GOVERNANCE

June 2021 Issue 322

Rethinking 'social distancing' to improve the boardroom agenda

'The challenge is that exclusion is hard to notice. In the context of running a business, 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. Cognitive short cuts, which we rely on to navigate the ocean of information that surrounds us, shape our perception of what options are even available.'

Justine Lutterodt

Investor demands drive change

'As boards' responsibilities increase and directors are expected to consider an ever-broadening range of issues, it is essential that corporate leaders remain focused and are not overextended, so as to ensure effectiveness. As such, investors and proxy advisors are pushing for much stricter stances on over-boarding.'

Bruno Bastit

Content

Feature

Rethinking ‘social distancing’ to improve the boardroom agenda

Justine Lutterodt uses insights from social psychology to interrogate the quality of boardroom decision-making.

Is your boardroom ‘bubble bound’? Are you caught up in a cycle of focusing on operational and urgent issues? Do you struggle to make time on the agenda to discuss potential blind spots? If the answer to any of these questions is ‘yes’, you may want to consider the social distance between your board and diverse stakeholders, according to a research report that was recently published at the Centre for Synchronous Leadership (CSL), in partnership with The Chartered Governance Institute UK & Ireland.

The Report is the first of a three-part series entitled ‘Mindful Exclusion’ that uses insights from social psychology to interrogate the quality of boardroom decision-making. The series focuses on three core processes: what gets decided on, how decisions are made, and who is selected to make them. It is based on a comprehensive study conducted by CSL over an 18-month period that included qualitative interviews, focus groups, secondary research and a survey of over 300 governance professionals, board directors and executive committee members. The timing of the survey, which was launched in December 2020, has enabled us to compare boardroom decision-making now with what was occurring prior to the pandemic, thereby giving the results extra weight. This Report addresses Part I of the series: Agenda.

> ‘In a world where time and resources are limited, the decision to include one thing usually requires us to exclude another.’

The case for excluding better

Mindful Exclusion is a concept that I began writing about in 2016, when it was first featured in the World Economic Forum’s leadership magazine *Developing Leaders*. CSL has been using it to spark meaningful dialogue and transformation ever since. At the heart of the concept lies a provocative, but undeniable premise: exclusion is an inevitable consequence of decision-making, and thus morally neutral. In a world where time and resources are limited, the decision to include one thing usually requires us to exclude another. Hence avoiding exclusion is an unrealistic goal. Instead, we must aspire to exclude better, such that we promote the strategic goals, desired culture, and aspirational brand of our organisations.

The challenge is that exclusion is hard to notice. In the context of running a business, 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. Cognitive short cuts, which we rely on to navigate the ocean of information that surrounds us, shape our perception of what options are even available. These short cuts are infused with natural biases and social norms that make it easy for us to operate within insular bubbles – unconsciously gravitating towards what feels familiar, comfortable, or impressive. Without an immediate feedback loop, it can be difficult to see that our judgement has been distorted, or even that we have a bubble. For this, mindfulness is required.

> ‘This increased engagement has been fuelled by social media, which enable previously disconnected stakeholders to communicate, influence, and align with one another in real time.’

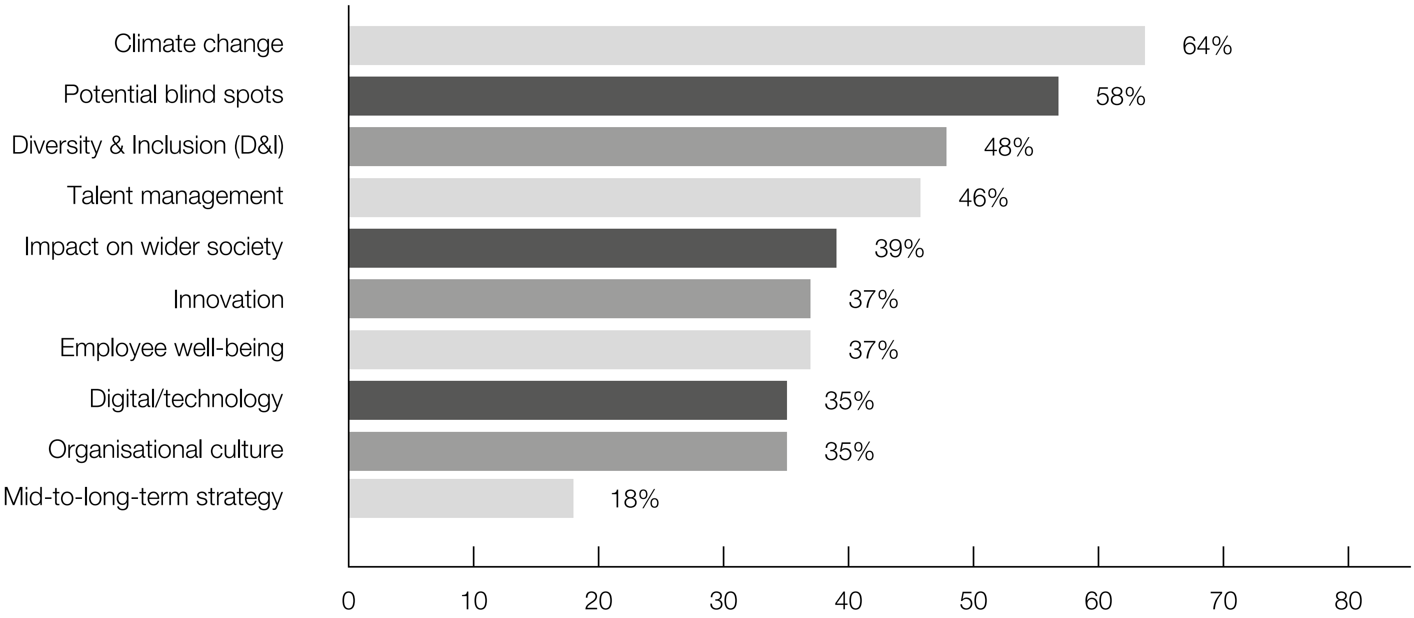
Being mindful about exclusion has become increasingly important in the business sector as stakeholders grow more interdependent. Nowadays, customers are more curious about how companies treat their employees; employees are more curious about how companies treat their suppliers; suppliers are more curious about the reputation of companies in the local communities within which they operate, and so on. Moreover, investors and regulators are now more interested in all of the above and more willing to move their money, change their voting, or adjust their policies accordingly. In the UK, the recent reporting requirements for Companies Act 2006, s 172 are just one manifestation. This increased engagement has been fuelled by social media, which enable previously disconnected stakeholders to communicate, influence, and align with one another in real time. As a result, companies that fail to engage beyond their bubble – to understand their wider ripple effects and anticipate future trends – may find themselves at a strategic disadvantage.

The bubble of familiarity

In this Report, Part I of the Mindful Exclusion governance series, our focus was on the boardroom agenda. We first examined whether there was evidence to suggest that important issues had been mindlessly excluded from the agenda prior to Covid-19. From our qualitative interviews and secondary research, we identified ten issues that were increasingly recognised as a priority but struggled to get the airtime they deserved. Survey results helped us to get more specific. For instance, prior to Covid-19, 64% of boards indicated that climate change was ‘never or rarely’ on the agenda. Moreover, 48% of boards and executive committees did not have diversity & inclusion (D&I) on the agenda, 37% did

boardroom agenda

Chart 1. Which issues were excluded from your agenda prior to Covid-19?
% indicating issue was never or rarely on the agenda



not have employee well-being on the agenda, and 35% did not have digital/technology on the agenda. These last three issues were particularly notable, given how pivotal they became for organisational success in 2020 - See Chart 1.

We then considered what factors could be responsible for this disconnect. The issues that had been mindlessly excluded fell into two camps – holistic issues (such as D&I, employee well-being, climate change) and forward-looking issues (such as digital/technology). We suspected that the common denominator was a lack of familiarity with these issues on the part of board and executive committee members. In academic terms, these issues were more 'psychologically distant', and thus emotionally connecting with them required a greater cognitive leap. Social psychological literature distinguishes between several different forms of psychological distance – including temporal distance (across time), experiential distance (beyond one's realm of experience) and social distance (less connected). All three have a similar impact on the brain and can be used interchangeably to impact our prioritisation behaviour.

Our hypothesis was that companies whose boards and executive committees had demonstrated an ability to bridge psychological distance, and thus engage with the unfamiliar, would be less likely to exclude these issues from their agenda than those who had not. To test this theory, we divided respondents into four segments, focusing on three practices that served as a proxy for this: *looking ahead* (and prioritising their mid-to-long-term strategy), *looking beyond* (and considering their blind spots) and *preparing to pivot* (flexing their agenda accordingly).

Here is how the segments were defined:

1. *The Bubble Bound* were the most insular segment. They were defined by their failure to look ahead, despite this practice being within the scope of traditional norms.

2. *Bubble Breakers* were willing to go beyond their bubble, but only within the scope of traditional norms. They were defined by looking ahead, but not beyond.

3. *Mindful Managers* were willing to go beyond their bubble and were unconstrained by traditional norms. They were defined by looking ahead and beyond, but not being prepared to pivot.

4. *Mindful Movers,* the most proactive segment, reshaped their bubble to align with their values and larger objectives. They were defined by looking ahead, looking beyond, and being prepared to pivot.

The survey results aligned with our hypothesis. Amongst the *Bubble Bound* (approximately one-fifth of the sample), 71% did not have D&I on the agenda prior to Covid-19, 63% did not have employee well-being on the agenda, and 62% did not have digital/technology on the agenda. They now appeared to be struggling and on the back foot. Over three-

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Feature

Investor demands drive change

Bruno Bastit explains how investor demands for diversity and sustainability are driving changes to corporate governance.

Increasing demand for board diversity, ESG competence, and effectiveness, as well as fair executive pay and tax transparency, is set to drive changes to corporate governance this year. As such, companies and their boards must adapt – or risk losing support from investors.

The coronavirus pandemic has exposed the vulnerability of companies and their boards in the face of crisis – underscoring the need for the effective management of ESG issues.

Last year saw positive change with regards to policy and regulation, with new codes of corporate governance taking effect across the world. This year, the pandemic will accelerate 2020's governance trends – particularly those focused on environmental and social challenges.

ESG remains a top priority

Investors are increasingly demanding a say on climate-related issues. As such, there is growing pressure amongst corporates to disclose details of both their emissions and any plans they have in place to deliver the transition required by the Paris Agreement. To support this, there are various initiatives gaining traction internationally.

'At board level, too, regulators and investors are increasingly focusing on ESG competency'

Earlier this year, for instance, the UK Investor Forum announced its support for annual mandatory non-binding votes on climate at Annual General Meetings (AGMs), following the UK Financial Conduct Authority's (FCA) proposal to implement a TCFD-aligned disclosure requirement for listed companies. Similarly, in the US, investors are calling on corporates to disclose their climate plans. The Securities and Exchange Commission (SEC) recently announced the creation of a

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quarters believed that they spent too much time on operational and urgent matters, and they were the most likely segment to report being overwhelmed with the current volume of issues to cover. Only half of this segment was confident that they were effective at prioritising issues for the agenda.

In contrast, amongst *Mindful Movers* (also one-fifth of the sample), only 17% did not have diversity on the agenda prior to Covid-19, 13% did not have employee well-being on the agenda, and 17% did not have digital/technology on the agenda. Unsurprisingly, this segment was the least likely to feel that they spent too much time on operational and urgent matters and the least likely to feel overwhelmed. Instead, almost all *Mindful Movers* were confident that they were effective at prioritising issues for the agenda. Furthermore, with two-thirds of the segment aspiring to proactively disrupt sector norms, they appeared to be on the front foot.

Interestingly, *Mindful Movers* were also much more likely to bridge social distance and engage with people outside of their immediate bubble. They were more likely to cross hierarchical boundaries, seeking input from employees at every level and often inviting select employees to contribute at meetings. They were more likely to have structured channels for receiving sensitive feedback, such as employee networks or an Ombudsman service. And they were more likely to look outside the bubble of their organisation for additional insight and expertise. Finally, 88% of *Mindful Movers* reported that their board or executive committee behaved as though diversity of lived experience was a priority (versus 28% of the *Bubble Bound*). This reflects a level of intentionality in connecting with people who are less familiar, and a recognition of the value that this adds.

As mentioned earlier, the impact of social distance on our prioritisation behaviour is interchangeable with that of temporal distance and experiential difference. Hence, the habit of proactively engaging diverse stakeholders is likely to help *Mindful Movers* prioritise unfamiliar issues and stay on the front foot.

Those in the *Bubble Bound* segment have made substantial changes since the pandemic. As one might expect, most now have D&I, employee well-being and digital/technology on their agenda. However, more also have climate change on their agenda, along with every other issue that we had previously identified as important but 'less familiar'. Promisingly, 63% of this segment are now looking ahead and 55% are now looking beyond, suggesting a deeper shift in posture towards the unfamiliar. This is a good time for boards and executive committees at these companies, and indeed all companies, to reconsider their social distance from diverse stakeholders. In doing so, they can help to ensure that the meaningful progress that has been triggered by this unique period leaves a sustainable legacy.

Justine Lutterodt is Managing Director of the Centre for Synchronous Leadership and author of the Mindful Exclusion Report. For more information about the Mindful Exclusion Report see www.cgi.org.uk/mindful_exclusion

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Designed and printed by WithPrint
Riverside Studio, Gills Lane, Rooksbridge, Somerset, BS26 2TY
www.with-print.co.uk

ISSN 1358-5142

Governance Publishing and Information Services Ltd
The Old Stables, Market Street, Highbridge, Somerset TA9 3BP, UK
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