Chartered Governance Institute UK & Ireland

Centre for Synchronous Leadership (CSL)

Mindful Exclusion

Further insights on effective governance in uncertain times

Contents

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020 7612 7035 | informationcentre@cgi.org.uk

Foreword

The 2021 Mindful Exclusion Report that we published last year with Justine Lutterodt and the Centre for Synchronous Leadership (CSL) struck a chord with our members.

By virtue of their role, company secretaries have traditionally been connected to a broad range of stakeholders within their organisation. As a result, many of our members had some level of awareness prior to the pandemic that their board or executive committee operated in a bubble. This theme came across in the qualitative interviews that CSL conducted in 2019 and informed the questions that we were interested in exploring last year. We were particularly drawn to the concept of Mindful Exclusion given its implications for boardroom diversity.

The onset of COVID-19 and the events that followed forced many boardrooms to acknowledge the limitations of their bubble, triggering a more mindful approach to governance. Results from the 2021 Mindful Exclusion survey quantified the extent of this – showing a meaningful shift in the issues making it onto the agenda, the conversations occurring around the boardroom table and the attributes that boards prioritised in selecting candidates. As the report demonstrated, each of these shifts represented a step forward for governance. However, we found ourselves asking the question, how might all this change when we are back to 'normal'?

History teaches us many things. One of these is about the temptation, after a crisis, to retrench and return to old habits rather than embracing the opportunity for lasting change. We decided, therefore, to test the results of the 2021 Mindful Exclusion Report and see whether the core practices that had helped boards and executive committees to go beyond their bubble in 2021 had stuck in 2022.

I expected trends in our macro environment to also have an impact. For instance, Section 172 of the Companies Act 2006, which pushes companies to consider how they 'have regard to' the interests of a broader set of stakeholders, has given new momentum to the conversation on environmental, social and governance (ESG) issues. By 2021 we were seeing these issues move more firmly into the regulatory environment – with the rise of TCFD (Task Force on Climate Disclosure) reporting, the increasing reliance on AI and a growing awareness of the associated risks that AI presents. We have also seen regulatory initiatives to encourage improvements in diversity and stakeholder reporting, notably from the Financial Conduct Authority and the Financial Reporting Council.

Operating within a bubble has had different implications in 2022, given the phenomenon of the 'great resignation' that took a hold of the business sector at the start of the year, the economic and political instability that continues to plague much of the world and the impact that this is having on societal cohesion.

As company secretaries, we are at the forefront of these changes. Ever since I joined the Institute, our role as 'conscience of the company' has been at the centre of all that we do. The growing focus on ESG and, in particular, ESG reporting has made this role more important than ever. As has the ongoing need for better induction training, board evaluation and boardroom diversity.

I do hope that you find the 2022 Mindful Exclusion Report to be as thought-provoking as I have. Although it highlights some disconcerting trends, it also provides insight into how they can be reversed, and the new data on financial performance makes the case for doing so quite compelling. Once again, it is now over to you, our reader, to think about what these findings mean for your own approach to decision making.

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

Note from the author

It would be easy to read this report with other boards and executive committees in mind. It is harder to read it and to honestly reflect on your own. But this is the opportunity.

All of us live in bubbles – of familiarity, comfort and 'impressive people'. As human beings, this is our default approach to making sense of the world. The problem is not that we have bubbles, but that most of the time we do not even see them. Of those who do, few of us are willing to take ownership for how they distort our decision making, and fewer still take action to prevent this from happening.

As you engage with this report, instead of asking – "does my board or executive committee operate in a bubble?", try asking "how do we operate in a bubble?" and "what can we do to have a more mindful approach?" Initiating this type of conversation with your colleagues can feel daunting, but it is often an important first step. Our hope is that this report equips you to do so in a more objective and informed way.

At the Centre of Synchronous Leadership (CSL), our journey with the concept of Mindful Exclusion since 2015 has been an example of these principles in action. What started with an article published in the World Economic Forum's leadership magazine, Developing Leaders, was followed by interviews with over 150 employee network leaders about grassroots movements and belonging. This then morphed into a study with over 300 company secretaries, directors and executives about the opportunities for better decision making in governance – which culminated in the 2021 Mindful Exclusion Report. Along the way, we also held a series of roundtables with diversity, equity & inclusion (DEI) and human resources (HR) leaders. Each perspective has contributed to our understanding of what exclusion in an organisational context looks like when it is mindful versus mindless, and the impact that this has on performance.

Seven years later, we have come full circle – with data from this year's survey providing insight into how employee networks contribute to governance. At CSL, this journey has ensured that our own bubble is always expanding, as our knowledge of what is happening in the wider system is enriched, and as we evolve our own practices in response to what we learn. 'Systemic listening' is now an integrated part of our business model, allowing us to help leaders anticipate and respond to emerging trends before they go big.

In that vein, I would like to thank everyone who allowed us to listen to them. This includes those who contributed to the 2022 Mindful Exclusion survey. It was a longer survey this year, and those who made the time to respond have enabled us to begin collecting invaluable longitudinal data. This also includes those who participated in qualitative interviews and the many senior leader, HR and DEI roundtables that have proved invaluable in helping us to distil the most relevant points for this report. In particular, I would like to thank Anthony Corriette, Rain Newton-Smith, David Tyler, Stephanie Boyce, Michael Cole-Fontayn, Sharon Blackman OBE and the CSL Changemakers (C-suite members of the CSL Community) for helping to bring our findings to life.

A special thank you goes out to The Chartered Governance Institute UK & Ireland and our chief collaborators Peter Swabey and Saqib Lal Saleem. I would also like to thank my colleagues Elias Westerdahl and Kristina Skybova, my mother (editor-in-chief) Sarah Lutterodt Ph.D and my writing coach.

I hope that the results from this year's study give you reason to pause and reflect. More importantly, I hope that you use them to become more intentional about decision making at your organisation and your own ripple effects as a leader.

Justine Lutterodt
Managing Director
Centre for Synchronous Leadership

Why this report matters

Anthony Corriette
Company Secretary, BBC Studios

We are humans not robots and we crave familiarity, comfort and status. During the pandemic many of us would say 'I want to get back to normal'. Others recognised that there would be a 'new normal'.

As company secretaries, we knew that there would have to be some changes based on what the period of lockdowns and remote working had taught us. However, transitioning back to time in the office made it easy to slip back into old ways of working. Long days at a hundred miles an hour. Not giving ourselves permission to stop, reflect and re-set.

The Mindful Exclusion Report demonstrates why it is important that we invest the time and effort to stop, consider what we want to happen next and the habits that will help us to achieve this.

Rain Newton-Smith
Chief Economist, CBI

As an economist and business leader, I find the practice of horizon scanning to be essential. Unless you are asking yourself 'what should be on our watch list but is not?', it is easy to miss important risks and opportunities that are bubbling beneath the surface. Connecting with people who have diverse perspectives and lived experiences is vital for discovering these unknowns. This compelling study helps us to explain why and provides further insight into what 'Scanners' are seeing that others are missing.

The Mindful Exclusion Report also illuminates the importance of making governance decisions with humanity. At the end of the day the economy is not separate from our collective well-being. In fact, this is what the economy is for.

David Tyler
Chair, The Parker Review
Supporting Chair, Chapter Zero

Boards can sometimes be so focused on the day-to-day detail of operations that they lose sight of the critical role they play in medium and long-term value creation. The Mindful Exclusion Report highlights the importance of taking a step back to see the bigger picture, create the conditions for healthy debate and reassess the competencies required to be fit for purpose – and the dividend from doing so.

Despite the 'retreat to the bubble' that appears to be under way, it is heartening to see climate change featuring on more agendas and an ongoing focus on ethnic diversity in the boardroom. Efforts to increase transparency and accountability, such as the Parker Review, are key for sustaining the momentum for change in these areas.

Stephanie Boyce
177th President (2021–2022), The Law Society

Being a good Steward means being prepared to step into power and to let go of it. The skill of doing the latter is more important than ever. If the same people are making the same decisions, we will not adapt rapidly enough to keep up with the pace of change.

With new people come fresh perspectives and diverse lived experiences. To make the most of these, we need to create psychologically safe environments where everyone can be heard. This involves evolving our norms rather than requiring conformity.

The Mindful Exclusion Report reminds us of what is at stake – in terms of governance, financial performance and societal well-being – and provides us with data-driven guidance to improve decision making at the top.

Introduction

To what extent is mindless exclusion distorting the governance of your organisation?

- What **important issues** are not making it onto your boardroom agenda, simply because they are less familiar? **(Part I: Agenda)**
- What **important conversations** are not happening around the boardroom table, because they are less comfortable? **(Part II: Dynamics)**
- What **criteria** are not being factored into the selection of new members, because they do not reflect the 'impressive people' already around the table? **(Part III: Composition)**

In the 2021 Mindful Exclusion Report,[1] we used these questions to demonstrate that many boards and executive committees (ExCos) were operating in a bubble – i.e., their decision making was distorted by what was familiar, comfortable and considered 'impressive' to those already around the boardroom table. We identified three mindful practices to help boards and executive committees go 'beyond their bubble', and we showed that the presence of these practices prior to COVID-19 was correlated with more effective governance. Finally, we noted that there had been a meaningful increase in the proportion of boardrooms engaging in these mindful practices by the start of 2021.

Section	Relevant bubble	Mindful practice identified
Agenda	Bubble of familiarity	Horizon scanning
Dynamics	Bubble of comfort	Investing in team alignment
Composition	Bubble of 'impressive people'	Creating a healthy flow of power

Mindful Exclusion

It is not uncommon for a crisis to trigger greater awareness – that we have blind spots, that we need to have difficult conversations and that additional perspectives and/or capabilities are now required. However, as the initial urgency and panic fades into the background, it can be tempting for this awareness to also subside without structural changes to prevent this from happening. At the end of 2021 and the start of 2022, many boards and executive committees began to have more in-person meetings, and thus to experience a taste of 'how things used to be'. We were curious as to whether this shift had also triggered a retreat to the levels of habituated, 'bubble-bound' decision making that we saw prior to COVID-19.

In this follow-on report, we build on prior findings to once again explore how mindless exclusion is distorting decision making when it comes to the boardroom agenda, dynamics and composition. For each section, we examine the following questions:

- Has there been a retreat to the bubble?
- Is there still a mindful dividend?
- What specific areas require attention in the year ahead?

This year, we have attempted to get more concrete in articulating the mindful dividend by tracking financial performance, along with a few other indicators that are increasingly monitored at top tables. We have also used distinct names to identify boards and executive committees that engage in each of the three mindful practices – **Scanners, Synergisers and Stewards** – and included new survey questions to bring their profiles to life.

The main takeaway of each section is for boards and executive committees to engage in the mindful practice that helps them go beyond their bubble, given what is at stake. We have also explored specific areas of concern for the coming year based on what we see changing and what we can learn from the more mindful.

Executive Summary

The 2021 Mindful Exclusion Report found that more boards and executive committees had started to go 'beyond their bubble' – by horizon scanning, investing in team alignment and creating a healthy flow of power – since the onset of COVID-19. It also showed that the presence of these three mindful practices was associated with more effective governance.

2022 is characterised by a retreat to the bubble, with fewer boards and executive committees engaging in all three of these practices. Unsurprisingly, more organisations are on the back foot, feedback and trust levels have declined, organisations are less satisfied with their mix of skills at the top and diversity of lived experience is less valued.

Furthermore, boards and executive committees that engaged in these practices at the end of 2021 – **Scanners, Synergisers and Stewards – are now reaping the dividends**, including stronger financial performance.

This year, we learnt more about the **profile** of these three mindful segments:

- **Scanners** are more likely to have 'less familiar' issues on the agenda. Their connection with diverse stakeholders is intentional and, perhaps as a result, they have a better understanding of all stakeholder groups.
- **Synergisers** are more likely to normalise uncomfortable conversations in the boardroom. Their prioritisation of psychological safety is intentional, and they value difference regardless of hierarchy or background. These boards and executive committees are also more likely to have HR/people expertise.
- **Stewards** are less likely to be homogenous in terms of expertise or lived experience. They are more likely to be motivated by purpose and to empower the vulnerable. These boards and executive committees also have approximately the same number of members leaving as they have joining, which differentiates them from their less mindful counterparts, whose board size continues to expand.

A few specific data points are worth calling out up front:

- 72% of respondents indicated that **employee attraction and retention** was a significant challenge in 2021, with only 32% saying that their organisation's response had been effective. Despite this, talent management, organisational culture and employee well-being are being prioritised less.

- **Innovation and impact on society** are less likely to be prioritised now than they were before Covid-19. 64% of respondents reported there is little or no understanding of people facing poverty in their boardroom.
- The proportion of respondents reporting that their organisation has **employee networks** has risen from 51% to 70%, as has the incidence of many other structures related to diversity, equity & inclusion. And yet the influence of employee networks has gone down.
- Both the average **frequency and duration of board meetings** has risen in the past year. 42% of boards now have over 10 meetings a year (up from 32% last year), and 82% have meetings lasting three or more hours (up from 52% last year).
- The average **number of members on boards** has risen from 9.5 to 10.9. The number of members joining boards in the past two years has gone up from 2.8 to 3.2; the number leaving has hardly moved – from 2.5 to 2.6.
- **Homogenous boards and executive committees are the least interested in diversity** – regardless of whether this is diversity of expertise or lived experience. Boardrooms that already have high levels of one form of diversity are the most likely to prioritise other forms of diversity for future selection.

For each section the report identifies a few **specific areas that require attention** based on overall trends and the behaviour of the more mindful segments. Here is a summary. More detail and context on each area can be found in its respective section.

	Summary of specific areas requiring attention
Agenda	1. Prioritise **employee-related issues**.
	2. Put **innovation** and **impact on society** back on the agenda.
	3. Engage with **diversity, equity & inclusion (DEI)** at a deeper level.
	4. Be more proactive in addressing **climate change**.
Dynamics	1. Ensure that there is **HR/people expertise** in the boardroom.
	2. Consider the experience of **ethnic minority stakeholders** as a litmus test for psychological safety.
	3. Reassess the **time commitment** required for effective board participation.
Composition	1. Interrupt the **cycle of compulsive homogeneity** – assess how a candidate adds value to your existing team, rather than if they are 'impressive'.
	2. Ensure that there is **some level of DEI, sustainability and IT/digital expertise** in the boardroom.
	3. Continue to redress ethnic and gender homogeneity, whilst cultivating **psychological safety** and ensuring that **diversity of lived experience** is valued in all of forms.

Part I: Agenda

In qualitative interviews, conducted in autumn 2019, company secretaries pointed out that **certain important issues were consistently struggling to make it onto the boardroom agenda**. Some of these issues were **forward-looking** business issues, such as digital. Others required a more **holistic** lens, such as employee well-being and diversity, equity & inclusion (DEI).

What these issues had in common was that they were **psychologically distant**,[2] and thus easier to ignore. Prioritising them required board and executive committee members to go beyond their normal bubble of familiarity and engage with these issues in a less abstract and more concrete way.

The 2021 Mindful Exclusion survey brought these observations to life, showing the proportion of organisations that had excluded these issues from the agenda. More importantly, it revealed that boards and executive committees that had **set aside time to discuss their mid-to-long-term strategy as well as their blind spots** prior to COVID-19 were more likely to be on the front foot at the start of 2021. We also saw that more boards and executive committees had started to engage in this mindful practice, scanning the horizon beyond their bubble. This corresponded to dramatic shifts in prioritisation behaviour.

Figure 1.0 Last year we saw the value of horizon scanning.

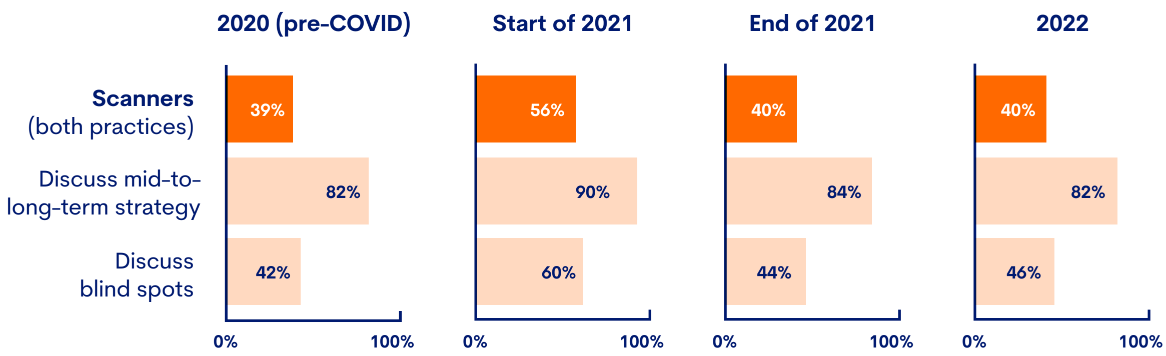
Evidence of mindless exclusion	Important **forward-looking and holistic issues** were struggling to make it onto the agenda
Distorting factor at play	**Psychological distance** made these issues easier to ignore until they became urgent
Relevant bubble	**Bubble of familiarity**
Mindful practice identified	**Horizon scanning** – which includes setting aside time to discuss mid-to-long-term strategy as well as blind spots

A visible retreat to the bubble of familiarity

This year, there has been a visible retreat to the bubble of familiarity. **By the end of 2021, the proportion of boards and executive committees that were discussing their mid-to-long-term strategy had dropped from 90% to 84%, and the proportion that were engaging with blind spots had dropped from 60% to 44%. In both cases, this represents a retreat to pre-COVID levels, and there has been little change since**. (Figure 1.1)

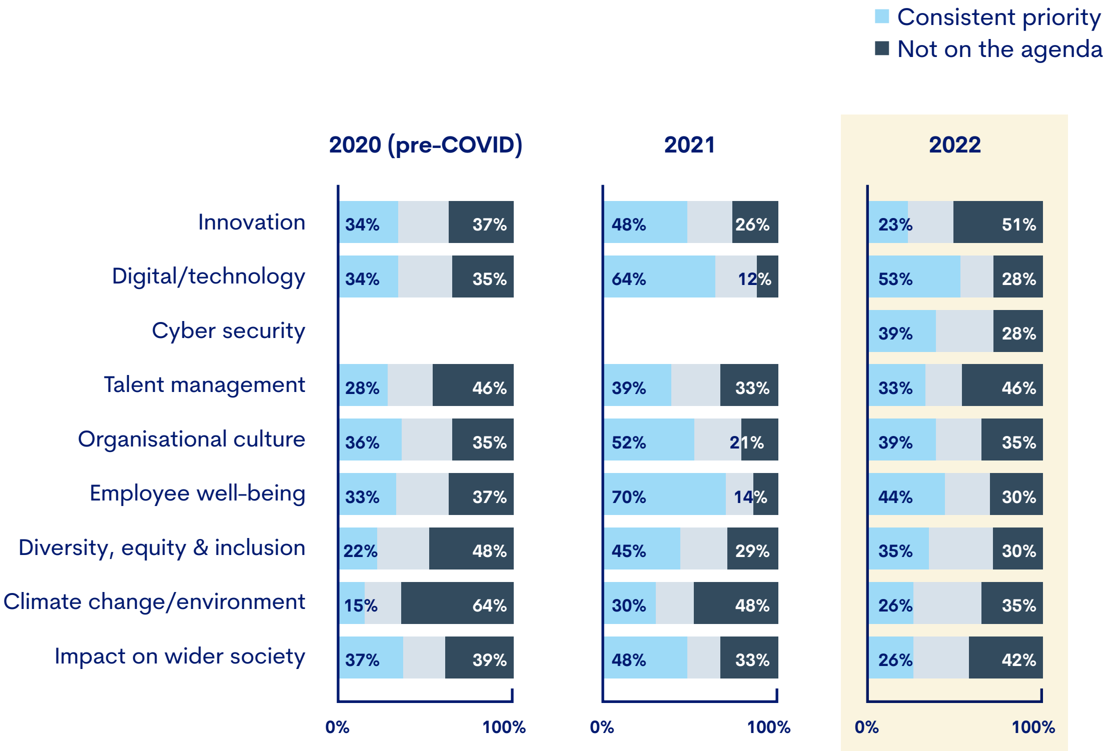
Going forward, we will refer to the segment of organisations engaging in both of these practices (i.e., horizon scanning) as 'Scanners'.[3]

Figure 1.1 A decline in mindful practice has resulted in fewer Scanners.



This retreat is reflected in how the forward-looking and holistic issues that we identified last year as being beyond the bubble of familiarity are being prioritised. **When viewed as a whole, current levels of prioritisation resemble 2020 (pre-COVID) more than 2021**. (Figure 1.2)

Figure 1.2 Prioritisation of 'less familiar' issues now resembles pre-COVID times.



Back to pre-COVID levels:
- Talent management
- Organisational culture
- Employee well-being

Below pre-COVID levels:
- Innovation
- Impact on society

In particular, prioritisation of three employee-related issues – talent management, organisational culture, and employee well-being – has regressed to pre-COVID levels. Of these, employee well-being has experienced the largest drop, from 70% saying that this was a consistent priority on the agenda in 2021 to only 44% indicating that this is still the case.

Innovation and impact on society have taken a more dramatic step backwards. Both are less likely to be on the agenda now than before COVID-19. It is interesting to note that in 2020, the prioritisation levels for digital/technology and innovation were exactly the same. Although digital/technology has also fallen off some agendas this year, it would appear that this issue is no longer viewed as being synonymous with innovation.[4]

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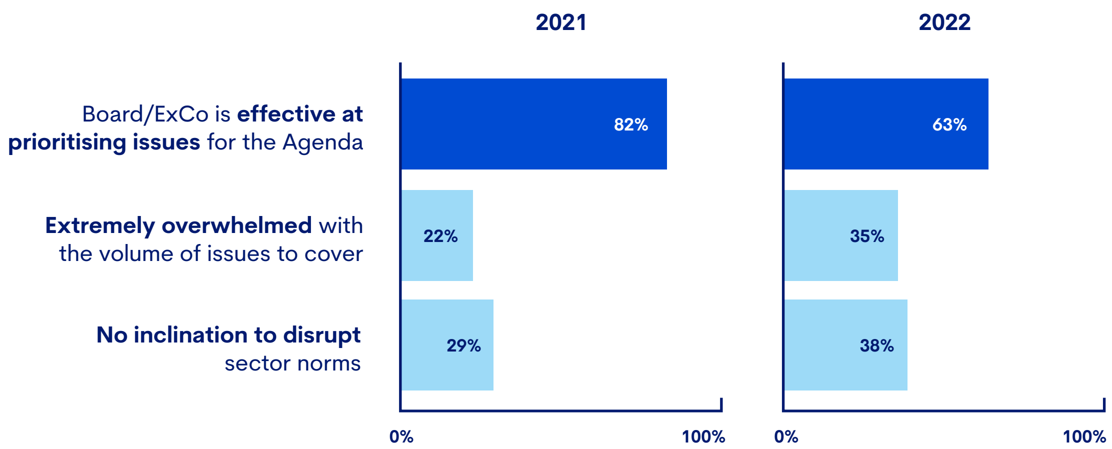
This is the first year that cyber security has been tracked. Interestingly, cyber security matches digital/technology exactly in terms of making it onto the agenda. However, it is less likely to be treated as a consistent priority.

Diversity, equity & inclusion is an exception, given that its likelihood of making it onto the agenda has held steady. Climate change stands out as even more of an exception. It is the only issue that is more likely to have a place on the agenda this year than last.

Figure 1.3 More Boards/ExCos are on the back foot this year.

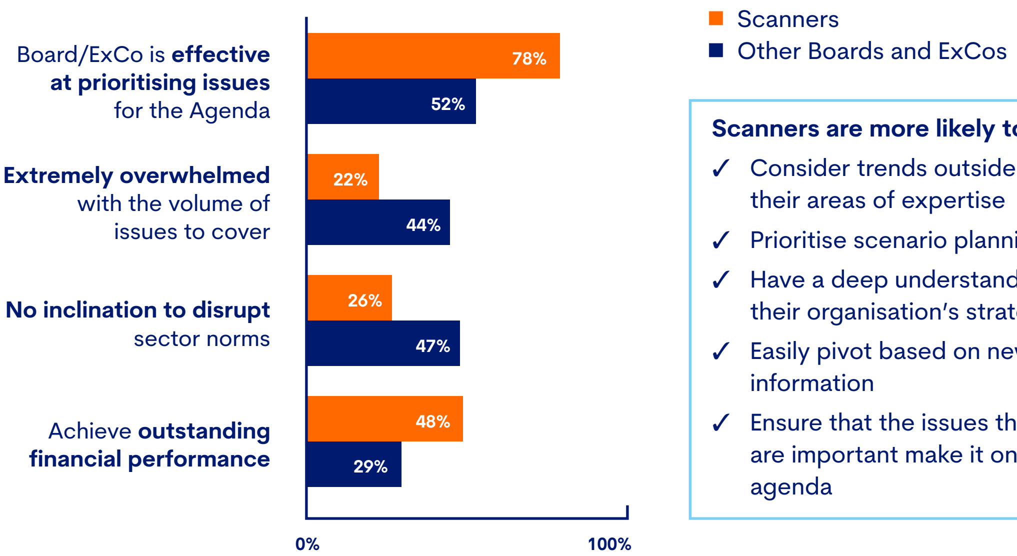


In light of the clear retreat, it is not surprising to see that, **more organisations are now on the back foot**. The proportion of respondents who report that their board or executive committee is effective at prioritising issues for the agenda has dropped from 82% to 63%. Additionally, more respondents indicate that these colleagues are extremely overwhelmed with the volume of issues to cover and have no inclination to disrupt sector norms. (Figure 1.3)

Scanners yield a mindful dividend

Once again, **Scanners (those who horizon-scanned at the end of 2021) are on the front foot in 2022**. According to respondents, Scanners are prioritising issues more effectively, are less overwhelmed and are more inclined to disrupt sector norms. **This mindful dividend is also reflected in their financial performance**, with almost half of Scanners achieving outstanding financial performance, compared to just 29% of their less mindful counterparts. (Figure 1.4)

Figure 1.4 Scanners yield a mindful dividend.



Scanners are more likely to...

- ✓ Consider trends outside of their areas of expertise
- ✓ Prioritise scenario planning
- ✓ Have a deep understanding of their organisation's strategy
- ✓ Easily pivot based on new information
- ✓ Ensure that the issues they say are important make it onto the agenda

This year's survey provides greater insight into what Scanners do differently. 78% of Scanners (versus 26% of other Boards/ExCos) engage with industry trends that fall outside of their area of expertise. In 2021, 64% of Scanners (versus 24% of other Boards/ExCos) prioritised time for scenario planning. Perhaps as a result of this, almost all Scanners (91%) have a very deep understanding of their organisation's strategy versus just half (47%) of their less mindful counterparts. And in 2021, 91% of Scanners (versus 35% of other Boards/ExCos) were able to pivot easily based on new information.

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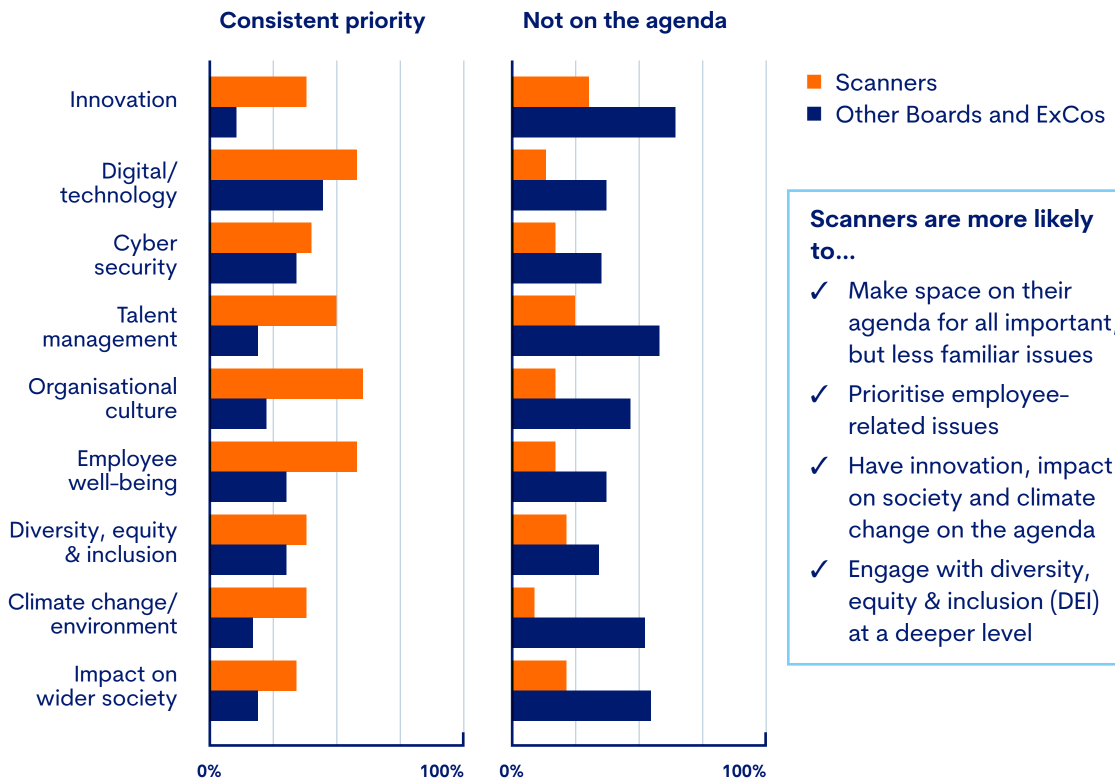
Scanners are also less likely to have a gap between what they say is important[5] and what they put on the agenda. This is a contributing factor to the large differences in how Scanners prioritise versus other Boards/ExCos. **Every single issue that we originally identified as being beyond the bubble of familiarity is more likely to be on Scanners' agenda than that of their counterparts**. The extent of this gap provides us with an indication of just how far beyond the bubble a given issue still is. (Figure 1.5)

Figure 1.5 Scanners prioritise differently in 2022.



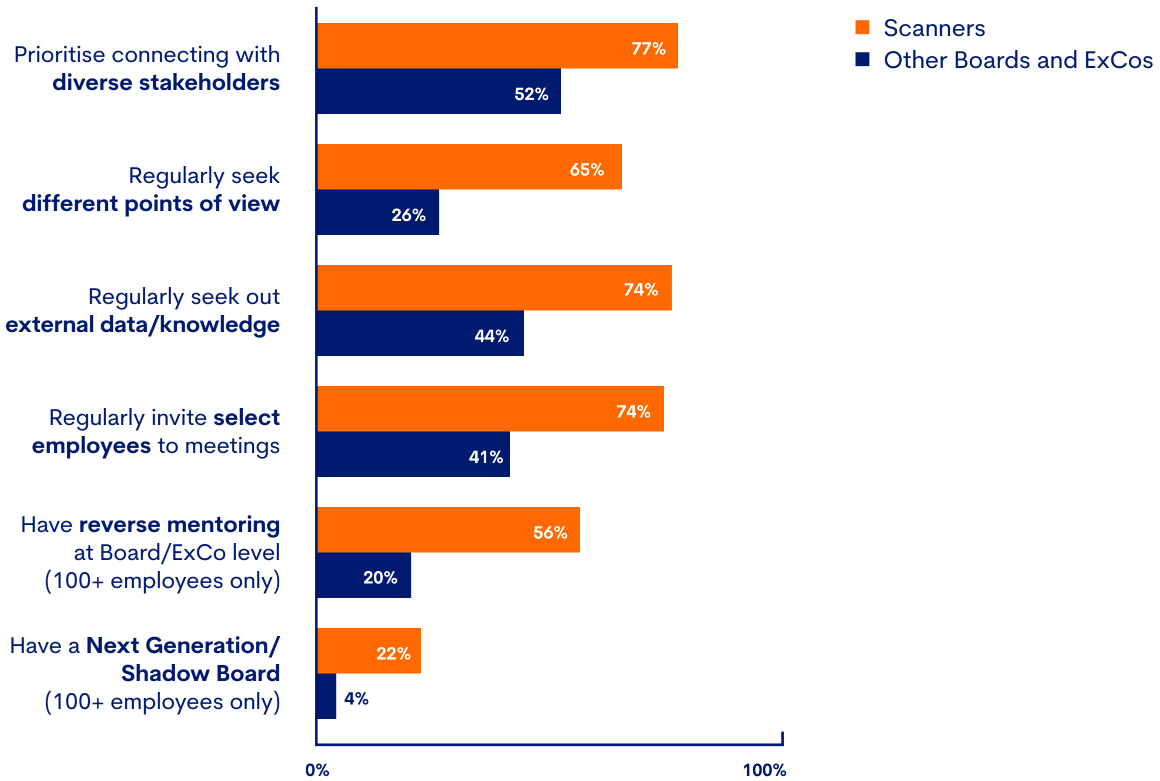
Scanners are more likely to...

- ✓ Make space on their agenda for all important, but less familiar issues
- ✓ Prioritise employee-related issues
- ✓ Have innovation, impact on society and climate change on the agenda
- ✓ Engage with diversity, equity & inclusion (DEI) at a deeper level

Last year, we found that Scanners were more inclined to proactively connect with stakeholders beyond their bubble. Based on the academic literature on psychological distance, we believed that having **social proximity to diverse stakeholders could be helping Scanners to engage with issues that were less familiar, making these issues less ignorable**. This year, we can see that Scanners do this intentionally.

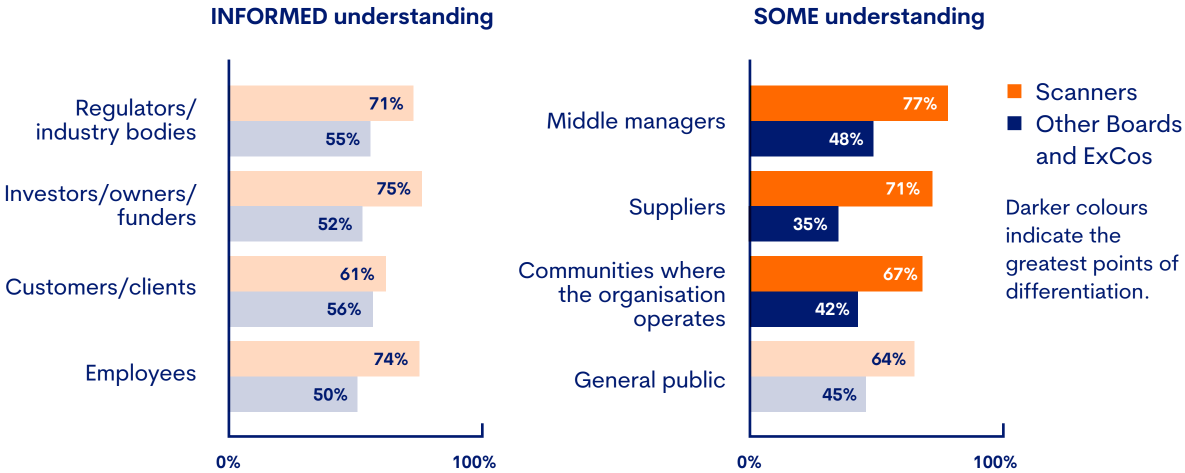
Almost all Scanners (versus less than half of other Boards/ExCos) make connecting with diverse stakeholders a priority. Their higher usage of specific tactics such as reverse mentoring and Next Generation/Shadow Boards suggests that part of what they seek is access to diverse lived experiences. (Figure 1.6)

Figure 1.6 Scanners intentionally connect with diverse stakeholders.



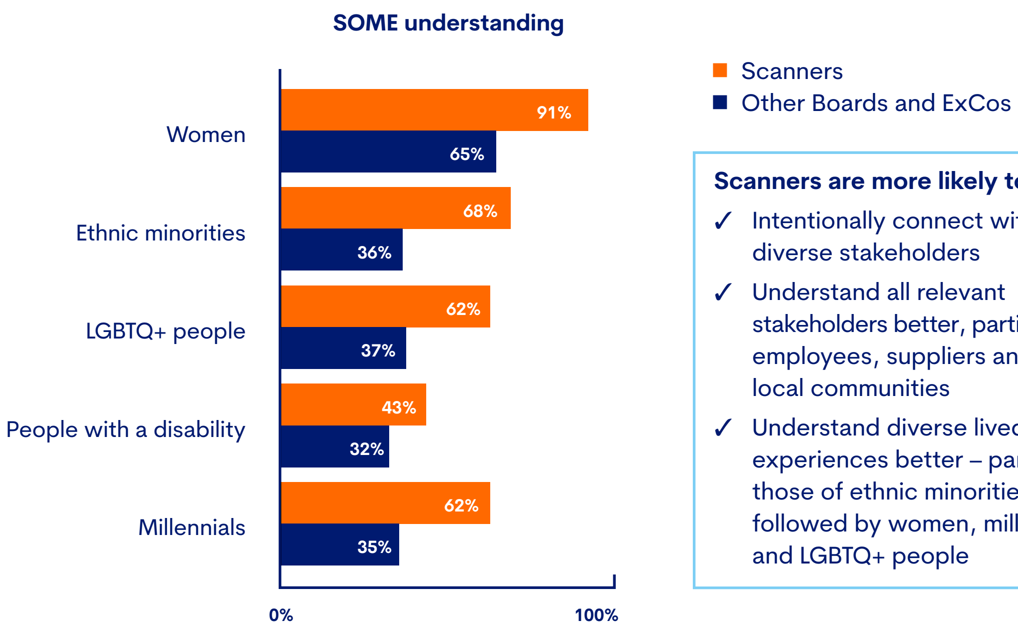
This year's survey data also gives us a sense of who Scanners are connecting to, and where they differ most from their less mindful counterparts. It appears that **Scanners have a better understanding of all relevant stakeholders**. However, **what sets them apart the most is their understanding of middle managers, suppliers and the communities within which they operate**. (Figure 1.7)

Figure 1.7 Scanners understand relevant stakeholders better.



Scanners are also much more likely to have some understanding of all diverse lived experiences. However, this gap is particularly large when it comes to ethnic minorities, followed by women, millennials and LGBTQ+ people. (Figure 1.8)

Figure 1.8 Scanners understand diverse lived experiences better.



Scanners are more likely to...

- ✓ Intentionally connect with diverse stakeholders
- ✓ Understand all relevant stakeholders better, particularly employees, suppliers and local communities
- ✓ Understand diverse lived experiences better – particularly those of ethnic minorities, followed by women, millennials and LGBTQ+ people

Specific areas requiring attention

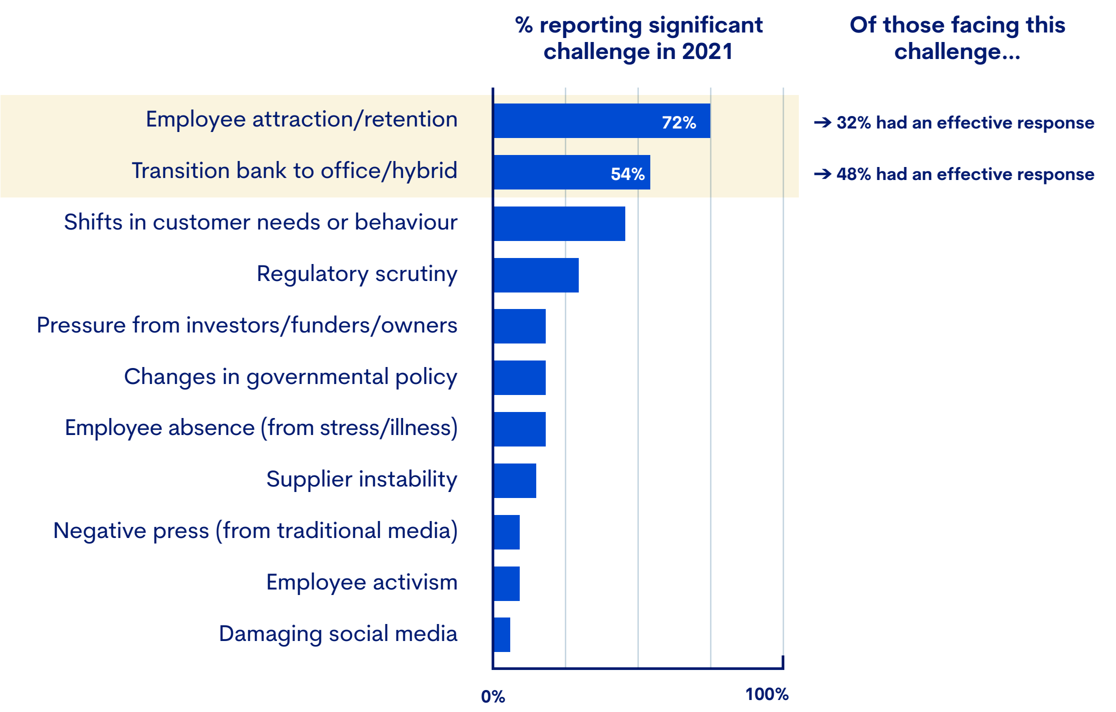
The main recommendation emerging from this section is for boards and executive committees to become Scanners through the regular practice of horizon scanning – setting aside time on the agenda to discuss their organisation's mid-to-long-term strategy and blind spots. This year's findings make a compelling case for the dividend that this mindful practice yields.

However, we also wish to highlight a few specific areas that require greater attention in the coming year, based on the visible retreat to the bubble of familiarity and what we can learn from Scanners:

1. Prioritise employee-related issues.

The most mindless aspect of the retreat to the bubble of familiarity is its impact on employee-related issues. 72% of organisations indicated that their organisation struggled with employee attraction and retention in 2021, making this the most significant challenge. Only a third of these organisations felt that their response was adequate. (Figure 1.9)

Figure 1.9 Employee-related issues were the top challenge, with poor response.



These organisations were right to be concerned about employee attraction and retention. According to one large-scale industry study, one in five employees reported in 2022 that they were planning to find a new job within a year.[6] Another study found that 43% of employees were planning to leave their current employer within a year.[7] With this context, it is astonishing that almost half of boards and executive committees do not have talent management on their agenda, that over a third do not have organisational culture on their agenda, and that employee well-being has so dramatically fallen out of focus (Figure 1.2). Boards and executive committees would be wise to follow the lead of Scanners by making these issues a consistent priority. Scanners' connection to their employee base, and to middle managers in particular, may help with this.

2. Put innovation and impact on society back on the agenda.

Both innovation and impact on society are being prioritised less now than they were prior to COVID-19. In the case of innovation, over half of respondents indicate that it is not on the agenda at all. Given the unprecedented level of technological disruption that most directors see coming,[8] and the complexity of new challenges that society is now facing, this represents a huge missed opportunity. Organisations that lead the way in shaping the future will be well-positioned to win the loyalty and trust of their stakeholders.

Additionally, with the global economy in a fragile place and the most vulnerable people likely to be hit hardest, the 42% of organisations that currently ignore their impact on society when making decisions at the top do so at their own peril. Spending time on this topic may not come naturally. 64% of survey respondents say there is little or no understanding of people facing poverty in their boardroom, 47% say that there is little or no understanding of the general public, and 48% say the same about the local communities within which their organisation operates.

Ironically, most boardrooms are very worried about how changes in society will affect their organisation. A recent industry study shows that almost all directors are concerned about the trend towards political polarisation in society, with most also concerned about the waning confidence in social institutions.[9]

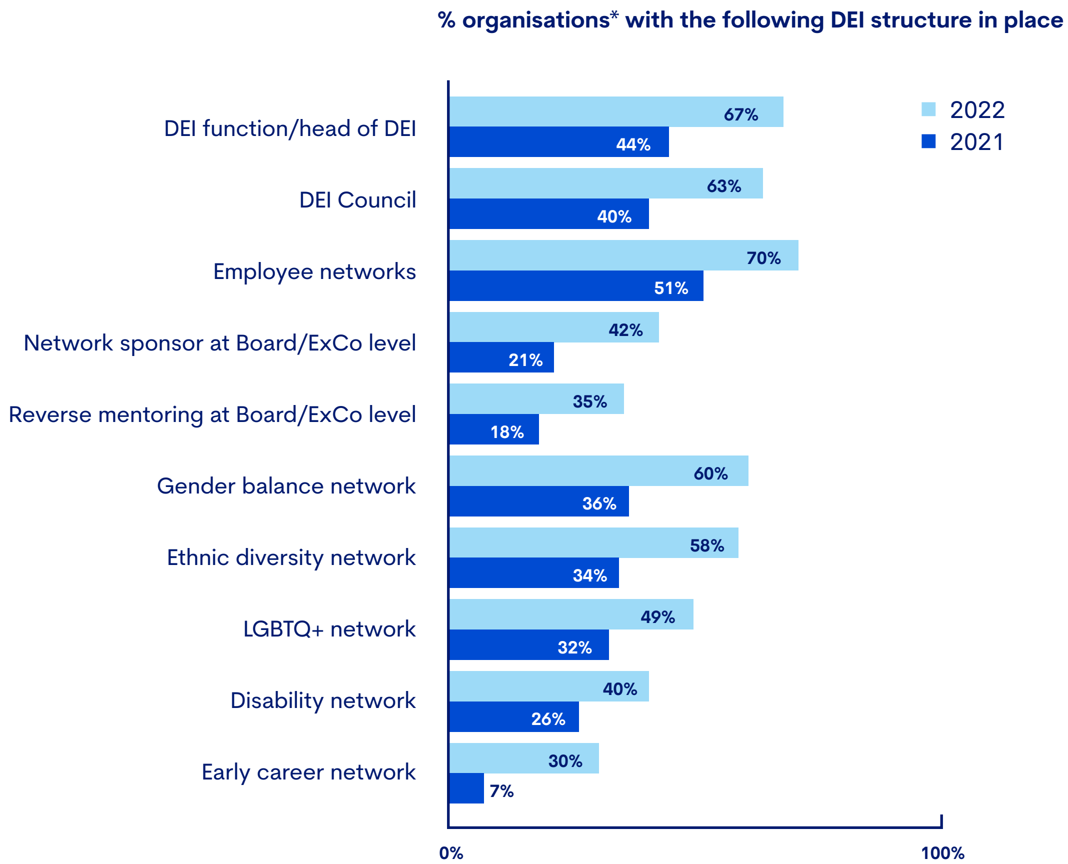
But it would appear that being concerned is no longer enough. The general public expects organisational leaders to engage on issues facing society and to do so visibly.[10] Most people's decision to buy or advocate for brands and to invest their money is now influenced by their beliefs and values.[11] And the majority of employees expect CEOs to speak publicly about controversial social and political issues and will make their decision to join or stay accordingly.[12]

Scanners are much more likely to ensure that both innovation and impact on society remain on the agenda (Figure 1.5). This may be helped by their connection to both millennials (Figure 1.8) and the local communities within which they operate (Figure 1.7).

3. Engage with diversity, equity & inclusion (DEI) at a deeper level.

DEI is one of the few issues that has not fallen off the agenda in the past year, and is also one where the prioritisation behaviour of Scanners is relatively similar to that of other boards/executive committees. One reason for this is that more organisations now have DEI structures in place. For instance, this year's survey data shows a meaningful increase in the proportion of organisations with DEI heads, DEI councils and employee networks, along with increased engagement from the top table in network sponsorship and reverse mentoring (Figure 1.10).

Figure 1.10 More organisations have DEI structures in place in 2022.

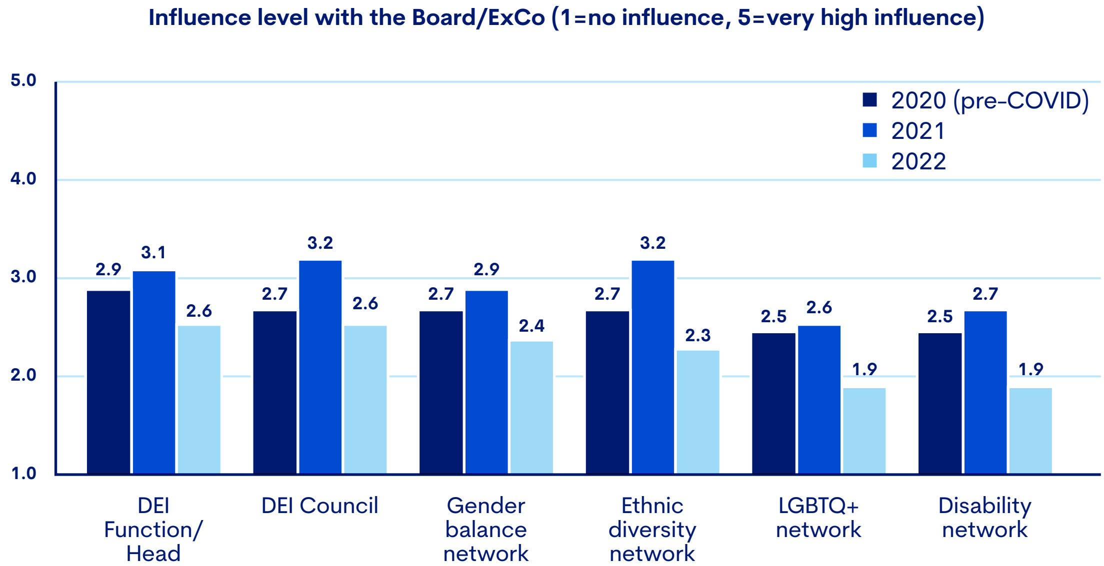


*Limited to organisations with 100+ employees

Additionally, 61% of organisations now track workforce diversity and 49% track equality of progression/pay across diverse groups. All of these measures help to integrate DEI into the bubble of familiarity and ensure that it remains unignorable.

That being said, the level of influence of each of these structures is lower now than it was in 2020, prior to COVID-19 (Figure 1.11). This implies that **although DEI is still on the agenda, many boards and executive committees have grown less receptive to a deeper level of engagement**.

Figure 1.11 Prevalence of DEI structures has gone up; influence has gone down.



*Limited to organisations with 100+ employees

Scanners behave differently, given that connecting with diverse groups is a priority. This is evidenced by the large gap between Scanners and their counterparts when it comes to understanding diverse lived experiences. (Figure 1.8)

4. Be more proactive in addressing climate change.

Climate change is the only area that is on more agendas this year than last, so it seems odd to call it out as an area requiring attention. Whereas only half of boards and executive committees had it on their agenda last year, in 2022 this figure has risen to 65%. Encouragingly, an equivalent proportion of directors report that there is a genuine commitment to invest the time and money required to make real progress on climate change[13] and say that ESG is now linked to their company strategy.[14]

As with diversity, equity & inclusion, it is likely that the momentum behind climate change has been sustained by structural reinforcement. 70% of respondents say that their organisation's impact on the environment is monitored by their board or executive committee. This is not entirely surprising given that 88% of institutional investors are now subjecting ESG to the same scrutiny as operational and financial considerations.[15] However, only 27% of boards have set net zero targets and expect to reach them.[16] This figure corresponds to the 26% of respondents from this year's Mindful Exclusion study who said that their board or executive committee makes climate change a consistent priority.

There are huge differences between Scanners and their less mindful counterparts when it comes to climate change - more so than with any other issue. The extent of this gap implies that Scanners perceive a level of 'long-term urgency'[17] that others have yet to grasp. For this reason, despite the positive momentum, it would appear that climate change warrants greater prioritisation and commitment in the coming year.

Part II: Dynamics

In 2019 qualitative interviews, company secretaries reported that **boardroom dynamics were often distorted by the inclination to avoid certain uncomfortable conversations**. The 2021 Mindful Exclusion survey revealed the extent of this issue. Admitting to mistakes was not a normal behaviour in the majority of boardrooms prior to COVID-19. Nor was asking for help, giving and receiving feedback, seeking out different points of view or challenging core assumptions.

These conversations are all indicators of **psychological safety**, which is well-established as a key determinant of team performance. An environment that is 'psychologically safe' is characterised by interpersonal norms involving **vulnerability** and **challenge**. It can be difficult for a chair/CEO to create high levels of psychological safety in the moment, since it is a property held by a group rather than an individual. However, having reviewed the academic literature last year, we hypothesised that the conscious **investment of time to align as a team** would help boards and executive committees to have conversations that went beyond their **bubble of comfort**.[18]

2021 survey results validated the impact of this mindful practice. Boards and executive committees that regularly 'invested time building the trust, knowledge and capability required to work together effectively' prior to COVID-19 had higher levels of psychological safety at the start of 2021 and more effective team dynamics. We also saw a minor increase in the proportion of boards and executive committees that were investing in team alignment by 2021, and a corresponding boost in levels of psychological safety more broadly.

Figure 2.0 Last year we saw the value of investing in team alignment.

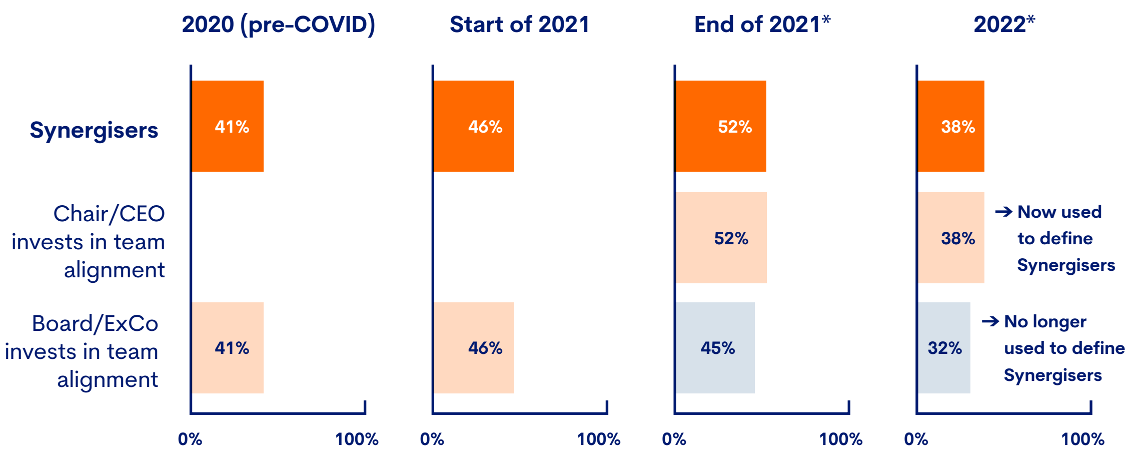
Evidence of mindless exclusion	Important **conversations involving vulnerability and challenge** were not a normal part of boardroom dynamics
Distorting factor at play	A **lack of psychological safety** made having these conversations feel more difficult
Relevant bubble	**Bubble of comfort**
Mindful practice identified	**Investing in team alignment** – i.e., regularly investing time to build the trust, knowledge and capability required to work together effectively

A retreat to the bubble of comfort with deferred impact

Results of the 2022 Mindful Exclusion survey suggest that a worrying retreat to the bubble of comfort is under way. **The proportion of boards and executive committees investing in team alignment held steady through to the end of 2021, but more recently there has been a decline**. This year's survey also tracked the chair/CEO's specific involvement in making this investment,[19] which turns out to be more predictive of boardroom dynamics.[20] A similar decline is observable for this practice. (Figure 2.1)

Going forward, we will refer to the segment of organisations where the chair/CEO has invested in team alignment as 'Synergisers'.[21]

Figure 2.1 A recent decline in mindful practice means fewer Synergisers.

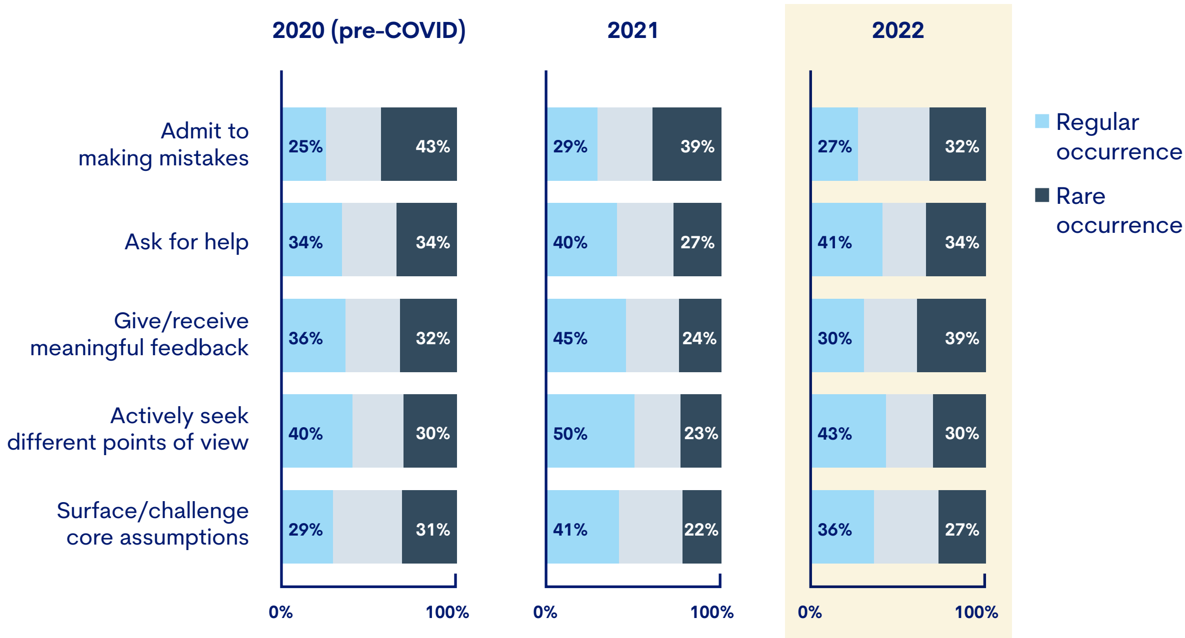


*In this year's analysis **Synergisers** are defined by the chair/CEO's practice of regularly investing in team alignment.

The extent of this retreat is not reflected in current levels of psychological safety (Figure 2.2). Some boards and executive committees may still be reaping the benefits of their chair/CEO's investment in team alignment at the end of 2021. However, it is likely that the full impact of the retreat will show up over the course of the coming year.

For now, **we can already see a notable decline in the prevalence of feedback**. The proportion of respondents who report that giving or receiving feedback is a regular occurrence on their board or executive committee has declined from 45% to 30%; meanwhile the proportion reporting that it is a rare occurrence has jumped from 24% to 39%. In both cases, this represents a retreat below pre-COVID levels. (Figure 2.2)

Figure 2.2 Thus far, feedback is the only indicator to show a notable decline.

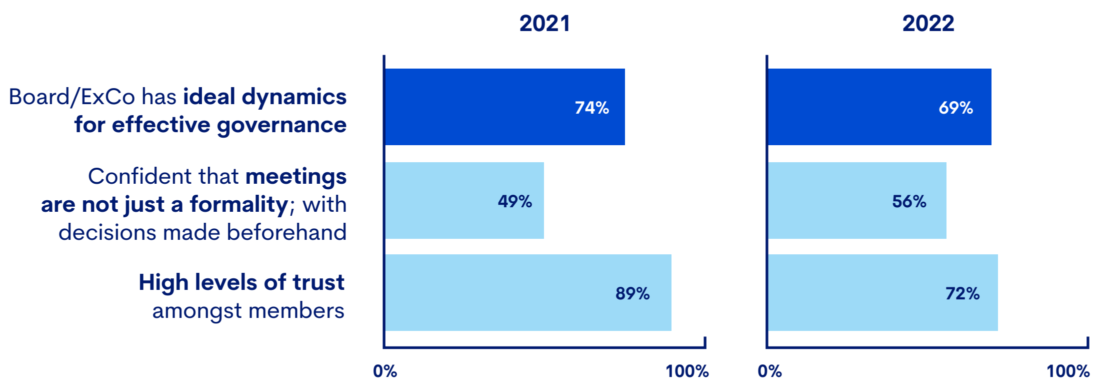


A scan of large-scale industry studies provides further evidence that candid conversations are not taking place. One 2022 study reported a noticeable drop in the proportion of chairs who give directors constructive feedback and facilitate high-quality debate since 2019.[22] Another study showed that the incidence of overly collegial behaviour and excessive deference to long-tenured directors is on the rise.[23]

And yet, as we saw with psychological safety, the incidence of effective board dynamics shows little sign of retreat. In fact, the perceived prevalence of performative meetings (i.e., meetings that are just a formality, with decisions made beforehand) has gone slightly down.

That said, **there has already been a worrying decline in trust levels** – from 89% reporting high levels of trust in 2021 to 72% reporting the same in 2022. This is likely to impact boardroom dynamics in the near future. (Figure 2.3)

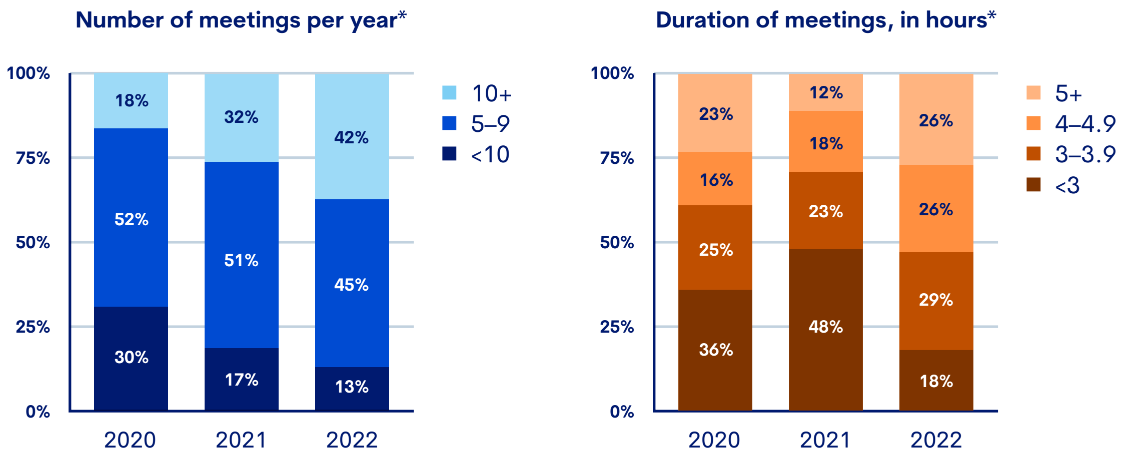
Figure 2.3 Dynamics have not changed much, but trust levels tell a different story.



One reason that boards may be less inclined to invest time in team alignment is that they now have less time to invest. When the pandemic kicked off in 2020, and face-to-face meetings became a challenge, most boards pivoted to meeting online. Our survey data indicates that by 2021, 79% of all formal board meetings were virtual. In many cases, boards began to meet more frequently for a shorter duration (Figure 2.4).

On average, this translated into around eight meetings a year for three hours at a time. Although a majority of directors believe that the switch to virtual made meetings more efficient,[24,25] most also found that the overall demands on their time went up during this period.[26]

Figure 2.4 The average frequency and duration of board meetings has gone up.



* We have included this data for board meetings only.

In 2022, the proportion of board meetings that are virtual has dropped down to 48%. As one might expect, the duration of these sessions has increased with the return of meeting in person. However, the number of board meetings has also continued to rise, thus increasing the overall time spent in meetings.

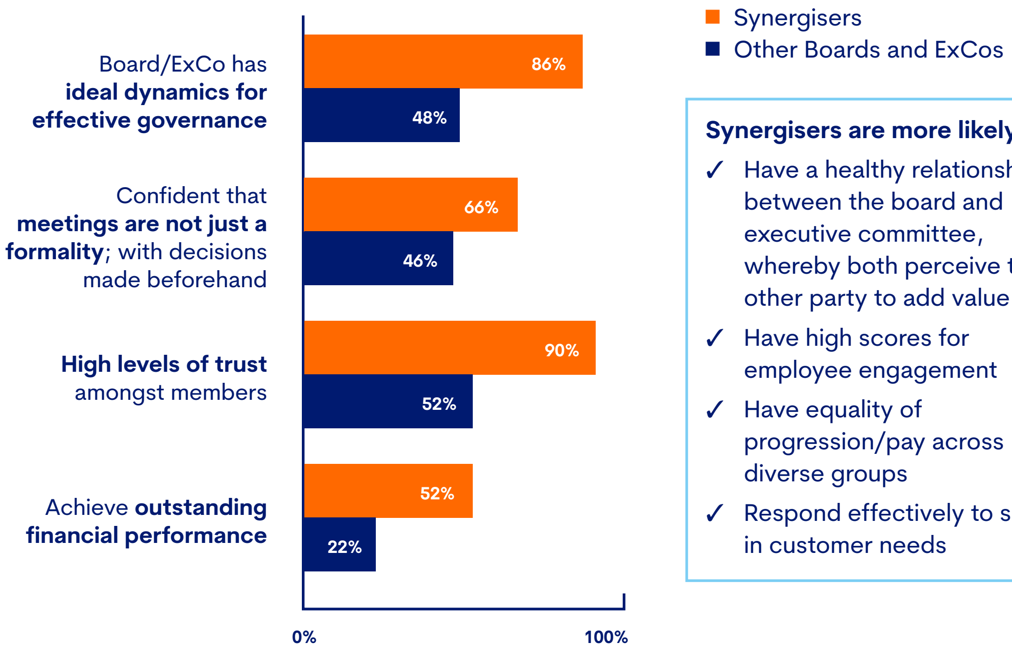
It would seem that board members are struggling to keep up. According to one industry report, only a quarter of executives believe that board members spend enough time on their duties.[27] This may explain why, despite the return to meeting in person, 74% of survey respondents indicated that most members are keen for things to return back to (pre-Covid) 'normal'.

In this context, chairs and CEOs may find it harder to justify investing additional time to attain a deeper level of team alignment – particularly if boardroom dynamics appear to be functional – unless the dividend of doing so is crystal clear.

Synergisers yield a mindful dividend

The mindful dividend of being a Synergiser (a board or executive committee whose chair/CEO invested in team alignment at the end of 2021) could not be more apparent. According to respondents, Synergisers are much more likely to have ideal boardroom dynamics for governance, with lower incidence of performative meetings and much higher levels of trust. (Figure 2.5)

Figure 2.5 Synergisers yield a mindful dividend.



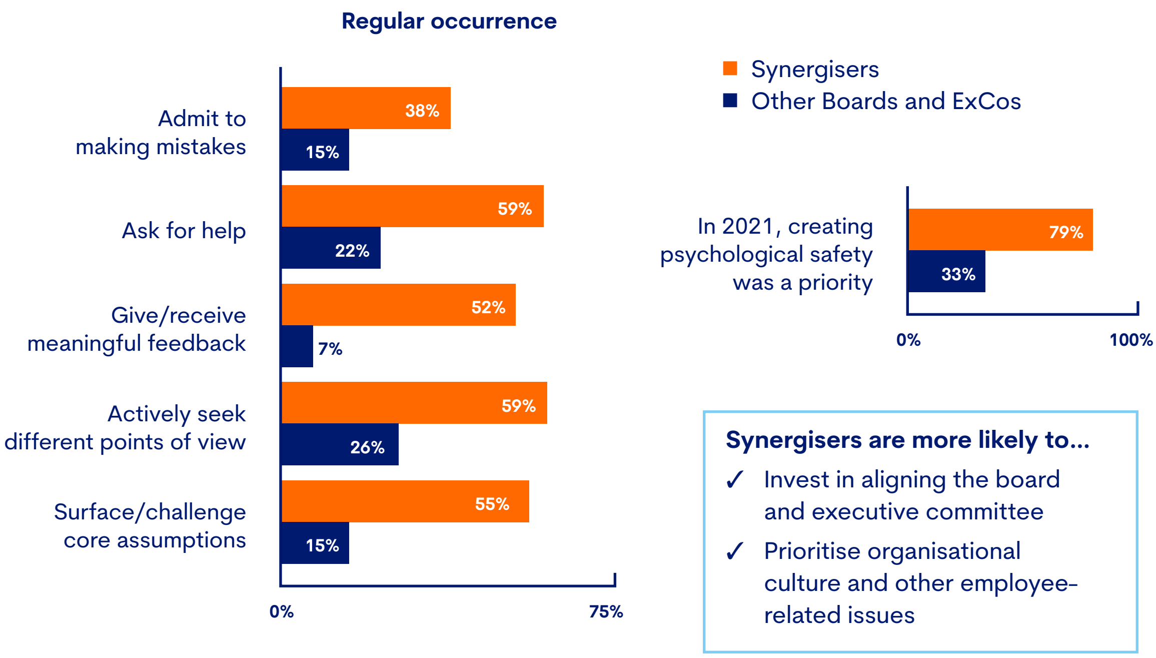
Synergisers are more likely to...

- ✓ Have a healthy relationship between the board and executive committee, whereby both perceive the other party to add value
- ✓ Have high scores for employee engagement
- ✓ Have equality of progression/pay across diverse groups
- ✓ Respond effectively to shifts in customer needs

Once again, **this mindful dividend is reflected in financial performance**, with Synergisers two and a half times as likely to achieve outstanding financial performance than their less mindful counterparts.

The mindful dividend of being a Synergiser is also reflected in higher levels of psychological safety in the boardroom. This year, we can show that this is an intended effect, given that four fifths of Synergisers (versus a third of other Boards/ExCos) prioritised psychological safety in 2021. Interestingly, of the different indicators of psychological safety that we asked about, feedback is currently the biggest differentiator between Synergisers and their less mindful counterparts. (Figure 2.6)

Figure 2.6 Synergisers normalise uncomfortable conversations.



The healthy dynamic amongst Synergisers extends to the relationship between the board and executive committee. For 93% of Synergisers (versus 48% of other Boards/ExCos), this is a very healthy relationship; and for 96% of Synergisers (versus 79% of other Boards/ExCos), the board perceives the executive committee to add significant value. More impressively, for 85% of Synergisers (versus 45% of other Boards/ExCos), the executive committee perceives the board to add significant value. Once again these dynamics are not an accident. In addition to investing time to align with each other, 67% of Synergisers (versus 30% of other Boards/ExCos) also invest time to align the board and executive committee.

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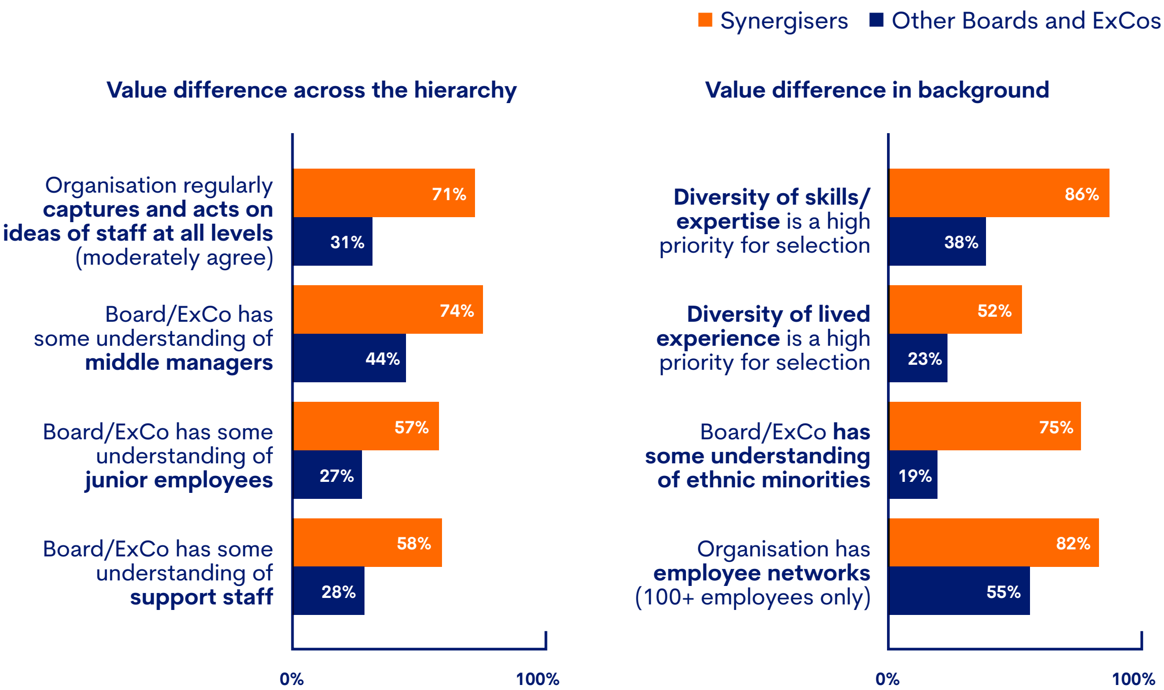
Synergisers' legacy of high-value relationships extends beyond the top. 79% of Synergisers (versus 50% of other Boards/ExCos) report high levels of employee engagement, and 63% of Synergisers (versus 36% of other Boards/ExCos) report strong results in relation to equality of pay/progression across diverse groups.[28] This stellar track record appears to be the result of intentional focus, given that Synergisers are much more likely to believe that organisational culture is important and make space for it on the agenda. Moreover, the skill of cultivating high-value relationships appears to extend beyond organisational boundaries. 69% of Synergiers (versus 22% of other Boards/ExCos) responded effectively to the shift in customer needs in 2021.

In last year's report, we found that Synergisers were more likely to value difference. This year, we can get more specific. **Synergisers appreciate the value of individuals beyond their position in the hierarchy**. They are more likely to seek input from staff at all levels. This is reflected in their understanding of middle managers, junior employees and support staff - which sets them apart from their less mindful counterparts. (Figure 2.7)

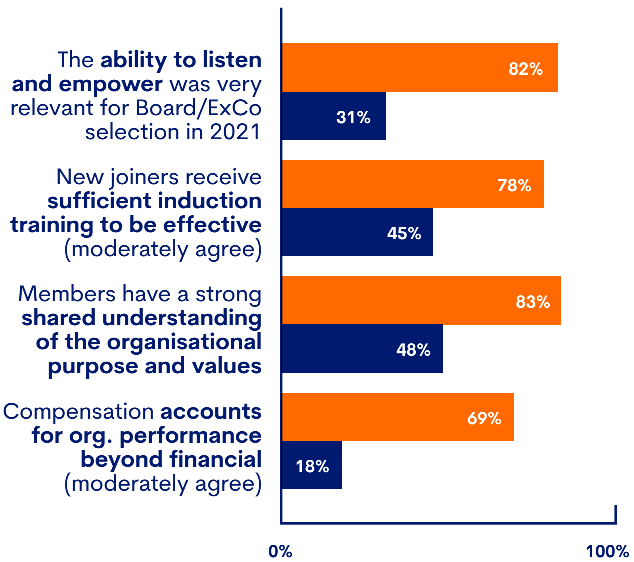
Figure 2.7 Synergisers live up to their name by valuing difference.

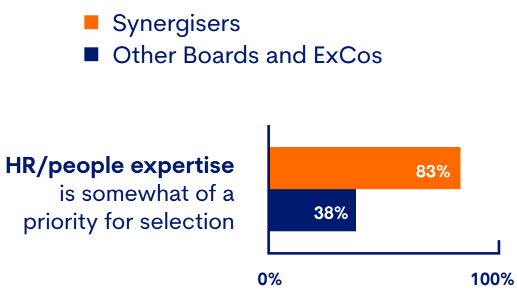


Synergisers also see the value of drawing insight from people with different backgrounds. They are more than twice as likely as other boards/ExCos to prioritise both diversity of skills and diversity of lived experience when it comes to selecting new members. They also have a better understanding of almost all stakeholders that we inquired about. Ethnic minorities stand out the most in this respect – with three quarters of Synergisers (versus less than one fifth of other Boards/ExCos) indicating that they have some level of understanding. Finally, Synergisers are more likely to have employee networks and allow themselves to be influenced by them, along with their DEI head and DEI council.

Synergisers' sophisticated approach to cultivating high-value relationships is reflected in their tactics. When selecting new members, they consider an individual's ability to listen to and empower others. Their induction training is more effective, helping them to be more aligned in terms of organisational purpose and values. And, their compensation takes into account organisational performance that goes beyond financial performance. Ironically, we found that having compensation that went beyond financial performance was highly correlated with outstanding financial performance.[29] (Figure 2.8)

Figure 2.8 Synergisers approach people issues with sophistication.





Synergisers also...

- ✓ Mandate collaboration across organisational departments
- ✓ Allow DEI heads, DEI councils and employee networks to have greater influence

Mindful Exclusion

These tactics reflect a deeper understanding of people and how to create a high performance culture. It is not surprising to see that **Synergisers value HR/people expertise**. What is somewhat surprising, however, is the extent of this difference – which is one of the biggest differentiators between Synergisers and their counterparts.

By definition, **Synergisers' thoughtful approach requires an investment of additional time. For Synergisers who sit on boards, this currently equates to around fourteen additional hours of formal meeting time per year**.[30] This is not an insignificant ask, but appears to be a worthwhile investment given the return.

Specific areas requiring attention

As with the Part I, **the main recommendation emerging from this section is for boards and executive committees to become Synergisers through the regular practice of investing in team alignment**. This year's findings make a compelling case for the dividend that this mindful practice yields.

However, we also wish to highlight a few specific areas that require greater attention in the coming year, based on the retreat to the bubble of comfort that is under way and what we can learn from Synergisers:

1. Ensure that there is HR/people expertise in the boardroom.

This year's results highlight the value of having a more sophisticated toolkit in the boardroom to ensure that psychological safety is adequately prioritised and cultivated, that employee-related issues stay on the agenda and that decisions relating to people and culture (in the boardroom and beyond) are handled with skill.

2. Consider the experience of ethnic minority stakeholders as a litmus test for psychological safety.

Overall, 49% of respondents indicated that their board or executive committee had some understanding of ethnic minorities. This turns out to be one of the biggest points of difference between Synergisers and other Boards/ExCos. A possible explanation is that cultivating healthy relationships with ethnic minority stakeholders requires much higher levels of psychological safety. If so, the experience of ethnic minorities may be a good indicator for the state of boardroom or organisational culture. Interestingly, having some understanding of ethnic minorities in the boardroom was also associated with high levels of financial performance.

3. Reassess the time commitment required for effective board participation.

It appears that the time required to be an effective board member may be on the rise, possibly due to the unprecedented levels of disruption we have experienced since 2020. This presents an opportunity for boards to reassess their expectations around time commitment to ensure that they are realistic and incorporate a holistic lens.

Part III: Composition

Back in 2019, company secretaries expressed concern that the **homogeneity of their board or executive committee** was contributing to blind spots and less robust decision making. We heard stories of directors, executives and even search firms **naturally gravitating towards candidates who resembled those already around the table**. This phenomenon, which we referred to as **'compulsive homogeneity'**, affected the **expertise** that boards prioritised as well as the **demographic mix** of candidates that they ultimately selected.

One thing that struck us was the emphasis on evaluating candidates in binary terms – as either 'impressive' or 'not impressive', rather than selecting for the optimal team. This made it tempting for boards and executive committees to choose candidates similar to themselves to reinforce their own status as 'impressive'. Having reviewed the academic literature, we suspected that **attachment to power** was a distorting factor, and that for boards and executive committees to go beyond their **bubble of 'impressive people'**, a healthier flow of power was required.

The 2021 Mindful Exclusion survey confirmed that many boardrooms were not seeking diversity in their selection process prior to COVID-19. Furthermore, those that had engaged in mindful practices to **create a healthier flow of power – by embracing boardroom refreshment and holding members to account** – had a more effective composition for governance and greater diversity. We could also see that there had been a shift by the start of 2021, such that more boards and executive committees were prioritising both diversity of expertise and lived experience for the future selection of candidates.

Figure 3.0 Last year we saw the value of creating a healthy flow of power.

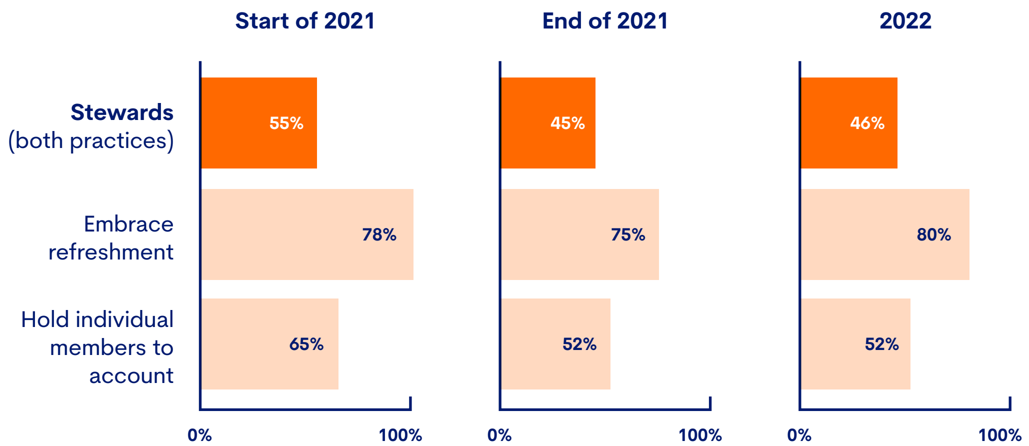
Evidence of mindless exclusion	Board and executive committees lacked **diversity of people in terms expertise and lived experience**
Distorting factor at play	**Attachment to power** led members to gravitate towards candidates with expertise and lived experience that validated their own
Relevant bubble	**Bubble of 'impressive people'**
Mindful practice identified	**Creating a healthy flow of power** – which included embracing refreshment and holding individual members to account

A partial retreat to the bubble of 'impressive people'

Results from the 2022 Mindful Exclusion survey indicate that there has been a partial retreat to the bubble of 'impressive people'. Although the proportion of boards and executive teams that embrace refreshment (meaning that they have no major barriers to replacing members) has held steady, accountability levels have taken a dip. As a result, **fewer boardrooms are creating a healthy flow of power**. (Figure 3.1)

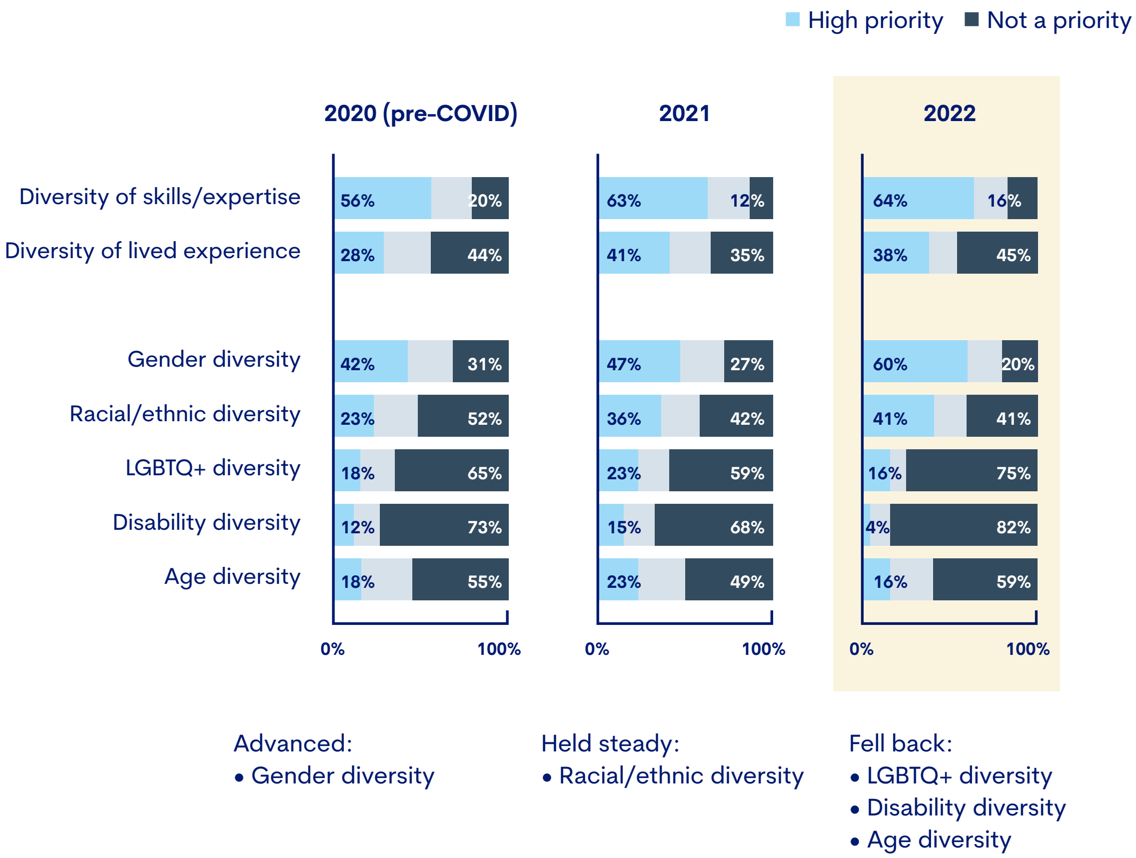
Going forward, we will refer to the segment of boards and executive committees engaging in this mindful practice as 'Stewards'.[31]

Figure 3.1 A decline in mindful practice has resulted in fewer Stewards.



We do not see a corresponding retreat in how diversity of skills/expertise is prioritised. Around two thirds of boards and executive committees continue to treat this form of diversity as high priority when it comes to selecting future members (Figure 3.2). However, the proportion of respondents who believe their boardroom's mix of skills is well-suited to the needs of their organisation has dropped from 81% to 68% (Figure 3.7). This suggests that the current focus on diversity of skills/expertise is insufficient to keep up with the competencies required for today's complex challenges.

Figure 3.2 Diversity of lived experiences is less of a priority this year.



In contrast, we see a notable retreat in the prioritisation of diversity of lived experience. Almost half of boards and executive committees do not even consider this form of diversity when it comes to selecting new members (Figure 3.2). This result is further echoed in the reduced emphasis on **LGBTQ+, disability and age diversity**. Disability, in particular, has fallen almost completely off the radar.

Interestingly, ethnic and gender diversity buck this trend, with neither showing a decline in the past year. One reason for this is **the attention that these forms of diversity receive from investors**, who are keen to talk about board composition – more so than capital allocation or management performance.[32] Although some directors worry that ethnic and gender diversity receive too much attention from investors, virtually all directors concede that having boardroom diversity strengthens investor relationships.[33] Publications such as the Parker Review and the FTSE Women Leaders Review, and initiatives such as Change the Race Ratio and 30% Club have also played an important role in making ethnic and gender diversity unignorable.

Unlike prior years, there is now a broader recognition that action is required to drive change.[34] As a result, **some organisations are motivated to increase ethnic and gender diversity without a deeper appreciation for the benefit that this diversity of lived experience can bring**. This is apparent from the beliefs that persist when it comes to recruitment.

Almost half of directors believe that recruiting for board diversity is challenging due to a lack of qualified candidates. A smaller proportion fear that such efforts will require them to nominate candidates who are either unqualified or unnecessary. It is worth noting that female directors are dramatically less likely to have these concerns than their male counterparts.[35] C-suite executives are more likely to believe that the real blocker to diversity is the reluctance of directors to retire. Only one fifth of C-suite executives agree that the main issue is a lack of qualified candidates.[36]

Nonetheless, the sustained focus on ethnic and gender diversity appears to be moving the dial. The percentage of FTSE 100 directorships held by ethnic minorities made a meaningful leap in 2021, from 12% to 16%.[37] Likewise, the percentage of directorships held by women in the FTSE 100 continued on its steady upward trajectory, rising from 36% to 39% in 2021.[38] Moreover, boards that increased their levels of ethnic and gender diversity over the past two years appear to be happy with the outcome, with around three quarters reporting a positive impact on board dynamics.[39]

In light of this momentum for change, it is no surprise that **the number of people joining boards has risen**. However, **the number leaving boards has hardly moved**, resulting in a net gain of 1.4 people on average. (Figure 3.3)

Figure 3.3 Boards grow larger, as in-flow goes up and out-flow does not.*

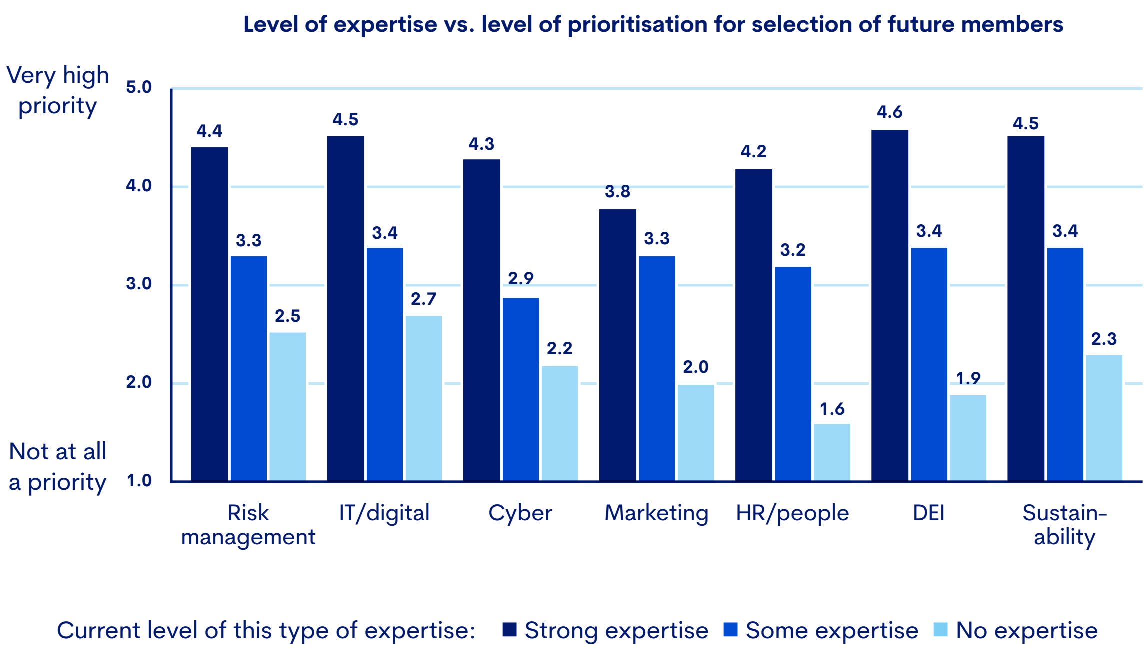
	2021	2022
Total number of members on the board	9.5	10.9
Number joining board in the past 2 years	2.8	3.2
Number leaving board in the past 2 years	2.5	2.6

* We have limited this specific analysis to boards.

The 2022 Mindful Exclusion survey also demonstrates that there is a strong correlation between the appetite of boards and executive committees to attain further diversity and the extent to which they already have it. Stated differently, it shows that **the most homogenous boards and executive committees are the least motivated to seek diversity**. This correlation is counter-intuitive since these boardrooms are at the greatest risk of suffering from blind spots, and are therefore the most likely to benefit from diversification. However, it provides further evidence that compulsive homogeneity may be distorting how candidates are selected and valued.

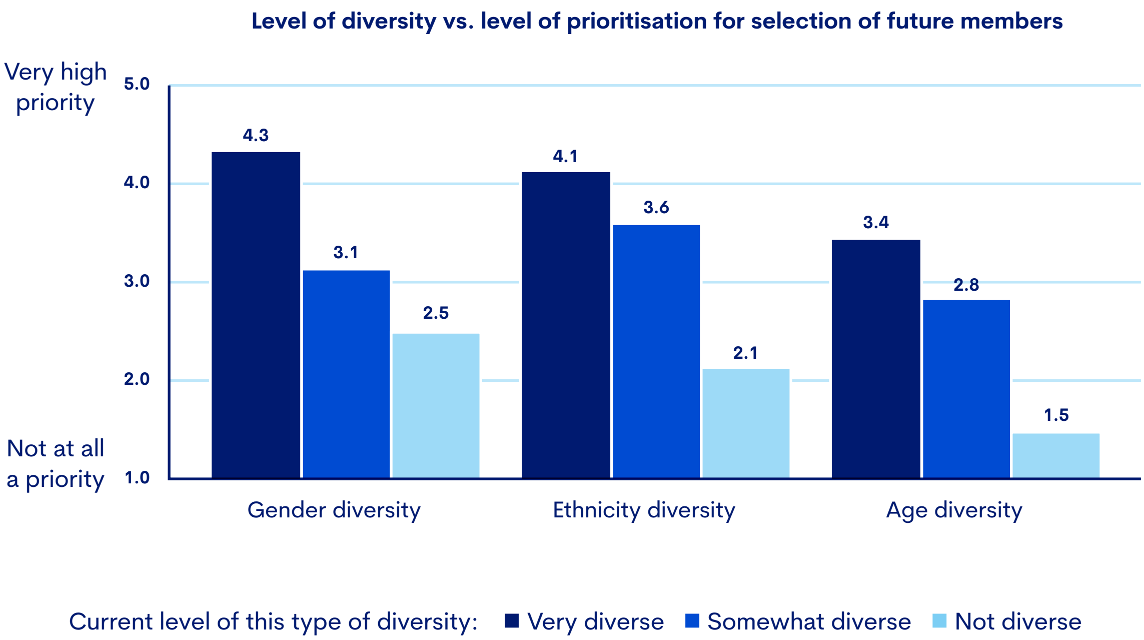
For instance, when we look at boardroom expertise - regardless of whether we are looking at risk management, IT/digital, cyber, marketing, HR/people, DEI or sustainability we see the same phenomenon. **Boards and executive committees with the lowest levels of a given type of expertise are the least likely to prioritise it**. (Figure 3.4)

Figure 3.4 Boards/ExCos that do not already have a specific type of expertise are unlikely to see its value.



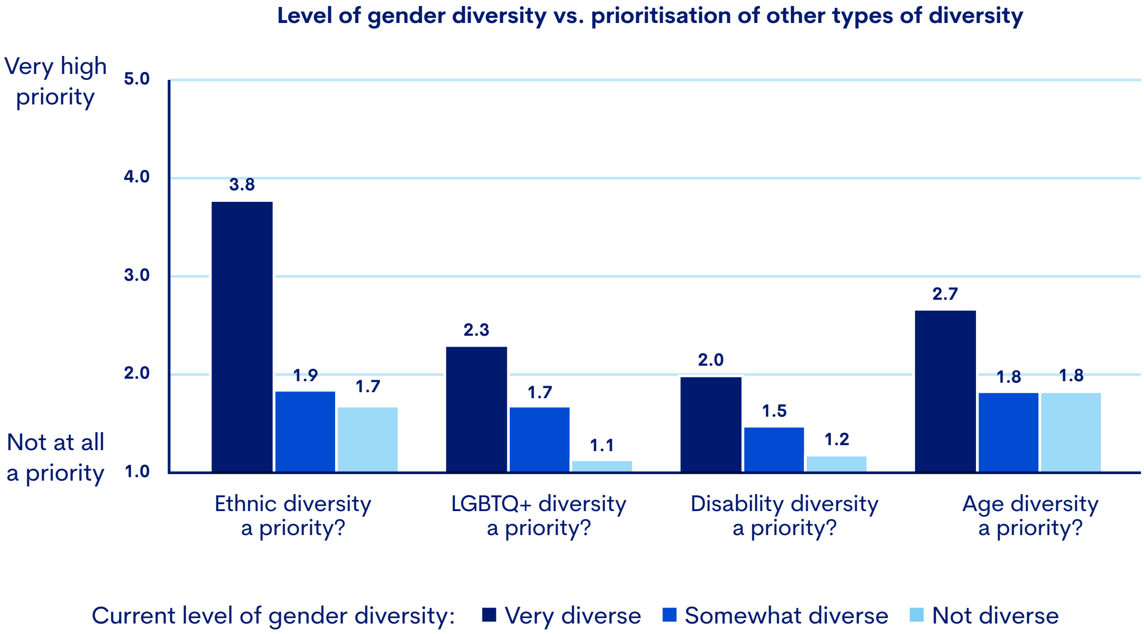
The exact same phenomenon is observable in relation to demographic diversity. Regardless of whether we look through the lens of gender, ethnicity or age – **the most homogenous boards and executive committees appear to be the least aware of their own limitations**. (Figure 3.5)

Figure 3.5 Homogenous Boards/ExCos are the least motivated to seek diversity.



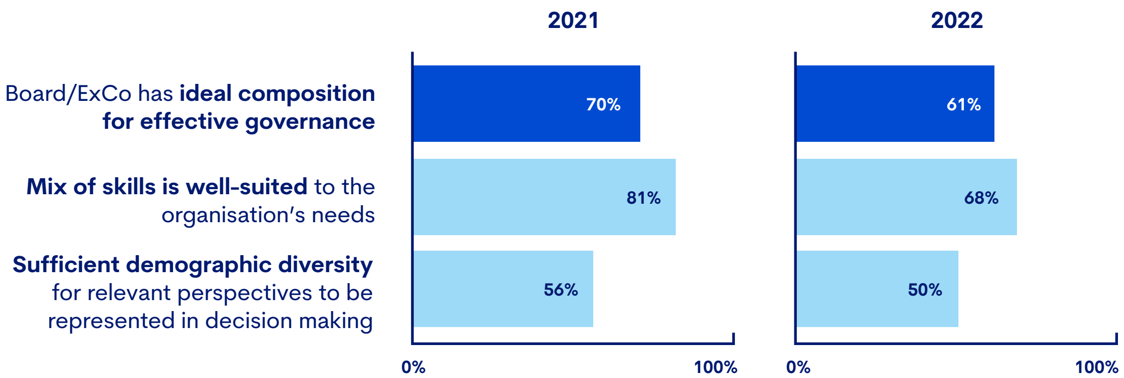
Additionally, **boards and executive committees with high levels of one type of diversity are more likely to prioritise diversity in other forms**. We can see this with gender diversity in Figure 3.6. Only boards and executive committees that already have very high levels of gender diversity are prioritising ethnic diversity for future selection. They are also more likely to prioritise LGBTQ+ diversity, disability diversity and age diversity. The same phenomenon is true when we look at diversity of expertise in relation to diversity of lived experience. Perhaps, having experienced the benefits of one type of diversity and been confronted with their bubble, these boards and executive committees have grown more aware of their own limitations and more mindful about evaluating future candidates based on the value they add to the collective.

Figure 3.6 Boards/ExCos that already have high levels of gender diversity are more likely to prioritise other types of diversity.



Given this year's retreat to the bubble of 'impressive people', it is not surprising that there has been a mild decline in respondents reporting that they have ideal composition for effective governance. There has been a corresponding decline in satisfaction with the mix of skills in the boardroom (as pointed out earlier), along with the demographic diversity. (Figure 3.7)

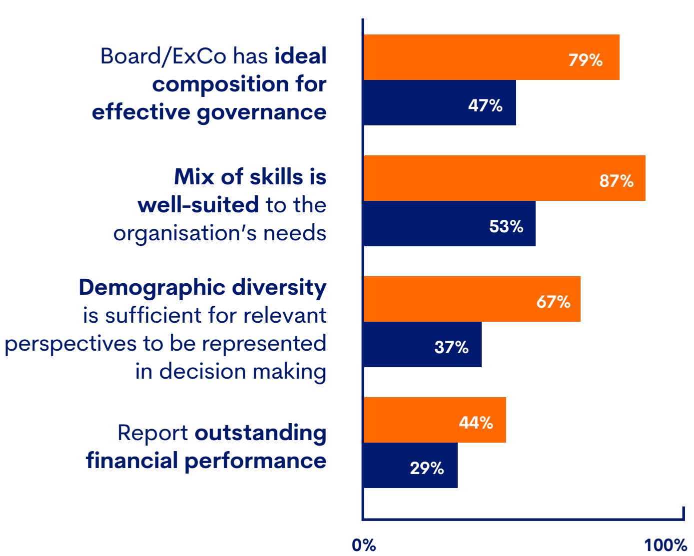
Figure 3.7 Composition is rated slightly lower this year, as are levels of diversity.



Stewards yield a mindful dividend

As we saw last year, **Stewards (boards and executive committees that created a healthy flow of power at the end of 2021) are more likely to have ideal composition for effective governance and to feel that their mix of skills and demographic diversity are fit for purpose**. This **mindful dividend is also reflected in their financial performance**, with 44% of Stewards reporting outstanding financial performance versus 29% of their less mindful counterparts. (Figure 3.8)

Figure 3.8 Stewards yield a mindful dividend.



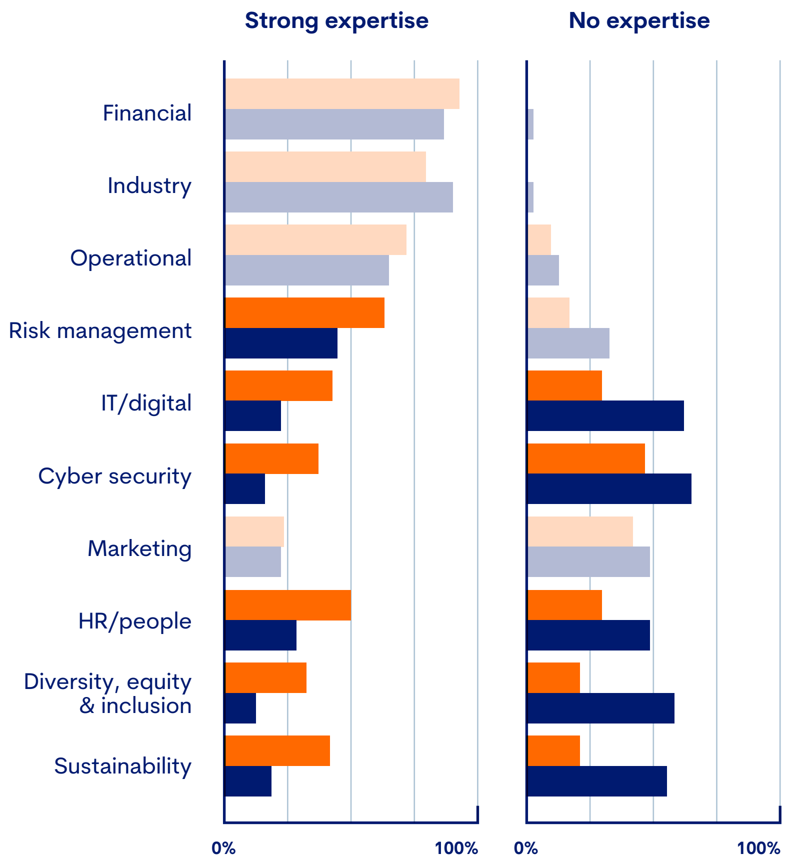
Stewards are more likely to...

- ✓ Be externally assessed
- ✓ Consciously cultivate a pipeline for succession
- ✓ Prioritise diversity of skills and diversity of lived experience for selection
- ✓ Have the same number of members leaving as joining
- ✓ Have fewer members overall and feel satisfied that there are not too many people

This year's survey provides greater insight into what Stewards are doing differently. 61% of Stewards (versus 24% of other Boards/ExCos) get externally assessed with sufficient frequency and depth. 75% of Stewards (versus 45% of other Boards/ExCos) consciously cultivate a pipeline for succession. Additionally, 75% of Stewards (versus 55% of other Boards/ExCos) prioritise diversity of skills and 43% of Stewards (versus 33% of other Boards/ExCos) prioritise diversity of lived experience. In a board context, Stewards have had a similar number of members leaving in the past two years as joining - unlike their counterparts whose board size continues to expand. As a result, Stewards have an average of ten members in total – one less member than their counterparts – and they are less likely to feel that there are too many people.[40]

As one might expect, **Stewards draw from a broader range of expertise**. Like their less mindful counterparts, almost all Stewards have a strong base of financial, industry and operational expertise. However, they are more likely than other Boards/ExCos to also have a strong base of expertise in risk management and HR/people, and to have some level of expertise in IT/digital, cyber security, DEI and sustainability. (Figure 3.9)

Figure 3.9 Stewards have a broader range of expertise to draw from.



■ Stewards
■ Other Boards and ExCos

Darker colours indicate the greatest points of differentiation.

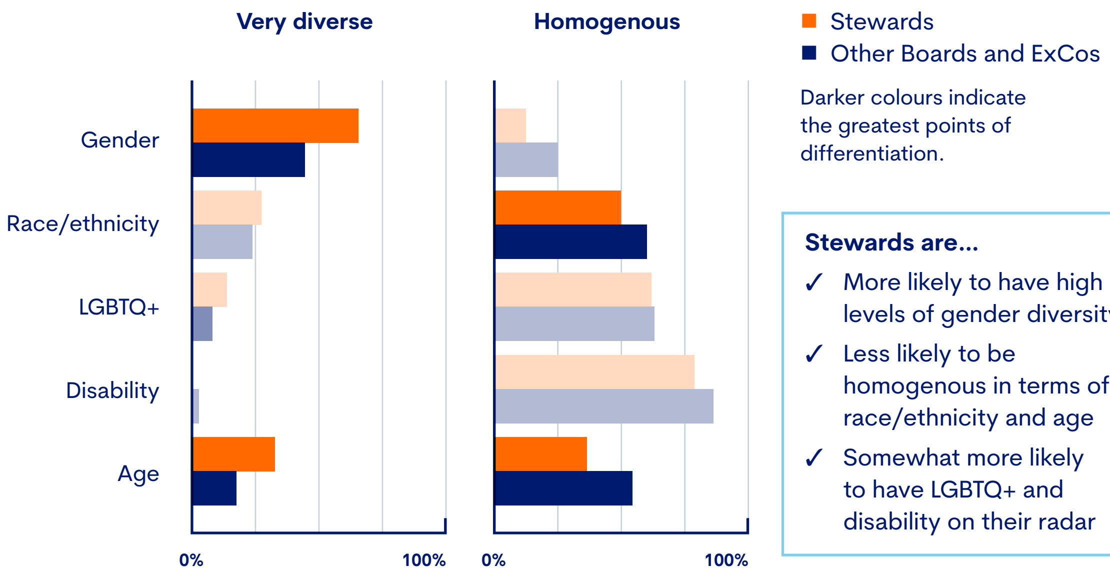
Stewards are...

- ✓ More likely to have a strong base of **risk management** and **HR/people** expertise on their board or executive committee
- ✓ More likely to have some level of **IT/digital, cyber security, DEI and sustainability** expertise

The biggest gaps are observable when it comes to DEI, sustainability and IT/digital – in that order. This suggests that with a healthier flow of power, these areas may be better represented on boards and executive teams.

Similarly, Stewards are less homogenous in terms of their demographic mix. They are **more likely than other Boards/ExCos to be very diverse when it comes to gender and they are less likely to be homogenous when it comes to race/ethnicity and age**. (Figure 3.10)

Figure 3.10 Stewards are less demographically homogenous.



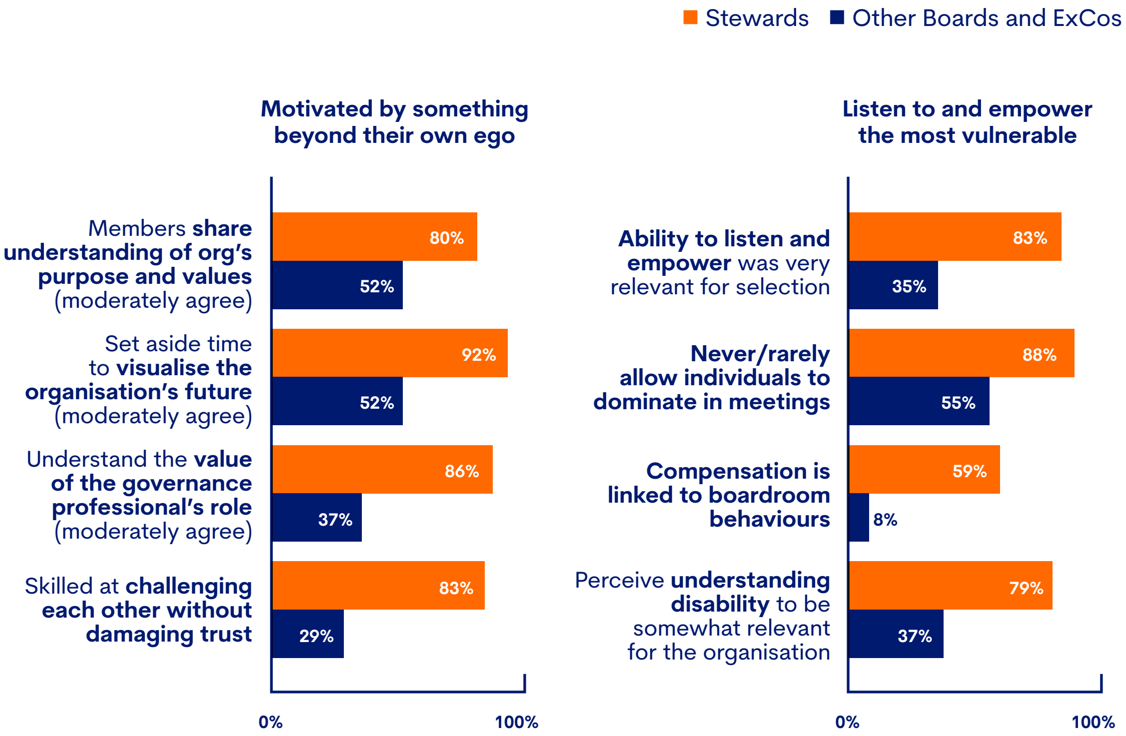
Stewards are...

- ✓ More likely to have high levels of gender diversity
- ✓ Less likely to be homogenous in terms of race/ethnicity and age
- ✓ Somewhat more likely to have LGBTQ+ and disability on their radar

Stewards also live up to their name. They are more connected to the purpose and values of their organisation as a collective, and more likely to set aside time to visualise the organisation's future. They take governance seriously – valuing the role of the governance professional more than twice as much as other Boards/ExCos. Perhaps as a result of this service orientation, 83% of Stewards (versus 29% of other Boards/ExCos) are very skilled at challenging each other without damaging trust.

Moreover, Stewards are naturally oriented towards listening and empowerment. They are more likely to screen for this quality as part of their selection criteria and to prevent individuals from dominating during meetings. 59% of Stewards go further by linking boardroom behaviours to compensation. (Figure 3.11)

Figure 3.11 Stewards live up to their name.

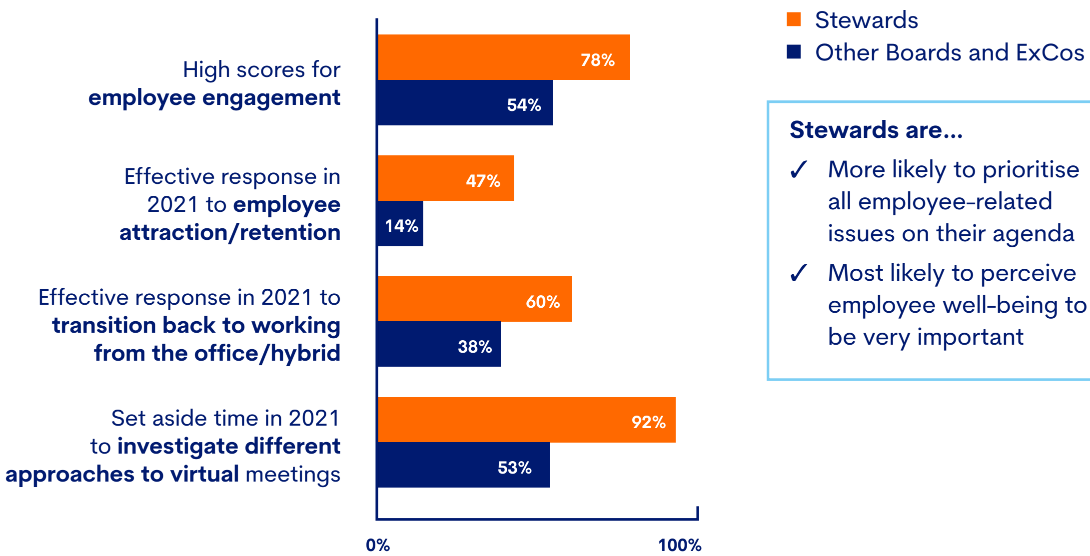


Another indicator of Stewards' tendency to empower all voices is their interest in those with disability. 79% of Stewards believe that understanding people with disability has some relevance for their organisation. It is perhaps more intriguing that 63% of other Boards/ExCos see no value in gaining this understanding, given that this represents 10% of the global population.[41]

Mindful Exclusion

As we discovered last year, **Stewards' purpose-driven approach helps them to evolve the status quo**. This year's dataset brings this theme to life in relation to the employee value proposition. Stewards are much more likely than their counterparts to have set aside time last year to investigate different approaches to virtual meetings. They are also much more likely to both prioritise and appreciate the importance of all employee-related issues. This diligence appears to have paid off – earning Stewards higher marks on employee engagement than their less mindful counterparts. This may explain why Stewards were the most effective segment at responding to the challenges of employee attraction/retention and transitioning back to the office in 2021. (Figure 3.12)

Figure 3.12 Stewards were better able to adapt to employee needs.



Stewards are...

- ✓ More likely to prioritise all employee-related issues on their agenda
- ✓ Most likely to perceive employee well-being to be very important

Specific areas requiring attention

As with Parts I and II, **the main recommendation emerging from this section is for boards and executive committees to become Stewards by creating a healthy flow of power – through the regular practice of embracing refreshment and holding individual leaders to account**. This year's findings make a compelling case for the dividend that this mindful practice yields.

However, we also wish to highlight a few specific areas that require greater attention in the coming year, based on the partial retreat to the bubble of 'impressive people' and what we can learn from Stewards:

1. **Interrupt the cycle of compulsive homogeneity – assess how a candidate adds value to the existing team, rather than if they are 'impressive'.**

It is easy to dismiss individuals who hold different characteristics from those already around the table and to assume that they are less 'impressive' simply because one has not directly experienced their value. Exploring how a potential candidate can add value forces boards and executive committees to broaden and sharpen their own understanding of what their core needs are – including ones that may be off their radar – before making a judgment. It also requires them to gain a better understanding of the strengths already around the table so as to avoid unnecessary replication.

2. **Ensure that there is some level of DEI, sustainability and IT/digital expertise in the boardroom.**

These three areas represent the biggest gaps between Stewards and other executive committees (Figure 3.9). The competencies associated with DEI are highly relevant for tackling compulsive homogeneity in the boardroom and ensuring that diverse perspectives beyond the boardroom are appropriately factored into decision making. Also, as we saw in Part I, having climate change and digital on the agenda has moved from being nice-to-have to a basic requirement. Thus, it is important to have some level of expertise around the table so as to engage more deeply on these subjects.

3. Continue to redress ethnic and gender homogeneity, whilst cultivating psychological safety and ensuring that diversity of lived experience is valued in all its forms.

The strides being made at the top in terms of ethnic and gender diversity are encouraging. However, as we saw in Part II, psychological safety is required to reap the full benefit – particularly when it comes to ethnic diversity.

It is encouraging to note that boards and executive committees are increasingly screening candidates based on their ability to 'listen and empower'. The proportion factoring this into their selection criteria has risen from two thirds in 2021 to four fifths in 2022. Although this skill set will prove useful for establishing psychological safety, it does not detract from the importance of investing in team alignment and ensuring that diversity of thought and lived experience is valued.

Additionally, there is an opportunity to leverage the diversity of lived experiences at the top to strengthen the board or executive committee's connectivity to and understanding of diverse stakeholders. As we saw in Part I, connecting with diverse stakeholders can help the board or executive committee to go beyond their bubble of familiarity, and result in more effective prioritisation.

Conclusion

The world is facing a period of extreme disruption and uncertainty – with multiple crises looming, unprecedented opportunities on the horizon and an ever-quickening pace of change. In this context, organisational success depends less on prioritising the right issue than on having the right system of prioritisation. Less on having a good debate than on cultivating the conditions for good debates to occur effortlessly. And less on selecting the best people than on ensuring that the criteria and processes that determine who sits at the table are fit for purpose. **Although responding to change remains essential, it is no longer sufficient; we must also be able to anticipate and shape what comes next**.

This is why the most important areas requiring attention are the three mindful practices highlighted in this report: horizon scanning, investing in team alignment and creating a healthy flow of power. These practices provide organisations with a broader line of vision, enabling them to see beyond their bubbles in order to sharpen their focus. They are practices, rather than actions, because they need to be continuous. **And the findings from this year's report show that each one has a clear dividend in terms of governance and financial performance**.

Embedding these practices requires us to re-evaluate the characteristics that we seek in those sitting at the top table. The traditional emphasis on directors and executives being 'seasoned', a 'good fit' and possessing 'gravitas' may reinforce the bubbles of familiarity, comfort and 'impressive people' that distort our decision making. We must also seek leaders who can engage skilfully with topics beyond their experience and embrace fresh perspectives; who are motivated to evolve norms, not just conform to them; and who are capable of stepping into and away from power with ease. **Ultimately, there must be enough individuals sitting around the table who are themselves Scanners, Synergisers and Stewards to reinforce these practices**.

Diversifying functional expertise is likely to help. For instance, those who are serious about sustainability will be used to factoring in the future, and those accustomed to the fast-paced world of digital/technology may be more receptive to acknowledging blind spots. Similarly, one would expect those with a genuine competency in HR/people to appreciate the importance of creating psychological safety, and those with DEI expertise to be skilled at spotting and addressing unhealthy power dynamics.

Having diverse lived experiences around the table may trigger boards and executive teams to become more intentional about these practices. It is easier to see that you have a bubble when colleagues give voice to your blind spots. Moreover, the consequences of not having psychological safety are more obvious with a diverse team. Finally, as we saw in Part III: Composition, boards and executive committees with high levels of diversity are less susceptible to compulsive homogeneity.

Ideally, these mindful practices should also be embedded in the status quo. In Part I: Agenda, we discussed how employee networks, performance monitoring and pressure from investors may have helped to sustain momentum for diversity and sustainability, in spite of the broader retreat. Likewise, structures, collective habits and proximity to relevant stakeholders can be cultivated to sustain momentum for horizon scanning, investing in team alignment and creating a healthy flow of power.

Company secretaries have an important role to play. A 2018 industry study found that 81% of company secretaries were responsible for designing board packs, 64% were responsible for induction and training, 54% for board recruitment and 76% for board effectiveness reviews, amongst other things.[42] In this year's Mindful Exclusion study, most company secretaries (and those in pure governance roles) reported having some influence over which issues were prioritised for the agenda and which behaviours were encouraged. Approximately half indicated that they had some influence over who was selected to join or leave their board/executive committee. Each of these presents an opportunity to experiment with and embed the mindful practices. To do so credibly, company secretaries must themselves become skilful Scanners, Synergisers and Stewards.

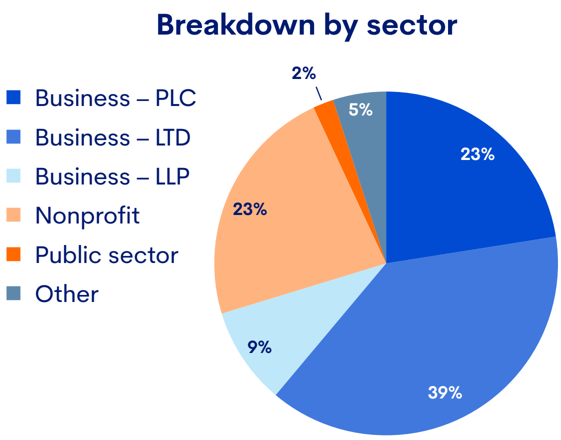
However, to address current challenges effectively, chairs, directors, CEOs and executives must also do their part. All parties must be willing to see the bubble in which they currently operate, own its distorting effect on their decision making and act accordingly.

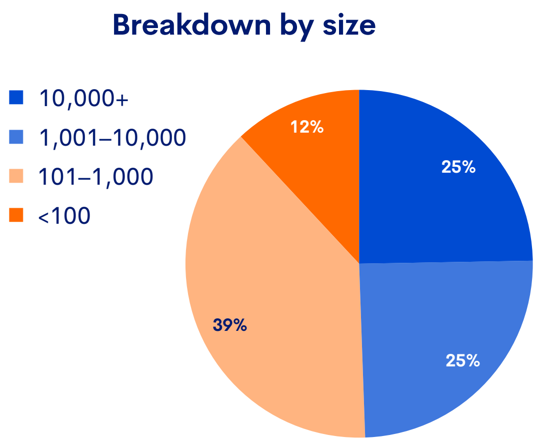
Appendix

The 2022 Mindful Exclusion Governance study consisted of five roundtables, ten qualitative interviews and a quantitative survey, along with an extensive review of industry reports.

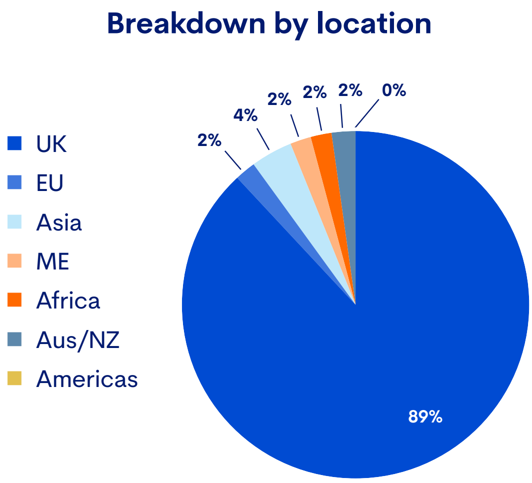
The survey was fielded from February to May 2022, with 57 company secretaries, board directors and executives taking part.

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





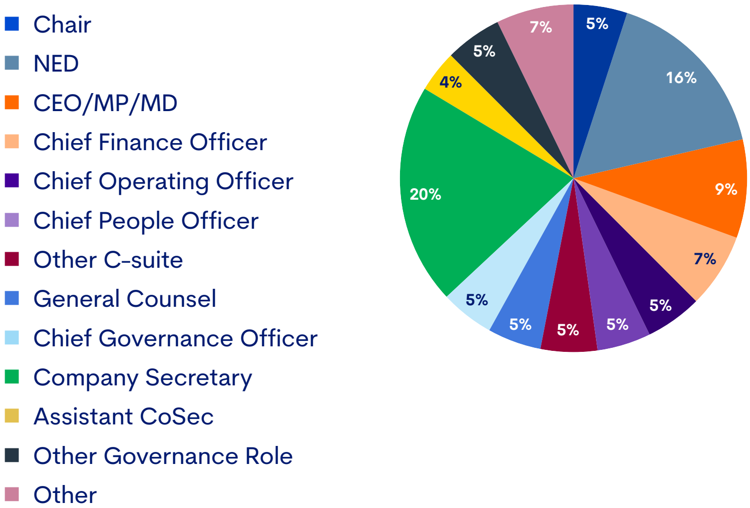
Although this survey was open to an international audience, most respondents were based in the UK.



Mindful Exclusion

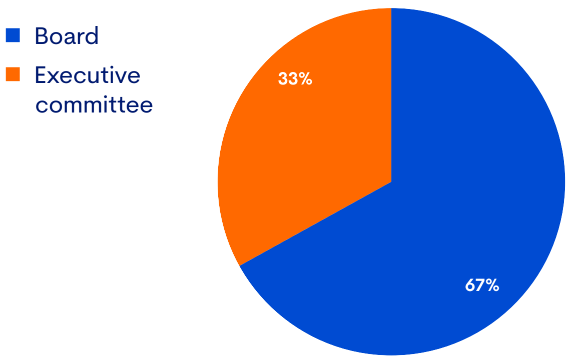
The sample included a large proportion of company secretaries and other governance professionals.

Breakdown by position



Most respondents filled out the survey in relation to their board.

Reporting on board vs executive committee



Endnotes

1 All three parts of the 2021 Mindful Exclusion Report (Part I: Agenda, Part II: Dynamics and Part III: Composition) can be downloaded here: https://www.cgi.org.uk/knowledge/research/mindful-exclusion

2 A more detailed explanation of psychological distance can be found on p.20 of Part I: Agenda from the 2021 Mindful Exclusion Report.

3 'Scanners' are defined as boards and executive committees that make time on the agenda to discuss their organisation's mid-to-long-term strategy and blind spots. They represent a combination of the 'Mindful Managers' and 'Mindful Movers' segments from Part I: Agenda of the 2021 Mindful Exclusion Report.

4 In qualitative interviews, one company secretary explained that, prior to COVID-19, digital/technology and innovation were viewed as interchangeable categories by her board. However, aspects of digital/technology had now been normalised and were easier to engage with.

5 Survey respondents rated level of perceived importance as well as level of prioritisation for each issue.

6 According to PwC's 2022 Global Workforce Hopes and Fear Survey, which is based on a sample of 52,195 individuals across 44 countries, one in five employees reported that they were extremely or very likely to find a new employer within the next 12 months (p.4).

7 EY 2022 Work Reimagined Survey is based on over 17,000 employees and 1.500 employers across 22 countries. It finds that 43% of employees are likely to leave their employer in the next year.

8 PwC's October 2021 Annual Corporate Directors Survey, p.29 - 91% of directors are concerned about the trend of technological disruption, with 57% indicating that they are 'very much' concerned.

9 PwC's October 2021 Annual Corporate Directors Survey, p.29 - 95% of directors are concerned about the trend of political polarisation, with 77% indicating that they are 'very much' concerned; 88% of directors are concerned about the waning confidence in social institutions, with 52% indicating that they are 'very much' concerned.

10 Edelman Trust Barometer 2022 (based on a survey of over 36,000 respondents across 28 countries), p.29 - 81% of respondents say CEOs should be personally visible when discussing public policy with external stakeholders or work their company has done to benefit society.

11 Edelman Trust Barometer 2022, p.26 - 58% of respondents say that they will buy or advocate for brands based on their beliefs and values; 64% say that they will invest based on their beliefs and values.

12 Edelman Trust Barometer 2022, p.29 - 60% of employees agree that "when considering a job, I expect the CEO to speak publicly about controversial social and political issues that I care about".

13 Russell Reynolds' 2022 Global Board Culture and Director Behaviours Study, "Sustainability", p.3 - 65% of directors now report that "There is a genuine commitment to make real progress and a willingness to invest time and money to get there."

14 PwC's October 2021 Annual Corporate Directors Survey, p.4 - 64% of directors say that ESG is now linked to their company strategy.

15 Edelman Trust Barometer 2022, p.26.

16 Russell Reynolds' 2022 Global Board Culture and Director Behaviours Study, "Sustainability", p.4.

17 Lutterodt, Justine. Governance & Compliance Magazine, September 2020, "Long-term Urgent", https://www.cgi.org.uk/knowledge/governance-and-compliance/features/the-right-path.

18 A more detailed explanation of psychological safety and the rationale for selecting this mindful practice can be found on pp.21-22 of Part II: Dynamics from the 2021 Mindful Exclusion Report.

19 One surprise from the 2021 Mindful Exclusion Report was the extent that skilled chairing was linked to investing in team alignment. Logically, this made sense for two reasons. The chair or CEO clearly played a key role in choosing to implement this mindful practice. Additionally, with the higher levels of psychological safety that resulted, the chair or CEO had a better chance of leading effective meetings. Nonetheless, the level of this correlation was higher than we had anticipated.

20 When we defined this mindful practice in terms of the chair/CEO investing time in team alignment, rather than the Board/ExCo investing time in team alignment, we saw larger differences in psychological safety, the effectiveness of boardroom and financial performance.

21 'Synergisers' are defined as boards and executive committees where the chair/CEO regularly invests time in team alignment. They correspond to a combination of the 'Mindful Managers' and 'Mindful Movers' segments from Part II: Dynamics of the 2021 Mindful Exclusion Report.

22 Russell Reynolds' 2019 Global Board Culture and Director Behaviors Study (based on a survey of 750 directors of large public companies worldwide) found that 52% of chairs give directors constructive feedback. The 2022 version of this study (with a sample of 1,100 directors) found that this had dropped to 43%.

23 According to PwC's October 2021 Annual Corporate Directors Survey (based on a sample of 851 directors in the US), the proportion of directors reporting an "overly collegial atmosphere" increased to 27% in 2021 (up from 19% in 2020), and the proportion reporting "excessive deference to long-tenured directors" increased to 42% in 2021 (up from 26% in 2020).

24 PwC's October 2021 Annual Corporate Directors Survey, p.25 – 52% directors believe that virtual meetings have a positive impact on meeting efficiency.

25 Deloitte and Society for Corporate Governance's March 2022 Board Practices Quarterly, p. 6 – 61% of directors say that the pandemic resulted in changes to their board's processes and practices that facilitated board efficiencies.

26 PwC's October 2021 Annual Corporate Directors Survey, p.33 – 75% directors report spending more time on board and committee responsibilities since COVID-19.

27 This may explain why, despite the return to meeting in person, 74% of survey respondents indicated that most members are keen for things to return back to (pre-COVID) 'normal'.

28 These figures are restricted to those who track employee engagement and equality of pay/progression.

29 Two thirds of those with outstanding financial performance in 2021 (rating their performance 5 on a 5-point scale) were confident that their boardroom compensation "accounts for organisational performance beyond financial performance" versus less than a quarter of those who did not rate their performance as outstanding.

30 This reflects the difference in median time spent in meetings for Synergisers versus their counterparts.

31 'Stewards' are defined as boards and executive committees that embrace refreshment and hold individual members to account. They correspond to a combination of the 'Mindful Managers' and 'Mindful Movers' segments from Part III: Composition of the 2021 Mindful Exclusion Report.

32 PwC's October 2021 Annual Corporate Directors Survey, p.26 – 38% of directors report that someone on their board (aside from the CEO) engaged in direct communications with shareholders about boardroom composition; only 23% report the same for capital allocation and 21% for management performance.

33 PwC's October 2021 Annual Corporate Directors Survey, p.23 – 90% of directors agree that board diversity improves relationships with investors; 41% strongly agree with this statement, versus 29% who strongly agreed the prior year.

34 PwC's October 2021 Annual Corporate Directors Survey, p.14 – 71% of directors believe that taking action is necessary to achieve board diversity versus 33% in 2020.

35 PwC's 2021 Annual Corporate Directors Survey, p.15 – 45% of directors believe that a lack of qualified candidates has impeded efforts to increase board diversity (21% of female directors believe this vs. 54% of male directors); p.13 – 31% of directors believe that board diversity results in unneeded candidates (18% female directors believe this vs. 35% male directors); p.13 – 27% of directors believe it results in unqualified candidates (12% female directors believe this vs. 32% male directors).

36 PwC and Conference Board's November 2021 Report, "Board Effectiveness: A Survey of the C-suite", p.11 – 60% of executives versus 39% of directors believe that long-tenured directors' reluctance to retire has impeded efforts to increase board diversity; only 19% of executives versus 45% of directors report that a lack of qualified candidates has been an impediment. p.3 – 89% of executives say that at least one director should be replaced and 74% say that two or more directors should go.

37 Parker Review March 2022, "Improving the Ethnic Diversity of UK Boards", p.25.

38 FTSE Women Leaders Review February 2022 Report, "Achieving Gender Balance", p.9.

39 Russell Reynolds' 2022 Global Board Culture and Director Behaviours Study, "Inclusive Culture and DE&I", p.4 – 72% of directors on boards where ethnic diversity increased report a positive impact on boardroom dynamics; 73% report the same for gender diversity. In both cases, almost all of the remaining directors report no change.

40 Stewards had an average of 3.3 new members join in the past two years and 3.2 leave; their counterparts had 3.1 join and 1.9 leave.

41 Disabled World, 2022: https://www.disabled-world.com/disability/statistics/ – 10% of the world's population live with disability.

42 Grant Thornton 2018 Survey with 105 respondents, "Is the Role of the Company Secretary Fit for the Future?"

The Chartered
Governance Institute