The Difference That Difference Makes
Lessons for Governing Bodies of Public Entity Pools

András Tilcsik | 2019.03.04. | AGRiP Leadership & Governance Conference
15-year study of 1,300 community banks

Serve local communities
Financial risk management
Alternative to large profit-focused entities
Failure rate = 10%
Most directors are bankers

Mix of backgrounds

12.5%

6.5%

Advantage of diversity was greatest when navigating change.
Cognitive entrenchment
“Experienced bankers have more rigid views... They bring with them old habits and try to replicate them.”

“When you have a mix of backgrounds on the board, there’s less of that baggage.”
Overconfidence

“They’re the experts so they tend to be very confident. They think they always know better.”
“Directors who aren’t bankers tend to be more cautious... They often play the role of devil’s advocate.”

Lack of open disagreement
“Banking experts get a lot of respect around the table. It’s very difficult for others to really call them out.”

“Whereas here, on a mixed board, when we see something we don’t like, no one is afraid to bring it up.”
DEMOGRAPHIC DIVERSITY HAS SIMILAR EFFECTS

Financial Restatements

- 7.2% for all-male boards
- 4.4% for boards with gender diversity
Tough questions

Long, in-depth discussions

Skeptical perspective

The Murder Mystery Experiment
Shared more clues

More intense discussions

Solved the mystery
IT’S NOT ABOUT BEING SMARTER OR MORE KNOWLEDGEABLE

Across domains and types of diversity
ON DIVERSE TEAMS, EVERYONE DID BETTER…

BUT PEOPLE FELT LESS CONFIDENT AND LESS COMFORTABLE
OK, but inherent constraints...

Limits on professional diversity

Limits on geographic diversity
Some options

• Demographic diversity (gender, race, etc.)
• Urban/rural representation
• Small/large entity mix
• Role diversity (e.g., appointed/elected)
• Diversity in length of experience in public entities

REMEMBER: It’s not about being smarter or more knowledgeable.

Changing internal composition isn’t the only way to bring in diverse input
Computer Glitch Allows 3,000 Inmates Early Release In Washington State

Boeing Truck Driver Plays Key Role in Discovering Prison System Glitch

BUDGET ANALYST WARNED NASA ONE YEAR AHEAD OF CHALLENGER DISASTER
ETA = An outsider on every project team
Ongoing conversations with other governing bodies

Board exchanges (e.g., retreats or strategic planning meetings)

Thoughtful adaptation of external models
“It was a huge leap, and it’s hard to imagine we could have done it without the intimate knowledge of the operations and the people.”

—Netflix board member

How Netflix Redesigned Board Meetings

by David Larcker and Brian Tayan

MAY 08, 2018

Harvard Business Review, May 2018
Watching the company “in the wild”
Directors observe executive team meetings

“...You see a different level of dynamic of the executive team. You see how the topics that have been discussed, resolved, and reported on in a board meeting actually got processed.”

—Netflix board member
What might this look like for you?

• One idea: board chair or vice chair might visit some operational meetings as an observer

• Not to tell execs how to do their jobs but to learn so they can ask more thoughtful questions.

• Caveat: board should not stray into operations and cross governance/management line.

Netflix is a distant example

- A well-known business in your state
- A non-profit/charitable organization
- An insurance company (gasp!)
Thank You!
Roundtable Discussion

• What implications do you see for your governing body in what you heard this morning?

• What are some strategies that might work for your current board to foster cognitive diversity?