



Drawing on diversity to drive better decisions

The pensions industry is starting to realise the value of diversity and inclusion in pension scheme trustee boards and beyond. This is about more than reflecting the diversity of pension scheme beneficiaries amongst trustee directors: the evidence is clear that diverse groups, which work well together, are better at making good decisions. At a time when trustee decision making, for both defined benefit and defined contribution schemes, is under more public and regulatory scrutiny than ever before, ensuring boards and committees are diverse and inclusive could give trustees an extra layer of reassurance that they are fit to meet the challenges their schemes face.

“Diversity and inclusion” may just sound like buzzwords, albeit ones that are on the lips of government, regulators, industry bodies and FTSE 100 boards alike. But when we are inclusive in how we select people, when more viewpoints are shared, we see the clear advantages that a broader range of individuals bring to the board table. In short, diversity produces better decision making. Where’s my evidence for this bold claim? Well, there’s a wealth of it.

A long line of researchers, from psychologists and business analysts to mathematicians, have compared the decision making performance of homogeneous (similar) and heterogeneous (diverse) groups. Whatever characteristics group members either share or do not share with each other, the findings tend to be that diversity is significantly advantageous. For instance, heterogeneous groups are more likely to:

1. **Pay attention to the facts and assess evidence correctly**
2. **Have sound reasoning**
3. **Reach the ‘best’ conclusion**
4. **Be able to explain their decision well**

There is also growing evidence that more diverse businesses tend to perform better. We know this is true for teams with more women in senior management roles or that are racially diverse, and there is growing evidence that this advantage will apply across the diversity spectrum, including sexual orientation, gender identity and disability.

Diverse teams that work well together seem to be more innovative too, and they even perform better on collective IQ tests.

It’s not enough for a group to just be diverse though, it must also be inclusive. Everybody around the table needs to be heard, and all views need to be considered and debated. In my experience, this is sometimes helped along by a cultural shift, which can be supported by training, for instance into the unconscious biases we all have.

There are various theories about why and how diversity and inclusion can improve decision making, but the key point is that it

Diversity isn't just a buzzword, it can make a real difference to how we all perform, and ultimately benefit scheme beneficiaries



does. You can look up some of the research for yourself (or you can get in touch and I can tell you more about it), but you might also want to reflect on your own experiences. I've certainly seen evidence of the advantages of diversity; as a lawyer advising trustees, a senior leader in my firm, and as a charity trustee director. I have seen the effectiveness of trustee boards improved radically by the appointment of a new, and very different, professional trustee chair, although, on occasion, with some initial pain relating to the changes. And there have been plenty of times when I've gone into a meeting with the 'right answer', only to have my thinking changed and a better solution identified through people listening to each other and properly entertaining other ideas. Very often, the best ideas are introduced with "this may be a stupid point, but..."

Perhaps, unsurprisingly, creating a diverse and inclusive culture is a key business

priority at my firm, because of a strongly held belief that only the highest performing teams, which maximise the power of different opinions, perspectives and cultural references, will best succeed in the marketplace.

Of course, in the complex and subtle world inhabited by pension scheme trustees, many aspects of performance are hard to measure and there is often no single 'best' solution. However, going back to the basics of how trustees should properly make decisions, it seems likely that a more diverse trustee board or committee has a better chance of getting this right. As us lawyers would say: they are more likely to take account of relevant factors and disregard irrelevant factors, and they are less likely to reach a perverse or irrational conclusion. If this is true, then the decisions of

The pensions industry is waking up to the many, real benefits of diversity and inclusion

diverse groups of trustees are likely to be better protected from challenge, whether by members, employers, regulators or Select Committees.

On top of this, it seems that the more complex the subject matter, and the more difficult the decision, the more diversity and inclusion are likely to help. So an area as multi faceted

and challenging as pensions governance is, in fact, a perfect setting for diversity to work its magic.

Conclusion

The pensions industry is, in many respects, in the early stages of its journey towards diversity and inclusion, although a side-effect of the member nominated director requirements has long been to introduce a greater diversity of backgrounds and experience. However, pensions is typically

a fairly agile sector and, given other developments shaking up trusteeship, progress in diversity and inclusion could be rapid. Those who stand to gain from more diversity and inclusion in trustee boards, and in the industry as a whole, are not only those who are more likely to be included in boards, panels or recruitment processes. We all stand to gain: from better performance and more innovative solutions. And, importantly, the beneficiaries of the schemes we all work for, in one way or another, will ultimately benefit too.

If you would like to get involved with promoting a culture of diversity and inclusion in the pensions industry but aren't sure how to do so, there are plenty of opportunities. Travers Smith is committed to creating a diverse and inclusive workplace and we are keen to help promote these aims more widely. Please do get in touch to find out more.

By Daniel Gerring, Travers Smith

Daniel Gerring is Partner and Head of Pensions at Travers Smith. Daniel's other roles include appointments to Travers Smith's Diversity and Inclusion Board, the LGBT+ committee of The Law Society of England and Wales, the PLSA's Advisory Group on Diversity & Inclusion, and the trustee boards of the charities Just Like Us, City YMCA, and Refugees at Home. He has been ranked amongst the 100 leading LGBT Executives worldwide according to the Financial Times and OUTstanding for the last three years running.

