“Once business was impervious…
Now, with the combination of all the factors at play, business and what’s happening outside are actually one.”

The CEO Report, Heidrick & Struggles, 2015

This CEO is describing what many business commentators are calling the “new normal” — a business environment characterized by more porous organizations that are being influenced by more voices and interests, expressed by increasing numbers of stakeholders. This results in businesses being posed ever more complex problems to solve at an ever-increasing pace while being disrupted by the forces of digitalization.

Heidrick & Struggles has undertaken some recent research that suggests that this new business context has created “a shift from shareholder dominance to stakeholder power,” a sense that businesses must be “in society,” not operating at arm’s length from it. Yet economic reality requires that businesses must also continue to deliver best-in-class top and bottom line growth. These contradictory factors offer both business opportunity and risk, which require chairmen and non-executive directors to adopt a fresh approach to board leadership.

We described some of these new requirements in Towards Dynamic Governance, our 2014 European corporate governance report. In this article, we will focus on “diversity of thinking” — the requirement that boards should reflect the diverse perspectives of the companies they lead, the customers they serve, and the society within which they operate. Traditionally, board diversity has been a numbers game, with a focus on gender and race. This is a necessary but not always a sufficient course of action. To truly reflect society, to deal with uncertainty and complexity, and to drive sustainable business value creation, boards must adopt new and different perspectives to create an environment that fosters diverse thinking and actively encourages authentic dialogue.

While the pace of change — speed, speed, and more speed — seems to be the new mantra of our age, a focus on speed alone may mask the reality that organizations, and the boards that govern them, face a new and more complex set of business challenges, especially the proliferation of stakeholder groups. Stakeholders are often vocal and increasingly interconnected and demand a say not only in what products and services are sold but also in the way they are designed, sourced, manufactured, and distributed. This shift from “shareholder dominance to stakeholder power” has been aided and abetted by the power of social media to demand and ensure
transparency and disclosure from the organization. Every decision can now be analyzed, critiqued, and challenged from multiple angles in real time by groups of “digitally empowered” stakeholders, including employees. Add to this geopolitical unrest, natural disasters, man-made tragedy, government regulation, disruptive technology, and aggressive competition, and it becomes clear that traditional approaches to board leadership will no longer work. To address these changes, we suggest that there is increasing need to embrace a genuine diversity of thinking within the leadership of businesses.

Meaningful progress is being made in addressing gender and nationality diversity on boards. In the four years since the Davies review, FTSE 350 boards have nearly doubled the number of female board directors and the UK is currently the fifth best performing country globally for women on boards. Our research shows that the proportion of non-national directors on European boards has increased from 23% in 2009 to 30% last year, with many of these now coming from Asia and emerging markets. These improvements are to be welcomed and help boards reflect society more accurately and bring new skills and capabilities. Heidrick & Struggles has long held the view that gender and ethnic diversity are necessary but not sufficient on their own to help boards shape their response to an increasingly complex environment while also driving performance. This is why we suggest that boards consider the cognitive approaches of its current and future members and seek to further embrace diversity through alternative perspectives and thinking styles.

Diversity of thinking — having the right balance between thinking styles as well as technical knowledge and experience — is the attribute most consistently identified as a critical driver of board effectiveness.

So what are the differences in thinking styles? And how can boards build and strengthen the diversity of thinking styles they use to make key decisions?

In our view, boards need a balanced approach: a mix of convergent thinking, to tackle complicated but relatively soluble governance challenges, such as financial oversight and compliance, and divergent thinking, to address the complex problems thrown up by an increasingly interconnected world, such as launching a new business in an unfamiliar emerging market or shifting an entire customer interface to handheld digital devices. Convergent thinking tends to focus on identifying one correct answer — disaggregating problems, exposing them to tried and tested methods, and whittling down the options. It is suitable for simple/complicated linear problems. By contrast, divergent thinking explores and evaluates many possible avenues and a range of possible solutions.

Within these two main styles there are four associated thinking preferences:

- **Analytical thinking** — this convergent approach is by far the dominant style of thinking in the boardroom, in part because board processes favor linear, logical approaches and also because much of formal education focuses on equipping us with analytical skills. A bedrock capability, analytical thinking helps boards unravel simple/complicated governance, regulatory, and business management issues.

- **Innovative thinking** — a divergent style where thinking is not limited to the realms of logic and practicality. Einstein provides a rationale for this kind of thinking: “We can’t solve problems by using the same kind of thinking we used when we created them.”

- **Imaginative thinking** — a style characterized by looking at the bigger picture and the longer term, addressing the issue of what “might be.” In essence, this style is about imagining the future, rather than addressing past problems. Again, Einstein had a compelling view on this: “The true sign of intelligence is not knowledge but imagination. Imagination is more important than knowledge. Imagination is everything.”

- **Relational thinking** — an empathetic style that is sensitive to the impact decisions may have on others and on group dynamics. Relational thinkers think about networks of relationships, how they are held together in a web, the collective power and influence they hold, and how that power and influence can be leveraged.
Our research has shown that board members, through their formative years and careers, have generally developed, favored, or adopted an analytical thinking style simply because that is the dominant approach in education and business. The demand to conform to group norms, even for independent-minded board members, is strong. Yet we know that many board members have a preferred or natural style that may be at odds with the clinical rationality of the analytical approach. For example, relational thinkers are much more likely to use emotion and intuition to help them navigate business issues, especially those concerning people. They will also be concerned with the impact of decisions on critical stakeholder groups and will use their ability to put themselves in the “shoes of others” when assessing the implications of a decision. This style is critical when trying to predict the reaction of employees or customers to change.

How can boards bring the power of diversity of thinking to the critical business decisions they are required to make?

• First, assess the current level of thinking diversity in the board against strategic business goals. Is there a gap? Diversity, of all types, must be rooted in the attainment of business goals. The needs of the business drive diversity, not the other way around.

• Create an environment for the board that actively seeks alternative perspectives and views and tolerates dissenting critique. The chairman plays a critical role here — setting the tone, role-modeling the behaviors, seeking alternative views, creating and challenging the prevailing logic, and encouraging open dialogue.

• When appointing non-executive directors (NEDs) don’t just look at technical experience or skill sets, as this will, in all likelihood, merely perpetuate the dominance of analytical thinking.

• Instead, focus on their decision-making processes in difficult complex situations. What thinking styles have they applied? How will these thinking styles complement or contrast with other board members?

• Draw directors from diverse professional and social backgrounds — such as not-for profit, where relational thinking may be more common — and across the generations, to increase the intake of people with different perspectives.

• Whatever the diversity within a board, there is far greater diversity around it, and, in our experience, the best boards also take the time to consider the existing and emerging views of broader stakeholders — whether they be activist shareholders, customer groups, or community representatives. Boards should be proactive in seeking and listening to a range of views, even those with which they may fundamentally disagree.

In an increasingly complex and unpredictable business environment, boards will want to consider how they can introduce new and varied thinking styles to harness opportunity and avoid the risks of being blindsided by competitors. Traditional homogenous boards could well prove wanting when considering how to respond to the dynamic interplay of regulation, competition, disruptive innovation, and the competing, and often contradictory, demands of stakeholders and shareholder groups. Diversity of thinking — along with gender, generational, and ethnic diversity — provides a basis for boards to view the market from multiple perspectives, challenge existing assumptions, and seize opportunities that bring sustainable and responsible growth. These are exciting developments — imagine a board meeting where complementary thinking styles offer fresh and novel perspectives, where differing thinking styles challenge existing assumptions and drive better board decisions that improve competitiveness by balancing business goals and social responsibilities. Alternatively, we could stick with the linear and logical flow of a business agenda dominated by narrow analytical thinking. What will your board choose to ensure it remains competitive for the future?
CEO & Board Practice

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