THE CONFERENCE BOARD

DIRECTOR NOTES

Maximizing the Benefits of Board Diversity

Lessons Learned from Activist Investing

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Introduction

In recent years, publicly traded companies in the United States have faced increasing pressure to improve diversity on their corporate boards. Influenced by state legislation[1] as well as the efforts of institutional investors[2] and other diversity advocates,[3] companies are recruiting more female directors than ever before. Approximately 45 percent of the directors added to the boards of companies in the Russell 3000 during the 2019 proxy season were women, up from 12 percent in 2008.[4] The percentage of new directors who are minorities is also increasing, although at a significantly slower rate, with approximately 15 percent of the directors added to the boards of Russell 3000 companies during the 2019 proxy season belonging to a racial or ethnic minority group.[5]

One of the central arguments cited for improving the diversity of demographic characteristics such as gender, race, and ethnicity on corporate boards is that such diversity is necessary to ensure that boards are able to perform their obligations effectively in today's competitive business landscape.[6] In calling for an increase in gender diversity on boards, Ronald P. O'Hanley of State Street Global Advisors stated, "In a more complex, innovation-driven environment, embracing a diversity of thinking, competencies, and backgrounds is a business imperative."[7] David Solomon, CEO of Goldman Sachs, expressed a similar sentiment when announcing that, beginning July 1, 2020, Goldman Sachs will not take a company public unless it has at least one diverse board member: "I come from a position of my own experience where I look

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at the Goldman Sachs board. We have four women out of eleven. We have a black lead director. And I really value the diverse perspectives I'm getting which are helping me run the company."[8]

Several commentators have noted, however, that while it is commonly assumed that individuals who differ in demographic characteristics will bring new backgrounds, viewpoints, and perspectives to a boardroom,[9] adding demographically diverse directors to a board may fail to achieve such an outcome. This could occur, for example, in instances where new, demographically diverse directors have backgrounds similar to those of incumbent directors[10] or were selected primarily because they fit in well with others on the board.[11] As Professor Katherine Klein of Wharton Business School noted, "If male and female board members are fairly similar in their values, experience, and knowledge, the addition of women to an all-male board may not increase the board's cognitive variety as one might expect at first blush."[12] Furthermore, even if new, demographically diverse directors have different backgrounds, views, and perspectives from other board members, the benefits of their addition to a board may be muted if they are not comfortable sharing their insights with their fellow directors or if their insights are not incorporated into the decision-making process.

Given this, the question arises as to how boards focused on improving demographic diversity should select new directors. What characteristics should boards look for when adding directors to improve gender, racial, and ethnic diversity to ensure that these new directors also enhance diversity in the boardroom from a practical perspective? And once these new directors have been added to a board, what can be done to make sure that their views are expressed and considered during boardroom deliberations?

Key Findings

Boards can maximize the benefits of board diversity by recruiting demographically diverse directors who not only improve gender, racial, and ethnic diversity in the boardroom but also bring needed backgrounds, skills, and experiences as well as new views, perspectives, and approaches to problem solving.

Benefits of adding cognitively diverse directors to a board

Barington has found that adding new, cognitively diverse directors to the board of an underperforming company with board composition concerns can meaningfully improve board performance by:

- Expanding its knowledge base;
- Increasing director independence and engagement;
- Improving board culture and decision-making;
- Enhancing a board's ability to advise and oversee management; and
- Serving as a catalyst for positive change, such as the implementation of measures to redress the company's challenges.

Recommendations to help boards recruit directors who are both demographically and cognitively diverse

- Focus on recruiting demographically diverse director candidates who have strong business backgrounds and experience in areas that are required on the board to meet the company's current and anticipated needs.
- Utilize board and director-level assessments to determine what professional backgrounds, skills, and experiences are needed in the boardroom and whether such needs are being adequately met by the board's current members.
- Recruit from new talent pools and venture beyond using board member networks and historical recruitment practices to help identify diverse director candidates who lack ties to incumbent directors and the senior management team.
- Carefully review a candidate's background and life experiences and have in-depth discussions with the candidate and the candidate's references to determine whether he or she is cognitively diverse from other members of the board.
- Ask questions to determine whether the candidate readily shares unique perspectives and new approaches to problem solving.
- Involve multiple directors in the interview process and conduct interviews in a variety of settings to get an accurate read of the candidate.
- The goal of a board should be to recruit directors who are both demographically and cognitively different from its incumbent directors, and therefore maximize the diversity they bring to the boardroom.

Insights for What's Ahead

- More carefully curated boards
- Use of outside advisors and sophisticated board and director-level evaluations to guide board recruiting and refreshment
- Increased focus on board culture
- Techniques to ensure that diverse views are shared and incorporated into a board's decision-making process
- Director education programs designed to help board and committee chairs improve board culture and oversee deliberations more effectively

This *Director Note* shares our recommendations as an activist investor on how boards committed to improving demographic diversity should approach the director recruiting process. In summary, we believe that public companies benefit the most by recruiting demographically diverse directors who also help improve cognitive diversity in the boardroom. As opposed to demographic diversity—which focuses on differences in people's demographic characteristics—cognitive diversity pertains to differences in people's knowledge, views, and perspectives, as well as in how they approach problems and perceive, process, and interpret information.[13] As a frequent investor in underperforming companies with board composition concerns, we have found that improving cognitive diversity in the boardroom can meaningfully enhance the performance of a board. Among other things, enhancing cognitive diversity can expand a board's knowledge base, improve decision-making, and help a board more effectively mentor and monitor management. Overall, we believe that a cognitively and demographically diverse board is best equipped to perform its obligations and help a company compete, innovate and respond to disruption in today's challenging international markets.

To improve cognitive diversity, we recommend that boards recruit gender, racially, and ethnically diverse candidates who, in addition to improving the diversity of the demographic characteristics of the board, enhance diversity on two additional levels: first, by adding new professional backgrounds, skills, and experiences that help meet the company's strategic and operating needs; and second, by introducing new views, perspectives, and approaches to problem solving. We also recommend that boards take steps to ensure that the views of new directors are conveyed and carefully considered, since diverse views are of little benefit if that is not the case. By recruiting individuals who increase diversity on several different levels and ensuring that the culture in the boardroom facilitates the exchange and consideration of diverse perspectives, we believe that boards increase the likelihood of achieving a high-performing boardroom.

The views we share were derived from our experiences and observations as an investor in eight underperforming companies subject to past shareholder activism by our firm. At each company, an employee of Barington, or one or more other individuals we nominated or approved, was added to the board.[14] Our views are also based upon insights we obtained from interviewing directors who served on the boards of these companies both before and after changes were made to the composition of the board. Through these interviews we were able to ascertain whether the directors added helped improve cognitive diversity in the boardroom and, if so, gain insight into the impact that an increase in cognitive diversity had on board performance.

This *Director Note* is organized as follows. Section I discusses the role that corporate governance plays in our investments and why board composition and diversity are important to us as an activist investor. Section II shares insights we obtained from our activist investments and director interviews, with an emphasis on the influence that an increase in cognitive diversity can have on board performance. For boards interested in improving demographic diversity, Section III presents recommendations for them to consider incorporating into their director recruiting and onboarding process. These suggestions are designed to help boards identify demographically diverse directors who can also improve cognitive diversity in the boardroom. Finally, Section IV discusses the importance of ensuring that all directors are engaged participants in the boardroom. For a board to perform at its best, we believe that it must not only assemble a demographically and cognitively diverse group of directors, it must also make sure that all of its members are comfortable expressing their views during deliberations. We therefore recommend that boards work diligently to establish a culture that embraces the benefits of diversity and develop techniques to encourage the sharing and consideration of diverse perspectives.

Because many boardrooms are likely to benefit from efforts focused on improving cognitive diversity and group participation, our recommendations may be helpful to boards in the process of recruiting any director—whether demographically diverse or not. As strong advocates for improving racial, gender, and ethnic diversity on public company boards, we are addressing our recommendations to boards focused on improving demographic diversity to encourage them to recruit directors who do not just "check the box" on desired surface-level demographic characteristics but also help achieve the substantial benefits that a more cognitively diverse boardroom has to offer.

I. Why board diversity matters to us as an activist investor

Barington Capital Group, L.P. is a value-oriented activist investment firm. Since our inception in January 2000, we have made approximately 60 activist investments and members of our firm have served as directors on over 20 corporate boards. Our strategy is to invest in undervalued publicly traded companies that we believe can appreciate significantly in value if substantive improvements are made to their operations, corporate strategy, and capital allocation. We invest in a limited number of industries where we have accumulated industry knowledge and operating insight, concentrating our efforts on investing in companies with smaller market capitalizations in the consumer and industrial sectors.[15] We develop detailed plans to improve the performance of these companies[16] and then seek to collaborate[17] with their boards and management teams over a multiyear period to help increase long-term value.

A. The importance of corporate governance

We have long recognized that corporate governance plays a critical role in ensuring that publicly traded companies function properly. We therefore frequently make recommendations to improve the corporate governance of companies in our investment portfolio, in addition to suggesting measures to enhance their long-term performance. As stated by John D. Sullivan and Anna Nadgrodkiewicz,

> Corporate governance is at the core of a modern company's strategy and operations because it addresses issues vital to that company's performance and to its very survival. From board selection and strategic decision-making to day-to-day operations and legal compliance, corporate governance is a way for companies to create a framework for sound business practices, sustained growth, and risk management.[18]

As an investor, we look to a company's corporate governance to align management and shareholder interests, encourage management to think and act like owners, and promote a corporate culture that supports integrity, transparency, and accountability to shareholders. In short, we believe that a company's corporate governance should encourage the CEO of a publicly traded company with a diverse shareholder base to make the same set of decisions on how to run the enterprise that the CEO would make if he or she owned all of its outstanding shares.

The companies we invest in have typically performed poorly for an extensive period preceding our involvement. On average, such companies have underperformed their peers and the market as a whole for seven years prior to the public announcement of our investment.[19] When analyzing a company that has underperformed for such an extended time period, we seek to ascertain why it has not been able to resolve its performance issues on its own. For example, the board of such a company could have taken steps to improve performance by replacing members of the senior management team, adding new directors with experience in areas where the company needs assistance, or hiring consultants to help analyze and address the company's challenges. When such initiatives have not been taken, we typically find that corporate governance weaknesses exist that have hindered the board from taking steps to redress the company's performance issues.

B. The public company board

The foundation of a public company's corporate governance is its board of directors. Functioning in a fiduciary capacity for the corporation and its shareholders, the board is a company's primary supervisory body and the apex of its decision and control system.[20] A board is tasked with the responsibility of simultaneously advising and overseeing management with the goal of facilitating long-term value creation for shareholders.[21] A board will seek to fulfill these important obligations utilizing various tools at its disposal, including its ability to hire, compensate, and terminate the CEO, approve important decisions, and oversee and influence corporate strategy.[22]

How effectively a board performs its obligations depends to a great extent on how it is comprised. Because a board of directors is a governing body that is designed to work together as a team,[23] its performance will inevitably be influenced both by the individuals that comprise the team and by how they function together.

C. Board composition concerns

The most common corporate governance weaknesses we find at the underperforming companies we invest in are issues with the composition of their boards. Many of these companies have a board comprised of a homogeneous group of directors. This should not be surprising, given that demographic diversity is typically poor on public company boards, particularly the boards of small-capitalized companies where we primarily invest. In 2019, women held just 19 percent of the directorships at Russell 3000 companies (excluding those in the S&P 500),[24] despite the fact that women constitute over 50 percent of the population in the United States[25] and significantly exceed men in the attainment of post-secondary degrees.[26] There are also typically few racially and ethnically diverse directors on public company boards. In 2019, minorities held only 10.4 percent of board seats at Russell 3000 companies.[27] As with women, the percentage of racial and ethnic minorities on public company boards is significantly lower than their representation in the population as a whole. Latinos, for example, held just 2.7 percent of the directorships at companies in the Fortune 1000 as of July 31, 2019,[28] despite constituting over 18 percent of the population of the United States.[29]

In addition to lacking demographically diverse directors, a board with weak corporate governance may lack directors with a diversity of relevant professional backgrounds, skills, and experiences necessary to meet a company's needs. For example, we have invested in a food manufacturer that lacked a director with food industry experience, a casual dining restaurant company that failed to have a director with a professional background in the restaurant industry, and a specialty apparel retailer that did not have a director with recent retail or merchandising experience. The absence of directors with the backgrounds, skills and experiences that are needed in a boardroom may be a concern that is not just limited to the boards of underperforming companies subject to shareholder activism. A global survey of over 2,300 directors and senior executives found that only 36 percent of the participants were satisfied that their board was comprised of directors who had the right combination of skills, backgrounds, experiences, and perspectives to probe management's strategic assumptions and navigate the fast-paced global environment.[30]

Finally, a board with weak corporate governance may be comprised of long-tenured directors or directors with business or personal ties with the CEO. It may also suffer from board pathologies such as groupthink[31] or low effort norms.[32] Each of these can negatively impact board oversight and performance by decreasing the independence of members of the board and the likelihood that they will express diverse views or challenge management proposals. Given the important role that the board plays, this can be a serious detriment to a company and its ability to remain competitive.

D. Improving cognitive diversity

We have found that improving cognitive diversity on the boards of companies with composition issues can meaningfully enhance board performance. Given our findings discussed in Section II, we view the improvement of cognitive diversity as a critical element of our plans to help companies enhance their long-term performance. We therefore frequently recommend or formally nominate candidates to serve as directors of companies in our investment portfolio, as well as work together with the boards of these companies to identify mutually acceptable directors who achieve our board composition and diversity goals.

Often, we will seek to have a member of our firm join the board of a company we invest in because we have found that an activist investor can improve cognitive diversity in the boardroom and introduce new insights and perspectives with respect to the company's challenges. Having a representative of our firm on a board can also provide shareholders with the comfort of knowing that there will be someone in the boardroom encouraging directors to think and act like owners[33] who holds paramount a director's fiduciary obligations to shareholders.[34] We frequently also seek to add demographically diverse directors who have professional backgrounds, skills, and experiences in areas needed in the boardroom. Since January 2009, 60 percent of the directors we have helped add to public company boards who were not members of our firm have been demographically diverse.[35]

II. Lessons learned from activist investing

As discussed in greater detail below, we have found that adding new, cognitively diverse directors to a board can expand its knowledge base, improve its culture and decision-making, and help the board more effectively mentor and monitor management. Overall, this can significantly enhance its ability to perform its obligations. We have also found that improving cognitive diversity can serve as a catalyst for positive change at a company by increasing the likelihood that a board will take steps to address the company's challenges.

Our insights were derived from our experiences investing in eight underperforming companies where an employee of Barington or one or more other individuals we nominated or approved was added to the board.[36] We were able to interview on a confidential basis 18 directors who served on the board of one of these companies both before and after changes were made to its composition.[37] The directors we interviewed had a unique vantage point to assess whether the new directors helped improve cognitive diversity in the boardroom and the effects that any increase in cognitive diversity had on board performance.[38]

Following are some of the valuable insights we gained:

- **Demographic diversity and cognitive diversity do not necessarily go hand in hand**

  Our director interviews revealed that there is not necessarily a correlation between demographic diversity and cognitive diversity. While in some instances new, demographically diverse directors were cognitively diverse from other directors on a board, in other instances such directors added little cognitive diversity to a boardroom.[39] We also found that directors who do not differ demographically from other directors—including members of our firm who had similar demographic characteristics to incumbent board members—can improve cognitive diversity on a board. For example, our firm's CEO, who served as a director on the board of seven of the eight companies that were the subject of our study, was judged by the directors we interviewed to have increased cognitive diversity on the boards of most, but not all, of these companies. Whether a new director meaningfully improves cognitive diversity on a board appears to be primarily based on the person's cognitive differences from incumbent board members, including differences in knowledge, skills, experiences, perspectives, and approaches to problem solving. Given that a person who improves cognitive diversity in one boardroom may not in another, boards interested in improving cognitive diversity must look deeper than surface-level differences between director candidates and incumbent directors to determine whether a candidate will improve cognitive differences in their boardroom.

- **Expanding the knowledge base of a board**

  A number of academics have reasoned that improving demographic diversity on a board will expand its knowledge base as a result of new information assumed to be contributed by gender, racially, or ethnically diverse directors.[40] According to the individuals we interviewed, however, the informational contributions that new directors were able to make were more correlated to their professional backgrounds and contacts than to their demographic characteristics.

  Board members who brought new professional backgrounds, skills, and contacts that enabled them to share valuable insights in the boardroom and introduce helpful resources to the company were found by directors we interviewed to be the most effective at expanding the knowledge base of a board. For example, we were told that new board members with relevant industry and operating experience, particularly in instances where such experience was lacking in the boardroom, provided significant value to a board by expanding its understanding of a company and the strategic and operating issues it will likely confront. Similarly, new directors with backgrounds in areas pertinent to a company's business or strategic plans—such as marketing, information technology, mergers and acquisitions, or corporate finance—brought in-depth knowledge of these important subjects. It was noted that directors with relevant business backgrounds also benefited boards by providing them with information and insight regarding a company other than through its management team. This was found to be extremely helpful, particularly in instances where directors felt that the CEO overly controlled the dissemination of information to the board.[41] Finally, we were given examples of instances where new directors with strong professional networks were able to introduce beneficial resources to a company, such as potential strategic partners, financing sources, and professional advisors.

Despite receiving this feedback, we do not believe that boards should focus their attention solely on recruiting directors with strong professional backgrounds and contacts given the significant benefits that can accrue from having a demographically diverse boardroom. Among other things, a demographically diverse board is more likely to represent the composition of a company's employees, customers, and suppliers and can therefore provide a board with a better understanding of the company's key constituencies. This can help a board better anticipate and be responsive to the concerns of these parties. For example, a demographically diverse board may help a company identify and respond to market shifts and changes in consumer expectations more effectively than a homogenous board.[42] A more demographically diverse board may also help a company be more attuned to, and avoid, sexual harassment and other potential workplace liabilities.[433] It is likely, however, that demographically diverse directors with strong professional backgrounds are better able to incorporate their insights in these areas into the context of a company's business. It is for this reason that we recommended in 2019 that L Brands—which sold its products primarily to women and was subject to criticism that the marketing of its Victoria's Secret business was no longer aligned with women's evolving views of beauty, diversity, and inclusion—add more female directors to its board with experience in areas that would be beneficial in the boardroom including merchandising and marketing.[44] Cognitive diversity and demographic diversity can frequently complement one another.

- **Independence matters**

  Many of the companies we invest in suffer from a similar problem: while their boards have determined that their outside directors are "independent" under the regulatory definition of the term as established by the Securities and Exchange Commission and applicable stock exchange listing standards,[45] some of these directors are far from being independent based on a commonsense definition of the term.[46] Such directors may be long-tenured,[47] have ties to the same community,[48] or have long-standing personal or business relationships with the CEO,[49] each of which can potentially weaken their ability to oversee management effectively.[50] Among other things, a board comprised of such directors may hesitate to take steps such as replacing the CEO or modifying his or her compensation arrangements to better align pay with performance in instances where the CEO has performed poorly for an extensive period of time.[51]

We have found that new directors added to a board as a result of shareholder activism are generally more independent than the board's incumbent directors. This may be due to the fact that such directors typically are not identified using board member networks and other traditional recruitment practices. As a result, such directors tend to be from different geographical regions than other members of the board and lack personal or professional ties to incumbent directors and members of the company's senior management team. It has been our experience that directors who lack these ties are more likely to ask tough questions and challenge the proposals of management or their fellow directors during board deliberations than incumbent directors who are long-tenured or have a relationship with the CEO or other board members. Several of the directors we interviewed shared similar observations, with one commenting that he found that a newly appointed director was able to be more effective in the boardroom than many of the incumbent directors because he was not "burdened" by having a prior relationship with the CEO. As one director we interviewed noted, "Directors tend not to be that blunt when they have to live with the CEO and see him on Sunday at church." Another director similarly stated, "It is hard to vote against the CEO if you are going to see him that weekend at the country club."

- **Engagement levels vary among directors**

  We have observed that engagement levels can vary significantly among directors, particularly on the board of an underperforming company. According to our director interviews, directors who were added to a board in connection with our activist engagements tended to be highly engaged directors who were active participants in the boardroom. There were, however, several notable exceptions. One was a director whose professional background was less relevant to the business of the company than other members of the board. As a result, we were told that he was not a meaningful contributor in the boardroom, even though he helped improve the racial diversity of the board. Another exception was a female director who, despite having strong professional credentials and relevant CEO-level experience, chose to function primarily as a "spectator in the boardroom." A third was a white male director who had a strong professional background relevant to the business of the company but rarely participated in board discussions. We were told that, when asked for his opinion, he typically had valuable insights to share. In the absence of being asked, however, he was unlikely to express his views. As a result, his fellow directors often failed to benefit from his knowledge and insights in instances where it could have been helpful.

  Based upon our interviews, it appears that a variety of factors can influence the degree to which a director participates in boardroom deliberations. Among other things, a director's personality, professional background, and board experience, as well as the culture of a boardroom, the composition of the board, and the leadership style of the board chair, may all play a part.

- **Culture is key**

  In our opinion, not enough attention is paid to the culture of public company boards. Whether directors and investors focus on it or not, every board has a culture—a set of shared values, beliefs, and norms that shape the behavior of the board.[52] We have found that a board's culture can have a material impact on the effectiveness of the board by influencing how directors and management interact and how decisions get made in the boardroom.

Several of the companies that were the subject of our study were described by the directors we interviewed as having a poor board culture. One board was described as a "do-nothing board," where only a few directors were engaged and the rest did little more than "show up and collect a check." A second board was described as being so focused on maintaining collegiality that directors were hesitant to challenge the CEO.[53] A third was described as being comprised of directors who lacked the will and, in the case of some of the directors, the background and experience, to question the recommendations of the company's underperforming CEO. In each case, the directors we interviewed felt that the board they served on too often "rubber-stamped" management proposals, or approved them following only cursory questioning, prior to the time that the composition of the board became more cognitively diverse.

In our experience, the absence of significant debate regarding a management proposal in such an environment does not necessarily mean that board members agree that management is pursuing the best course of action. It is equally possible that the board suffers from a group pathology such as groupthink or low effort norms, or there is apathy or disengagement in the boardroom,[54] each of which can hinder board performance.

Groupthink has the potential to significantly impede effective decision-making and board oversight. According to Irving Janis, the social psychologist who coined the term, "The symptoms of groupthink arise when the members of decision-making groups become motivated to avoid being too harsh in their judgment of their leaders' or their colleagues' ideas. They adopt a soft line of criticism, even in their own thinking."[55] Groupthink may therefore influence directors faced with a decision to "go with the flow" instead of questioning the consensus view of the board when they have reservations[56] or to prioritize avoiding confrontation in the boardroom over ensuring that the best possible decisions are made.[57] Furthermore, according to Janis, a common norm of groupthink is sticking with policies to which the group has already committed itself, even when those policies are working out poorly and individual members of the group have misgivings.[58] Groupthink may therefore hinder a board from questioning a company's corporate strategy despite a prolonged period of underperformance or from exploring new measures to improve long-term value.

Low effort norms are also a potential concern for a board, particularly the board of an underperforming company. Effort norms refer to a group's shared beliefs regarding the level of effort each member is expected to expend or contribute toward various group responsibilities.[59] Behavioral norms can have a strong influence on director behavior and the performance of a board as a whole.[60] As would be expected, variations in the amount of time directors spend preparing for board meetings and the amount of effort they expend in boardroom deliberations and following up on important matters can influence how effectively a board performs its obligations.[61] Low effort norms may arise in instances where a company has a domineering CEO, where a significant number of directors lack confidence in their ability to make a meaningful contribution in board deliberations, or where apathy or director disengagement is pervasive in a boardroom. As one director we interviewed said despairingly, "What is the point in preparing for a meeting [on a board like his], if no substantive decisions are going to be made and the board has little power or influence over management?"

We have found that, over time, the addition of highly engaged, cognitively diverse directors to the board of an underperforming company can improve its culture and help overcome group pathologies and director disengagement to the extent that either may be present. By asking questions of management and debating alternatives in a constructive manner during the decision-making process, new directors can demonstrate to a board's incumbent directors how critical analysis can facilitate effective decision-making. As one director shared with us,

> The new directors [on our board] brought not just a diversity of opinions and perspectives, but a diversity of behavior—a willingness to openly challenge management and other directors, which was missing from the boardroom. By having more open debate, it created an environment where others saw it was good and healthy to have frank discussions regarding important decisions. When members of the board began challenging each other—and listening to each other's viewpoints—it led to positive outcomes. Good healthy disagreement led to good decision-making.[62]

The presence of new, cognitively diverse directors in a boardroom may also make incumbent directors more comfortable asking questions and sharing their views. On numerous occasions members of our firm observed an incumbent director state, following a question they asked, "I have always wondered about that too," and then begin asking follow-up questions. It seems ironic that adding "outsiders" to a board can have the effect of making members of a homogeneous group of directors feel more comfortable participating in board deliberations. It is possible, however, that some boards may not be as homogeneous as they seem. In our experience, the boards of underperforming companies often include a meaningful number of directors who are discontent with the state of affairs but are unwilling, or believe they are unable, to challenge the status quo. We have observed that adding cognitively diverse outsiders—particularly highly engaged outsiders—to such boards can provide these directors with the comfort to express their views in a group setting.[63] This, in turn, can help cultivate a boardroom environment that facilitates group participation. Such an environment can have an empowering effect on directors, making them feel more comfortable asking questions, sharing their insights and experiences, suggesting alternatives, and expressing dissent.

Finally, several directors we interviewed described how the addition of new, highly engaged directors introduced "energy and optimism" into the boardroom, which helped "bring out the best" of the board's incumbent directors and led to them "upping their game." As one director we interviewed stated, "As the board became more engaged, directors started feeling better about themselves.

Directors began taking pride in the company. We believed we were part of a team doing the right things."

In some instances, we have found that adding just one new person to a board can materially improve its culture, particularly if that person is an experienced director who has the confidence and skill to effectively challenge the consensus view in the boardroom and be an influential participant in board deliberations. As a general matter, however, we believe that it is unreasonable to expect that one person can change the culture of a group, particularly a group that has worked together for many years.[64] In most instances, a more significant increase in diversity is necessary to make sure all directors are comfortable expressing their views. Studies have found that diverse individuals are more likely to offer their perspectives, and their perspectives are more likely to be thoughtfully considered by other group members, when there is a meaningful number of like individuals in a group.[65] For example, one study found that a critical mass of at least three female directors is needed to change the dynamics on a board so that women are no longer viewed as outsiders and are able to have a substantive influence on board deliberations.[66]

- **Improved decision-making**

  It is our experience that increasing cognitive diversity on the board of an under-performing company can meaningfully improve the quality of decision-making in the boardroom by introducing new information and perspectives and by fostering an environment that encourages discussion, debate, and the exchange of information among directors. In such an environment, we have found that decisions tend to be weighed more carefully, more alternatives are considered, and potential risks are more likely to be discussed.

  A majority of the directors we interviewed noted that an increase in cognitive diversity led to more open and informative dialogue, with the benefit that the quality of board decision-making was improved and there was less "perfunctory" approval of management proposals. Directors informed us that they observed "healthier debate," "more robust discussions," and more "focused" decision-making. We were also told that the boards they served on were more likely to request additional information and performance metrics from management and to drill down on important matters discussed in the boardroom once they became more cognitively diverse. As one director put it, "Before [changes were made to the composition of the board], the decision-making process consisted of directors simply stating their opinions: 'I think we should do this, I think we should do that.' Now the decision-making process is much more sophisticated and fact-based." Several directors we interviewed told us that these changes enhanced the "professionalism" of the decision-making process and resulted in board meetings being more productive.

  When asked if an improvement in cognitive diversity led to an increase in the amount of time devoted to the decision-making process, the directors we interviewed were almost evenly split. A majority of the directors felt that the length of board meetings and the amount of time devoted to the decision-making process increased after the composition of their board became more cognitively diverse. One potential explanation for this outcome is that an increase in cognitive diversity generated "cognitive conflict" in the boardroom, causing directors with different and potentially conflicting information, opinions, and perspectives to debate alternatives rigorously in an attempt to reconcile differences and reach consensus.[67] The feedback we received from our interviews, however, suggests that the increase in the amount of time to make decisions was primarily the result of the board becoming more independent from management and directors desiring to fulfill their responsibilities to the best of their abilities. The directors we interviewed primarily cited requests for additional information from management and the exploration of additional options during the decision-making process as reasons for the expenditure of additional time.

Interestingly, almost an equal number of the directors we interviewed felt that board decisions took less time after the board became more cognitively diverse. They noted that their boards became more efficient and effective and that board meetings became more focused and goal oriented after cognitive diversity improved. One director told us that before changes were made to the composition of the board, board meetings would "go on and on," sometimes without any decisions being made. After the board became more cognitively diverse, he felt the board "became more disciplined" and that meetings became "crisper," with "a healthier back-and-forth with management" and "more fact-based decision-making." This led to higher quality conversations and a better utilization of time.[68] We were also told that once management understood that there would be more questioning by the board, they prepared more thoroughly for board meetings and provided directors with more information at the outset, both of which also helped improve meeting efficiency.

- **Enhanced mentoring and oversight of management**

  It has been our experience that improving cognitive diversity on the board of an underperforming company can greatly enhance its ability to mentor and oversee management. We have found that adding directors with different backgrounds, skills, and perspectives helps a board provide management with advice and guidance from a wider variety of perspectives and with respect to more aspects of a company's business. We have also found that improving cognitive diversity can enhance a board's ability to perform its oversight functions by increasing the likelihood that management is supervised by knowledgeable and engaged directors who lack a prior relationship with the CEO.

  Several of the directors interviewed discussed how both these outcomes were attributable, in part, to the fact that changes in board composition added directors to the boardroom with strong business backgrounds in areas needed in the boardroom. One director informed us that the board he served on became better at mentoring and monitoring management after new directors were added because the board now "had the tools" to fulfill these obligations. In his opinion, some of the directors on the board were afraid to ask questions at meetings because they lacked the professional background and experience to oversee management effectively. Another director similarly shared with us that several of the directors on the board he served on lacked the background and experience to oversee and advise management properly. "The directors were ethical and cared, but they were not equipped to help."

In addition to enhancing the knowledge base of a board, improving cognitive diversity often added independent directors who were not afraid to voice their opinions and question management proposals. Working together, these changes frequently led to the CEOs of the companies that were the subjects of our study confronting more knowledgeable, engaged and independent boards.

Two companies that were part of our study provided almost identical examples of how an increase in cognitive diversity in the boardroom led to an improvement in board oversight of management. We were told that the CEOs of each of these companies would routinely withhold requested information from directors, promising to provide such information in the future and then never doing so. After cognitive diversity on these boards improved, the directors of both companies found the fortitude to limit this practice before each board ultimately decided to replace its CEO.

- **Catalyst for change**

  Finally, we have found that improving cognitive diversity in the boardroom increases the likelihood that a board will take steps to address a company's challenges. In our experience, as cognitive diversity increases and a board becomes more engaged and professional in its practices, it becomes less likely that important concerns will be ignored by directors or receive scant attention. A director we interviewed gave a simple example to illustrate this:

  > After the CEO of an underperforming company gave the board an update on the company's performance that indicated that one of its businesses would again be performing more poorly than projected, the incumbent directors remained silent, being accustomed to receiving such news. A newer, cognitively diverse member of the board broke the silence and asked "OK, so what do we have to do to improve revenues? What are your plans to address this?"

"It was an obvious question," the director told us, "but one that members of the board likely would not have asked in the past."

We have found that adding new, cognitively diverse directors to a board increases the likelihood that it will take a fresh look at important issues, and now with the input of individuals with no emotional attachment to past decisions or ties to the people who made them. We have also found that new, cognitively diverse directors can serve as a catalyst for a board to implement changes and make difficult decisions that are long overdue. Many of the directors we interviewed described how new directors added as a result of shareholder activism "helped push the board past status quo thinkers" and take steps that many on the board knew were necessary, such as replacing an underperforming CEO or selling a noncore business. Some of these directors shared with us that the boards they served on had considered making these changes in the past, but that it probably would have taken the incumbent directors several years to accomplish what these boards did in a much shorter period of time after their composition became more cognitively diverse.

Why did these directors believe that potentially beneficial measures that a board was already aware of would not have been implemented in a timely fashion if the composition of the board had not changed? Several directors informed us that there was a sense of "comfort" with the status quo in the boardroom and a lack of urgency among directors to address the company's challenges, even though the company had been performing poorly for a substantial period of time. As one director stated, "Our board was comprised of good, ethical people; they just were not proactive in creating value." Other directors we interviewed pointed to the culture of their board, which sought to avoid conflict with the CEO. For example, one director told us that while all of the members of the board he served on felt that the CEO should be replaced, the board lacked the will to have a confrontation with the CEO over its decision. As a result, board members decided to put off making a CEO change for a few years, convincing themselves that things were not so bad.[69] Several directors we spoke with expressed regret that it took the addition of new directors to spur the boards they served on to take steps they knew were necessary. "Deep down, I'm disappointed in myself," one director said. "I should have done it; I should have been the one who started making some of these changes."

We are sharing insights learned during our activist engagements not to advocate that companies add activist investors to their boards, but because they illustrate the potential benefits that can be achieved when cognitive diversity is improved in a boardroom. Corporate boards function by design in a collective manner.[70] As a result, it should be expected that changes in board composition—particularly those that cause a board to think about and approach challenges differently—have the potential to influence boardroom dynamics, board decision-making, and company direction.[71]

Given our findings summarized above, we strongly recommend that public companies seek to establish a cognitively diverse boardroom comprised of directors who have been selected for their ability to bring a broad range of diversity to the boardroom. This includes diversity in their gender, race, and ethnicity, as well as diversity in their professional backgrounds, skills, and perspectives. It is our belief that recruiting demographically diverse directors who help improve diversity on several additional levels maximizes the likelihood of achieving a high-performing board. Frankly, for boards interested in avoiding shareholder activism, recruiting such directors may be one of the most effective steps they can take.

III. The importance of the director recruitment and onboarding process

Several commentators have noted that while gender, race, and ethnicity are commonly viewed as proxies for differences in viewpoints and perspectives,[72] improving demographic diversity on a board may fail to enhance cognitive diversity in the boardroom. This could occur in instances where directors added to a board to improve demographic diversity have backgrounds similar to those of incumbent directors,[73] or were selected primarily because they fit in well with others on the board and will not be divisive.[74] It could also occur if directors with unique viewpoints and perspectives engage in self-censorship in the boardroom, whether out of a desire to be accepted or a fear of being marginalized.[75]

In our view, the fact that increasing gender, racial, and ethnic diversity on a board may not always enhance cognitive diversity is not an argument against improving demographic diversity on corporate boards but is instead an argument for the need for careful director recruiting and onboarding. Given the unique characteristics of each boardroom and the difficulty in identifying individuals who are cognitively different from others,[76] it would be unreasonable to expect that adding any demographically diverse director to a board would be sufficient to improve cognitive diversity, particularly if the individual was selected primarily based upon surface-level diversity characteristics. We therefore recommend that boards incorporate the following suggestions into their plans to recruit and onboard demographically diverse directors to ensure that the directors selected also help improve cognitive diversity and board performance:

- First and foremost, we believe that demographically diverse director candidates should be selected who have strong business backgrounds. More than half of the directors we interviewed raised this point unprompted. As one director we interviewed stated, "A director must have the business background and experience to ask intelligent questions and hold management accountable. Then if the director adds diversity of race, gender, or age to the board it is a plus. Without such experience, it is less likely that a new director will add significant value."[77]

- Second, we recommend that new directors be selected who have professional backgrounds, skills, and experiences in areas that are needed on a board. The addition of individuals who have different professional training and experiences from other directors will inevitably help improve cognitive diversity in the boardroom.[78] It should also improve the ability of the board as a whole to meet the company's strategic and operating needs and to provide the management team with guidance on the wide variety of issues that the company will inevitably face.[79]

  To identify which backgrounds, skills, and experiences are needed on a board requires an in-depth understanding of a company's current and anticipated strategic and operating needs. It also requires an ongoing assessment of the board's strengths and weaknesses to determine whether its current members are meeting the company's requirements as they evolve over time.[80] To assist a board in assessing its needs, we recommend that it create a matrix identifying the backgrounds, skills, and experiences that are believed to be needed in the boardroom and the extent to which such needs are being met by the current members of the board. For internal purposes, we recommend that a board assess the ability of its members to meet each identified need on a scale of zero to five. This should provide the board with a more accurate assessment of its strengths and weaknesses than the more commonly used "check mark" approach, which tends to imply that each identified need that receives a check mark is adequately met by the current composition of the board.

Boards can magnify the contributions that new, demographically diverse directors make by having them replace their least productive members. To determine which members of a board are no longer making a meaningful contribution in the boardroom, we recommend that boards conduct an annual assessment of the performance of each of their directors. Many of the directors we interviewed stated that at least one of their fellow board members lacked the professional background and experience to oversee and mentor management effectively. We also received reports of directors who were hesitant to ask questions or participate in discussions because they were afraid of embarrassing themselves. These findings comport with the results of a director survey conducted by PwC in 2019, where 49 percent of the respondents stated that they believed that at least one director on their board should be replaced.[81] Currently, however, less than 15 percent of the companies in the Russell 3000 report conducting annual director-level evaluations,[82] despite the fact that it can help directors and boards improve their performance.[83] Boards may find it beneficial to utilize an outside consultant to assist with the assessment process. Having a consultant manage the process can minimize the likelihood that it will be viewed as biased by any of the participants, and directors may be more comfortable receiving constructive feedback from a third party than from a board colleague.

- Third, we recommend that nominating committees seek to identify candidates who not only improve demographic diversity in the boardroom but who can also introduce new views and perspectives and different approaches to problem solving.[84] This is not necessarily an easy undertaking, given that cognitive differences cannot be identified as easily as demographic differences.[85] Thus, a careful review of a candidate's background and life experiences, as well as in-depth discussions with the candidate and the candidate's references, are inevitably required. We suggest that multiple directors participate in the interview process[86] and that questions be asked to elicit whether the candidate readily proffers unique perspectives and new approaches to resolving problems.

  To help a nominating committee identify demographically diverse director candidates who are cognitively diverse from others on the board, we recommend that it seek new talent pools, and venture beyond using board member networks and recruitment practices that were utilized to find the board's incumbent directors. Such an approach should also help ensure that candidates lack social and business ties to members of the board and the senior management team.

- Finally, to facilitate the likelihood that new directors express their perspectives during boardroom deliberations, we recommend that boards emphasize the importance of participation during the onboarding process. Among other things, we suggest that new directors be told that the board not only welcomes directors sharing their thoughts and perspectives when they differ from others in the boardroom, it is counting on them to do so. In our opinion, the view that new directors should primarily be observers on a board while they learn the "lay of the land" is outdated.[87] We also recommend that directors be encouraged to ask questions regarding matters they do not understand or that do not seem clear to them. Often others in the boardroom will benefit from the inquiry.

While it is labor intensive, diligent director recruiting and onboarding can help ensure that demographically diverse directors selected by a board also improve cognitive diversity and board performance. In the end, the goal of a board should not just be to recruit directors who look different, but to recruit directors who bring different insights, views, and perspectives and help improve the effectiveness of the board. If a board approaches addressing diversity concerns solely as a "check the box" exercise, we believe it is doing a disservice not just to itself but also to the company and its shareholders.[88]

IV. Embracing the benefits of diversity

The work of a board is not over once it has assembled a demographically and cognitively diverse group of directors. To make sure that a board benefits from diversity in the boardroom, it must be committed to drawing out and considering alternative views and recommendations, since directors with exceptional professional credentials and unique perspectives are of little benefit if the culture in the boardroom does not embrace diverse insights and ensure that they are incorporated into the decision-making process.[89] As one experienced female director we interviewed stated, "You cannot underestimate the importance of a board's culture. You can have all the diversity in the world, but it won't matter if you don't have the right culture."

Strong board leadership can help a board get the most out of its members by fostering a board culture that embraces the benefits of diversity. One of the most effective ways board leaders can do this is by demonstrating a commitment to critically evaluating important decisions and considering a wide variety of perspectives to ensure that the board selects the best course of action rather than adopting the first satisfactory option identified.

There are a variety of techniques a board can use to ensure that diverse perspectives are shared and considered during the decision-making process. Some boards may find it beneficial to encourage directors to play "devil's advocate" and challenge a proposed solution before a decision is made. Others may find a "whiteboard" approach to decision-making helpful, whereby potential alternatives are numbered and listed on a whiteboard. Such an approach encourages directors to brainstorm and spitball alternative solutions to problems. It can also help depersonalize alternatives by separating recommendations from the individuals who suggested them. Board and committee chairs can facilitate the process by soliciting the views of quieter board members during deliberations and expressing appreciation when diverse perspectives are shared.[90] Boards should experiment with these and other techniques to determine which ones work best for its members. Ultimately, what is most important is obtaining buy-in from board members as to the importance of considering diverse perspectives during the decision-making process, not the techniques selected to achieve this end. If all directors see the value in this, boards will inevitably facilitate the exchange and consideration of diverse viewpoints just by making an effort to do so, enhancing critical analysis, constructive debate and collaboration in the boardroom.

While we advocate that boardrooms embrace the benefits of challenging proposals, considering diverse perspectives, and exploring alternative courses of action, care must be taken to ensure that deliberations, even if at times heated, are at their core a group effort working toward a common goal of identifying the best course of action for the company. If board deliberations devolve into a sporting contest—with winners and losers, or players who dominate discussions and others relegated to the sidelines—there is a risk of alienating board members with diverse views and silencing their voices. A recent survey of 700 directors revealed that 43 percent of the respondents found it difficult to voice a dissenting view in their boardroom.[91] These findings indicate that many boards may not be doing all they can to ensure that decisions are well made and that all voices are heard. We therefore recommend that boards embrace the benefits of diversity and seek to foster a culture that encourages and appreciates new perspectives, recognizing that doing so can lead to better board performance.

Conclusion

It makes intuitive sense that improving diversity can enhance board performance, particularly in instances where a board has overseen a company that has underperformed for many years. Studies have shown that diverse personal experiences, such as living or working abroad, are associated with greater creativity,[92] that diverse cities are more productive and prosperous,[93] and that diverse teams are more innovative and process facts more thoroughly and accurately than homogeneous ones.[94] Given this, it should not be surprising that improving diversity has the potential to benefit the performance of almost any group—whether it be a team of scientists or a public company's board of directors.[95] We therefore strongly encourage companies to improve gender, racial, and ethnic diversity on their corporate boards. We recommend, however, that companies do so in a way that maximizes the diversity new directors bring to the boardroom. Instead of focusing primarily on surface-level diversity characteristics, we encourage boards to select demographically diverse candidates that also improve cognitive differences in the boardroom, by identifying candidates who have unique views and perspectives as well as professional backgrounds, skills, and experiences in areas that are needed to meet the company's strategic and operating needs. Finally, to make sure that boards are able to take full advantage of the contributions their directors can make, we recommend that they work diligently to ensure that diverse perspectives are welcomed in the boardroom, drawn out during deliberations, and incorporated into the decision-making process.

If a board is truly committed to fulfilling its role and responsibilities effectively, it is our belief that improving diversity in the boardroom—both demographically and cognitively—must be made a priority. In today's dynamic and competitive global business environment, ensuring that boards are performing to the best of their abilities and are able to help companies innovate and respond to challenges and disruption is more important than ever. The competitiveness of our companies and the long-term success of our economy depend on it.

Endnotes

1 See, for example, California Senate Bill No. 826, approved by Governor Jerry Brown on September 30, 2018, which requires all companies headquartered in the State of California to meet minimum requirements as to gender diversity. Other states are in the process of considering similar legislation or have passed nonbinding resolutions encouraging companies headquartered in their state to have a minimum number of female directors on their boards. See SEC Commissioner Hester M. Peirce, "Baby on Board: Remarks Before the Society for Corporate Governance National Conference" (June 28, 2019).

2 For example, the New York State Common Fund, the third largest pension fund in the United States, instituted a policy of voting against the election of all directors on a board that lacks a female director, and against all of the members of the nominating committee on a board that lacks two female directors. See News Release, Office of the New York State Comptroller, "DiNapoli: State Pension Fund Will Vote against Board Members at Corporations with no Women Directors" (March 21, 2018).

3 See, for example, David A. Katz, "Developments Regarding Gender Diversity on Public Boards," *Harvard Law School Forum on Corporate Governance and Financial Regulation* (November 12, 2013), describing the efforts of advocacy groups such as Catalyst, the Thirty Percent Coalition, and 2020 Women on Boards to promote gender diversity.

4 Kosmas Papadopoulos, "U.S. Board Diversity Trends in 2019," ISS Analytics (May 31, 2019).

5 Papadopoulos, "U.S. Board Diversity Trends in 2019."

6 For a discussion of other arguments for improving demographic diversity on corporate boards, see Deborah L. Rhode and Amanda K. Packel, "Diversity on Corporate Boards: How Much Difference Does Difference Make?" *Delaware Journal of Corporate Law* (2014), 377, 382-401; Lisa M. Fairfax, "The Bottom Line on Board Diversity: A Cost-Benefit Analysis of the Business Rationales for Diversity on Corporate Boards," *Wisconsin Law Review* (2005), 795, 811-837; and Toyah Miller and María del Carmen Triana, "Demographic Diversity in the Boardroom: Mediators of the Board Diversity–Firm Performance Relationship," *Journal of Management Studies* 46, no. 5 (July 2009).

7 See Ronald P. O'Hanley of State Street Global Advisors, "Being Fearless about the Future: Expanding the Call for Board Gender Diversity," remarks delivered at the Women's Forum of New York's 2017 Breakfast of Corporate Champions (November 14, 2017).

8 See Hugh Son, "Goldman Won't Take Companies Public without 'at Least One Diverse Board Candidate,' CEO Says," CNBC (January 23, 2020).

9 See Scott G. Johnson, Karen Schnatterly, and Aaron D. Hill, "Board Composition Beyond Independence: Social Capital, Human Capital, and Demographics," *Journal of Management* 39, no. 1 (January 2013), 232, 238, stating that researchers typically assume that demographic characteristics affect the cognition, behaviors, and decision-making of directors. See also Amy J. Hillman, Albert A. Cannella Jr., and Ira C. Harris "Women and Racial Minorities in the Boardroom: How do They Differ?" *Journal of Management* 28, no. 6 (December 2002), 747, 749, stating that "race and gender are often considered proxies of different perspectives individuals bring to organizations"; and Katalin Takacs Haynes and Amy Hillman, "The Effect of Board Capital and CEO Power on Strategic Change," *Strategic Management Journal* (November 2010), 1145, 1149, noting that demographic measures are proxies for cognitive heterogeneity.

10 See Amanda K. Packel, "Book Review: Government Intervention into Board Composition: Gender Quotas in Norway and Diversity Disclosures in the United States," *Stanford Journal of Law, Business & Finance* (2016),192, 203, noting that research demonstrating the benefits of a diverse group may not translate to gender-diverse boards in instances where female directors have similar educational, socioeconomic, and professional backgrounds as their male counterparts. See also Fairfax, "The Bottom Line on Board Diversity," 795, 833-834, stating that "the observation about the inappropriateness of using race as a proxy for viewpoint or experience may be particularly salient in the context of corporate boards" and that "[t]ypically, the only significant difference between directors of color and white directors is their race or ethnicity"; and James A. Fanto, Lawrence M. Solan, and John M. Darley, "Justifying Board Diversity," *North Carolina Law Review* 89, no. 3 (2011), 901, 929, noting that demographically diverse directors who have been trained, through their education and professional careers, to find the social identity of boards natural run the risk of bringing "nothing new to the table" from a social identity perspective when serving as board members.

11 See Fairfax, "The Bottom Line on Board Diversity," 795, 835-836, noting that directors tend to nominate people who are similar to themselves or who they believe will "fit in" and not be divisive, decreasing the likelihood that the perspectives of the individuals selected who are minorities will be different from those of other directors. See also Alison Reynolds and David Lewis, "Teams Solve Problems Faster When They're More Cognitively Diverse," *Harvard Business Review* (March 30, 2017), stating that people naturally gravitate toward recruiting others who think and express themselves in a similar way. As a result, organizations often end up with like-minded teams with low cognitive diversity.

12 Katherine Klein, "Does Gender Diversity on Boards Really Boost Company Performance?" Knowledge@Wharton (May 18, 2017).

13 While the term "cognitive diversity" is not defined consistently in academic papers, see Xiao-Hua Wang, Tae-Yeol Kim, and Deog-Ro Lee, "Cognitive Diversity and Team Creativity: Effects of Team Intrinsic Motivation and Transformational Leadership," *Journal of Business Research* (2016), which defines cognitive diversity as differences in thinking styles, knowledge, skills, values, and beliefs among group members; Maria Catharine Schilpzand, "Cognitive Diversity and Team Performance: The Roles of Team Mental Models and Information Processing Mechanisms," Georgia Institute of Technology PhD Dissertation (December 2010), which defines cognitive diversity as the extent to which a group reflects differences in knowledge, including beliefs, ideas, viewpoints, opinions, assumptions, preferences, and perspectives; and Reynolds and Lewis, "Teams Solve Problems Faster When They're More Cognitively Diverse," which states that cognitive diversity has been defined as differences in perspective or information processing styles.

14 See note 36 and accompanying text.

15 Examples of Barington's investments in consumer companies include Dillard's, Inc.; The Children's Place, Inc.; The Jones Group Inc.; The Warnaco Group, Inc.; The Stride Rite Corporation, Steven Madden, Ltd.; The Pep Boys – Manny, Moe & Jack; Avon Products, Inc.; and Darden Restaurants, Inc. Examples of Barington's investments in industrial companies include Ameron

International Corporation; Stewart & Stevenson Services, Inc.; Gerber Scientific, Inc.; Lancaster Colony Corporation; The Eastern Company, A. Schulman, Inc.; and OMNOVA Solutions Inc.

16 Among other things, our plans may recommend that a company implement operating improvements; productivity enhancements; expense, corporate overhead, or working capital reductions; a change in strategic direction; improvements to the management team or the company's organizational structure; the sale or spin-off of one or more underperforming or noncore divisions; or strategic or bolt-on acquisitions to enhance the company's competitive positioning or core competencies. An example of one of our value creation plans (for Darden Restaurants, Inc.) may be found at http://bit.ly/dardenplan.

17 Barington seeks to assist a company's board and management team in improving long-term value as a collaborative, value added investor. See Activist Insight, *The Activist Investing Annual Review* 2019, noting that "Barington's success in 2018 proves constructive and collaborative investing works." While Barington's preference is to work privately with companies, we may elect to make our recommendations public so that all shareholders can review and consider our suggestions.

18 John D. Sullivan and Anna Nadgrodkiewicz, "Looking Toward the Future: The Business Case for Corporate Governance" (January 31, 2013), originally published as a chapter in Andrew J. Sherman, *Essays on Governance: 36 Critical Essays to Drive Shareholder Value and Business Growth* (Charleston, SC: Advantage Media Group, 2012).

19 Average period of underperformance for companies in which Barington has taken a publicly announced activist position between January 2009 and December 2019.

20 See Daniel P. Forbes and Francis J. Milliken, "Cognition and Corporate Governance: Understanding Boards of Directors as Strategic Decision-Making Groups," *Academy of Management Review* (1999), 489, 491; Eugene F. Fama and Michael C. Jensen, "Separation of Ownership and Control," *Journal of Law & Economics* (1983), 301, 311; and Fanto, Solan, and Darley, Justifying Board Diversity (2011), 901, 906.

21 See Jonathan L. Johnson, Catherine M. Daily, and Alan E. Ellstrand, "Boards of Directors: A Review and Research Agenda," *Journal of Management* 22 (1996), 409, classifying directors' responsibilities into three roles: the control role, which entails monitoring managers as fiduciaries for stockholders; the service role, which involves advising management on important administrative and other managerial issues, as well as initiating and formulating corporate strategy; and the resource-dependent role, which entails facilitating the acquisition of resources and networking introductions for the corporation.

22 Ibid., 411. See also Forbes and Milliken, "Cognition and Corporate Governance," 489, 492.

23 See Forbes and Milliken, "Cognition and Corporate Governance," 489, 490, noting that "the very existence of the board as an institution is rooted in the wise belief that the effective oversight of an organization exceeds the capabilities of any individual and that collective knowledge and deliberation are better suited to this task."

24 Papadopoulos, "U.S. Board Diversity Trends in 2019." The percentage of female directors is even lower on boards of smaller companies. For example, women held only 12.8 percent of the directorships in companies with revenue under $1 billion as of the end of 2018. See The Conference Board, "Corporate Board Practices in the Russell 3000 and S&P 500" (2019 Edition) at 127.

25 United States Census Bureau, QuickFacts.

26 See National Center for Educational Statistics, Table 318.30. Bachelor's, master's, and doctor's degrees conferred by postsecondary institutions, by sex of student and discipline division: 2017-2018.

27 Papadopoulos, "U.S. Board Diversity Trends in 2019."

28 See KPMG and the Latino Corporate Directors Association, *Latino Representation on Fortune 1000 Boards* (2019).

29 United States Census Bureau, QuickFacts.

30 See KPMG Board Leadership Center, *Building a Great Board* (2018) at 6. See also Chinta Bhagat, Martin Hirt, and Conor Kehoe, "Tapping the Strategic Potential of Boards," McKinsey & Company (February 2013), in which the authors concluded that an "expertise gap" was responsible for the results of a director survey conducted by McKinsey & Company in which 22 percent of the directors surveyed said they had a limited or no understanding of the company's current strategy and 34 percent said they had a limited or no understanding of the dynamics of the company's industry.

31 Groupthink is defined as a psychological behavior of minimizing conflict and reaching consensus in a group setting without critically evaluating alternative courses of action. See ACCA, "Diversifying the Board—A Step Towards Better Governance" (August 17, 2015). See also notes 55-58 and corresponding text.

32 Effort norms refer to a group's collective expectations regarding the level of effort each member of the group is expected to expend or contribute toward various activities. See Forbes and Milliken, "Cognition and Corporate Governance," 489, 493-494. See also notes 59-61 and corresponding text.

33 See Simon C.Y. Wong, "Elevating Board Performance: The Significance of Director Mindset, Operating Context, and Other Behavioral and Functional Considerations," *Northwestern University School of Law*, Law and Economics Research Paper No. 11-12 (June 2011), arguing that without the right human dynamics in the boardroom, including directors who think like owners, there will be little constructive challenge between independent directors and management, limiting the ability of boards to operate to their potential. See also Shane Goodwin, Akshay Singh, Walter Slipetz, and Ramesh Rao, "Myopic Investor Myth Debunked: The Long-Term Efficacy of Shareholder Advocacy in the Boardroom," *Fourth Annual International Conference on Engaged Management Scholarship* (September 2014), finding that hedge funds generate substantial long-term value for companies and their long-term shareholders when they function as a shareholder advocate to monitor management through active board engagement.

34 In our opinion, the importance of directors keeping their fiduciary obligations to shareholders top of mind cannot be overstated. Because shareholders are seldom in the boardroom, this is not necessarily an easy task, particularly as directors may be faced with competing concerns, such as maintaining positive relations with the CEO and members of the board. As one director we interviewed stated, "while the board understood its function to operate in the best interest of shareholders, not necessarily everyone had that 'etched on their eyeballs.'"

35 Between January 1, 2009, and December 31, 2019, 60 percent of the directors that we have helped add to public company boards, excluding individuals who were employees of Barington, have been gender, racially or ethnically diverse. This includes directors who have been elected to public company boards that we nominated, as well as directors who have been added to a board pursuant to or concurrently with a settlement agreement that we entered into with a company.

36 In particular, a member of our firm was added to the boards of seven of these companies, at least one demographically diverse director who was not a member of our firm was added to the boards of five of these companies, and one or more non-demographically diverse directors who were not members of our firm were added to the boards of six of these companies. The directors we interviewed advised us of the impact that each of these new directors had on cognitive diversity and board performance.

37 Board members were interviewed from eight different companies we invested in, who served as directors both before and after changes were made to the composition of the board. Each was asked over 40 preestablished questions designed to elicit an understanding of, among other things, (1) the characteristics of the board and its ability to perform its key functions before changes were made to its composition, (2) the dynamics in the boardroom and the characteristics of the decision-making process prior to changes being made to the composition of the board, (3) the characteristics of the new directors added to the board and whether they introduced new information, views, or perspectives, and (4) any changes that occurred in the dynamics in the boardroom, the decision-making process, or the ability of the board to perform its key functions after the new directors were added.

38 While the emphasis of our questions pertained to the impact that improving board diversity can have on board performance, it should be noted that improving demographic diversity can provide a variety of nonperformance benefits that are outside the scope of this *Director Note*. For example, a diverse board may help enhance a company's ability to recruit and retain a diverse workforce by enhancing a company's public image and demonstrating that opportunities exist for women and minorities within the organization. See Rhode and Packel, "Diversity on Corporate Boards," 377, 399. It may also signal to the marketplace that a board is socially responsible and well equipped to understand and navigate the global markets. See Lissa Lamkin Broome and Kimberly D. Krwiec, "Signaling through Board Diversity: Is Anyone Listening?" *University of Cincinnati Law Review* 77 (2008), 431, 452; and Miller and del Carmen Triana, "Demographic Diversity in the Boardroom." Furthermore, a diverse board may improve a company's standing with institutional investors and other shareholders who consider the diversity of a board when making investment or voting decisions. See ACCA, "Diversifying the Board."

39 Our findings appear to comport with those of others who have explored the relationship between demographic diversity and cognitive diversity. See Military Leadership Diversity Commission, "What Is the Relationship between Demographic Diversity and Cognitive Diversity?" Issue Paper #4 (December 2009), noting that the differences in cognitive diversity across gender, race, and ethnic groups are significantly smaller than differences within demographic groups. See also Scott E. Page, *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies* (Princeton, NJ: Princeton University Press, 2007), xiv and 14, stating that while "identity (i.e. demographic) diversity" and "cognitive diversity" often go hand in hand, people belonging to the same race, age, gender, religion, and social class can also think differently; Francis J. Milliken and Luis L. Martins, "Searching for Common Threads: Understanding the Multiple Effects of Diversity in Organizational Groups," *Academy of Management Review* 21, no. 2 (April 1996), 402, 404, noting that while demographic diversity may be associated with differences in underlying attributes such as education and values, this is not necessarily the case; and Martin Kilduff, Reinhard Angelmar, and Ajay Mehra, "Top Management-Team Diversity and Firm Performance: Examining the Role of Cognitions," *Organization Science* 11, no. 1 (January-February 2000), 21, 22, stating that "Homogeneity along demographic markers does not necessarily engender homogeneity in attitudes, beliefs, or values."

40 See Toya Miller and del Carmen Triana, "Demographic Diversity in the Boardroom," 755, 760, which notes that racial and gender diversity allows for a more thorough evaluation of choices because of the increased information available to the group.

41 See Fanto, Solan, and Darley, "Justifying Board Diversity," noting that boards are highly dependent on the management team for information, who can manage the information flow to directors.

42 Russell Reynolds Associates, "Different is Better: Why Diversity Matters in the Boardroom" (2009).

43 See Vanessa Fuhrmans, "Women on Track to Gain Record Number of Board Seats," *Wall Street Journal* (June 21, 2018), noting that the #MeToo movement has led some companies to add more women to their boards to help address, or avoid, sexual harassment liabilities. See also Jared L. Landaw, "Actually, More Talking in the Boardroom Is a Good Thing," *Business Insider* (June 19, 2017), arguing that Uber, which was facing allegations of discrimination, bullying, and sexual harassment in the workplace, would benefit from a more gender-diverse board.

44 See Barington's March 5, 2019 Letter to Leslie Wexner, Chairman and CEO of L Brands Inc.

45 See Nasdaq Marketplace Listing Rule 5605(a)(2) and IM-5605; NYSE Listed Company Manual Section 303A.02 and Commentary to NYSE Listed Company Manual Section 303A.02; and Item 407 of SEC Regulation S-K regarding applicable independence standards.

46 See Yaron Nili, "The 'New Insiders': Rethinking Independent Directors' Tenure," *Hastings Law Journal* 68 (2016), 97, 99-101, noting that while some directors may meet the regulatory definition of independence, they may not truly be independent from management in the commonsense definition of the term, on account of lengthy board tenure or social ties with senior management.

47 The longest tenure of an independent director who served on the board of a company in which we invested in was 42 years. Institutional Shareholder Services considers director tenure of more than nine years "lengthy" and potentially compromising a director's independence. See ISS ESG, "ISS ESG Governance QualityScore Methodology Guide" (February 20, 2020) at 37. See also Forbes and Milliken, "Cognition and Corporate Governance," 489, 499, noting that board members who have only served together for a short period of time are more likely to have diverse perspectives on matters than longer-tenured directors.

48 Several of the companies we invested in were described by directors we interviewed as having a "local board," a board with historical ties to the founder, a board where "everyone knew one another," or a board where "everyone was a friend from somewhere."

49 Our director interviews revealed a wide range of personal and professional relationships between some of the directors of the companies we invested in and the CEOs. Examples include directors who were hunting, fishing, and golfing buddies with the CEO, former business colleagues, members of the same country club, and members of each other's public or charitable boards.

50 See Johnson, Daily, and Ellstrand, "Boards of Directors," citing research showing that directors who have personal, professional, or economic relationships with the CEO may be less effective monitors of senior management. See also Suzanne Hopgood, "Being a Woman on the Board," *The Corporate Board* (November-December 2017), 22, 23, stating that "Many boards are made up of directors who have long-term relationships with each other and the CEO, and they will not sacrifice that board relationship to cause dissension by taking appropriate action. I have seen that dozens of times."

51 See Byoung-Hyoun Hwang and Seoyoung Kim, "It Pays to Have Friends," *Journal of Financial Economics* 93 (2009), finding that boards where directors do not have social ties to the CEO award a significantly lower level of compensation, as well as exhibit stronger pay-performance sensitivity and stronger turnover-performance sensitivity, than companies whose boards have social ties with the CEO.

52 See Spencer Stuart, "In a New Era for Boards, Culture Is Key," *Point of View* (2018), stating that "A board's culture is defined by the unwritten rules that influence directors' interactions and decisions. These include the mindsets, hidden assumptions, group norms, beliefs, values, and artifacts (such as the board agenda) that influence the style of director discussions, the quality of engagement and trust among directors, and how the board makes decisions." See also Patrick R. Dailey, "Understanding the Culture of Your Board," *NACD Directorship* (October/November 2011).

53 See Patrick R. Dailey and Joel M. Koblentz, "Refreshing Your Board of Directors," *The Corporate Board* (November-December 2012), noting that "Collegiality is an important ingredient in every board culture. However, too much collegiality (or the pursuit of it) can be an impediment to needed introspection and constructive change. Problems and deficiencies go unrecognized and change is not effectively pursued."

54 See Kathleen M. Eisenhardt, Jean L. Kahwajy, and L. J. Bourgeois III, "How Management Teams Can Have a Good Fight," *Harvard Business Review* (July-August 1997), noting that "without conflict, groups lose their effectiveness and that the alternative to conflict is usually not agreement but apathy and disengagement."

55 See Irving L. Janis, "Groupthink," *Psychology Today* (1971).

56 See James McRitchie, "Groupthink in the Boardroom Context," CorpGov.net (February 2, 2015), stating that "Groupthink seriously imperils the board's decision-making process as it introduces decision biases and blind spots into the process. This is mainly attributed to directors' endeavor to maintain cohesiveness and solidarity within the board at all costs. Such group pressure compels many directors to 'go with the flow' instead of challenging the dominant view in the boardroom." See also Fanto, Solan, and Darley, "Justifying Board Diversity," noting that "Groups in the thrall of groupthink can make disastrous decisions, often because they ignore conflicting viewpoints and evidence."

57 Robert S. Baron, "So Right It's Wrong: Groupthink and the Ubiquitous Nature of Polarized Group Decision Making," in *Advances in Experimental Social Psychology*, edited by Leonard Berkowitz and Mark P. Zanna, (Cambridge, MA: Elsevier Academic Press, 2005), vol. 37, 219-253, noting that "[M]ost of us I suspect, have been in settings in which our private reservations regarding some group option have been assuaged by a seeming consensus of our group mates or where our concerns about having pleasant social interactions and our own social acceptance take precedence over any need to explore every last objection and nuance to a collective decision."

58 See Janis, "Groupthink."

59 See Forbes and Milliken, "Cognition and Corporate Governance," 489, 493-494.

60 Ibid.

61 See Alessandro Minichelli, Alessandro Zattoni, Sabina Nielsen, and Morten Huse, "Board Task Performance: An Exploration of Micro- and Macro-Level Determinants of Board Effectiveness," *Journal of Organizational Behavior* (2012), 193, 196, noting that "preparation for and participation in board meetings—in terms of carefully scrutinizing information provided by management before meetings, finding autonomously own information regarding issues relevant to the company and actively partaking during meetings with questions—can influence the board's ability to effectively perform its tasks." See also Forbes and Milliken, "Cognition and Corporate Governance," 489, 493-494, stating that "the time that directors devote to their tasks can differ considerably across boards, and these differences can significantly determine the degree to which boards are able to represent shareholders' interests successfully," and that some boards simply "go through the motions" without being mentally engaged while others promote high-effort behavior among directors.

62 See Jeffrey A. Sonnenfeld, "What Makes Great Boards Great," *Harvard Business Review* (September 2002), stating that for a board to perform at its best, it must have a culture of open dissent, where it is accepted for board members to challenge one another's assumptions and beliefs. "If a board is to truly fulfill its mission—to monitor performance, advise the CEO, and provide connections with a broader world—it must become a robust team—one whose members know how to ferret out the truth, challenge one another, and even have a good fight now and then.... The highest-performing companies have extremely contentious boards that regard dissent as an obligation and that treat no subject as undiscussable."

63 See Vicki W. Kramer, Alison M. Konrad, and Sumru Erkut, "Critical Mass: The Impact of Three or More Women on Corporate Boards," *Organizational Dynamics* (2008), 145, 149, noting that "[P]eople with minority opinions are considerably more likely to speak up and state their disagreement with a strong majority when they know they have an ally in the room. People who perceive themselves as being alone in disagreeing with the majority are more likely to conform and therefore considerably less likely to share their dissenting views. Hence, although lone dissenters can stimulate an effective group process, they are less likely to do so than dissenters with allies." See also Amy Rigby, "How to Overcome Pack Mentality in the Workplace by Fostering Psychological Safety" (April 15, 2019), describing the results of a study conducted by Solomon Asch on group conformity in the 1950s, which found that having just one ally who is willing to go against the group empowered others to do so as well; and Solomon E. Asch, "Opinions and Social Pressure," *Scientific America* (1955).

64 See Vicki W. Kramer, Alison M. Konrad, and Sumru Erkut, "Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance," *NACD Directors Monthly* (February 2007), quoting a CEO who stated, "If you want a diverse set of views, you are not as likely to get it if a person is alone unless that person is a very strong person." See also Fanto, Solan, and Darley, "Justifying Board Diversity," noting that the social psychological literature suggests that it is difficult for one person to alter group dynamics, particularly in the case of cohesive groups.

65 See Fanto, Solan, and Darley, "Justifying Board Diversity," noting that the literature on diversity in business settings suggests that diverse individuals are more likely to offer their alternative perspectives when there is an adequate number of diverse board members.

66 See Kramer, Konrad, and Erkut, "Critical Mass."

67 See Forbes and Milliken, "Cognition and Corporate Governance," 489, 494, noting that "Cognitive conflict is likely to arise in groups that, like boards, are independent and face complex decision-making tasks. Because the issues facing boards are complex and ambiguous, board members are likely to characterize issues differently and to hold different opinions about what the appropriate responses to these issues are." See also Minichilli, Zattoni, Nielsen, and Huse, "Board Task Performance," 193, 196.

68 See Eisenhardt, Kahwajy, and Bourgeois, "How Management Teams Can Have a Good Fight," noting that in the absence of good data, group members "waste time in pointless debate over opinions."

69 See Russell Reynolds Associates, "Global Board Culture Survey: Understanding the Behaviors That Drive Board Effectiveness," a survey of directors from a dozen countries that found that the most important director behavior that creates a high-performing board culture and drives board effectiveness is possessing the courage to do the right thing for the right reasons.

70 Barry D. Baysinger and Henry N. Butler, "Corporate Governance and the Board of Directors: Performance Effects of Changes in Board Composition," *Journal of Law, Economics and Organization* (Spring 1985), 101, 107-108.

71 See Forbes and Milliken, "Cognition and Corporate Governance," 489, 492, noting that "the effectiveness of boards is likely to depend heavily on social-psychological processes, particularly those pertaining to group participation and interaction, the exchange of information, and critical discussion." See also Renée B. Adams, Benjamin E. Hermalin, and Michael S. Weisbach, "The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey," *Journal of Economic Literature* (2010), 58, 81, noting that "Each board of directors is likely to have its own dynamics, a function of many factors including the personalities and relationships among the directors, their backgrounds and skills, and their incentives and connections."

72 See note 9.

73 See note 10.

74 See note 11.

75 See Fanto, Solan, and Darley, "Justifying Board Diversity," noting that women and ethnic and racial minorities may be inclined to engage in self-censorship with respect to any alternative perspectives they could contribute in an effort to avoid being marginalized. See also Klein, "Does Gender Diversity on Boards Really Boost Company Performance?" noting that "When individuals are minorities, tokens, or outliers in a group, they often self-censor, holding back from expressing beliefs and opinions that run counter to the beliefs and opinions of the majority of the group."

76 See Reynolds and Lewis, "Teams Solve Problems Faster When They're More Cognitively Diverse," noting that "Someone being from a different culture or of a different generation gives no clue as to how that person might process information, engage with, or respond to change. We cannot easily detect cognitive diversity from the outside. It cannot be predicted or easily orchestrated. The very fact that it is an internal difference requires us to work hard to surface it and harness the benefits."

77 See also Vicki W. Kramer, Alison M. Konrad, and Sumru Erkut, "Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance (Executive Summary)," *Wellesley Centers for Women* (2006), noting that the respondents of their survey that included 50 female directors were adamant that women should not be brought onto boards simply because they are women. "To serve boards well, women need high-level corporate experience or the knowledge, skills, and abilities needed to contribute to board discussions."

78 See Page, *The Difference*, xiv and 14, noting that people who were trained differently or have had different experiences acquire different cognitive tools. See also Karen A. Jehn, Gregory B. Northcraft, and Margaret A. Neale, "Why Differences Make a Difference: A Field Study of Diversity, Conflict and Performance in Workgroups," *Administrative Science Quarterly* (1999), noting that differences in the educational background, training, and work experience of group members increases the likelihood that diverse perspectives and opinions exist.

79 See KPMG, "Focus on Board Composition" (2017) at 6, quoting Jared L. Landaw: "Thoughtful nominating committees will focus on ensuring that the directors in the boardroom have the right mix of backgrounds, skills, and experiences to meet the company's strategic and operating needs, ensure that decisions are well made, and to provide the management team with guidance on the myriad of issues that the company will inevitably face. After all, a board of directors is a governing body that is designed to work together as a team. If it is going to perform at its best, it will need to be put together like one, by carefully recruiting directors with complementary skills."

80 See KPMG, "Focus on Board Composition" (2017) at 4, quoting Landaw: "As opposed to filling vacancies on an 'ad hoc' basis as and when board openings arise, nominating committees need to plan ahead in order to successfully assemble a board comprising the best available directors who address the company's needs. Doing so requires an in-depth understanding of what skills are required in the boardroom to meet the company's current and future strategic and operating requirements. It also requires an ongoing assessment of the board's strengths and weaknesses and whether its current members are meeting the company's needs."

81 PwC's 2019 Annual Corporate Directors Survey at 5.

82 See The Conference Board, "Corporate Board Practices," finding that only 14.2 percent of Russell 3000 companies report having instituted an annual individual director assessment process.

83 See Jeffrey A. Sonnenfeld, "What Makes Great Boards Great," noting that "Behavioral psychologists and organizational learning experts agree that people and organizations cannot learn without feedback. No matter how good a board is, it's bound to get better if it's reviewed intelligently."

84 See, for example, WomenCorporateDirectors and KPMG, "Diversity in the Boardroom: Pushing Forward, Reaching Back" (2019) at 6, listing examples of different decision-making styles of potential board members. See also Page, *The Difference*, for a discussion of other cognitive differences among individuals that influence problem solving, including differences in ways people see and represent problems, interpret and categorize information, predict outcomes, and generate solutions.

85 See Reynolds and Lewis, "Teams Solve Problems Faster When They're More Cognitively Diverse," noting that cognitive diversity is an "internal difference" that cannot easily be detected from the outside. See also David A. Harrison, Kenneth H. Price, and Myrtle P. Bell, "Beyond Relational Demography: Time and the Effects of Surface- and Deep-Level Diversity on Work Group Cohesion," *Academy of Management Journal* (1989), stating that diversity in underlying attributes such as attitudes, values, skills, knowledge, personality, and beliefs cannot be easily detected and become apparent only after interaction with a person.

86 See Julie Hembrock-Daum and Laurel McCarthy, "Best Practices for Director Recruitment," Spencer Stuart (2018), recommending that multiple directors participate in the interview process and that interviews take place in a variety of settings.

87 See, for example, Nancy Calderon and Susan Stautberg, *Women on Board: Insider Secrets to Getting on a Board and Succeeding as a Director* (Quotation Media, 2014), 129-130, recommending that new women directors "take it easy in the beginning" and "[b]e a good listener and observer. Use the first few board meetings to get the 'tempo' of the board."

88 See Aida Sijamic Wahid, "Director Heterogeneity and Its Impact on Board Effectiveness," Working Paper (2011), a study finding that increasing gender diversity can improve board effectiveness for firms that diversify their boards to take advantage of the benefits of diversity, but not for firms that improve gender diversity to engage in "window dressing" in response to regulatory or other external pressures.

89 See Minichilli, Zattoni, Nielsen, and Huse, "Board Task Performance," 193, 197, arguing that the mere presence of knowledge on a board does not mean that board members will share and use their knowledge: "Rather, effective boards require active use and integration of board members' expertise and skills to enhance group decisions." See also Stephanie J. Creary, Mary-Hunter McDonnel, Sakshi Ghai and Jared Scruggs, "When and Why Diversity Improves your Board's Performance," *Harvard Business Review* (March 27, 2019), stating that "Diversity doesn't matter as much on boards where members' perspectives are not regularly elicited or valued"; and Klein, "Does Gender Diversity on Boards Really Boost Company Performance?" noting that even when individuals who are minorities speak up in the boardroom, the majority group members may discount their views, limiting the ability of the board to take full advantage of its own cognitive variety.

90 See McRitchie, "Groupthink in the Board Context," which notes that by encouraging all directors to express their views and providing a sense of appreciation for their contributions, the chair can play a key role in fostering a healthy boardroom environment that embraces critical thinking and constructive debate.

91 PwC's 2019 Annual Corporate Directors Survey at 8.

92 See, for example, Christine S. Lee, David J. Therriault, and Tracy Linderholm, "On the Cognitive Benefits of Cultural Experience: Exploring the Relationship Between Studying Abroad and Creative Thinking," *Applied Cognitive Psychology* (2012); and Frédéric C. Godart et al., "Fashion with a Foreign Flair: Professional Experiences Abroad Facilitate the Creative Innovations of Organizations," *Academy of Management Journal* (2015).

93 See, for example, Gianmarco Ottaviano and Giovanni Peri, "The Economic Value of Cultural Diversity: Evidence from US Cities," *Journal of Economic Geography* (2006); Richard Florida, "Cities and the Creative Class" (2003); and Quamrul Ashraf and Oded Galor, "Cultural Diversity, Geographical Isolation and the Origin of the Wealth of Nations," *National Bureau of Economic Research*, Working Paper No. 17640 (December 2011).

94 See Adam D. Galinsky et al., "Maximizing the Gains and Minimizing the Pains of Diversity: A Policy Perspective," *Perspectives on Psychological Science* (2015); and David Rock and Heidi Grant, "Why Diverse Teams Are Smarter," *Harvard Business Review* (November 4, 2016).

95 See Page, *The Difference*; Chiara Franzoni, Giuseppe Scellato, and Paula Stephan, "The Mover's Advantage: The Superior Performance of Migrant Scientists," *Economics Letters* (2014); and Richard Freeman and Wei Huang, "Collaborating with People Like Me: Ethnic Co-authorship with the United States," *Journal of Labor Economics* (2015).

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