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Cultural diversity in the boardroom and corporate outcomes

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Diversity in groups



Corporate board of directors



Corporate board of directors





Diversity of Board of Directors

- Diversity of the board
 - different perspectives, reduction of groupthink, broader consideration of factors that affect a firm; more open to different perspectives
- Different forms of diversity:
 - Occupational diversity (education, professional background, experience)
 - Social heterogeneity (gender, race, ethnicity, age)
 - of different aspects of social diversity, most focus has been on *gender diversity*



Cultural diversity of Board of Directors

- *Cultural diversity* is an important aspect of social diversity that has been overlooked
 - Cultural diversity is less observable (compared to gender or age diversity)
 - Cultural diversity is less likely to be used by companies to give the appearance of diversity (tokenism)



Cultural diversity and Group decision making

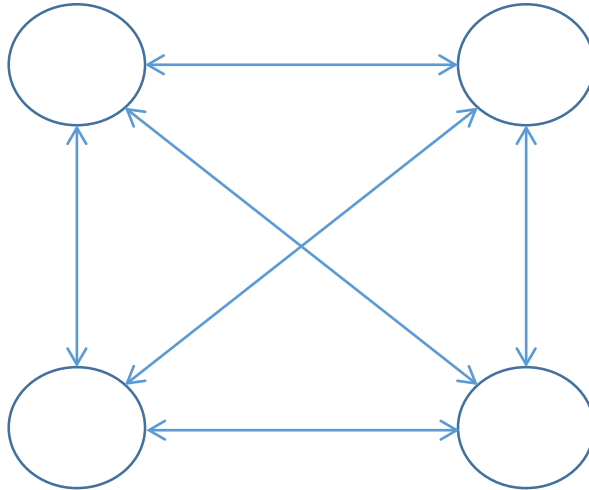
- In the management literature, cultural diversity is labelled a “double-edged sword”
- Positive aspects:
 - diverse range of knowledge and perspectives and market specific knowledge
- Negative aspects:
 - cooperation deadlocks and communication problems
 - categorization of in-groups and out-groups, which negatively affects information exchange
 - lower levels of intra-group trust

Measuring cultural board diversity

1. identify cultural background based on nationality or ancestry
2. compute cultural distances between each board member using, for example, Hofstede culture scores



3. cultural diversity of the board is the average of cultural distances of all pairs of board directors



Cultural board diversity stats: UK vs. NZ

	United Kingdom		New Zealand	
Year	% of firms with foreign directors	Cultural diversity	% of firms with foreign directors	Cultural diversity
2005	56%	0.44	50%	0.24
2006	57%	0.50	57%	0.25
2007	60%	0.48	55%	0.26
2008	62%	0.52	55%	0.29
2009	64%	0.53	59%	0.33
2010	63%	0.53	61%	0.32
2011	63%	0.54	61%	0.34
2012	68%	0.60	67%	0.39
2013	71%	0.62	68%	0.42
2014	72%	0.65	74%	0.46



Cultural board diversity and firm performance

- The UK sample: cultural diversity in boards negatively affects firm performance
- Negatively impacted are companies that have less need for cultural diversity
- Negative effects of diversity are most pronounced among independent directors



Board cultural diversity and CSR

- The US sample: more culturally diverse boards lead to more active implementation of corporate socially responsible practices (CSR)
- Cultural board diversity leads to stronger CSR in specific areas:
 - community, employee relations, diversity, and product quality
- The positive impact of cultural diversity is particularly strong for:
 - companies operating in industries with high visibility to consumers and in highly competitive industries
 - companies with boards that already have strong *positive diversity beliefs*



Concluding remarks

- Culturally diverse society and companies is a reality
- Increasing cultural diversity in top management teams and board of directors significantly impacts corporate decisions and outcomes
- We need to have a better understanding of potential outcomes of cultural diversity
- Greater awareness of cultural diversity and positive diversity beliefs help to overcome potential cooperation and communication difficulties