

## Diversity fails to end boardroom 'groupthink'

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Helen Alexander received two rounds of spontaneous applause without even speaking at the CBI dinner last week, such is the excitement about the employers' group having its first female president.

Ms Alexander, whose election is expected next week, has called for greater boardroom diversity, saying it could put an end to the "groupthink" that contributed to recent financial disasters. "It is clear that teams that have diversity within them don't result in groupthink. People come at things in a different way and organisations have to take those into account," she told the Financial Times.

Given the mess an overwhelmingly white male business elite has made, the idea of changes to company boardrooms looks compelling. Ms Alexander, a former chief executive of The Economist, is not the only person who thinks so. Lord Myners, the City minister, told the House of Commons Treasury committee that too many directors were "people who read the same newspapers, went to the same universities and schools and have the same prejudices".

Is there any evidence that diverse groups make better decisions? Yes, according to an excellent article by Lisa Fairfax, a law professor at the University of Maryland.

Writing in the Wisconsin Law Review, Prof Fairfax cites studies that show heterogeneous groups make higher-quality decisions because of their disparate backgrounds. "When group members all have the same perspective, it limits the range of information they have and the issues they consider," she writes.

However, putting that diverse thinking into practice in the boardroom is another matter. Prof Fairfax's article is about ethnic diversity, but the same principles apply to having more women on the board.

One problem is that directors recruited to make boards more diverse are often stretched thin. The same people tend to serve on many boards. A US study in 2002 revealed that five directors of S&P 500 companies served on six boards or more. Four of those were African-Americans.

Another problem is that female and ethnic minority directors often come from the same educational and class background as the white males.

There are solutions. If companies made greater efforts to appoint women and ethnic minority directors, the pool of candidates would become deeper and there would be less need for the same people to sit on everyone's boards. An effort to look beyond business to people with experience of government, education, health and trade unions would increase the social mix.

The real problem is deeper: there is enormous pressure to agree with those sitting around the table with you. Some years ago, I was the union representative on a company health and safety committee. At every meeting I made a complaint the rest of the committee did not want to hear: botched fire drills, filing cabinets toppling over. I tried to ignore the impatient shuffling and barely suppressed exasperation. I was doing my job. But the cosy camaraderie of the other members seemed very enticing.

Most of us feel a need to belong. Those who to begin with are outsiders in the boardroom may feel it even more intensely. It is uncomfortable being the constant dissident.

Disagreeing with the company's direction is hard enough. Doing so when an entire industry is going in the same direction is harder still. It is not just boards that suffer from groupthink; entire sectors do. The banking industry did.

Any investment banking chief executive who had listened to a director's warning that complex

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financial instruments spelt trouble would have been in trouble himself. As Peter Hahn, a fellow at Cass Business School, told the Treasury committee: "If one of those banks in 2005 decided to be more conservative and hold back in their activity, they more than likely would have had their CEO and board replaced in 2006 for failing to take advantage of the opportunities."

Even the most experienced outside directors find it hard to know what is really going on in the company. They depend on the executive directors for their information. Asking the right questions is only part of the job; what counts is knowing when you have been given an inadequate answer.

None of this is to argue against broadening the range of company directors. There are many reasons to do so, one of which is that, if any institution is to retain public legitimacy and acceptability, its leadership needs to look something like the society it represents. This is as true of business as it is of the police, the judiciary or the legislature.

But we should avoid placing too much hope in what board members from different backgrounds can achieve. On their own, they are not going to stop businesses making the wrong decisions. Expecting them to do so is both unrealistic and unfair.

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