

COSTS OF DIVERSITY IN SUPERVISORY BOARDS: FOREIGN BOARD MEMBERS AND THE LANGUAGE BARRIER IN NORDIC FIRMS

Abstract

In non-English speaking countries, such as the Nordic countries, the decision to recruit a foreign board member is often followed by a change in the working language of the board. In this paper, we draw on internationalization theories, literature on the role of language in international management and diversity management - which we extend by including language as one dimension of diversity management. Based on secondary and primary data collected through case studies in nine Nordic companies, we show how English as the new working language impoverished the discussion in board meetings and limits the contribution of some board members. Our evidence also demonstrates that some board members have experienced social exclusion. Overall language considerations seem to reduce the potential pool of board members. Our case studies show examples of how internationalization of the board can generate both direct and indirect costs.

Introduction

Much of the discussion on diversity management in general, and diversity of corporate boards in particular, has focused on the benefits of expanding the composition of the corporate board with individuals representing different demographic, educational, national and cultural characteristics. Such differences are expected to increase innovative thinking and reduce ‘group think’, improve problem-solving capacity, expand the pool of potential board members and contribute to their greater independence.

According to UNCTAD (2008) the Nordic countries have the largest relative share of multinational corporations. As small and open economies these countries have always engaged in international business operations. Not surprisingly, a debate has emerged about the internationalization of top management and the inclusion of foreign members in corporate boards. However, previous research shows that the internationalization of the apex of the organization is a slow process. The classical study by Perlmutter (1969) captured the evolution of managerial attitudes towards foreign operations in a framework which portrayed this shift as a movement from ethnocentric attitudes to polycentric and finally geocentric attitudes. Forsgren et al. (1995) studied the relocation of divisional headquarters from Sweden abroad and established that the internationalization of top management lags behind the internationalization of business operations. In a case study of Finnish multinationals, Barner-Rasmussen et al. (2007) observed that divisional headquarters were relocated

abroad with the specific purpose of attracting foreign managerial talent. In support of Forsgren et al. (1995), Barner-Rasmussen et al. confirm with Finnish data that the decision to relocate headquarters units abroad took place only once a high degree of internationalization in company operations had been attained. Thus, it can be assumed that the internationalization of the corporate board is one of the last steps in this process.

An obvious question to be asked; why is the internationalization of top management and in our case, corporate boards, so slow? In this paper, we argue that one of the explanations for the reluctance of board internationalization stem from the direct and indirect costs associated with the entry of the first foreign board member and the subsequent change in the working language of the board. In the context of the Nordic countries, this means a shift from the national languages such as Swedish, Norwegian, Danish or Finnish - to English. We adopt the position that the 'hype' surrounding diversity management has overshadowed the potential costs of diversity, including those caused by the introduction of a new working language. In this paper we aim to answer the following the research question: what are the implications of adopting English as the common working language in corporate boards?

Our paper is structured as follows. We first briefly review earlier work on diversity in terms of advantages and disadvantages. Thereafter, we present our methodology, a mixed method design combining secondary data with primary data from a multiple case study on multinationals operating in Denmark, Finland, Norway and Sweden. Our findings show that the shift in the working language of the board had serious cost considerations for the companies in question.

Literature review

Previous research on board diversity is not abundant, particularly compared to the large volume of empirical studies on diversity and diversity management in business more generally (Carter, Simkins, and Simpson, 2003). However, we show that the literature is strongly leaning toward the benefits of board diversity at the expense of the disadvantages and costs. Moreover, in the context of corporate boards - gender diversity is much more discussed than national or cross-cultural diversity. As a starting point, we use the definition of diversity management by Stockdale and Crosby (2004, p. 12): "systematic and planned programs or procedures that are designed (a) to improve interaction among diverse people especially of different ethnicities, sexes or cultures, and

(b) to make this diversity a source of creativity, complementarity and greater effectiveness”. In this paper, we consider possible benefits and costs of diversity and relate it to national and language diversity.

Benefits of diversity

The literature on diversity management presents many reasons in favour of increased diversity. Some argue for diversity as a ‘business case’ suggesting that it affects positively the bottom line results of the company (Diez and Petersen 2006). Others approach the issue from a moral perspective arguing that ‘advanced’ companies are characterized by equality, justice and lack of discrimination. Diez and Petersen (2006), in turn, divide research on diversity management in two approaches: the macro or organizational level approach which suggests change processes toward multicultural organizations, and the micro-approach which draws on psychological models of discrimination and inter-group relationships in order to reduce conflict and maximize collaboration. The two perspectives are not mutually exclusive and they tend to overlap in the literature as well as managerial practice.

Adams and Ferreira (2008) argue that an important benefit of a diverse board is access to a greater pool of qualified board members. It is unlikely that the best board members of a multinational corporation would be of the same nationality and age, have a similar educational background and share a number of demographic characteristics. On the contrary such demographic concentration in the board could be regarded as evidence of discrimination.

Another argument for diversity is greater independence of board members. According to agency theory a board is a mechanism to overcome the separation of ownership and management, which gives rise to self serving executives (e.g., Fama and Jensen, 1983; Eisenhardt, 1989). Boards which are independent of managers and other special interest groups may be more effective in monitoring managers on behalf of shareholders (Rosenstein and Wyatt, 1990; Cotter, Shivdasani and Zenner, 1997).

It has also been argued that diverse boards are more creative and suffer less from group-think. In an early study Hoffman and Maier (1961) suggested that group diversity enhances overall problem-solving capacity. This suggests that the best performing team (board) should have members representing different demographic characteristics. However, the conclusions from empirical

research on team heterogeneity and performance are mixed (Hambrick, 1994). For example, Distefano and Maznevski (2000) find that cross-cultural teams are more creative and generate better solutions which go beyond obvious ones. Yet, the average performance is not significantly higher among cross-cultural teams. In fact, the performance varies more in teams that have greater cultural diversity.

Previous research also demonstrates that diversity may have a signalling effect within and outside the corporation. For example, female board members may send an important signal to employees and customers that the corporation respect gender equality and that there is no glass ceiling preventing women from advancing up the corporate ladder (Smith, Smith and Verner, 2006). Similarly, Oxelheim and Randøy (2003) found that an international board may signal a credible commitment to international corporate governance standards. They established empirically a positive relationship between the existence of an Anglo-American board member and the market value of Norwegian and Swedish firms. Oxelheim and Randøy argue that in the companies they studied the Anglo-American board members boosted “good corporate governance” through enhanced independence of the board. Heijltjes et al. (2003) point out the value of matching the proportion of foreigners in top management and boards with the degree of internationalization in the workforce, company’s business operations and among owners.

Given the limited research on national diversity in corporate boards it is perhaps not surprising that language in terms of mother tongue or foreign language competence is rarely considered a dimension of diversity. A cursory review of recent handbooks in the field (Kondrad, Prasad and Pringle, 2006; Björkman, and Stahl, 2006) shows that the dominant tradition in diversity management is one of ‘language-absence’. When, rather unusually, questions associated with language are explicitly addressed, they are related to different accent, that is ways of speaking English, which refers to social class. In the present paper, we position language as an equal dimension of diversity alongside nationality, gender or educational qualifications.

Turning to a growing stream of research on language in international business and international management, scholars have now started to conceptualize the modern multinational corporation as a linguistically diverse community (Barner-Rasmussen and Björkman 2007, Luo and Shenkar 2006; Marschan-Piekkari et al. 1999a). The crossing of language boundaries occurs both in internal communications between parent country language, subsidiary language and the common corporate language as well as in external communications when switching to the appropriate customer language. Several companies have invested in a common corporate language to ‘standardize’

internal communications and reduce language diversity. They wish to improve efficiency, enhance access to company documents and create a sense of belongingness between the members of the corporate family who are geographically scattered across the world (Marschan-Piekkari, Welch and Welch, 1999b). This has involved for example providing personnel with language training, making translation services more widely available and updating intranet systems. Multinationals such as Nokia and international organizations such as Oxfam have produced written language policies which specify language choice and even the tone of voice (Kangasharju et al. 2010). A strict one-language policy is likely to make staff accountable for their own language competence and use (see SanAntonio (1987) for an English-only example).

Like other dimensions of diversity, linguistic similarity between people breeds connection and is a basis for similarity-driven communication patterns in multinational corporations (Mäkelä et al. 2007, Marschan-Piekkari et al. 1999). Based on case study research, these authors show how information and best practices are efficiently exchanged within clusters united by a shared language. However, in the absence of a shared language or in case of limited language competence barriers between these clusters emerged, creating bottle necks in communication. While most researchers view language as a barrier, Ribeiro (2007) is one of the few to regard it as an aid in communication. Ribeiro focused on the role of interpreters in the transfer of technological knowledge from Japan to Brazil. He observed that interpreters acted as cultural mediators and buffers creating healthy space between the Japanese and Brazilian engineers who would have otherwise experienced more misunderstandings and cultural clashes in their communication. Based on the above discussion, we argue that the choice of corporate language has great ramification for both the working style and the effectiveness of the board.

Costs of diversity

Compared to the literature on the benefits of diversity in corporate boards, the cost side has received limited scholarly attention. Yet, research shows that diversity may also reduce the effectiveness of teamwork because of lower group loyalty. For example, studies in social psychology (e.g., Zander, 1979) have found that group loyalty depends on the similarity of group members. In management studies, Kanter (1977) proposed that trust is facilitated by similarity in top management teams. She emphasized that this kind of trust may be more necessary when environmental uncertainty is high.

Pelled (1996) distinguishes between two kinds of conflict that may emerge from diversity. Job-related diversity (such as job experience, functional background, and organizational tenure) may lead to substantive conflicts that end up having a positive impact on organizational performance. In contrast, demographic diversity may cause affective conflicts which reduce organizational performance. However, it worth noting that visible and job-related diversity may be related. According to Pelled, they may come to the fore when foreign, young or female members who have different world views enter the board.

Likewise, according to Arrow (1951), social choice literature has found higher costs of collective decision-making when the decision-makers are heterogeneous. Board diversity may necessitate longer, less efficient board meetings, the probability of misunderstandings and decision errors may increase, and conflicts of interest may also be more likely to occur.

Greater diversity could also make boards less efficient and reflect negatively upon its decision-making processes. The grandfather of agency theory, Michael Jensen (1993), argues that any efforts to compose the board after a democratic political model in which various constituencies are equally represented are likely to make the decision-making weaker. In other words, board diversity may render the work more complex, unsettle existing power structures and board dynamics as well as weaken the bargaining power of the board vis-à-vis shareholders and other influential stakeholders. The incumbent board may therefore resist increase in diversity even in situations in which this might improve organizational performance from a financial viewpoint (Oxelheim et al. 2009).

In a study of the world's 148 largest multinational corporations Staples (2008) found that cross-border acquisitions almost always result in a more international board. He also argues that once a board has become international, it tends to remain international. A potential explanation could be the initial investment associated with accepting the first foreign board member. While previous research on language in multinationals has, to our knowledge, not covered corporate boards, researchers have examined the implications of a common corporate language on foreign subsidiary management. One of the outcomes of this research is that the language barrier exists particularly at lower organizational levels (Marschan-Piekkari et al. 1999b). In contrast, many top managers tend to be comfortable using English as the *lingua franca* of international business. A supporting factor is that much of the management education such as MBA programmes is offered in English (Tietze 2004) creating an English-speaking elite. Thus, the implications of English as the working language of corporate boards still remain to be explored. However, even business people with a lifetime of English as a working language can make blunders linguistically. The “we care about small people”

reference by the BP Chairman Carl-Henric Svanberg (referring to common people along the Gulf of Mexico during the 2010 oil spill), is such an example that cost BP substantial “badwill”.

Methodology

The corporate governance systems in the four Nordic countries selected for the present study – Denmark, Finland, Norway and Sweden - are rather similar and can be seen as a modified version of the German system, with a strong focus on the alignment of interests between managers and industrial (corporate) owners (Angblad et al., 2001). These countries can also be classified as political economies formerly sheltered by extensive capital controls – particularly prior to the 1990s. Thus, we find it particularly relevant that our sample firms are drawn from four small and open economies.

The research design of the present study is a mixed method approach, consisting of descriptive statistics based on secondary data and multiple case studies of nine firms from the four countries.

Secondary data

Our initial sample consisted of all the listed firms in Denmark, Finland, Norway and Sweden at the beginning of 2007. For each firm we identified the board members by examining each firm’s annual account and their web sites. For each board member and CEO, we collected their name and surname, birth year, year of (first) appointment on the board, nationality, gender, information on his/her role in the board (i.e. employee representative, committee membership), education and international experience in boards, work or studies at the end of 2006. In the second round, the collection was extended over the whole 2001-2007 period. We re-checked the collected information and collected new data for the years 2001-2005 and year 2007. Due to limited availability of information, the collection was limited to a set of most relevant variables: directors’ name and surname, birth year, first appointment on the board, role in the board (employee representative), gender and nationality. All information was collected by persons having the nationality of each respective country, and alternative data sources (i.e. internet, lists of important individuals, business week, etc.) were used in cases where the identification of name and surname was not straightforward. After the two rounds, we performed a final control of the data by comparing the info for the same board members over different years and, re-checking the collected information for a selected sample of firms (round three). Not all the data was, however, available for every firm;

this leaves us with a rich but unbalanced panel consisting of 431 firms in year 2001, 471 firms in 2002, 493 in 2003, 518 firms in 2004, 537 firms in 2005, 757 firms in 2006 and 678 firms in 2007.

Table 1 shows the share of foreign board members in publicly traded firms in Nordic countries. Even though there has been a trend of more foreign board members in all countries during 2001-2007, the change has been relatively small (from 6-11% in 2001 to between 9-14% in 2007). The high increase in foreign board membership in Norway is partly associated with the gender quota, as new female members are more likely to be non-nationals.

Table 1: Percentage of foreigners on boards (unbalanced sample)

	2001	2002	2003	2004	2005	2006	2007
DENMARK	6.52	6.00	6.09	7.00	8.59	9.64	9.50
FINLAND	7.40	8.38	7.90	9.40	9.30	11.56	13.70
NORWAY	10.63	8.50	9.33	10.76	13.53	14.58	13.94
SWEDEN	7.15	6.99	8.09	9.14	9.14	9.02	9.90

Primary data: Multiple case studies in four countries

The case companies were selected based on their level of board internationalization in 2007. Rather than selecting companies with the average number of foreign board members (see Table 1) we purposefully chose ‘outliers’ (Ragin, 1997) that is interesting company cases which were out of the ordinary. The nine Nordic companies were: Biohit, Danisco, Ericsson, Expert, ISS, Nokia, Novozymes, Outokumpu and Simrad Optronics. Three of these firms were headquartered in Finland, three in Denmark, one in Sweden and two in Norway. Most of them had more foreign members than the national average, but one Finnish company, Biohit, de-internationalized as its one and only foreign board member left the board. Thus, Biohit was placed in the extreme low end of the board internationalization scale. We selected firms that had recently made substantial changes in terms of board diversity and corporate governance and matched the case companies in different countries by selecting firms from the same industry such as Nokia of Finland against Ericsson of Sweden.

The purpose of the case studies was to explain the internationalization and increased diversity of corporate boards in a holistic rather than variable-oriented way (Ragin, 1992). In the course of the study, language emerged as an important theme which we added to our interview guide as the project progressed.

Since the first foreign members joined the boards of the case companies in the late 1990s or early 2000, which in the majority of cases triggered the shift in the working language of the board, we were able to trace the event back in time through retrospective interviews. A total of 30 personal interviews were conducted (see Table 2). These interviews were held with the Chairperson of the board, several board members and the managing director of the firm, if possible. Also, interviews with former board members and managing directors were conducted in order to gain a historical perspective. As Table 2 shows, five of 30 interviewees were female, four were conducted with former board members and 10 with foreign members. We also encouraged our interviewees to reflect upon their experiences in other boards outside the Nordic countries. These examples from China, Russia and the Arab world provided insights for comparison.

Table 2: Distribution of interviewees across the cases

		Total interviews	Female	Male	Current member	Former member	Foreign	Native
Biohit	Chairman	1		1	1			1
	Board member (Incl. employee reps)	2		2		2	1	1
	Managing Director	1		1	1			1
	TOTAL	4		4	2	2	1	3
Danisco	Chairman	1		1	1			1
	Board member (Incl. employee reps)							
	Managing Director							
	TOTAL	1		1	1			1
Ericsson	Chairman	1		1	1			1
	Board member (Incl. employee reps)	2	1	1	2		2	
	Managing Director	1		1	1			1
	TOTAL	4	1	3	4		2	2
Expert	Chairman	1		1	1			1
	Board member (Incl. employee reps)							
	Managing Director	1		1	1			1
	TOTAL	2		2	2			2
ISS	Chairman	1		1	1		1	
	Board member (Incl. employee reps)	1		1	1		1	
	Managing Director							
	TOTAL	2		2	2		2	
Nokia	Chairman	1		1	1			1
	Board member (Incl. employee reps)							
	Managing Director	1		1	1			1
	TOTAL	2		2	2			2
Novozymes	Chairman	1		1	1			1
	Board member (Incl. employee reps)	3		3	3		2	1
	Managing Director	1		1	1			1
	TOTAL	5		5	5		2	3
Outokumpu	Chairman	1		1	1			1
	Board member (Incl. employee reps)	7	4	3	6	1	3	4
	Managing Director	1		1		1		1
	TOTAL	9	4	5	7	2	3	6
Simrad Optronics	Chairman	1		1	1			1
	Board member (Incl. employee reps)							
	Managing Director							
	TOTAL	1		1	1			1
TOTAL		30	5	25	26	4	10	20

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Most of the interviews were tape-recorded and transcribed. The transcripts demonstrated very clearly how some interviewees were found language a sensitive issue and were not comfortable discussing it. One interviewee even openly commented that ‘people don’t want to speak about things that make them feel bad. It’s much easier to move on by saying that language is not an issue. Everybody speaks English and it’s very natural’. Also within our own cross-cultural research team the relevance of language as an intellectual issue in corporate board research had to be ‘sold’ internally. In retrospect, we would argue that the emerging, unprompted nature of language as a finding makes it particularly powerful.

From a methodological perspective, we conducted the personal interviews in Danish, Norwegian, Swedish, Finnish and English. When necessary, the quotations from the interviews have been translated by the authors into the reporting language, which was English (Welch and Piekkari 2006). A case narrative was written based on each company and the data were analyzed thematically. The issue of language was discussed in several project meetings during the process of data collection and analysis. A cross-case analysis, which is presented here, was undertaken based on the individual case narratives.

Findings

Before unraveling the challenges associated with the change in the board working language, we provide a brief overview of corporate board diversity in the Nordic countries followed by a discussion of our nine case companies.

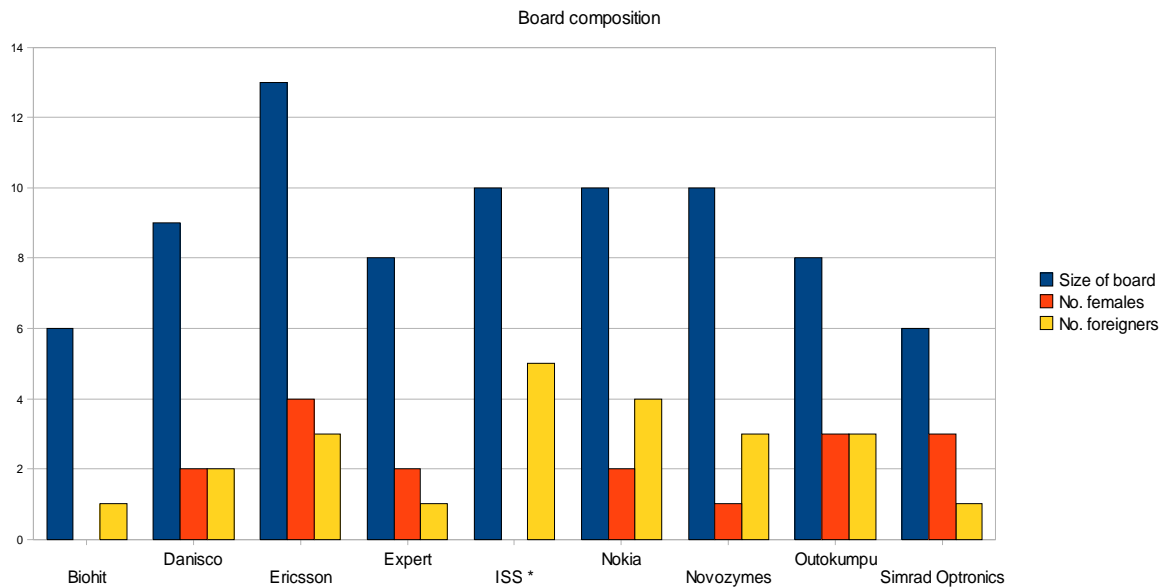
Overview of corporate board diversity

The descriptive statistics shows that in 2007 Norway had the most diverse boards in terms of gender, internationalization and age diversity. Age diversity is remarkably similar across the four countries and appears to have changed very little over the period. Average board age is 53 years and most board members tend to be 46-60 years old. As interviewees from Outokumpu and Nokia pointed out, the language barrier is also a generational issue. Younger board members tend to have a higher degree of personal internationalization than older ones. With regard to foreign board members, we observe less variation from 8% in Denmark to 9% in Sweden, 12% Finland and 14%

Norway. Over time the Nordic boards have become more international in all the Nordic countries, but perhaps most visibly in Finland, where the fraction of foreign board members doubled from 6% to 12% over the period.

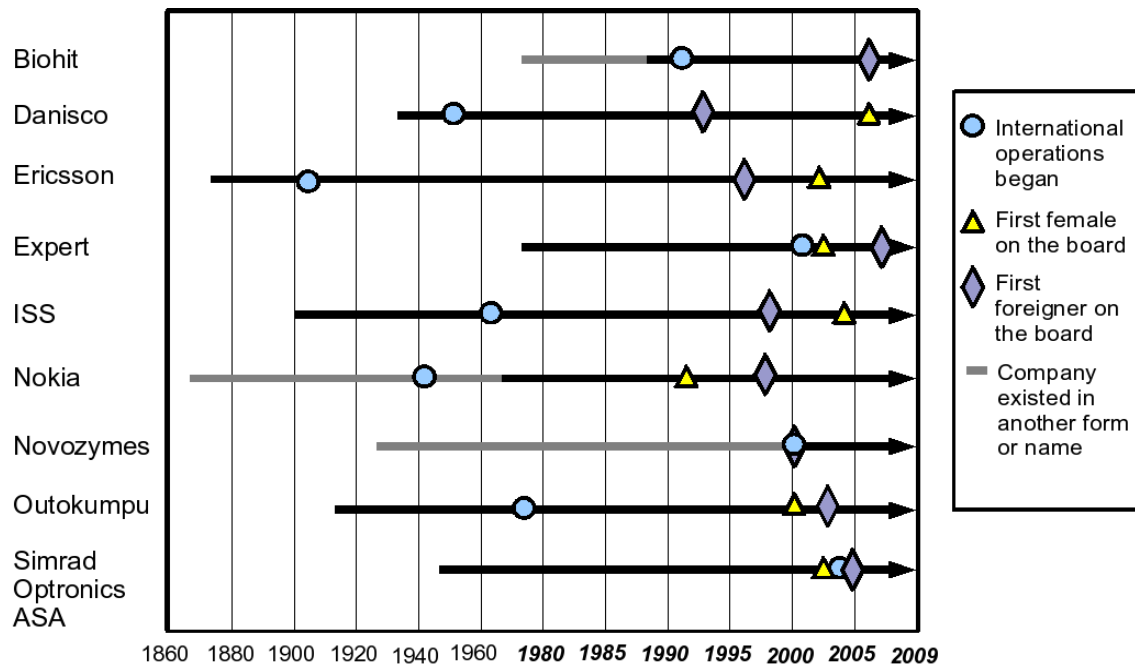
As Figure 1 shows, the level of corporate board diversity in relation to the total size of the board varied across the nine case companies from very low (Biohit) to a relatively high level of diversity (ISS). We have incorporated both the share of female as well as foreign board members since in Norway, for example, recruitment of female board members often took place from Sweden.

Figure 1: Board composition of the case companies



While we selected both early (e.g., Danisco, Ericsson, ISS, Nokia) and late (Biohit, Expert, Novozymes, Simrad Optronics) internationalizing companies, the internationalization of the board coincided for both groups in the 1990s (see Figure 2). If the first foreign board member was not female, women were often elected to the board later than the first foreigner. This was the case in Danisco, Ericsson, ISS and Novozymes, while Biohit did not have a female board member at the time of our study.

Figure 2: Corporate board diversity and internationalization process of the case companies



One of the interviewees from Ericsson pointed out that the company had internationalized its board late in the Swedish context. He compared it with Atlas Copco which had foreign board members already in the 1970s and used English in the meetings of the board. Biohit's chairman sceptically uttered that 'the boardroom is the last to internationalize, if it globalises at all'. The Nokia interviewee said that 'the board was the last place in the corporation where the shift to English was made for good'. Before that, English had been extensively used as a common corporate language elsewhere in the organization for a long time.

Background to the case companies

The basic facts of the nine case companies and their boards are presented first before proceeding with the language-specific findings.

Biohit

Biohit is a Finnish biotechnology company which was founded in 1988. Biohit established its first subsidiary in France in 1991. The company still has a strong entrepreneurial feel to it even though it

is a public company, with several subsidiaries in other countries. In 2007, 95% of sales came from overseas, while only 0.6% of the shares were in the hands of international investors.

At the time of our study, the corporate board consisted of six Finnish males. When we initiated the case study there was one foreigner on the board who then left the board in 2008 after a two-year tenure.

Danisco

Danisco is a Danish company, which started as a sugar-based conglomerate, and has become the world leader in food ingredients, enzymes and biotechnology. Three companies merged in 1989 under the common name Danisco, bringing together companies with activities in distilling, paper, engineering, manufacturing, sugar and other food ingredients. The oldest of these three companies dates back to 1872, while the name Danisco was originally introduced in 1934.

The first sales company was established in Germany in 1954, and production facilities were started in the Americas and Europe in the 1980s. The 1990s, Danisco undertook further investments in Asia, Eastern Europe and Scandinavia. In 1999 it merged with the Finnish Cultor, and in 2005 the Danisco acquired an US biotechnology company. In 2007, foreign sales accounted for 92% of Danisco's total sales and the share of foreign employment was 78%. Danisco is a public company, with a broad owner base. In 2007, 17% of the total share capital was held by international investors.

The board of directors consists of six shareholder elected members and three members elected by the Danish employees. Of the six shareholder elected members one is female and two are foreigners, although all are from Nordic countries. In addition, also one of the employee-elected members is female.

Ericsson

Telefonaktiebolaget LM Ericsson is a leading global telecommunications company based in Sweden. It was established in 1876 as a small mechanical engineering shop, and continued to develop telephones and connection systems. Currently, it has two major owners who have two representatives each in the board along with two seats reserved for the next largest owners with alternating representation.

Ericsson started its international operations already in the first years of the 20th century, when it bought part of a telephone company in Mexico. In 2001, Ericsson created a joint venture with Sony of Japan in order to market mobile phones. Currently, Ericsson has customers in 175 countries, and

international operations in 150. About 95% of its sales came from outside Sweden in 2008. In 2007, the share of foreign employment was 73%.

Ericsson's board consists of 13 members, including three employee representatives. In 2008 there were four women on the board, and three foreigners. The first foreign member joined the board in 1996. In 2004, the board received its first member from outside Europe.

Expert AS

Expert AS is a Norwegian based consumer electronics retailer. It has major activities in the Nordic and Baltic region. Expert was established in Switzerland in 1967 as a voluntary chain, and Expert International GmbH consists of independent electronics retailers in 22 countries which remain separate legal entities. Expert ASA was listed on the Oslo Stock Exchange in 1998 and was delisted in 2007 after a private equity investor group acquired all of Expert's stock. With the new ownership the legal form of the firm was changed to non-public form. Before the takeover, 15% of the stock was in the hands of foreign investors.

Expert has internationalized only during the past eight years. By 2007, foreign sales had reached 59%, and 58% of employees were outside Norway.

Expert AS's board has one foreign member from Sweden and another member is a long-term resident in the Baltic States. The board is currently chosen by the sole owner, and does not need to comply with the Norwegian gender quota of 40% female representation on the board – which only applies to public firms.

ISS

ISS is a Danish company specialized in facility management services. It was started in 1901 as a night watchman security firm named København-Frediksberg Nattevagt. The cleaning operations were embarked upon in 1934. The internationalization process of ISS dates back to the 1960s when the company undertook acquisitions and joint venture operations mainly in northern Europe. It engaged in international business operations in Australia, Brazil and the US in the 1970s, but never truly became a global company in terms of revenues. The name ISS has been in use since 1973, and the company went public in 1977. In 2005 ISS was taken over by two international private equity funds and was de-listed. This takeover increased the foreign ownership to 100%. In 2007 16% of revenues were generated overseas, and 41% of employees were located outside Europe.

Each of the two ISS owners has the right to nominate three board members. The first foreign board member was elected in 1998 and the first female member in 2004. Until the takeover, the degree of board diversity was rather limited. However, the board was transformed and in 2007 only two shareholder elected members were Danish. Even the chairman and vice-chairman of the board were foreigners. In 2008, there were no females on the board.

Nokia

Nokia is a global telecommunications company headquartered in Finland. Its roots go back to a paper mill started in 1865. In 1967 Nokia Corporation was formed when Nokia Ab, Finnish Rubber Works and Finnish Cable Works formally merged. Its operations in electronics were started in 1960 when Cable Works established its first electronics department. The company started to focus on mobile phones not before the early 1990s when all other businesses such as paper, cable, rubber, and consumer electronics were divested.

Currently Nokia has a presence in 130 countries, with subsidiaries around the world. Sales outside Europe account for 61% of all sales. Despite the fact that 28% of employees are still Finnish about 115 nationalities are represented in the workforce.

In 2008, the board consisted of ten members of whom two were females and four were foreigners. The first foreign members joined the board in 1997, while the first female was elected already in 1992.

Novozymes

The Danish company Novozymes is the world's largest producer of enzymes for industrial use. It was spun off from the pharmaceutical company Novo Nordisk A/S in 2000 as an independent publicly listed company, but remains under its control. Novo Nordisk was founded in 1925.

While only 2% of Novozymes's sales were generated from Denmark, and the rest from more than 130 countries, the share of foreign employment was no more than 55%. International investors control 37% of the share capital.

Novozymes's board was created "from scratch" in 2000 by the CEO, the chairman of the board and a professional headhunter. Since then there have been no changes on the board, besides one new member who was added in 2007. Three of the shareholder elected members are foreigners from Scandinavia. There are no share-holder elected women on the board of directors at Novozymes.

Outokumpu

Outokumpu is a global stainless steel company headquartered in Finland. The company started in mining in 1914 but is today a global company in stainless steel. An important investment on this path was the initial joint venture with Avesta Sheffield AB, a British company. The joint venture was acquired by Outokumpu in 2002 and renamed Outokumpu steel which represents the core business of the current Outokumpu. In 2007, sales in Finland accounted for only about 5% of all sales, while Europe was the largest market area with almost 70% of sales. 35% of employees are located in Finland. Outokumpu was listed on the Helsinki Stock exchange in 1988. In 2007 the state of Finland was the largest owner of the company, holding 31% of the shares and international ownership was 38%.

In 2008, Outokumpu's board of directors had eight members, of which one is an independent employee representative and one represents the state of Finland. The first woman was elected on the board in 2000, and currently there are three women on the board. The first foreigner entered the board in 2003, and in 2007 there were three foreign members.

Simrad Optronics ASA

Simrad Optronics ASA is a Norwegian based technology firm in the military equipment industry. Besides Norway, it also has production facilities in the US. The company was originally founded in 1947 but the current name has been in use since 1980. It became a publicly listed company in 2005, after a spin-off from Technor. In 1969 the military technology division was started at Simrad, an electronics firm that still exists. In 2006 Simrad Optronics reached its current form through a reverse takeover of Vinhøg, a military supplier.

Simrad Optronics's top management owns nearly 13.5% of the company's shares. Foreign ownership accounts for 13.3% of the shares. This is a low figure on the Oslo Stock Exchange, but what must be taken into account is that the internationalization process only started in 2004. The home market is still the main market for the company, but especially North America and other emerging countries are considered major opportunities. In 2006, 70% of Simrad Optronics's employees were located in Norway, but this figure has decreased after the Vinhøg merger.

The board has seven members, of which three are female, in accordance with the Norwegian legislation. One of these women is foreign, and she is the only foreign board member. She entered the board in 2005.

Change in the working language of the board

While national languages were used in Biohit (Finnish) and Novozymes (Danish), Expert ran the board meetings in ‘Scandinavian’, a mixture of Scandinavian languages. The majority of the case companies had opted for English as the working language of the board.

In the Finnish Outokumpu, the first foreign board member was elected in 2003 as a consequence of a cross-border acquisition. Initially the state of Finland was opposed to foreign board membership and the chairman of the board at that time was a key driver of internationalizing the board. However, he or nor anyone else of the board members were prepared for the shift in working language. As the first foreign board member of Outokumpu recalled:

‘they decided [that] rather than having an interpreter that we would do it [have the board meetings] in English. And so not all of the members at that time, not all of the directors spoke English well. In fact two of them were very poor English speakers.

The Outokumpu chairman of the board at the time of our study referred to his responsibility for ensuring that the board members are equipped with sufficient language competence.

‘You have to see that all board members are, that all members then have equal communication skills and capabilities in the language that is being used. And at that time [of the language change] the situation was a bit different’.

One of the former board members in Outokumpu recalled how she used to take English language classes in order to improve her ability to express herself during the board meetings. However, the general assembly of share holders that takes place once a year is still held in Finnish and all the material is in Finnish. The former board member noted:

‘In the general assembly, these foreigners are out I would say because the whole discussion is carried out in Finnish. Many of the owners are Finnish.’

In fact, a foreign board member pointed out that because of her in-depth knowledge of the steel industry she was able to follow the Finnish slide presentation at the general assembly.

Similar to Outokumpu, Nokia switched from Finnish to English as the working language of the board when the first foreign board member joined the board in 1998. Due to legal constraints board minutes were still in Finnish but most of the material for board meetings had been prepared in

English already before 1998. Thus, in 1998 the language of the board meetings was changed from Finnish to English.

Our interview data from Nokia suggest that the company is language-wise rather exceptional. Nokia experienced a radical transformation in the early 1990s when it divested non-core businesses and focused on telecommunications. As the Nokia chairman explained, the company was renewed and rejuvenated with the departure of the old management. For the younger generation of managers, engaging in international business and speaking English is self-evident and very natural. A foreign member of the executive committee put it:

‘Nokia has operated...very strictly [with language] as our language is English. Our meetings are in English, we write in English, and people are very... very much tuned to [English], [they] don’t fall into Finnish... and don’t make it awkward for people that don’t speak Finnish whether they’re Chinese or they’re American or they’re from Brazil, you know. So people are very polite about that in Nokia’.

On the other hand, during our interviews the Finnish Nokia representatives were almost taken back by our questions concerning the effect of English. Even in Nokia units in Finland Finnish colleagues frequently send each other e-mails in English. As a Finnish board member explained:

‘Language is not an issue. It cannot be. And if it was an issue for someone, it becomes the personal problem of the individual in question. It is then for this person to look for other employment opportunities. It [speaking English] is so self-evident here.’

Nokia has produced a written language policy specifying language choice and use down to the level of the appropriate tone of voice (Kangasharju et al. 2010). This may create a sense of accountability for one’s language competence. An HR manager responsible for diversity management commented:

‘the philosophy at Nokia is that you are responsible for your own development. And so there’s an expectation...to recognize what is needed, or what they need for their own development and to pursue that. Not that you’re left out on your own, but to let it be known to your manager’.

In Biohit, the Finnish medium-sized company, the internationalization of the board and the shift to English was experienced as a major challenge. When the British board member started his term all the board material was translated from Finnish to English. The board members, including the

chairman, had to learn the key vocabulary in English. However, when the foreign board member left Biohit the working language was shifted back to Finnish. His departure was explained due to difficult transportation connections from his home outside London and the board meetings in Finland.

The Norwegian company Expert has one foreign board member from Sweden. Another member lives in the Baltic States, bringing in more international knowledge. The chairman stated that he felt a more pressing need to internationalize the management team instead of the board. With the current board composition, the choice of language is not considered an issue as all meetings were held in 'Scandinavian'.

While many interviewees approached the change in the working language of the board as a technical matter (in terms of translating the minutes into the appropriate language) the question did touch upon behavioural and attitudinal changes at a deeper level. In order to implement an international board the Outokumpu chairman jokingly said that

'one ape is not enough, you need two apes [ie. foreigners]! One foreigner in the board is too lonely and the others tend to revert to their own mother tongue. In order to alter the prevailing way of doing things you need two [foreigners] at once'.

More seriously though, the language change meant for the majority of Nordic board members that were not anymore allowed to use their mother tongue in meetings which were commonly held in company premises in the home country of the firm. The threshold to accept the first foreign board member is high as one Finnish board member said:

'should I bother and go through the trouble of getting that Swede over here? The entire language changes, the culture changes and the entire way of working changes. I do believe that [in internationalizing the board] there is this human aspect. It is just easier when you have the same culture and a shared frame of mind'.

The above quotation reflects a lingering sense of ethnocentrism (see, also Perlmutter 1969), conservatism and reluctance of having future communication difficulties due to language problems. As Figure 2 demonstrates, the internationalization of boards is borne out of the internationalization of the firm and not the reverse. This supports the view that the internationalization of boards and top management more generally is the last stage in the internationalization process (Forsgren et al. 1995, Barner-Rasmussen et al. 2007).

Quality of communication in English as the working language

In the Finnish Outokumpu, the work in the boardroom became strained and difficult after the change in the working language from Finnish to English. One board member reflected on the language in 2003:

‘It is self-evident that when you are expected to express yourself in English, language becomes a crucial issue. Let’s put it this way, when the working language shifted to English, the discussion was limited. This is not a value statement, just a fact... After the last two foreign board members joined the board, now everybody speaks English’.

The chairman at the time commented that the introduction of English rendered the quiet board members even quieter. One of them who had already left the Outokumpu board at the time of our study, agreed:

‘I do think the shift in language affected my own behavior that I wasn’t as eager to speak... Not that I would have been the most talkative board member anyway... I lacked the specialized vocabulary and I could not use everyday English to express the issues I had in mind’.

Overall, this former board member was very critical of the fact that no one on the board speaks his/her mother tongue. She also pointed out that based on her experience of Finnish-speaking boards the communication and actual board work is more effective than in English-speaking boards where everybody tends to use the mother tongue:

‘it is clear that certain nuances can only be expressed effectively in your mother tongue... When you use a foreign language, it becomes more technical.’

The former CEO of Outokumpu shared her view about the challenges associated with not being able to communicate in a nuanced way:

‘You may speak fluent English but the kind of English that is required here is different’.

In Biohit, another Finnish company, the chairman of the board explained how the quality of the discussions in the board meetings had suffered. He found it particularly difficult to argue and disagree in English as a non-native speaker. Consequently, the discussions in Biohit’s board

meetings were toned down. However, when the one and only foreign board member left the board Finnish was reintroduced as the working language.

Several of our interviewees had multiple board memberships of foreign companies and were willing to compare and contrast their experiences between them. One chairman of the board reflected upon his membership in a Russian company:

‘Although the language issue should not play a major role in practice - it does. In the top management of this company there are persons whose English is so poor that I do not understand what they are saying. And when I pose them a question it is obvious from their answer that they did not understand a word. They reply to a completely different question. So it is quite challenging...’

Another foreigner in Outokumpu shared his experiences of being the only non-Chinese board member in a Chinese company:

‘Today I’m the only non-Mandarin speaker on the board and so the board meetings are conducted now in Mandarin and I’m getting a running translation by a girl sitting over my shoulder and translating.’

Previously, when there were several non-Mandarin speakers in the board, the meetings of this Chinese company had been conducted in English. However, since our interviewee was the only non-Mandarin speaker left in the board, the meetings were now conducted in Mandarin again. Obviously, this affected the quality of communication in the meetings:

‘You can imagine that if you have a bunch of Chinese around the table and one white face, - ...who’s getting a running translation over his shoulder, it is different from a where you have six white people, you know, speaking the same language’..

Social exclusion and inclusion through the working language of the board

When comparing different roles in the board and their language competence, generally employee representatives seemed to lack sufficient skills in English which places them at a disadvantage. In the Swedish Ericsson the working language of the board is English. However, two board members mention that operating in English is a challenge for some of the employee representatives.

In the Danish Novozymes three out of the seven shareholder elected board members are foreign, one from Norway and two from Sweden. The composition of the board has remained the same since the establishment of the firm in 2000. The board meetings are held in Danish because of the participation of employee representatives which is required by Danish law. The CEO notes that a potential switch from Danish to English could perhaps be seen as an attempt to ‘exlude’ them. In early 2008 Novozymes started to prepare the documents for the board meetings in English. However, the employee representatives are entitled to translation services upon request. The CEO is of the opinion that Novozymes would benefit from a truly international board with no employee representatives on the board. The shareholder elected board members in Novozymes did not find English problematic but we did not have the opportunity to interview the employee representatives.

Table 3 shows the level of independent directors and employee representatives across the four countries. The number of independent directors varies between 54% in Sweden and 66% in Finland. However, part of this variation is driven by differences in the corporate governance codes, and the fact that the number of employee directors vary considerably (such directors are by definition considered non-independent). In Norway and Denmark the number of employee elected members is 15% and 14% respectively, whereas the figures for Sweden is 7% - and only 1% among our Finnish firms. Even though the standard of English seemed to be generally on a low level immediately after the change, the problem has vanished by now; four interviewees pointed out that at the moment there are no language problems.

Table 3: Other board members characteristics (year 2007)

	<i>Percentage of independent¹ directors</i>	<i>Percentage of employee representatives</i>
<i>DENMARK</i>	60.61	15.38
<i>FINLAND</i>	66.13	1.00
<i>NORWAY</i>	63.90	14.07
<i>SWEDEN</i>	54.20	8.69

¹ Independence as defined by each country’s Governance Code.

On the other hand, English as a working language was also regarded as an equalising factor, since nobody on the Outokumpu board had it as his/her mother tongue. One foreign board member put it this way:

‘Everyone speaks English really all through. So that’s really very good...sometimes it’s difficult not to speak your own mother tongue but on the other hand it’s an equal situation’.

In the Swedish Ericsson the Swedish language sometimes plays a role in the board meetings but one of the foreign members interviewed was not disturbed by it. Similarly in Nokia and Outokumpu, people resort to Swedish and Finnish when socializing in corridors and outside formal meetings. A foreign board member from the Outokumpu pointed out that ‘when they start speaking Finnish during the breaks I do not understand’.

Recruitment of board members

Although language competence of potential board members is not the main criteria in the recruiting process it matters. The Vice Chairman of Outokumpu said that:

‘You have to make sure that there are people who can speak [English]. You cannot elect people there [to the board], who cannot [speak English]. Board work is no language school - you choose people [on the basis of] their competence. And sufficient language and communication skills and social skills and everything else are part of competence. It’s certainly not a language school’.

When the only foreigner in Biohit’s board was asked about language he approached the issue from another perspective. When accepting the invitation to join the board, his main concern was whether the other board members would be comfortable with changing the language because of him.

In the Danish Danisco, the first foreign member from Sweden joined the board in 1993 and left it in 2005. The second foreigner joined the board in 1999 from Finland in 1999 as a consequence of an acquisition, and the third from Sweden in 2004. Thus, Danisco’s board is strongly Scandinavian who are believed to be internationally oriented and have a broad range of managerial experience. Danisco had a negative experience of a foreign board member who failed to actively participate and was ultimately replaced. The interview data from Danisco suggests prejudices and stereotypes towards foreign board members from France and Germany due to the assumption that these

nationals have insufficient language skills at managerial level. Similar views were also expressed in the interviews at Ericsson, for example.

One of Ericsson's foreign board members reflects upon his experiences outside the Ericsson board and recalls a company based in Dubai that refused to employ people who did not speak Arabic. Similarly, the Chairman of Outokumpu mentioned that he had been invited to join the board of a Norwegian company as the only foreigner. He said:

'They weren't willing to change the language. I replied that it won't work because if they speak the local Norwegian dialect they lose me immediately in the discussion. And then there are those employee representatives so I would have been completely lost... I said if you were to recruit another foreigner at the same time, I'll join your board but they didn't and they weren't able to recruit anybody else either at that time...

The language barrier reduced the potential pool of suitable candidates and increased the demand for those individuals who possessed superior language skills and strong international experience.

Conclusion

This paper is focused on the issue: how does internationalizing the supervisory board affect board effectiveness in Nordic firms. The literature suggests that internationalization of the board (and top management) is the last stage in the internationalization process of the firm (Forsgren et al. 1995, Barner-Rasmussen et al. 2007). Such internationalization will in most cases demand a change in the working language of the board – to English. Our descriptive statistics shows that even though Nordic companies are among the most international oriented firms – there is still a low fraction of foreign board membership. The percentage of foreign board members among Nordic public firm range between 10 and 14% in 2007, and this number is only marginally up from the number in 2001 (between 7 and 11%).

This study tries to explain at the “puzzling” lack of internationalization of Nordic boards. By using case study evidence from nine Nordic firms, we identify several reasons why the use of foreign

board members might be costly. Specifically, we identify possible impediments or costs associated with change of the working language (from a Nordic language) to English – which has been overlooked by the diversity management literature. Even though English is generally well understood in the Nordic countries, the case of Outokumpu shows that when the board language was changed to English in 2003, “not all of the directors spoke English well” – and the chairman found it significantly more challenging to ensure that every board member had an equal opportunity to express their opinion. In fact, one former board member specifically acknowledged how he expressed that the “I lacked the specialized vocabulary and I could not use everyday English to express the issues I had in mind”. Nokia, which internationalized their board in 1998, had a very deliberate policy for using English as their official language – at all levels – so the subsequent change of board working language was not very costly. On the other hand, in the small bio-tech firm Biohit – the introduction of a British board member and the subsequent switching to English, created major challenges for the board. When the British board member was replaced a few years later, the board language de-internationalized and the working language reverted back to Finnish.

Another observation from the cases is that introducing English as the board language could create social exclusion. For example, in the case of Ericsson, this was particularly challenging for some of the employee representative.

The demand for highly skilled English speaking board members from the Nordic countries affected the recruitment in several boards – and subsequently limited the number of possible candidates. Whereas some of the companies looked for the opportunity to internationalize their board – limiting the internationalization to board members from other Nordic countries (as case of Expert and Danisco) was seen as possible strategy to make the board international – without incurring the costs of switching to English.

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