Great minds don't think alike: Why companies need to understand cognitive diversity

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Companies must do more to understand cognitive diversity and foster a culture of 'constructive disagreement' within their boardrooms to make better decisions, according to a new report published today.

Despite a welcome focus on improving gender and ethnic diversity within leadership positions, many companies may still be hindered by 'group think," with too many executives from similar backgrounds and similar viewpoints.

The "Great Minds Don't Think Alike" report, co-authored by Scottish Widows and Dr. Johanne Grosvold, associate professor at Bath's School of Management outlines why cognitive diversity is critical to the long-term success of companies. It also offers practical steps companies can take to improve their approach and guide their decision-making process.

Cognitive diversity is best defined as 'bringing together a range of different styles of thinking among members of a group." That can include—but is not limited to—different perspectives, abilities, knowledge, attitudes, information styles, and demographic characteristics, or any combination of these.

Scottish Widows, one of the UK's largest pension providers with six million customers, has made improving cognitive diversity within the hundreds of companies it invests in a priority over the next three years to help improve decision-making at board level. In the coming weeks, it will write to the top 50 companies it invests in to encourage them to put cognitive diversity on their agendas.

Key findings on cognitive diversity

- Cognitively balanced teams take less time to solve problems. Teams which can consolidate knowledge and are willing to learn new things resolve problems quicker.
- Numerous studies have shown a positive relationship between diversity and financial performance.

- Nationality, ethnicity and regional upbringing were cited as the most common indicators of cognitive diversity. More balanced gender representation positively impacted board dynamics but it was not a guaranteed indicator of cognitive diversity.
- The right leadership is essential to realize the potential of a cognitively balanced team. On their own, cognitive diversity characteristics cannot be guaranteed to deliver benefits.
- Action on cognitive diversity by companies is limited. Using publicly available information from each of Scottish Widows' top 25 holdings, the study found only one firm which specifically mentions 'cognitive diversity' as something it considers in its working practices.
- Regulators are taking action, proposing that companies are required to report on diversity data. Not treating the subject seriously will soon become a regulatory risk

Recommendations to boards

Companies need to be more open-minded and flexible in their approach if they are to embed cognitive diversity within their boardrooms. Before hiring, the report recommends revisiting recruitment criteria and looking again at which skills really are essential. Strict criteria will restrict broader representation and reduce cognitive diversity.

Once hired, board members need to feel confident and comfortable to be able to ask sometimes difficult and challenging questions. Quality inductions and support outside the board room will allow time to focus on discussion and strategy during the meeting, the report recommends.

The best way to understand cognitive diversity on the board is to test it. Personality and working style tests are a good place to start, as well as honest discussions about how well the board is functioning. Boards should also actively acknowledge collective cognitive blind spots.

Maria Nazarova-Doyle, Head of Pension Investments and Responsible Investments at Scottish Widows, said: "As our report outlines, the best decisions are made when there is a range of different perspectives and styles of thinking, which embrace constructive challenge and disagreement. That's why we want to foster a culture within the boardrooms of the companies we invest in of being comfortable with the idea of being uncomfortable.

"Group think limits the potential growth of our customers' savings in future. In order to deliver the best possible returns for customers it's important that boards come from diverse backgrounds, have different styles and approaches.

"But doing it in practice takes time and commitment, and we recognize that all companies can do better, including ourselves. As an active steward, we will engage with our investee companies to achieve better corporate governance through broader diversity and set this as the standard against which we expect those companies to perform."

Johanne Grosvold, associate professor of corporate governance and corporate social responsibility at Bath's School of Management, said:

"The report shows that companies are aware of the issue of cognitive diversity but are not yet taking systematic action to ensure corporate boards benefit from it. In the meantime, companies are exposed to the drawbacks of being governed by a group of people who may be characterized by narrow thinking and less diversity of views.

"Great strides have been made in the past decade at appointing female directors and now, together with pushing ahead on demographic diversity, improving cognitive diversity is a crucial action for boards that want to be best placed to respond swiftly and innovatively to challenging business environments."

More information: Great Minds Don't Think Alike: Cognitive Diversity the Boardroom: adviser.scottishwidows.co.uk/a … ature/docs/60520.pdf

Provided by University of Bath

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