

THE DOWNSIDE OF BOARD DIVERSITY: LANDSCAPES AND CHALLENGES

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Abstract

Promoting board diversity has had many supporters for years. Assuming that more minds would end up at better decisions, such would be an absolute win, however, there is a caveat, as with more diversity there is more potential for conflicts to arise as well. With the interlocking representations of current world multinational boards, their composition includes people from significantly different globe regions, which bring completely different worldviews into the boardroom. Therefore, the potential for misunderstandings, miscommunication, and ultimately board dynamic failures has never been higher. As this paradigm is unavailable, its context demands new solutions and perhaps new board leadership and training approaches. This article points towards possible research pathways for addressing such an important issue for making multinational boards more effective and efficient.

1. INTRODUCTION

The last decade has seen a growing number of studies advocating for board diversity. Diversity brings with it several advantages; stating from a sort of ‘wisdom of crowds’, where multiple minds usually end up at better decisions (Surowiecki, 2004) by using multiple models which cover blind spots and therefore contribute to better decisions (Page, 2018).

There are, however, some disadvantages in board diversity as well. Such disadvantages originate from a potential for a rise in the level of conflicts within boards. Conflicts usually originate from different worldviews which are rooted in 'mental models' (Senge, 2006). Everyone has his/her own worldview which is formed by his/her growing experience, encompassing not only education but also living experience and most importantly the influence of the culture where a person has grown up since early ages (Drucker, 2005). Therefore, the positive effects expected to be reaped from more diverse boards may not be as straightforward as has been advocated. For instance, what would be the potential board dynamics within a board composed of members from a Far East country such as Japan, which is classified as a 'face culture' trying to interrelate with someone from an 'honour culture' such as some Middle East countries, or a someone from a 'dignity culture' for which western world is a closer example (Brett, 2014)? Or what dynamics would result from different perceptions of time, from either monochronic or polychronic cultures (Meyer, 2014; Água et al., 2023). If one adds the usual mind bias to these cultural differences arising within diverse boards it is not difficult to foresee that culturally diverse boards have a high potential for some negative dynamics associated with rising conflicts (Água & Correia, 2022). This study does not, however, argue against board diversity; instead, it calls on the need to address the problem of cultural diversity by providing adequate solutions through better board directors' education. The remaining of this work is organized as follows: Section 2 provides a background on some culture model approaches relevant to the board directors' interaction and dynamics. Section 3 presents the methodological approach. Section 4 suggests two avenues for solving the problem. Finally, Section 5 concludes the study by pointing out the need for future research.

2. BACKGROUND

The scope and focus of this study are the cultural differences, common in multinational boards, and the need to design solutions to address the potential negative effects resulting from board diversity in such situations. From one side, there is a considerable amount of research published on culture models *latu sensu*. From the other side, it is possible to design adequate solutions to address the potential negative effects resulting from the intercultural differences within the boardroom. Culturally diverse boards originate mostly from cross-national investments, a subproduct of the globalization process. Despite some popularism standings, globalization will not stop; at most, it may face some temporary slowdown. Moreover, there are regions, such as the European Union (EU) which bring together many different national cultures. In addition, different organizational cultures also bring another layer of complexity and potential conflict to watch out for, as the famous

Daimler-Chrysler merger was shown a few years ago (Steger et al., 2004). Despite some studies focusing on a particular context (Ashley & Brijball Parumasur, 2024; Colocassides, 2022; Daw et al., 2023), the subject of cultural diversity in the boardroom needs further research, as the subject is considerably broad enough to originate several lines of research.

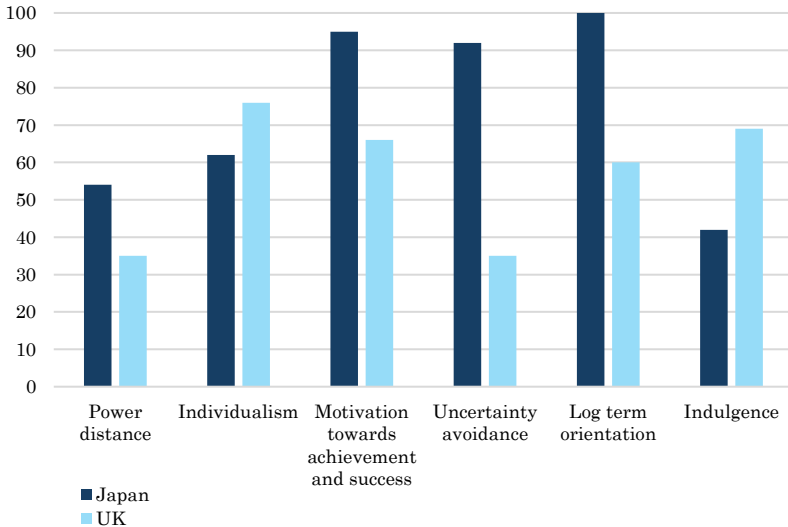
2.1. Culture models

Given that conflicts originate from different worldviews and different worldviews are strongly tied to different national cultures, what culture issues are relevant to address this problem? A starting point could be the understanding that culture is a sort of lens that helps someone better interrelate with individuals of the same culture, minimizing cognitive resources during the process of such interrelationship. Several authors have proposed culture models, all of them using some 'cultural dimensions' to help analysis. Such cultural dimensions are similar to variable sets which help in classifying and analyzing a certain culture of interest. For instance, Hall's model is composed of three dimensions (Hall & Hall, 1990): 1) low vs. high context; 2) different perceptions of time, and 3) space. Trompenaars and Hampden-Turner (1997) from their side, proposed a model with six dimensions: 1) universalism vs. particularism; 2) collectivism vs. individualism; 3) neutral vs. affective; 4) diffuse vs. specific; 5) achievement vs. ascription; 6) monochronic vs. polychronic; and 7) inner-direct vs. outer-direct. Moreover, Hofstede's (1991) model is among the most popular when trying to understand cultural differences, and comprises six dimensions: 1) power distance, which is related to the degree to which members of a society accept that power is distributed unequally; 2) individualism vs. collectivism, related to the degree of interdependence a society maintains. In collectivist societies there will likely be less initiative from its members; 3) masculinity vs. femininity, related to the more or less competitive people are in society; 4) uncertainty avoidance, related to the overall level of confidence a society shows when facing uncertainty, something with strong implications for institutional development; 5) long-term vs. short-term orientation, related to the choice of focus a society has towards time horizons, future or present; and 6) indulgence vs. restraint, which relates to the freedom of expression across society, and may have a strong impact during interactions, where transparency and assertiveness are key.

More recently, Hofstede's model masculinity vs. femininity dimension has been renamed as 'motivation towards achievement and success' which better conveys the true meaning of such cultural dimension. As an example, Figure 1 illustrates the dimensions' differences between the Japanese and United Kingdom cultures using Hofstede's model. It is not difficult to foresee potential conflicts arising

from such different worldviews regarding dimensions as the way people ‘avoid uncertainty’, or perceive ‘different power distances’ which may have different ‘deference’ attitudes in meetings, as well as the differences in the ‘individualism’ levels — all potential triggers for misunderstandings at the boardroom.

Figure 1. Example of Hofstede cultural dimensions for Japan and United Kingdom



Note: Based on <https://geerthofstede.com/>

Another popular model is due to Lewis (2014). His framework comprises three dimensions: 1) linear-active, which is related to people who tend to do only one thing at a time; 2) multi-active, related to cultures that tend to do several things at a time, are flexible and do not care too much about punctuality; and 3) reactive, where people tend to listen without interrupting before they react. They are also keen about asking clarifying questions instead of open confrontation.

Moreover, different levels of acceptance when it comes to hierarchy also makes a difference. Therefore, the boardroom as a particular setup for human interaction would improve by having a good understanding of cultural traits, for sake of better performance. For instance, Table 1 illustrates this point.

Table 1. Analysis and understanding of four relevant domains may help board dynamics

<i>Culture domain</i>	<i>Potential impacts within the boardroom</i>
<i>Collectivistic vs. individualistic</i>	People from more collectivistic cultures are more keen to accept common objectives, and team agreements are more normal than individual standings. For people from more individualistic cultures, it is more probable that confrontation may arise. Therefore, board directors from such cultures are more likely to promote smoother interactions within the boardroom, as they may be promoting the board's interest as opposed to individual board members.
<i>Low vs. high context</i>	People from low-context cultures prefer the direct interchange of messages and information sharing, while for people from high-context cultures, information sharing is more indirect and sometimes implicit. When blending people from different contextual cultures within the boardroom it is expected for decisions to take time, because of the need of high-context cultures to share information more explicitly, and the low context one to accept that information is not being shared explicitly.
<i>Different perceptions of time and space</i>	Different perceptions of time may affect decision-making processes, as different people place different weights regarding the importance of a critical matter or problem in a boardroom, for example, increasing frustration among different cultures.
<i>Different acceptance of hierarchy</i>	In hierarchical cultures one can observe a wider distance in power, however, agreements in the boardroom are more likely if power differences are smaller. In a boardroom, some board directors may be representing a 'higher hierarchy' shareholder, which suggests that decisions may be impacted by such fact.

The analysis of potential impacts is an example of how board directors can gain cultural intelligence, preventing the negative impacts of cultural gaps and mismatches. At the end, generally speaking, there is no better or worse culture, but different ones.

2.2. Board dynamics as a negotiation concept

Within the board functioning, however, there may be more than this apparent static dimension at play, as ultimately board dynamics is a particular case of a negotiation process. Contrasting with the previous models, Brett (2014) suggests a different approach especially applicable in the context of intercultural negotiations, and since board dynamics often resembles negotiation dynamics, it is perhaps worth looking into the main characteristics of such model, and rationalize how can it be used for improving board dynamics (Água et al., 2022). Brett's model distinguishes three different culture types and focuses on six self-explanatory dimensions: 1) self-esteem; 2) power and status; 3) sensitivity and response to insults; 4) confrontation style; 5) trust; and 6) mindset — all relevant concepts for the boardroom interaction and

resulting dynamics. The three distinct cultures are 1) dignity cultures, 2) face cultures, and 3) honor cultures. Table 2 provides the main characteristics of each such culture.

Table 2. Brett’s model main characteristics

<i>Culture characteristics</i>	<i>Dignity culture</i>	<i>Face culture</i>	<i>Honour culture</i>
<i>Geography</i>	Europe, North America, Australia and New Zealand	Far East/East Asia	Middle East, North Africa, Iberian Peninsula, Latin America, Southeast Asia
<i>Self-esteem</i>	Self-determination variable	Socially conferred, stable	Socially claimed, dynamic
<i>Power and status</i>	Egalitarian, dynamic	Hierarchical, stable	Egalitarian, dynamic
<i>Sensitivity and response to insults</i>	Low sensitivity	Medium sensitivity	High sensitivity
<i>Confrontation style</i>	Direct, rational, unemotional	Indirect, controlled, and measured, use of superiors to resolve conflicts	Direct and indirect, expressive
<i>Trust</i>	Interpersonal, high level of ingroup and outgroup trust	Institutional, high ingroup, and low outgroup trust	Interpersonal and institutional, low outgroup trust
<i>Mindset</i>	Analytic	Holistic	Analytic and holistic

Note: Adapted from Exhibit 2.2 in Brett (2014).

Dignity cultures correspond to societies which are more egalitarian, hence less hierarchical; and trust and fairness are key factors. In-face cultures are typically collectivistic cultures, where hierarchies are key, and may significantly affect dynamics in the boardroom; besides interpersonal interplay, trust is linked to institutional support and legitimacy. However, face cultures are characterized by being holistic which may be a desirable skill to count on within the boardroom. Finally, in honor cultures, hierarchies are also present however they may be less stabilized than in face cultures, hence making the approach difficult at times, as people from such cultures may make the negotiation processes more difficult and raise the potential for confrontation. According to Brett (2014): “...In honor cultures, trust means putting your self-worth in the hands of others. If you trust and your trust is reciprocated, then you gain honor because your self-worth is ratified. But there is a huge risk associated with trusting. If your trust is not reciprocated, there is both a social loss of social face and also a personal loss of self-worth” (p. 38).

Table 2 is a good starting point for board directors already aware of the cultural diversity issue and prompting themselves with questions such as: “How should I deal with people from that different culture within the boardroom?”; “How do they communicate?”; “How do I build

trust with them?". Besides being aware that some cultures are more egalitarian than others; that in some cultures communication occurs in low context or high context settings, or that some cultures are more individualistic or more collectivistic than others, they need practical tools which they must master in order to contribute to smoother and improved board dynamics in the context of multinational boards. All these issues need a comprehensive solution.

3. METHODOLOGICAL APPROACH

In order to navigate an issue as broad and eclectic as the impacts of diversity in boards it is essential to employ critical thinking and alternative analysis methodologies. Therefore, the study adopted a research approach that emphasizes critical thinking, following a structured reasoning process, as proposed by Paul and Elder (2009), which includes purpose, key questions, assumptions, key concepts, facts and experiences to support conclusions, personal viewpoints, as well as conclusions and implications. Additionally, the concept mapping technique was applied to help infer relationships among concepts.

4. PROPOSED APPROACHES AND SOLUTIONS

Having several different culture models from which to draw, and the need to address the problem of improving functioning and dynamics within the context of culturally diverse boards, some solutions are needed. A first-cut analysis suggests: 1) designing core training for board directors which includes intercultural skills subjects, and 2) making use of specialized consultants or coaches.

Design board directors' core training with cultural awareness themes. Until relatively recently board directors training was not given too much attention; however, during the last five years the number of board directors training courses at reference business schools, corporate governance institutes, and beyond, has been increasing considerably. This resulted from increasing accountability of board directors' performance as well as a closer watch from their constituencies and ultimately all involved stakeholders.

Making use of consultants or cultural coaches. The use of specialized consultants and coaches has been a past trend across many corporate subjects. Cultural intelligence is no different and is a specialized field for which most board directors do not have adequate training, experience, or understanding for the purposes of conducting their duties. Therefore, the use of cultural consultants and coaches is advisable, as such individuals may be of considerable help in educating the broad directors participating in international and culturally diverse boards. Moreover, using such professionals is also an efficient way to

support board directors, as oftentimes board directors do not have enough time or chance to attend dedicated training.

The chairman of the board in particular, if culturally competent, can act as a mediator or smoother in helping towards better board dynamics in face of cultural diversity.

Further research track regarding this subject could be 1) use of longitudinal studies, which would help understand long-term changes in board dynamics as a consequence of diversity, 2) use of comparative analysis, which would support board design, by having mapped the most compatible and least compatible culture types, 3) use of case studies, by taking specific boards' performance and dynamics, which could provide insights and lessons for practical purposes, and 4) the use of focus group approaches with groups composed of board members representatives of distinct cultures, which could elicit for instance perceived conflicts, personal experiences or the effectiveness of different strategies to deal with this diversity issue within boards.

5. CONCLUSION

This study called attention towards the fact that not everything is positive about board diversity. People have different worldviews, and conflicts arise from such worldviews differences. With international investments across businesses, an increase in multinational boards is the norm. With national and regional cultures sitting at the boardroom, the potential for negative board dynamics due to miscommunication and misunderstandings has increased, which demands solutions in order to ensure board dynamics develop adequately and boards add value as expected, for the constituencies they are responsible for. Having board directors trained in intercultural skills and the use of cultural consultants and coaches are among the suggested solutions. Lastly, a word of caution is due — any model is a simplification of reality, and therefore a cultural model is also a simplification of a context which may exhibit variation. Culture models are not absolute truths; however, they can be very useful in order to prevent conflicts and improve the dynamics within the boardroom.

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