

Diversity & decision making

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How diversity leads to better decision making

Asset owners and fund managers are embracing diversity in different ways to improve decision-making but progress remains slow.

“I think we all have different experiences and different perspectives and having diverse teams, including gender diverse teams, is really positive for debate and good outcomes,” Frontier Advisors Director of Consulting, Kim Bowater, said.

Frontier’s Investment Governance Team is currently researching the challenges of leveraging diversity to improve investment decision-making. Frontier’s highly regarded [2018 paper on gender diversity](#) found nearly 60 per cent of Australian fund managers employed only men on their equity investment teams.

AllianceBernstein Chief Investment Officer – Asia-Pacific Value Equities, Stuart Rae, said the average difference between people was greater than any average differences between genders. However, on average, he had observed that men tended to be overconfident, which can lead to excessive trading.

“I have had many issues over my career trying to deal with men who were insensitive or simply talk too much,” Rae said.

A growing body of academic research has endorsed the benefits of diversity. McKinsey research in 2019 found companies ranked in the top-quartile for gender-diverse executive teams were 25 per cent more likely to have above-average profitability than companies in the fourth quartile.

Frontier Advisors Investment Strategy Adviser, Mary McLaughlin, said cognitive diversity could help identify investment risks from different perspectives.

“A more diverse group may be less likely to agree as part of a tribe and actually demand to be convinced by logic,” she said.

Another area where diversity is often lacking is age.

“If you don’t have people in the room with experience and context and nuances of how things can interact, you can end up picking up a shiny ball or misunderstanding data,” Bowater said.

The challenge is to retain people, which sometimes could mean rewarding people to continue to specialise in a role over time rather than be automatically promoted into different areas.

“Try and make a career path so that people can keep doing the same thing – have analysts and portfolio managers who can work into their 50s and 60s,” Rae said.

Another challenge is to ensure everyone’s voice is heard to extract the full benefits of diversity. Rae said it helped to understand how each person can best make their contribution but to also set expectations – let people know they are going to be called upon in a meeting – recognising that meetings are not always the most efficient way solve certain problems.