EXECUTIVE SUMMARY

GREAT MINDS DON’T THINK ALIKE
COGNITIVE DIVERSITY IN THE BOARDROOM
SUMMARY

As one of the UK’s biggest pension providers, Scottish Widows is a significant investor in companies around the world. We have a fiduciary duty to our customers, to manage investments on their behalf to secure the best possible returns for their financial future. As an active steward and major investor, we have a responsibility to use our scale and influence to lead change across the industry. We work with our investment partners and the companies we own shares in to help them evolve their business models and support a move to more responsible business practices.

IMPACT

We believe we can have most impact by focusing on a small number of specific environmental and social themes to drive value for our customers and society.

FOCUS

Cognitive diversity in the boardroom is one of our core priorities, which we define on a three-year rolling basis. We plan to engage with our investee companies to achieve better corporate governance through broader diversity and set this as a standard against which we expect those companies to perform.
Diversity is essential in business. It not only creates an inclusive environment, celebrating people’s differences, it brings new ideas, experiences and helps reflect the society we live in.

In the boardroom, diversity is equally important. Boards guide the strategy direction of a business or organisation, so diversity of thought is essential.

Successful boards will invite challenge and diversity of thought and perspective in order to fully consider all angles of an issue. With a range of backgrounds and viewpoints, boards can become much greater than the sum of their parts. As the challenges of the future grow ever more complex, a well-balanced, truly collaborative board will lead the way.

In the corporate world the main focus on diversity has centred on achieving greater balance and equality on a number of fronts – gender and ethnicity for example. These are all incredibly important areas to address and businesses still have some way to go before true diversity has been reached, particularly at the highest levels of leadership. Diversity of thought – cognitive diversity – should, however, not be overlooked. It is, perhaps, harder to define or conceive and therefore in some ways harder to address. But better cognitive diversity across leadership teams can result in huge wins for businesses.

Cognitive diversity can be defined as ‘bringing together a range of different styles of thinking among members of a group. Factors that could lead to diverse thinking could include, but not limited, to different perspectives, abilities, knowledge, attitudes, information styles, and demographic characteristics, or any combination of these’.

While much has been written on diversity in recent years, cognitive diversity is still an emerging concept for most companies. That might be because it is difficult to measure and a nuanced concept to put into practice.

So we’ve tried to address this omission by creating a report which pulls together the key findings of academic research, alongside interviews with directors, board chairs and a board recruiter, to present the benefits a cognitively diverse board brings to a business.

In total we reviewed 17 academic journals and interviewed seven directors, two board chairs and one board recruiter.

Our research is qualitative and has been conducted in collaboration with Dr Johanne Grosvold, Associate Professor of Corporate Governance and CSR, School of Management, University of Bath.

We’ll be using this report to engage with the companies which represent our biggest investment holdings to try and encourage them to put cognitive diversity firmly on their agendas.

### Our Key Findings

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<td>1</td>
<td><strong>Cognitively balanced teams take less time to solve problems.</strong> Teams which can consolidate knowledge and are willing to learn new things resolve problems quicker. A range of educational backgrounds and experience are key contributing factors.</td>
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<td><strong>Nationality, ethnicity, and regional upbringing were cited as the most common indicators of cognitive diversity by the directors we interviewed.</strong> They also acknowledged more balanced gender representation positively impacted board dynamics but that it was not a guaranteed indicator of cognitive diversity.</td>
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<td><strong>The right leadership is essential to realise the potential of a cognitively balanced team.</strong> On their own, cognitive diversity characteristics cannot be guaranteed to deliver benefits. They need the right guidance to fully develop.</td>
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<td><strong>The chairperson’s ability to facilitate is vital.</strong> The ability to promote robust discussion and make people feel comfortable is crucial, especially when navigating comments or challenges that could be perceived as personal.</td>
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<td><strong>Regulators are taking action.</strong> Companies will soon be required to report on diversity data. Not treating the subject seriously will soon become a regulatory risk.</td>
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<td>6</td>
<td><strong>Action on cognitive diversity by companies is limited.</strong> Using publicly available information from each of our top 25 holdings, we found only one firm which specifically mentions ‘cognitive diversity’ as something they consider in their working practices.</td>
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<td>7</td>
<td><strong>There’s a positive relationship between diversity and financial performance.</strong> Numerous studies have shown that diversity leads to better long-term value creation for companies.</td>
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For more information: Read our full report
RECRUITING FOR COGNITIVE DIVERSITY IN THE BOARDROOM

RECOMMENDATIONS

BEFORE HIRING

Revisit recruitment criteria
Board criteria has lengthened significantly over recent years and it is worth revisiting which skills are essential. Rigid criteria can restrict broader representation and reduce cognitive diversity.

Widen the pool of candidates
It is worth considering candidates that might not meet all criteria, but have experience or a specific skill which is lacking from the board. For example, a CEO from a non-governmental organisation (NGO) might normally be overlooked, but they could bring vital experience and a new dimension. By identifying an individual that could cause collective challenge there is the potential to identify blind spots.

DURING HIRING

Engage with recruitment agencies
Recruitment agencies have shown their ability to increase diversity on boards and are crucial stakeholders to engage on cognitive diversity when hiring. However, agencies can sometimes be guilty of following a familiar path, so if a board is looking for something different, it is important to spell it out at the outset and work collaboratively.

ONCE HIRED

Board induction
Board members need to feel confident and comfortable in the board room to be able to ask the questions that matter. Quality inductions and support outside the board room allow time to focus on discussion and strategy during the meeting.

AFTER HIRING

Board reviews
The best way to understand cognitive diversity on the board is to test it. Psychometric testing and working style tests are a good place to start, as well as honest discussion about how well the board is functioning. Set aside time on the agenda to discuss how the board feels it addresses current and future challenges, and be open to acknowledging collective cognitive blind spots.