

# VIVE LES DIFFERENCES — DIVERSITY MATTERS

BY SHIREEN MEER, PHD



A wave of parochialism seems to be sweeping the West, but this may have unforeseen consequences. If we want to live in exciting cities, work for innovative businesses and benefit from dynamic economies, we need to embrace and defend diversity. We ignore it at our peril.

For many, “diversity” is a big and sometimes frightening buzzword, a compliance problem that needs to be managed. As a result, human resources departments dutifully note the race and sex of employees to publish in annual reports, and company boards often are criticised for being too white, too male and too old. But what do we really mean when we talk about diversity and its benefits?

I’m not going to argue that companies should put into place properly compliant diversity policies. In most jurisdictions it is illegal to discriminate against people on the basis of race, sex, sexual orientation and age. Complying with the law is simply a no-brainer.

Instead, in this article I am going to advocate something more meaningful and useful: “inherent diversity”, diversity as a concept, not a two-dimensional tick-box policy.

## INHERENT DIVERSITY

Organisations that are inherently diverse look beyond the easy—and quite superficial—categories of race, sex, orientation and age, and instead seek to foster a workforce that has a wide range of different backgrounds, experiences, professional qualifications and philosophies.

But hiring a diverse workforce isn’t enough. These individuals need to be empowered and listened to.

This sounds like a pretty big ask, so why do it? Because organisations that do are likely to become more competitive and more successful. They will see it in their bottom lines. They are more likely to thrive and prosper.

There really is a compelling business case for real diversity.

## INHERENT DIVERSITY VS. CONFIRMATION BIAS

Increasingly, serious research is making the business case for diversity. In 2007, McKinsey gained headlines when it published a paper that compared the financial returns of large organisations with their diversity<sup>1</sup>. The research found a strong correlation between diversity and higher returns.

Further research by New York-based Center for Talent Innovation indicated that inherently diverse companies are much more likely to expand market share than those that aren’t.<sup>2</sup>

Why is this so? One explanation can be found in the concept of “confirmation bias”.

Confirmation bias isn’t new and isn’t controversial. Psychologists have been investigating it for at least the last fifty years. Simply speaking, confirmation bias is the name given to the natural human tendency to interpret and favour information that confirms our existing beliefs. It is normal. We all do it.

1 McKinsey & Company, Women Matter: Gender diversity, a corporate performance driver (2007).

2 Sylvia Ann Hewlett, Melinda Marshall and Laura Sherbin, with Tara Gonsalves, Innovation, Diversity and Market Growth, Center for Talent Innovation (2013).



But how does it apply to business? Consider how these theories may play out in a typical professional services firm that forms project teams to do jobs for clients.

Project teams that are composed of similar types of people (and as we tend to hire in our own image, many teams are naturally quite similar in background) tend to agree more. Team members tend to approach problems in the same way and tend to have a similar attitude to suggested solutions.

On the flip side, a team made up of mixed bag of individuals will, if allowed to do so, disagree more. Team members are unlikely to interpret facts in the same way or approach problems from the same direction.

### **THAT IS AN ARGUMENT AGAINST DIVERSITY, RIGHT?**

No. It is certainly the case that a homogeneous group of well-qualified professionals that lacks diversity can operate perfectly effectively until it makes a mistake, and mistakes are part of life.

However, a diverse group of equally well-qualified and intelligent individuals is less likely to make mistakes. They are less likely to confirm and more likely to challenge each other's assumptions. False assumptions are more likely to be identified.

But it also means that the diverse team is more likely to come up with more, and different, solutions to the same problem. The team is therefore more likely to come up with a range of effective solutions. As my colleague Heiko Ziehms explains below, we see this dynamic in action day-in-day-out at BRG.

Put at its simplest, a homogeneous group creates the perfect conditions for confirmation bias to take hold which, at best, fosters complacency and does little to encourage originality.

Replicate that from a team to an organisation, and it is fair to suggest that diverse organisations are more likely to develop that most elusive quality: an edge on the competition.

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### **DO WE WANT TO BE COMFORTABLE, OR DO WE WANT TO BE SUCCESSFUL?**

There is fair and credible evidence that diversity policies don't make everyone happy. For example, a recent Harvard Business Review article reports results of a hiring simulation exercise that indicated that pro-diversity messages signalled to a certain group that they might be undervalued or discriminated against<sup>3</sup>. Some people feel more comfortable when in homogenous teams or organisations.

That is understandable. Indeed, one just needs to look at the newspapers to see how many people find deviations from the local norm to be threatening and undesirable. For many, lack of diversity makes many people more comfortable.

But the question one has to ask is: if you are a manager or a business owner, do you want your workforce to be "comfortable"? Sure, you want it to be happy, but "comfortable"?

Businesses and economies thrive on innovation. They need disruption, and therefore they need disruptors. Challenging norms and pushing boundaries can be hard, but that is where the highest returns lie.

Global, diverse cities like London, New York and Washington, DC, foster disruptors and innovators to the benefit of the economy. Being in such an environment can be challenging, but also rewarding.

So, while as human beings, we can relate to those who crave the comforts of the familiar, if we want to work in innovative businesses and live in dynamic economies, we need to stay diverse.

In the future, regulations or policies may make it more challenging for companies to keep their workforces truly diverse. Businesses will have to overcome this problem. If companies become more parochial they may begin to lose their edge.

There is a strong business case for fostering diversity, and it may also be one of the most important issues facing us at the moment.



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<sup>3</sup> Tessa L. Dover, Brenda Major and Cheryl R. Kaiser, "Diversity Policies Rarely Make Companies Fairer, and They Feel Threatening to White Men", Harvard Business Review (January 2016).

## A DISPUTE RESOLUTION PERSPECTIVE FROM HEIKO ZIEHMS

My London-based colleague Heiko Ziehms is a commercial dispute resolutions expert dealing in matters such as M&A, joint ventures, infrastructure and insolvencies.

When things go wrong in transactions, Heiko works out why, quantifies damages and presents a report for use in forums such as arbitration tribunals. He is well placed to comment on whether the theories about diversity play out in reality.

“In the field of M&A, diverse teams can improve the quality of decision-making and reduce the risk of a post-deal dispute”, he says.

“Diverse teams come from a problem at more angles and are more likely to come up with creative, innovative solutions. If the individuals on a diverse team work well together and feel empowered to raise concerns, they are better at challenging assumptions and thus combat ‘groupthink’. This helps deal with problems before signing instead of in a post-M&A dispute.

“By diversity I mean not only differences in a team’s professional background, as in a deal team made up of operations specialists, lawyers, accountants and market and industry experts. The benefits of diverse teams extend to different aspects of diversity, as long as the individuals on the team work closely together, share information freely and listen to each other: cultural and geographical backgrounds, years of experience, career stage, place in internal hierarchy, and personalities (for example in respect of extroverts and introverts) all enhance the quality of decision-making in corporate M&A transactions.

“Yes, it may well be the case that homogenous organisations are more comfortable places to work in. But that should not be a measure of a successful team.

“Exposing oneself to alternative points of view requires an ability to listen, mental flexibility and maturity. Similarly, challenging a deal team’s apparent consensus amid ‘deal fever’ can require courage—the concern raised could turn out to be unimportant. While this can lead to uncomfortable situations, it is precisely the type of environment associated with successful M&A transactions”.

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Heiko Ziehms focuses on the quantification of damages and forensic matters in complex commercial disputes, including M&A, joint venture and insolvency-related matters. He has been appointed as an expert in multiple disputes. He has worked on matters in ICC, DIS, LCIA, ICSID and SIAC arbitration forums, ad hoc arbitrations and the courts. Mr. Ziehms has worked on some of the most complex corporate disputes in Europe, with values up to several billion euros. He is experienced in giving oral expert testimony. He also provides transaction advisory services and advises on completion mechanisms in M&A transactions. He has advised on several hundred transactions. Mr. Ziehms is based in London.

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