

DEALING WITH DIVERSITY FAULT LINES

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In recent years, boardroom diversity has been the subject of much discussion.

The benefits of board (not just gender) diversity are well known. It avoids groupthink, and provides fresh and multiple perspectives that enhance decision making. A diverse board is more likely to challenge management when circumstances demand, and enables the board to better understand and appreciate the perspectives of different stakeholders. Several studies have shown that board diversity does improve the performance of companies.

However, much as the benefits are being touted, much less attention has been directed at understanding how a better managed, diverse board can increase effectiveness in decision making.

PROS AND CONS OF DIVERSITY

The fact is that diverse groups have both benefits and costs. Diversity does not always lead to better outcomes because inherent fault lines may impede the effective functioning of diverse groups.

These fault lines divide a group into subgroups based on one or more common attributes, whether it be age, gender, education, race, nationality, tenure, functional expertise, or work background. In turn, group fault lines increase intra-group conflict and decrease cohesion, with both incidences reducing group effectiveness.

There is evidence to suggest that fault lines can be found in corporate boards. Indeed, a 2012 study by the Centre for Leadership Studies at the University of Exeter found that fault lines based on directorship type, education level, board tenure, and financial background decrease the performance of UK firms.

Meanwhile, another 2012 survey by Prof Boris Groysberg of Harvard Business School showed that American boards do not know how to take advantage of diversity. Interestingly, female directors reported they were not treated as full members of a board, while male directors appear largely oblivious to the experiences of their female counterparts.

The good news is that the negative effects of diversity fault lines can be mitigated and managed by adopting two broad approaches – ideological and self-regulatory.

IDEOLOGICAL APPROACH

This approach requires boards to impose a system of ideas and practices to help members with diverse attributes accommodate each other.

Practically, this requires boards to develop and substantively implement a diversity policy that goes beyond specifying diversity targets by articulating why diversity is embraced by the board, what value is created, and how diverse board members should relate with each other.

For instance, with respect to board relations, diversity policies can explicitly specify that board members are expected to simultaneously embrace each other's common values and traits, and differences. This is otherwise referred to as multi-culturalism.

An ideological approach is important in that it provides an overarching guide to the attitudes and behaviours that are encouraged or frowned upon in a boardroom.

SELF-REGULATORY APPROACH

A self-regulatory approach, on the other hand, requires individual directors to actively regulate their own attitudes and behaviours in a manner that minimises biases. After all, an individual's attitude towards diversity (his beliefs, in other words) reflects the extent to which he perceives diversity to be beneficial or detrimental to group performance. A director with strong diversity beliefs is more likely to adopt a self-regulatory approach to managing diversity.

For instance, a director might actively contemplate or reflect on the opinions of directors in other subgroups in a way that positively cultivates relationships. This is otherwise referred to as perspective-taking. Appointing or retaining such a director will help the board to better manage its own diversity.

A practical outcome of such an approach is for boards to include an assessment of each director's diversity beliefs when deciding to appoint or retain him or her. This may involve a combination of

surveys, or face-to-face interviews. Or, board members may be required to undergo mandatory diversity training.

On this point, it is useful to know that diversity training may be incorporated into a broader director development programme. Here, the aim is to cultivate and strengthen the diversity beliefs of current and potential directors so as to improve relations and outcomes.

In addition, there could be company-specific programmes with tailored activities that help establish shared norms, and build shared identities and trust among the directors of the company.

MUTUALLY REINFORCING APPROACHES

As previously noted, diversity fault lines are common, if not inherent, in diverse boards. While little can be done to prevent them from developing, much can be done to reduce their negative impact on board outcomes.

The beauty of both ideological and self-regulatory approaches is that they have mutually reinforcing effects that benefit and increase the effectiveness of both the board and the company. For that reason alone, board diversity is a worthwhile pursuit, so long as boards do more than pay lip service to the idea, and actually implement a substantive integrative strategy. This means, as we have seen, implementing a comprehensive diversity policy, selecting and retaining directors with strong diversity beliefs, as well as requiring board members to undergo mandatory diversity related training.

With the focus on board diversity expected to increase, it also means that the earlier that boards take action in this direction, the better. ■