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New study by Professor Alex Edmans finds cognitive diversity can give investment teams a significant edge - but only if managed well

June 2025 – A major new study by Alex Edmans, Professor of Finance at London Business School finds that cognitive diversity can boost the performance of investment teams but only if effectively managed. Firms cannot simply 'add diversity then stir' to achieve superior results.

Commissioned by the Diversity Project, the research cuts through the noise of today's polarised and politicised 'DEI' debate to take a clear-eyed look at the evidence. It focuses on cognitive diversity – the range of perspectives, skill sets, experiences and ways of thinking within a team - and how that influences the quality of decision-making. Cognitive diversity can arise from differences in educational background, professional background, life background, cognitive style/personality and demographics.

The study combines a rigorous review of academic literature with first-hand insights from investment professionals, revealing strong consistency between the two and high conviction across 'virtually all' practitioners that "*cognitive diversity has the potential to create substantial value in asset management.*"

The research reaches three main conclusions:

1. **Cognitive diversity can create clear competitive advantages for investment teams**. The range of information for investment decisions can be limitless and open to a wide range of interpretations. Cognitive diversity leads to a greater range of perspectives, mitigates the risk of groupthink and in a world increasingly dominated by AI, helps investors to identify factors not priced in by the market. The most valuable sources of diversity are different skills sets and professional backgrounds.

2. **Cognitive diversity also comes with challenges.** Different ways of thinking can lead to miscommunication or friction if not managed well. Diverse teams may also experience slower decision-making, as integrating conflicting viewpoints may lead to dilution or paralysis. Affinity and cohesion can be weaker among colleagues with different backgrounds. It is also vital to understand where cognitive diversity adds value: it is especially helpful in complex situations but can be unhelpful when carrying out mechanistic tasks.

3. **Sophisticated leadership is essential to harness the benefits and minimise the costs from diverse thinking.** The best-performing teams have leaders who create an environment where dissent is encouraged but also know when to move forward and which views to prioritise. Psychological safety is essential to bring out contrarian views: great investment is about pursuing outlier ideas. Managing diversity may be difficult but when done

well, the payoff is substantial: more robust decision-making and better client outcomes.

Priority actions

This study offers a roadmap for how diversity can move from being perceived as a special interest issue to being core to business strategy. The Diversity Project suggests six priorities to help the investment industry realise the benefits and diminish the costs of cognitive diversity. We will work with our member firms to:

1. **Invest in managers and leaders.** Many managers are promoted for technical excellence e.g. as a talented portfolio manager, rather than people management skills. Yet this study shows that sophisticated team management is vital to unlocking the benefits of cognitive diversity. Leaders must also be able to tailor their approach according to the complexity of the task or challenge. They must lead with moral courage, sharing their own mistakes and creating cultures where team members at all levels feel able to share their views, including contrarian views.

2. **Optimise hybrid working.** Team dynamics are clearly an important factor in determining whether a firm or manager can harness the benefits of cognitive diversity. The report's conclusions imply challenges for hybrid working, for example, the preference for 'small, nimble meetings'. It is also clear from the study that certain tasks do not require cognitive diversity and may be best achieved by one person working from home. The industry has some way to go to optimise working practices.

3. **Broaden recruitment and keep a close eye on promotions.** To unlock the full potential of cognitive diversity, firms must cast a wide net - not just in who they hire, but in how they hire and then how they develop people from different backgrounds. While there have been promising initiatives, the industry still struggles to bring in talent from 'non-traditional' paths, and even when they enter, few make it to the top.

4. **Organise diversity and inclusion efforts around problem-solving.** We are very conscious that some people see diversity as a problem, not part of the solution to complex challenges. The study suggests we need to reverse this. Framing diversity as a key driver of innovation and better decisions — rather than a box-ticking exercise — helps shift the conversation to business strategy and outcomes.

5. **Assess the quality of decision-making.** Despite its critical importance to business success, few firms review their decision-making systematically. There is an opportunity for the industry to assess the drivers behind good and bad investment calls and embed those learnings into business practices.

6. **Reframe the debate.** In light of polarising "anti-DEI" sentiment, especially in the US, this research is as an opportunity to recalibrate approaches to

broaden and deepen commitment to creating diverse meritocracies within investment firms. A recent global C-suite Diversity Project webinar suggested that leaders from around the world see genuine diversity and inclusion as key to building the best teams. This research resets a fractious debate, providing nuanced analysis of the benefits (and - if not properly implemented – the costs) of diversity.

The Diversity Project will build on the report's conclusions to develop a practical framework for firms seeking to harness the significant benefits; more robust decision making, better team performance and client outcomes.

Baroness Helena Morrissey, Chair of the Diversity Project, says: "The Diversity Project commissioned this work to reassess the 'business case' for diversity. We made it clear at the outset that we wanted to see what the evidence showed, not work backwards from any conclusion we hoped to see. The conclusions are both intuitive and compelling: diversity must be developed thoughtfully and managed well to harness its powerful benefits. As the report highlights, great investment involves pursuing outlier ideas, so firms must create the right teams working in the right conditions for those ideas to surface. I hope this research will unify those on opposite sides of the DEI debate so we can all focus on delivering the best client outcomes."

Professor Alex Edmans: "Before conducting this research, I thought that cognitive diversity was unambiguously beneficial – surely, diverse viewpoints lead to better decisions. But the scientific evidence and practitioner insights highlighted that it's more complex. While cognitive diversity can indeed generate substantial benefits, it is also difficult to manage and must be supported by psychological safety and a culture of inclusion. These challenges only heighten its importance: since it is tricky to get right, any organisation that succeeds will enjoy a significant competitive advantage. I hope this report helps firms do exactly that – in asset management and beyond."

The Diversity Project is a cross-company initiative working to foster a diverse and inclusive investment and savings industry in the UK. With 119 members, representing £13 trillion in assets under management and more than 85,000 employees, the Diversity Project is a significant force for change.

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Notes to editors

About the Diversity Project:

In early 2016, a group of leaders in the investment and savings profession decided to take action to accelerate progress towards an inclusive culture within our industry. We recognise that future success – for our clients, members, employers, and shareholders – requires an inclusive culture.

The purpose of the Diversity Project is to accelerate progress towards an inclusive culture in the investment profession. An inclusive culture across all levels supports more effective teamwork, gives wider perspectives, better investment decisions, better results for our clients and ultimately more sustainable businesses. The Project spans the whole range of the profession: asset owners, fund managers, fund selectors, pension consultants, actuaries, trustees, wealth managers and the professional standards and trade bodies.

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