Increasing Engagement and Widening Diversity and Inclusion

Professor Colin Coulson-Thomas.

The roots of the Institute of Management Services lie in efforts to increase production and productivity during the second world war with a labour force that included women brought in to replace men drafted into the armed forces. European countries are again feeling threatened. A pressing requirement to increase defence spending has led to pressure to get more people into work and reduce growing sickness and welfare budgets. In the UK large numbers of people have left the labour force since Covid and registered for benefits. Output, growth and productivity might benefit from a larger and more diverse workforce and greater involvement of under-represented

groups whose potential and talents have hitherto been overlooked. There are also skill shortages to address, while demographic trends suggest that people may need to work longer to support those who will require personal care support as they get older.

Whether to increase resilience, enable responsible growth, re-boot stagnant or declining productivity, enable rearmament, enhance military recruitment or address climate change, increasing workforce engagement, widening diversity and greater inclusion have become more important. Diversity of perspectives, backgrounds and other factors can also address

groupthink, increase challenge and creativity, support innovation and entrepreneurship, and make a group of people such as a board more representative of interests they should serve, and contribute to more balanced, equitable, inclusive and socially acceptable outcomes. Are those with certain characteristics being overlooked today, whether on boards or generally?

Opposition to DEI

Diversity, equity and inclusion (DEI) initiatives and roles are, or were, the norm in larger organisations, especially where there are laws and regulations relating to equal opportunities and discrimination in how people are selected, recruited, promoted and treated and their working conditions. They have been assumed elements of many corporate social responsibility programmes. Companies that operate internationally may encounter a variety of requirements in different jurisdictions. In some countries, including the US there has recently been 'push-back' against DEI and practices considered 'ideological' or 'woke', or to have been 'taken too far'[1,2]. In the UK the Financial Conduct Authority and Prudential Regulation Authority have abandoned steps to increase DEI related reporting requirements.

Why the opposition to DEI, and what are the implications? Has DEI peaked? Do concerns have substance? Diversity and DEI initiatives have encountered criticism for how they have been interpreted and implemented, and for their consequences. In the US, President Trump has acted to initiate the elimination of DEI, and roles relating to it, from government organisations. Some major US companies operating internationally quickly closed their DEI programmes. UK companies such as GlaxoSmithKline with large sales in the US have followed. In this and other areas, are we at a turning point?[3]

Critics of DEI argue that given global risks and pressing existential threats, and in mission critical roles, getting the most competent person is more important and socially beneficial, than achieving a gender or ethnic quota. The 'push back' against diversity and DEI raises questions for directors and boards wishing to 'do the right thing' and operate within the law. Have they been barking up the wrong tree, while ignoring others? Can current requirements for solvency and survival be reconciled with longer-term aspirations for more inclusive outcomes? Is review, improvement, better handling or a change of direction required?

Increasingly, organisations must do things differently to cope with global risks and existential threats such as climate change[4]. Yet in many jurisdictions prevailing practices have created a relative homogeneity across quoted company boards and senior executive teams which can increase the risk of groupthink, and lead to complacency and lack of challenge. Decisions on DEI policies and strategies to increase engagement and/or widen diversity and inclusion are usually taken by corporate boards. In the interests of creativity and innovation, might the memberships of many corporate boards and C-suites need to become more diverse before nets can be cast more widely across the rest of organisations?

Reviewing Diversity Factors and Priorities

Certain forms of diversity, such as gender and the position of women on corporate boards, related international comparisons, and steps to increase their proportion have been given a higher priority than others in laws, regulations and practice.

What account should a drive for greater diversity take of age, culture, gender, ethnicity, nationality, educational and social backgrounds, experience, skills, personal qualities, interests, perspectives, relationships, priorities, strategies, challenges, opportunities, disability, values or other factors when searching for and selecting candidates for senior appointments?[5] Might a concentration on just some of these factors inhibit wider diversity?

The desirability of more diverse boards of entities offering universal services, where empathy and understanding of the varying needs of different clients or patients is helpful and/or required, has been recognised. Under-represented groups, such as black and ethnic, indigenous and/or disabled candidates, may be highlighted in legislation at different stages of an appointment process, from initial advertisement to eventual selection. Boards are free to pursue diversity using criteria or characteristics that are not the subject of legislation, quotas or other formal requirements or guidance. What factors might future-proof boards in relation to contextual developments, and confront contemporary challenges, global risks, common threats and related opportunities?

A focus on greater board diversity can sometimes lead to diversity elsewhere across an organisation and within management being overlooked, while progress in a general drive for diversity could result in qualities that may be especially important for a board not being addressed[6]. Boards require the perspective and foresight to read the road ahead and agree a desirable, attainable and shared vision for ensuring their

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enterprises are responsible and sustainable.

Any strategic direction provided should add value and ensure resilience. As circumstances change, diversity priorities may need review. Non-conformity with diversity expectations and norms may result from a combination of national, organisational, contextual and situational factors, such as dominant interests or small organisational size. A board might wish to better confront contemporary challenges or do more than a bare minimum in its implementation of diversity requirements and related reporting. Diversity must be manageable, perceived as fair and appropriate, and not too disruptive of the operations of a board or executive team, if the confidence of investors, family owners and other stakeholders is to be maintained.

Establishing an Optimal Level of Diversity

Beyond a tipping point, a diversity of views, disagreements over purpose and priorities, value disconnects, very different attitudes to risk, and divisions of opinion may become difficult to bridge. Previous healthy debate may transition to incompatible positions and a fracturing of consensus that prevents the taking of decisions without votes and the provision of clear direction to a CEO and executive team. In time, those dealing with a company may conclude that a board has lost control. Diversity to shake up complacency and break up groupthink, widen opportunities and become more inclusive should not be pursued to the extent of creating differences that a board's chair and its social cement cannot handle.

A healthy level of diversity should be sought and sustained. DEI aspirations, implementation and compliance should take account of stakeholder and wider public expectations and concerns, in the pursuit of responsible, sustainable, and inclusive outcomes, trust and investor confidence. Is a greater variety of diversity and DEI approaches required, to accommodate the differing sizes, nature and locations of enterprises that exist? Might different combinations of diversity factors be required over time according to situation, circumstances and context, and as these change?

Increasing Diversity on Corporate Boards

Many current boards remain narrow and lacking in diversity and groupthink remains an issue[7]. In China, greater diversity has been found to increase the financial stability of listed companies and reduce risk[8]. Should mandatory requirements be extended or reduced? Where and when exclusion, discrimination and unfairness persist, and they are regarded by a board and stakeholders as unreasonable and unacceptable, should diversity be given more attention in discussions of corporate culture and governance?

Should more be done to increase the proportion of women company directors, or to widen the gene pool from which directors are selected? What contribution could voluntary or mandatory quotas for women directors make? Are prevailing practices and biases excluding certain groups? Will nomination committees appoint to corporate boards women with family links or similar educational, ethnic and/or social backgrounds to existing directors and with whom they might feel comfortable? Could prioritisation of one factor such as gender, and higher quotas have adverse consequences for other under-represented groups? Might it result in easily identifiable and familiar individuals becoming over-boarded?

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Institutional investors may encourage board diversity, and some companies experience improved valuations because of compliance with changes they favour and value-enhancing governance reforms[9]. Greater diversity can result from new appointments to meet emerging issues, challenges and opportunities, such as those relating to the adoption of digital and other technologies. Should different and a wider range of diversity criteria be considered? Might appropriate combinations of diversity factors to think about change over time and when gaps are identified? Should multiple diversity requirements be addressed when appointments are made or undertaking succession planning?

Critical Mass and Corporate Context

The significance of a particular diversity factor can depend upon the nature and extent of a desired change and who and what could be impacted. Multiple board members with certain characteristics may be needed before they affect board culture and conduct, corporate performance and/or outcomes. An increasing proportion of women on listed company boards across five European countries has been found to have a significant positive association with corporate performance[10,11]. However, a single woman director on a board may makes little difference.

As with independent directors, one or two new female board members might be largely ignored or otherwise contained. When they have similar educational and social backgrounds to other board members, their appointment may do little to enhance overall diversity. A critical mass of women directors could be required for those appointed to feel less isolated, be more inclined to speak up, and for others to follow[12]. Would achieving a critical mass on multiple diversity criteria, such as age, ethnicity, tribe, caste, language or nationality lead to excessively large boards that would be difficult to manage?

Much depends upon the qualities of the individuals selected. Outcomes may or may not be as expected. For example, an Italian study has found that on reaching a threshold of three women directors there is a negative relationship between female family nominated members joining a board and corporate environmental performance[13]. A greater overall diversity on multiple criteria might moderate the impact of individual ones. While forms of diversity, whether age, gender or the degree of

director independence may have their champions, resulting conduct, focus and outcomes can depend upon situation, circumstances and context. A study of Portuguese listed firms found that a higher level of managerial ownership and diversity can have a positive impact on performance, but no evidence was found that three or more female directors might do likewise[14].

Engagement, Diversity and Inclusion Challenges

In some countries there has been a trend towards smaller and tighter boards. A drive for greater gender diversity may therefore limit diversity in other areas. Could a focus on women directors affect other forms of diversity? Much depends upon corporate purpose and priorities, and if multiple diversity criteria are used. Might indigenous directors accelerate action to protect the environment and remote habitats, and reach hitherto excluded groups? The impact of diversity factors on performance can depend upon the methodology used and the measures of performance employed. Are records kept of the proportions of those with differing characteristics who are appointed and/or promoted to various roles from eligible candidates? Do they suggest bias or barriers that some might need help in overcoming?

Achieving diversity on multiple criteria across a total organisation can represent a challenge. Critics of DEI might see it as an unwelcome cost and a distraction from higher priorities such as the mitigation of existential threats. Whatever the fashion or trend, greater diversity may be needed to address groupthink. A start could be made with non-executive or independent director appointments. Might more family companies appreciate their worth if a wider, more flexible and systematic approach to diversity were adopted? They may face fewer external pressures and constraints than quoted companies, and certain diversity criteria may currently be under-represented. Independent directors from a different educational, social or business background, and without connections with family members, a CEO, board chair or other directors, may be more inclined to question, challenge, seek clarity and/or speak up.

Retaining Institutional Investor Confidence

Some people seek out others like themselves whom they relate to, 'have things in common' and/or 'get on with' rather than those who approach matters differently and might stretch

their thinking. Given existential threats and the earth's finite resources, more stakeholders may expect boards to adopt a global perspective and display planetary thinking[15]. Institutional investors and other stakeholders may feel that new board appointees with certain characteristics might increase corporate resilience, reduce vulnerability and add value in its situation and circumstances, and the contexts in which it operates.

Diversity of background, experience and thought can sometimes be especially helpful. Which diversity factors should be prioritised may depend upon factors such as a company's location, activities, stage of development, it's ambitions and the challenges it faces. It might be on a transition and/or transformation journey, adopting new approaches, technologies and business or operating models, or facing challenges and/or existential threats that require an understanding of, and engagement with, customers and other stakeholders from unfamiliar demographics. A different composition by age, educational or social background might better match and improve engagement and empathy with customers in priority areas for business development. Different generations can have distinct views on issues and what is important.
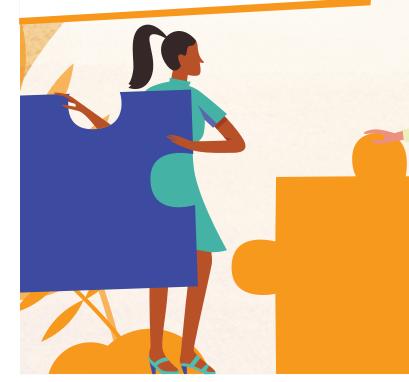
Might certain women and members of other under-represented groups be less concerned with consequences for themselves and more aware of community and environmental implications? Would they ensure benefits from digital and other technologies, and of growth and development, are more equitably shared? Might certain women directors be better able to communicate with targeted publics and better relate to their interests? Empathy and sensitivity may explain why a greater proportion of women in leadership roles can sometimes boost corporate social performance.

Implementing Diversity Strategies

Diversity of approach, disciplines and ways of thinking can be conducive of creativity and innovation. How diversity strategies are implemented, and the number of diversity criteria or factors considered may determine the extent to which a diversity of perspectives and thinking is achieved. For example, seeking to obtain greater gender or age diversity by simply selecting from family members, or people with perspectives and priorities possessed by existing directors or executives, may do little to increase diversity of thought and practice.

A greater focus upon multiple elements of a wider approach to diversity that embraces a variety of factors rather than one criterion might lead to more positive and sustainable outcomes. Obstacles and barriers to advancement, mobility and progression remain to be addressed. Common forms of bias-based discrimination can adversely impact women of colour and minority groups and have a lasting impact. Boards should see that they are identified and addressed. A wave of appointments of black directors to US S&P 500 index boards following Black Lives Matter protests led to greater racial diversity, with companies increasing the size of their boards to accommodate additional directors[16].

In some countries women are graduating from business schools in greater numbers, seeking careers and ambitious for advancement. Elsewhere, a dominant religion or ingrained tradition may limit what they and/or other groups can do. Boards should recognise local challenges and the social, religious, tribal,

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caste, institutional and individual barriers facing women and other under-represented groups. Impacts and at what levels and upon which groups, and implications for leadership development should be assessed. Could steps taken to advance certain groups be used to tackle barriers to advancement experienced by others? Is a wider and more inclusive form of diversity possible? Would better support enable more of those from hitherto marginalised groups to obtain managerial appointments?

Building More Inclusive and Representative Organisations

Many businesses are not inclusive or representative of the communities they serve. Existing boards may not be best placed to establish direction for reaching excluded or under-represented groups. Would younger directors be quicker to recognise the potential of social media and technologies more familiar to their age group? Should a broader range of executives take ownership of a drive to develop more diverse future organisations? Might more women directors lead to greater gender diversity among executives?

intervention, people with certain characteristics can be greatly disadvantaged and largely excluded. Greater speed of decision-making and the portrayal of human involvement as subjective may inhibit redress.

Handling Wider Diversity

Improving outcomes and addressing existential challenges increasingly requires joined up working and thinking, collective responses, and collaboration across business unit, departmental, discipline, entity, functional and national boundaries. Could increasing inclusion by involving more parties result in coordination problems, cause delays, raise costs and the risks of fragmentation, and even lead to disputes? Conscious effort may be required to keep individual elements of DEI in balance. At a certain level, and in some circumstances, could one have too much of some forms of diversity? Might diminishing returns set in as handling it becomes more difficult and if negative consequences rise?

While diverse and inclusive companies may outperform competitors, could moving beyond an optimum level of diversity present challenges for leaders of some teams? Directors are individual human beings who are expected to exercise independent judgement. They and executive colleagues may have moved between roles and organisations in their careers. They are not AI models trained with the same or similar historic data sets. As different approaches, beliefs, perspectives and views increase, might the challenge switch from groupthink to the risk of the fragmentation and polarisation which is occurring in wider society? Could maintaining unity and achieving consensus become more difficult? In an era of insecurity, uncertainty and volatility, investors and others may worry about continuity and stability.

People and organisations may acquiesce and 'go along' with DEI and other requirements when any inconvenience they involve is bearable and manageable. After a time, and if economic conditions worsen, they may become more concerned and vocal. Cases may emerge that suggest one group is unfairly favoured over another, or that discrimination still exists. They may be publicised by interested parties or seized upon by those looking for an issue to champion. Differing views may emerge between those calling for fewer or more flexible requirements, and those advocating tighter controls. In time, what was once accepted may become a political and electoral issue, with different candidates and political parties taking opposing positions. Might this happen with diversity and DEI laws and regulations?

Achieving the Right Balance

The dangers of excessive homogeneity and the advantages of diversity have long been recognised[6,5]. In recent years, the priority of legislators and various campaigns has been to increase the number and proportion of female directors and women in other senior roles. As a result of the focus on greater gender diversity, have other forms of diversity been overlooked? The challenges and related opportunities in the contexts in which many companies operate are becoming more pressing. Should more attention be given to age, cultural, disability, educational, ethnic, nationality, perspective, political, religious, social, thinking and other diversity characteristics and factors, and diversity at other levels and more generally across organisations?

In some jurisdictions, progress has been made in gender diversity, followed by ethnic diversity, and awareness of socio-economic diversity is increasing. A direction of travel is evident. However, while there may be more to do, there are many other and pressing matters on board agendas. As well as maintaining DEI momentum, boards are required to handle a succession of evolving and inter-related issues, retain commitment and build collaborative relationships during transition and transformation journeys.

DEI issues remain, as does the need for action in countries where favouritism, nepotism and corruption are endemic. The use of AI tools to short-list and in selection and promotion decisions can systematically discriminate against excluded, marginalised and other groups that are absent or few and far between in the data that is used to train them. The use of historic data may lead to a replication of what already exists, entrench the results of past practices and might slow progress towards a more inclusive workforce. When processes are automated and AI supported, outputs are not critiqued, and cost and time savings are banked rather than used to fund checks and human

Past experiences and practices may or may not relate to future developments and/or equip people to handle or respond to them. Is a different perspective on diversity now required? Might organisations need to be more inclusive on a wider range of characteristics, more resilient and better able to cope? Priority diversity factors may have to be those most conducive to fluidity, openness and resilience in the face of uncertainty, instability and volatility, and more radical action in response to common challenges and shared threats such as global warming and climate change. Rather than address discrete problems, future leaders must ensure relevant diversity for handling evolving and inter-related issues, maintaining commitment and collaboration, and ensuring effective collective responses.

How should boards respond to concerns about DEI laws and regulations? Do they help some at the cost of fewer opportunities for others and financial and administrative burdens on employers? Do they need to be more flexible, less prescriptive, and/or allow reasonable exceptions? Are there certain roles for which the most competent person should be appointed regardless of diversity considerations? Should guidance replace mandated requirements, or might a loosening of the latter lead to backsliding to the disadvantage of those whom diversity and DEI laws and regulations are seeking to protect? How will any changes affect attempts to increase engagement, enlarge talent pools and get more people into work?

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Author

Professor Colin Coulson-Thomas is President of the Institute of Management Services and an experienced chairman of award-winning companies, consultant and vision holder of successful transformation programmes. He holds a portfolio of international leadership and professorial roles and has advised directors and boards on improving director, board and corporate performance in over 40 countries. Details of his most recent books and reports on improving areas of performance can be found on: http://www.policypublications.com/ and http://www.academia.edu