

# Mindful Exclusion (Part III: Composition)

New findings on effective governance for a post-pandemic world



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### Foreword

The Chartered Governance Institute UK & Ireland believes that diverse viewpoints make for better boards. However, persuading boards to accept candidates from non-traditional backgrounds can be a struggle. We often hear that there are concerns about whether they are 'board ready' or 'promotion ready' or 'senior enough'. Likewise, we see advertisements that require non-executive director candidates to have been CEO or CFO of a FTSE company, or state that a role has a 'competitive salary' but then ask what candidates are currently paid. Both scenarios merely perpetuate whatever biases candidates may have previously faced.

It was in the context of our work on diversity that our journey with Justine Lutterodt and the Centre for Synchronous Leadership (CSL) began in summer 2019. We saw companies grappling with the desire to improve diversity without compromising performance and were drawn to the concept of Mindful Exclusion. The notion of 'excluding better' struck a chord.

We soon realised, however, that Mindful Exclusion addressed a wider range of issues relating to good governance, beyond boardroom and workforce diversity. It provided a deeper systemic lens for examining our criteria for decision making and aligning them with our ultimate objectives. Grounded in insights from social psychology, Mindful Exclusion was less about understanding the nuances of specific issues, and more about understanding ourselves as human beings and the influences that drive us.

We embarked on a journey of exploring how the principles of Mindful Exclusion, with which CSL was so familiar, applied to governance. This involved qualitative interviews conducted by CSL, three roundtables with a mixture of Institute members and senior leaders from CSL's network, and a number of fruitful bilateral discussions. Both Justine and I were taken aback by the level of overlap between the issues that Mindful Exclusion naturally surfaced and key trends that we believed were (and still are) shaping the future of governance. For instance:

- A developing focus on Section 172 of the Companies Act 2006 was pushing companies to consider how they had regard to the interests of a broader set of stakeholders and giving new momentum to the conversation about environmental, social and governance (ESG) issues. Organisations needed to be more proactive about their role in addressing these issues to avoid being required to do so by regulation, which was likely to be more onerous, or suffering the reputational consequences of being out of step with public sentiment.

## Mindful Exclusion – Part III: Composition

- Investors were now more willing to vote against directors responsible for homogenous boards, not least because this was seen as a proxy for having an insular culture within the organisation. Similarly, investors were also more willing to vote against directors who were perceived as not taking sustainability or climate change issues seriously enough. These ESG factors were increasingly being seen as part of an organisation's licence to operate.
- Strategic succession planning – and the need to link current board composition with future composition – was an important issue for our members. Board evaluation was a key component of this discussion, as was the cultivation of talent further down the pipeline and the removal of obstacles that prevented the progression of diverse candidates within the organisation.
- The range of issues with which boards were now grappling – from climate change to pay disparity, from boardroom and workforce diversity through to the growing use of AI – and the increased scrutiny from regulators and the wider public meant that boards were facing new levels of pressure as part of their strategy setting and, in some cases, feeling overloaded.

In 2020, CSL conducted a quantitative survey using the Mindful Exclusion framework to explore these issues, and to understand what distinguished those who were coping well from those who were struggling with the volume and pace of change.

During this same period, we found ourselves in the grip of the COVID-19 pandemic which has, of course, affected many of these trends. A dramatic shift was required in a short space of time – in some cases accelerating change, in other cases causing delays. The survey was designed to capture the impact of this shift, given the implications for mindful decision making.

The results of this survey – which was completed by 310 company secretaries, board directors, and C-suite executives – have shaped this report. The coincidental timing of COVID-19 has given the findings an extra level of significance, as the future of governance is being actively shaped in response to our new circumstances.

This report provokes us all to get out of our bubbles (and avoid being 'Bubble Bound'), notice our instinctive responses and reconsider whether the criteria that we use to make decisions are fit for purpose. In doing so, it makes an important contribution to the field of governance, supported by data and psychological insight, with practical implications.

## **Mindful Exclusion – Part III: Composition**

I do hope that you find the report useful. I have certainly enjoyed the stimulating discussions that have brought it thus far, but now it is over to you, our readers, to think about what it means for your own approach to decision making.

Having considered the criteria on which we base our decisions, we should not be afraid to make them, provided we are doing so mindfully. As Justine Lulerodt says, 'being mindful of exclusion forces us to acknowledge that there is a universe of options that we are not selecting, and in some cases do not even see.'

**Peter Swabey FCG**  
**Policy & Research Director**  
**The Chartered Governance Institute UK & Ireland**

### Note from the author

At the Centre for Synchronous Leadership, we have been on a journey with Mindful Exclusion since 2015 – when 100 senior executives, HR leaders and employee network chairs gathered at a bank in central London to discuss ‘under what conditions they would be happy to be excluded’. A year later, the first article on Mindful Exclusion was published in the World Economic Forum’s leadership magazine, *Developing Leaders*.<sup>1</sup> Since then, the concept has taken us from the London School of Economics to Guildhall and sparked an exciting conversation amongst seemingly disparate stakeholders.



Our partnership with The Chartered Governance Institute UK & Ireland (CGIUKI) has been a great example of the principles of Mindful Exclusion in action. Having conducted an in-depth study on what Mindful Exclusion means for belonging amongst grassroots changemakers, we were keen to explore what it meant for decision making at the top of organisations. We were also ready to expand our horizons and take our expertise from working with senior leaders and their teams to the next level. And so, we set out to find an organisation to partner with that had the credibility and network to facilitate a synergistic journey.

It has been rewarding to collaborate with CGIUKI in bringing the vision of this report to life. I would like to particularly thank Peter Swabey, Saqib Lal Saleem, Kristen Harding, Maria Brookes, and Charis Evans for their openness in ‘engaging with the unfamiliar’ and their sponsorship in ensuring that these results reach a wider audience. In addition to the Institute, a few other organisations have supported us in establishing the necessary momentum for this study. I would like to thank the Financial Times, the Confederation of British Industry, the Worshipful Company of Chartered Secretaries and Administrators, the Middle East Institute of Directors, and Tyzack Partners. Finally, I would like to acknowledge and thank my colleague Elias Westerdahl as well as our newest team member Kristina Skybova, who have contributed to the research, analysis and production that led to this report; my mother and editor-in-chief Sarah Lutterodt, who has always inspired me to look beyond my own bubble; my writing coach; our inspiring brand ambassadors – Anthony Corriette, David Dunckley, Justina Naik, Michelle Nettles, Neil Carberry, and Penny Scott-Bayfield; along with Henrietta Jowitt, John Kundert, Caroline Mair, Chris Bird, Dawid Konotey-Ahulu, Marcus Ryder, Perry Burton, Rachel Rees, Susan Bright, the CSL Changemakers, and everyone else who has offered up their time and energy to bring this report to fruition.

## **Mindful Exclusion – Part III: Composition**

We hope that you find this report useful and that it encourages you to pause, self-reflect, and start a new dialogue within your own organisation. Please bear in mind that it is not designed to offer simplistic answers. Nor is it meant to present ideas or suggestions that you have never considered. Rather, our intention is to equip you with the insight required to more accurately recognise patterns of behaviour that inhibit or encourage effective governance, take ownership for your role in perpetuating them, and experiment with practices and strategies that will help to position your organisation on the front foot for many years to come.

This involves destigmatising what it means to be human – hence a mindful approach is required.

**Justine Lutterodt**  
**Managing Director**  
**Centre for Synchronous Leadership**

### Why this report matters

#### **John Kundert**

**Chief Product Officer, Financial Times**



In 2019 the Financial Times declared that it was time for capitalism to be reset. The argument was that more inclusive ways of doing business had to be found, for the good of business and society. Then the pandemic struck and challenged businesses and business practices in more ways, and faster, than could have ever been imagined. This report underlines the danger of blind spots (like an unexpected pandemic) and the benefits of synergistic leadership – where psychological safety and diversity of lived experience result in better decision making for everyone. Moreover, it reminds us of the opportunity that disruption presents and how quickly change is possible.

We all need to be more mindful of how we exclude. This involves a journey of being willing to look beyond our own bubble, and it is one that as a leader I embrace.



#### **Justina Naik**

**Liveryman, Worshipful Company of Chartered Secretaries and Administrators**

When seeking to position an ambitious organisation for scale, reputation is as critical for success as financial standing. Being on the back foot when it comes to 'moral' issues can harm business credibility, particularly in due diligence considerations. Within financial services, I see this as an important and evolving dynamic, and recognise the challenge of giving precedence to moral matters when faced with competing short-term priorities. However, if companies wait too long before giving them adequate attention, it can be difficult to catch up.

This report makes a convincing case for getting on the 'front foot' with emerging trends and issues. The mindful practices that it outlines will see businesses create greater resilience through a proactive approach and a broader frame of reference.

## Mindful Exclusion – Part III: Composition

### **Anthony Corriette** Company Secretary, BBC Studios

The need for a range of diverse voices in the pursuit of robust decision making is self-evident. The best leaders enthusiastically challenge the status quo and groupthink and are open to other points of view. However, this has to be an active endeavour.



This compelling study provides a deep understanding of the systemic issues and blind spots that impede directors and executives in their role. If boards and executive committees could be a 'safe space' for diverse and apparently dissenting views, this would have a beneficial impact on their organisation's leadership. But if this openness to difference – and more mindful approach to leadership – was allowed to permeate the wider organisation, I believe that it could positively impact the culture of UK businesses.



### **Henrietta Jowitt** Deputy Director General, CBI

How do boards and senior teams move beyond uneven or dysfunctional power dynamics to become powerful, diverse teams with purpose? Selecting for specific skills and different work-related experiences is obvious when putting the top team together. However, I believe the real power that drives performance comes from two things. First, diverse lived experiences, and therefore more challenging perspectives around that table.

Second, the space and safety to be heard, so that those perspectives can shape the business.

This report offers data-driven insight into why power balance and psychological safety are so important, how our natural tendencies as human beings can undermine our best intentions and how we fix it. It comes at an opportune moment as business leaders reconsider their models and behaviours in light of the pandemic and the pressing ESG agenda.

# Introduction

## Mindful Exclusion<sup>2</sup>

**Exclusion matters.** It is an inevitable consequence of decision making, regardless of whether we notice it. In the context of running an organisation, it can be easy to overlook what issues are not getting prioritised, what messages are not being conveyed, and which people are not being invited to contribute. Being mindful of exclusion forces us to acknowledge that there is a universe of options that we are not selecting, and in some cases do not even see.

**In the business sector, we have not always wanted to see.** 'Externalities' – or rather, the unintended consequences of our decisions that do not affect the immediate bottom line – have traditionally been considered a distraction. A wilful blindness has been cultivated to produce financial results without worrying about our impact on wider society or the next generation. And, with the ethical boundaries of business defined by regulation, there has not been a need to understand the broader context in order to be successful. Instead, we have been encouraged to operate within our own insular bubbles, with a strategic disregard for our ripple effects.

**The inclination to operate within a bubble is not unique to the business sector.** It is a fundamental part of how we are wired as human beings. We have a limited amount of time and attention to process an unlimited amount of data. Cognitive shortcuts are essential tools for navigating our environment at pace. We are also social creatures, conditioned to associate group membership with survival. The people and norms within our bubble anchor our identity – providing a sense of familiarity, comfort, and status. And the more powerful our bubble is, the more insular it would seem that we can afford to be.

**However, this inclination can lead even the most purposeful amongst us astray.** A classic illustration of this comes from a famous experiment in social psychology known as the 'Good Samaritan' study. The date was 1970 and the subjects were students at Princeton Theological Seminary, studying to be priests. On their way to deliver a sermon, they encountered a man slumped in a doorway – coughing, groaning, and looking ill. He was in a narrow alley, so they literally had to step over him in order to pass by. Their bubble was defined by the task at hand (delivering the sermon) which they were intently focussed on. But their larger objective, and thus the equivalent of their 'bottom line', was defined by serving those in need. Ironically, many of these students had been asked to prepare a sermon on the Good Samaritan that mirrored this exact scenario.

## Mindful Exclusion – Part III: Composition

**So, what percentage of students stopped to help?** 45% – if they were not in a hurry. In other words, less than half were able to break out of their bubble, process this new information, and pivot to stay aligned with their larger objective. If the subjects were running late, only 10% stopped to help. The remaining 90% noticed the man but excluded this data from their decision making – quite literally tripping over their values in pursuit of the task at hand.<sup>3</sup>

**For organisational leaders, the cost of being ‘bubble bound’ is growing, as the world becomes more interdependent.** Thanks to social media, our externalities now have a voice. Every stakeholder who has been a casualty or beneficiary of our ripple effects can now influence all of our stakeholders and our organisation’s reputation at large. In the business sector, how we treat employees, those in our supply chain, or even the environment increasingly has an impact on our brand with consumers. With the general public growing more concerned about the actual cost of business, regulators are under more pressure to hold companies to account, and investors have stepped up in assessing companies’ ESG impact.

**In the business sector, these trends were evident before COVID-19.** At the start of 2020, 92% of the general public felt that CEOs should speak out on issues relevant to society, with 74% expecting CEOs to take the lead in driving positive change rather than wait for government.<sup>4</sup> In the UK, new reporting requirements for Section 172 of the 2006 Companies Act had recently forced large companies to demonstrate how they were taking a broader set of stakeholders into account.<sup>5</sup> In the US, the Business Roundtable had just issued a statement – signed by 181 top CEOs – declaring that companies were accountable to a broader set of stakeholders.<sup>6</sup> And in his annual letter to the business community, Larry Fink, CEO of the world’s largest asset manager, had threatened to vote against management that failed to make sufficient progress in managing climate risk.<sup>7</sup>

**COVID-19 has increased the public’s awareness of interdependence and appetite for a better society.** 61% of the general public are now more concerned about climate change than they were in 2019, 58% are more interested in closing the economic and social divide, and 53% are more concerned about racism. Alongside this concern has come a greater sense of empowerment. 68% of the general public now believe that consumers can force corporations to change, and 62% believe that employees can do the same. Moreover 50% of employees are now more likely to voice their objections to management or engage in workplace protest.<sup>8</sup>

## Mindful Exclusion – Part III: Composition

**In addition to these trends, the global landscape of business is rapidly evolving.** To sustain financial performance, businesses must look beyond their immediate competitors to shifts in the wider marketplace. They must anticipate trends and make bold moves before their business model is under threat – or otherwise risk following in the footsteps of Blockbuster, Kodak, and Borders. As businesses explore new frontiers, beyond the realm of regulation, they must be proactive in holding themselves to account in order to preserve public trust. Those that ignore stakeholder feedback and wait for regulators to intervene may face crippling consequences or even lose their licence to operate.

**Nonprofits and the public sector have always been held accountable to broader societal interests.** Nonetheless, these organisations are also capable of operating in a bubble. They too are likely to have made calculations about which stakeholders they can afford to ignore based on their biases and social norms. These calculations may need to be updated to ensure that the values they proclaim to stand for align with their actions. As we saw with the Good Samaritan study, having a sense of purpose does not protect us from human nature. Like the business sector, these organisations also face the challenge of responding to the needs of a rapidly evolving world. Whether their mandate is education, poverty, or global health, they must get on the front foot when it comes to forces shaping the future of society (such as digital or AI) or risk becoming obsolete.

**To avoid tripping over our own values, we must learn to exclude more effectively.** We must be receptive to the limitations of our bubble and willing to explore whether what we are excluding actually aligns with our larger objectives. This requires the muscle of mindfulness – i.e., the ability to observe our thoughts and behaviours without judgment. Our bubbles are by default invisible to us. We will be unable to identify the biases and norms that distort our decision making unless we are prepared to accept that we have them. We can then cultivate practices and strategies to help us counter their effects.

**In this age of dynamic interdependency, how we exclude matters more than ever before.** It influences our brand, shapes how we engage with risks and opportunities and, ultimately, determines our performance. Organisations which adopt a more mindful approach have a clear strategic advantage.

## Mindful Exclusion – Part III: Composition

### About this study

In this study, we sought to understand how exclusion was occurring in the context of organisational governance. We focused on three processes of decision making at the board and executive committee level – **what** was decided on, **how** these decisions were made and **who** was making them.

In practical terms this translated into looking at:

- I. What issues were or were not making it onto the **agenda**?
- II. What conversations were or were not occurring as part of group **dynamics**?
- III. Which people were or were not being selected to join? (**composition**)

Like three layers of an onion, we expected these processes to be interrelated. We decided to start with agenda since it was the most superficial layer and thus the easiest to change. From there, we worked our way in to dynamics and then composition. These three areas are reflected in the three parts of this report.

For each area, we examined the following questions:

- A. **Is there evidence of mindless exclusion** – i.e., are some things getting excluded that appear to be important for decision making?
- B. **If so, what distorting factors are at play** – i.e., is there an underlying pattern that we can link to cognitive biases or social norms – the natural limitations of one's bubble?
- C. **What 'mindful' practices can potentially be used to counter this effect?**
- D. **Do these practices lead to more effective governance?**

In addressing these questions, we conducted **two rounds of research**. Round 1 took place between Autumn 2019 and February 2020, prior to COVID-19 being declared a global pandemic. Round 2 took place between Autumn 2020 and February 2021.

## Mindful Exclusion – Part III: Composition

In Round 1, we conducted **20 semi-structured interviews** with company secretaries and a handful of senior executives. This included two senior leaders from The Chartered Governance Institute UK & Ireland with years of experience looking across the governance sector. We supplemented these efforts with **secondary research – scanning a range of large-scale industry studies** that contained further insight into the experience of board directors and C-suite executives. As a result of these efforts, we were able to form an initial picture of what mindless exclusion looked like in relation to each of the three areas. We were also able to form hypotheses about the distorting factors at play as well as the mindful practices that could counter them. We played back these findings to company secretaries and senior executives in a series of **three roundtable discussions**, which helped us to further interpret the findings.

In Round 2, we designed a **quantitative survey** to test our hypotheses. By this point, COVID-19 had taken the world by storm, demanding sharp organisational pivots and accelerating the feedback loop associated with decision making. This provided fertile soil for exploring whether the mindful practices that we had identified were associated with more effective governance. Following the survey, we conducted **three additional roundtable discussions** to validate the results.

In analysing survey data, **we grouped participant responses into four segments** based on their board or executive committee's adherence to mindful practices. We called the first segment the **Bubble Bound**. This segment failed to employ basic practices that would challenge the biases and norms of their bubble and were thus the most insular. The second segment was composed of **Bubble Breakers**, who were less insular but only willing to engage in mindful practices that were congruent with traditional norms. Thirdly, there were the **Mindful Managers**, who were intentional about going beyond the boundaries of their bubble in response to signals from their environment. Last but not least, there were the **Mindful Movers**, who were similar to Mindful Managers but more proactive in anticipating and responding to external signals and reshaping their bubble to align with their larger objectives.

## Mindful Exclusion – Part III: Composition

The properties of each segment are summarised in the figure below.

			
Bubble Bound	Bubble Breaker	Mindful Manager	Mindful Mover
<ul style="list-style-type: none"> <li>• most insular</li> <li>• exclusion most distorted by biases/norms of bubble</li> </ul>	<ul style="list-style-type: none"> <li>• willing to go beyond the bubble</li> <li>• constrained by traditional social norms</li> </ul>	<ul style="list-style-type: none"> <li>• intentionally goes beyond the bubble</li> <li>• unconstrained by traditional social norms</li> </ul>	<ul style="list-style-type: none"> <li>• most proactive</li> <li>• re-shapes bubble to align with values/larger objectives</li> </ul>

Our definition of these segments changes in each part of this report, based on the mindful practices that we have identified to be most relevant. However, the theoretical construct underlying the segments remains the same.

In comparing these segments, **we used subjective measures to assess effective governance** for each of the three areas. This was intentional given that our primary concern was mindful decision making. We wanted to know what differentiated organisations that were tripping over their own values from those that, with the benefit of reflection, felt they were operating at their best. Nonetheless, **many of the practices we landed on have clear links to organisational performance that have already been established through prior research.** We made a point of documenting some of these links in Round 1.

This report has been divided into **three separate documents** – agenda, dynamics, and composition – each with a parallel structure. As we explore these three areas, we will be addressing the research questions outlined above. In addition, we will examine the implications of COVID-19 and discuss initial ideas for translating these insights into action. **Towards the end of each section, you will also find a summary of key points**, that should serve as a useful reference as you consider the implications of this report for your own organisation.

### Transition from Part II to Part III

This is the third part of a report examining three processes of decision making at the board and executive committee level through the lens of exclusion.

In **Part II: Dynamics**, we focussed on exclusion in relation to **how** decisions in the boardroom are made and **the types of conversations that are or are not occurring as part of group dynamics**. We found evidence to suggest that boardroom dynamics are often distorted by the inclination to avoid uncomfortable conversations, particularly those involving vulnerability and challenge. Prior to COVID-19, some boards and executive committees got comfortable being uncomfortable by investing in team alignment. As result, these 'Mindful Movers' were able to create high levels of psychological safety. They now have high levels of trust and group dynamics that are conducive to synergistic decision making. In contrast, those who stuck to their bubble of comfort (the 'Bubble Bound') now have lower levels of trust and suppressive dynamics.

The Mindful Movers from Part II were also more likely to have a culture of learning and valuing difference. These qualities position them well for the dynamic, uncertain world we now find ourselves in, where leaders must cater to the diverse (and at times oppositional) interests of a broader set of stakeholders.

In **Part III: Composition**, we shift the focus to **who** is making decisions and **the types of people who are or are not being selected to join boards and executive committees**.

It is worth noting that the four segments described in this section use the same logic (described in the Introduction) that was used in Part I: Agenda and Part II: Dynamics, and thus the same headings (e.g., Mindful Movers) apply. However, these segments are defined by different criteria to reflect that we are exploring a different type of exclusion, and thus different mindful practices are relevant.

### Mindful composition – from power-driven to purpose-driven

Our research indicates that prior to COVID-19 many organisations mindlessly excluded 'unimpressive' candidates – i.e., those whose profile did not resemble that of existing members – from joining their board or executive committee. This phenomenon was exacerbated by a reluctance to critically assess whether current selection processes and criteria were fit for purpose. Our survey data suggests that attachment to power may be a root cause of this behaviour. Boards and executive committees that are more mindful in this regard – embracing member refreshment, creating effective processes for accountability, and consciously cultivating their pipeline – are considerably more diverse and much more likely to report that their composition is ideal for governance. Moreover, they show a willingness to have the definition of what makes a candidate 'impressive' objectively redefined. The inequalities highlighted by COVID-19 and the murder of George Floyd have made boards more self-conscious about their homogeneity and the potential biases that may be distorting their selection process. However, meaningful progress can only be achieved if boards and executive committee members are willing to prioritise purpose over power.



FROM POWER-DRIVEN TO PURPOSE-DRIVEN

### A. Evidence of mindless exclusion

Prior to COVID-19, when asked about boardroom composition, many interview participants expressed concern about the **homogeneity of lived experience amongst members**. More specifically, they highlighted the challenges that this posed for getting the right mix of issues onto the agenda and ensuring that there were enough perspectives around the table to promote healthy dynamics.

'Our composition is male, Oxbridge-y and white.'

'There are a whole range of issues that not having lived experience makes you just not see.'

'The board is so homogenised that there is the potential for single-speak.'

**'We do not have a sufficiently diverse board. This informs the range of issues brought to the board.'**

These respondents were not alone in noticing a lack of diversity at the top<sup>9</sup> or in acknowledging the relevance of diversity for board performance.<sup>10</sup> By 2019, investor pressure was mounting and **increasing diversity had become an explicit intention** for most boards.<sup>11</sup> Looking at the data, it is not difficult to see why. Prior to COVID-19, men held 77% of executive committee positions on FTSE 100 companies and 68% of board positions.<sup>12</sup> 37% of FTSE 100 companies had boards that were all-white. This figure jumped to 69% for the FTSE 250.<sup>13</sup>

Despite the intention to increase diversity, several interview participants signalled that **there was resistance to following through**.

**'There's a lot of talk about diversity being important, but not much evidence of what is being done.... Our chairman is of a certain age where this doesn't come quite as naturally. For him it is more of a tick box exercise.'**

## Mindful Exclusion – Part III: Composition

In some cases, **it was challenging to find diverse candidates who were sufficiently 'impressive'**. The need for greater pipeline cultivation was emphasised.

'In looking for directors, I was limited in what I could do. The pool does not provide many options.'

'If talent isn't properly managed... then ten years down the line when you are meant to have selection, people will wonder why it isn't diverse.'

**'We need to embed diversity into the pool of perspectives and widen the scope of the options.'**



"ANY LUCK RECRUITING DIVERSITY?"  
"I ASKED EVERYONE IN MY NETWORK  
BUT THE TALENT JUST ISN'T THERE"

However, **few boards seemed willing to rethink the biases inherent in their approach**. According to one study, the most common tactic that boards used to look for diverse candidates was to seek referrals from current directors. Search firms were also widely used, but fewer than one in ten boards sought help from an organisation focussing on diversity.<sup>14</sup> This insular instinct may explain why (as of 2017) 25% of FTSE 100 directors had graduated from Oxford, Cambridge, or Harvard, and 43% of FTSE 100 directors held degrees from either elite universities or the top five business schools.<sup>15</sup>

**There appeared to be a default profile of what an ‘impressive’ candidate looked like, that resembled those already seated around the table. This profile extended beyond lived experience to also include professional expertise.**

In screening candidates, boards seemed to place a higher value on attributes that they already possessed than on gaps in their collective knowledge. An example of this was financial expertise, which almost all directors rated as ‘very important’ for board performance in 2019.<sup>16</sup> Despite half of directors already possessing this skill set,<sup>17</sup> it was often cited as a justification for screening out otherwise strong candidates. One interview participant commented on this.

**‘We need to not always look at the same pool. A candidate shouldn’t need to have P&L to be eligible – anyone can learn to read financial papers.’**

Meanwhile, less than a quarter of directors rated information technology (IT) expertise as ‘very important’ for board performance and even fewer gave the same rating to human resources (HR) expertise.<sup>18</sup> Ironically, both have proven to be essential sources of input for decision making in response to COVID-19.

In interviews, we also heard **several stories of organ rejection**, following attempts to deviate from insular norms.

**‘They were keen to devise a shortlist based on people they already knew, who happened to all be white men. I made sure we lined up a recruitment consultant with a different perspective, who argued things they weren’t ready to hear – ‘insist on a balanced shortlist, eradicate bias in the selection.’ They thought the individual was wacky and ruled it out. Then they brought in one of their old friends who did an awful job.’**

**'We decided that we needed some younger people, but when they saw the candidates they got scared and started using words like 'gravitas'. We had to stand all of those people down.'**

Many organisations seemed happy to embrace diversity, so long as it did not require them to change. For instance, although most directors in the business sector supported the idea of interviewing diverse candidates and of asking search firms to offer a diverse slate of contenders, few were willing to be held accountable by investor policy.<sup>19</sup> Instead, an increasing proportion of directors reported being frustrated with the amount of time investors were spending on diversity.<sup>20</sup> Most assumed that board diversity would increase organically over time.<sup>21</sup>



## Mindful Exclusion – Part III: Composition

Introducing 'diverse' candidates seems to have been more palatable to boards when it did not threaten their ability to hire or retain 'traditional' candidates.

One interview participant shared a tangible example of this:

**'The man had a very dominant personality, and the woman was quiet but had a more rounded cv. It was done and dusted in less than five minutes, and clear we were going to go with the guy. I said, 'Let's think about this... the person you want to hire is quite similar to the one you have.' They wouldn't have hired her ahead of him.... I managed to slip in, before it became too late, that there was a possibility we could hire both – which we ended up doing.'**

Perhaps this is why the majority of corporate boards that improved their gender diversity in 2019 also increased the size of their board.<sup>22</sup>

**Intriguingly, a similar type of resistance was observable when it came to board accountability.** According to a 2019 survey, the overwhelming majority of board assessments were being conducted in-house, and the most common action taken in response to these assessments was to recruit additional people. Failing to renominate a board member was amongst the least popular responses, as was providing members with counsel on how to improve their performance.<sup>23</sup> And yet, shockingly, half of directors believed that at least one colleague should be replaced, with a quarter indicating that two or more colleagues fell into this category.<sup>24</sup> More recent data paints an even starker picture, with four fifths of executives indicating that one or more board members should be replaced.<sup>25</sup>

## Mindful Exclusion – Part III: Composition

The **importance of board refreshment as a lever for improvement** was reinforced in several interviews.

**'I know you need industry knowledge, but fresh eyes are really important. Rotation can be lazy. We need fresh blood, limited terms.'**

One company secretary explained that newly appointed directors were particularly valuable because of their openness to learning.

**'The people who have a greater understanding of their role are the more recently appointed directors. When we have inducted, that has been front and centre. Someone who has been in the role for seven years would say, I don't need you to tell me how to do my job.'**

Our scan of industry reports confirmed that board refreshment was indeed an issue, with half of directors stating that there were major barriers to replacing members. The most commonly cited barriers were ineffective board assessment, an unwillingness to discuss underperformance, and personal friendships. Meanwhile, the most frequent trigger for board refreshment was retirement, and the age for mandatory retirement had been on the rise.<sup>26</sup>

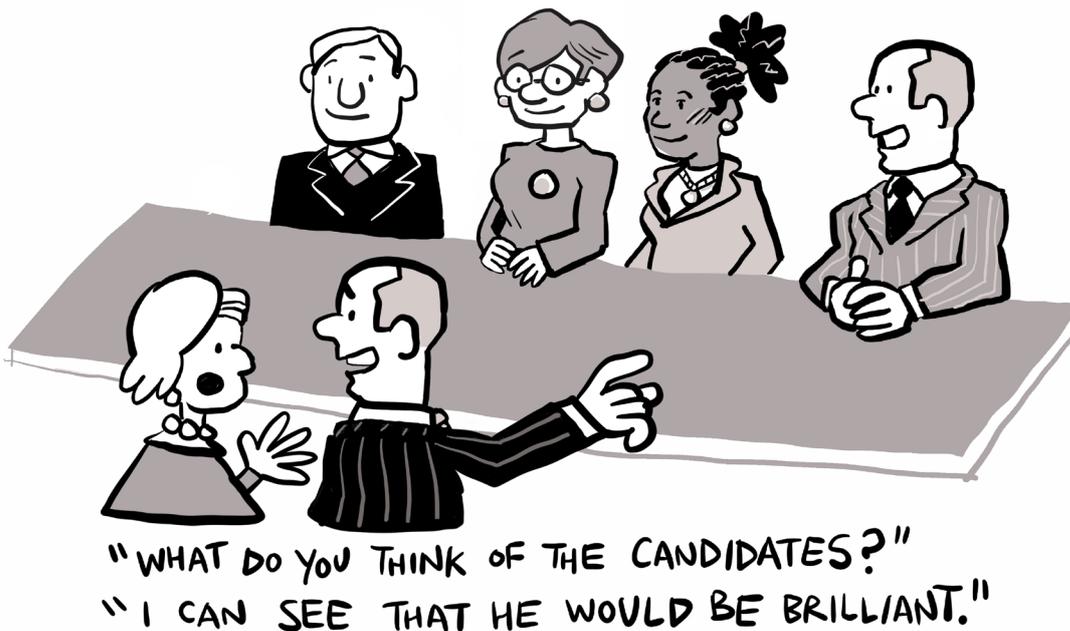
**Interestingly, there were large differences based on age.** Most directors under 60 felt that lack of board refreshment was a problem, whereas most directors over 70 disagreed.<sup>27</sup> This was not entirely surprising given that older directors were more likely to be on the wish list for replacement. 44% of executives reported that diminished performance due to age was an issue on their board.<sup>28</sup>

## Mindful Exclusion – Part III: Composition

Age was not the only variable that predicted different views on board refreshment. Executives in IT roles were twice as likely as CEOs and CFOs to say that two or more directors should be replaced. They were also three times as likely as CEOs and CFOs to rate board effectiveness as poor or fair.<sup>29</sup> This gap may have been due to the lack of appreciation for IT expertise amongst those who did not have it. **Nonetheless, it further highlights the subjectivity of metrics that will inevitably be applied in the absence of purpose-driven criteria.**

Our findings from Round I indicate that many board and executive committee members have a biased view of what characteristics are valuable based on their own profile. They are reluctant to critically assess the processes and criteria for selection. And, with less than a fifth of boards reporting that they had a succession plan in place prior to COVID-19, there is evidence that they struggle to prioritise the responsibilities of their role beyond their own involvement.<sup>30</sup>

**Thus, it would appear that the mindless exclusion of diverse candidates is partly driven by the mindless inclusion of traditional ones, and that there may be deeper psychological factors at play.**



### B. The bubble of 'impressive' people

Based on what we learnt in Round I, we suspected that board and executive committee members' **identification with being 'impressive'** was distorting the candidate selection process. This would explain the gravitational pull towards candidates who resembled existing members, resulting in homogenous boardrooms. It would also explain the reluctance of members to reassess criteria and selection processes that validated their own legitimacy to be at the table. More specifically, our hypothesis was that **attachment to power was leading to the mindless inclusion of traditional candidates and the mindless exclusion of diverse ones**, resulting in yet another **insular bubble**.

Research in social psychology shows that **when we have power, we are inclined to hold on to it**, even when this is not in the material interest of the system we are serving.<sup>31</sup> Also, whilst having stable power lowers our stress levels, having unstable power has the opposite effect. Thus, the more powerful we are, the more threatening we find the idea of disruption to the pecking order. And, if we are motivated by power, we are unlikely to take risks that could disrupt the status quo and thus the longevity of our reign.<sup>32</sup>

**These effects are compounded by how power affects our perception and behaviour.** Studies show that having power makes us more likely to behave in an over-confident and self-serving manner. Additionally, it makes us feel more socially distant from those who are less powerful, and thus more likely to stereotype them and less inclined to consider their perspectives. Ironically, those with less power have the opposite experience of us. They become more receptive to our influence, are more likely to perceive us as competent, and tend to view us more favourably in general.<sup>33</sup>

**When we are in a position of power, these dynamics make it easy for us to define what it means to be 'impressive' in terms of our own strengths and for others to genuinely agree.** The effect is amplified when most people with power possess a similar profile, creating an implicit association of what power looks like and triggering a sense of group identity based on potentially meaningless characteristics. **The resulting narrative of what it means to add value is singular** and fails to recognise the diversity needed to optimise group dynamics. Moreover, **it is static** and does not account for the shift in organisational needs and priorities that is inevitable in a dynamic ecosystem.

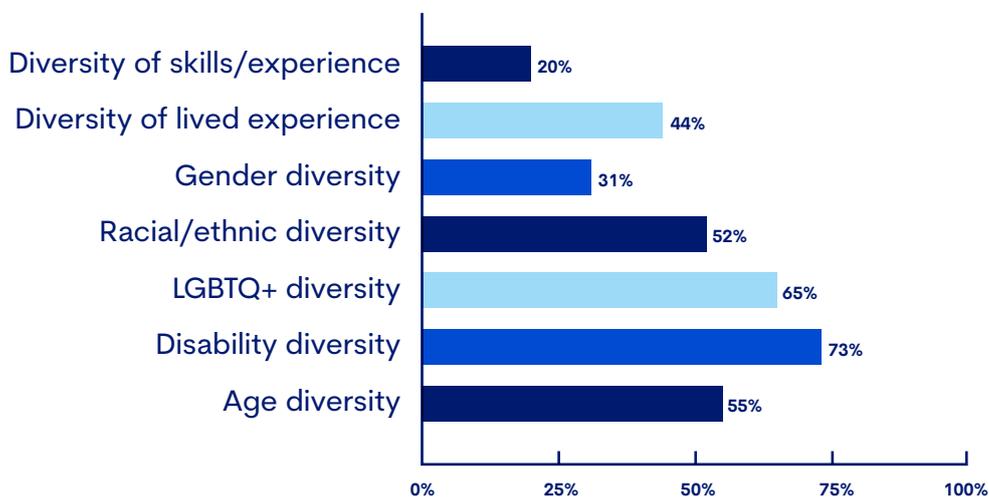
## Mindful Exclusion – Part III: Composition

In Round II of this study, we tested our hypothesis about attachment to power and the mindless exclusion of diverse candidates. We first examined the extent to which **diversity of skills/expertise and diversity of lived experience** had been excluded from consideration prior to COVID-19.

**We intentionally set the bar low**, looking at whether each type of diversity was considered at all rather than the extent of prioritisation. We recognised that organisations may have valid reasons for prioritising specific types of diversity, based on their sector and/or key stakeholders. However, we reasoned that all strands that were naturally represented in society warranted some level of attention given the homogeneity of most boardrooms.

### Which types of diversity were excluded from consideration prior to COVID-19?

% Indicating that this type of diversity was never or rarely treated as a priority<sup>34</sup>



**We were surprised to see that a fifth of all boardrooms were unlikely to treat diversity of skills and expertise as a priority.** This was an indication that these organisations were assessing candidates against a singular profile, rather than a needs assessment of what additional expertise would add the most value. It was less surprising that over two fifths of all boardrooms were unlikely to treat diversity of lived experience as a priority, given what we had heard in qualitative interviews. Nonetheless, the gap between gender and other strands of diversity was notable, as was the lack of consideration for disability diversity.

## C. Redefining ‘impressive’

To explore our hypothesis further, we identified **three practices that prevent an unhealthy attachment to power**. We used these practices to segment respondents based on their board or executive committee’s skill in moving beyond their insular bubble, thus redefining what it means for a member to be ‘impressive’.

The **first practice** was **embracing refreshment**. We used the absence of this practice to define the **‘Bubble Bound’**, the most insular segment. Allowing members to stay in roles that they were not well-suited for seemed to be the ultimate form of attachment to power. We set the bar low, isolating respondents that moderately or strongly agreed there that were indeed barriers to member refreshment. This accounted for just over one fifth of the sample.

The Bubble Bound were more likely to exclude all forms of diversity from consideration than their counterparts who embraced refreshment. Interestingly, this gap was virtually the same for diversity of skills/expertise and diversity of lived experience.

	Bubble Bound	Everyone else
	 N=64	N=225
% indicating that this type of diversity was never or rarely treated as a priority (pre-COVID-19) <sup>35</sup>		
Diversity of skills/expertise	37%	15%
Diversity of lived experience	62%	39%
Gender diversity	48%	26%
Racial/ethnic diversity	71%	47%
LGBTQ+ diversity	83%	60%
Disability diversity	88%	69%
Age diversity	66%	52%

## Mindful Exclusion – Part III: Composition

The **second practice** was **creating accountability**. As a proxy for this practice, we looked at whether respondents indicated that there was an effective process for holding individual members to account. Those who embraced refreshment but did not create accountability fitted the profile of **'Bubble Breakers'**. They were willing to pierce the bubble of 'impressive' people and move someone on when there was an obvious problem, but not to challenge the ineffective norms of accountability described earlier. Like the Bubble Bound, Bubble Breakers comprised just under one fifth of the sample.

Once again, Bubble Breakers were more likely than their more mindful counterparts (in this case 'everyone else') to exclude all forms of diversity from consideration, and the gap for diversity of skills/expertise and diversity of lived experience was identical.

	Bubble Bound	Bubble Breaker	Everyone else
			
	N=64	N=64	N=158
% indicating that this type of diversity was never or rarely treated as a priority (pre-COVID-19) <sup>36</sup>			
Diversity of skills/expertise	37%	23%	12%
Diversity of lived experience	62%	47%	36%
Gender diversity	48%	30%	24%
Racial/ethnic diversity	71%	62%	41%
LGBTQ+ diversity	83%	70%	57%
Disability diversity	88%	71%	68%
Age diversity	66%	64%	47%

## Mindful Exclusion – Part III: Composition

The **third practice was cultivating the pipeline**. We set a high bar for this practice, isolating respondents who moderately or strongly agreed that their board or executive committee was consciously cultivating a pipeline for succession. Those who created accountability but did not cultivate the pipeline fitted the profile of **'Mindful Managers'**. They went out of their way to prevent undue attachment to power. However, it was difficult to truly hold current members to account without candidates lined up who could replace them, including those from outside their traditional bubble of 'impressive' people.

Organisations that were effective at all three practices fitted the profile of **'Mindful Movers'**. They proactively ensured that the composition of their board was fit for purpose. As expected, this segment was less likely to exclude diversity from consideration than the Mindful Managers. Both Mindful Movers and Mindful Managers accounted for just under three tenths of respondents.

Looking across the four segments, it is clear that organisations that were more skilled at preventing unhealthy attachment to power and moving beyond their insular bubble were indeed more likely to prioritise diversity in all of its forms.

	Bubble Bound	Bubble Breaker	Mindful Manager	Mindful Mover
				
	N=64	N=64	N=77	N=80
% indicating that this type of diversity was never or rarely treated as a priority (pre-COVID-19) <sup>37</sup>				
Diversity of skills/expertise	37%	23%	17%	8%
Diversity of lived experience	62%	47%	44%	29%
Gender diversity	48%	30%	29%	21%
Racial/ethnic diversity	71%	62%	47%	35%
LGBTQ+ diversity	83%	70%	55%	59%
Disability diversity	88%	71%	71%	65%
Age diversity	66%	64%	52%	42%

## Mindful Exclusion – Part III: Composition

Here is a summary of the resulting segmentation.

	Bubble Bound	Bubble Breaker	Mindful Manager	Mindful Mover
	 N=64	 N=64	 N=77	 N=80
Mindful practice (Segment definition)				
Practice 5: Embrace refreshment	X	✓	✓	✓
Practice 6: Create accountability		X	✓	✓
Practice 7: Cultivate the pipeline			X	✓



"So how will I know if I'm genuinely adding value?"  
 "I wouldn't worry too much about that."

## D. Bubble Bound versus Mindful Movers

We defined the Bubble Bound and Mindful Mover segments based on their skill in **preventing unhealthy attachment to power**. But does this matter for governance?

Our survey data suggests that it does. The failure of the **Bubble Bound** to prioritise diversity is mirrored by their **dissatisfaction with current levels of homogeneity in relation to governance**. 37% of the Bubble Bound did not prioritise diversity of skills and expertise prior to COVID-19; 39% now report that the current mix of skills/expertise is not aligned with organisational needs. 62% did not prioritise diversity of lived experience prior to COVID-19; 66% now report that they do not have sufficient demographic diversity for relevant perspectives to be represented in decision making. Although these boards and executive committees appear to understand the benefits of diversity in theory, they struggled to factor it into decision making.

	Bubble Bound	Bubble Breaker	Mindful Manager	Mindful Mover
	 N=64	 N=64	 N=77	 N=80
<b>Behaviour – singular narrative of value</b>				
Actively seeking different points of view never or rarely occurs	40%	30%	18%	9%
Actively seeking different points of view does not occur often	68%	56%	45%	39%
<b>Outcome – dissatisfaction with homogeneity</b>				
Mix of skills/expertise is not well-suited to the organisation's needs	39%	23%	13%	4%
Insufficient demographic diversity to represent relevant perspectives in decision making	66%	50%	37%	29%

## Mindful Exclusion – Part III: Composition

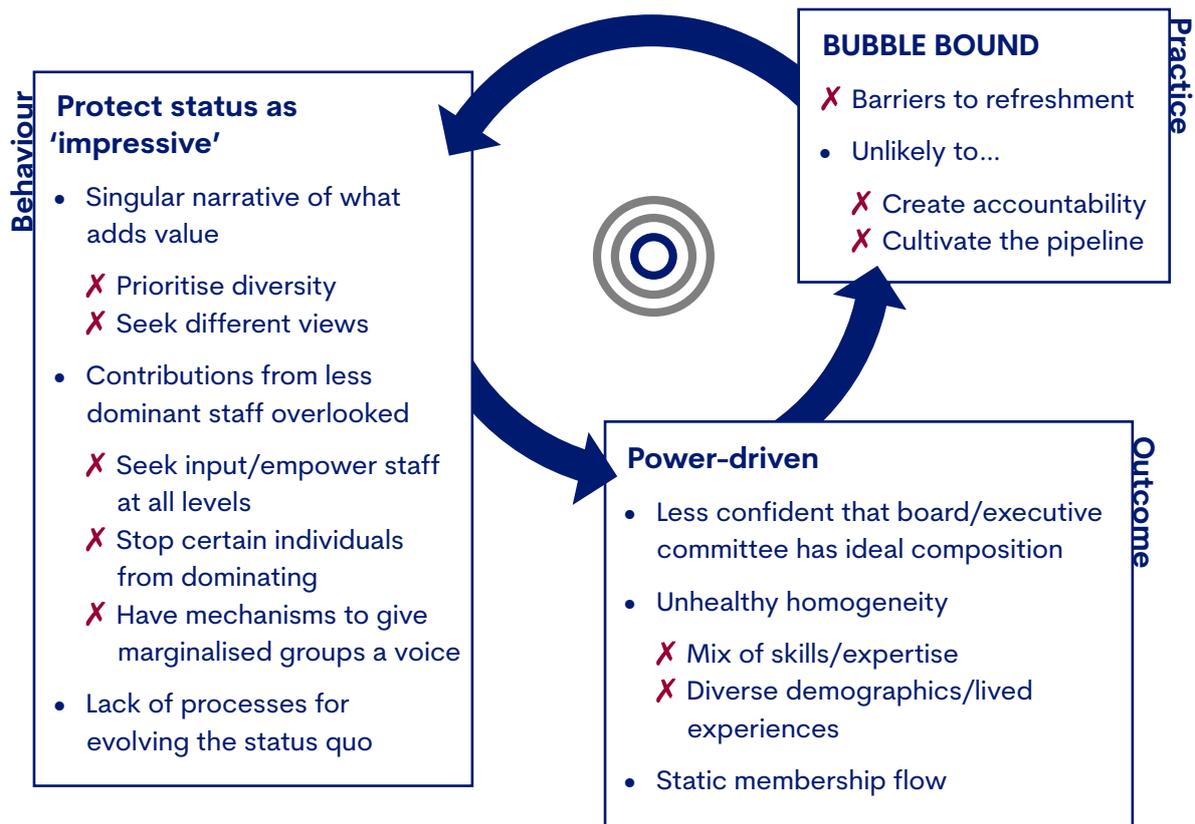
The gap between the Bubble Bound and Mindful Movers when it comes to prioritising diversity of skills and expertise (29%) is roughly the same as the gap between segments when it comes to prioritising diversity of lived experiences (33%). Likewise, the gap in their satisfaction with the current mix of skills/expertise (35%) is roughly the same as the gap in satisfaction with demographic diversity (37%). Thus, it would appear that these two distinct categories of diversity are equally affected by the segmentation. This suggests that the Bubble Bound are **defaulting to a singular narrative of value**. This tendency is further evidenced by boardroom behaviour. 68% of the Bubble Bound say that seeking out different points of view is not the norm; 40% report that this never or rarely occurs.

The Bubble Bound are also the **most likely to overlook contributions from individuals with a less dominant status**. When it comes to decision making, they tend to stick to hierarchical lines. Only a third are confident that their organisation listens and responds to the ideas of staff at all levels. Just under a third are confident that employees at their organisation feel empowered to innovate. Additionally, they are also the most likely segment to allow certain individuals to dominate meetings in an unproductive manner.

## Mindful Exclusion – Part III: Composition

		Bubble Bound	Bubble Breaker	Mindful Manager	Mindful Mover
					
		N=64	N=64	N=77	N=80
<b>Behaviour – contributions from less dominant staff</b>					
Organisation regularly captures/ acts on ideas of staff at all levels (moderately agree)		36%	46%	41%	73%
Employees feel empowered to innovate without worrying about negative consequences (moderately agree)		30%	45%	43%	79%
Individuals never dominate board/executive committee meetings in an unproductive manner		24%	39%	39%	47%
100+ employees	Organisation has dedicated diversity & inclusion role/function	31%	45%	44%	51%
	Organisation has employee networks	41%	48%	48%	63%
	Has employee network sponsors on board/ executive committee	8%	17%	22%	31%
Employee well-being was sometimes prioritised for discussion prior to COVID-19		48%	64%	61%	82%

Figure 1: The mindless cycle



The Bubble Bound once again **fall short when it comes to evolving their status quo**. Three quarters report that members are not externally assessed with sufficient frequency or depth. Two-fifths say that giving or receiving feedback is a rare occurrence. And over half still do not look out for blind spots (three quarters fell into this category prior to COVID-19).

Together, **these datapoints paint a picture of a segment that regards status as a crucial determinant of one's license to contribute**. In this context, losing status means losing one's ability to add value and, ultimately, one's sense of self-worth. Protecting the status quo is a safer bet, even if this comes at a cost. Ironically, the more homogenous and static that boards and executive committees become, the more tempting it will be to perpetuate a singular narrative and grow further out of touch with what it means to actually add value... and so, the mindless cycle continues (see Figure 1). Perhaps this is why only a quarter of the Bubble Bound are confident that their organisation has the ideal composition for effective governance.

## Mindful Exclusion – Part III: Composition

The data reveals a starkly different story about **Mindful Movers**. Their commitment to prioritising diversity before COVID-19 is mirrored by their **satisfaction with the current mix of skills/expertise**. 92% of Mindful Movers prioritised diversity of skills and expertise, and now 96% report that the current mix is aligned with organisational needs. Similarly, 71% prioritised diversity of lived experience, and now 71% report that they have sufficient demographic diversity for relevant perspectives to be represented in decision making. Additionally, Mindful Movers' **openness to multiple narratives of value translates into boardroom behaviour**. 91% report that colleagues seek out different points of view at least some of the time; 61% say that this is the norm.

For Mindful Movers, **an individual's ability to add value is not dependent on having a dominant status, but instead on what their contribution brings to the table**. 73% of respondents from this segment are confident that their organisation listens and responds to the ideas of staff at all levels, and 79% are confident that employees at their organisation are empowered to innovate. They are also the least likely segment to report that certain individuals dominate boardroom meetings in an unproductive manner.

Mindful Movers' **emphasis on empowering employees extends to marginalised groups**. They are the most likely segment to have structural mechanisms in place to reduce the social distance of these groups to the boardroom. Over half have a dedicated D&I function, two thirds have employee networks, and one third have employee network sponsors sitting on either their board or executive committee. The sensitivity gained from these perspectives may explain why 82% of this segment already had employee well-being on their agenda prior to COVID-19, versus just 48% of the Bubble Bound.

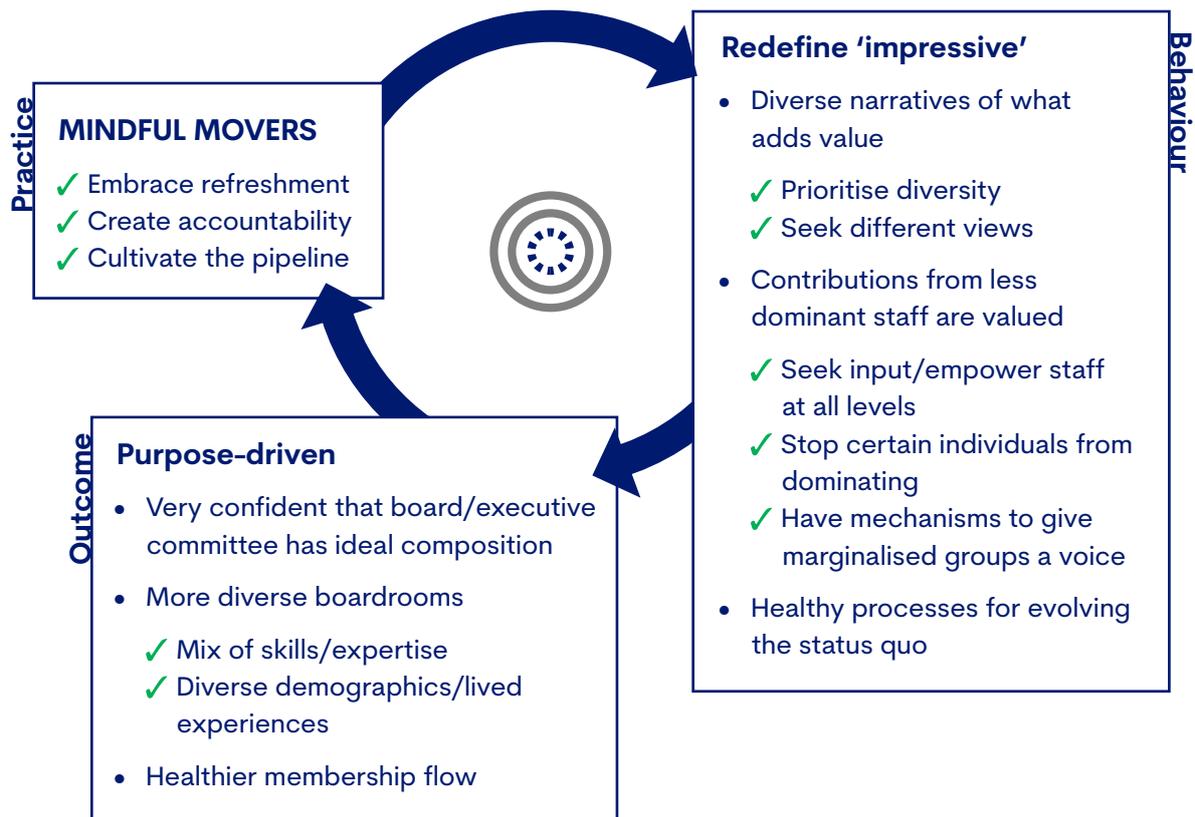
In contrast to the Bubble Bound, Mindful Movers **embrace the process of evolving their status quo**. 73% report that members are externally assessed with sufficient frequency and depth. 92% report that colleagues give and receive meaningful feedback, with 60% citing this as a norm. And 77% set aside time to discuss blind spots, with 41% citing this as norm. This is not entirely surprising given that the Mindful Movers have been segmented based on their skill at preventing attachment to power and redefining their bubble.

We can see the impact of this in tangible terms when we look at **how board and executive committee composition has changed over the past two years**. Mindful Movers are more likely than the Bubble Bound to have had new joiners and slightly more likely to have had people leave.

## Mindful Exclusion – Part III: Composition

	Bubble Bound	Bubble Breaker	Mindful Manager	Mindful Mover
				
	N=64	N=64	N=77	N=80
<b>Behaviour – failure to reassess the status quo</b>				
Board/executive committee is not externally assessed with sufficient frequency/depth	73%	64%	54%	27%
Never or rarely give/receive meaningful feedback during meetings	41%	30%	24%	8%
Never or rarely prioritise blind spots for discussion	56%	51%	34%	23%
<b>Outcome – membership flow</b>				
No. of members who have joined in the past two years	2.4	3.1	3.2	3.3
No. of members who have left in the past two years	2.2	2.5	2.3	2.5
<b>Outcome – effectiveness</b>				
Ideal composition for governance (moderately agree)	25%	36%	55%	74%
Ideal dynamics for governance (moderately agree)	32%	42%	58%	72%
Effective at prioritising issues for the agenda (moderately agree)	53%	52%	75%	79%

Figure 2: The mindful cycle

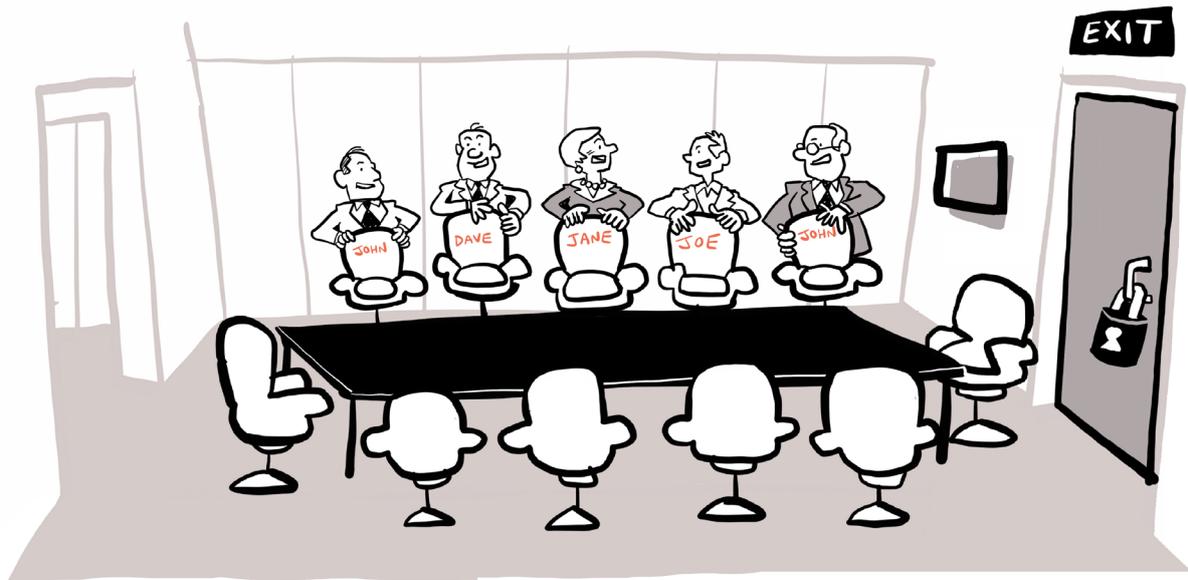


**Mindful Movers' empowerment of relevant voices, regardless of their perceived power level, and openness to evolving the status quo do not distract from their sense of purpose – they sharpen it.** These qualities make it easier to go beyond the binary classification of candidates as 'board ready' or not and consider a more nuanced and dynamic analysis of the value that they add – e.g., one that takes into account a candidate's capacity to learn, the characteristics that differentiate them from existing members, and their relevance for addressing future risks and opportunities. What makes a candidate 'impressive' is thus more context-dependent and less about one's inherent worth.

Under these conditions being held accountable, or even replaced, has less stigma... and so the **mindful cycle** continues (see Figure 2). This may explain why three quarters of Mindful Movers are confident that their composition is ideal for governance. And why they are also more likely to believe that their boardroom dynamics are ideal for effective governance, and that they are effective at prioritising issues for the agenda.

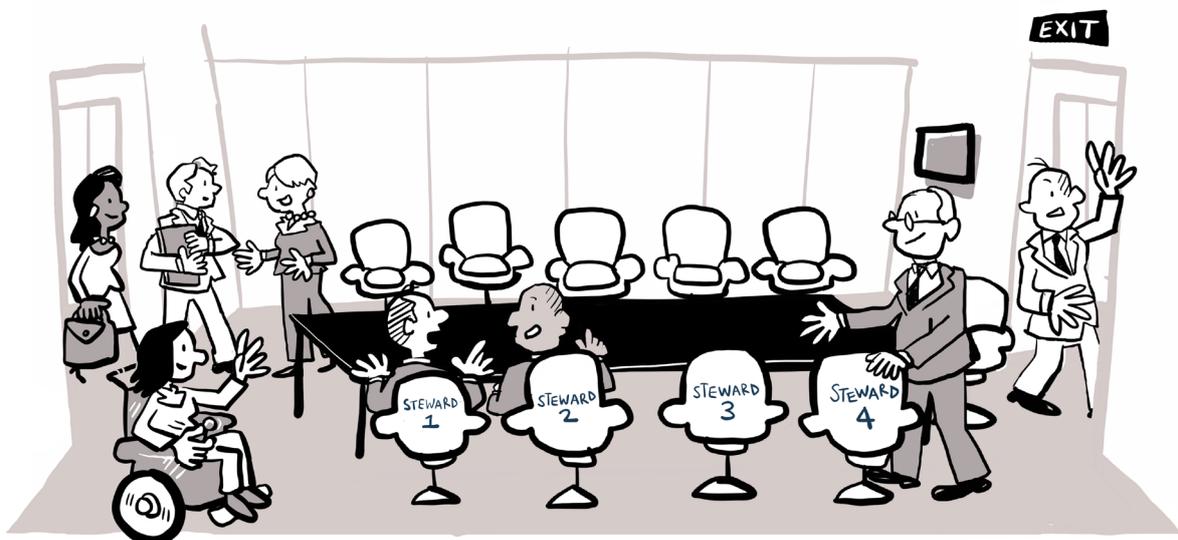
## Mindful Exclusion – Part III: Composition

### Bubble Bound



"WE'RE THE A-TEAM. WHY CHANGE ANYTHING?"

### Mindful Movers



"AM I STILL THE BEST POSITIONED TO SERVE?"

### E. Implications of COVID-19

**The murder of George Floyd in May 2020 triggered global shockwaves of awakening in relation to social justice and inclusion.** Many attribute the extent of this awakening to COVID-19, given the inequalities that it highlighted and the collective experience of vulnerability that it created. As companies attempted to make gestures of solidarity with the public, their ethnic diversity at the top came under greater scrutiny. Initiatives such as the Parker Review, which called for greater ethnic diversity in UK boardrooms, gained new traction. And a host of campaigns, such as the Confederation of British Industry (CBI)'s Change the Race Ratio campaign, were launched – with business leaders pledging their commitment to take meaningful action.

**Investors and regulators who were already looking at gender diversity, began to also ask questions about race and ethnicity.** By the end of 2020, California – which was the first state in the US to require public companies to have female directors – had expanded its mandate to also require board members from underrepresented communities. Nasdaq had shared a proposal to require listed companies to actively disclose board diversity figures and actively name at least one female director and at least one director from an underrepresented minority. The influential shareholder proxy advisor ISS had revealed new plans to call out companies that lacked ethnic diversity on their boards, and BlackRock had announced that it would ask companies in the US and Europe to disclose ethnic diversity statistics.<sup>38, 39</sup>

These changes had a meaningful impact on the conversation about diversity at the top. According to our survey results, **racial/ethnic diversity went from being an issue that the majority of organisations (52%) did not take into account prior to COVID-19 to one that the majority of organisations (58%) now have on their radar.** This did not detract from the focus on other forms of diversity. Rather it prompted a broader awareness of the value of diverse lived experience that appears to have increased the prioritisation of all strands of diversity. The Bubble Bound, in particular, appear to have gained a new level of appreciation for diversity of lived experience.

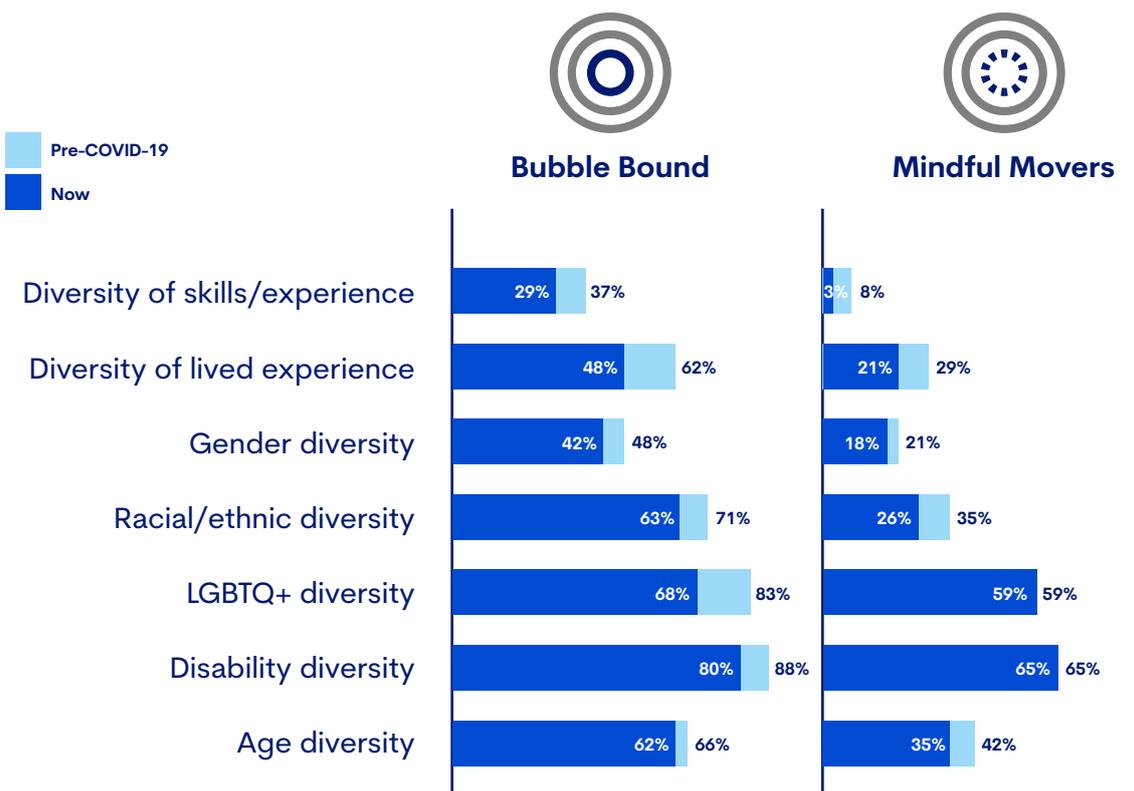
**This conversation has already translated into some action.** Between July 2020 and May 2021, 32% of new directors in the S&P 500 were black, compared with 11% the prior year.<sup>40</sup> By March 2021, the proportion of FTSE 100 boards that were all-white had dropped from 37% to 14%. While the Parker Review's target of all boards having at least "one [ethnic minority director] by 2021" has yet to be met, the prospects are looking hopeful.<sup>41</sup>

## Mindful Exclusion – Part III: Composition

There have also been ongoing strides in relation to gender diversity at the top. By October 2020, the proportion of women on FTSE 100 boards had jumped from 32% (in October 2019) to 36%, and the proportion of women on FTSE 100 executive committees had jumped from 23% (in June 2020) to 27%.<sup>42</sup>

### Which types of diversity were excluded from consideration prior to COVID-19?

% Indicating that this type of diversity was never or rarely treated as a priority<sup>43</sup>



Despite these promising developments, there is still a long way to go until homogeneity is no longer an issue at the top of organisations. In the meantime, our survey data indicates that **the most progressive organisations are increasing the size of their boards and executive committees to accommodate more members**. Mindful Movers have, on average, had a net gain of 0.8 members in the past two years. If we look only at boards, and remove executive committees from the sample, this number drops to 0.3.

## Mindful Exclusion – Part III: Composition

This still represents an important step forward, and may reflect that – in the short-term – it is easier to improve composition by bringing new members in than by rolling existing members out. In Round I qualitative interviews, we heard several stories of boards noticing a positive impact from diversity, even though the size of the board had increased.

**'Increasing the diversity has had an enormous impact. All of the new directors are minded to accept what the executive puts forward, but willing to challenge it.... It has brought greater dynamism and sense of purpose to the board.'**

Nonetheless, in the medium-to-longer-term, it will be important to ensure that the flow of members leaving matches the flow of members being added.



"I'M GLAD WE FOUND SOME EXTRA CHAIRS."

### F. Summary points for Part III: Composition

#### A. Is there evidence of mindless exclusion?

- Yes, there was resistance to selecting qualified candidates who had a different profile from existing board or executive committee members in terms of both lived experience and expertise.

#### B. What is the distorting factor at play?

- The bubble of 'impressive' people, fuelled by attachment to power.

#### C. What mindful practice(s) can help to counter this?

- Redefine 'impressive' by establishing a healthy flow of power.
- I.e., embrace refreshment, create accountability, and cultivate the pipeline.

#### D. How does this practice impact governance?

- 74% of boards and executive committees that embrace refreshment, create accountability, and cultivate the pipeline (Mindful Movers) are confident that their boardroom composition is ideal for governance versus 25% of those that fail to even embrace refreshment (Bubble Bound).
- The Bubble Bound appear to be caught up in a mindless cycle of power-driven behaviour that results in a static, singular narrative of who is most 'impressive' when it comes to adding value.
- The Mindful Movers appear more concerned with purpose than power, resulting in a more dynamic, flexible narrative of what it means to be 'impressive' that embraces the diversity required to select an optimal team.

#### E. What has been the impact of COVID-19?

- The murder of George Floyd has led to greater awareness of the homogeneity of boards, particularly when it comes to racial/ethnic diversity.
- There has been a meaningful shift within the Bubble Bound segment of how all forms of diversity are valued. Diversity of lived experience is now much more likely to be considered.

### G. Discussion

**Diversity at the top of organisations is finally receiving the attention that it deserves.** However, too often, the topic is over-simplified and subjected to binary evaluation – as being either wholly good or bad for organisational performance. Ironically, as we pointed out earlier, the inclination to do this is itself part of the problem. There have been numerous studies that make or refute the business case for diversity, with mixed results.<sup>44,45</sup> This has led those on both sides of the debate to feel more justified about the conclusions that they had already drawn, but it has not necessarily advanced our collective understanding of the issue.

**Some degree of diversity is important for team performance,** especially when it comes to decision making. The whole point of having more than one person involved is to tap into the collective wisdom that comes from multiple skill sets and vantage points. To optimise performance, this must be done strategically, involving an assessment of what skills are required (now and in the future) and the benefit that each individual adds in relation to the whole.

What we learnt in Part I of this report is that **diversity of lived experience is an essential part of this equation.** It helps teams to bridge psychological distance (especially with their stakeholders), anticipate their ripple effects with greater precision, and thus prioritise more effectively. What we learnt in Part II is that **psychological safety is vital for realising the potential of a team,** helping to ensure there is sufficient task conflict but minimal relational conflict. The results of Part II revealed the importance of investing in team alignment to achieve psychological safety and highlighted that the skill of valuing difference is strongly associated with this behaviour.

That said, **much of the discussion about diversity is about a different topic altogether** and one that must be addressed before any meaningful strategy can be implemented. Namely, the **problem of compulsive homogeneity,** and the natural inclination of human beings in hierarchical systems to consciously or unconsciously validate their status by self-replicating. In Part III: Composition, we have tested the hypothesis that there is a deeper psychological issue at play – attachment to power. Academic research would suggest that, as human beings, this is a natural tendency which can become especially tricky for those in power when the systems around them have been designed to reinforce this behaviour.

## Mindful Exclusion – Part III: Composition

Our findings show that **in organisations where practices are in place to mitigate against attachment to power – i.e., through board refreshment, effective accountability, pipeline cultivation – homogeneity is less of a problem.** They also show that there are distinct cultural differences in organisations where these practices are implemented. When there is a healthy flow of power, staff at all levels are engaged in decision making. Their position in the hierarchy does not constrain their ability to add value. There is also a willingness to subject directors and executive directors to standard levels of scrutiny, facilitating the evolution of social norms. Several studies linking succession planning to business performance add further credence to the importance of detachment from power for those at the top.<sup>46,47</sup> Moreover, boards with a short-term focus appear more likely to have directors who are motivated by advancing their own power level and less likely to have directors who are motivated by purpose.<sup>48</sup>

An implication of these findings is that **organisations cannot address the problem of homogeneity effectively unless they also address attachment to power.** Many organisations are taking encouraging steps in the right direction which can potentially backfire without this understanding. For instance, several interview participants commented that they had recently launched a **Next Generation board**. These groups were credited with providing boards with greater access to diverse perspectives and greater visibility of diverse talent. However, a few participants expressed **concerns about them being presented as a solution to board homogeneity** that did not require changes to the actual board.

Our **survey data substantiates this concern.** One quarter of all respondents that reported having a Next Generation board at their company were from the Bubble Bound segment. Having taken this positive step, these organisations were still not addressing refreshment, accountability, or pipeline cultivation and had done little to address diversity on their actual board. This is not to say that Next Generation Boards are not a best practice when used correctly.

**A similar dynamic occurs when diverse candidates are placed onto boards that still have a singular narrative of what it means to add value.** If those screening candidates are not skilled in assessing diverse forms of value, they may choose an individual for the wrong reason – i.e., to simply tick a box. More commonly, however, these newcomers have been subjected to a higher standard, only to find that the value they bring to the table is consistently overlooked. Shifting the power dynamic in this case involves investing in the development of existing members alongside the new ones and resetting the norms on what it means for members to contribute effectively.

## Mindful Exclusion – Part III: Composition

There is **one form of homogeneity that boards and executive committees should be seeking – the ability to exclude mindfully**. Leaders with this capability will have a distinct edge, even more so in the post-pandemic world where the speed of change is only expected to accelerate. They will be best positioned to pick up on new trends and assimilate them, to establish trust and goodwill with a broad set of stakeholders, and to harness the potential of talented individuals with less oversight. Around the boardroom table, they will contribute to effective dynamics. Outside of the boardroom, they will inspire followership and loyalty.

To achieve the ideal composition, boards and executive committees must **balance their quest for the traditional qualities that we associate with power with the ability to exclude mindfully**. In seeking 'seasoned' individuals, they must also screen for candidates who will proactively engage beyond the realm of their experience. In seeking 'a good fit', they must check their own biases and ensure that candidates are also willing to express vulnerability and challenge social norms. Finally, in seeking 'gravitas', they must verify that candidates are skilled at recognising diverse forms of value and are not attached to being viewed as 'impressive'.

Ultimately, boardrooms that have recruited for and cultivated this capability will be better equipped to stay true to their purpose as they navigate the uncharted frontiers to come.

### H. Conclusion

**It may be tempting to read this report and to judge the Bubble Bound as illogical.** It is even more tempting to assume that you (the reader) do not fit into this category. To do so would be a mistake.

**Being Bubble Bound is a state, and – as social psychology teaches us – one that we are all capable of.** Many of the decisions that we make in this state are perfectly logical, based on the information that we are aware of. If you cannot see that your actions have ripple effects, it makes sense to prioritise what is immediately in front of you. In other instances, being Bubble Bound is a matter of choice. Even this is partly logical. There is a need for us to focus in order to be strategic. We cannot prioritise every unfamiliar issue. We cannot engage in every uncomfortable conversation. Nor can we consider every person who was previously labelled as 'unimpressive' to be a serious candidate for the boardroom. We are limited by time, energy, and the number of seats around the table. We have to exclude.

**The main insight underlying Mindful Exclusion is that our default mechanisms for filtering out what and how to exclude have limitations.** Left unchecked, they inevitably create insular bubbles that – as the data in this report has shown – leave us on the back foot, create suppressive group dynamics, and contribute to the unhealthy flow of power. We are simply not wired to comprehend our interdependency with the system in which we operate. In order to exclude more effectively, we must first acknowledge this fact. **Thus, the only way to avoid being Bubble Bound is to recognise that this is our natural state.**

Awareness is the first step, followed by ownership. **After this, the journey to becoming a Mindful Mover involves cultivating the practices outlined in this report, and evolving our instincts, habits, and structures accordingly.** It is not about achieving absolute certainty, but rather about learning how to engage with uncertainty more productively. We must **establish pipelines to the unknown** so that important issues, conversations, and people have a means of coming onto our radar. We must **invest in processes that enable us to prioritise** amongst the options that these pipelines generate and **explore them further before there is a need to take action.**

**Certain sectors and divisions are designed to deal with the unknown and hence structurally embody this process.** Research & development is one of them. The traditional sales funnel is another. Both provide helpful metaphors to reference as we interrogate our default approach to decision making and work out whether our pipelines are fit for purpose.

## Mindful Exclusion – Part III: Composition

In governance, the **practice of noting, discussing, and then deciding** provides a pipeline to the unknown. One company secretary described how her use of proactive noting made it easier for her board to investigate unfamiliar issues, that they might have otherwise overlooked, well before a decision was required. The habit that some chairs have of **proactively inviting feedback at the end of each meeting** is another example of this. Assuming that there is psychological safety, it encourages members to express frustrations before they can become toxic and to share ideas for improvement before any change is required. **Employee networks** can also serve this purpose, if they are properly supported, helping those in the boardroom to challenge their biases and tap into a pipeline of talent that they may otherwise struggle to gain access to.

**COVID-19 has been a wakeup call for many organisations, especially the Bubble Bound.** Not only did they find themselves on the back foot when it came to digital transformation, employee well-being, and diversity – they also did not have experience engaging beyond their bubble in general. It is encouraging to see how many of the Bubble Bound appear to have taken this lesson to heart. They now show much greater receptivity to the unfamiliar. This is good timing as the future that unfolds over the next eighteen months is unlikely to be familiar terrain. Even aspects of professional life that used to be familiar, such as going into the office, have been reframed by the pandemic. Having been forced to adapt to an alternate model, there is no longer an obvious default.

**What will define success going forward is the ability to lead in the midst of difference.** This will require emotional connection to the lived experience of a broad set of stakeholders, along with strategic solutions that address their diverse aspirations and needs. We can already see this at work as companies struggle to navigate competing preferences about hybrid working and are asked to take a stand on heated political topics by employees and customers. In this new world – where all stakeholders have a voice, and singular narratives are subject to unprecedented scrutiny – cultivating psychological safety and healthy power dynamics may well become a matter of survival. Organisations that embody synergy and purpose, starting from the boardroom, are likely to come out on top.

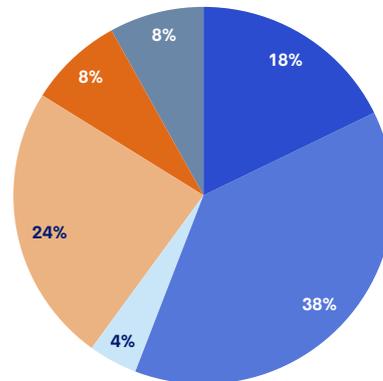
## Appendix

### General survey statistics

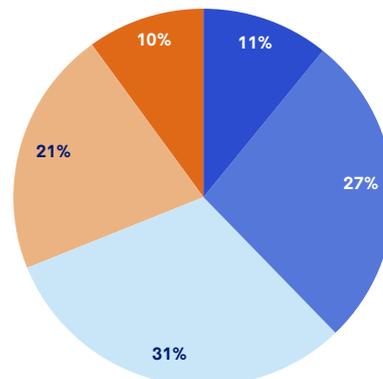
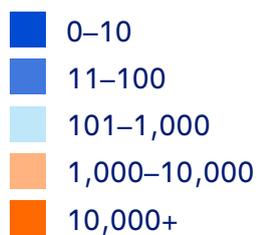
The Mindful Exclusion Governance survey was fielded from December 2020 to February 2021. 310 company secretaries, board directors and C-suite executives completed the survey during this time. After data cleaning, this left us with a sample of 297 responses.

Survey respondents included representatives from organisations of different sizes in the business, nonprofit, and public sectors.

#### Breakdown by sector



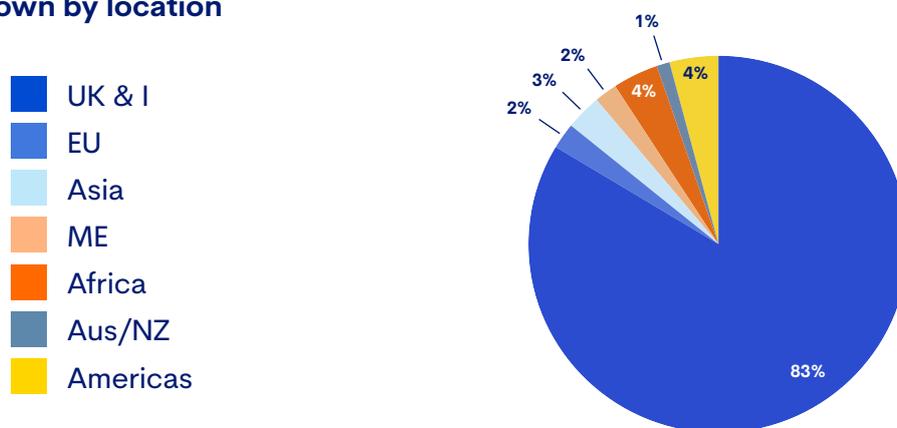
#### Breakdown by size



## Mindful Exclusion – Part III: Composition

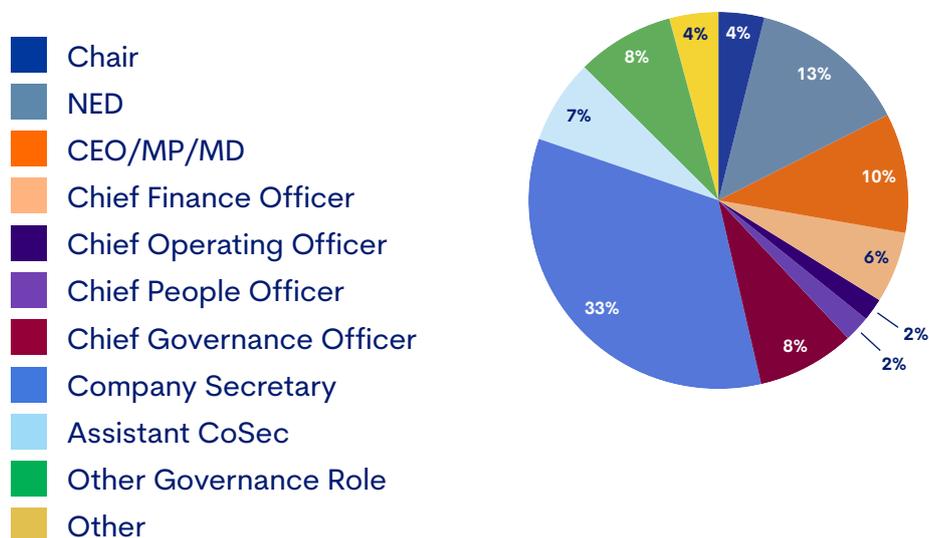
Although this survey was fielded internationally, most respondents were based in the UK & Ireland.

### Breakdown by location



The sample included a large proportion of company secretaries and other governance professionals.

### Breakdown by position

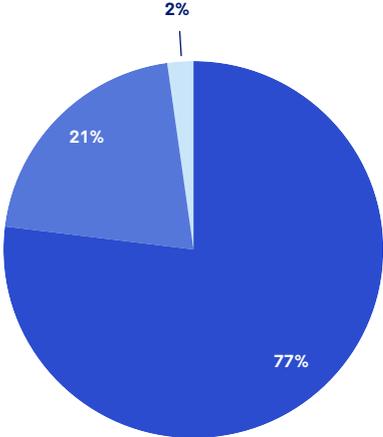


# Mindful Exclusion – Part III: Composition

A majority of respondents filled out the survey in relation to their board; one fifth did so in relation to their executive committee.

## Reporting on board vs executive committee

- Board
- Executive committee
- Other



## Mindful Exclusion – Part III: Composition

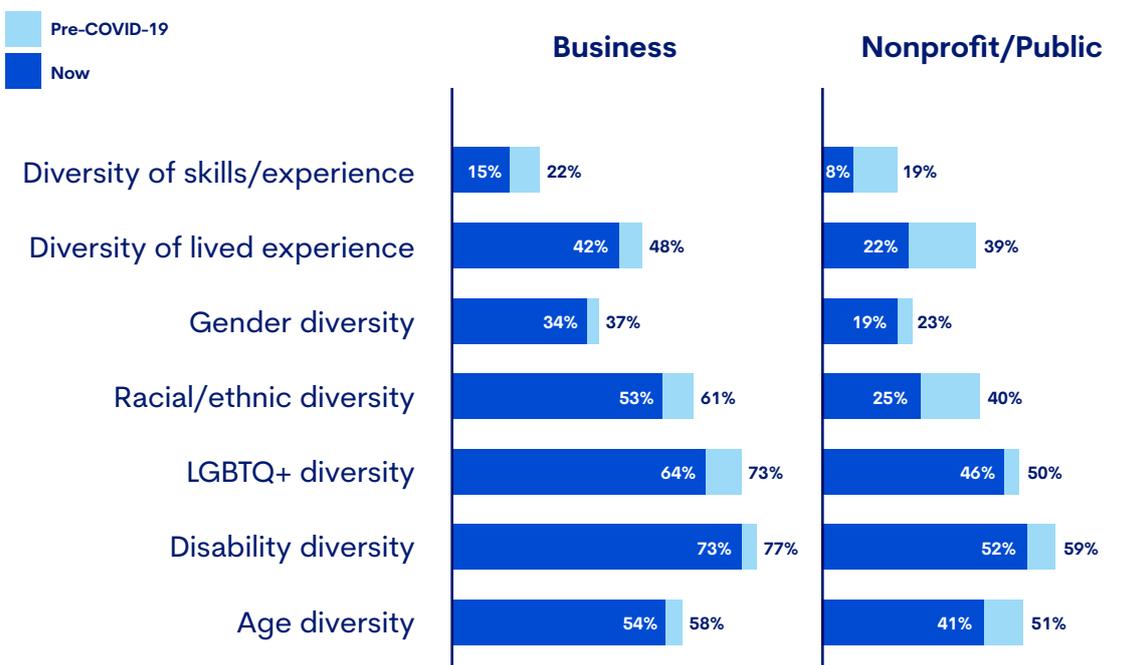
### Composition-specific statistics

In conducting analysis for Part III: Composition, we removed responses of individuals who indicated NA in relation to our segmentation variable or the question about the effectiveness of boardroom composition. This left us with a sample of 285.

Here is a chart similar to the one presented earlier in this report, which shows the extent to which the business sector versus the nonprofit/public sectors failed to prioritise diversity. Boards and executive committees in the nonprofit/public sector were more likely to value every form of diversity – both before COVID-19 and now. This is consistent with the fact that they were also more likely to put diversity & inclusion on the agenda (see Appendix of Part I: Agenda). Although both groups have seen some movement in terms of how much diversity of skills/expertise, diversity of lived experience, and racial/ethnic diversity are valued, these leaps have been much more pronounced for the nonprofit/public sector. The business sector is particularly behind the nonprofit/public sector when it comes to racial/ethnic diversity. Both groups have the furthest to go when it comes to disability diversity.

### Which types of diversity were excluded from consideration prior to COVID-19? And now?

% Indicating that this type of diversity was never or rarely treated as a priority<sup>26</sup>

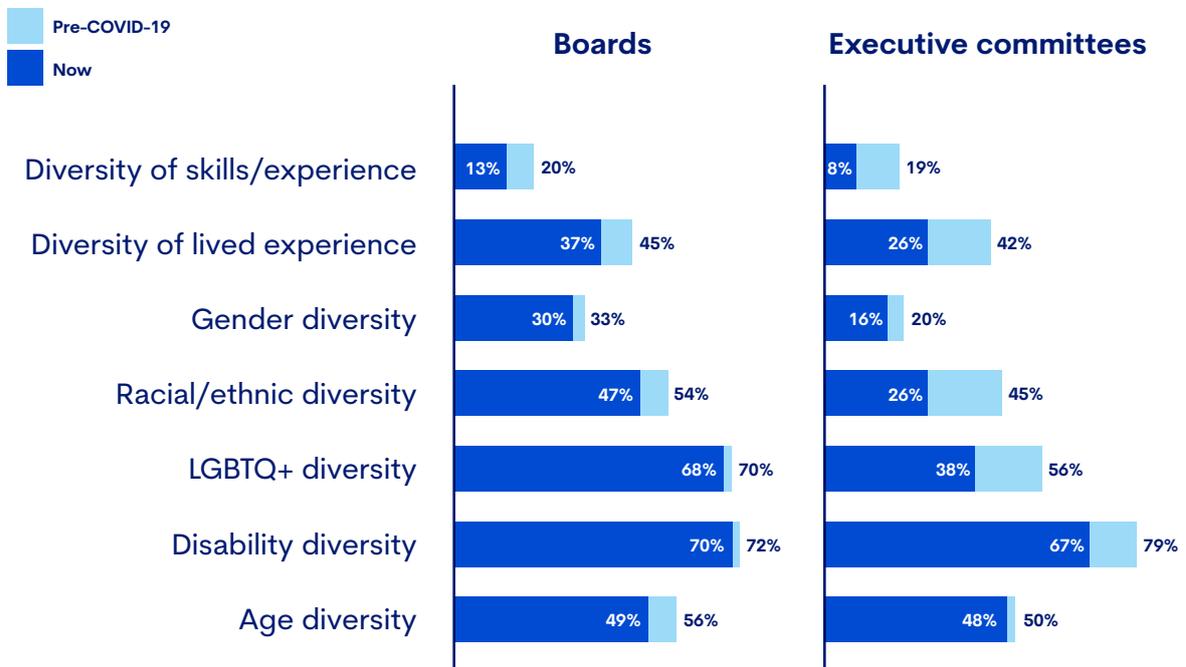


## Mindful Exclusion – Part III: Composition

In this version, the breakdown is of boards versus executive committees. Prior to COVID-19, the extent to which these two groups failed to prioritise different types of diversity was relatively similar. However, there has been a meaningful shift amongst executive committees when it comes to diversity of skill/expertise, diversity of lived experience, racial/ethnic diversity, LGBTQ+ diversity, and disability diversity. The difference between boards and executive committees is now most acute when it comes to prioritisation of LGBTQ+ diversity and racial/ethnic diversity. Whilst both groups have a long way to go when it comes to disability diversity, this stands out for executive committees as a strand that they have yet to consider.

### Which types of diversity were excluded from consideration prior to COVID-19? And now?

% Indicating that this type of diversity was never or rarely treated as a priority<sup>26</sup>



### Endnotes

- 1 Lutterodt, J. (2016). Mindful Exclusion. Developing Leaders (World Economic Forum Issue). <https://www.developingleadersquarterly.com/fb/Developing-Leaders-issue-22-2016/34/>
- 2 Lutterodt, J. (2019). Mindful Exclusion. Governance and Compliance Magazine. <https://www.cgi.org.uk/knowledge/governance-and-compliance/features/mindful-exclusion>
- 3 Darley, J.M. & Batson, C.D. (1973). "From Jerusalem to Jericho" – A Study of Situational and Dispositional Variables in Helping Behaviour. *Journal of Personality and Social Psychology*, 27(1): 100-108. <http://web.missouri.edu/~segerti/capstone/GoodSmaritan.pdf>
- 4 These datapoints come from Edelman Trust Barometer's 2020 Global Report and were based on a global online survey of 34,000+ respondents across 28 markets between October and November 2019.
- 5 From the start of 2019, all large companies in the UK were required to include a separate statement in their strategic report outlining how they adhered to Section 172(1) of the Companies Act 2006, which states the following:  
"A director of a company must act in the way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
  - a) The likely consequences of any decision in the long term
  - b) The interests of the company's employees
  - c) The need to foster the company's business relationships with suppliers, customers and others
  - d) The impact of the company's operations on the community and the environment
  - e) The desirability of the company maintaining a reputation for high standards of business conduct, and
  - f) The need to act fairly as between members of the company."
- 6 This statement was issued in August 2019 in an open letter by the Business Roundtable entitled "Statement on the Purpose of a Corporation". The letter stated that in addition to shareholders, companies are also accountable to their customers, employees, suppliers and the communities in which they operate.
- 7 This letter can be found on Blackrock's website: <https://www.blackrock.com/corporate/investor-relations/2020-larry-fink-ceo-letter>
- 8 These datapoints come from Edelman Trust Barometer's 2021 Global Report and were based on a global online survey of 33,000+ respondents across 28 countries between October and November 2020.
- 9 According to McKinsey's 2018 study A Time for boards to Act, only 43% of directors believed that their board was sufficiently diverse for relevant perspectives to be represented in decision making. A higher proportion (57%) believed that their board had an appropriate mix of skills and backgrounds to meet the organisation's needs. Both of these statements were correlated with stronger ratings of business performance.

## Mindful Exclusion – Part III: Composition

- 10 In PwC's 2019 Corporate Directors Survey, 94% of directors agreed that board diversity brings unique perspectives to the table and 87% agreed that it enhances board performance.
- 11 In Deloitte's 2019 Board Practices report, 94% of directors stated that they were looking to increase board diversity. More specifically, 68% of directors stated that they sought to improve gender diversity versus 48% who sought to improve ethnic diversity.
- 12 Hampton-Alexander Review FTSE Women Leaders, Improving Gender Balance – 5 year summary report, February 2021. 23.1% of executive committee members from FTSE 100 companies were women as of June 2019, and 32.4% of board members were women as of October 2019.
- 13 Parker Review, February 2020.
- 14 According to Deloitte's 2019 Board Practices Survey, 77% of boards that were looking to increase diversity sought referrals from current board members, and 73% used traditional search firms. In comparison, only 8% sought referrals from companies focussed on board diversity.
- 15 The Chartered Governance Institute's A View at the Top, 2019.
- 16 In PwC's 2019 Corporate Directors Survey, 89% of directors rated financial expertise as 'very important'.
- 17 The Chartered Governance Institute's A View at the Top, 2019.
- 18 In PwC's 2019 Corporate Directors Survey, 23% of directors rated IT/digital as 'very important' and only 14% gave this same rating to HR expertise.
- 19 PwC's 2019 Directors Survey. 82% of directors indicated that they supported board policies of always interviewing a diverse slate of candidates, and 80% supported search firm policy of always offering a diverse slate of candidates. However, only 41% were willing to be held accountable by investor policy and 17% by law.
- 20 PwC's 2019 Directors Survey. 63% of directors stated that investors devote too much time to gender diversity (up from 35% in 2018), and 58% said the same of racial/ethnic diversity (up from 33% in 2018).
- 21 PwC's 2019 Directors Survey. 67% of directors selected the statement "boards will naturally become more diverse over time" as one of their methods for achieving board diversity.
- 22 NACD's 2020 Governance Outlook reports that two thirds of boards that increased the number of women in 2019 also increased the size of their board.
- 23 In PwC's 2019 Directors Survey, 42% of directors reported adding extra expertise to their board in response to the last board/committee assessment process. Additionally, 15% provided counsel to one or more board members and 15% chose not to renominate a director. Respondents were able to select all options that applied.
- 24 PwC's 2019 Directors Survey, 49% of directors reported that at least one board member should be replaced, 23% said that two or more directors should leave.
- 25 PwC and The Conference Board's 2020 report, Board Effectiveness: A Survey of the C-suite, includes survey responses from 551 C-suite executives at public companies.
- 26 NACD's 2020 Governance Outlook reports that of the 71% of S&P 500 boards who disclosed their mandatory retirement age, 46% set this age at 75 or higher. This represents a big increase from 2009, when only 15% of boards with a mandatory retirement age set it at 75 or higher.

## Mindful Exclusion – Part III: Composition

- 27 In PwC's 2019 Directors Survey, 52% of directors indicated that there were no major barriers to board refreshment. This number rose to 60% for those whose age was 70+ and fell down to 39% for directors under 60. Of the barriers to board refreshment, 24% mentioned directors' unwillingness to have difficult conversations about underperformance, 20% cited a lack of effective director assessment, and 18% cited collegiality/personal friendships between directors.
- 28 PwC and The Conference Board's 2020 report, Board Effectiveness: A Survey of the C-suite.
- 29 In PwC and The Conference Board's 2020 report, Board Effectiveness: A Survey of the C-suite, 62% of executives in IT roles stated that two or more directors should leave, versus 31% of CEOs/CFOs. Likewise, 74% of executives in IT roles rated board effectiveness to be fair or poor versus 25% of CEOs/CFOs.
- 30 In McKinsey's 2018 A Time to Act study, only 18% of directors reported that their Board had a 3- to 5-year succession plan for itself. The presence of a succession plan was found to be highly correlated to board performance.
- 31 Fehr, E., Herz, H. & Wilkening, T. (2010). The Lure of Authority: Motivation and Incentive Effects of Power. *American Economic Review*. 103 (4). [https://www.researchgate.net/publication/229036308\\_The\\_Lure\\_of\\_Authority\\_Motivation\\_and\\_Incentive\\_Effects\\_of\\_Power](https://www.researchgate.net/publication/229036308_The_Lure_of_Authority_Motivation_and_Incentive_Effects_of_Power)
- 32 J. Jordan, N. Sivanathan, & A. Galinsky. (2011) Something to Lose and Nothing to Gain: The Role of Stress in the Interactive Effect of Power and Stability on Risk Taking. *Administrative Science Quarterly*. 56(4): 530–558.
- 33 Anderson, C., Brien, S. (2014). Perspectives on Power in Organisations. *Annual Review of Organisational Psychology and Organisational Behaviour*. 1:67–97.
- 34 Please note that questions about LGBTQ+ and disability diversity were added halfway through the fielding of the survey and thus were answered by approximately a third of respondents.
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- 37 Please note that questions about LGBTQ+ and disability diversity were added halfway through the fielding of the survey and thus were answered by approximately a third of respondents.
- 38 Deadline.com (December 2020) "Corporate boards will get more diverse in 2021 with social justice jolt, new regs, covid impact."
- 39 FT.com (December 2020) "Push for diversity brings rush of business for executive head hunters."
- 40 CNBC.com (June 2021) "Racial diversity stagnated on corporate boards, study finds."
- 41 EY.com (March 2021) "Significant progress on improving ethnic diversity of FTSE 100 boards reveals new data from the Parker Review."
- 42 Hampton-Alexander Review FTSE Women Leaders, Improving Gender Balance - 5 year summary report, February 2021. 26.5% of executive committee members from FTSE 100 companies were women and 36.2% of board members were women as of October 2020.
- 43 Please note that questions about LGBTQ+ and disability diversity were added halfway through the fielding of the survey and thus were answered by approximately a third of respondents.

## Mindful Exclusion – Part III: Composition

- 44 C. Post, K. Byron (2014) Women on Boards and Firm Financial Performance: A Meta-Analysis. Academy of Management. <https://doi.org/10.5465/amj.2013.0319>
- 45 J. Pletzer, R. Nikolova, K. Kedzior, and S. Voelpel (2015) Does Gender Matter? Female Representation on Corporate Boards and Firm Financial Performance - A Meta-Analysis. PLoS One. <https://doi.org/10.1371/journal.pone.0130005>
- 46 McKinsey's 2018 A Time to Act study. 61% of boards with a 3-5 year succession plan in place indicated financial outperformance versus 45% of boards that did not have such a plan in place.
- 47 Russell Reynolds' 2019 Going for Gold Survey. 29% of Gold Medal boards (vs. 23% of all boards) indicated that CEO and management succession planning was one of the top three areas where they had spent their time over the past year.
- 48 FCLT's 2020 study entitled "Tone at the Top: The Board's Impact on Long-term Value" found that boards that focussed on delivering results within a 0-2 year time horizon were more likely to have directors who were concerned with power. These directors were more motivated to join boards for their career, their personal brand, financial compensation and the opportunity to build a broader network. Meanwhile directors on boards with a 2+ time horizon were more motivated to join the board in order to help the company to succeed, because they were interested in the nature of the industry, and given their belief in the purpose of the organisation.



The Chartered  
Governance Institute