Good governance is powered by difference

A personal blog by: Simon Fanshawe OBE, co-founder and partner, Diversity by Design, and GGI Faculty member. Simon's latest book *The Power of Difference – where the complexities of diversity and inclusion meet practical solutions* is published by Kogan Page on 3 December 2021.

In October 2007, RBS trumpeted the deal it had put together with Fortis and Banco Santander to buy the Dutch bank ABM-AMRO. And we all know where that led: to the near collapse of the UK economy. Pulling off the deal was to be the peak of RBS CEO Fred Goodwin's ambition. However after the deluge, Fred The Shred, as he was nicknamed, was described by Ian Fraser, in his brilliant book *Shredded*, as 'a sociopathic bully, whose achievements had been massively over-hyped'.

A colleague of mine, who worked at RBS at the height of its bubble, described how Goodwin's rallying call was that 'we were all part of "the winning bank"'. But she went on to say that, if you dared to disagree with or question Goodwin and his team's direction of travel, 'You were just labelled a loser'. Nick Cohen, the political journalist, wrote: "Anyone who raised doubts… heard managers call them 'business prevention officers'… the hierarchy would mark them as fifth columnists."

So when Goodwin deftly slid his idea of the ABN-AMRO takeover onto the RBS board agenda, they hardly discussed at all whether the deal was solid, sensible or sustainable. They were so swept along by the unexamined momentum of the bank's apparent success that they only considered the detail. No one questioned whether the deal was the right thing to do. As Ian Fraser reports, there was only one director who 'raised serious objections…However his concerns related more to the complexity of what was being proposed than its wisdom'. In the absence of any meaningful challenge and airing of difference they never discussed the substance.

Alfred P Sloan, the famed president, chairman and CEO of General Motors until the 1950s, is reputed to have said after one of his board meetings: "If we are all in agreement on the decision, I propose we postpone further discussion of this matter until our next meeting to give ourselves time to develop disagreement and perhaps gain some understanding of what the decision is all about."

All of this is testament to the rather obvious idea that challenge is fundamental to a board carrying out its core function: good governance. It's not just a question of numbers, even though it is the sad fact that there are more white men called John, David, Andrew and Michael in the top three roles (chair, CEO, CFO) in the FTSE 100 than there are women or people from Black or Asian backgrounds.

Changing the numbers is a start, but, as Professor Iris Bohnet points out in her book What Works, it's not just the percentage of difference on the board or exec that matters but 'how the board members are chosen, how the boards are organised and what the rules of engagement and decision making are.'

There is intriguing research by the late, great sociologist Katherine Phillips, who discovered that a number of significant behaviours flow from identity diversity, or the lack of it. She found that people assume there is more likelihood of agreement if they are in a group of similar people because they don't think to look for the differences. They are also more irritated by disagreement from people who are like them when they are in a homogenous group. However, if the group is more diverse then a member of a majority identity is more able to express a dissenting view.

The key insight from Katherine's research is that: "Simply adding social diversity to a group makes people believe that differences of perspective might exist among them, and that belief makes people change their behaviour". When it comes to diversity, seeing really is believing in the possibility of other worldviews.

This matters to governance. Boards tend to favour people who are like them because they think that's what a board member 'looks like' (in the broadest sense of that phrase). Where diversity helps is not just in opening up opportunities for people who are typically underrepresented on boards but in stimulating board members – particularly the chair – to investigate the differences of experience and background as well as skills in his or her colleagues and be fully aware of drawing them out.

It is the combination of difference that produces the best interrogation of risk, of strategic options, or the right course of action.

In April this year, the Harvard Business Review published research suggesting that a combination of men and women in senior leadership and boards changed companies' approach to risk. The researchers tracked appointments of male and female executives and analysed R&D expenses, merger and acquisition rates, and the content of letters to shareholders for 163 multinational companies over 13 years to determine how these firms' long-term strategies shifted after women joined their senior ranks.

They discovered that women and men develop different approaches to risk as they rise up organisations. For women, risk has greater jeopardy. When men try something that turns out not to work, the organisation effectively says 'Well, he had a go'. When that happens to women, organisations say 'Well, she can't do it'.

The value of diversity to good governance comes through seeing difference, valuing it and combining it to the best effect. Chairs must create an atmosphere where respectful dissent is expected and welcomed. Boards must be safe spaces for disagreement, not from it.