted. In such a scenario, the challenge may be to achieve greater diversity while at the same time bringing onto a board people who are more willing to imagine, scope and advocate radically different alternative futures. In demanding, uncertain and volatile situations, some boards run out of steam. Governance requirements may change more quickly than board membership can be refreshed.

Certain circumstances may provide more of an opportunity for a board refresh to increase diversity. Indian boards that first recruited independent directors following the 2013 Companies Act may find that as members of their initial batch reach the end of their second five-year term they are searching for new directors at the same time as many others. Increased demand may push up fees, especially of the most sought-after candidates. In some jurisdictions this has been the case with eligible women candidates, whose appointment might enable a board to behave differently and in a more balanced way. Moving quickly may be advisable as and when vacancies arise. At other times, it might be desirable to increase the size of a board in order to accommodate a greater variety of experience and perspectives.

Candidates approached with a view to increasing the diversity of a board should investigate, ask questions and undertake due diligence before accepting a directorial appointment. Asking about how certain major decisions were arrived at may yield clues as to how a board operates, becomes involved and is used. Regardless of the purpose of an offer, the motivation behind it, time expectations and other commitments should be considered. However a person is engaged and used, by being a director one assumes certain legal duties and responsibilities. These can be onerous. In some cases, penalties can be severe. One's reputation may be on the line. Joining a board to 'make up the numbers' as a token member of a particular gender, age group, or other community can be risky, as can viewing an offer as a reward for long service.

Unity and Diversity

While a degree of consensus may be required for progress to be made on certain issues, there may be differences of view on others. A diversity of contending positions may be healthy and preferable to premature closure that prevents further

exploration of some courses of action and the discussion of alternative approaches. Unity might be obtained at the cost of truncating a debate on a change of direction and strategy which could be long overdue in relation to developments in the business environment, emerging opportunities or technological trends. There may be trade-offs and consequences to consider. For example, increased diversity of perspectives could trigger welcome reviews and reassessments, but these may impede progress and might increase uncertainty at a sensitive time.

There may be a choice between changing direction and riding out a storm. Unity cannot and should not be taken for granted. It may be fleeting or difficult to achieve, especially when issues are complex, large investments and potentially high risks are involved, specialist opinion is divided, and people shift their positions in dynamic situations and contexts. Examples could be decisions relating to new generations of technology, scientific breakthroughs, strategic procurements when colleagues continually add to requirements and costs, bids for major projects, and memberships of consortiums and roles in them. It may be advisable to remain vigilant, be flexible and avoid becoming boxed in.

Directors sometimes vacillate when being pulled in different directions by new developments and additional information. In complex situations, when there are many factors to consider, it may take time for newly appointed directors to get up to speed. Projects can overrun or fail to be delivered as additional requirements emerge and demands or suggestions for them divide opinions. Change requests can add to costs. Groups often find it difficult to admit failure, pull out or shut down. Differences may be difficult to resolve in conditions of uncertainty, if desired and up-to-date information is not available, or when a tipping point or questions of legality are involved. While accommodating a wider range of perspectives and opinions may yield a more acceptable and balanced outcome this may come at the cost of some delay.

Retaining Independence

Objectivity, critical thinking, and, while listening to others, the independence of mind to form one's own views are valuable qualities in a director. When newly appointed and first encountering various aspects of a company and its board, a director may notice many things that may be different from his or her previous experience. Some of these might raise questions. They may be taken for granted by board colleagues

long accustomed to them. During their induction phase, directors are often advised to listen in order to obtain a feel for how the board works and the dynamics of its interpersonal relations before making their first contribution. In settled circumstances, this may be preferable to jumping in with both feet.

However, in more dynamic, uncertain, and volatile situations, events can move quickly. A great deal of water can pass under a bridge between board meetings. By the time a new member of the board has settled in and assessed the lay of the land, a window of opportunity may have been missed. A process of acclimatisation, induction and socialisation into the ways of a particular board and its groupthink, absorption of an organisation's culture, and mulling over what might or might not be accepted, may blunt a director's critical faculties. Care needs to be taken to ensure that the reasons why a person was appointed, such as specifically or primarily to increase diversity, are not negated. On occasion, someone intended as 'a breath of fresh air' or recruited 'to stir things up' might be inadvertently neutralised. Trying to save a new director from embarrassment may reduce their impact.

Diversity requirements can and often do evolve. They should be kept under review. Boards should be alert to areas where members appear similar in certain respects. For example, the CEO role is often a lonely one and in relation to contemporary challenges it can also be stressful. If too many directors are insensitive to the pressures a CEO might be under, a board collectively might be unable to provide the support required. There may be few people to whom a CEO may feel able to turn. A chairman and one or more other board members might be trusted to observe confidentiality, be assumed to be concerned with the best longer-term interests of a company and be willing to act as a sounding board. Contemporary directors are in an exposed position. They should always be alert to what is happening around them. ■

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