by Jean-François Manzoni, Paul Strebel and Jean-Louis Barsoux

WIDENING THE LENS

THE CHALLENGES OF LEVERAGING BOARDROOM DIVERSITY

Increasing a board's diversity not only introduces new ideas, experiences and thinking, it also creates more friction. Here's what to do about it.

HAVING SPENT THE PAST FIVE YEARS working closely with the boards of some of the world's leading organizations, we have come to a simple conclusion: boards need to become more diverse – not just demographically, but also in terms of the backgrounds, competencies and interests of their members. Of course, we aren't alone in this belief; the recent financial crisis only highlighted the demand for greater board diversity. The breakdown in risk management at **UBS** – the biggest European victim of the credit crisis – provides a dramatic illustration that it is no longer sufficient to have a board of respected (or even admired) generalists.

Increasing boardroom diversity won't be easy, because like other elite groups, boards have a tendency to self-reproduce. As a result, regulators sometimes feel obliged to resort to legislation in order to bring about change: in the U.S., the **Securities and Exchange Commission** has proposed to allow large shareholders such as pension funds to nominate up to one quarter of a company's board members; in Canada, public companies are now obliged by law to assess the mix of capabilities on their board in order to remedy deficiencies via the succession process; and in Europe, Norway has mandated 40 per cent representation by women on company boards – and Spain and France have followed suit.

While such policies will add fresh faces to boards, they provide no guarantee that benefits will ensue. Based on our conversations with leaders, many in the business community believe that diversity can also lead to gridlock. The fact is, people often feel threatened or annoyed by colleagues who are very different from themselves and have difficulty accepting, much less appreciating, those colleagues. In this article we will address these challenges and what can be done to ensure more effective boards going forward.

The Costs and Benefits of Diversity

Research to date indicates that the effects of diversity on a team's productivity are mixed at best. In terms of benefits, diversity is believed to broaden the range of information and expertise available, reducing the risk of missing a critical angle. It is also believed to widen the scope of social network ties and skills that groups have at their disposal – which is especially relevant for complex tasks that require the integration of different perspectives and ideas. Group diversity has also been shown to promote error detection, more rigorous information processing and enhanced problem solving.

At the same time, diversity clearly complicates group functioning. Norms and conventions have to be explained and assumptions that are taken for granted are suddenly called into question. Other costs include inefficiencies ('process losses') associated with people not 'speaking the same language' – either literally or figuratively – creating communication ambiguities and misunderstandings; and interpersonal tensions and conflict. Some of this friction is a natural consequence of reconciling clashing perspectives; but studies reveal that diversity increases the likelihood of both task conflict and, to a lesser extent, relationship conflict. Hence, while diversity is widely invoked as a solution to groupthink and complacency, it is clearly a two-edged sword.

In our own research we have found that increasing a board's diversity introduces two particular complicating factors:

- **New sources of misunderstanding.** Diversity creates more opportunities for misperceiving the words or actions of others. Directors who don't share the same 'thought worlds' will see things differently (which is desirable) but may also behave in unexpected ways. Getting through to fellow directors who are approaching issues from a very different 'interpretive grid' takes energy and persistence. Such efforts can easily come across as disruptive or aggressive, especially if the process isn't well managed. *What* is said is always important; but *how* it is said and the recipient's inference about *why* it is said can obscure the factual content of a message. For example, we know from cross-cultural research that Brazilian executives interrupt each other twice as often as American executives. Witnessing such behaviour from a Brazilian director during a meeting, it would be easy for an American colleague to read it as 'aggressive', whereas Brazilians believe it conveys engagement. As a result, relatively superficial cultural habits can be mistaken for deeply anchored 'personality problems'.

- **The proliferation of labels and stereotypes.** Diversity widens the repertoire of ready-made labels in the form of stereotypes for directors to attach to one another; for example, 'He's a typical academic'; 'she's a typical consultant' or 'he's a typical Brit'. Labeling is a natural process for human beings. It helps us determine how to interact with others and make sense of their actions. But labeling is also problematic in that it tends to trigger self-fulfilling and self-reinforcing processes. Arguably, this is what happened to **Jerry York** when he joined **GM**'s board. As a representative of the corporate raider **Kirk Kerkorian**, York came pre-labeled as a 'troublemaker'. The former CFO of **Chrysler** asked tough questions, but in doing so, he prompted the other directors to close ranks and support their embattled CEO, **Rick Wagoner**. Barely eight months after joining the board, York resigned, pinning the blame on a dysfunctional boardroom environment that was "not very receptive to probing much beyond the materials provided by management." Just two-and-a-half years later, Wagoner and most of the board members were forced to step down when GM filed for bankruptcy.

The Implications for Boards

When a new director is appointed, particularly one who is expected to inject fresh thinking, board members will scrutinize the newcomer's words and behaviour and form theories about his or her competence, character and commitment. Besides trying to ascertain whether this is someone who can make a meaningful contribution and with whom they can easily work, incumbent board members may fret about the likely impact of the newcomer on the existing pecking order. A new director who tries a little too hard to show his or her worth can easily come across as 'posturing' or as a threat to another director's established area of expertise.

While the initial concern can be performance-related, it can also stem from aspects of the individual's personality or style that jar with colleagues. Board members may grow irritated by a newcomer who asks too many basic questions ("he's clueless", "she's high maintenance"), stays silent ("he's insecure", "she's uncommunicative") or who makes too many references to the practices of other boards on which s/he serves ("he's a know-it-all", "she's a pontificator.")

Inherent Challenges for Boards

The challenge of developing both trust and robust debate is especially acute for boards, whose interactions are complicated by several distinctive features:

- Boards are made up of successful leaders – people with strong intellect, ego and drive who are not easy to manage;
- Because they attract people with forceful personalities, boards are more exposed to labeling than most workgroups;
- Most directors also have 'day jobs,' often including other board memberships, setting up competing demands on their time;
- Directors don't meet up very often, so there are fewer opportunities to develop bonds or to iron out emerging tensions;
- When they do meet, it is often in a very formal context, making self-censorship more likely;
- There may be wide differences in authority, tenure and reputation that create inhibiting pecking orders and deference norms; and
- There is a far greater range of potential differences in occupational background than would be found in other organizational teams.

These snap judgments reflect what is known as the Fundamental Attribution Error, whereby we tend to latch onto and overestimate dispositional or personality-based factors when explaining the behaviour of others, while underestimating situational factors. The problem is that these initial impressions are much less accurate than we think they are, and yet, how individuals view each other determines how they interact. The label that board members put on a new colleague serves to guide subsequent behaviour towards him or her – for example, the manner and extent to which they engage with the newcomer, share information and offer support. If someone is viewed as unlikely to be a weighty contributor, that person will not be included in the informal interaction before or after meetings – thus reducing his or her capacity to contribute. Similarly, exchanges with people who are viewed as 'difficult' may be unduly brusque or forceful. Directors usually fail to appreciate their responsibility in triggering these negative dynamics or to notice the constructive efforts of the other party because of 'confirmatory biases'.

Once board members develop an unfavourable impressions of a colleague, they tend to process information in ways that support their initial impressions, leading to the following:

Alertness levels rise. When individuals are primed to look out for one thing, they typically pay less attention and can even become 'blind' to less-relevant information. For example, if a fellow board member is suspected of 'free riding', directors will tend to *notice* and *remember* that person's absences or signs of poor preparation in a way that they would not with a colleague whom they regard as 'committed'.

Interpretations grow biased. The labels alluded to earlier also guide what people make of the evidence they collect. Peoples' tendency to select explanations that match their expectations is known as *confirmatory bias*. For example, if board members doubt the motives of a fellow director, they may be inclined to read constructive challenges as 'attempts to score points'. Even a non-reaction can be read as disinterest, rather than agreement, depending on how the director is viewed. Similar actions can trigger totally divergent readings depending on what the board member already thinks of the colleague in question.

Word gets around. Cognitive biases are then reinforced through social interaction. Board members will compare notes on the newcomer and try to determine to what extent he or she seems insightful, open-minded and forthright or rather, unfocused, self-serving and cautious. To test their reading of the newcomer, board members are often inclined to turn first to like-minded colleagues. Of course, their choice of informants largely determines the kind of feedback they get. Often, their views of the newcomer end up not only being corroborated, but actually supplemented with further examples. Opinion leaders within the board play a key role in the way information spreads, and over time, a particular view of certain directors may come to dominate.

These confirmatory biases lead board members to filter out disconfirming evidence and maintain the initial label. The net result: a two-way self-fulfilling prophecy, with both sides getting exactly the behaviour they expected and interpreting 'reality' in ways that confirm their labels – creating a vicious circle that cannot self-correct.

Two Takes on the Same Behaviour

Director's Behaviour	Respected Colleague	Unappreciated Colleague
Expresses divergent views openly	Courageous/Independent/ Candid/Sincere	Uncooperative/Disruptive/ Not a team player
Speaks up forcefully	Engaged/Passionate	Dominating/Does not listen/ Insensitive
Discusses differences offline	Collegial/Diplomatic	Scheming
Rarely intervenes	Thoughtful/Good listener	Free rider/Compliant/ Uncommited
Asks "simple-but-penetrating" questions	Perspicacious/Uninhibited	Clueless/Disruptive
Plays devil's advocate	Dispassionate/Probing/Rigorous	Troublemaker/Irritating
Formal, uses titles (Dr., Prof.)	Proud/Respectful	Status conscious
Well prepared	Professional/Diligent	Insecure
Under prepared	Overstretched	Uncommitted
Picks up on details	Thorough	Pedantic/Unstrategic
Demands straight answers	Determined/Forceful	Aggressive/Disrespectful
Gives advice	Helpful/Altruistic	Meddling/Untrusting
Volunteers to serve on sub-committee	Committed/Involved	Power hungry

Typically, the ensuing malaise spreads beyond the parties immediately involved and ends up inhibiting the board's problem-solving potential.

Taking Advantage of Diversity

Having highlighted the insidious psychological dynamics that often impede board functioning when diversity is increased, we will now propose a few ways to avoid these traps.

1. Watch out for labels. As indicated, the urge to label people is deep-seated, so advising board members not to do it is unrealistic. However, they do need to be more mindful of how labels develop in their minds and to challenge these labels as they arise. They must also be more aware of their inclination to process information unthinkingly in ways that support their existing perceptions. The chair or lead director must be especially aware of the labeling and confirmatory biases we have described in order to spot the warning signs among fellow directors. Such biases can manifest themselves as early as the interview stage, when unconventional nominees being sounded out for inclusion on the board might be too easily dismissed. When interviewers catch themselves thinking "s/he just doesn't get the business", they can remind themselves that this will allow the newcomer to ask questions that the board stopped asking long ago.

2. Choose carefully. Boards are increasingly serious about plugging gaps in their portfolio of competencies and perspectives. But an additional consideration must be the nominee's personal characteristics – such as interpersonal savvy and awareness of how he or she comes across. Someone with a distinctive profile may need to win over skeptical colleagues, so they must be capable of expressing deviating views constructively. It will also help if they have experience with different contexts, as the newcomer will need to understand and adapt to the prevailing norms, before challenging them. Clearly, it is not always possible to recruit people with such sophisticated understanding of human dynamics, which means the chair must be even more attentive in helping newcomers integrate.

3. Assist newcomers. The chair needs to pay special attention to the way new directors are introduced to their fellow board members, especially if the newcomer has a divergent profile. Newcomers must be given a chance to make a favourable first impression and to connect with others in a benign setting *before* their first board meeting together. The chair might even identify a board member who is likely to connect best with the incoming director to help with this process. This individual can provide insight into the board's operating philosophy and culture up front, as well as debriefing the newcomer after meetings in order to avoid unnecessary gaffes early on. At the initial meeting, the chair can help the newcomer get off to a good start by calling on him or her to comment on a particular issue. This signals the new director's domain of expertise, while making it less likely that the other directors will see the intervention as presumptuous. At the same time, the chair must be careful not to pigeonhole the new director, particularly in the context of nominations that are meant to enhance the demographic diversity of the board – for example, by inviting a newly-appointed female director to "give us the female perspective on this issue."

4. Reconsider the team metaphor. While the team metaphor is widely believed to be useful in business, it is a dubious aspiration for boards, as it can all-too-easily degenerate into groupthink. Boards must maintain their critical edge: they do not need to be aligned to the same degree as top management teams. Indeed, the threshold at which alignment becomes unhealthy is far lower for boards. If a board fails to capture any weak signals, it cannot alert the CEO to them – and hence it fails in its crucial role as an early warning system and sounding board for the CEO. At the same time, the board must have a shared framework of the business – otherwise it becomes too easy to divide. A key research finding is that diversity helps group performance when there are differences in point of view at the service of a shared goal – but it harms performance when there is goal diversity.

5. Encourage 'initial dissenters'. People who see themselves as being alone in disagreeing with the majority may be reticent to share their dissenting views. The big danger is that the collective misgivings of individual board members may never get a chance to coalesce, unless the initial dissenter has spoken. The chair or lead director must make it easy for board members to express vague concerns as a way of finding out if those views are more widely shared. The chair may have to draw out the newcomer, particularly on issues outside their comfort zone: "Lars, you haven't said anything." If Lars responds, "Well, I'm not an expert," the chair may need to insist: "I understand, but we still value your candid way of looking at things."

6. Appoint a devil's advocate. Working groups often have someone who likes to play 'devil's advocate' in their midst. The problem is that a director who systematically looks at issues critically may end up being typecast as an oddball or a cynic whose comments shouldn't be taken too seriously. One way around the problem is therefore to institutionalize the devil's advocate role by nominating different directors to make the 'case against' the issue concerned. On major issues, the chair or lead director could ask, "Who's going to play devil's advocate on this one?" This approach makes it easier for someone with a vague sense of unease to contribute and test whether his or her own concern is shared by others.

7. Review the chair's role. Managing the tensions we have described has profound implications for the role played by the chair or lead director. As the composition of a board diversifies to include more individuals with specialist profiles, the role of the chair must also evolve, away from the chair as a kind of 'super-powered chief strategist' and towards the 'chair as facilitator' – someone capable of keeping the discussion on track and bridging gaps when people come at issues from different angles, with different mindsets and different frames; but also capable of eliciting viewpoints from those who are less opinionated and cutting to the heart of issues without bruising egos. Inevitably, this also makes the CEO a weaker candidate to chair the board – because it is much harder for him or her to facilitate patiently, to invite or encourage alternative views and to leverage the contributions of a very diverse group of individuals.

In closing

Even as boards diversify and grapple with new challenges, one thing will never change: the core aspect of every board member's role is to surface issues that the CEO may be missing and to challenge his or her thinking. Clearly, boards that have difficulty accommodating dissent or, on the contrary, reaching consensus, add up to less than the sum of their parts: they will either grow too aligned or too fragmented to challenge the CEO in a meaningful way. While this failure has often been blamed on the lack of diversity on a board, as we have shown, it can also be the *cause* of it.

Going forward, boards will be encouraged to appoint directors who are more independent, specialized, outspoken and varied in everything from their demographics to their personalities. These are all valid proposals, but they are unlikely to yield the expected results unless board members also become more sophisticated in terms of how they deal with each other as human beings. ***R***



Jean-Francois Manzoni is a professor of Management Practice and Chaired Professor of Leadership and Organizational Development at INSEAD, where he also directs the Global Leadership Centre. **Paul Strebel** is the Sandoz Family Foundation Professor of Governance, Strategy and Change at IMD in Switzerland. **Jean-Louis Barsoux** is a senior research fellow at IMD. This analysis is based on the authors' work over five years with IMD's High Performance Boards Program.