

Culture Research and Corporate Boards

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Abstract

With discussion of the boardroom culture appearing almost daily within the media coverage of corporations it is important to look at the status of culture research and how it has been utilized within the board structure. This paper completes a review of historical culture research and how it can be applied to boards, identifying gaps within existing research and board culture analysis. Using existing scholarly work the author highlights some of the learning's from past research and research concerns that need to be addressed moving forward. The author puts forward that more qualitative research aimed specifically at boards is necessary to move board effectiveness to the next level.

Keywords: Culture, Corporate Governance, Qualitative, Boards

1. Literature Discussion

Cultural research has been an intellectual war of opinions and methods that has been fought more openly than in almost any other area of research (Martin and Frost, 1996; Oyserman, Coon and Kemmelmeier, 2002a; Kitayama, 2002; Miller, 2002; Earley, 2006; Smith, 2006; Magnusson and Wilson, 2008). The battle has been on two fronts, the ongoing debate between qualitative and quantitative and a debate within each field on differing opinions, methods, and philosophy. It is not surprising these debates have resulted in many researchers making a conscious decision to select literature in tune with their own beliefs and to ignore literature that criticizes an approach they may be following (Martin and Frost, 1996).

Disagreement between scholars is normal, but the level of discord in the overt battle between Hofstede and GLOBE was described by Smith (2006) "as the battle of the Elephants" (p.915) and this debate is unique in its harshness. In reviewing this heated debate, it is difficult to see how such prominent scholars whose overall goals were similar could end up in such a discord. The GLOBE team borrowed two of Hofstede's dimensions directly and split individualism/collectivism into two, with the remaining five GLOBE dimensions being used to cover Hofstede's two remaining dimensions. The presentation by the GLOBE authors that their dimensions were a direct improvement on Hofstede's five-dimensional model sparked a sharp response from Hofstede (2006, 2010). While crediting the GLOBE study as one of the largest world values research projects, he highlighted a number of criticisms, indicating that GLOBE was neither an elaboration nor a replication of his 1980 and 1990 work. He argued that his project was directed by himself and that GLOBE, while closely co-ordinated by its designer Robert House, had all the disadvantages of too many cooks in the kitchen (Hofstede, 2006).

GLOBE responded by citing their award of excellence in applied research won in 2005. "M. Scott Myers Award for Applied Research in the Workplace conferred by the Society for Industrial and Organizational Psychology" (Javidan et al., 2006, p.897). The GLOBE project was theory driven versus Hofstede's which was action-driven. The GLOBE researchers argued that their work was transparent and could be downloaded from its website. They stated that many of the statistical shortcomings of Hofstede's study had been improved, as well as a unique link to management. The GLOBE project was designed for immediate feedback whereas Hofstede's project came to conclusions after years of analysis. The GLOBE project, unlike others, did not accept his stated assumptions and had applied a higher degree of empirical scrutiny than had been done by other scholars.

In response to Hofstede's argument that the core team of the 25 GLOBE authors were US centric and reflected too much of a US hegemony, they countered that Hofstede's claims were baseless – the GLOBE project had included 170 scholars from 62 cultures. Hofstede et al. (1990) had a clear distinction between organizational culture versus societal culture which could be found in the Hofstede et al., 1990 project. GLOBE analysis of Hofstede et al.'s 1990 study found faulty statistics and no justification for his criticism. Hofstede stated that national wealth was an important part of his own study, but was not properly considered within the GLOBE project. GLOBE responded by showing that 12 of the 18 values were correlated with national wealth. The operational aspects of how the questions were asked in terms of *as is* and *should be*, Hofstede argued were formulated at too high a level of abstraction.

In response, GLOBE stated that they were meticulous in the design of the study and that Hofstede had provided an inadequate explanation of what he meant. A key difference was that the Hofstede study used matched sets of employees/managers to evaluate leadership issues, whereas the GLOBE project used managers. The GLOBE researchers said they used middle managers as they were both leaders and employees, and the detail of their leadership values far exceeded what had been done by Hofstede (Hofstede, 2006; Javidan et al., 2006). Time did not soften Hofstede's criticisms which were repeated in 2010, advocating that GLOBE failed blatantly to either replicate or elaborate on his original study (Hofstede, 2010). The increased use of Hofstede in the accounting professions was sharply criticized by Baskerville (2003) as lacking appropriate consideration to why Hofstede's dimensions were widely rejected in both anthropology and sociology. Regardless of the criticism of Hofstede's 1980 publication, *Culture's Consequences* continues to draw an increasing number of users from different disciplines (Baskerville, 2003). Bond (2002) puts forward that the state of cultural research and the inconclusive findings of dimensions are partly due to researchers misunderstanding Hofstede's essential contribution, and that more research effort needs to be put into understanding individual-level constructs in more detail.

2. Comparison

Direct comparison between the dimensional models has proven ineffective as each of the dimensional models have been structured with different underlying assumptions. For example, Hofstede and GLOBE had exactly the same titles for uncertainty avoidance and power distance, but due to the authors' psychological starting points and structure of the surveys, these dimensions did not measure the same values. The result of the difference was not that one was correct and one was wrong, but rather that they measured different values with many overlaps. Figure 1 illustrates the complexity of trying to compare Hofstede's model to the Schwartz, Trompenaars, GLOBE and Denison dimension models. The model demonstrates the many to many relationships of the dimensions rather than the one-to-one that is often discussed in the literature on culture.

Hampden-Turner and Trompenaars (2006) suggested the three serious charges on culture research have been: (1) holding one culture as better than another is discriminatory, (2) cultural studies are said to be postmodernist, but researchers are striving for a modernist approach – thereby imposing a dominate belief on others, and (3) categorizing cultures creates crude stereotypes. Answering these charges, they put forward three hypotheses of synergy, complementarity, and latency. Synergy is to better understand the relationship of one to the other and not to make judgements as one being better than the other, while retaining universal themes.

Complementarity helps bring to light the underlying cultural differences in the research – not trying to impose a cultural preference but to understand what creates the differences, an important part of what Schein (2008) sees as a learning culture. Latency requires looking below the surface of the culture to understand more fully the complicated workings underneath. Only by understanding the circumstances and cultural responses to these can we fully appreciate the culture (Hampden-Turner and Trompenaars, 2006). Had GLOBE incorporated Hofstede as part of their team and not just utilized his work without his input, it is likely that the discord would never have happened and that the study could have benefited from his experience. Both Hofstede and GLOBE have made generalizations to explain the inconsistency between their studies and other studies, which cannot be validated without more research. The similarities of findings in various dimensions, and the deviations, are often explained by the method in which the questions were asked or sometimes even that the sequence of the questions can generate a variation in the response (Oyserman, Coon and Kemmelmeier, 2002a).

Research needs to take the learning from past research but move on beyond the dimensional approach to culture and focus on more nuanced and process-oriented models, using qualitative methods to study everyday cultural practices through analyses of open-ended free response data or conversational modes of data capture. This will help to improve our understanding of what factors are truly impacting culture (Miller, 2002; Fiske, 2002). Kitayama put forward that the reason why the measurement of cultural values is so problematic can be found within the attitudinal surveys. Surveys cannot capture the spontaneous cognition, emotion, and motivational values that occur in actual social settings. Language, customs, and behavioural differences can only be collected from direct observation (Kitayama, 2002).

The Hofstede–GLOBE debate adds to the large amount of literature scrutinizing the methods for measuring culture both organizationally and between societies. After 25 years of study and an impressive list of scholars put together by GLOBE, we are still debating the methods used in surveys, thus opening the conversation on alternative methods for looking at culture both within organizations and societies (Fiske, 2002; Maseland and van Hoorn, 2009, 2010; Taras et al., 2010). Part of the process for continued improvement of culture measurement research within the business community needs to encourage scholars, in fundamental as well as applied research, on how cultural values vary across space and time. Culture needs to be studied at multi-levels and multi-layers, using an array of both experimental and historical methods of analysis. The complexities of studying culture on a national basis can be as complex as any international study (Franke and Richey, 2010; Tung and Verbeke, 2010). Researchers need to take what they have learned from the past dimensional research and adapt new methods for looking at culture. The puzzle of culture has not been exhausted with all the research done; what we have gained is the understanding that culture does impact both societies and organizations (Oyserman, Coon and Kemmelmeier, 2002b).

The dominance of Hofstede and his pivotal role in the field has often overshadowed the work of other researchers who would be considered giants within the research community. With so many researchers trying to either prove or disprove Hofstede, the research community has lost two key elements. Firstly, the research contribution of Schwartz 1992, Trompenaars 1993, Denison 1984, House et al. 2004, (GLOBE), and potentially others not mentioned may have been understated in regards to their contribution within the field of understanding culture, and secondly, the focus on defining cultural dimensions has distracted researchers from having a better understanding of how culture interacts with the various elements within an organizational structure. Until recently, many organizational researchers' work was referred to as "organizational climate" as the term "culture" had somehow been deemed to only be appropriate for those doing quantitative research (Denison, 1996; D'Amato and Burke, 2008; James et al., 2008).

In the field of organizational and societal cultural dimensions, when compared with the work of psychologists, it is not surprising variations occurred in dimensional measurement. It is possible they were measuring different factors and never realized it. Looking at each of the dimensions presented in this paper, they have all contributed in numerous ways to the body of knowledge. The single largest contributions of individual researchers can be summarized as follows: Schwartz 1992 added the concept of egalitarian commitment, which may be argued was contained within Hofstede's individualism collectivism but Schwartz brought the specific value of egalitarianism to the forefront and opened a new range of potential research for both societal and organizational dimensions. What creates the environment where to forfeit one's self interest is best for the individual and the organization. Trompenaars 1993 opened discussion around the role of achievement versus ascription.

While some would relate it directly to Hofstede's power distance, a very different value is being presented. While it may be included *within* Hofstede's dimension, the value being perceived by the participant is very different. Trompenaars presented a different view on values and how they may be measured within an organization. Denison's 1984 model may appear as outside the norm, hence his tendency to refer to his model with "traits" rather than "dimensions", but his assumptions are very similar to other cultural dimension authors. He has inspired various followers, as described earlier, who have attempted to replicate his study from both an organizational and societal level. Denison's contribution is his more singular focus on strategy direction and values, providing the link all the other authors of dimension models have identified as important in defining values. Lastly, the GLOBE model. If it added one main feature to the literature on cultural analysis it must be the strong link the GLOBE team drew between leadership and culture and the importance leadership brings to culture and organizations.

All of the researchers highlighted have made substantial contributions to the study of culture with abundant crossover on each of the contributions mentioned. The heated debates in themselves have provoked careful and thorough consideration for future researchers in this field.

3. Learning's

The learning's from past cultural research can be summarized as follows:

- 1.** Certain universal truths exist for culture and organizations including trust, honesty, and fairness (House et al., 2002, 2004; Hofstede, Hofstede and Minkov, 2005; Ees et al., 2009).
- 2.** Cultural research has a direct link to leadership (Angeli, Jones and Sabir, 1998; Denison, Hooijberg and Quinn, 1995; Dimmock and Walker, 2000; House et al., 2004; Schein, 2004, 2008; Beaver, Davies and Joyce, 2007; Dulewica, Gay and Taylor, 2007; Drath et al, 2008; Huse, 2009a; Chen et al., 2012).
- 3.** A direct link exists between egalitarianism and the organization culture (Schwartz, 1992; Cohan, 2002; House et al., 2004; Argote and Greve, 2007; Braun and Sharma, 2007; Huse, 2009b).
- 4.** Reward systems/regulations can have an impact on culture but care needs to be taken to ensure the impact is what you are seeking; the complexity of values and their impact cannot be overstated (Trompenaars, 1993; Collier, 1996; Kirkbride and Letza, 2003, 2004; Huse, 2005; Bethoux, Didry and Mias, 2007; Bebchuk, Cohen and Wang, 2010).
- 5.** Strategy planning and effective strategic thinking has a direct link to the culture of the organization. A learning culture is directly linked to strategic planning (Denison, 1984; Cornforth and Edwards, 1999; Ingle and Van der Walt, 2001; Denison, Haaland and Goelzer, 2003; Schein, 2008; Kim, Burns and Prescott, 2009; Huse, 2009a).
- 6.** No one model gives all the answers. Cultural assumptions around dimensional constructs are important and can create alternative findings if not fully understood. Culture does impact individual behaviours and practices of organizations. Likewise individual behaviours can impact the culture of the organization (Drogendijk and Slangen, 2006; Brammer, Millington and Pavelin, 2009; Bear, Rahman and Post, 2010; Haan and Jansen, 2011; Islam et al., 2011; Banuri and Eckel, 2012).
- 7.** Qualitative research is an important aspect for the development of future quantitative studies (Hofstede, 1990; Earley, 2002, 2006; Durisin and Puzone, 2009; Birkinshaw, Brannen and Tung, 2011).
- 8.** Culture research holds promise in potentially unlocking the black box of corporate governance (Haniffa and Cooke, 2005; Hambrick, Werder and Zajac, 2008; Driver, 2012).

Gaps from the literature can be summarized in the following points:

- 1.** Inconsistent findings tend to plague all culture research (Ng, Lee and Soutar, 2007; Rapp et al., 2011). Dimensions holding the greatest promise with similar findings between studies (individualism/collectivism) have been questioned on their validity (Osyerman et al., 2002a, 2002b). No comprehensive cultural boardroom studies have been conducted using the Denison, Hofstede, Trompenaars, or GLOBE dimensions.
- 2.** Direct comparison between the dimensional models is ineffective and prone to error as it is unlikely even models with the same dimension titles are measuring the same values (Denison, 1996; Martin and Frost, 1996; Chanchani and Theivanathampillai, 2002; Earley, 2002, 2006; Baskerville, 2003; Magnusson and Wilson, 2008; Breuer and Salzmann, 2009; Maseland and van Hoorn, 2009).
- 3.** The debate on how many dimensions appears inconclusive. Hofstede's five dimensions make cross cultural comparisons easier, but have received substantial criticism over gaps. GLOBE's 18 dimensions were criticized as being too many and difficult to measure in terms of effectiveness (Martin and Frost, 1996; Miller, 2002; Matsumoto and Seung, 2006; Ng, Lee and Soutar, 2007; James et al., 2008; Minkov and Blagoev, 2012).
- 4.** Culture research participants have been employees, middle managers, and students with only a limited number of senior executives involved in cultural analysis (Pettigrew and McNulty, 1998; Hambrick, 2007; Kakabadse and Kakabadse, 2007; Hambrick, Werder and Zajac, 2008).

5. All models identified use an integrated leader–follower leadership model. This does not take into consideration the impact of the follower on the leader. The more appropriate model for board analysis is the shared leadership model. While the shared leadership model has had limited exposure to actual boardroom studies, it has been a focus of theoretical development by scholars (Gronn, 2002; Pearce and Conger, 2003; Bryman, 2004; Day, Gronn and Salas, 2004; Ensley, Hmieleski, and Pearce, 2006; Harris et al., 2007; Drath et al., 2008; Dechurch et al., 2010; Hernandez et al., 2011; Vandewaele et al., 2011). With the need for a different leadership model, are any of the existing dimension models best suited to study boardroom culture?

6. Board cultural studies have tended to be on either partial surveys or based solely on information accessed outside the boardroom. Survey data by itself makes analysis difficult without direct interaction with the surveyed participants. It has been identified that more qualitative studies need to be conducted within the field of cultural analysis (Conger, 1999; Pettigrew and McNulty, 1998; Earley, 2006; LeBlanc, 2004; Huse, 2009b; Vandenberg, Carrico and Bressman, 2011; Suddaby, Hardy and Huy, 2011; Fortuna and Loch, 2012; Banuri and Eckel, 2012; Turnbull, 2012).

7. None of the cultural studies reviewed incorporated existing codes of conduct within corporations to investigate whether these potential codes are creating a culture (Bethoux, Didry and Mias, 2007; Aguilera and Cuervo-Cazurra, 2009).

8. Corporate governance has been so focused on agency theory (Donaldson and Davis, 1991; Corley, 2005; Hendry, 2005; Roberts, McNulty and Stiles, 2005; Wong, 2009a, 2009b; Segrestin and Hatchuel, 2011) that what little culture research that has actually completed has focused on board composition (Mallette and Fowler, 1992; Dalton et al., 1998; Heslin and Donaldson, 1999; Kiel and Nicholson, 2003; Kang, Cheng and Gray, 2007; Li and Harrison, 2008; Chen, Dyball and Wright, 2009).

The importance of cultural research of all types is only just beginning to come to light within the corporate world, and while past typologies of culture can be criticized from a range of directions and methods, researchers need to put more focus on utilizing the research of the past to help direct future research (Chanchani and Theivanathampillai, 2002). One of the greatest restrictions has been access to the boardroom and the elites (LeBlanc, 2004). Pettigrew and McNulty's comments from 1998 are still true today:

"By and large, social scientists do not study the élite institutions of the societies they inhabit. Thus research in the various fields of management is very much more about the conduct of senior and middle managers and professional advisers than it is about the behaviour of boards and directors. Even when élite institutions such as boards are approached it is often from the limited perspective afforded by secondary data rather than through direct observation and interviewing of the leaders of major business firms." (p.197)

With the exception of the behaviourists who now talk more and more of culture as part of the dynamics of the business environment, most of the research has been left to psychologists within the business world, with researchers not participating head on. The lack of participation is evident in the field of corporate governance, where almost no studies have been done in detail to explore the role of culture specifically. In 2009, psychologist Dr. Zimbardo set up a consulting training organization known as HIP (Heroes Imagination Project), using past research into why people behave badly to try to understand why corporations that were once considered the leading examples of corporate governance could fall so far from role models to organizations of corruption and greed. Was the problem a couple of bad apples or was the problem linked to the organization itself? Historically, having a psychologist in the boardroom was unheard of, but maybe the time is now appropriate to listen to what they have to say about human nature if we are to find evidence-based solutions for corporate governance. If we believe everyone joins a board wanting to do a good job, how do good people stray so far from their core values?

What Zimbardo (2004) proposes is that a process be put in place to support a learning culture that can maintain ethical values when challenged. Schein (2008), in his definition of culture, states that culture is a set of values that can be learned and replicated over time. The question the boards need to understand is how these values impact their decision making within the boardroom. Is it possible to create a culture that can maintain itself and prevent corruption from taking over? When evaluating company performance, does it matter whether the majority or minority of the board members are independent? Does it matter whether the same person is the CEO and chair of the board? Does it matter how the board members are elected?

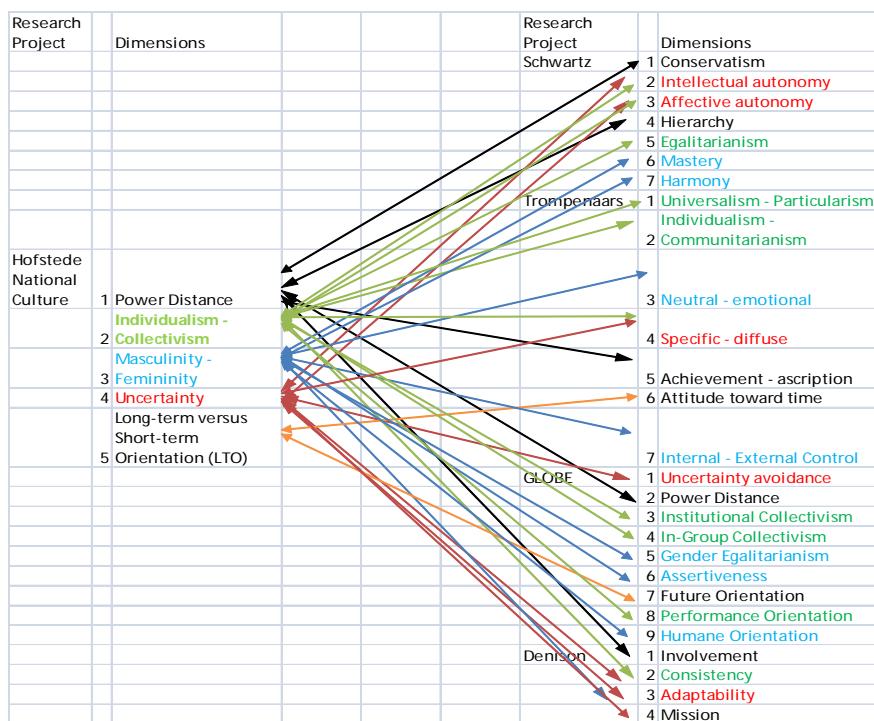
Does it matter if there is a document outlining investor rights? Do all our laws, rules, regulations, guidelines, and best practices concerning the governance of publicly-traded companies matter? If they do, this should be reflected in better-run companies that provide superior financial and market performance for shareholders and all stakeholders. While this has not been conclusively demonstrated in the numerous research studies done to date, perhaps as more data becomes available this will occur. Methodologies for board and cultural analysis have been primarily based on quantitative variables. Researchers take board structure or governance variables and develop numeric scores, ratings, or rankings of the data. These data are then regressed against financial, market return, or valuation variables to see if a relationship exists. This work converts primarily qualitative data into quantitative data. That is a problem when the research question is qualitative in nature. The problem may be that there is a relationship between governance and the financial and market performance of the company, but the methodologies used to detect it have not been successful. Perhaps more time must be devoted to developing a methodology that retains the qualitative nature of the data.

To try to answer this important question, researchers must begin to employ methodologies that maintain the qualitative nature of the data. The board and board committees of publicly-traded companies meet on a regular basis, overseeing the overall strategic direction of the company and to perform many other vital functions. It seems clear that its actions would affect company performance. This last point is the heart of the issue. It is not board variables that influence company performance, it is its actions. Any study considering the credibility of boards must consider the actions, together with the characteristics, of boards. The literature review has demonstrated how important it is to combine the research streams of culture and board performance. Is the board an effective governance mechanism? That is still an open question. Researchers continue to model the relationship between the board, its membership, and the board's actions as affecting shareholder and firm value. The continued work on culture and the boardroom may hold some of the solutions on how to create more effective boards.

4. Contribution to Research

The literature review within this paper has brought the dominant researchers of culture and corporate governance together in a unique analysis. The review presents an unbiased overview of the top cultural researchers, highlighting both the debates and contributions they have made in this field of research and the applicability of culture research to the field of corporate governance. It brings together the history of corporate governance research and the importance of culture as a key element in the pragmatic and scholarly goal of improved corporate governance for organizations. It brings into focus the need to take a different approach to corporate governance and also how we look at the role of culture in both setting our governance structures and potential regulations. It combines the research of the past to propose a new direction, merging the scholarly work of those within culture and governance.

The next steps of governance research need to look beyond the agency theory and how to combine the work of psychologists, economists, behaviourists, and other scholars to better understand the board, its members, and how it functions. This can only be done by having access and transparency into the black box known as the board. To be effective, we need to understand if the driving dimensions of boards are similar to those identified by past scholars for nations or organizations, or if different dimensions tend to dominate the landscape of the boardroom.

Figure 1 Overlap model between dimensional constructs (by author)

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