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The Bottom Line of Cultural Diversity at the Top
The Top Management Team's Cultural Diversity and its Influence on Organisational Outcomes

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To my parents Alla and Romen Uman
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Chapter 1

Introduction

1.1 Background

Research and literature in strategic management have long recognized the influence on organisational outcomes of the demographic characteristics of top management teams (TMTs) (Hambrick and Mason, 1984). While researchers have successfully inquired into the influence of various demographic characteristics on firm performance, strategic change, innovation and organisational growth among other aspects, the inquiries have usually yielded mixed results, causing some observers to label the field a ‘double-edged sword’ (West and Schwenk, 1996), with both positive and negative outcomes empirically investigated and reported as streaming from the demographic diversity at the top levels of management. Cultural diversity has not been paid much attention in the TMT research, being highlighted as an empirical phenomenon only in a few studies (e.g., Marimuthu, 2008; Gong, 2006; Greve, Nielsen and Ruigrok, 2009; Elron, 1997; Heijltjes, Olie and Glunk, 2003), while the presence of culturally diverse top managers is continuously increasing (Heijltjes, Olie and Glunk, 2003; Greve, Nielsen and Ruigrok, 2009). The latter development as well as the mixed results from mainstream research, attributed to the lack of investigation of circumstances under which diverse TMT may benefit firm performance (Nielsen, 2010) serves as a motivation for this dissertation.
The dissertation will show that the cultural diversity of TMT and its relationship to performance needs to be investigated, taking into consideration the following:

- process variables such as (1) communication, conflict or social integration, (2) interactive processes TMT is involved in with other parts of organisation such as the board of directors, or (3) the meta-construct of behavioural integration, which encompasses the complexity of interaction within the TMT;
- variables that could moderate the relationship between TMT diversity and performance such as shared vision or/and international experiences;
- other non-financial performance measures of organisational outcomes, such as the ambidextrous orientation of the firm – a construct illuminating TMT capacity to explore and exploit resources available to the firm in order to achieve the ultimate goal of firm performance.

The dissertation also investigates the use of various types of inquiry into how TMT cultural diversity influences organisational outcomes, illuminating and exploring techniques of enquiry such as experiment, case study, archival data and survey. It will also explore the use of different operationalisations of culture, including race, ethnicity and nationality and the influence these operationalisations might have on the outcome of TMT studies. By using an array of techniques, methods of enquiry and measures of various concepts, the dissertation aims to increase the theoretical knowledge of how TMT cultural diversity influences organisational outcomes.

The rest of the chapter is structured as follows. In section 1.2 the origins of TMT and organisational outcomes research are introduced and is followed by section 1.3 where research on TMT cultural diversity and organisational outcomes is presented and the research model used in this dissertation is described. The chapter continues with
section 1.4 and the presentation of the research problem and purpose, followed by the presentation of central concepts. The chapter concludes with section 1.5, an overview of the papers comprising the dissertation, which provide a structure for the chapters that follow.

1.2 TMT diversity and organisational outcomes - the origins

Studies on demographic diversity in top management teams are broadly based on two important assumptions. The first assumption was brought forward by the Carnegie School theorists Cyert, March and Simon, stating that decisions in organisations are taken by boundedly rational people (Cyert and March, 1963; March and Simon, 1958). The bounds on people’s rationality, according to the Carnegie theorists, are brought about by the notion of the limited ability of individuals to process all information relevant for taking decisions in complex environments. Thus, in order to cope with complexity, managers process only part of the relevant stimuli and filter information according to their own cognitive base. This base is composed of assumptions about future events, knowledge of alternatives and the consequences of alternatives. A person’s cognitive base is formed by individual life experiences, including formal training and work history (March and Simon, 1958). Therefore, it is argued that a manager’s specific perception of and response to environmental stimuli will partly depend upon his/her personal demography.

The second assumption is based on the notion that organisations are the reflections of the members of the dominant coalitions (Hambrick and Mason, 1984); this is built on the first assumption, but with further studies stating that the TMT, being a dominant collation, is responsible for the execution of various organisational processes (Finkelstein and Hambrick, 1996; Van Gils, 2005) as well as serving an important role in strategy implementation as well as strategy formulation (Fama and Jensen, 1983). Moreover, this second
assumption is based on the alleged merits of shared leadership (Pearce and Conger, 2003) where the literature shows support for the conclusion that the top team, rather than the top person, has the greatest effect on organisational functioning (O’Reilly, Snyder and Boothe, 1993).

Along these lines, that managers make strategic choices based upon their values, cognitions, perspectives and organisational activities or outcomes, while reflecting the collective cognitive biases and abilities of the TMTs (Hambrick and Manson, 1984; Finkelstein and Hambrick, 1990; Finkelstein and Hambrick, 1996), many authors have theorised to predict that the demographic characteristics of TMTs will be reflected in the firm’s

- performance (Carson, Mosley and Boyar, 2004; Hambrick and D’Aveni, 1992; Halebian and Finkelstein, 1993; Keck, 1997; Michel and Hambrick, 1992; Priem, 1990; Smith at al., 1994; West and Schwenk, 1996);
- commitment to innovation (Daellenbach, McCarthy and Schoenecker, 1999; Bantel and Jackson, 1989; O’Reilly and Platt, 1989);
- strategy (Finkelstein and Hambrick, 1990; Michel and Hambrick, 1992); and
- strategic change (Grimm and Smith, 1991; Wiersema and Bantel, 1992).

However, inconsistent results in the studies of TMT demographic diversity and organisational outcomes have led researchers to conclude that TMT diversity can be a ‘double-edged sword’ (West and Schwenk, 1996), since ‘pursuing this line of inquiry further will yield inconsistent [results] at best and fruitless [results] at worst’ (1996, p. 571). On the one hand, demographic diversity could have a negative influence on performance due to increased inter-group conflict and less social integration then in homogeneous teams (Kochan et al., 2003). On the
other hand, demographic diversity in TMT was found to be positively related to innovation and superior performance in vibrant environments (Bunderson and Sutcliffe, 2002; Stewart, 2006).

1.3 Research problem and purpose of the dissertation

The motivation of the research problem in this dissertation thus rests on (1) the assumption that managers are bounded in their rationality (Cyert and March, 1963) and on (2) the assumption that the TMT has more influence than the CEO alone on organisational outcomes (O’Reilly, Snyder and Boothe, 1993).

Based on these two assumptions, Hambrick and Mason (1984) argue that (1) demographic characteristics of each of the top managers would set the rational boundaries for their decisions and actions, and (2) that the top management team would develop its own rationality depending on the mix of different (demographically diverse) rationally bounded individuals in the team. Thus, Hambrick and Mason (1984) argue that demographic diversity of TMT will be reflected in organisational outcomes.

A large number of empirical studies have shown that the top team demographic diversity will be reflected in organisational outcomes (see Knight et al., 1999 for a review). According to Nilesen (2010), TMT diversity is usually defined as a general construct with no distinction made between different aspects of diversity such as, for example, gender, culture, age, tenure, and function, and that diversity is assumed to have a uniform effect regardless of the particular dimension to which it is empirically applied (Finkelstein and Hambrick, 1996). Jakson (1992) and Nielsen and Nielsen (in press), however, argue that even though TMT diversity as a construct might be a useful tool in conducting empirical research, it is important to decompose the construct to the level of a single attribute, since different types of
diversity will have a different impact on outcomes under study (Williams and O’Reilly, 1998).

This dissertation concentrates on one such diversity attribute: culture. In order to argue for the emphasis of this dissertation on the cultural diversity in TMT, culture will firstly be discussed on the individual level to indicate how individual rationality is being bounded by this particular demographic dimension. This will be followed by a discussion on TMT cultural diversity and its influence on organisational outcomes.

Hambrick et al. (1998) argue that there are four distinct but causally intertwined personal characteristics of an individual that are influenced by the individual’s culture (national/ethnic): values, cognitive schemas, demeanor, and language.

Values have been defined by Hofstede (1984, 18) as “a broad tendency to prefer certain state of affairs over others”. Individualism/collectivism, uncertainty avoidance, power distance, masculinity/femininity, and relationship to time are the most prominent value dimensions of culture put forward by Hofstede (1984, 1991). Research findings suggest national/ethnic culture accounts for 30-45 percent of variation in managers’ values (England, 1975). While values represent the cognitive content of an individual, the cognitive schemas refer to how an individual acts upon that content in terms of interpretation and processing information. The culturally derived differences in cognitive schemas to some extent are the outcomes of the differences in values. That is the person “see what he wants to see” and “hears what she want to hear” (Hambrick et al., 1998). Demeanor is another accompaniment of culture that is embedded in individual values. Examples of demeanor are differences in eye contact, conversational style and physiological reactions to emotional stimuli among others. Language is another characteristic of one’s culture, as it is language proficiency and accent as well as proficiency in the language of the working group that determines not only the power relationships within groups the
individual belongs to (Gudykunst, 1991), but also is a powerful
categorisation tool of the individual’s interaction with others. In
summary, the individual’s culture influences their values, cognitive
schemas, demeanor, and language. These attributes in turn shape the
individual’s behaviour in response to task stimuli (Hambrick et al.,
1998).

Hambrick et al. (1998) further argue that since cultural origin could
explain part of the individual’s behaviour, it will also have an influence
on the strategic decision-making and team dynamics on the team
(TMT) level. Thus, cultural diversity in TMT, as one of the
determinants of team rationality, will have a profound influence on
organisational outcomes.

While cultural differences among individuals in organisations have been
a well researched phenomenon (Hofstede, 1991), a limited number of
researchers have investigated cultural diversity in TMT and its
influence on organisational outcomes (e.g., Elron, 1997; Heijltjes, Olie
and Glunk, 2003; Gong, 2006; Greve, Nielsen and Ruigrok, 2009;
Nielsen and Nielsen, in press). However, the findings of these empirical
studies have been mixed. TMT cultural diversity was shown to have
both positive (Gong, 2006; Nielsen and Nielse, in press) and negative
(Elron, 1997) effects on organisational outcomes. This also reflects a
split in opinion between theoretical and empirical papers in the work
group cultural diversity research, where theoretical studies claim that
cultural diversity in groups would lead to creativity and innovative ideas
(McLeod and Lobel, 1992), while empirical studies suggest that group
cultural diversity would result in decreasing group effectiveness and
performance due to the troubles associated with group processes such as
lack of communication, increasing conflict (Jackson et al., 2003) and
decrease in social integration (Elron, 1997). At the same time, the
number of minorities/non-nationals represented on TMT of large
corporations is steadily increasing (Heijltjes, Olie and Glunk, 2003: Stapes, 2007).
Thus, the research question addressed in this dissertation is:

*How does cultural diversity in TMT influence organisational outcomes?*

The research question then guides the research purpose of this dissertation, which is:

*To explain how cultural diversity in TMT influences organisational outcomes.*

In order to satisfy the purpose of the dissertation, the following steps were undertaken:

- review and analysis of the literature on TMT diversity research, identifying the main research objectives that would guide the empirical studies and development of an integrative theoretical framework;
- elaboration of the theoretical relationships derived from the integrative theoretical framework for each research objective identified; operationalizing theoretical constructs, identifying suitable samples, collecting data and investigating or testing developed propositions and hypotheses empirically in order to confirm or reject assumed theoretical relationships;
- discussion of theoretical, empirical and methodological implications of the findings with suggestions for future research.

This dissertation contributes to the theoretical knowledge of how TMT cultural diversity influences organisational outcomes, to empirical knowledge of culturally diverse TMTs in organisations, and to practical knowledge of the conditions under which TMT cultural diversity contributes to organisational outcomes.
1.4 Central concepts

This section defines the key concepts of importance for the dissertation. These key concepts are cultural diversity, top management team, top management team process and organisational outcomes.

Cultural diversity – The concept of cultural diversity is a combination of two concepts – culture and diversity – and it spans two levels of analysis. The first level is the individual level, where culture represents the demographic characteristic of an individual group member. The second level is the group (TMT) level where differences among the group members form a concept of cultural diversity.

Culture as a concept has been generally defined in three distinct ways: firstly, as a humanistic refinement and a range of elite artistic activities (such as classical ballet and opera); secondly, as an entire way of life of people or a group (e.g., as studied by cultural anthropologists) and thirdly as a system or pattern of shared symbols (Desfor Edles, 2002). These categories may be respectively understood as aesthetic, ethnographic, and symbolic definitions of culture. This dissertation adopts the ethnographic definition of culture, more specifically and in line with Hambrick et al. (1998); it adopts nationality as the primary definition of culture, but cautiously also adopts ethnicity as the secondary definition. In turn, nationality is defined in this dissertation as the country where an individual has spent the majority of his/her formative years and as a result holds the citizenship of that country (Hambrick et al., 1998). Nationality has been selected as a definition for several reasons: firstly, it represents both underlying and apparent personal characteristics such as values, cognitive schema, demeanour and language, thus offering the possibility of capturing the ‘fuzziness’ of culture; secondly, the construct of nationality is analytically tractable, with Hofstede (1984) providing a reliable and time-tested measurement instrument, and it coincides with an explicit or implicit employee categorisation applied within organisations. Ethnicity in this dissertation is widely defined as a sense of belonging to a particular cultural group,
and it usually emerges during the process of self-identification (self-perception) or identification by others (social categorisation). According to Hambrick et al. (1998), ‘while ethnicity does have an advantage of greater specificity, it potentially leads to more atomistic and ambiguous categories and its relevance depends critically on an individual’s personal sense of identity’ (p. 183). At the same time and in line with Hambrick et al. (1998), it is claimed that while this dissertation primarily adopts nationality as an operationalisation of culture, the arguments put forward could be directly applied if ethnicity were used instead of nationality; however, with ethnicity the empirical tests would be much more difficult to perform. It should be noted here that racio-ethnicity or race has been a widely used way of operationalising culture in U.S.-based research, but the latter will only be briefly touched upon in Paper 2 of this dissertation and subsequently dropped altogether due to its inapplicability in the European setting from which this dissertation has collected its data.

According to Nielsen (2010), diversity is most commonly and generally defined as ‘the distribution of personal attributes among interdependent members of a work unit’ (Jackson et al., 2003). Harrison and Klein (2007), however, claim that this broad definition can be subdivided into three more narrow definitions adopted by researchers: diversity as separation, variety, and disparity. Diversity as separation refers to differences of position and opinions among unit members and reflects the horizontal distance along a single continuum in a particular attitude or value. Diversity as variety represents differences in kind or category, primarily in information, knowledge or experience among unit members. Finally, diversity as disparity indicates differences in concentration of valued social assets or resources such as pay and status among group members (Nielsen, 2010). Since culture (nationality) can be used as a proxy for values and attitudes, at the same time being a proxy for information and knowledge (Hamrick et al., 1998), this dissertation adopts the separation and variety definitions of diversity rather than the definition of diversity as disparity, since it is
outside the scope of this dissertation to investigate the status dimension of different nationalities or other demographic characteristics.

Thus, cultural diversity in this dissertation is defined as a distribution of national attributes among interdependent members of a work unit.

Top management team (TMT) – Hambrick and Mason (1984, 193) have broadly defined the TMT as ‘the dominant coalition’ or ‘the powerful actors in an organization’. The TMT has also been defined as ‘the relatively small group of most influential executives at the apex of an organization . . . the top three to ten executives’ (Finkelstein and Hambrick, 1996, p. 8). In this dissertation, TMT is defined as the top executives who have a direct influence on the strategy implementation and emergent strategy formulation (Ingley and van der Walt, 2001).

Terms group and team are used interchangeable when referring to TMT, this is based on the assumption that TMT is a team, being a type of a group, implying high frequency of interactions taking place among its member. Group however can not always be assumed to be a team, since groups can signal belongings to an entity however the term does not necessarily imply interaction among its members (Fisher et al. 1997).

TMT process – refers to the interactions taking place within the TMT. The typology of interactions borrowed by TMT researchers from the social psychology literature (Smith et al. 1994) refers to social integration, communication, conformity, consensus and conflict. Hambrick (1994), however, notes that not all group processes developed in social psychology research can be directly applied to TMTs; specifically, three group processes – namely, quality and quantity of information exchange, collaborative behaviour and joint decision making – form the troika of the most influential processes taking place in TMTs, and this has been termed behavioural integration. While this dissertation adopts Hambrick’s (1994) internally oriented definition of processes and investigates the processes both separately (Papers 3 and 4) and as a single construct of behavioural integration
(Paper 6) in line with Clark and Smith (2003), this dissertation adopts the external view of TMT process. The external view is represented by the external connections or network that TMT members share; it is the sum of these connections and TMT members’ interactions outside the TMT that allows for information access used then to achieve organisational goals. In this dissertation the network perspective of the external TMT process is presented through managerial in-business group networks (Paper 1) and through the network/interaction of the TMT and the board of directors (Paper 5).

Organisational outcomes, in line with Hambrick and Mason (1984), are defined as ‘both strategies and effectiveness – [and can be] viewed as reflections of the values and cognitive bases of powerful actors in the organization’ (p.193). Narrower definitions, however, have been adopted in the papers comprising this dissertation, as data specificity organisational outcomes are subdivided into two levels: TMT-level or team outcomes and firm outcomes.

1.5 Cultural diversity and organisational outcomes – the research model(s)

Those few studies that have inquired into cultural diversity of TMT (e.g., Gong, 2006; Elron, 1997) have arrived to the ‘double-edged sword’ results so characteristic of the filed of TMT demography (West and Schwenk, 1996). On the one hand, some researchers found that cultural diversity in TMT leads to positive organisational outcomes since more alternatives becomes available, thereby widening the critical base (Gong, 2006). On the other hand, cultural diversity in TMT was found to have a negative effect on team cohesiveness (Elron, 1997) and communication (Jackson, Joshi and Erhardt, 2003) and in turn has been assumed to have a negative effect on organisational outcomes (Mannix and Neale, 2005). Thus what follows is the presentation of the three competing models that have been applied in the TMT
diversity research in general and in the limited TMT cultural diversity research in particular.

The *demographic composition model* (Figure 1.1) argues that the demographic composition of TMT will have a direct effect on organisational outcomes, based on the assumptions (a) that demographic composition implies cognitive differences among top managers in the team, which eventually means different ways of processing certain type of information and, as a consequence, differences in decision making, and (b) that researchers should avoid team processes (e.g., communication, social cohesion and conflict), which should remain in the ‘black box’ due to the complexity and vast array of team processes which it would be impossible to measure (Pfeffer, 1983).

![Figure 1.1 Demographic composition model](image)

The demographic composition model has been widely used in business-related research as well as research on specific task groups in organisations (see Miliken and Martins, 1996, for a review). Cultural variables such as race, racial-ethnicity and nationality have been used in a large number of studies (e.g., Cox, Lobel and McLeon, 1991; Greenhaus, Parasuraman and Wormley, 1990; Waldman and Avolio, 1991; Bochner and Hesketh, 1994); however, the majority of the studies were conducted in experimental settings (Watson, Johnson and Merritt, 1998; Watson, Kumar and Michaelsen, 1993), or on task groups (Kirchmeyer, 1993) rather than performed in TMTs.

Few studies using this model were found to deal with TMT cultural diversity and organisational outcomes, with one notable exception – Gong (2006) – who found a positive relation between subsidiary TMT
cultural diversity and subsidiary performance. Since it is hard to generalise about the model based on only one study (i.e., Gong, 2006), one may turn to the outcomes of demographic diversity in TMT and its influence on performance. Theoretical papers in the field argue that demographic diversity in organisational groups, including cultural diversity, would provide a competitive advantage for an organisation through increased creativity and innovative capacity (Cox, 1994). Empirical papers within the model would argue that demographic diversity in TMT would create positive organisational outcomes expressed in innovation (Bantel and Jackson, 1989) and strategic change (Wiersema and Bantel, 1992). Moreover, authors in cultural studies argue that irrespective of the group status in organisations, culture diversity leads to a diversity of values (McCarrey, 1988), differences in behavioural styles (Jackofsky, Slocum and McQuaid, 1988) and effectiveness in problem solving (Shaw, 1983) which eventually leads to enhanced performance.

However, suspecting a more complex relationship between demographic diversity in groups and performance, researchers have tried to inquire into group processes (e.g., Smith et al., 1994) and this line of inquiry has led to the emergence of the intervening model.

The *intervening model* (Figure 1.2) postulates that the influence of demographic composition of TMT on organisational outcomes can be explored only through studies of team process, such as communication, social cohesion and conflict, among others (e.g., Smith et al., 1994) and that studies of demographic diversity and outcomes ignoring process variables oversimplifies the relation. Thus, researchers began to inquire into the black box of group processes, and this in turn lead to new and at times contradictory findings in respect to both the demographic composition model and the intervening model.
Studies using the intervening model, as with the demographic composition model, have concentrated on groups in organisations, rather than on TMTs, with one study by Elron (1997) being an exception: it investigates the link between TMT cultural diversity, TMT cohesion and firm performance. With regard to cultural diversity in groups and various organisational outcomes, the majority of researchers come to the conclusion that cultural diversity has a negative influence on group process and that this in turn influences organisational performance (Richard and Shelor, 2002). Cultural diversity in groups is found to lead to interpersonal problems and communication difficulties (Jackson, Joshi and Erhardt, 2003), lower cohesion in respect to culturally homogeneous groups (Elron, 1997; O'Reilly, Cardwell and Barnett, 1989) and increased emotional (Pelled, Eisenhardt and Xin, 1999) and competitive (Kirchmeyer and Cohen, 1992) conflicts.

Again, similarly to results using the demographic composition model, only one study, by Elron (1997) addressed the topic of cultural diversity in TMT. In her study Elron used both the demographic composition and intervening models and arrived at different results depending on the model. Using the demographic composition model and thus avoiding the study of group process, she found that cultural diversity of TMT has a positive effect on organisational performance. Yet when using the intervening model and measuring group process Elron found cultural diversity to have a negative influence on team cohesion, which as one of the process variables in turn had a negative influence on performance. While Elron failed to explain this, it could
be an indication of the dependence of the results on the particular model in use.

The intervening model thus has addressed the complexity of the interrelation between group diversity and outcomes mediated by group processes but arrived at a rather pessimistic perspective of a diverse team having a positive influence on organisational outcomes (Umans, 2009). Motivated by the disagreement between the demographic composition and intervening models, as well as discrepancies between theoretical claims of value-in-diversity and empirical negative findings of cultural diversity’s influence on process and outcomes, a third and relatively new model has emerged.

The *moderating model* (Figure 1.3) has been developed in a relatively small number of articles (e.g., Chatman et al., 1998; Ely and Thomas 2001; Jehn, Northcraft and Neale, 1999; Larkey, 1996). This model suggests that the link between demographic diversity and organisational outcomes can only be established through studies of team process and moderating variables such as organisational learning and organisational culture. According to Larkey (1996), cultural diversity will have a positive effect on team process when the relationship is moderated by a strong organisational culture built on values that help to overcome cultural differences.

![Figure 1.3 Moderating Model](image-url)
As with the two previous models, the moderating model has been concerned with studies of cultural diversity in organisational groups rather than with studies of TMT, with the exception of Umans (2008), who found that certain factors such as past international experience and shared goals as a result of organisational culture could moderate the diversity–process relationship and possibly have a positive impact on performance.

In summary, the models outlined above divide the field into two sub-streams: one stream investigating TMT diversity influences on organisational outcomes while avoiding the study of TMT processes (the demographic composition model) and the other stream studying these influences by investigating the conditions under which TMT diversity influences organisational outcomes (the intervening and moderating models). While all three models have been used in TMT diversity research, the results of the studies are contradictory, showing negative, neutral and positive effects of TMT diversity on organisational outcomes, and such results depend on the choice of models in use. The few studies in TMT cultural diversity to be found (e.g., Elron, 1997; Umans, 2008; Gong, 2006; Marimuthu, 2008) are dispersed across these three models and are as contradictory as the TMT diversity field itself. Consequently, it is these mixed results from the field, primarily attributed to the models in use as well as the path through which TMT cultural diversity links to organisational outcomes, that motivate the inquiry of the present dissertation.

1.6 Research Learning Process

Before going into the discussion of all of the papers comprising this dissertation, I would like to explain the research learning process that is thought to illuminate the logic behind the papers included in this dissertation, as well as the sequence of the papers being presented. Moreover, I feel that providing the story behind it could put the dissertation into both my personal and field development perspectives.
The reader who has no interest in this background can go directly to Section 1.7.

It all began in 2002 when I embarked on the challenge of writing my master’s dissertation in International Business at Kristianstad University under the supervision of Håkan Pihl and Sven-Olof Collin as an examiner. After the completion of my master’s degree, I realised that research is what I would like to do, and it was then when I asked Sven-Olof to become my mentor and later my main supervisor.

I have both considered my own interest, at that point being cultural differences in management practice as well as research orientation of Sven-Olof being in corporate governance. After conducting a literature review, I discovered that while internationalisation of corporate governance mechanisms is a relatively well-developed topic, it is the internationalisation of managerial markets, and specifically the internationalisation of top management, that is an emerging but not thoroughly researched phenomenon (Heijltjes, Olie and Glunk, 2003). Thus, the triangulation of my interest, my supervisor’s competence and opportunities for further development in the field made me choose the topic for this dissertation.

In order to get introduced to the research process and to the field of the relational demography, Professor Collin invited me to contribute to Paper 1 (‘Turnover and heterogeneity in top management networks’). The paper deals with the TMT demography influences on organisational outcomes through a network perspective. Apart from introducing me to the literature in the field, the paper also served as a tuning instrument between the supervisor and me in order to align the expectations of quality and rigour in the research process. Later in the research process, a paper provided an idea of identifying the TMT not as a formally identified group, but rather a group of the important decision-makers within a network, which was then utilised in Papers 4 and 5 of this dissertation.
Borrowing from the literature reviewed in Paper 1, ideas of Paper 2 ('Research angles on cultural diversity in top management teams') were developed. The paper concentrated on one particular dimension of the demography—culture. Through the review of the literature on cultural diversity in organisational groups and teams, the research model laid the groundwork for the development of this dissertation. Paper 2 identified three main issues within the field of cultural diversity, namely models and methods of inquiry, as well as the operationalisation of culture. Since issues of methodological nature were identified as a crucial importance, it was decided that the next papers comprising the dissertation would address them prior to the empirical investigation of the cultural diversity in TMT.

Therefore, ideas of Paper 3 ('Ethnic and gender diversity, process and performance in groups of business students in Sweden') and Paper 4 ('Ethnic identity, power and communication in top management teams') were developed.

It appears that student groups have been a common way of investigating team demography and process, specifically within business simulations, which then allowed some researchers (Watson, Johnosn and Merritt; 1998; Watson, Kumar and Michaelsen, 1993) to draw conclusions on how the TMT might function. Thus, following the established practice in the field, using student groups, Paper 3 addressed the issues of measuring team process, team cultural makeup in terms of ethnicity and nationality, as well as demographic composition and intervening models of inquiry into the link between team cultural diversity and outcomes, using quantitative data.

Since access to the TMT is considered to be a major issue in the field (Certo et al., 2006), it was decided to approach the subsidiaries of Swedish corporations in Latvia (the author’s home country), specifically due to the author’s personal network, which could provide easier access to the top managers and due to the culturally diverse landscape of the country, thus increasing the possibility of finding culturally diverse top
teams. Paper 4 was based on a qualitative date, and addressed the measures of the TMT process, TMT cultural makeup in terms of ethnicity and nationality, as well as moderating a model of inquiry into the link between TMT cultural diversity and the TMT process. The results of Paper 3 have indicated that with purely quantitative inquiry, the team process could not be easily identified as an intervening force in the team cultural diversity performance relationship. Moreover, the result indicated that nationality rather than ethnicity provided a superior tool when observing cultural identity in the team when related to team performance. The results of Paper 4 have indicated that qualitative inquiry allows for the discovery of the condition under which cultural differences in TMT could lead to an improved process (communication), shared vision and international experience. Furthermore, the cultural identity of the top managers was discovered to have both national and ethnic dimensions, which later became a complex but richer tool in uncovering top managers’ values and beliefs (Hambrick et al., 1998). With the development of the theoretical frame in Papers 1 and 2, as well as with findings of the method Papers 3 and 4, the empirical papers comprising this dissertation have been developed.

Guided by the findings of Paper 1, which have indicated the importance of the TMT network, as well as the methodological findings of Papers 3 and 4, ideas in Paper 5 (‘Isolated islands in the upper apex of organisations—in search of interaction between the board of directors and the top management team’) were developed. The aim of the Paper 5 was to investigate how TMT and BoD diversity—including cultural diversity—influences firm performance. Drawing from social theory, the paper argued that based on the demographic characteristics there will be an interaction between TMT and BoD. It is the interaction based on the similarity of different diversity characteristics of the BoD and TMT that was then hypothesised to have positive firm performance effects. Thus, the paper explores the TMT process from an external perspective, depicting the process not within the TMT but the process of interaction of TMT and another
power group (the BoD) through the prism of diversity characteristics of the two groups. The results of the paper indicate that TMT and BoD cultural diversity are on the same level for increases in the firm’s financial performance. Different ideas in this paper are being borrowed from a previous paper. Firstly, it revisits Paper 1 and utilises the idea of the network of TMT when studying the TMT process as an external phenomenon. Studying the team process also reflects the findings of Paper 2, where process is advocated to be an important mediator in the relationship between TMT cultural diversity and organisational outcomes. The paper operationalises culture in terms of nationality, since in Paper 3 it became apparent that it is an appropriate quantitative measure of culture. While investigating demographic and intervening models, albeit with the process of external network nature, Paper 5 has not investigated the moderating model, argued in Paper 2 to be superior in investigating the link between cultural diversity in TMT and organisational outcomes. Thus, in order to fill this gap it was decided that the final paper comprising this dissertation would investigate the moderating and intervening models presented in Paper 2.

Paper 6 (‘Cultural diversity in top management teams and firm performance: Black box revisited’) aimed to investigate the relationship between cultural diversity in TMT and firm performance. The paper sought to test the moderating model (with TMT shared vision as a moderator) outlined in Paper 2 and partly empirically investigated in Paper 4. Moreover, in order to avoid the mistakes of measuring the process in a very quantitative manner, as done in Paper 3, the paper adopted a different way of thinking about qualitative and quantitative methods. The paper adopted the idea of quantitative and qualitative techniques and concepts, where qualitative concepts were measured in a quantitative manner. Following the theoretical development in the field, apart from firm performance as an outcome variable, ambidexterity, a term used for simultaneous exploration and exploitation of firm resources, was investigated as a mediator between TMT process and its influence on firm performance. The results of the
paper suggested that when having a strong shared vision, culturally diverse TMT would become behaviourally integrated, which in turn would allow their firms to be more ambidextrous. This in turn will have a positive influence on firm performance.

While the research process of this dissertation has not always been straightforward, it has definitely been a way of understanding TMT research as a field, its development over those eight years it took to write this dissertation, as well as learning about oneself. Therefore, the six papers comprising this dissertation are presented below.

1.7 The six papers

The six papers comprising the dissertation are built around the three models identified in section 1.5. Each study addresses a distinct research objective in order to satisfy the outlined purpose of the dissertation. In this section, I introduce each of the six papers, providing general information on the authorship and publication or presentation, followed by an overview of the aim of the paper, the data collection, results and contributions to the dissertation, and a brief discussion of the relationship to the previous paper(s).

The structure of the dissertation is graphically illustrated through the figures following each component paper. Each figure is divided into three levels. The first level indicates which of the three models identified in section 1.3 has been used for the investigations into TMT diversity and its relationship to organisational outcomes. The second level specifies the analytical techniques applied as well as the measurements of the variables that have been shown to influence the results of the investigations of the link between TMT diversity and organisational outcomes (Paper 2). Archival, experiment and survey data represents the statistical analytical technique; case study represents the interpretative analytical technique. The reference to qualitative or quantitative instead of the methodology refers to the measurement of variables within each paper. The third level refers to the
operationalisation of culture that has been used and that has been shown to make a difference in the outcomes of the studies in the field (Paper 2). The models constitute a central structural aspect of the dissertation, and the methods and operationalisation of the central concept of culture (cultural diversity on the group/TMT level) will be shown to have an important implication in investigating the link between TMT cultural diversity and organisational outcomes.

**Paper 1 (Framework building 1)** is co-authored with Sven-Olof Collin whose contribution is 75%, with my input at 25%. The title of the paper is ‘Turnover and heterogeneity in top management networks’. The paper was published in the *Journal of Business Science and Applied Management* in 2008.

The **aim** of the paper is to develop and test the framework for investigation of demographic diversity in respect to a specific organisational outcome (turnover) through the prism of the network perspective. The data were collected from the consolidated statements in the annual reports of Swedish listed corporations belonging to the Investor and Industrivärden business groups between 1975 and 1986.

The **results** of the paper suggest that compositional TMT factors expressed in terms of organisation-specific factors counteract the conflict-producing forces of TMT composition expressed in terms of demographic heterogeneity. Thus, an organisational demographic perspective focusing on opposing forces of heterogeneity and homogeneity is developed. It is shown that the perspective can be applied both to formal organisations and to informal ones such as networks.

The **contribution** of the paper to the overall dissertation is the exploration of the applicability of demographic diversity in TMT to organisational outcomes and its interplay with firm-specific resources. The paper serves as an introduction to the relationship between demography and organisational outcomes. By highlighting the strength of the TMT compositional approach, the paper provides a base for the
framework building employed in this dissertation. Moreover, the paper contributes to the operationalising of the TMT in terms of a network of decision makers rather than a formally defined group of top managers.

The paper is thus positioned within the demographic composition model and uses archival data and quantitative analysis in building and investigating the link between TMT diversity and organisational outcomes (see Figure 1.4).

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Figure 1.4 Paper 1

**Paper 2 (Framework building 2)** is a single-authored and conceptual paper titled ‘Research angles on cultural diversity in top management teams’. An early version of this paper was presented at the 4th Workshop on International Strategy and Cross-Cultural Management, EIASM, Toulouse, France, 2006. The paper was submitted to *Problems and Perspectives in Management* in October 2008. After revision, the paper was accepted in February 2009 and published in this journal in April 2009.

The **aim** of the paper is to build an integrative theoretical framework on TMT cultural diversity influences on organisational outcomes. By reviewing and analysing relevant literature, the paper addresses the problem of mixed results in the field of cultural diversity in group research in general and in cultural diversity research of TMT in particular. In order to clarify the causes of the mixed results as well as to
build a theoretical frame for future studies in cultural diversity in TMT research, the study addresses issues of models, methods and conceptualisation of culture used in group research in general and in TMT in particular. Apart from reviewing existing models, methods and conceptualisation in use and highlighting the differences in outcomes depending on the use of each of these components, the paper provides a discussion and suggests a research agenda in studies of cultural diversity in TMT research.

The key results of this paper are, firstly, the development of a theoretical framework for studies of cultural diversity in TMT and a proposal of alternative ways of operationalisation of culture and exploration of the black box of team processes. Secondly, the paper highlights how the use of models, methods and definitions causes the mixed results in the field of cultural diversity and group research. Thirdly, the paper proposes a way forward in cultural diversity in TMT research by suggesting a mixed model, methods and conceptualisation of culture.

The paper contributes to the dissertation by identifying the theoretical frame upon which the other papers in the dissertation build as well as identifying problems in the field of cultural diversity and group research which could be tackled with the use of models, methods and conceptualisation of culture.

In this way the paper touches upon the previously identified three models used to inquire into TMT cultural diversity and its influence on organisational outcomes. Apart from the models, the paper addresses the methods used in the field, as well as problematises the operationalisation of culture, identifying three distinct ways of looking at the concept as it is used in TMT and group research. The paper narrows down the discussion that was begun in Paper 1, by putting an emphasis on TMT cultural diversity and its link to organisational outcomes, identifying the models, methods and definitions of culture.
used in that stream of research and making suggestions for future inquiries (see Figure 1.5).

Figure 1.5 Paper 2

**Paper 3 (Method and concept development 1)** is co-authored with Sven-Olof Collin and Torbjörn Tagesson, and my input to the paper constitutes 70%. The title of the paper is ‘Ethnic and gender diversity, process and performance in groups of business students in Sweden’. It is empirically based and the data were collected through a survey of business students working in demographically diverse groups on a complex assignment; the data were subjected to statistical analysis. The paper investigates diversity in student work groups rather than TMT diversity; however, since the aim of the paper is methodological, it is included in this dissertation. An early version of this paper was presented at the 30th Annual Congress of the European Accounting Association, Lisbon, Portugal, 2007. The paper was submitted to *Intercultural Education* in July 2007. After revision, the paper was accepted in November 2007 and was published in this journal in January 2008.
The aim of the paper is to develop the method of inquiry into the team process as well as to investigate the outcomes of the study through the use of different operationalisations of culture. The study is based on the (quantitative) survey of culturally and gender-diverse student groups working on a complex assignment and investigates the complex interrelation between cultural and gender diversity process performance in groups of business students. It does so by investigating two models: a diversity-outcomes (demographic composition) model and a diversity-process-outcomes (intervening) model as well as by conceptualising culture in terms of nationality and ethnicity.

The results of the study, firstly, indicate that cultural diversity in learning groups working on a complex assignment has a negative influence on group performance, while gender diversity in these groups has a positive influence on group performance. Secondly, the paper shows process variables in teams as being affected by cultural or gender diversity but not having an influence on group outcomes. Thirdly, the study shows that, of the different variables used to measure culture, it is national diversity that influences group outcomes.

Paper 3 makes methodological contributions to this dissertation. Firstly, it empirically investigates the diversity-outcomes (demographic composition) model with regard to the interrelations among gender, cultural diversity and outcomes. Secondly, it empirically investigates the diversity-process-outcomes (intervening) model, by attempting to measure group processes and examining the connection between diversity, group process and outcomes. Thirdly, the study attempts to use various measures of culture, such as nationality, ethnicity, parents’ ethnic background and self-identification as well as native language. Thus, this paper in one sense attempts to compare the demographic and intervening models used in investigating the group diversity-outcome relationship. At the same time, the paper contributes to the alternative (often employed by U.S.-based researchers as a connotation for culture) to racio-ethnicity measurement of culture such as nationality and ethnicity. The paper reaches the conclusion that
national diversity, as the only significant operationalisation of culture, leads to decreased performance.

In sum, Paper 3 addresses two models – demographic composition and intervening, uses an experimental design and operationalises culture in terms of nationality and ethnicity. In doing so it empirically investigates two of the three models identified in Paper 2 and explores the use of two of the three identified operationalisations of culture (see Figure 1.6).

Figure 1.6 Paper 3

Paper 4 (Method and concept development 2) is a single-authored and empirically based paper with the title ‘Ethnic identity, power and communication in top management teams’. The paper relies on case studies of TMTs in two multinational companies operating in Latvia. An early version of the paper was presented at the 3rd Workshop on Corporate Governance, (EIASM) Belgium, 2006. The paper was submitted to the Baltic Journal of Management in July 2007. After revision, the paper was accepted in February 2008 and published in this journal in May 2008.
The aim of the paper is to explore the concepts of cultural diversity in the dimensions of ethnicity and nationality, as well as to develop the concepts of TMT process (communication) and moderators (international experience and shared goals/vision) of the TMT cultural diversity and TMT process relationship. The paper addresses the problem of the influence of TMT cultural diversity on group processes. The case studies are based on the TMTs of two Swedish corporations operating in Latvia and investigate the black box of team processes, proposing an alternative operationalisation of cultural diversity, explored through the use of ethnic and national dimensions of the culture concept. This paper also advocates an alternative conceptualisation of TMTs expressed in terms of decision-making power. The paper’s major contribution is its opening up and exploration of team processes, usually avoided by researchers because of their assumed complexity. Moreover, the study contributes to TMT literature by presenting the Latvian environment as a unique research locus where ethnic identities are rich and various.

The results of the paper suggest that ethnic diversity in TMTs leads to more informal and open communication in the teams, but has no clear influence on power distribution in the teams. The results highlight the importance of studying variables that could moderate the effects of ethnic diversity on communication and power distribution; throughout the study, these variables are identified as, but not limited to, the international experience and shared goals of top management.

The paper contributes to the dissertation in several ways. Firstly, it explores the diversity-process-outcomes (intervening) and diversity-moderators-process-outcomes (moderating) models of TMT diversity research. Secondly, the paper contributes to the conceptualisation of TMT as well as culture (ethnicity/nationality). Thirdly, the paper inquires into the black box of processes by means of the qualitative case study. The paper reaches the conclusion that cultural diversity in TMTs could lead to positive group process such as communication
when moderated by the common goals and past international experience of top management.

In sum, Paper 4 explores the intervening and moderating models of inquiry (identified in Paper 2) into the relationship between TMT diversity and outcomes through the use of case study method, and it explores the national and ethnic dimensions of cultural diversity in TMTs. In doing so, the paper addresses the issue of the difficulties of inquiry into the black box of TMT process (that emerged in Paper 3) through the use of an interpretative analytical technique (see Figure 1.7).

Figure 1.7 Paper 4

**Paper 5 (Empirical investigation 1)** is co-authored with Elin Smith, and my contribution amounts to 60%. The title of the paper is ‘Isolated islands in the upper apex of organisations – in search for interaction between the board of directors and top management team’. The data were collected from the consolidated statements in the annual reports of Swedish listed corporations. An earlier version of this paper was presented at the 7th Workshop on International Strategy and
Cross-Cultural Management, (EIASM) Helsinki, Finland (2009). The paper was also submitted to and accepted for review at a Journal in January, 2012.

The **aim** of the paper is to empirically investigate and explore the link between TMT demographic diversity (cultural diversity included) and organisational performance through the investigation of the interaction between diversity dimensions of the TMT and those of the board of directors. The paper addresses the problem of how demographic diversity in the upper apex of the organisation (TMT and board of directors) influences organisational performance. The study is based on (quantitative) data extracted from the 2004 annual reports of Swedish listed corporations.

The **results** of the paper indicates that similarity in the cultural diversity dimension between the board of directors and TMT has a positive influence on firm performance.

The study **contributes** to the dissertation in three ways. Firstly, it investigates the diversity of TMT and its performance effects as a test of the diversity-outcomes (demographic composition) model. Secondly, the paper contributes to the study of two power groups forming the upper apex of the organisation rather than concentrating on the TMT or board effects on performance exclusively. Thirdly, the paper employs national diversity as a proxy for cultural diversity instead of using racio-ethnicity identification of cultural diversity in TMT and board. Fourth, the paper contributes to the theoretical development of TMT and board interaction based on the team diversity variables and finds cultural diversity emerging as an important interaction variable between the two groups in its influence on firm performance.

In sum, Paper 5 relies on the importance of the external network of TMT highlighted in Paper 1. It also reflects the discussions in Paper 2 and Paper 4 though the use of TMT and board diversity interaction as one way of inquiring into the black box of TMT process. It also
borrows from Paper 3 by using similar measures of cultural diversity on the group level (see Figure 1.8).

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<td>Case study (Qual.)</td>
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| Operationalisation of Culture |
| Racio-Ethnicity           |
| Paper: 2                 |
| Nationality              |
| Papers: 2, 3, 4, 5       |
| Ethnicity                |
| Papers: 2, 3, 4          |

Figure 1.8 Paper 5

**Paper 6 (Empirical investigation 2)** is a single-authored and empirically based paper with the title ‘Cultural diversity in top management teams and firm performance: Black box revisited’. The paper is based on a survey sent to the CEOs of publicly traded corporations in Sweden and Denmark in the year 2011. The paper was presented at the 37th European International Business Academy (EIBA) Annual Conference, Bucharest, Romania (2011). The paper was also submitted to and accepted for review at a Journal in December 2011.

The **aim** of the paper is to empirically investigate the relationship between TMT cultural diversity and organisational outcomes by employing three models (identified in Paper 2) and using a (quantitative) survey data collection technique as well as the national and ethnic dimension of cultural diversity. The problem addressed in the paper is how and under which conditions cultural diversity in TMT
influences organisational performance. The paper investigates TMT process operationalised as a meta-construct of behavioural integration, TMT moderators expressed in terms of TMT shared vision, ambidexterity as an organisational outcome mediating the relationship between TMT process and the ultimate organisational outcome, i.e., organisational performance.

The results of the paper indicate that TMT cultural diversity has no direct effect on organisational outcomes, i.e., firm performance (in terms of the demographic composition model), neither is it found to have a direct effect on TMT process (in terms of the intervening model). However, TMT cultural diversity does have a positive effect on organisational outcomes, i.e., firm ambidextrous orientation and organisational performance, when the link between diversity and process, i.e., behavioural integration is moderated by TMT shared vision, and where process is a mediator of the relationship between TMT cultural diversity and organisational outcomes. Both nationality and ethnicity are used in this study as measures of culture, but the similarity of national make-up of TMT with that of ethnicity did not allow for a comparison between the two measures.

The study contributes to the dissertation in two ways. First, it empirically investigates the relationship between TMT cultural diversity and organisational outcomes by the use of three competing models from TMT demography research. Secondly, the study introduces qualitative concepts of shared vision, behavioural integration, and ambidextrous orientation and measures them quantitatively; in doing so, it contributes to the opening up of the black box of team process, identifies and measures moderating variables in the relationship between TMT diversity and process, and introduces a mediating organisational outcome variable in the link between process and organisational performance.

Hence the paper empirically investigates the three models identified in Paper 2 using a survey data collection method, and inquires into both
national and ethnic dimensions of culture, even though with limited success due to the similarity of these dimensions in the sample. The paper empirically tests the moderating influence of shared vision on the relationship between TMT cultural diversity and TMT process identified in Paper 4 and applies cultural diversity measures used in Papers 3 and 5.

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Figure 1.9 Paper 6

The titles of the six papers that comprise this dissertation, the type of the data and techniques used, the paper’s authorship, and the dates of conference presentations and publications are summarized in Table 1.1.
<table>
<thead>
<tr>
<th>Paper</th>
<th>Title</th>
<th>Type of paper/method/data</th>
<th>Author(s) (% of contribution)</th>
<th>Actual/intended conference presentation</th>
<th>Publication/Submission</th>
<th>Publ. year</th>
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<td>Turnover and heterogeneity in top management networks</td>
<td>Framework building/ Quantitative/ Archival</td>
<td>Sven-Olof Collin (75%) and Timurs Umans (25%)</td>
<td>-</td>
<td>Published in International Journal of Business Science and Applied Management, 3: 31-55</td>
<td>2008</td>
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<tr>
<td>4</td>
<td>Ethnic identity, power and communication in top management teams</td>
<td>Concept and method development/ Qualitative/ Case</td>
<td>Timurs Umans (100%)</td>
<td>Presented at the 3rd Workshop on Corporate Governance, European Institute for Advanced Studies in Management (EIASM) Brussels, Belgium</td>
<td>Published in Baltic Journal of Management, 3 (2): 159-173</td>
<td>2008</td>
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<tr>
<td>5</td>
<td>Isolated islands in the upper apex of organisations – in search of interaction between the board of directors and top management team.</td>
<td>Empirical investigation/ Quantitative/ Archival</td>
<td>Timurs Umans (60%) and Elin Smith (40%)</td>
<td>Presented at the 7th Workshop on International Strategy and Cross-Cultural Management, (EIASM), Helsinki, Finland (2009)</td>
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<td>6</td>
<td>Cultural diversity in top management teams and firm performance: Black box revisited</td>
<td>Empirical investigation/ Qualitative. Quantitative/ Survey</td>
<td>Timurs Umans (100%)</td>
<td>Presented at the 37th European International Business Academy Annual Conference, Bucharest, Romania (2011)</td>
<td>Under review Submitted, December 2011</td>
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1.8 Outline of the dissertation

The rest of the dissertation is structured as follows. The six papers are presented in Chapters 2 to 7. The empirical, methodological, and theoretical contributions and suggestions for future research are presented in Chapter 8.
References


2.1 Introduction

Organisational demography (Pfeffer, 1983) involves measuring the individual characteristics of persons belonging to an organisation, using these to describe the organisation and explain organisational outcomes. A common issue involved is that of explaining turnover, i.e., the exit of members of an organisation, especially members of top management teams (TMT), on the basis of such heterogeneity-related variables as differences in age, culture, tenure, education and functional experience (Daily and Dalton, 1995; Elron, 1997; Hambrick and D’Aveni, 1992; Keck and Tushman, 1988; Keck and Tushman, 1993; Kirkman and Shapiro, 2001; McCain, O’Reilly III and Pfeffer, 1983; O’Reilly III, Caldwell and Barnett, 1989; Pelled, 1996; Wagner, Pfeffer and O’Reilly III, 1984; Wiersema and Bantel, 1993, and Wiersema and Bird, 1993). A basic hypothesis concerns the ‘similarity-attraction paradigm’ (Tsui and O’Reilly, 1989) stating that persons prefer individuals who are similar to themselves, or more specifically that high heterogeneity triggers turnover.
A demographic perspective alone however, does not indicate which individual dimensions trigger turnover. While in some situations heterogeneity of branch, for example, can trigger turnover (Jackson, Brett, Sessa, Cooper, Julin and Peyronnin, 1991), it can, however, be expected to be negatively related to turnover in the case of business groups, as will be argued in this paper. There is thus the need for considering the context of the organisation when predicting the dimensions that are important in triggering turnover, as indeed has been argued by Alexander, Nuchols, Bloom and Lee (1995) and Milliken and Martins (1996). Additionally, the heterogeneity of even highly relevant dimensions does not necessarily influence turnover appreciably, since it is conceivable that countervailing forces of an integrative character may reduce the turnover effects of heterogeneity (Hambrick, 1994).

A demographic perspective has often been used to explain TMT processes and outcomes in formal organisations, and it has expended to include boards of directors (Knippenberg et al., 2004; Schippers et al., 2003; Zajac and Westphal, 1996) and the relationships between the board and the TMT (Golden and Zajac, 2001; Daily and Schwenk, 1996; Kor, 2006). While Hambrick (1994), in an extensive review of the literature argues for studies focusing one level below the organisational edge, i.e., the business unit level, we contend that the level above the single organisation, when it exists, is as important to study as the other levels. Indeed, there are informal organisations such as business groups (Granovetter, 1994; cf. Gerlach, 1992) consisting of separate corporations linked by flows of ownership, management, board members, board directors, capital, and the like. It is, therefore, likely that some teams are based within more than one formal organisation. These groups take on the form of conglomerates or spheres of influence (Levine, 1972) for example, in the US, of konzerns and bank groups in Germany, of Keiretsus in Japan (Aoki, 1990), of industrial groups in France (Encaoua and Jacquemin, 1982) and of financial groups in Sweden (Collin, 1993). Business groups seem to consist of elite individuals, quite similar to ‘the inner circle’ in UK (Useem, 1984) and
‘upper echelons’ in US (Hambrick and Mason, 1984). They can be seen as basically equivalent to the TMTs of formal organisations. Thus, the paper extends the notion of TMT turnover to include top management teams other than formal ones.

However, lacking formal status, the TMTs of business groups cannot be identified through methods such as those of letting the position in the formal hierarchy determine whether a manager belongs to the TMT of the corporation or not. The present paper proposes that a TMT can better be identified through network analysis in which such criteria as possibilities for interaction and frequency of interaction are used to identify those managers who belong to the TMT.

The paper’s aim is to predict turnover in networks of elite individuals identified on the basis of interlocking directorship data from the two largest business groups in Sweden (the Wallenberg group and the Handelsbank group). The theory put forward to explain turnover here states that the TMT of a business group possesses a combination of financial and industrial experience, that this branch heterogeneity represents a resource, and that a socialising strategy of control serves to counteract the potential conflicts which this heterogeneity tends to produce. The major contributions of the paper are the idea of countervailing forces affecting turnover, the application of turnover to elite networks and use of an operational definition of the TMT based on explicit group considerations.

The paper is divided into five sections. The first section describes the demographic perspective and deals with questions of turnover, heterogeneity and the definition of TMT that the paper is addressing. The second section examines turnover in Swedish business groups, first introducing the two largest Swedish business groups, and then developing a theory to explain TMT turnover in these business groups. The third section takes up the method by which the members of the TMTs of the business groups were identified, the data that were obtained and the measures that were employed. The fourth section
presents the results of the analysis. The last section concludes the paper and considers possible implications for research and offers a simple rule of thumb for management when composing a TMT.

### 2.2 The perspective of organisational demography and its application to TMT turnover

A study of TMT composition using the perspective of demography has to be based on certain arguments concerning issues of both ontology and methodology. This section is devoted to the arguments a) that organisational demography should retain its objective character, b) that the study of TMT and its composition, i.e., turnover, is important since TMTs and the composition those have affect the organisation and can be regarded as a strategic resource for the organisation, c) that it is partly a substantive theoretical problem to determine which demographic dimensions that are relevant in predicting turnover, and finally d) that the operational definition of a TMT should be based on team characteristics, making it possible to study elite’s in non-formal organisations such as networks and the forces behind their compositional characteristics.

#### 2.2.1 The objective character of demography

Ever since the time of Malthus, researchers in economics have been interested in demographic variables. It was Pfeffer (1983) that has introduced demographic considerations into organisation theory as a perspective of its own after considering demographic variables in a number of empirical studies (McCain, O'Reilly and Pfeffer, 1983; Pfeffer and Leblebici, 1973; Pfeffer and Moore, 1980). Since Pfeffer's (1983) classic work, demography of organisations became a rapidly expanding field that an organisational perspective focused on culture and organisational economics has been.

The rapid expansion of demographic studies in organisational science not only can be attributed to the long-established tradition, but also to
the possible use of quantitative and objective measures well suited to statistical analysis, as well as to employable data with few problems of access (cf. Stewman, 1988). All this has fitted with the Anglo-American research tradition of explanation and prediction based on use of statistics and statistical techniques, finding strengths in the use of such clearly objective variables as tenure, age and gender. Pfeffer (1983, p. 301) indicates that, whereas organisation theory often employs variables that in a methodological sense are subjective - specifically such conceptual constructs as norms and roles - demographic variables are facts which it is therefore possible to observe. However, the shortcoming of the demographic perspective is a conception of the individual through the prism of the demographic characteristics the perspective takes into account, moreover the intervening variables - such as communication, social integration and conflict- the subjective ones are still concealed in the darkness of the black box (cf. Bacharach and Bamberger, 1992; Lawrence, 1997; Pettigrew, 1992; Priem, Lyon and Dess, 1999).

However, recent research has been concerned with opening up this black box through the study of the intervening processes, measuring both direct effects and indirect effects of a group’s demography (Ancona and Caldwell, 1992; Ancona, 1990; Kirkman and Shapiro, 2001; O’Reilly, Caldwell and Barnett, 1989; Pelled, 1996; Simons, 1995; Smith et al., 1994; Umans, 2008). Pfeffer’s (1983) contention that the variance explained by the intervening process variables should be small has received mixed support, Smith et al (1994) obtaining negative support and Ancona and Caldwell (1992) positive. Yet the main objection that Pfeffer (1983) has against focusing on the process is both epistemological, involving the difficulties associated with observing subjective variables, and methodological, concerning the problem of accessibility. In the research referred to above, arguments for the possibility of observing intervening variables such as social integration (Smith et al., 1994), debate (Simons, 1995) and relative cohesiveness of groups (O’Reilly, Caldwell and Barnett, 1989) have largely been lacking. Despite this, the epistemological objection only
casts doubt on the possibility of measuring the intervening variables, not on the impact these can have. In fact, it is impossible to comprehend the impact of demographics without theorising about the processes in which demographics are an input and turnover, for example, is an outcome. The present paper accepts the Pfeffer arguments for the strong rule of organisational demographics. The paper theorises about intervening variables generally and examines empirically the effect of demographic variables.

2.2.2 The importance of TMT and its composition

In the attempt to explain various organisational outcomes, organisational demographics could well concern itself with the demographic composition of the entire organisation. However, most of the efforts to explain organisational performance are focused on the top management team (Daily and Dalton, 1995; Elron, 1997; Ely and Thomas, 2001; Hambrick and Mason, 1984; Hambrick and D'Aveni, 1992; Heijltjes, Olie and Glunk, 2003; Murray, 1989; Norburn and Birley, 1988; Priem, 1990; Smith, et al., 1994; Wagner, Pfeffer and O'Reilly, 1984), on strategic change (Keck and Tushman, 1988; Wiersema and Bantel, 1992), on innovation (Ancona and Caldwell, 1992; Bantel and Jackson, 1989) and on board composition (Westphal and Zajac, 1995; Zajac and Westphal, 1996). The rationale behind such a focus is that the TMT and its composition influence the organisation. At this stage of research, the idea that top management makes a difference is becoming less an assumption (Meindl, Ehrlich and Dukerich, 1985) than an empirical conclusion, one that a variety of empirical studies have supported (e.g., Kosnik, 1990; Norburn and Birley, 1988; Smith, Carson and Alexander, 1984; cf. Furtado and Karan, 1990), especially from a strategic choice perspective (Eisenhardt, 1989; Wiersema and Bantel, 1992). Such intriguing conclusions as the following have been drawn: "...it would appear that environmental determinism and strategic choice are not ends of a continuum but, rather, separate dimensions." (Eisenhardt and Schoonhoven, 1990, p. 525). In these terms, there are certain degrees of freedom that a TMT can
access, making the quality of the TMT an important variable for the organisation.

Recognising the importance of the TMT to the outcome of an organisation makes it possible to treat the top management team as a definite resource for the firm involved. The composition of such a team in terms of age, tenure, social background, experience, network connections, education, and the like can be considered as a quality of the TMT as a whole. Not only the individual members, but also the overall composition of the TMT can thus be regarded as a valuable and scarce resource that would be hard for competitors to imitate (Barney, 1986, 1991; Castanias and Helfat, 1991). Consequently, the composition of a TMT can be considered a strategic variable.

However, treating the composition of a TMT as a strategic variable assumes a causal link between strategy and the composition of the TMT, a matter which can be questioned (cf. Mittman, 1992). For example, the strategy and structure of an organisation, together with the composition of its external and internal labour pools (Haveman, 1995), determine the organisation’s demographic composition. The demographic composition of an organisation can in turn influence strategy and structure of the organisation. Thus, determining causality can be a definite problem present in demographic studies. Bantel and Jackson (1989), for example, found innovation and top management team composition, just as Keck and Tushman (1988) found strategic reorientation and top executive team composition, to be correlated. Is it this team composition, then, that determines innovation and reorientation, or is it the other way around? Or is it perhaps, as Michel and Hambrick (1992) asserts, a reinforcing spiral? Keck and Tushman’s (1993) findings can be interpreted as supporting the latter view, although they primarily concern the influence of reorientation upon changes in TMT. To make the argument short, a TMT and its composition - despite certain causality problems - can be considered as a strategic variable for the organisation, thus merit scientific concern.
2.2.3 Demographic heterogeneity and turnover

The composition of a TMT can be influenced by the TMT itself. Westphal and Zajac (1995), and Zajac and Westphal (1996), showed that powerful CEOs tend to influence the composition of the board through promoting directors that are demographical similar to them. This result is consistent with the hypothesis, which Tsui and O’Reilly (1989) call ‘the similarity-attraction paradigm,’ that persons prefer individuals who are similar to themselves. One can suppose that human groups generally have a tendency to become homogeneous and to regard heterogeneity as disturbing (Jackson et al., 1991). One explanation of this general tendency of similarity-attraction is contained in self-categorisation theory (Turner, 1987), which Tsui, Egan and O’Reilly (1992) and Westphal and Zajac (1995) have applied to demographic studies, arguing that individuals shape their self-identity through categorisation and that in the pursuit of high self-esteem they prefer individuals who are similar to them in terms of these categorises. Another explanation of similarity-attraction is that individuals minimise their transaction costs in relationships through interacting with similar individuals, thus reducing the efforts necessary for gaining understanding. This is expressed by Kanter (1977, p. 58) for example as follows: ‘Social certainty, at least, could compensate for some of the other sources of uncertainty in the tasks of management.’

A central hypothesis in demographic studies of organisations is that homogeneity, i.e., sameness with respect to certain dimensions, creates stability and ease of communication (Priem, 1990; Smith et al., 1994; Zenger and Lawrence, 1989) due to individuals’ involved sharing similar experiences (Blau, 1977). Heterogeneity, in contrast, appears to readily create conflicts, reducing the ability to interact (Kirchmeyer and Cohen, 1992; Kosnik, 1990; Sutcliffe, 1994), although at the same time it is often associated too with such forms of change as innovation (Bantel and Jackson, 1989; cf. Watson, Kumar and Michaelsen, 1993), strategic change (Keck and Tushman, 1988; Wiersema and Bantel, 1992) and turnover (Wagner et al., 1984).
According to ‘the similarity-attraction paradigm’, as well, both strategic change and innovation are associated with heterogeneity. Keck and Tushman (1988) found support for the hypothesis that reorientation, representing a change in both strategy and structure, increases heterogeneity. The causality involved does not have to apply to both aspects of reorientation, however, since heterogeneity could well be caused, for example, by a change in the internal labor pool brought on by structural change. Such causality supports in any case there being a relationship between heterogeneity and change. In like manner, Bantel and Jackson (1989) obtained support for the hypothesis that innovativeness and functional heterogeneity are correlated. Their conclusion is as follows:

On the one hand, heterogeneity has a positive effect on innovative and creative decision-making. On the other hand, heterogeneous (and thus, innovative) groups are subject to higher turnover, presumably because members find the increased conflict and decreased communication to be stressful. (1989, p. 118)

Turnover and heterogeneity have been hypothesised to be correlated as well, studies such as those of Godthelp and Glunk, 2003, McCain, O’Reilly and Pfeffer (1983), Wagner et al. (1984) and Wiersema and Bird (1993) being confirmative of this, whereas Wiersema and Bantel’s (1993) study, for example, is disconfirmative. However, an important theoretical question concerns individual characteristics that tend to trigger turnover. Wagner et al. (1984) found that similarity in date of entry and age correlated positively with turnover, which has also been supported by the findings of Godthelp and Glink (2003). This is a cohort aspect of turnover that could be thought to apply to any type of organisation. As already indicated, a TMT composition characterised by heterogeneity, for example functional heterogeneity (Bantel and Jackson, 1989) or heterogeneity in years of education (Smith, et al., 1994), can be a valuable resource for a firm, partly due to the cognitive conflicts it produce (Amason, 1996). Countervailing forces of integration, i.e., of homogenisation, might likewise be found within the
organisation. These could prevent the heterogeneity from triggering turnover and allow heterogeneity to be retained as a resource.

The homogeneity which groups tend to show have been suggested by Murray (1989) and Michel and Hambrick (1992) to be a phenomenon similar to that of the Ouchi’an clan. The broad and strong interaction within a clan and the long tenure of its members point towards group homogeneity, making homogeneity and clan membership, therefore, appear similar. Although such similarity can be considered to be basically valid, it can only be assumed to be found on those dimensions that constitute the clan. Obviously, clan members cannot be alike on all dimensions conceivable. The overriding problem is to identify those dimensions that are relevant when cohort similarity creates cohesion. Murray (1989) appears to conclude that it is not homogeneity per se, but functional homogeneity in particular, that explains the performance results obtained in his sample of oil companies. In another working group, in which functional heterogeneity was an imperative from the start, Murnighan and Conlon (1991) found for British String Quartets that homogeneity on dimensions such as age, sex and school background were positively correlated with success. Contrary to their prediction Alexander et al (1995) found a downward curvilinear relationship between heterogeneity in employment status and turnover in a sample of US nursing staffs, concluding ‘...that demographic heterogeneity does not operate similarly across all demographic attributes.’ (p.1477) This indicate one possible explanation to the reported (West and Schwenk, 1996) nonfindings between an aggregate measure of 12 variables measuring demographic homogeneity and performance. Demographic variables has probably to be treated with more care than summed up into one single measurement. Thus, it can be asserted that a theory predicting a certain relationship between heterogeneity and turnover has to consider the organisation in question, i.e., it is partly a substantive theoretical problem to determine which dimensions that are relevant in predicting turnover.
To summarize, human groups have a tendency towards homogeneity due to the shaping of self-identity and ease of understanding, thus creating groups characterised by stability. As an opposite, heterogeneity creates conflict and stimulate turnover but tends to be correlated with innovation due to the diversity of perspectives in the group. However, we argue that the general tendency of heterogeneity triggering turnover has to consider the specific group and its context. It is conceivable that there exists groups such as TMTs were heterogeneity is a valuable resource that can be retained through countervailing forces of integration, i.e., of homogenisation, thus preventing heterogeneity from triggering turnover.

2.2.4 Operationalisations of TMTs

Finally, turning to a methodological problem with ontological implications in TMT studies, one can note that studies of the team demographics of top management have concentrated largely on formal organisational aspects (Pettigrew, 1992), with the consequence that non-formal organisations have been neglected and TMTs have in large been only formally defined. Since it is difficult to verify the existence of a team in the true sense in any organisation (Hambrick, 1994), it generally is assumed that top management represents a team. Empirically, three different methods have been used to identify teams. One has been to define the TMT in terms of members’ formal titles, such as those of vice president or higher (Wagner, Pfeffer and O’Reilly, 1984), as well as secretary and treasurer (Keck and Tushman, 1993). Defining teams in this way is quite arbitrary, however. Eisenhardt and Schoonhoven (1990) adopted a more qualitative approach, defining as a founding team those persons who were founders or were working full-time as executives at the time of founding. Such a method has the weakness of neglecting the importance of informal organisations (Hambrick 1994). A second method of identifying the TMT is to simply transfer the problem from the researcher to the CEO, letting the latter identify the TMT given either more thorough instructions (Bantel and Jackson, 1989; Boeker, 1997) or more general ones
(Amason, 1996; West and Schwenk, 1996; Amason and Sapienza, 1995; Smith et al., 1994). This method has the disadvantages of a person who is not trained scientifically making the observations, and of its being impossible to measure the reliability of the observations since independent observers are lacking. A third method, used by Weirsema and Bird (1993) and partly by Jackson et al (1991) and Umans (2008), considers the frequency of meeting in executive committees to document the existence of a TMT. This method can be regarded as superior since group membership is determined by a dimension, i.e., frequency, that is relevant in defining groups. It has the additional advantage of being consistent with the assumption of interaction that the similarity-attraction paradigm makes.

The focus on formal organisations has withheld attention from organisations that are not formal in character but have an elite group equivalent to a TMT, as exemplified by certain kinds of networks. In a pioneering paper, Pfeffer and Leblebici (1973) analysed the moving of executives to a new role or location as one form of interorganisational communication and coordination. Thus considered, there might appear to be no major ontological or methodological differences between analysing formal organisations and analysing informal organisations such as networks of organisations or persons. As Useem (1984), for example, has shown a network of organisations can be governed by an elite group of individuals, just as a formal organisation can be. To be sure, the top management that constitutes a team is as much a matter to be examined empirically as is a network of individuals that constitutes a team of a larger network. In examining non-formal organisations such as networks, however, the researcher cannot rely on formal positions or even on CEO opinions, but is forced to define a TMT theoretically.

In summary, based on the self-attraction paradigm, one of the relevant factors in identifying TMTs is frequency of interaction, which has the additional advantage of being possible to apply to non-formal organisations governed by an elite group equivalent to TMTs.
Concluding this section, we have argued for a demographic perspective using objective variables predicting turnover in TMTs on the general notion of heterogeneity, but with a consideration of the existence of countervailing forces in specific groups, such as elite groups of networks, and with the operational definition of a TMT being based on team characteristics. In the following, a specific type of network organisation, that of business groups, is examined in this way.

2.3 Turnover in Swedish business groups

In contrast to the UK and the US, Sweden has constellations of corporations, quite similar in certain respects to the Keiretsus of Japan, in which several corporations are connected through relations of ownership, interlocking directorates and financial service. The individuals who interlock and connect the boards of the various corporations in the group represent the group’s elite, an elite that can be regarded as equivalent to the TMT of a single corporation, and in a similar vein represents a valuable resource for the group. The composition of this elite group can thus be assumed to be of importance of the group. The aim in this section is to formulate predictions concerning turnover based on the assumption that business groups possess as a group resource a combination of financial and industrial experience and, as a force counteracting the conflict-producing force of this branch heterogeneity, a socialising strategy aimed at control. The section starts with a brief account of Swedish business groups, since the reader may not be acquainted with them. It concludes with the deducting of various hypotheses based on a demographic perspective, hypotheses predicting member turnover in the elite of the business groups involved.

2.3.1 A Digest on Swedish Business Groups

The Swedish industrial economy is dominated by some few business groups, each consisting of industrial and/or financial corporations
connected through relations of ownership, interlocking directorates and financial service. Two groups of this sort, the Wallenberg-group (W-group) and the Svenska Handelsbank-group (SHB-group), are of special importance in Sweden since they in some sense control corporations that in 1996 represented roughly 50 per cent of the stock value of all the corporations listed on the Stockholm stock exchange.

Both groups are very old, having been created during the depressed years in the 1920s and 1930s (Sjögren, 1991). Their evolution has been viewed as a corporate response to financial problems and to problems of ownership (Berglöv, 1994; Collin, 1993). The groups have been centered around two large banks, Stockholms Enskilda Bank (the W-group) and Svenska Handelsbanken (the SHB-group). Although Swedish banks, as opposed to their German counterparts, have never been allowed to possess shares in industrial corporations, much of the early history of the two Swedish business groups is similar to that of their German counterparts (Chandler, 1990). Among the companies belonging to the one or the other group are large multinational corporations (see Appendix 1 for an ownership chart of the groups). Two of these, Stora (belonging to the W-group) and SCA (belonging to the SHB-group), utilise raw material from the large forests in the northern and central parts of Sweden. Various others utilise technical innovations, in particular Ericsson (telephones, split in its ownership), Aga (gas, belonging to the SHB-group) and Astra (pharmaceuticals, belonging to the W-group). For the year 1990, the non-domestic sales of the 20 largest corporations in the two groups were found to be 78 percent (median: 82) and their non-domestic employees to represent 48 percent (median: 57) of their working force.

The strong ties the member companies once had to the two banks have in large part been replaced by strong ties to two investment corporations: Investor (W-group) and Industrivärden (SHB-group). The W-group has been managed through control of Investor by the family heads of the Wallenberg clan, who until the 80’s were Jacob and Marcus Wallenberg and since then by the new family head, Peter
Wallenberg, son of Marcus Wallenberg. The SHB-group has no such ultimate capitalist as Mr. Wallenberg. Rather, it is much more nebulously based, cross ownership and historical relations playing a major role. In both groups interlocking directorates form a closely knit network linking all the corporations involved. The members of the boards are generally not employed by the corporation in question, the distinction between insider and outsider, so important in UK and US, being a non-issue in these groups, and in Sweden at large. The two business groups are very distinct, being clearly separated. There is only one corporation, namely Ericsson, that is shared by the two groups, each of which has an equal share of the votes and an equal number of directors on the board of that company. Each of the other corporations in the two groups belongs to either the one group or the other but not to both. In a manner similar to the inclusion of the member corporations within a single group, those persons linking the corporations of the one business group through interlocking directorships do not have extensive relations with persons or corporations belonging to the other group. Thus, the two business groups are quite distinct from each other, with very few overlaps. As opposed to the Japanese Keiretsu, the intercorporate trade is very slight.

In sum, the two business groups, although lacking legal identity, build strongly on ownership ties and interlocking directorates, the investment corporations serving as centers. They divide a considerable part of the Swedish industrial economy into two separate camps. The elite of the interlocking directorates of these two groups can be regarded as conceptually closely comparable to the top management teams (TMTs) of formal organisations, making it only confusing to invent a new term for them, such as e.g., Top Directors Team (TDT). Both can be seen as being subjected to the same forces of inclusion and exclusion in connection with demographic composition.
2.3.2 A Demographic Explanation of Membership Turnover in Business Groups

In terms of the ‘similarity-attraction paradigm’, turnover can be explained on the basis of heterogeneity, and is treated as an attribute of the TMT (McCain, O’Reilly and Pfeffer, 1983). The heterogeneity possibly found in the original or the earlier composition of a group tends to decline through members who are dissimilar to the majority being separated from the group. Nevertheless, those dimensions with heterogeneity that trigger separation, i.e., the turnover of group members, should be identified. In this section, identification of the dimensions triggering turnover in the TMTs of the two Swedish business groups is dealt with, eight hypotheses being considered.

An obvious cause of turnover in elite networks is that of individuals’ leaving the TMT due to retirement. The general tendency of elderly employees to have lower voluntary turnover compared to younger ones is thus not applicable on elite networks since they can be assumed to consist of rather old people. Additionally, younger members of the elite network presumably have no incentive to leave since there are no real alternatives to the group due to the fact that they are on the edge of the society. Accordingly, considering the specific group in question, the first hypothesis expresses the expectation that an increase in age will increase a person’s probability of leaving the team.

**H1: Age is positively related to turnover.**

The second hypothesis is the general cohort argument that the individuals belonging to a given generation tend to share similar norms and similar perceptions of reality (Wiersema and Bantel, 1992; Wiersama and Bird, 1993), this fostering cooperation. Differences in age imply difficulties in communication and understanding, leading to turnover of individuals who are dissimilar.
H2: Age heterogeneity is positively related to turnover. However, as previously argued, one has to consider the specific organisation. For one of the two Swedish business groups, the Wallenberg group, the fact that a capitalist family is the controlling principal creates a dynastic pattern which could be expected to result in a heterogeneity of age. Indeed, the age distribution in the sample that is to be analysed is skewed, the heterogeneity of age being greater for the W-group than for the Handelsbank group. If the most deviant values on the age variable for the Wallenberg group are deleted, the difference in heterogeneity between the groups disappears almost entirely. This can be attributed to the Wallenberg group’s being a family group in which one or two family members are installed early and leave late. In 1975 the third and fourth generations of the Wallenberg family belonged to the group. In 1980 the oldest brother in the third generation had died, and in 1986 the entire third generation was deceased. The first individuals from the fifth generation were recruited after the death of those in the third generation. Such patterns are presumably common in dynastic groups. One obvious explanation of this dynastic pattern is the family’s need to educate the coming generations for the possible role of assuming the function of family head. Another explanation, based on the ‘similarity-attraction paradigm’ and analogous to the socialising strategy of control through rotation (Edström and Galbraith, 1977), is that an early recruitment to the group has the function of bridging the generation gap. Generational identity, just as is the case of cultural identity in international organisations, needs to be replaced by an organisational one, i.e., by

1Heterogeneity at the organisational level was measured by the coefficient of variation (standard deviation divided by the mean). There appears to be consensus that at the organisational level the heterogeneity of continuous variables should be measured in this way (Allison, 1978; Hambrick and D’Aveni, 1992; Keck and Tushman, 1988; Murray, 1989; Wagner, et al., 1984, Wiersema and Bantel, 1992). A t-test on the individual age data showed a significant difference (<.05) between the two groups on the age-variable. No significant differences on any other variables were found.
family identity that fosters cooperation and control of the group. This serves to explain why one person tends to stay so long in the position of being family head. This reflects not only his being the pater of the family, which seems the most obvious explanation, but also the need of socialising younger generations so as to reduce generational discrepancies. The skewed age pattern makes it unwise to consider only persons below the age of 65, as Wiersema and Bantel (1992, 1993) did, for example, since here it excludes several of the most important persons in one of the groups. Thus, we expect that family membership resists turnover.

**H3: Family membership is negatively related to turnover.**

Returning to demographic aspects, the fourth hypothesis relates to differences in professional outlooks. Similar to the turnover effect of functional heterogeneity (Bantel and Jackson, 1989), experiences from different branches can be assumed to create different attitudes, norms and perspectives (Jackson et al., 1991). Since individuals according to the similarity-attraction paradigm can be expected to recruit similar individuals and to expel dissimilar, one could readily hypothesise that turnover would be triggered by heterogeneity in branch experience. In terms of strategy, there are definite arguments for there being an effect of this sort. The origin and survival of Swedish business groups have been viewed as being partly based on the success of such groups in finding solutions to corporate problems of credit supply and ownership control which would call for particular communality in matters of financial strategy. The organisational structure of the two groups considered is indeed more similar (see appendix 1.) to that of the financial holding company form (H-form), consisting of loosely coupled corporations whose major intertransactions are the transfer of capital and of top management, than to that of the industrial functional form (F-form) or of the multi-divisional form (M-form), which both involve operations as a whole being more closely linked. Through particular emphasis being placed on the financial experience of their members, the selection of members of the TMT in Swedish business
groups could, according to this line of reasoning, be expected to reflect a desire for a branch homogeneity directed towards the financial part of the economy, i.e., banks and investment corporations. The dominance of financial experience in the TMT that the branch homogeneity creates would in turn enforce the group’s financial strategy.

However, there is a rather different logic that might be expected to apply to business groups, thus emphasising the need of considering the organisation in question when deducing predictions on demography. Ever since Hilferding (1910) wrote of the growing enterprises in Germany in which banks and industrial corporations were intertwined, the finance capital to which he referred has been regarded as a form of cooperation between industrial and financial corporations, something much resembling what is found in the two groups under consideration. If, as already indicated, these business groups represent a solution not only to financial problems but also to corporate governance problems, then it can be regarded as rational for industrial and financial experience to be mixed.

The TMT of a business group can be expected to represent the whole group, both internally and externally, and has therefore to reflect the cooperative trait between industrial and financial corporations. Due to this symbolic consequence of diversity (Hambrick, 1994; Ely, 1995; Milliken and Martins, 1996) heterogeneity in branch experience cannot be expected to trigger turnover. On the contrary, a decrease in heterogeneity in branch experience would insipid the symbolic impression of cooperation, and would therefore be avoided through selection and turnover.

Another consideration suggesting that branch heterogeneity does not trigger turnover involves the dynamics that heterogeneity creates. The business groups and their corporations, having been in business for at least 60 years, could be expected to have brought competitive advantage to the corporations of which they are comprised. According to studies of the relation between heterogeneity and performance, heterogeneity is
related to innovation, high performance, high turnover (Murray, 1989) and growth (Eisenhardt and Schoonhoven, 1990). In the business groups in question, branch heterogeneity might therefore be expected not only to reflect the composition of financial and industrial capital, but also to be a competitive resource providing a balance between a financial and an industrial orientation to corporate governance. Thus, branch heterogeneity might best be seen as a coveted quality of the group and not something that would trigger turnover. In fact, if branch heterogeneity is indeed that which is desired, one would expect that a person with a similar branch experience as others who were in the group would be avoided as a member or be considered for replacement. In these terms, branch heterogeneity would be expected to have a negative triggering effect on turnover.

H4: Branch heterogeneity is negatively related to turnover.

Functional heterogeneity has been shown to readily lead to conflict (Kosnik, 1990), reducing possibilities for communicating and interacting (Sutcliffe, 1994). The business groups can be thought to possess a centripetal force in the sense of homogenisation occurring in the sense of socialisation counteracting and thus reducing the conflicting and centrifugal force of branch heterogeneity. Accordingly, the fifth hypothesis concerns tenure, operationally defined as the proportion of one’s career spent within the group. An integrating mechanism within a business group is the learning and transmission over time of norms and values, i.e., the indoctrination of ideology. One way of operationalising such a concept is by the use of the variable ‘Tenure’, measuring the length of exposure (Wiersema and Bird, 1993). However, such an operationalisation cannot separate age and indoctrination. Two persons, each with 10 years of tenure, but one of them with 20 years of additional experience from another organisation, and the other with the 10 years of experience in the group and nothing more, differ in their degree of involvement in the organisation. It could be expected that the one with experience only from the current corporation would be more aligned to the corporate norms than the
one having only one third of the corporate experience gained in the corporation under consideration. Thus, the transmission of norms and values is not simply a matter of length of service, but also of the proportion of the individual’s career spent in the group. Focusing on socialisation thus rules out the alternative explanation, offered by Jackson et al (1991), that the members of the group are highly paid for performance and therefore are induced to tolerate conflict. The heterogeneity argument states here that individuals with a similar socialisation history in terms of having spent a similar proportion of their career within the group, tend to stay.

**H5: Heterogeneity in the proportion of one’s career spent in the group is positively related to turnover.**

Turning to those individual characteristics of earlier origin, one might well expect such factors as class origin and education to influence turnover. Differences in the social origin of an individual lead not only to different experiences a person has had but also in different behaviour and manner of communicating. Thus, one might well expect a higher turnover for those most dissimilar in origin.

**H6: Heterogeneity in class origin is positively related to turnover.**

In Japan, education measured in terms of the prestige of the university attended has been shown to have impact on turnover (Wiersema and Bird, 1993). One might well have similar expectations for Sweden. Persons who have been educated at the same university tend to have had similar experiences and constitute according to self-categorisation theory an easily knowledgeable category in which people can be classified. Sweden also does have one prestigious private business school and one prestigious institute of technology, former students there presumably easily feeling an affiliation with the elite of Swedish society. Educational level could have a similar influence, making those educated at the university level dissimilar in experience and attitudes to those of lower educational level.
H7: Having attended a prestigious business school or institute of technology is negatively related to turnover.

H8: Heterogeneity in educational level is positively related to turnover.

Turnover in what amounts to the top management team in both of the Swedish business groups is thus predicted here to be influenced by the general factors of demography such as age, heterogeneity of age, the heterogeneity in the proportion of one’s career spent in the group, and heterogeneity in social origin and educational characteristics. Turnover were also predicted to be influenced by organisational specific factors such as family membership and branch heterogeneity.

Figure 2.1 Eight hypothesis on turnover
2.4 Method

The TMT-equivalent for a Swedish business group can be constructed by the use of network analysis. The method section begins with a discussion of this and ends with an account of how the variables were constructed and how the data were collected.

2.4.1 The construction of a ‘network’ TMT

The two business groups in question, although frequently referred to in the Swedish press, do not exist as formally established entities. Before a business group and the equivalent to a TMT within it could be analysed, they had to first be identified. An initial step to doing this empirically was to select, from Sundqvist’s (1986) systematic account of ownership links between corporations in Sweden, a total of 38 corporations listed on the Stockholm stock exchange that appeared on the basis of having large voting shares\(^2\) to belong to one or the other of the two groups.

Data on the persons elected as board members at the annual meetings of shareholders of the corporations selected was obtained for the years 1975, 1980 and 1986. There are other persons on Swedish boards of directors, but they are excluded in this data set since they are elected by the white and blue collar unions or the government, thus not being representatives for the owners. The reason for selection to the board being used as a criterion for identifying TMT members is that the board of directors is considered to be one of the most important arenas for influencing a corporation (Tricker, 1993). Other important arenas,

\(^2\)Sweden has had and still has different voting rights attached to shares. Old corporations, such as Ericsson, have as great voting differences as 1 - 1/1000 vote per share. The largest single owner in 1986, Industrivärden, had an equity share of 3.1 per cent but 22.3 per cent of the votes, whereas 48.1 per cent of the equity was owned by non-Swedes, who however had only 0.5 per cent of the votes. Thus, the voting shares, not the share of equity, is a relevant measure of influence.
in particular industry-wide organisations and other pressure group providing political representation, would have been inferior alternatives due to the strategic importance that boards of directors have (cf. Stockman, Ziegler, and Scott, 1985; Useem, 1984). A rather long time interval between the measurement points was selected since the groups and their members seem rather stable. These particular years have been chosen as a point of reference also due to the rather stable environmental conditions. The networks were originally constructed to show the stability of the two business groups (as reported in Collin, 1990). The differing periods of time between the successive measurement points, 5 years and 6, can be assumed to not have had an appreciable impact on the results. Since neither the network analysis nor the descriptive statistics indicate any radical change in the groups over time, this difference appears to have had no disruptive effect.

From the sample of individuals who for the years 1975, 1980 and 1986 were on the boards of directors of the 38 corporations selected (n=237, 224, 205 respectively), the set of those persons who had positions on two or more boards was drawn (n=56, 73, 71) so as to provide a means of examining the interconnections between the corporations. A network analysis (not reported here, but available upon request), with hierarchical clustering using lambda sets (Borgatti, Everett and Freeman, 1992), confirmed there being clusters of two distinct sets of individuals, taken to represent the upper-echelon individuals of the two business groups.

Identification of the equivalent of a top management team in each was carried out using two criteria so as to construct a core set of persons

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3 The selection of 1986 as the last year was due to its being the first year for which extended ownership data was available, making selection of the corporations to be studied a better informed one than it would otherwise have been. It would have been wise to take five-year steps backwards. However, the magic of the decade seems to have been the reason for selecting the years 1975 and 1980. A rational argument is that our data and results were easier to relate to other investigations of the Swedish economy since they too are restricted to the ‘decade magic’.
from the sample of interlocking directors of the 38 corporations. The first criterion was that these company board members were all to have connections with each other, such that each of them met with each of the others on at least one board. Formally, it meant that the network had a density of one (1). The second criterion was that, under the restriction of density = 1, the frequency of connections inside the core network was to be maximised. The rationale for use of these two criteria was that a TMT was assumed to be a closely knit network of high density in which there were as many opportunities as possible for interaction. Other clustering techniques that were possible were unable to produce networks with high frequency of member contact under the restriction of the density equalling one (cf. Borgatti, Everett and Shirey, 1990). The density criterion was crucial since it is hard to imagine a genuine team in which some of the members never meet. The frequency criterion was based on the assumption that the team identity of the individuals depends to a large extent on the number of interactions (cf. Weirsema and Bird, 1993). This clustering procedure, reported in Collin (1990), created networks consisting of 4, 8, and 11 individuals for the Wallenberg group, and 6, 11 and 13 individuals for the Svenska Handelsbank group for the years 1975, 1980 and 1986, respectively. These two groups of individuals are distinct and separate from each other. Only a few members of the respective groups met with members of the other group. There were some few corporate boards where this could occur, for example on the board of Ericsson, the ownership of which is divided equally between the two business groups.

2.4.2 Data and measurements
The dependent variable ‘Turnover’ was registered in 1980 and in 1986 as having either occurred or not occurred. In the present context, turnover signifies that an individual, even if excluded on the basis of the two criteria employed, may nevertheless have been present in the network of interlocking directors and be a member of one or several of the boards. Turnover thus represents not absence from the network but absence from frequent interaction with those members who are
characterised by a high frequency of interaction, i.e., with those members belonging to the core network that constitutes the business group’s TMT. This is a less rigorous indication of turnover than that which applies to a formal organisation in which absence means that the individual has left some formal position, even though s/he may still be present within the organisation. Yet, as Tsui, Egan and O’Reilly (1992) argue, turnover is a radical change in an individual’s attachment to the organisation, psychological disattachment being less dramatic. Thus, turnover in an elite network falls in between these two extremes.

However, a more important point is that within the network the criteria of turnover are relational, exclusion of an individual from the TMT changing the network characteristics of all the individuals still included, as well as the possibilities for additional individuals being included. This means that turnover in terms of exclusion from the network is an empirical representation of there being lesser possibilities of interacting with the closely knit members of the top management team. An alternative to this dichotomous approach is to use the concept of team involvement, as measured for example by distance from the network centre. Although it is tempting to avoid the difficulties connected with dichotomous variables through use of continuous variables, the conceptual gain is small. Both logically and methodologically, team involvement requires the concept of a centre to which the individual’s involvement can be related. The creation of a centre of this sort requires somewhat different assumptions and calls for clustering techniques, of which the one described below represents one possibility.

Demographic data on the individuals was collected from the annual reports of the corporations and from a Swedish publication ‘Who Is That?’ (Vem är det?, 1981; Vem är det?, 1985). The data concerns those individuals present in the business groups in 1975 and in 1980,

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4The recording of data on individuals was permitted through a governmental license.
respectively. Since some of the individuals were present both in 1975 and in 1980, the population tested (N=29) is larger than the sum of the individuals involved (S=23).

Branch experience was divided into financial, industrial and other experience. The category ‘Other experience’ consisted of governmental service in different forms, research appointments and working in private organisations supporting trade and industry such as the Swedish Employers’ Confederation. Functional heterogeneity, being the equivalent to branch heterogeneity, is seldom defined theoretically but arbitrary divided into traditional functions such as marketing, production, etc. The distinction between financial and industrial experience is conform to the theory and sufficient for the purpose of the theory of financial capital (Hilferding, 1910). It implies that financial experience is gained in financial organisations and industrial in industrial corporations. A person working in a financial department of an industrial corporation is considered as gaining industrial experience, whereas a person working in an investment corporation, mainly on the board of directors some one of the corporations it owns, is considered as gaining financial experience. Although such a categorisation is becoming less and less adequate due to increasing separation between the financial and the industrial operations of large corporations, e.g., through the creation of internal banks, it was still a feasible categorisation in the 70s. Since nearly all the persons in the sample gained the major part of their experience prior to the 80s, this categorisation was regarded as relevant. As a proxy for branch heterogeneity, financial experience measured as Financial experience/(Financial + Industrial + Other experience), that is, as the proportion of working-life experience gained in financial corporations, was selected. One could equally well have taken ‘Industrial’ experience in place of ‘Financial’ experience in the above ratio since industrial and financial are almost mutually exclusive, the category ‘other’, representing basically governmental or scientific service, being only a small category.
Tenure was measured by the variable ‘Years Spent in the Group’ (YSG), defined as the number of years the individual had been employed by one or more of the corporations belonging to the business group. In both groups the individuals in question had been in the group for some 20-25 years. As already indicated, such a measure has a serious deficiency in its reflecting both group indoctrination and age (the Pearson coefficient being 0.66, p <.000 for ‘Age’ and YSG). One way of removing the age component is to divide YSG by the variable ‘Years of Working Life’, defined as the difference between the present age and the age at first employment. This procedure creates the variable ‘Proportion of one’s Career Spent in the Group’ (PCL), measuring the proportion of the individual’s working life spent in corporations belonging to the business group (where the Pearson coefficient for ‘Age’ and PCL is 0.02, p=0.902).

Heterogeneity on the individual level was assessed by a network-equivalent measure of similarity, involving each individual’s distance to the others in the network, a measure proposed by Wagner et al. (1984). The following expression defines the i-individual’s distance:

$$D_i = \min_S \left[ \frac{1}{n} \sum_{j \in S} (x_i - x_j)^2 \right]^{1/2}$$

where i and j belongs to a subgroup S, defined as all subsets with a largest integer size of (n+1)/2. An advantage of this measure is that it considers the structure of the whole group. As an example in the Wagner et al article indicates, a five-person group with years of entry of 1, 1, 3, 5, and 5 involves a lesser distance for the first and the second person than if they had been in a group with 1, 1, 5, 5, and 5 years of entry. The first-year-entry persons have a distance of 1.155 in the first group and one of 2.309 in the other.

Due to the Wallenberg-group having a dynastic pattern involving family members, a dummy was created with 1 for individuals with close
kinship, i.e., related by blood, and 0 for those not belonging to the family or only related by marriage.

Class origin classified according to the father’s occupation was the variable expressing class position. The classificatory scheme was a socioeconomic classification (Socioekonomisk indelning) used quite commonly in Sweden, defined by a governmental bureau with responsibility for statistics made available to public authorities (SCB, 1982). The prestigious-school variable was coded 1 if the individual had more than a year of education at the Stockholm School of Economics or at the Royal Institute of Technology, both schools without doubt the most prestigious in Sweden. Educational level was divided into four levels, the first three of these corresponding roughly to the North American levels: university level, senior high school, grade school, and a fourth level for those with only six years school, as was once possible.

It has been argued (Pelled, 1996) that the visibility of a demographic dimension influences the triggering effect of the dimension, clearly visible dimensions such as gender, race and age being most conflictual and thus stronger predictor of turnover. Gender and ethnical origin are highly visible dimensions and could be expected to be of some importance since, concerning gender, women have a high involvement in the wage labour force of Sweden and, concerning ethnical origin, most of the corporations in the business groups are highly internationalised in terms of sales and production. However, non of these variables was included due to lack of variance. All members in the business groups were simply Swedish men.

2.5 Results

Table 2.1. summarize the descriptive statistics. During the 16 years, 10 persons were subject to turnover, whereas 19 persons were still in the TMT of the group in question, suggesting Swedish business groups to be fairly stable. Turnover is strongly correlated with age and age
heterogeneity, and is only slightly correlated with distance in proportion of one’s career spent in the group (p=.15). The age variable indicates these persons to be relatively old, varying between 43 years and 83 years of age. The two distance measures, concerning heterogeneity of financial experience and proportion of the career spent in group, are comparable in the sense of the variable underlying each having a range of 0 to 1. On the average, distance is larger for financial experience than for proportion of one’s career spent in the group. The same is true for the variation involved. Heterogeneity seems to be less for the proportion of one’s career spent in the group than for financial experience, providing support for our proposed theory that branch heterogeneity is a coveted resource. However, one should observe that some of the individuals are ones who show low branch heterogeneity and high heterogeneity in the proportion of their career spent in the group and who thus, according to the theory presented, could be strongly expected to experience turnover.

Since the other measures of distance differ from these and from another in the range of the underlying variables, no direct comparisons between them are possible. However, one can note the small differences found in educational level, reflecting the fact that the majority of the individuals have university or business school education. Almost half of them attended the two highly prestigious schools, but as can be seen in the correlation matrix, attendance is not correlated with turnover, which is in accordance with the expectations here.
Table 2.1. Mean, Standard Deviation and Correlation Coefficients for Dependent and Independent Variables (N=29)

<table>
<thead>
<tr>
<th></th>
<th>M</th>
<th>SD</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5.</th>
<th>6.</th>
<th>7.</th>
<th>8.</th>
<th>9.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Turnover</td>
<td>0.34</td>
<td>0.48</td>
<td>.51**</td>
<td>.39*</td>
<td>-.14</td>
<td>.27</td>
<td>.05</td>
<td>-.14</td>
<td>.24</td>
<td>.02</td>
</tr>
<tr>
<td>2. Age of individual</td>
<td>58.7</td>
<td>10.1</td>
<td>.30</td>
<td>.02</td>
<td>-.14</td>
<td>.46*</td>
<td>-.21</td>
<td>.21</td>
<td>.11</td>
<td></td>
</tr>
<tr>
<td>3. Distance in age</td>
<td>4.63</td>
<td>2.71</td>
<td>.19</td>
<td>.10</td>
<td>.30</td>
<td>-.35†</td>
<td>.04</td>
<td>.06</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Distance in the proportion of financial experience</td>
<td>16.1</td>
<td>18.5</td>
<td>-.08</td>
<td>.29</td>
<td>.20</td>
<td>-.23</td>
<td>-.29</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Distance in the proportion of one’s career spent in the group</td>
<td>11.8</td>
<td>11.6</td>
<td>-.45*</td>
<td>.10</td>
<td>.11</td>
<td>-.19</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Family membership</td>
<td>0.17</td>
<td>0.38</td>
<td>-.44*</td>
<td>-.15</td>
<td>.11</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Distance in class</td>
<td>.31</td>
<td>.33</td>
<td>.07</td>
<td>-.22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Distance in educational level</td>
<td>.09</td>
<td>.27</td>
<td>-.33†</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Prestigious school attendance</td>
<td>.48</td>
<td>.51</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

†p<.1; *p<.05; **p<.01; ***p<.001

Table 2.2 presents the logistic regression equation in which the eight hypotheses are tested. The model is significant at the 0.01-level and correctly classifies 86% of the cases, or 25 out of the 29. The age effect, as expected, is highly significant in predicting turnover, and contributes most to the model, as the R-statistics in the right-hand column of the table indicate. These R-measures, which range from -1 and +1, and are based on the Wald statistics, can be interpreted as the partial contribution of the variable in question to the model. Three other variables contribute to the model at a significance level of between .05 and .1. One of these is heterogeneity of age, a slight cohort influence on

5The regression of a qualitative variable represented by a dummy variable such as turn-over poses at least two problems of estimation (Montgomery and Peck, 1982). First, the estimated probabilities can assume meaningless values, specifically values that are negative or greater than one. Secondly, the errors are not distributed normally. A solution to both problems is to apply a logit model as estimated via a maximum likelihood technique, creating an S-shape curve with asymptotes at 1 and 0 (Kennedy, 1984; Afifi and Clark, 1990), which Morita, Lee and Mowday (1993) argue to be an appropriate technique for predicting turnover.
turnover being evident. Another is heterogeneity in the proportion of one’s career spent in the group, likewise found to affect the probability of turnover. In addition, family relationship can be seen to have a negative influence on the probability of turnover, as predicted.

Table 2.2 Result of logit regression analysis (N=29)

<table>
<thead>
<tr>
<th></th>
<th>Turnover</th>
<th>Stand Errors</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Age of individual</td>
<td>.41*</td>
<td>.19</td>
<td>.28</td>
</tr>
<tr>
<td>3. Distance in age</td>
<td>.73†</td>
<td>.38</td>
<td>.21</td>
</tr>
<tr>
<td>4. Distance in the proportion of financial experience</td>
<td>-.12</td>
<td>.07</td>
<td>-.12</td>
</tr>
<tr>
<td>5. Distance in the proportion of one’s career spent in the group</td>
<td>.15†</td>
<td>.08</td>
<td>.19</td>
</tr>
<tr>
<td>6. Family membership</td>
<td>-8.2†</td>
<td>4.74</td>
<td>-.16</td>
</tr>
<tr>
<td>7. Distance in class</td>
<td>-.45</td>
<td>3.18</td>
<td>0</td>
</tr>
<tr>
<td>8. Distance in educational level</td>
<td>-.68</td>
<td>3.66</td>
<td>0</td>
</tr>
<tr>
<td>9. Prestigious school attendance</td>
<td>.69</td>
<td>2.03</td>
<td>0</td>
</tr>
<tr>
<td>Constant</td>
<td>-28.3*</td>
<td>11.8</td>
<td></td>
</tr>
</tbody>
</table>

Model chi-square 20.88**

Percent correct predicted 86.21

†p<.1; *p<.05; **p<.01; ***p<.001

Branch heterogeneity, measured as distance in terms of financial experience, has the expected sign but is not even significant at a .1-level. However, the support for hypothesis here concerning the impact of branch heterogeneity upon turnover can be regarded as slightly stronger than the test involved indicates. In the regression presented here, heterogeneity of financial experience is used as a proxy for branch experience. A slightly different result would appear if one used industrial experience as the proxy for branch experience. Remember that three categories of branch experience were distinguished: ‘financial’, ‘industrial’ and ‘others’. Accordingly, correlation between financial and industrial heterogeneity is extremely high (.87) but not equal to one, since there is a third category, ‘others’. With the use of
industrial experience as the measure of branch heterogeneity, the results are similar, the same number of cases being correctly classified and the chi-square of the model improving to 24.7, with an accompanying lowering of the significance level to .002. The significance levels and relative impact of the variables other than branch heterogeneity are not changed, branch heterogeneity being significant at a .1-level. Although there is only weak significance, the results can be interpreted as suggesting that branch experience can influence turnover in such a way as heterogeneity decreases, the probability of turnover becomes higher.

The social background variable and the educational variables had no significant impact on turnover. This supports the contention that, although these variables can surely have an impact on a person’s possibility of starting the journey to the top, the social forces at the top within an organisation, such as those relating to branch heterogeneity, commitment and heterogeneity of the proportion of one’s time spent within the group, and of age, are more narrow in time in the influence they have.

It can be concluded that the theory of TMT turnover presented here, based on a demographic perspective, received a slight support from the TMT constructed here through network analysis. Although support for the model as a whole was found to be significant, the effects for most of the variables were only found to be significant at the 0.1 level. The results should be treated with caution since a logit regression requires larger sample size than n=29 in order for the findings to be considered robust. However, one should note that demographic studies employ rough variables such as age and functional heterogeneity in attempting to represent complicated social processes. As a result, such studies typically have a low capacity to explain the variance of the dependent variable.
2.6 Discussion and conclusion

A demographic perspective can reveal important aspects of the functioning of organisations, aspects otherwise not easily detected, due partly to data access problems. This is true regardless of whether the organisations are formal ones or networks. Here it has been demonstrated that network organisations of a certain kind have counterbalancing forces. The business groups and their TMTs that were investigated as constructed networks were branch heterogeneous and characterised by long tenure. Age, heterogeneity of age and heterogeneity of group investment influenced turnover, whereas family membership and branch heterogeneity had only a slight and uncertain influence, although in the predicted direction of restraining turnover. These results can be interpreted as indicating that the business groups possess a combination of financial and industrial experience as a group resource and that the socialising strategy of control serves to counteract the conflict-producing influence of branch heterogeneity.

The empirical results were weak and has therefore to be regarded as preliminary. Nevertheless the result obtained imply the need for distinguishing theoretically between those dimensions characterised by heterogeneity, which is presumed to be conducive to turnover, and those characterised by homogeneity, which is seen as facilitating integration. Dimensions of these two opposing types may both be active and yet counterbalance each other. In taking account of forces of both an integrative and a separative type simultaneously, a demographic perspective can make a contribution to the science of organisations, where the latter tends to focus on integrative forces alone (Perrow, 1986). However, there is nothing in the demographic perspective itself that can distinguish which type of dimensions is involved. In the contribution to organisational demography by Pelled (1996), it is argued that job-relatedness and visibility relevant dimensions here, triggering conflicts and thus affecting turnover. Since the only means of identifying job-relatedness that is available is to have a substantive
theory about the empirical phenomenon in question, a demographic perspective must rely on a theory that in relation to the empirical object can predict what dimensions are relevant. The present paper has emphasised this point by making a prediction of branch heterogeneity on the basis of a substantive theory of business groups, a prediction that is in opposition to predictions of many demographic studies using functional heterogeneity in an organisation as an equivalent. Heterogeneity was predicted to hamper turnover instead of promoting it due to branch heterogeneity being a resource valuable to the group. Accordingly, propositions in organisational demography has to consider the organisation in question.

The model was significant, but except for the age variable, the significance of the individual variables was rather weak. There are at least two possible causes of this one could suggest: the small sample size and inadequate determination of the TMT’s. The sample size was indeed quite small (N=29), making the influence of each of the observations on the results rather strong. Thus, outliers and misinterpreted observations of even a rather small magnitude can clearly influence the results. This can only be compensated for by increasing the sample size. Since Sweden only has two business groups of any particular importance, no other groups than these can be included. The sample size could be increased through use of the time trick as already used here, the size of the sample having been extended in the present case through observations of turnover not in one but in two different time periods (ending in 1980 and 1986, respectively). Thus, one method of enlarging the sample size would be to include a greater number of time periods. Another method would be to include business groups from other countries such as bank groups from Germany, Keiretsus from Japan and holding groups from Belgium. As will be argued below, the fear of a strong cultural influence distorting the results appreciable when three or four countries that are culturally different are included is probably unfounded.
The definition of a TMT employed here, i.e., density being equal to one and frequency being maximised, might conceivably create a group lacking in empirical reality, making the correlation’s random and meaningless. However, the problem of defining the top group is present in every TMT study. In fact, as the paper argues, a network definition of a TMT ought to be a superior method for defining it since such a construction is based on such relevant group dimensions as density and frequency, no attention being directed at comparatively inferior dimensions as formal positions in the firm or CEO opinions. Despite the weak results, it can be concluded that the model offered has a bearing for predicting turnover in business groups but that the empirical test could be improved through increasing the sample size by including business groups from other countries.

The latter step would raise the question of whether the results obtained reflect primarily cultural factors. Since Sweden is known to be a collectivist society (Triandis, 1995), forces towards conformity should be strong, at least if one accept analogous arguments that Wiersema and Bird (1993) have put forward concerning Japan. Although the present sample, to be sure, is very small and Sweden does not have any other business groups similar to the ones studied, it does not appear that the results simply reflect Swedish conformity. If there are strong forces towards conformity in Swedish society generally, then forces of conformity that might be quite special for particular organisations such as those of group investment would not be expected to influence turnover since conformity is created in and by society. Put simply, there is no need of creating organisational conformity in a highly conforming society. Indeed, one can argue as we do here that the dynamic power which extreme heterogeneity provides is made possible by the countervailing force of homogeneity which the business groups endeavor to achieve. The cultural traits which are relevant here may not be those of either heterogeneity or homogeneity, but rather of other dimensions, the impact of each being a function of the cultural context. Heterogeneity of class, for example, could be expected to have a rather different impact in a more class-conscious society such as England.
Similarly the prestige of a particular university could well have a protracted effect in a less informal society such as that of Germany, of France or, as Wiersema and Bird (1993) found, of Japan. In the Scandinavian countries, and possibly in other informal countries such as the US, the impact of having attended a prestigious university or business school can be expected to diminish quickly with age. Thus, the generalisability of results here is probably not appreciably hampered by culture.

The generalisability of the results is limited, especially by the gender invariance that was present. The sample consisted exclusively of men, making heterogeneity of gender a meaningless variable. This seems to be quite common in demographic studies of TMTs. The exclusion of gender in TMT studies is probably caused in part by the low variance of the gender variable. For example, Zenger and Lawrence (1989) excluded gender since only 4.3% in the sample were women, and Tsui and O’Reilly (1989) reported that in a group higher than middle management only 4% were women. The effect of the gender variable having been excluded due to low variance is that most results cannot be generalised to TMTs in general, but to the most frequent type of TMT, that consisting of males only. It is quite conceivable that groups in general and TMTs in particular could display other outcomes if faced with high heterogeneity of gender or if populated only by females. In fact, Tsui, Egan and O’Reilly (1992) found that men’s attachment to an organisation diminished to a great extent when a mixed-gender group was involved than women’s did. An interesting question is whether the hypothesised causal link between heterogeneity and turnover is as valid in female as in male groups. Even in Sweden, where the say of women is particular strong, e.g., with roughly 50% women in the parliament, such an investigation of TMT groups must await the advent of a greater number of women on the scene, recent data on the TMTs of the listed Swedish corporations having shown that only 18% were women (Berg, 2003).
One of the major contributions by this paper would appear to be the determination of a TMT through network analysis, allowing it to be defined on the basis of such team characteristics as frequency of contacts and density, instead of formal positions. Demography appears to be a viable concept for explaining outcomes and processes not only in formal positions and in formal organisations, but also in certain non-formal organisations such as the business groups considered here. The latter are elite groups basically similar to the TMTs of formal organisations. Not only can the network approach to assessing membership taken here be applied to formal organisations as well, but there are also phenomena somewhat similar to what was studied here which could be examined in a similar way, such as the cooperation, for example, between companies in science parks. The latter represent the assembling of different research organisations at a given geographical site, where service, support and other types of resources are exchanged. An interesting question is whether interactions of this type are based primarily on functional, personal or demographical considerations. Considering networks highlights certain problems concerned with the makeup of teams. Whereas one can reasonably assume that there are persons in the upper echelons of formal organisations who constitute a TMT, its being an empirical question who these persons are, the same assumption cannot be made for non-formal organisations without the help of empirical data. Data on cooperation and team-like characteristics is indeed found in the case of Swedish business groups. For science parks, no such data has as yet to our knowledge been assembled. This emphasises the importance of regarding membership in a TMT as an empirical question that only can be answered after the analysis of patterns of interaction.

A limitation of the present study, that of its particular focus on networks, should be noted. An important difference between a formal organisation such as a corporation and an informal organisation such as a business group is that in the latter case the environmental forces influencing turnover are much more difficult to comprehend. This is particularly apparent when one considers performance, an important
variable in TMT research (Keck and Tushman, 1993; Priem, 1990; Dess and Priem, 1995; West and Schwenk, 1996). Whereas the performance of a corporation can indeed be measured, certain difficulties notwithstanding (Murray, 1989), it is extremely difficult or even impossible to measure the performance of an informal organisation. The present paper has focused on group factors that influence turnover there. This leaves to further research the intriguing question of the effects of environmental forces on networks and on their upper echelons.

TMT demographics focuses on the composition of the TMT but generally considering only one of two compositional events, the turnover (Daily and Dalton, 1995; Hambrick and D'Aveni, 1992; Keck and Tushman, 1988; Keck and Tushman, 1993; McCain, O'Reilly III and Pfeffer, 1983; O'Reilly III, Caldwell and Barnett, 1989; Pelled, 1996; Wagner, Pfeffer and O'Reilly III, 1984; Wiersema and Bantel, 1993, and Wiersema and Bird, 1993). The other event which influences the composition of a TMT is the inclusion of a new member. Whereas decisions of hiring are often scrutinised in social psychological studies (Westpahal and Zajac, 1995), selection processes in the internal managerial labour market that create a pool of would-be TMT-members are an almost virgin area for demographic research. Few studies have concentrated on the inclusion of new members in TMTs it has been empirically researched by those concerned with board composition (e.g., Furtado and Karan, 1990; Westphal and Zajac, 1995) and have been highlighted by the innovative paper by Pfeffer and Leblebici (1973). Thus, although turnover is a rather well covered aspect of TMT composition, it is time to focus on the ‘turn-in’ or selection of TMT-members.

The balancing of integrative forces of homogenisation that create stability and of the separative forces of heterogenisation that create change is of genuine managerial concern. The functioning of a group, for example its capacity to process information (Thomas and McDaniel, 1990) and its performance in an ultimate sense, depends
not only on the competencies of the individuals involved, but also on the group’s composition. It is highly tempting to consider the possibility, however trivial it may appear, of recruiting for such business groups as the Swedish ones examined, a greater number of financially oriented individuals at times when the companies involved are under financial stress. The present results emphasise the importance of considering the total effects of recruitment and dismissal. The manager and the researcher face the same basic difficulty of distinguishing those dimensions for which heterogeneity has a noticeable effect on the group or company from those for which it has little or no effect. One possible rule of thumb could be one based on the idea of countervailing forces considered in this paper, i.e., the idea that in stable environments TMTs can be functionally and branch homogeneous without much effort needing to be spent on socialising the members, whereas in complex and turbulent environments diversity in branch experience and functional heterogeneity creates the need of homogenising through socialisation the individuals involved. Simply put, playing golf and holding dinners for the TMT are a necessary investment in homogenisation for corporations in medicine, for example, but a waste of money for corporations in the oil business.
References


Tricker, B. (1993), ‘Corporate Governance - the new focus of interest,’ Corporate Governance 1, pp. 1-4.


Appendix 1.
The Wallenberg group and the Handelsbank group in 1986

Only the largest corporations are included. The arrows indicate share ownership. Similarities between the groups are stressed at the expense of such dissimilarities as the fact that the Wallenberg group depends ultimately on non-contestable control of a few, large foundations, while the Handelsbank group has smaller foundations making the group slightly more vulnerable for control contests.
Chapter 3

Research angles on cultural diversity in top management teams.

Timurs Umans

3.1 Introduction

Once being homogeneous nation states, are faced with a tremendous challenge in dealing with an accelerating cultural diversity of their societies, and as a consequence of their labour forces. The hardship of managing this diversity and getting most out of it, however, lies with the companies. The question of how to manage workers and how to utilise their differences to benefit from them, has been a question that occupied researchers throughout the century. (Hofstede, 1984). The issue of culturally diverse labour force is by no means new, and have especially been observed in the United States since the 19’s century, a country that has become a melting pot of cultures. Europe on the other hand, has not been affected by cultural influxes to the extend the US had. However, the migration of people to Europe have been accelerating, starting in the middle of the 20s century, and has been continuing more recently, especially with the European Union in place, granting free movement of labour, and having rather liberal immigration policy. Though, the understanding of the cultural diversity has been differing between the US and Europe. While in the US, cultural diversity has been overshadowed by race diversity and has become a great issue of concern, which can be seen from various articles on the topic (e.g., Cox, Lobel and McLeod 1991; Eatman, 1977; Katz,
Goldston and Benjamin, 1958; Kirchmeyer and Cohen, 1992; Larkey, 1996; Ruhe and Eatman, 1977), Europe has been mostly preoccupied with the national or ethnic diversity, which however, has not been well reflected in the literature, with only few articles in place discussing the issue (e.g., Elron, 1997; Heijltjes, Olie and Glunk, 2003; van Veen and Marsman, 2008). Even though the issues of racial (often times referred to as racio-ethnic in the U.S.-based research) and ethnic (often referred to as cultural in European-based research) diversity has been reflected in business literature, the issue of culturally diverse top management teams (TMT) has been silently avoided, presumably based on the assumption that homo-social reproduction⁶ prevents people of different cultural backgrounds entering predominantly homogeneous upper echelons of organisations. However, some organisations, both in the US and Europe, against the odds employ ethnic minorities in their top management teams (e.g., ABB, GM). From one side these organisations are trying to reflect culturally diverse environments they are working in and from the other side being forced to do so by these environments. The emergence of culturally diverse TMTs is an inevitable process, especially in light of accelerating globalisation, putting demand on the companies to reach further than their traditional markets, to manage culturally diverse labour and to withstand growing competition. Even though there are indicators of the emergence of culturally diverse TMTs, business literature fails to acknowledge this trend by preferring to study cultural or racial diversity of the people being managed rather than focus on managers themselves. Thus, this article will try to inquire into the field of cultural diversity of TMTs and review the literature that is concerned with or closely related to the issue, in order to suggest a research agenda for studies on cultural diversity of top management.

It has been more than twenty years since Hambrick and Mason (1984) have published their seminal article arguing that TMTs impacts organisations through the decision making that is streaming from the

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⁶A tendency of people to identify with particular groups and then define these groups as in-group and all other groups as out-groups (Kanter, 1977).
cognitive background of TMT members. Thus, much of the research that followed has been concern with demographic characteristics of top managers. Stating that managers make strategic choices based upon their values, cognitions, perspectives and organisational activities or outcomes reflecting the collective cognitive biases and abilities of the TMT (Hambrick and Manson, 1984; Finkelstein and Hambrick, 1990; Finkelstein and Hambrick, 1996), many authors have theorised to predict that TMT’s demographic characteristics will be reflected in the firm’s performance (Carson, Mosley and Boyar, 2004; Halebian and Finkelstein, 1993; Hambrick and D'Aveni, 1992; Keck, 1991; Keck, 1997; Michel and Hambrick, 1992; Murray, 1989; Norburn and Birley, 1988; O'Reilly and Flatt, 1989; Priem, 1990; Smith et al., 1994; West and Schwenk, 1996), innovation (Bantel and Jackson, 1989; O’Reilly and Flatt, 1989), strategy (Finkelstein and Hambrick, 1990; Michel and Hambrick, 1992), and strategic change (Grimm and Smith, 1991; Wiersema and Bantel, 1992). Researchers in business administration have acknowledged importance of demographic diversity within the teams, and which led them to study demographic variables such as age, race, and tenure, educational and functional backgrounds. Though, as have been noted by several researchers (e.g., Elron, 1997; Heijltjes, Olie and Glunk, 2003; Milliken and Martins, 1996) cultural diversity that has become a reality for any unit of the society, including TMT, has been an under-researched variable, and few studies have addressed the issue of cultural diversity in teams (e.g., Kirchmeyer and Cohen, 1992; Kirkman and Shapiro, 2001; Larkeey, 1996; McLeod and Lobel, 1992), and even fewer in TMTs (e.g., Elron, 1997; Milliken and Martins, 1996).

The researchers that have addressed the issue of culturally diverse teams in organisation have been divided into three streams. One stream argues that cultural diversity influences outcomes through process,
which however remain in the black-box\textsuperscript{7} since it would be impossible to measure all the potential intervening process variables (Pfeffer, 1983). The second stream of research claims that processes shall be measured to understand the impact of diversity on organisational outcomes, and it is only through studying processes one can understand impacts of team diversity, including cultural diversity (Smith et al., 1994). The third stream of research draws from the afore mentioned streams but argues that in order to fully understand the impact of cultural diversity in teams, a moderating variable, such as organisational culture, reflected in common goals and mission, shall be inserted into the picture to grasp the complex correlation between team diversity, processes and organisational outcomes. Thus, this paper will attempt to review existing literature on cultural diversity in teams, and most importantly in top management teams, to compare the models within which cultural diversity of TMT have been researched. Moreover it will refer to the methods that have been used to assess the diversity at the upper echelons of organisation. The paper will also review the conceptualisation of culture within business literature, and built upon this review will propose possible definitions and measurement to be used in the assessment of cultural diversity in TMT. Furthermore the paper will conclude with a discussion and suggestions for future research. Through the review of models, methods and conceptualisation of culture reviewed in the following parts of this article, this paper will propose a research agenda for the studies of cultural diversity in TMT.

3.2 TMT and organisational outcomes defined

Before going into review it is appropriate to define the TMT and organisational outcomes being the central concepts of this paper.

\footnote{\textsuperscript{7}Here an further in the text black-box refers to team process variables, that are theoretical concepts that researchers leave loosely specified or unmeasured (Lawrence, 1997)}
Hambrick and Mason (1984) proposed in the upper echelons theory that top management is just a reflector of the whole organisation. It is top executives’ perception of environment and unique management style that influence management systems, corporate strategies, organisational design as well as organisational culture (Dalton and Kesner, 1985). It is generally agreed that TMT is usually composed of key managers who are responsible for the making, planning, and execution of business strategies. In addition, some scholars proposed that managers at the level of vice-president (vice general managers) or above would be eligible to be included in the top management team (Michel and Hambrick, 1992; Hambrick and D’Aveni, 1992; Virany, Tushman, and Romanelli, 1992). Bantel and Jackson, 1989 have also proposed that TMT can be recognized as the managers identified by the CEO as members of the TMT. When it comes to the function of TMT the most important one according to Finkelstein and Hambrick is to evaluate and judge the strategy (1990).

In the context of this paper organisational outcomes are being primarily defined in line with previously employed operationalisation in TMT research, such as organizational innovation (e.g., Bantel and Jackson 1989), strategy (e.g., Finkelstein and Hambrick 1990; Michel and Hambrick 1992), strategic change (e.g., Finkelstein and Hambrick 1990; Wiersema and Bantel 1992) and firm performance (e.g., Finkelstein and Hambrick 1990; Hambrick and D’Aveni 1992; Michel and Hambrick 1992).

### 3.3 Models

#### 3.3.1 Demographic composition model

The demographic composition model has been one of the most researched within TMT studies (Jackson, Joshi and Erhardt, 2003). Pfeffer (1983) and later Hambrick and Mason (1984) have provided basic underlying principles for expecting direct relationship between
TMT demography and organisational outcomes. These authors have argued that researchers would find direct effects for demography on performance because it would be impossible to measure all the potential intervening process variables (which shall remain in the black-box). Pfeffer’s claim, that demography of top managers directly influence performance, drawing from the assertion that top managers impact organisations through their decision-making and because individuals base decisions on their cognitive background, have laid a wide base for a large stream of research. Many authors, thus, have theorised to predict that demographic variables such as age, functional tasks, other career experiences, education, socio-economic roots, financial position and group characteristics will be reflected in the firm’s performance (Bunderson, 2003; Bunderson and Sutcliffe, 2002; Cannella, Lee and Park, 2008; Halebian and Finkelstein, 1993; Hambrick and D’Aveni, 1992; Keck, 1991; Keck, 1997; Michel and Hambrick, 1992; Murray, 1989; Norburn and Birley, 1988; O’Reilly and Flatt, 1989; Pegels, Song and Yang 2000; Priem, 1990; Smith at al, 1994; West and Schwenk, 1996), innovation (Bantel and Jackson, 1989; Chatman and Flynn, 2001; Earley and Mosakowski, 2000; Hambrick, Cho, and Chen, 1996 O’Reilly and Flatt, 1989) and strategy (Carpenter, 2002; Finkelstein and Hambrick, 1990). This stream of research can be generally divided into three major sub-divisions: team diversity, team tenure and team size (e.g., Elenkov, Judge, Wright, 2005; Murray, 1989; Eisenhardt and Schoonhoven, 1990; Keck, 1991; Michel and Hambrick, 1992; Hambrick and D’Aveni, 1992, Smith et al., 1994).

Demographic diversity of the team has been directly linked to performance (through black-boxing of team processes), and several authors have arrived to both positive and negative effects of diversity on organisational outcomes, which led some authors to call diversity research a double edged sword (Hambrick, Cho, and Chen, 1996; Milliken and Martins, 1996). On the one hand, demographic diversity of TMT has a negative effect on strategy of the firm due to increased conflicts, less social integration than in homogeneous teams, and more formal communication (Kochan et al. 2003; Ruhe and Eatman, 1977;
Triandis, Hall and Ewen, 1965). On the other hand, demographic diversity was found to be positively related to innovation and strategic change due to the variety of ideas brought by the differences of backgrounds as well as the ability to be more flexible in vibrant environments (Bunderson and Sutcliffe, 2002; Stewart, 2006; Wagner, 1995).

Team tenure is a less debated issue in team demography and generally researchers agree that it is positively related to financial performance (Eisenhardt, 1989; Pfeffer, 1983). It was Pfeffer (1983) who provided a theoretical basis for expecting a direct tenure effect on performance, claiming that performance will be highest when employees have been in the position 'long enough to overcome some initial naiveté and learn the ropes and local practices.' (323).

Team size has also been linked to organisational outcomes by several researchers (Bantel and Finkelstein, 1991; Eisenhardt and Schoonhoven, 1990; Hambrick and D’Aveni, 1992; Wiersema and Bantel, 1992), however the results have been mixed. Larger teams are believed to have larger knowledge and experience pool which is positively reflected in group and organisational outcomes (Haleblian and Finkelstein, 1991). On the other hand, larger teams may suffer from problems related to control and coordination, and as a result performance decline (Mintzberg, 1979). Some researchers have also studied the optimal team size, however arrived to inconclusive results (Liang, Rajan and Ray, 2008; Kameda et al., 1992).

Although the demographic approach has shown great promise in research, its shortcoming is that these variables do not perfectly co-vary with cognitive, personality, or behavioural characteristics (Hambrick and Mason, 1984). Some researchers (Smith et al., 1994) have raised serious criticism of demographics-focused TMT research. The main criticism is that the research ‘assumes that the demographic predictors are correlated with presumed intervening processes, which remain in the ‘black box’ (Priem, Lyon and Dess, 1999, p. 936). Similarly, Smith
et al. (1994) concluded that while researchers had successfully empirically linked TMT demography to performance, they had failed to “investigate the more fundamental intervening processes” (p. 413). Further, in their article Smith and colleagues (1994) argue for more emphasis on the processes by which TMT influence organisational outcomes, since it is believed that black-boxing of the processes leads to the oversimplification of relations between demographic variables and organisational outcomes. According Smith and colleagues (1994) this oversimplification can be avoided by studying the intervening process. Priem, Lyon and Dess (1999) also argue that a “causal gap” exists between TMT demographics and firm performance and that “the specific mechanisms through which the upper echelons theory suggests that TMT heterogeneity may influence firm performance remains generally unexplored” (p. 940).

The demographic composition model has become a citadel for the cultural diversity studies within TMTs as well as groups, and proved to be a fruitful one to increase researchers’ awareness of cultural issues in teams. Authors within the field have claimed that cultural diversity leads to positive organisational outcomes since more alternatives become available, which in turn creates a wider critical base (Collins and Guetzkow, 1964; Cox, Lobel and McLeod, 1991) leading to innovativeness on the organisational level (Bantel and Jackson, 1989; Hoffman and Hegarty, 1993). Moreover, it is claimed that culturally diverse teams are able to perform better in turbulent environments, where the group member’s cultural diversity serves as a drive for flexibility, and receptiveness for environmental changes and turbulences (Wagner, 1995). This also corresponds to Shaw’s claim that culturally diverse groups are more effective in complex environments (1981). Several researchers have also examined impact of cultural diversity on group outcomes (e.g., Buller, 1986; McCarrey, 1988; McLeod and Lobel, 1992). It is claimed that cultural diversity in groups and teams leads to higher quality of decisions (McCarrey, 1988) and ideas (McLeod and Lobel, 1992), which streams from variety of viewpoints provided by a difference in cultural backgrounds, which subsequently
indicates that culturally diverse groups outperformed homogeneous groups (Buller, 1986; Janis, 1982). Thus, the authors discovering effects of groups cultural diversity and its influence on groups or organisational outcomes have arrived to predominantly positive influences, which goes in line with authors in cultural studies suggesting that culturally diverse teams offer diversity of values (Hofstede, 1984; McCarrey, 1988), and different behavioural styles (Jackofsky, Slocum, and McQuaid, 1988) as well as are believed to be more effective in solving complex problems (Shaw, 1983) which is positively reflected in group’s and organisational outcomes.

The demographic composition model has become one of the most widely used approaches in studying TMT and its influence on organisational outcomes. Subdivided into three major parts: demographic diversity, tenure, and team size; this model has offered researchers a base for inquiring into relationship of top managers cognitions, argued to be deeply rooted in their demography, and organisational outcomes. The model suggests that demographic characteristics of top managers are influencing the organisational outcomes, however due to complexity of inquiry into the processes which are believed to be the mediators of the influence; these processes shall remain in the black-box. Majority of the articles that have been written within demographic composition have been manly advocating the positive effects of cultural diversity in teams, on team and organisational outcomes, however no articles within this stream have been found that would deal with culturally diverse TMT and organisational outcomes. Yet, suspecting that link through which demography influences organisational outcomes might be more complex than presented in the demographic composition model, researcher have tried to inquire into processes (e.g., Smith et al., 1994). This inquiry has produced an intervening model - a model within which cultural diversity factor have also been examined among other demographic variables.
3.3.2. The Intervening Model

The intervening model is consistent with upper-echelons theory and the theoretical speculation of most demographic research on top management teams (e.g., Kochan et al. 2003; Eisenhardt and Schoonhoven, 1990; Hambrick and Mason, 1984; Hambrick and D’Aveni, 1992; Keck, 1991; Michel and Hambrick, 1992; Murray, 1989). Intervening model posits that team demography influences the organisational performance entirely through team processes and that it has no direct effects on performance. Social integration, communication as well as the influence of internal conflict within the TMT have been the processes mostly researched within the intervening model (Knight et al., 1999). Diversity’s influence on process have been a field where interrelations of different demographic variables such as age, race, educational and functional backgrounds have been affecting process and outcomes differently, also depending on the combinations of different demographic variables present in the group. In the early stages of TMT research in the 80’s the results as how the different diversities affect processes and outcomes have been mixed. However, in their article, O’Bannon and Gupta (1992) by reviewing and reorganising existing literature on TMT and group composition, came to the conclusion that there may be two dimensions of demographic diversity that can be present simultaneously in TMT and that produce different types of outcomes (Elron, 1997). It is argued that creativity and decision making are promoted by the diversity in educational and functional backgrounds, which serves as an indicator of the degree to which team processes variety of decision-making skills streaming from varied backgrounds. The authors refer to this dimension as ‘cognitive diversity’ that is believed to bring less conflict, and enhances communication, which in turn results in outcomes such as innovation, and improved team’s performance. At the same time, heterogeneity in age, tenure and race that serve as indicators of similarity in attitudes and values, is negatively related to social cohesion and integration and its benefits towards the firm’s performance and strategy (O’Bannon and Gupta, 1992).
One of the criticisms of the intervening model, however, is its relative undeveloped base, due to the great number of variables to be considered which makes research very complicated. Another criticism of the model, and namely the research performed within the model, is a concentration by researchers on single processes and single demographic variables. According to both Lawrence (1997) and Mannix and Neale (2005), what is needed in the field is a multidimensional approach to demographic diversity and processes correlation and their combined influence on organisational outcomes. Jackson, Joshi and Erhardt strengthen this argument by stating that social processes and their outcomes are influenced by the complex confluence of diversity dimensions, not isolated dimensions of diversity (2003), and the team’s and organisational outcomes may be determined by the configuration of team members’ demographic and/or identity profiles (Frable, 1997). Despite the heavy drawbacks at the current stage of the model development, majority of the researchers agree that the intervening model serves as a most full reflection of the TMT demographics, process and organisational outcomes interrelationship.

The intervening model has proved to be even more fruitful soil for cultural diversity research in groups than the demographic composition model. However with more research fruits raised the more mixed results have come out. From one side it is claimed that culturally diverse teams offer diversity of values, resulting in effective group discussions which ultimately leads to enhanced group performance (Hofstede, 1984; McCarrey, 1988). Moreover, cultural diversity of groups leads to more cooperative choices (Cox, Lobel, and McLeod 1991) and better performance in respect to homogeneous groups in identifying perspectives of the problems and generating solution alternatives (Watson, Kumar and Michaelsen, 1993). The vows from the other side of the spectrum are, however, louder and supported by more empirical evidence. Researchers that claim negative effects of cultural diversity on process and outcomes maintain that cultural diversity in teams, results in interpersonal problems and communication difficulties (Jackson, Joshi and Erhardt, 2003; Ruhe
and Eatman, 1977; Triandis, 1960), and to misunderstandings and team cohesiveness being under threat (O’Reilly, Cardwell and Barnett, 1989). Generally many researchers have come to the conclusion that cultural diversity has a negative effect on process taking place within the team such as communication, (Ruhe and Eatman 1977; Triandis, 1960) and social integration and cohesion (Elron, 1997), as well as results in emotional (Pelled, Eisenhardt and Xin, 1999) and competitive conflicts (Kirchmeyer and Cohen, 1992). Majority of the researchers, however, has fallen short to make the picture complete by combining cultural diversity, processes and outcomes as done in the intervening model, which these researchers are claiming to be work within. Only one article found, written by Elron, (1997), has addressed the issues of cultural diversity in TMT, processes and organisational outcomes, arriving to the conclusion that cultural diversity negatively affects social cohesion which in turn has negative effects on organisational outcomes. However later in the article, by black boxing the process variables, Elron (1997), have found a positive relationship between cultural diversity of TMT and performance which indicates that the results of the study can be heavily dependent on the models in use.

There are several reasons as to why the connection between cultural diversity-processes and outcome is being undiscovered or rather being unclear. One of the reasons is that serious obstacles such as sample size that fall below conventional levels and the reluctance of organisations to participate in the research, limits the research area (Kirchmeyer and Cohen, 1992). Another reason for unfinished research within the area is that most studies that have examined behaviour in culturally diverse groups have done so by studies theoretical in nature (e.g., Anderson, 1983; Cox, Lobel and McLeod, 1991; Katz, Goldston and Benjamin, 1958; Simard and Taylor, 1973) (qtd. Watson et al. 1998). Thirdly a problem is also the great difference between the conditions that existed in the studies and conditions that exist in organisational settings. All of the studies devoted to cultural diversity in groups used ad hoc groups that existed only for the duration of the study (Watson et al. 1998). As
in the studies by Watson, Michaelsen and Sharp (1991) where groups of students in the classroom were the subjects under study. Assumption that the same kind of behaviour can be expected from the members of culturally diverse top management team is more than stretched, and doubtful, due to on average longer duration of top management team working together relative to one semester of studies for students being under investigation (e.g., Watson et al., 1998; Watson, Kumar, Michaelsen, 1993; Watson, Michaelsen, Sharp, 1991), which can serve as an encouragement to researcher to conduct studies of cultural diversity in TMTs. Fourthly, the problem persisting in the research and usually being silently avoided by the majority of the authors within the area is the conceptualisation and measurements of culture which vary not only from continent to continent (the US and Europe) but also from researcher to researcher, and which will be discussed further in the paper.

The intervening model that has followed as a logical continuation of the demographic composition model has contributed and confused the field, breaking the evenness achieved by researchers within demographic composition model. It has contributed to the field of cultural diversity within groups by opening up the black box of process within team, and indicating positive and negative effects of these cultural differences on processes, which opposite to some predictions turned out to be mostly negative. Yet mixed results of how cultural diversity influences processes and outcomes have brought uncertainty into the field, by proving that assumptions made in the beginning of ‘upper-echelon age’ might be wrong. So in order to clarify this dilemma as whether the demographic composition or the intervening model is the one that is most closely reflect influences of cultural diversity the third, relatively new model, have been introduced. At this point it will be called moderating model.
3.3.3. The Moderating Model

The moderating model has been a relatively new model and so far has been observed only in few articles: Chatman et al., (1998); Ely and Thomas (2001); Jehn, Northcraft and Neale, (1999), and Larkey (1996); Umans, (2008). These articles have argued that moderating variables such as organisational culture and organisational learning moderate the influence of cultural diversity on processes and outcomes in teams. In their article Ely and Thomas (2001) argue that organisational integration and learning that are adopted by the organisation toward its culturally diverse members will result in the ability of the groups within the organisation (including TMTs) to rethink and reconfigure its behaviours towards their differences in life experiences, knowledge, and insights, and to overcome difficulties that will tend to arise in the process of interaction subsequently arriving to positive group or organisational outcomes. Furthermore Larkey has stated that organisational culture serves as a base for a build up of common values, which will overcome cultural values and will make cultural differences work for the benefit of the group and organisation (1996). Both Chatman et al., (1998), Jehn, Northcraft and Neale, (1999) and Umans, 2008 strengthen the claims by stating that shared common goals and values, taking root in organisational culture, in culturally diverse groups, leads to more beneficial outcomes. Moreover the moderating model proposed argues for the importance of study of processes, since processes within the team are acknowledged to be the conductors through which cultural diversity in teams influences organisational outcomes (Larkey, 1996). In her article, Larkey attempts to build a theory of communicative interactions in culturally diverse workgroups, and urges other researchers to inquire into other process variables, to explore the blanks between variables such as workgroup demographics and workgroup outcomes (1996).

Thus, the moderating model argues that cultural diversity will positively affect organisational outcome and the processes only in case moderating variable – organisational culture is build on the idea of
value-in-cultural diversity, and it also promotes common goals and values among its members, including top managers. This model combines and re-conciliates the two previous models that could not find consensus as to weather cultural diversity positively or negatively affects processes and organisational outcomes. It joins the two previous models acknowledging the importance of cultural diversity, being an important demographic variable in group research, as well as it builds upon the assumption that intervening processes shall be studied, and extracted from the black-box. It also re-conciliates the two models by suggesting that influences of cultural diversity can produce positive organisational and group outcomes, with the processes being extracted from the black box and with added moderating variables such as organisational culture resulting in shared goals and values. However, the support for the moderating model has been only found in few articles and the results from these articles can not be named conclusive and more development of the theoretical and empirical base is needed, to overweight the heavyweights such as demographic composition and intervening models.

Based on the review of the three models above one can construct the filed of cultural diversity of TMT, process and organisational outcomes as in the figure below (Figure 3.1)

![Figure 3.1: The models used in studies of cultural diversity in TMT](image-url)
The demographic composition model thus argues that the demographic composition of TMT including cultural diversity influences organisational outcomes through the black boxing of the processes which shall remain in the black-box due to the complexity and vast array of these team processes which will be impossible to measure (Pfeffer, 1983). The cultural diversity within this model has been predicted to positively influence organisational outcomes such as strategic change and innovation.

The intervening model argues that the demographic composition including cultural diversity influences organisational outcomes only through team process, which shall be studied and extracted from the black-box. Researchers within this model have found that cultural diversity usually have a negative influence on process variables such as social cohesion and communication, which in turn leads to negative organisational and group outcomes.

The researchers within the moderating model have suggested that cultural diversity in teams can influence processes and organisational outcomes in a positive way, only by inserting strong corporate culture and promoting value-in-cultural diversity, into the picture.

The three models summarized above have offered researchers valuable tools in assessing cultural diversity within teams, and most notably TMTs. However, these models indicate inconsistency in the field of cultural studies in TMT and group research, by showing differences in results depending on the model used. The question thus remains whether the inconsistency in research outcomes is influenced by the model in use alone or are there other factors as well that influence these mixed results.

3.4 Methods

One of the factors as to why the results of the research produced within the three models outlined above are mixed could be due to the methods
that have been used or not used within the studies of cultural diversity in groups and executive teams (West and Schwenk, 1996). The field of team and group studies have been heavily relying on quantitative methods employing large samples which have allowed researchers to generalise on the basis of their findings (Goll and Rasheed, 2005). Few exceptions could be found in the field inspired by upper echelon perspective that used qualitative methods (e.g., Eisenhardt and Bourgeois, 1988; Pitcher and Smith, 2001; Umans, 2008). Even the studies that examined team processes have been quantitative in nature, despite recent calls for shift of methodology (Bell and Nkomo, 2001; Ely and Thomas, 2001; Jackson, Joshi and Erhardt, 2003; Li, Xin and Pillutla, 2002; Priem, Lyon and Dess, 1999).

The demographic composition model has been heavily relying on quantitative methods with some exceptions of theoretical papers (e.g., Hambrick and Mason, 1984, Pfeffer, 1983). The method employed within the model has been mostly relying on large scale surveys where the authors have identified several demographic characteristics, including culture (referred as racio-ethnicity or race) and have been concentrating on various organisational outcomes such as performance (Bunderson, 2003; Bunderson and Sutcliffe, 2002; Cannella, Lee and Park, 2008; Haleblian and Finkelstein, 1993; Michel and Hambrick, 1992; Priem, 1990; Smith at al, 1994; West and Schwenk, 1996), innovation (Bantel and Jackson, 1989; Chatman and Flynn, 2001; O’Reilly and Flatt, 1989), strategy (Carpenter, 2002; Finkelstein and Hambrick, 1990; Michel and Hambrick, 1992), and strategic change (Ferrier, 2001; Golden and Zajac, 2001; Grimm and Smith, 1991; Naranjo-Gill, Hartman and Mass, 2008; Wally and Becerra, 2001; Wiersema and Bantel, 1992). The main criticism of the method that can be put forward in light of studies of culture, is the quantification of the term culture, and the solemn use of self-identification technique which leads to a limitation of self-identity of the respondent just to one narrow concept of being black or white, or being American or foreign, while other cultural self-identifications remain undiscovered and limited by the narrow methodological method. The quantification of
the organisational outcomes can also be criticised on the ground of putting complex terms such as strategic change and innovation into the quantitative frames, however these terms might require more elaborate study and analysis to be identified.

The methodology employed within the demographic composition model has also been used within the intervening model with few exceptions when qualitative methods were used (e.g., Pitcher and Smith, 2001). In the majority of the articles that study TMT process variables have been quantified, which have been heavily criticised by some researchers (e.g., Bell and Nkomo, 2001; Ely and Thomas, 2001; Jackson, Joshi, and Erhardt, 2003; Li, Xin and Pillutla, 2002; Priem, Lyon and Dess, 1999) and the use of qualitative methods have been encouraged in order to realise and grasp the complexity of the field. The articles that have been inquiring into the subject of cultural diversity in teams, within the intervening model have not been an exception of reliance on quantitative methods, with large scale surveys. The largest portion of cultural diversity studies within teams has been dominated by Watson and colleagues (1991, 1993, 1998, 2002, 2005), which have utilised the survey method in studying culturally diverse groups of students, performing group projects on the short term and long term basis. The method of assessing cultural diversity has also been self-identification, which then was used to produce diverse groups for the purpose of the study. As it come to studies of cultural diversity in TMTs, Elron (1997), that has been identified as the only researcher dealing with cultural diversity in TMT, was using self-identification assessment of national diversity, which then has been assessed through Hofstede’s (1984) four cultural dimensions. Another recent study by Umans (2008) have investigated ethnic diversity in TMTs and was also using self-identification assessment based on various measures of ethnic identity such as native language, parents’ ethnic background as well as nationality and citizenship.

The summary of the inconsistencies within TMT research has been presented in the article by Pitcher and Smith (2001) where it was stated
that four out of five potential problems of inconsistency in TMT research are of methodological nature. Firstly, unmeasured moderator variables such as industry or environment. Secondly, unmeasured or wrongly measured intervening variables such as processes, in which case the use of qualitative methods to make these variables more observant could be the solution. Thirdly, the possibility of wrong conceptualisation of independent variables such as diversity (including cultural diversity), can be a reason for inconsistency of the results of previous studies. Fourthly, a slight misspecification of both independent and dependent variables that can serve as another reason for inconsistency of research results in the field. One of the solutions but not a panacea to the methodological problems could be a relatively new faultline approach to diversity, presented by Lau and Murnighan (1998). Instead of measuring demographic variables at hand separately and applying them to team processes and outcomes, Lau and Murnighan propose a system where a team is looked upon as a collection of sub-teams that share similar demographic characteristics. So the combination of member characteristics producing sub-teams rather than examination of these characteristic one by one, provides a useful tool in assessing diversity. This is achieved through combination of qualitative and quantitative methodology using ratio and nominal scale in description of diversity in teams and subsequent qualitative determination of the group’s overall diversity. Academic work that has employed faultline approach have been supportive, proving usefulness of the method (e.g., Dyck and Starke, 1999; Earley and Mosakowski, 2000, Gibson and Vermeulen, 2003; Homan et al., 2008; Rico et al. 2007), and many researchers have tried to utilise the method to satisfy the renewed interest in diversity research as well as to produce more research in the area that have been overshadowed by the difficulty of measuring the vast variety of demographic characteristics that can be present in teams. Even though faultlines approach has gained recognition in academic circles the use of the method is still limited to a small number of articles, which prolongs the presence of inconsistency
associated with diversity measurement and methodology employed in the field.

Thus, the problem presented in group and TMT research in general and in cultural diversity of TMTs in particular can be attributed to the overuse of quantitative method, and quantitative measurements of independent, moderating and intervening variables. Taking into consideration the problems associated with use of quantitative method described above, moderating model suggested that qualitative methods would highly benefit TMT studies, and cultural studies in particular, by avoiding miss-conceptualisation, and miss-measurement of process variables (Larkey, 1996), which according to Pitcher and Smith can be achieved with the use of case studies (2001). As already mentioned, conceptualisation of terms used within TMT research, can be one of the causes of inconsistency of the results within the field. Culture being a multidimensional and to certain point vague term can pose a problem to researchers studying it (Cox, 1993; Umans, 2008), and thus, can possibly be another reason for mixed results.

Hence, based on the review of the methods above one can see that the field of TMT research has been heavily relying on quantitative methods and cultural diversity research has not been an exception. However, many authors in the filed have pleaded for use of qualitative methods, which could help the researchers to inquire into processes taking place within the team. Moreover, it is argued that qualitative methods would allow researchers to elaborate more on organisational outcomes, such as innovation and strategic change, which are hard to assess by using quantitative methods. Another reason to turn to the use of qualitative methods are the terms such as ethnicity and culture which can not be fitted into the frames of quantitative method without the loss of meaning and significance. Moreover the use if faultline approach to diversity is still relatively low, however, promising in assessment of multiple demographic characteristics present in the team, and bridging quantitative and qualitative divide within the field of group diversity. Thus, one has to consider that the ‘blame’ for the mixed results within
the field of cultural diversity in groups can not only be laid on the models in use but can also be a result of the method in use, as well as the conceptualisation of the term culture, which is discussed below.

### 3.5 Conceptualisation of culture

Since the majority of the research on cultural and ethnic diversity is conducted in the US, the majority of the researchers have been substituting the term of race with culture and ethnicity which is perceived as being politically correct, and which eliminates the classification of people by the biological attribute and skin colour. Thus, in the US conducted research, the term culture, race and ethnicity have been combined into one grand term – racioethnicity and have been measured in three primary approaches: stages of development, acculturation models and a direct-questioning model (Cox, 1993). The stage of development model is based on the works of Cross (1971), Helms, (1990) and Ponterotto, (1988) (qtd. Cox, 1993) and argues that every individual goes through 3 major phases in developing his/her racioethnic identity from the stage of ignorance and total insensitivity through several stages of struggle with identity, the individuals own as well as that of others, and finally a state of transcending group identity (Cox, 1993).

The second approach – the acculturation model of cultural identity measures identity structures by the extend to which an individual identifies with the subjective culture of the majority group versus the subjective culture of the minority group. Most research of this type has classified individuals into a mono-cultural majority, a mono-cultural minority, or bicultural. The most common method of assigning people to this group has been studies of life history data, which helped to assess which group person belonged to.

The third method utilised within racioethnicity approach is direct-questioning method, which measures cultural identity by asking straightforward questions about the strength of respondents’ identity
with a particular group. This method have been most widely used in consumer behaviour research reported in the marketing literature as well as in group research (e.g., Cox, Lobel, McLeod, 1991; Watson et al., 1998; Watson, Johnson, Merrit, 1998; Watson, Kumar, Michaelsen, 1993; Watson, Johnson, Zgourides, 2002,).

Thus, the researchers within the field of cultural diversity in teams have been mostly employing self identification method of cultural assessment. However, measuring race rather than culture, at the same time claiming that culture varies with variation of race (e.g., Watson et al., 1998), due to the US specific demographic composition, and long history of racial differences. As for example in Watson et al. (1998) and Watson, Johnson and Zgourides (2002), the terms ethnicity and culture have been measured on student groups that have consisted of black- Americans, white Americans and Hispanic Americans, which then was repeated in an other articles by Watson and colleagues, who almost exclusively form the field of cultural diversity research in groups. Few other authors that have been active in the field of cultural diversity studies in groups (Cox, Lobel, and McLeod, 1991; McLeod and Lobel, 1992; Oetzel, 1998) were also using race underneath the label of ethnicity and culture, however have been more interested in specific dimensions of it. Thus, by collecting demographic information from the respondents, Watson and colleagues have asked direct questions of their racial affiliation and then Hofstede’s dimension individualism/collectivism (1984) was applied to asses the differences in respondents’ behaviour and performance in the group.

Hence, research on cultural diversity of groups has mostly been conducted by the US researchers in the US environment, which ultimately led the researchers to inquire into the racial composition of the teams rather than cultural or ethnic. The majority of the articles concerned with the cultural diversity in teams, have been confusing race with culture and ethnicity and using the labels chosen simultaneously. Adding to the confusion the authors have been measuring race by utilising Hofstede’s measurements of culture through the four
dimensions (1984)\(^8\), which originally were designated to measure national diversity.

As it comes to European researchers, few articles have been written that would inquire into the field of cultural diversity in groups or TMTs. Few notable articles that are dealing with the issue were written by Elron (1997) and Heijltjes, Olie and Glunk (2003), that on the contrary to the US researchers and closer to the Hofstede’s (1984, 2001) assessment of culture have been using the term culture as a label for nationality, and have been conducting their research in international setting not being limited by one region. While both papers have been employed the technique of self identification by the respondents, Elron have been analysing her outcomes through Hofstede’s four dimensions, while Heijltjes, Olie and Glunk have been not reflecting on the measurement of culture, while still using nationality as a connotation for culture.

Thus, the conceptual use of the term culture has varied based on the geographic affiliation of researchers as well as a geographic location or research setting. In the US tradition, culture has been associated with race or racio-ethnicity, and in European tradition culture has been associated with nationality. That difference of conceptual use and understanding of the term culture might be the third reason, after the models and methods in use in the field of cultural diversity of TMT, to create disagreement, producing mixed results (Pitch and Smith, 2001), and disagreement in how cultural diversity of TMTs affects processes and organisational outcomes.

3.6 Discussion

Cultural studies within TMT and group research have been rare and when existent have been using different models, different methods and

\(^8\)Individualism/collectivism, masculinity/femininity, power distance, uncertainty avoidance
different conceptualisation of the term culture. This subsequently led to obvious differences in findings by the researchers active in the field of top management studies. Most notable differences have emerged within the three models that have been used by the researchers in studying demographic diversity in teams in general and cultural diversity in particular.

The articles based on the demographic composition model, where studies of processes have been avoided in favour of direct relation between TMT cultural diversity and organisational outcomes, predominantly arrived to the conclusion that cultural diversity will create positive organisational outcomes most notably innovation (Bantel and Jackson, 1989) and strategic change (Wiersema and Bantel, 1992). The articles within the intervening model, which have been based on solid empirical work and predominantly quantitative methods, have argued that cultural diversity influences organisational outcomes entirely through processes taking place in the team. This particular model has posited that cultural diversity will have a negative effect on processes such as decreased social integration, problems of communication, conflict and consequently will negatively affect organisational and team outcomes (O’Bannon and Gupta, 1992). The third moderating model, which has been based on the small number of articles arguing for the use of qualitative methods, has been stating that cultural diversity will positively affect processes within the team, as well as organisational outcomes, however only with strong and ‘diversity-promoting’ organisational culture, and as result, shared goals and values.

Though, here it shall be mentioned that the majority of the researchers once active within demographic composition model have agreed that the model has been avoiding the study of process and thus has not been capturing the complexity of interrelation between demographic variables, processes taking place in the team and organisational outcomes, which means that even though the model has been useful in raising the awareness of importance of upper echelons in organisations
and their demographic composition, researchers shall focus on models that will allow to capture the complexity of interrelation in teams. Thus, it is suggested that intervening and moderating models shall be given a higher priority in future research on cultural diversity in TMTs. While the intervening model establishes developed theoretical base, borrowed or rather influenced by demographic composition model, that can contribute to our understanding in studying processes, the moderating model will allow us to look beyond conventionally used intervening model to uncover even greater complexity of the field, by considering organisational culture as a variable moderating the relationship between culturally diversity of the team and processes taking place within this team.

As it comes to the method used to assess cultural diversity in teams, it has been predominantly the quantitative method employing large scale surveys to study cultural diversity in teams and its influence on organisational outcomes, despite the pleas by various researchers to use qualitative methods within TMT studies (Milliken, and Martins, 1996). The qualitative method and case studies in particular can be used to collect further insights when previous empirical findings do not consistently support theoretical conceptualisations (Eisenhardt, 1989). Moreover it will expose researchers to the actual phenomenon and will allow them to observe natural people behaviour and deepen into its determinants. Then it can also reveal the complexity of interactions among variables such as cultural diversity, performance, and process (Ruigrok and Tacheva, 2004) as well as will allow the researcher to come across important intervening variables (Leonard-Barton, 1990). The faultline approach developed by Lau and Murnighan (1998) shall be given a higher priority, since it allows the researchers to asses multiple diversity variables in combination with each other, and allows a researcher to avoid oversimplification of the demographic interrelation in teams.

The conceptualisation of the term culture has been identified as another problem that could contribute to the inconsistency of findings
within the field of cultural diversity in TMTs. While American researchers, conducting their research in the US, have been using the term culture meaning race, European researchers have been using the term culture as a substitute for nationality. Whereas these terms are related to each other, there are obvious conceptual differences between them (Desfor Edles, 2002). While a person can be black-American racially, he/she can possess Jamaican heritage which would make him/her Jamaican in culture. As in case of cultural identification by European researchers, one person can hold Swedish nationality but having immigrated from Serbia decades ago, still attributes himself/herself with Serbian culture. Thus, categorisation imposed by the researchers and presented in their articles, could lead to the confusion of terms and as a result to inconsistency of results, which one can observe in field of TMT studies. Instead as has been argued by Stephan and Stephan (2000), cultural identity is very much depends upon both the individual identity and others’ identification of the individual. Cultural identities can be conceived in terms of four frames which are proposed to be aware of during the research process: personal, enactment, relationship and communal (Hecht, 1993; Hecht, Collier and Ribeau, 1993). That is, cultural identity is a characteristic of the individual; cultural identities are enacted in social interaction; cultural identity is mutually constructed; and cultural identity bonds a group of people together (Stephan and Stephan, 2000). Thus, the use of self identification as proposed by Stephan and Stephan (2000) in the four dimension mentioned above, will lessen researcher’s misconception of the respondent’s cultural identity and the values respondent associates with his or her cultural belonging. Moreover, through self-identification as a measurement of culture, researchers will be able to obtain information as in which situation the respondent’s cultural identity is evoked more or less, and since cultural identity can be situational, different settings can evoke different aspects of one’s possible groups’ identities. Hence, in order to determine person’s belonging, one should ask not only questions regarding the recipient but also have information about the respondent’s parents and the
background the respondent grew up in. This brings us back to the argumentation for the qualitative method to be used, since quantitative method will not allow the conduction of studies on such a scale.

Another aspect which can contribute to the conceptualisation of culture can be the study of cultural diversity in TMTs through the use of Hofstede’s four or five dimensions (including the time orientation) dimensions of culture (1984, 2001). Several researchers have attempted to study cultural diversity in teams along one or more of Hofstede’s dimensions (Elron, 1997; Kirkman and Shapiro, 2001; Oetzel, 1995, 1998; Watson, Johnson, and Merrit, 1998,). However, only Elron (1997) has been using these dimensions as indicators of culture, while the other authors have been using them merely as personality variables.

One can speculate that Hofstede’s dimensions have not been a widely employed measurement of culture in TMT and group research due to the complexity of connecting each dimension to a certain process variable and subsequently a connection to organisational outcomes, which however can be solved by using faultlines approach, mentioned in the review. Moreover, since the majority of the authors referring to culture have been implying race, Hofstede’s dimensions have been of no use.

Even though Hofstede’s (1984, 2001) cultural dimensions can be criticized for a number of reasons (mainly with regard to the method used in constructing the scales), his research has very appealing attributes: a large number of countries included, the size of the sample, the codification of the cultural traits along a numerical index, and relatively homogeneous sample, since all respondents worked for one multinational corporation with uniform personnel policies (Elron, 1997). Another specific advantage of Hofstede’s study is that the questionnaires used, emphasized attitudes in the workplace. Moreover, Hofstede’s cultural values are the most frequently used in cross-cultural studies (Kogut and Singh, 1988). Also other studies assessing other cultural values scales, found in general significant relationships with
Hofstede’s directories (e.g., Hofstede and Bond, 1984; Schwartz, 1994; Smith, Dugan and Trompernaars, 1996; Triandis, McCusker and Hui, 1990).

Alternatively researchers can turn to the so called the Globe study by House et al (2004), where through a collection of large data from 62 nations, the authors develop a comprehensive measurement of cultures including such dimensions of culture as performance orientation, assertiveness, future orientation, humane orientation, institutional collectivism, in-group collectivism, gender egalitarianism, power distance, and uncertainty avoidance. The difference between House et al (2004) and Hofstede’s (1984, 2001) studies is that cultural values and practices assessed in the Globe study have not been taken up by the Hofstede’s survey (Hanges, 2004). House et al (2004) scale of measuring culture was more comprehensive, since two measurements per each of the dimensions have been used. First measure was concentrating on cultural practices, focusing on respondents’ interpretation on how things are; second measure was concentrating on cultural values, focusing on respondents’ interpretation on how things should be (Hangesm 2004), which possibly provide a more multidimensional view on culture.

3.7 Conclusions

This paper aims to raise the awareness of the importance of the studies of cultural diversity in TMT and to set a research agenda to study these teams. Despite the growing number of culturally diverse TMTs and predictions that the number of culturally diverse TMTs will increase, business literature has been slow to react to this inevitable development, with few articles in place (e.g., Elron, 1997, Umans, 2008). By reviewing and critically assessing the fields closely related to the study of cultural diversity in TMTs such as: cultural diversity in groups, studies of processes in diverse groups, and studies of demographic diversity in TMT, this article indicates disagreement in weather culturally diverse
groups positively or negatively affect team and organisational outcomes. One of the reasons for the disagreement within the field can be attributed to the models used to assess cultural diversity of TMT. Instead of relying on the demographic composition model, which oversimplifies the field by black-boxing processes taking place within the teams, researchers shall accept the complexity of the field of TMT research, and to inquire and to develop intervening and moderating models, which could lead to more consistent findings within the field. Another possible reason for the contradictions in the field is the use of method which has been predominantly quantitative, and simplistic in assessing process, and terms such as culture, ethnicity, innovation and strategic change. As an alternative the researcher inquiring into the field shall listen to the pleas of various researchers to use qualitative methods which could get its hand on processes, and more importantly on cultural identity which appears to be a reciprocity or relational concept when cultural identity is created by individuals in their interrelations. The third possible reason for the inconsistency in the field is the conceptualisation of the term culture which have been assessed and used differently in different research traditions (European and the US). This paper, thus, proposes that culture shall be assessed not just through mere self-identification widely employed by researchers in the field, but by the self-identification through the four frames argued by Stephan and Stephan (2000) as well as through Hofstede’s (1984, 2001) four dimensions of culture, which would eliminate the problem of substitution of different terms, and will reveal the hidden identities that can not be assessed by self identification in a quantitative manner.
References


Chapter 4

Ethnic and gender diversity, process and performance in groups of business students in Sweden

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4.1 Introduction

Student groups have become an integral part of the instructional process (Watson et al., 2002) and have been frequently used as an instructional method in the institutions of higher education. For instance, team learning (Michaelsen et al., 1982) and cooperative learning (Johnson and Johnson, 1992) have attracted scrutiny in recent research. With increasing cultural and gender diversity in the classroom, group assignments serve as a golden opportunity for the exploitation of this diversity that has become a reality in higher education today.

This article tries to draw conclusions on how this diversity can be assessed and managed in higher education. The aim of the study is to make methodological, theoretical, and practical contributions to research about cultural and gender diversity in learning teams (in the case of this study, the diversity due to presence of foreign students). The methodological contribution of this article is represented by the alternative operationalisation of ethnic diversity, expressed not only in terms of race, which has become a tradition in ethnic diversity research (e.g., Watson et al. 1998; McLeod and Lobel, 1992), but in terms of
nationality and national origin as well as self-identification. The theoretical contribution of this article is an attempt to inquire into the intervening group processes, a fairly unexplored area because of its presumed complexity. A practical contribution of this paper is the guidance on how to manage cultural diversity both from the educators’ and students’ perspective. The structure of the paper is as follows: a review of the literature on the ethnic and gender diversity in teams and the interrelations with group process and outcomes is followed by sections on method, analysis, subsequent conclusions and suggestions for future research.

4.2 Literature review

4.2.1 Ethnic diversity in teams

Scholars actively working within the demographic composition model, where processes remain in the ‘black box’ and the direct connection between diversity and outcomes is investigated, claim that ethnically diverse teams are able to perform better in turbulent and complex environments (Shaw, 1981), where the group members’ cultural diversity serves as a drive for flexibility, and receptiveness to environmental change and turbulence (Wagner, 1995). Ethnic diversity in groups and teams tend to lead to a higher quality of decisions (McCarrey, 1988) and ideas (McLeod and Lobel, 1992). This positive outcome streams from the variety of viewpoints provided by differences in cultural backgrounds, which subsequently indicates that ethnically diverse groups outperform ethnically homogeneous groups (Buller, 1986).

In studies of learning teams, Watson and colleagues (Watson and Kumar, 1992; Watson et al., 1993) generally came to the conclusion that during the early stages of team life, ethnically diverse teams perform less effectively than non-diverse teams (Watson et al., 1998). However, over time not only do these differences wash out, but they
may become an asset for team results (Wagner, 1995). These findings come from teams that work together and receive feedback on particular team tasks (Watson et al., 2002). According to Michaelsen and Watson (1987), at the end of the learning team’s life cycle, the advantage of multiple viewpoints due to cultural diversity has been shown to result in higher performance, which is in line with the demographic composition model. By working within a limited time frame, and having the results of their work evaluated and counted towards their final grades, learning teams are put into complex environments. Moreover, the tasks learning teams usually perform are complex in their nature due to demands in terms of creativity and analytical approach that are required in order to attain a higher grade on the team assignment. Based on the foregoing discussion, we propose that:

P1: Increasing degree of ethnic diversity in a learning team will have a positive influence on team performance later in the team project life cycle when handling complex problem solving.

Researchers on intervening models, where processes are being extracted from the black box for study, have been much more divided regarding the effects of ethnic diversity on both process and performance of teams. From one side, it is claimed that culturally diverse teams offer diversity of values, resulting in effective group discussions that ultimately lead to enhanced group performance (Hofstede, 1984; McCarrey, 1988). Moreover, cultural diversity of groups leads to more cooperative choices (Cox et al., 1991) and better performance in comparison with homogeneous groups in identifying perspectives of the problems and generating solution alternatives (Watson et al., 1993). The voices from the other side of the argument, however, are louder and supported by more empirical evidence. Researchers who claim negative effects of cultural diversity on process and outcomes maintain that cultural diversity in teams results in interpersonal problems and communication difficulties (Triandis, 1960), misunderstandings and threats to team cohesiveness (O’Reilly, Cardwell, and Barnett, 1989). Generally, many researchers have come to the conclusion that cultural
diversity has a negative effect on processes taking place within the team such as communication (Triandis, 1960) and result in emotional (Pelled, 1996) and competitive conflicts (Kirchmeyer and Cohen, 1992). These conditions in turn lead to lower performance when compared to the ethnically homogeneous learning teams (Watson et al. 1993), since ethnically diverse team members are likely to have fewer shared experiences, less in common, and more difference of opinion, usually leading to conflict within the team (Pfeffer, 1983) However, several authors have claimed that ethnically diverse teams will be superior to ethnically homogeneous teams in their effectiveness in complex problem solving (Shaw, 1983). Hence, this leads us to the following three propositions:

P2: Increasing degree of ethnic diversity in learning teams will have a negative effect on communication.

P3: Increasing degree of ethnic diversity in learning teams will have a positive effect on the degree of conflict.

P4: Increasing degree of ethnic diversity in learning teams will have a positive impact on the effectiveness in complex problem solving.

It is argued that efficiency of communication as well as effectiveness in complex problem solving will have a positive influence on team performance (Smith et al., 1994). Eisenhardt and Bourgeois (1988) found that teams that experience internal strife or conflict decline in performance. This is supported by findings of Jehn (1997) who claims that conflict constrains effectiveness in creative problem solving and influences performance negatively. Moreover, Elron (1997) in her study of top management teams found that small teams with less social cohesion and ineffective communication will be negatively related to group performance. Thus, we propose:

P5: Effective communication in learning teams will have a positive effect on teams’ performance.

P6: Increasing degree of conflict in learning teams will have a negative effect on teams’ performance.
P7: Effective complex problem solving in learning teams will have a positive effect on performance.

4.2.2 Gender diversity in learning teams

It has also been noted that group and outcome are influenced by the complex composition of diversity dimensions, rather than isolated dimensions of diversity (Jackson et al., 2003), and the team and organisational outcomes may be determined by the configuration of team members’ demographic and/or identity profiles (Frable, 1997). Gender, as one of the demographic variables, has been accorded special attention in research due to the increasing number of women entering organisations, including the increase of female students entering institutions of higher education. For instance, a meta-analysis by Wood (1987) showed that mixed-gender groups tended to perform better than homogeneous-gender groups. It was also noted that the behavioural differences between men and women in mixed-gender groups may be especially influenced by a group’s gender balance (e.g., Johnson and Schulman, 1989) Gender diversity influences the team’s performance in higher education since females tend to perform better than males (Byrne, Flood and Willis, 2001), implying that with an increased number of females in a group, the group might perform better. However, a team homogeneous in gender will be restricted in input variety and opinion diversity, thus reducing performance in a complex assignment or/and complex environment (Dess and Beard, 1984). Therefore, it is not the proportion of men or women, but the mix that influences performance. Thus, we propose that

P8: Increasing degree of gender diversity in learning teams will increase the performance of the group when subjected to complex problem solving.

Results have been mixed on the influence of gender composition on team process (Watson et al., 1998). However, research indicates that gender diversity tends to affect behaviour, communication, and individual experience within groups, while it does not affect group performance per se (Smith-Lovin and Brody, 1989). According to
Wood (1987) gender-balanced groups would have more positive interaction, including communication and conflict reduction, compared to predominantly male or predominantly female teams. Moreover, experimental studies by Stringer (1995) have shown that gender-balanced groups are more consensus-seeking, a characteristic that improves communication within the group and reduces conflict. Kanter’s study of minority/majority grouping shows that groups with a ‘token’ member (e.g., one female and three males, or one male and three females) would likely be more subject to stereotyping and marginalization than gender-balanced groups (1977). When it comes to gender, it is believed that men and women have different perspectives on how tasks should be performed and goals achieved (Stringer, 1995). According to Mannix and Neale (2005), the extent to which groups are diverse in their perspectives positively influences effectiveness in problem solving. Based on the foregoing discussion we propose:

**P9:** Increasing degree of gender diversity in learning teams will have a positive effect on communication.

**P10:** Increasing degree of gender diversity in learning teams will have a negative effect on the degree of conflict.

**P11:** Increasing degree of gender diversity in learning teams will have a positive impact on the effectiveness in complex problem solving.

### 4.3 Method

#### 4.3.1 Participants

The sample consisted of 102 participants (57 males, 56% and 45 Females, 44%) who enrolled in the corporate strategy course, which is a part of international business programme, at a university college in southern Sweden. The 29 self-arranged teams each consisted of two to five individuals working on the case study, representing 20% of the final individual grade, which made the results of teamwork important to each course participant. The course was included in an international
business programme offered to foreign exchange students and Swedish students. Hence, the class was composed of students from Sweden and other countries.

The complexity of the environment was achieved (a) through combination of students both from abroad and from different study programmes within the department and who had never studied together before; (b) by a tight time schedule; and (c) by the importance of the case study for students’ final grades. Completion of the group assignment took approximately 15 hours of group work.

4.3.2 Measures

Dependent variable
Team performance was measured based on a written analysis of the case study. Students were evaluated on a number of criteria such as case presentation, theoretical model application, analysis, conclusion and use of external sources. Maximum possible grade for the case was 20 points. In order to insure non bias of the evaluation process, the names of group members were removed, so that only group number and number of students in the group were known. Thus the evaluator could not discover the identity of the people in the group.

Mediating variables
Process variables were measured on a self-reporting basis, where respondents were asked to mark on a 7-point Likert scale the degree of a certain process, such as effectiveness in problem solving. Communication in the group was observed through three questions on constructiveness of discussion, informality of communication and effectiveness of communication flow. A reliability test of the three variables indicated acceptable reliability (Cronbach’s alpha = 0.70). They were summed and divided by three in order to make them comparable with the other two process variables. Conflict was measured by asking the respondents to indicate the degree of conflict present in
the learning team while working on the assignment. Effectiveness in problem solving was measured by self-evaluation of the group members. In order to construct a total degree of communication, conflict and effectiveness in problem solving for each group, a proportional approach was used, where the sum of each team member’s answers was proportionate to the highest possible degree of these three process variables per group. This approach was based on Blau’s seminal work, *Inequality and Heterogeneity* (1977), which argues that proportion of majority/minority membership in the group helps to determine the quality of relations between demographically different groups. The strength of the proportional approach, according to Mannix and Neale (2005), is that it allows a focus on relative differences, recognizing that a diverse group with a minority of one is qualitatively different from a group with more balanced proportions.

**Independent variables**

Ethnic diversity was measured as a combination of different variables such as nationality, ethnic self-identification, country of birth, native language, native language and country of birth of both the mother and father. This particular measurement of ethnic identity differs from previously used methods (e.g., Cox, et al., 1991; Watson et al., 1998) where one particular variable such as race or nationality was taken as equal to ethnicity. Since ethnic identity is believed to be a multifaceted phenomenon (Campbell, 2000), it is beneficial to assess ethnic diversity in terms of different aspects (Hecht, 1993). The complexity of ethnic identity is diminished by putting it into just one self-identification variable (e.g., race) while researchers acknowledge that ethnic identity could be conceived in terms of four frames: personal, enactment, relationship and communal. (Stephan and Stephan, 2000). Thus, the degree of ethnic diversity was measured as a proportion of people dissimilar to others in the group (Blau, 1977) with respect to the ethnicity dimensions mentioned earlier. Gender was measured by self-identification by the group members and as a proportion of people dissimilar to others, in terms of gender, in the group.
Control variable

Size of the group was considered to be a control variable. When evaluating the performance of the group, the number of students who influenced the performance had to be considered. A group with more students would perform better (ceteris paribus) and receive a higher grade if the evaluator did not consider group size. Thus, if the evaluator is not capable of considering the influence of size, we expect a positive relationship between size and performance.

4.4 Analysis

We use a linear regression method analysing the relationship between the independent variables, the mediating variables and the dependent variable in three different models (Allison, 1999).

The descriptive statistics of the variables are presented in Table 4.1

Table 4.1 Descriptive statistics and correlation matrix (n=27)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std dev</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Grade</td>
<td>15.04</td>
<td>2.609</td>
<td>0.15</td>
<td>0.42*</td>
<td>-0.58**</td>
<td>0.08</td>
<td>0.08</td>
<td>0.38*</td>
</tr>
<tr>
<td>2. Group size</td>
<td>3.56</td>
<td>0.641</td>
<td>X</td>
<td>0.07</td>
<td>0.07</td>
<td>-0.04</td>
<td>0.24</td>
<td>-0.05</td>
</tr>
<tr>
<td>3. Gender diversity</td>
<td>0.126</td>
<td>0.162</td>
<td>X</td>
<td>0.10</td>
<td>-0.09</td>
<td>-0.16</td>
<td>0.16</td>
<td></td>
</tr>
<tr>
<td>4. National diversity</td>
<td>0.287</td>
<td>0.352</td>
<td>X</td>
<td>-0.10</td>
<td>-0.06</td>
<td>0.30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Communication</td>
<td>0.829</td>
<td>0.104</td>
<td>X</td>
<td>-0.61**</td>
<td>0.72**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Conflict</td>
<td>0.427</td>
<td>0.198</td>
<td>X</td>
<td>-0.53**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Problem solving</td>
<td>0.790</td>
<td>0.154</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

†p<.1; *p<.05; **p<.01; ***p<.001

The values for dependent variable Grade show that the groups received 15.04 points on average with rather small deviation, thus indicating a compressed grading (minimum grade given was 10 and maximum was
The group size, ranging from 2 to 5, was on average 3.6, and the deviation indicates that most of the groups contained 3 or 4 students. Gender diversity varied between 0 and 0.5, and the average of 0.126 indicates rather low gender diversity. In fact, about 16 of 27 groups had no gender diversity at all. Ethnic diversity was measured as national diversity, on which we will comment later in the paper. National diversity was higher due to a higher variation of nationality than of gender. The process variables show high average on communication and on effectiveness in problem solving, but lower on conflict.

Inspecting the correlation matrix, grade appears to correlate positively with gender diversity, but negatively with national diversity. The process variables do not appear to correlate with grade, except for the positive correlation of effectiveness in problem solving. Thus, our proposition of gender (P8) appears to be supported, while national diversity proposition appears to be contrary to expectation (P1). Process variables appear not to be influenced by diversity and appear not to influence performance (P2, P3, P4 – ethnic diversity influences on process propositions – not supported; P9, P10, P11 – gender diversity influences on process - not supported; P5, P6, P7 – process influences on performance - not supported). Our control variable, group size, is not correlated to grade, which indicates that the grader considered group size when evaluating the performance of the group.

The correlation matrix indicates that we can expect collinearity problems for the process variables since they are highly correlated. No other independent variable appears to present collinearity problems.

Our first analysis (Table 4.2) tests the black-box regression model, where the diversity measures are directly correlated with the performance, i.e. the grade.
The model is highly significant, being able to explain more than half of the variance. Gender diversity indicates support of P8 that increased gender diversity will increase performance. It should be noted that when including proportion of gender diversity, the gender variable showed no significant correlation, i.e. it is not the gender proportion, but the diversity that influences performance. Ethnic diversity, measured according to nationality (i.e. National diversity), however, negatively influenced performance, quite contrary to P1 stating a positive correlation between ethnic diversity and performance. We considered several other measurements of ethnic diversity, such as country of birth, native language and parents’ national identity and language as well as students’ self-identification concerning the nation they mostly associated themselves with; but with these measurements the diversity variable was not significant (analyses available on request). We will return to the issue of measurement in the concluding discussion.

Next, we analysed the relationship between the independent variables of diversity and the intermediating process variables of communication, conflict and effectiveness of problem solving. But we present only the regression model with the highest $R^2$ in Table 4.3

<table>
<thead>
<tr>
<th></th>
<th>Beta</th>
<th>SE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Group size</td>
<td>0.640</td>
<td>0.549</td>
</tr>
<tr>
<td>3. Gender diversity</td>
<td>7.610**</td>
<td>2.179</td>
</tr>
<tr>
<td>4. National diversity</td>
<td>-4.697***</td>
<td>1.001</td>
</tr>
<tr>
<td>Constant</td>
<td>13.151***</td>
<td>1.982</td>
</tr>
</tbody>
</table>

Adj R$^2$ 0.532

F 10.864***

$^\dagger$p<.1; *p<.05; **p<.01; ***p<.001
Table 4.3 Result of diversity explaining the process variable of problem solving (n=27)

<table>
<thead>
<tr>
<th></th>
<th>Beta</th>
<th>SE</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Gender diversity</td>
<td>0.184</td>
<td>0.183</td>
</tr>
<tr>
<td>4. National diversity</td>
<td>-0.139</td>
<td>0.084</td>
</tr>
<tr>
<td>Constant</td>
<td>0.807***</td>
<td>0.043</td>
</tr>
<tr>
<td>Adj R²</td>
<td>0.054</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>1.737</td>
<td></td>
</tr>
</tbody>
</table>

p<.1; *p<.05; **p<.01; ***p<.001

As is evident in Table 4.1, none of the diversity variables are correlated with the process variable, as the results in all the other regression analyses. The only slight indication that can be found in all regressions on process variables is the somewhat weak significance (in this model the significance level is 0.11) of national diversity that correlates negatively with effectiveness in problem solving (P4). Thus, there is no support in our analyses for the proposition that diversity influences the process (P2, P3, P4 and P9, P10, P11 – not supported).

The third model is the relationship between the process variables and the performance variable of the grade. Since we found that the process variables created collinearity problems, we could not analyze any model including all three process variables. We present here the most interesting model, but all other models present outcomes that lead to the same conclusions to be drawn from the presented analysis, as can be seen in Table 4.4. (Omitted analyses can be obtained from the authors)
The model does not strongly explain the variation in performance, and the significance is weaker than the model with a direct link between diversity and performance. The model is only weakly significant, and the whole burden of explanation is on the effectiveness in problem solving variable. Thus, we cannot make a strong case for process influencing performance.

Summarizing the analyses we have found indication that diversity influence performance: gender diversity positively, and national diversity negatively. Only very small indications could be found in support of the intermediating model of process, indicating a negative relationship between national diversity and effectiveness in problem solving, with problem solving being positively correlated with performance.

4.5 Discussion

The overall goal of this paper has been to inquire into the relationships between ethnic diversity in learning teams, team processes and team outcomes. The paper has followed two paths of inquiry. Firstly, we tested the demographic composition model, where we explored a direct relationship between ethnic diversity in learning teams and its influence on group performance, leaving the process variables in the black box.
Secondly, we tested the intervening process model, where the relationship between ethnic diversity in learning teams is assumed to influence processes within the team; in this paper, the processes investigated were communication, conflict and effectiveness in problem solving. Then, the processes in the learning teams were assumed to influence team performance. Our analyses indicate that a demographic composition model, where process remains in the black box, has a better explanatory power with regard to the influences of both gender and ethnic diversity on performance, while the intervening model produces no consistent results.

Even though we have attempted to use a multidimensional approach to ethnicity as pleaded by some researchers (e.g., Millikin and Martins, 1996), it was only national diversity that showed a significant correlation to learning team performance. The finding indicates that objective measurements of ethnicity could be more valid, and that the environment of the individual has more influence on the ethnic identity of the individual than does the ethnic origin of the individual's father and mother. The simplistic questions in the questionnaire could be another explanation of why we did not manage to capture other possible diversity variables. It should be noted that results of this paper are based on the national diversity, achieved through the mixture of Swedish and foreign students in the course, and not on ethnic diversity expressed in terms of native language, parental ethnic background, and country of origin.

As for the influence of gender diversity on team performance, our analysis supports our proposition that with an increase of gender diversity there will be an increase in performance. This is in line with findings in gender diversity research, where it is believed that differences in task orientation between men and women increase performance of gender-balanced teams (Wood, 1987).

In contrast to our expectations, nationality as one of the measures of ethnic diversity has a negative influence on performance. What makes
this result especially striking is the fact that students that participated in
the survey are international business students who are supposed to have
an international mindset, since the enrolment into the programme is
voluntary and based on the students’ supposed desire to explore and get
in touch with people of different cultures. One possible reason is that
nationalities represented in the teams were not very compatible with
each other, when looking at them, for example, from Hofstede’s
cultural dimensions (1984). There could be a possibility that
collectivistic and individualistic cultures might not work well together,
with individuals seeking communality or privacy, respectively, which
would decrease group performance because of differences on specific
cultural dimensions (Jehn and Mannix, 2001). Thus, in future studies
it would be interesting to observe not merely the degree of national
diversity in teams, but also the combination of different nationalities in
the group, graded by their cultural dimension indexes; these could be
combined into a group’s total score to enable comparison with other
groups, or to examine in-group behaviour and its influence on group
performance. According to Ely and Thomas (2001), ethnic diversity
can result in lower comparability to the outcomes of ethnically
homogeneous teams’ outcomes, due to the lack of training and
development initiatives. It can be assumed that students in our sample
were relatively inexperienced and not trained in ethnic diversity
assessment, and that they lacked the understanding of problems that
could arise from this diversity since the majority of them were first-year
students and had not been exposed to work with students of different
ethnic backgrounds prior to the course. Another explanation of the
negative influence of nationality on performance could be the relatively
short team life, which was only four weeks for the teams in our sample;
this is supported by findings of Watson et al. (1998) and Keck (1991),
who claim that diversity benefits become apparent as the group’s tenure
increases.

Our expectations concerning gender and ethnic diversity in its
influence on processes have not been realised. There could be several
reasons for our prediction failure. Firstly, the problem could lie in the
measurement of the process variables. Secondly, it can be assumed that even if the process variable and processes representing the variable were measured correctly, the problem of leading to no result may lie in the self-reporting technique employed in this research. Making an assumption that students can be their own observers and interpreters is very optimistic, but questionable. Thirdly, the problem may originate in our assumption based on previous research (Smith et al., 1994) that diversity has a direct influence on processes. Several authors (e.g., Ely and Thomas, 2001; Larkey, 1996) argue that the demographic diversity–process relationship could have a moderating variable such as common values and beliefs, or shared goals that would bare the instrumental importance of the mediator between the two. Thus there might be a possibility that the intervening model we attempted to test lacked the moderating variables that could influence the relationship between ethnic and gender diversity on processes. Fourthly, the problem may lie in the operationalisation of the diversity variable (Pitcher and Smith, 2001); however this is highly improbable in light of the very strong significance between national diversity and performance discovered when testing the demographic composition model.

The problems of methodology, which are believed to be the drive for the inconsistencies and non-results in diversity research (Pitcher and Smith, 2001), can also be put forward as one of the explanations for our data not showing the influence of processes on performance. Thus, one possible option, though not a panacea, could be the use of qualitative methods such as case study research. This could enable one to inquire into the black box of processes, which some researchers argue could bring new insight and better understanding of the black-box complexity and its possible correlation with group diversity and group outcomes (Ruigrok and Tacheva, 2004). A combination of interviews to identify process variables and the use of survey data to test derived process conceptualisation could be one of the ways to make studies of processes more focused and possibly allow more precise and clear definitions of process variables.
4.6 Practical implications

Our findings have several practical implications, both for students involved in multi-ethnic group work and for teachers using multi-ethnic groups in their courses. The first implication is that we could tell students that in order to achieve higher results they should form gender-balanced and nationally homogeneous groups. While that naturally would be an easy way to interpret our findings, nevertheless our studies show that diversity has to be managed since ethnic diversity is on the increase in almost every part of our society.

Accordingly, as educators we should encourage our students to form ethnically diverse teams for the sake of their future success in a diverse world. Especially keeping in mind that intercultural communication competences or in other words ‘ability to understand the meaning of intercultural interaction and the ability to adapt one’s behaviour to these meanings in order to produce efficient behaviour’ (Bartel-Radic, 2006, p. 651) required in today multicultural work environment are usually developed in intercultural interactions which take place in our classrooms.

In order to manage diversity from within the group, students who want to achieve higher performance in ethnically diverse groups should consider and learn to build social ties or bridges with their team members. According to Mannix and Neale (2005), the point in social bridging is to emphasize what is similar among team members rather than simply what is different. In order for national diversity in groups to improve outcomes, and to make differences work towards innovative creativity, educators might encourage ethnically diverse group members to discuss what they have in common, as well as what each team member brings to the group, all of which could promote bridging and subsequently increased performance. This idea is also supported by the findings of McGurty and Silova (2000), who suggest that social bridging in various forms helps students to overcome certain stereotypes and prejudices and increase various team outcomes. One of
the more ambitious ways of dealing with diversity in learning teams and diversity in institutions of higher education is a desirable change in organisational culture, shifting from the traditional methods of dealing with diversity (‘discrimination and fairness’ and ‘access and legitimacy’) to a more progressive and learning-based view (Ely and Thomas, 2001). The learning approach to diversity can be expressed in the creation of an environment in the institutions and classrooms of higher education that would emphasize the benefits of gender and ethnic differences for organisations; for it is through differences of opinion, value and belief and through similarities in aims and task-related values that organisational and team ambitions of innovativeness and higher performance can be achieved.

Culturally diverse teams are widely used by many organisations today, thus the results of the study might have practical implications for managers. This study highlights possible performance hindrances resulting from cultural diversity in teams and possible performance enhancements resulting from gender diversity teams. However, as noted in the discussion part of the paper, the negative results of ethnic diversity in team can be influenced by relatively short life-time of the learning teams under study, which might not be true for the teams employed in organisational settings, where teams usually have a longer life-span and thus have a possibility to benefit form a variety of opinions streaming form differences in ethnicity, while at the same time having enough time to overcome communication difficulties.
References


Chapter 5

Ethnic Identity, Power, and Communication in Top Management Teams

Timurs Umans

5.1 Introduction

The study of top management teams (TMTs) has a long tradition in the field of business administration, rooted in the work of the Carnegie School theorists Cyert, March, and Simon, who argued that managers, being bounded in rationality, process information through their individual perspectives, which are formed through individual life experiences, including formal training and work history (Cyert and March, 1963; March and Simon, 1958). Pfeffer (1983) and later Hambrick and Mason (1984) developed the idea further, arguing that it is the top managers comprising the upper echelons of organisations who influence various organisational outcomes. This influence is argued to be predisposed by the top managers’ particular perspectives, which arise from demographic characteristics such as age, gender, education, functional background, and race. Since the early 1980s, the TMT field has been dominated by research into TMT demographic composition and its various influences on organisational outcomes.

Although many studies have been done in the TMT field, these have lacked consistency in some very important respects. Unmeasured intervening variables, such as team processes and power structures, pose
a problem for research in the field (Pitcher and Smith, 2001). The rationale, cited by many researchers, for not measuring such process variables is the assumption, put forward by Pfeffer (1983), that it would be impossible to measure all the intervening variables due to their complexity. Another problem identified in the TMT field is how various demographic variables are conceptualized (Pitcher and Smith, 2001). Among these variables, ‘culture’ is the term assigned the greatest variety of labels, ranging from ‘race’ to ‘nationality’ and ‘racio-ethnicity’. This inconsistency, in turn, has led to divergent outcomes of studies dealing with culture. One side claims that cultural diversity causes problems for TMT survival and functioning (e.g., O’Reilly, Cardwell and Barnett, 1989), while the other states that cultural diversity creates competitive and innovative TMTs that contribute to the success of organisations (e.g., Bantel and Jackson, 1989; Hoffman and Hegarty, 1993).

In light of these problems, the present study inquires into the interrelationship between power structures, communication (one of the team processes), and cultural diversity (operationalised in terms of ethnicity). In doing so, this paper contributes to the study of TMT processes, by trying to open up the ‘black box’ of team processes. Communication was chosen as the specific process to be studied, since it is believed to be a key process affecting group performance (Smith et al., 1994). The paper also contributes to the conceptualization of culture, which has often been conceptualized in static terms such as race or nationality, but seldom in terms of ethnicity – possibly a more appropriate and multidimensional concept than even culture itself. Finally, it contributes to the field by examining the complex interrelationships between ethnicity, power, and communication in TMTs.
5.2 Literature review

5.2.1 Ethnic identity and ethnic diversity

Ethnic identity in groups is a topic of concern in the business literature that has been dominated by US-based researchers; however, the very concentration of this research in the US has led ethnic identity to be regarded as implying racial identity. This view deserves severe criticism, since ethnicity and race are different, albeit related, phenomena (Desfor Edles, 2002). According to Grosfoguel (2004, p. 315), ‘ethnicity is assumed to be the cultural identity of a group within a nation state, while race is assumed to be the biological and/or cultural essentialisation/naturalisation of a group based on a hierarchy of superiority and inferiority related to the biological constitution of their bodies’.

Most researchers active in cultural diversity studies (cultural diversity has been gauged predominantly in terms of race in US-based research and in terms of nationality in European-based research) have employed large-scale surveys to determine the effects of cultural diversity on various team processes and team outcomes. The conceptualizations and measures of the term have remained rather static in both US- and European-based research. Respondents in American studies have mostly been given choices of racial identification, i.e., strictly defined racial labels, while in European research respondents have been asked for their nationality, which is a relatively narrowly defined measure, since a respondent might be of one nationality but associate him/herself with a different ethnicity (e.g., whether he/she was born to parents of a foreign background relative to the country of citizenship). According to Heijes (2006), what is needed in the field of management studies is a more flexible and multidimensional approach to culture, an approach that acknowledges the fluid nature of culture and its dimensions.
By drawing on a sociological view of culture (in particular, on the work of Voloshinov, 1973, 1976), this paper views ethnic identity as an individual-cum-social phenomenon that is both socially constructed and individually experienced. In other words, this paper views ethnic identity as a person’s self-identification developed through individual experiences, the identification of this person by others representing the social construct side. First, self-identification is an aspect that emphasizes feelings of belonging and commitment (Ting-Toomey, 1981; Tzuriel and Klein, 1977), i.e., the sense of shared values and attitudes (White and Burke, 1987, p. 311) or attitudes toward one’s group (e.g., Teske and Nelson, 1973). Second, self-identification is represented through the cultural aspect of ethnic identity in such matters as language, behaviour, values, and knowledge of ethnic group history (e.g., Rogler et al., 1980). The same also applies to the perception of the person by others.

Moreover, according to Ting-Toomey et al. (2000), ethnic identity has two central issues: ethnic identity salience, referring to the importance of ethnic identity to the individual, and ethnic identity content, referring to the ethnic values that individuals subscribe to and practice. Thus, the present study postulates not only that ethnic identity arises from both self-perception and others’ perception of the self, but that the holders of the ethnic identity vary in terms of salient feeling for their ethnic identity possibly, but not necessarily, depending on their ethnic identity content.

Since no articles were found that discuss the influence of ethnic identity, in the terms described here, on TMT communication and power relationships, the literature review concentrates on presenting a general overview of TMT communication processes and cultural diversity research. However, in presenting the cases, case analysis, and conclusions, the definitions of ethnic identity presented above are used and applied.
5.2.2 TMT process: communication

According to Shaw (1981), communication can be described as the heart of group behaviour and the essence of social systems (Katz and Khan, 1978). Communication is multidimensional and represents the total amount of interaction among team members, regardless of the informality or frequency of a mode of interaction. In measuring frequency, one must bear in mind that interaction can occur in face-to-face meetings (whether in groups or one on one) or by telephone, mail, e-mail, and other Internet-related media (Smith et al., 1994). Informality of communication concerns the less-formal communication channels top managers prefer to use for interactions. While informal channels can be represented by unstructured meetings or spontaneous conversations, more formal channels are represented by formally structured meetings or mail correspondence. According to Shaw (1981), while these channels are conceptually distinct from each other, informal communication facilitates more efficient and effective communication.

Researchers agree that informal communication permits team flexibility and promotes more open discussion. Moreover, more informal communication results in the better flow of ideas and greater productivity and efficiency (Smith et al., 1994). However, when communication is discussed in the context of heterogeneous TMTs, both conditions and researcher conclusions change, since it is generally believed that demographic diversity in teams negatively affects communication (Smith et al., 1994). Especially when it comes to cultural diversity in teams, most researchers have stressed the strength of influence of this variable and its negative impact.

5.2.3 Cultural diversity and communication

One school of thought claims that culturally diverse teams offer a diversity of values, resulting in effective group discussions, ultimately leading to enhanced group performance (Hofstede, 1984; McCarrey, 1988). Moreover, culturally diverse groups are said to lead to more co-
operative choices (Cox et al., 1991) and better performance than that of homogeneous groups in identifying various perspectives on problems and generating alternate solutions (Watson et al., 1993). The other school of thought, however, expresses itself more loudly and is supported by more empirical evidence. Researchers who claim that cultural diversity negatively affects processes and outcomes maintain that cultural diversity in teams results in interpersonal problems and communication difficulties (Ruhe and Eatman, 1977; Triandis, 1960), and consequently leads to misunderstandings and weakened team cohesiveness (O’Reilly et al., 1989). Many researchers have come to the general conclusion that cultural diversity negatively affects communication (Ruhe and Eatman, 1977; Triandis, 1960; Elron, 1997), resulting in emotional (Pelled et al., 1999) and competitive conflicts (Kirchmeyer and Cohen, 1992). However, the main criticism of research into the influence of cultural diversity on communication is its use of static measures of culture, such as nationality or race, which are almost impossible to change. When it comes to ethnicity – a much more flexible concept – one could assume that the person identifying him/herself with a certain ethnic group can act as a national of one country while differing ethnically from most people of that nationality. Thus, unlike national or racial identity, ethnic identity is a self-identification that can be more or less flexible depending on the context, which in turn leads us to propose that ethnic diversity in TMTs will lead to informal and open communication that fosters effective group discussion.

Proposition 1: Ethnic diversity in TMTs will have a positive influence on TMT communication.

5.2.4 Power distribution in TMTs

Power distribution has been identified by several TMT researchers as an area needing further investigation (e.g., Finkelstein and Hambrick, 1996). Previous empirical studies have come to conflicting conclusions regarding the effect of TMT power distribution on organisational
outcomes (Smith et al., 2006; Eisenhard and Bourgeois, 1988; Pitcher and Smith, 2001). Most researchers in the field have used the classic definition of power presented by Pfeffer (1981), who defines it as the capacity (or potential) of an individual to exert influence, causing change in the behaviour of a person or group in some intended fashion (Eisenhardt and Bourgeois, 1988). Moreover, according to Smith et al. (2006), power is always relative to other social actors, including other TMT members. While some research has investigated power relationships in TMTs, most of the literature has concentrated on CEO power in relation to organisational performance and processes (e.g., Eisenhardt and Bourgeois, 1988; Halebian and Finkelstein, 1993; Michel and Hambrick, 1992) while claiming that investigation of TMT power distribution is ‘rare in the literature to date’ (Finkelstein and Hambrick, 1996, p. 129). One notable study by Smith et al. (2006) attempted to link TMT composition and power distribution, claiming that age and experience are crucial demographic dimensions for power distribution in a team. Even though a search for studies of the influence of cultural diversity on power distribution in TMTs produced no results, the present study draws on research by Hofstede (1991) and Triandis (1994) concerning the interrelationship between culture and conflict, research that pays special attention to power.

5.2.5 Cultural diversity and power distribution

When it comes to the influence of ethnicity on power distribution in groups, it is mostly social psychologists who have contributed to the field (e.g., Moscovic and Mugny, 1983 Mugny and Papastamou, 1976–1977). This research primarily concerns ethnic minority and majority in-group behaviour, and their aspirations to power. It is believed that being of an ethnic minority usually implies lower status, while being of an ethnic majority implies higher status when the ethnic group constitutes a single group; this status difference is believed to reflect differences in power (Tajfel, 1982). This in turn leads individuals of the ethnic minority (lower status) to attempt to equalize
their relationship with those of the more powerful ethnic majority who are believed to have higher status (Thibaut and Kelley, 1959).

More recent studies (e.g., Hofstede, 1980; Kaushal and Kwantes, 2006; Triandis, 1994) have posited that, to some extent, every interpersonal interaction (e.g., at home, school, and work) contains some element of power within the relationship. Moreover, the salience of this power variable may differ from one culture to the next, influencing processes taking place in human interactions such as conflict and conflict resolution (Kaushal and Kwantes, 2006). Drawing on this research, one might expect that the differences in ‘power distance’ addressed in cross-cultural research (Hofstede, 1980) could result in different aspirations to power when it comes to nationality and/or ethnicity. In other words, when a person from a lower power-distance country is introduced into a TMT in which power distance is high, this will lead to more uneven power distribution in the team, which leads us to Proposition 2.

*Proposition 2: Ethnic diversity will result in uneven power distribution in TMTs.*

### 5.3 Method

The information presented in this study is a part of a larger study of ethnic diversity in TMTs and its influence on organisational outcomes. The first case study is based on five semi-structured interviews performed in April 2006 in a large retail company (Company A) in Latvia. The company is an autonomous subsidiary of a large holding group reporting financial results separately. The second case study is based on four semi-structured interviews performed in April 2006 in a medium-sized high-tech company (Company B), also in Latvia, which is part of a large multinational corporation. As in the case of Company A, Company B is an autonomous subsidiary. The interviews explored interviewee views on team functioning, strategy, structure, processes, and performance. These two companies were chosen because of their ethnically diverse TMTs.
Case study

There are several reasons why the case study method was chosen for this study. First, this method is believed to uncover the causal processes linking inputs and outputs in a system (Gomm et al., 2000); in this case the input is TMT ethnic diversity and the output is communication and power distribution in the TMT. Second, the method was chosen due to the complexity of the study of ethnicity and social interactions, where one should rely on multiple sources of evidence. Third, the proposed study is rich in context, meaning that there are more variables than data points. Fourth, the method was chosen because the studied phenomenon is not readily distinguishable from its context (Yin, 1993). Fifth and finally, the case study method was chosen since the proposed study aimed to attribute causal relationships, and not just to explore or describe the situation (Yin, 1993).

The case study method, however, is not without limitations, one of which is a lack of statistical generalizability due to the small number of cases examined in any one study. However, Hammersley (1992) argues that one can attempt to generalize from the analysis of a limited number of cases through obtaining information about relevant characteristics of the overall population of cases and then comparing the cases under study to these characteristics. Such a comparative approach directly tackles the question of generalizability by identifying both similarities and differences across a range of settings (Peräkylä, 1997 quoted in Silverman, 2001).

Interviewing has been chosen as the method for collecting data regarding team processes since it enables greater openness to the object of study. Discussion-based interviews, used here, allow the interviewer to ask follow-up questions and probe for new aspects of the phenomenon studied (Alvesson and Deetz, 2000). Interviewing, however, involves certain inherent limitations when it comes to exploring the ‘black box’ of TMT processes, since it merely adds to our ‘understanding’ of a phenomenon rather than capturing it in its
‘natural’ setting, as could be achieved through *in situ* observation (Rennstam, 2007). Even though observation would be desirable in the present study, one must realize the near impossibility of gaining access to formal or informal TMT meetings; thus, the use of interviewing as the sole source of data regarding TMT processes is justified, as otherwise these processes would have to remain unexplored in the ‘black box’.

**Defining TMT**

Researchers have used various means to arrive at a suitable approach to identifying the TMT. Boeker (1997) used CEO surveys to identify the TMT; other researchers regarded the TMT as comprising all officers reporting to the CEO (Finkelstein and Hambrick, 1990; Halebian and Finkelstein, 1993), as first-level officers (Murray, 1989), or as those bearing titles of vice-president or higher (Keck and Tushman, 1993; Michel and Hambrick, 1992); and finally, some researchers relied on CEO interviews to identify the TMT (Eisenhart and Schoonhoven, 1990; Knight et al., 1999; Smith et al., 1994). This article, however, employs a different approach to defining the TMT, by asking employees at the director level who are the ‘decision makers’ in the company; after obtaining this information from the first contacted director, the other decision makers were contacted and interviewed, and a similar question was asked. In both steps, the other directors identified the same individuals as decision makers in the company. This approach was chosen because the officers reporting to a CEO are not necessarily those who possess influence and power in the organisation; moreover, not all officers on the board or those bearing the title of vice-president are decision makers. Thus, decision making power has been equated with the status of the top manager in the company.

**Ethnic identity**

Ethnic identity was observed by asking direct questions concerning people’s native languages, their parents’ backgrounds and places of birth, and open-ended questions about people’s upbringing and where
they grew up. Moreover, those identified as members of the TMT were asked what they knew about the ethnic identity of their peers, to determine whether people’s self-perceptions of ethnicity were the same as their peers’ perceptions of them. This was done based on the discussion of ethnic identity presented in the literature review part of the paper, since ethnic identity can be multidimensional and consist of both self-perception and –attribution, and external-perception and – attribution.

Communication
Communication patterns in the TMT were determined using open-ended questions asking interviewees to describe how they communicated during formal and informal meetings with colleagues. As well, they were asked to define how they communicated with each colleague they perceived as a decision maker – i.e., a top manager in the team.

TMT power
According to Eisenhardt and Bourgeois (1988), power can be managed and is relevant only if another person recognizes it; thus, TMT power was captured by asking interviewees about the relative power of team members and about the relative importance of each area of responsibility of each team member. Moreover, power patterns were derived from various comments made by the interviewees assigning the more powerful and important roles of their peers.

5.3.1 Case 1
The sample
The TMT in the large retail company formally consists of 12 directors including the CEO. However, in the process of interviewing, nine company-level decision makers were identified. Of these nine decision makers, it was possible to arrange interviews with six; however, one of theses interviews, with an IT director, was disregarded since most
interviewees did not identify him as a decision maker, but rather as serving a support role under the CFO of the company. Thus, five interviews were used for this case study. Unfortunately, the CEO of the company refused to participate in the study due to time constraints. However, the CFO, Latvian Retail Director, HR Director, Hard Discount Director, and Real Estate Director participated in semi-structured interviews ranging from 45 minutes to two hours in length. Based on the self-identification described in the ethnicity measurement section and on identification by others, the following ethnicities were attached to the interviewees: CFO – ethnically Dutch, Latvian Retail Director – ethnically Swedish, HR Director – ethnically Latvian, Hard Discount Director – ethnically Finnish, and Real Estate Director – ethnically Swedish.

The company
Company A is a leading retailer in the Baltic States. It is represented in Estonia, Latvia, and Lithuania and employs 9772 people in all three countries, 84 of whom are employed in the Company’s Baltic Headquarters in Riga, Latvia. The company’s main activity is retailing food and fast-turnover goods, through three chains: hypermarkets, supermarkets, and discounters. Until recently, and while the interviews were being performed, the company was a joint venture between two large retail companies. This joint venture was established in 2003 and, since re-branding and structural changes in 2004, has been operating under one shared brand. Recently, one of the joint venture partners, which holds 50% of Company A, has sold its shares to its joint venture partner, so today Company A has just one owner.

Since the company has been undergoing ownership changes, the TMT of the company has been changing quite often; however, at the time of the interviews, the management team was stable and there were no planned changes in TMT structure.
Ethnic identity and communication

The TMT of Company A is diverse in ethnic background. Particularly in this case, national diversity was the same as ethnic diversity. In other words, the nationalities interviewees possessed corresponded to the major ethnic groups in their countries of citizenship. The ethnic and national identities were checked according to interviewees’ self-identification and to the identification of this person by peers on the team. There were no disagreements between how interviewees viewed themselves and how their colleagues viewed them with regard to ethnicity.

All interviewees said that they saw the strength of having such a diverse TMT, and that it was very interesting to work in a culturally diverse team. The interviewees all agreed that the team functioned very well and that there was very good communication flow. Interviewees admitted that open discussions were frequent, and there were no problems expressing their opinions. Moreover, all interviewees stated that the way they communicated with each other was informal. Although work communication was believed to be informal by all interviewees, most of them (except for the ethnically Swedish Latvian Retail Director and the ethnically Portuguese Group CEO) admitted that work communication was nonexistent after working hours. Some interviewees stated that the good and open communication style was the result of cultural diversity, combined with orientation to a single goal and high professionalism. Most interviewees believed that the TMT performed very well and that the members of the group perform as a team. The ethnically Swedish Real Estate Director, however, admitted that the corporate mission and vision could be used to make the team even stronger, putting group communication at a different level; still, he noted team development was very positive and there were signs of strengthening group cohesiveness. To inquire into communication patterns in the team, questions concerning conflict were asked. All team members admitted that conflicts did occur in the team; however, these conflicts were work related and were always resolved, the conflicting parties always reaching consensus. Limited
non-participant observations of top managers interactions indicated that they communicated very informally, and there was humour and ease in communication. One notable similarity among the interviewees was that they had all previously worked in homogeneous environments with people of their own ethnicity, before working in a diverse environment in the international company, and that the latter was preferred by all. The interviewees shared the belief that working in ethnically homogeneous environments is ‘boring’ and there are no dynamic interactions, while in diverse multi-ethnic environments there are more challenges and dynamics, and more vibrant interactions, including communication.

Ethnic identity and power
According to the interviewees, most power was concentrated in the hands of the Portuguese CEO, and most interviewees believed that the CEO’s ethnicity had something to do with the amount of power he possessed. When asked whether the power distribution in the TMT would be different if the CEO were of a different ethnicity, most interviewees said they believed that the power distribution would change. Most interviewees believed that southern European direct expression and more horizontal way of management, compared to that of other TMT members who mostly represented Northern European countries, could have something to do with their perception of the CEO as powerful and dominant. All interviewees, however, believed that power distribution in their organisation was very dependent on their particular industry, in which finance and retail functions are of the utmost importance, compared to real estate or IT and other support functions. However, the strong grip and power of the CEO, whom all interviewees considered to be a typical Portuguese, was noted by all interviewees.
5.3.2 Case 2

The sample
The TMT of Company B, a high-tech company, formally consists of five people including the CEO. The titles of the TMT members are CEO, CFO, Sales Director for Private Clients, Sales Director for Public Clients, and Technical Director. When asked who the decision makers were, the CEO identified all five members of the group as comprising the TMT of the company. Of the five TMT members, four agreed to participate in interviews ranging from 45 to 60 minutes. The Sales Director for Public Clients could not be interviewed due to time constraints. It was found that three of four interviewees’ ethnic backgrounds corresponded to their nationalities: CEO – Swedish, Technical Director – Latvian, and Sales Director for Private Clients – Latvian; in contrast, the CFO of the company, though holding Latvian citizenship, identified herself as ethnically Russian, and was identified as ethnically Russian by her peers. The CEO, Technical Director, and Sales Director for Private Clients also identified themselves with the above ethnicities, and were identified as such by others.

The company
Company B is a subsidiary of a global provider of telecommunication and related services to mobile and fixed network operators. The company began operating in Latvia in 1993, and the autonomous subsidiary was established in Riga, Latvia in 1998. Since then, the company has been growing in terms of number of employees; it now employs 12 in its office, and is still expanding. Three months before the interview, the company had acquired a smaller company on the Latvian market; several employees and one manager (Sales Director for Private Clients) included in Company B’s TMT were from this smaller company.
Ethnic identity and communication
The TMT of Company B is diverse in ethnic background. However, in terms of national identity, the TMT was relatively homogeneous: only the CEO was a foreign – Swedish – national, while all other TMT members were Latvian nationals. Ethnic diversity was more apparent, Swedish, Latvian, and Russian ethnicities being represented in the team. There was no divergence regarding ethnicity between how interviewees viewed themselves and how they were viewed by others.

Communication in the team was described by most interviewees as balanced and productive. Most interviewees pointed out that communication in the group was informal and that there were no apparent conflicts in communication. Discussion during meetings was described by all interviewees as open and honest, and the issues raised – as during informal conversations – were discussed without particular formal barriers. The CEO of the company said that his management style was Swedish, in that he believes in a vertical type of management closer to coaching than to formal leadership. He believed that this style of management practice should encourage more informal and open communication. Other top managers agreed that the horizontal management style of the CEO did encourage more fluid and balanced communication. When asked whether ethnic diversity added anything to their workplace, the CEO and other members of the team said that the mix of the ethnicities in the team strengthened the whole company. Some interviewees also expressed their satisfaction at working in an ethnically diverse environment: they stated that in previous, ethnically homogeneous work environments they had experienced unneeded intrigue and rumours, instead of productive work. Moreover, the CEO stated that his previous working experience in the Middle East had taught him the value and great potential of ethnic diversity in the workplace.

Ethnic identity and power
According to all interviewees, power was evenly distributed in the team, and the CEO was more of a team member, representing a coach than a
formal boss. Most interviewees were content with how power was distributed in the company; there was no power struggle, which many of them associated with unevenly distributed power. Some interviewees mentioned that it was the CEO’s management style that created evenly distributed power, and that it had something to do with his Swedish ethnic background, which interviewees associated with equality and structure.

5.4 Analysis

When it comes to Proposition 1, Case 1 has a tendency to support the assumption that ethnic diversity will positively influence communication in the TMT. However, it became apparent there are variables that mediate the connection between ethnic diversity and communication, most notably striving for shared aims and past experience in both heterogeneous and homogeneous groups. Throughout the interviews, the interviewees had emphasized their foreign work experience, citing it when asked what they thought were their, and their colleagues’, strongest characteristics. When it comes to shared values, these findings are in line with a small stream of research into TMT (e.g., Chatman et al., 1998; Ely and Thomas, 2001; Jehn et al., 1999; Larkey, 1996) that argues for the moderating effects of values and shared goals, and for an ability to discern the value of cultural diversity, an ability that can be derived from past experience.

The implications of Case 1 for Proposition 2 are relatively unclear. On one hand, all interviewees noted that the power distribution in their team was closely connected with the particular industry they were in, rather than with the ethnic composition of the executive team. On the other hand, the case indicated that the CEO’s ethnic identity, and how it was viewed by his executive team, might have something to do with power distribution in the team. So at this point it is relatively difficult to conclude whether the view of ethnic identity had something to do
with the CEO’s being Portuguese or with the particular retail sector studied.

Case 2 also tends to support Proposition 1. On one hand, as in Case 1, the positive effects of ethnic diversity on communication can be explained by team members’ previous rather negative experience of homogeneous work environments, versus their predominantly positive experience in ethnically diverse work environments. While the CEO in Case 2, like other members of the team in Case 1, had previous international experience that could have affected his view of the value of ethnic diversity, the other group members, who were Latvians by nationality, could have been influenced by the diverse Latvian social environment in which they grew up and lived. In other words, the Latvian nationals who were diverse in ethnic background (the CFO was identified as ethnically Russian) were influenced by their diverse ethnic environment and were more familiar with the complex interactions characteristic of it. This made it easier for them to interact with each other, knowing the undercurrents of ethnic tension and how to avoid them.

Case 2 neither directly supported nor refuted Proposition 2, though it highlighted that the ethnic identity of the CEO could affect power distribution and power relationships in ethnically diverse groups. The interviewees believed that power distribution in the TMT was dependent on CEO management style; this style was identified by both the CEO and TMT members as ‘horizontal’ or ‘Swedish’, a style that let top managers feel equal in power to each other and to the CEO.

5.5 Conclusions

Both cases lead to several conclusions. First, the study indicates that there are important factors that moderate the influence of ethnic diversity on TMT communication processes. These moderators are primarily shared aims and goals, which lead to informal and open TMT communication. On top of this, it is past international experience that
fosters an understanding of the value of ethnic diversity; as well, the environment in which people grow up and live could also exert a positive moderating influence, fostering communication in an ethnically diverse TMT. Second, when it comes to the effect of ethnic diversity on power distribution in the TMT, Case 1 indicates that the particular industrial sector might exert a stronger moderating influence on power distribution in the TMT than does ethnic diversity per se. Both studies also indicate that the ethnic identity of the CEO could have a strong effect on power distribution in the TMT, depending on the CEO’s view of his/her role in the team and on CEO management style, which are in turn reflected in relationships between TMT members.

Thus, this paper indicates that, by trying to employ a different definition of culture, and by performing case studies that allow the researcher to look more thoroughly into the phenomena studied, one can discover the complex interrelationships in the TMT, relationships that have been referred to as a ‘black box’ of processes by some researchers (Smith et al., 1994). The present paper makes several contributions. First, it establishes and uses a flexible concept of ethnic diversity, rather than the static and inflexible labels of nationality and race employed by most researchers in the field. Second, through using the case study method, this paper inquires into the black box of team processes in the context of examining TMT communication. Third, this paper uncovers variables that could well moderate the influence of cultural diversity, represented in terms of ethnicity, on team processes.

Researchers into TMTs are thus encouraged to use case study methods to explore the complexity of interrelationships in TMTs and to use more flexible definitions of culture that better reflect the complexity of cultural identity in teams. Moreover, researchers should look further than conventional TMT research models, and allow environmental and other moderating factors to surface and explain the positive influences of cultural diversity in TMTs on various process and organisational outcomes.
References


Chapter 6

Isolated islands in the upper apex of organisations:
In search of interaction between the board of directors and the top management team

Timurs Umans and Elin Smith

6.1 Introduction

Boards of directors (BoDs) and top management teams (TMTs) have received substantial attention in the management literature, since it is these power groups that, according to Finkelstein and Hambrick’s leadership theory (1996), influence firm performance. However, assuming that these power groups influence performance in different ways, researchers have studied their performance effects in isolation from each other (Forbes and Milliken 1999). Certain positive effects when the two groups interrelate have been detected, but the topic has not been sufficiently explored (Brunninge et al., Nordqvist, and Wiklund, 2007; Monks and Minow 2004; Barroso Castro et al. 2009; Kim et al. 2009; Kor 2006). When one looks at the corporate governance research related to the BoD, one can observe that the role of the BoD is almost always discussed in relationship to the CEO (e.g. Westphal 1999) and less often to the TMT (e.g. Barroso Castro et al. 2009), presumably because the common BoD roles, i.e. monitoring, service and strategy formulation, always assume a counterpart that performs the actions. In TMT research, which lies between the field of
corporate governance and management, the role of the TMT is usually discussed in terms of management of the firm and thus one assumes its counterpart to be the subordinates. Even though BoD research tries to illuminate the connection, TMT research tends to ignore the connection up the hierarchy and instead concentrates on the connection down the hierarchy. Thus, the discussion in the upper apex tends to present a hierarchical downstream relationship even though the supervisor–supervisee relationship between the BoD and TMT is an established idea and indicates an interaction between the BoD and TMT. This paper therefore aims to bridge the gap between TMT and BoD research and to divert the attention to the interaction between these two important power groups in the upper apex of firms and its performance effects.

The interaction is approached from a demographic compositional angle. Directors as well as executives base strategic choices on their values, cognitions and perspectives (Hambrick and Manson 1984; Finkelstein and Hambrick 1990, 1996), and an organisation’s performance is highly dependent on the competences of its leaders (Child 1972; Kotter 1995). This has led authors to theorise that executive demographic characteristics, serving as proxies for values, cognitions and perspectives, will be reflected in a firm’s performance (Carson et al. 2004; De Andres and Lopez 2005; Dulewicz and Herbert 2004; Forbes and Milliken 1999; Hambrick and D’Aveni 1992; Halebian and Finkelstein 1993). In other words, a combination of demographic characteristics has been investigated with regards to the effects of demographic diversity on firm performance (Milliken and Martins 1996).

The aim of this paper is therefore to investigate the diversity effects of BoDs and TMTs on firm performance, where the focus is on cultural, expressed in terms of nationality, age, tenure and gender diversity. Its contribution to the literature is the exploration of the effects of demographic diversity in the two power groups on firm performance, separately as well as in interaction. The exploration of the interaction
between the BoD and TMT demographic diversity characteristics is based on the idea of the similarity–attraction paradigm, through which we argue that similarity of different demographic diversity characteristics between groups rather than within groups would be reflected in increasing firm performance. The paper first presents the BoD and TMT roles, followed by a discussion of the two groups’ relationship with each other in general and in the paper-specific context in particular. The concluding section of the theoretical section presents the arguments of how demographic diversity of the two groups and interaction based on the diversity measures may be reflected in firm performance. The paper then proceeds with the method and analysis section, and concludes with a discussion on the findings.

6.2 Theoretical framework

Both the BoD and the TMT are important actors in the governing of organisations (Huse 2007) where the BoD can be considered as the link between absent shareholders and managers involved in day-to-day activities (Forbes and Milliken 1999). From a base of agency theory and resource dependency theory, we proceed by presenting their separate roles, followed by arguments for considering the interaction effects of these groups, with a special emphasis on diversity characteristics.

6.2.1 BoD and TMT roles

We draw our arguments of the roles of the BoD and the TMT from the two perspectives of agency theory and resource dependency. Researchers in corporate governance have usually followed one of these two approaches, but Hillman and Dalziel (2003) successfully argue for the integration of the two perspective to better understanding the contribution of the BoD vis-à-vis TMT to firm performance. Agency theory emphasises the BoD’s monitoring role of the actions of ‘agents’ (managers) to protect the interests of ‘principals’ (owners) (Eisenhardt
Monitoring activities of the BoD thus include monitoring the CEO/TMT (Daily 1996) and strategy implementation (Rindova 1999). In sum, agency theory emphasises the monitoring/control functions of the BoD. The resource dependency perspective emphasises the BoD’s function in provision of resources, defined as ‘anything that could be thought of as a strength or weakness of a given firm’ (Wernerfelt 1984:172); this perspective thus shifts focus from the BoD as an evaluator of management to its role in providing legitimacy (Selznick 1949), facilitating access to resources such as capital (Mizruchi and Stearn 1988) and aiding management in the formulation of strategy (Judge and Zeithaml 1992). Zahra and Pearce (1989) as well as Johanson et al. (1996) – who are identified as being in the resource dependency stream (Hillman and Dalziel 2003) – identify the roles of the BoD as service and strategy. The service role is defined as ‘enhancing company reputation, establishing contacts with the external environment and giving advice and counsel to executives’ (Zahra and Pearce 1989: 292). The strategy role is defined by the BoD’s active involvement ‘in the strategic arena through advice and counsel to the CEO by initiating their own analyses, or by suggesting alternatives’ (Zahra and Pearce 1989: 298). We therefore adopt the BoD’s role as monitoring/control as well as service provision and strategy formulation, a combination of roles that is supported by findings in recent empirical research (e.g. Brown et al. 2011; Dalziel et al. 2011).

Strategy implementation and execution of various processes have been long acknowledged to be main roles of the CEO and the top management team (Fama and Jensen 1983). However, the strategy formulation role of the TMT falls between the two theoretical divisions identified in the BoD research, which is strengthened by regional distinctions between U.S. and European authors. U.S.-based researchers generally assume that the TMT is responsible for both strategy formulation and strategy implementation (Finkelstein et al. 2009; Fama and Jensen 1983) which can be traced back to the arguments of agency theory that stress the monitoring and control
function of the BoD vis-à-vis management. European researchers, however, suggest that responsibility for strategy formulation rests with the BoD (Collin 2008; Huse 2007) while responsibility for strategy implementation rests with the TMT (Ingley and van der Walt 2001); this view thus represents the resource dependency perspective that illuminates the service and (particularly) strategy formulation functions of the BoD and assigns the TMT the role of strategy implementer. One explanation of this disparity may be the differences in European and U.S. governance systems. In U.S. firms, TMT members are often present on the BoD, CEO/Chairman duality is common, and the function of strategy formulation is usually assigned to the TMT since implementation and formulation power is more concentrated within TMT than in the BoD. In this context, the BoD as a formal body has primarily a monitoring function when it comes to strategy. In European settings, the formulation of strategy remains the prerogative of the BoD, primarily composed of independent directors who have more power in strategy formulation, as invested in them by shareholders, while the TMT is delegated the role of strategy implementation. Since this paper is positioned within the European context and is in line with European authors in this field (Collin 2008; Huse 2007), we argue that the TMT is responsible for strategy implementation (Ingley and van der Walt 2001) and the execution of various processes (van Gils 2005), while strategy formulation remains as the role of the BoD (Huse 2007).

Hillman and Dalziel (2003) argue that agency theory and resource dependency perspectives that divide the view on the roles played by the BoD and TMT in organisations do not exclude but rather complement each other to provide a better understanding of the functions of the BoD vis-à-vis TMT. In line with agency theory as well as resource dependency theory, we view the relationship between the BoD and TMT as a corporate governance relationship (or supervisor–supervisee relationship) where the BoD monitors the TMT, provides it with service and presents it with the strategy to follow, and where the TMT
executes various organisation processes and executes the strategy, which is then reported to the BoD.

6.2.2 BoD and TMT interaction

While the supervisee–supervisor relationship between the BoD and TMT is discussed in previous research (Westphal 1999), the process of interaction between two, and how they create organisational outcomes in that interrelation, has not been sufficiently explored (Brunninge et al. 2007; Monks and Minow 2004; Barroso Castro et al. 2009; Kim et al. 2009; Kor 2006). While researchers acknowledge that the BoD and TMT are part of an important force in driving organisational outcomes and are referred to as ‘strategic leadership’ (Hambrick 1987), inquiry has been made primarily into the relationship between the BoD and CEO rather than between the BoD and TMT (e.g. Westphal 1999; Daily and Schwenk 1996). Moreover, while in some contexts the interaction between the BoD and TMT is physical in nature, for example, when the laws of the country allow the CEO duality or the presence of TMT members on the BoD in stock-listed corporation – as in the United States – in other countries these arrangements are forbidden by law, and the independence of BoD members is mandatory – as in Scandinavian countries. Thus, the discussion in this paper reviews the literature on the BoD and TMT interaction (used as a connotation for relation), and provides targeted arguments for the interaction of BoD and TMT in the specific Swedish context of this study.

In the case of TMT vs. BoD interaction, Barroso Castro et al. (2009) have empirically shown that the dynamics and nature of the relationship between these two groups could influence the outcomes of one or another group, or as this paper posits, could have a combined influence on organisational outcomes. For example, Daily and Schwenk (1996) propose a configurational framework in which BoD structures in combination with TMT demographic homogeneity/heterogeneity could result in dominant or balanced organisational configuration with
subsequent organisational efficiency effects. Building on this research and assuming the existence of partnership in strategy formulation between BoD and TMT, Kim et al. (2009) extend Daily and Schwenk’s (1996) conceptual model by arguing that BoD demographic composition will have an influence on TMT capabilities under specific environmental conditions. Thus, papers conceptual in nature (e.g. Daily and Schwenk 1996; Kim et al. 2009) tend to see the BoD composition as a driver in BoD vs. TMT interactions, presumably assuming that in strategy creation, the BoD has the upper hand by formulating strategies, whereas the TMT serves the strategy implementation function. However, empirical papers have discovered that interactions between BoD and TMT are based on the equal input towards organisational goals by both groups. Kor (2006), for example, investigates the interaction of TMT diversity in terms of tenure, experience and functional background in relation to the ratio of outsiders on the BoD and these interaction effects on the investment into research and development (R&D). The findings of Kor’s study suggest that increasing TMT tenure and years of experience, as well as increasing functional heterogeneity in combination with increasing the ratio of outside directors on the BoD will result in lower R&D investment intensity. Barroso Castro et al. (2009) consider another aspect of the power groups’ interaction by empirically proving that TMT composition (expressed as the ratio of BoD members belonging to TMT) will leverage the relationship between the BoD composition and the firm’s strategic change. Thus, interaction between BoD and TMT has not only been conceptually but also empirically proven, albeit with diverse measures of TMT and BoD composition as well as different organisational outcomes.

The arguments for an interaction between the BoD and TMT rest on three pillars: rapport over control, rapport over strategy, and rapport over performance. As discussed previously and based on the agency perspective, the underlying role of BoDs is to monitor/control managers (Fama and Jensen 1980). The function of control is mainly exercised through the BoD’s direct power, expressed for example in
Company Act legislation implying that the BoD appoints and has the power to dismiss the CEO. The control function is necessarily not only a one-way directed road. Despite the BoD’s direct power to control the organisation, the TMT is also a controlling group. This capacity rests not on the group’s direct and formal power, but more on the indirect power that is based on the expertise, knowledge and information the TMT possesses due to its engagement in the day-to-day operations of the firm. This pool of resources makes the TMT an influential actor controlling activities related to daily operations, and the BoD may be dependent on the TMT when it comes to decisions relating to firm-specific issues. In other words, while the BoD has control over the strategy of the firm, the TMT has control of information about operations. The acknowledgment by both groups of each other’s sphere of control also leads to the realisation of their combined control over the firm, which in turn results in interaction between the BoD and TMT based on the rapport over control.

The second argument for interaction is based on the assumption that BoDs and TMTs have a direct and shared responsibility over the decision-making process in the firm (Pearce and Zahra 1992; Zahra and Pearce 1989). This assumption is termed an ‘active school’ and is based on the synthesis of the stewardship, agency and resource dependence theories (Barroso Castro et al. 2009). This stream of research argues that strategy and its formulation is an interaction-creating mechanism between the TMT and the BoD, irrespective of any presence of physical interaction. Thus, this view assumes that the BoD has a monitoring and supervisory function vis-à-vis managers and their formulation and implementation of strategy (Baysinger and Butler 1985), while the TMT is engaged in strategy implementation as well as emergent strategy formulation (van Gils 2005). The line of argument here is that interaction is a product of rapport over strategy, where BoD and TMT relate to each other over the partnership based on strategy formulation (Hendry and Kiel 2004) and work on strategy in general, albeit from their different power positions in the organisation.
This brings us to the third argument for interaction between the BoD and TMT, comprising the common goals that the two power groups share. Apart from their work on a coherent and appropriate strategy, both groups aim to improve firm performance, on which they work in a collective sense (Anderson et al. 2007). A large number of studies show how the BoD contributes to firm performance (see Collin 2008 for a review). According to Rindova (1999) it is the BoD’s control role as well as its experiences and cognitive resources that would be reflected in firm functioning and performance. While the compensation for a firm’s BoD members is usually a fixed sum of money with no performance-related bonus system involved, performance of the firm itself is reflected in the BoD members’ attractiveness in the labour market for directors, which in turn makes financial performance an important incentive. Similarly, the TMT’s relationship to firm performance has also been reflected in many articles (see Umans 2009 for a review): the managerial labour market and managers’ attractiveness on this market is an incentive for the TMT to navigate the firm towards superior firm performance (Murphy 1985). Managerial compensation systems that are dependent on the level of firm performance are yet further incentives for the TMT (Jensen and Zimmerman 1985, Carpenter and Sanders 2002) to put firm performance in their focus and interest (Jensen and Murphy 1990). Apart from these labour market incentives for the BoD and TMT, and managerial compensation for TMT, it is the very aim of the firms’ financial performance orientation that aligns the interest of the BoD and TMT. Thus, interaction between the BoD and TMT is also a product of rapport over performance.

6.2.3 Diversity aspect of the BoD and TMT interaction

While interaction between the two groups is an important assumption of this paper, it is the nature of that interaction that is in the spotlight here. In their study, Barroso Castro et al. (2009) argue that it is the demographic composition of both the BoD and TMT that influences
the nature of that interaction and in turn influences organisational outcomes.

By borrowing from social psychology literature, the present paper argues that it is the compositional differences and similarities that exist between the two interacting groups that drive firm performance. According to social identity theory, group membership provides people with a sense of identity (Tajfel and Turner 1986), which in turn leads to social categorisation into ‘us’ and ‘them’ (Brown and Hewstone 2005). While social categorisation can instigate positive bias in favour of one’s own group, it also brings about negative stereotypes of other groups (Tajfel et al. 1971). While the work of Tajfel and colleagues on social categorisation has become an axiom in the field, it is the similarity or dissimilarity of the groups in the intergroup relationship that has gained considerable attention in social psychology literature (e.g. Jetten et al. 2001; van Knippenberg and Ellemers 1990). On the one hand, researchers operating with a social identity theory focus on intergroup similarity as a source of intergroup tensions – tensions that are incited by readily available comparison of the similarity, which leads to rivalry and a drive to differentiate one’s own group from the other group deemed to be similar. On the other hand, self-categorisation theorists focus on the intergroup differences as a source of tensions brought about by intergroups trying to differentiate themselves from one another (Jetten et al. 1998). We acknowledge both perspectives while keeping in mind that social identity theory has primarily been used to motivate rivalry and tension between large groups such as ethnic groups within a given society, or in political and religious movements (Jetten et al. 2001) so its applicability on BoD and TMT relations is questionable. Moreover, it has been claimed that intergroup similarity could become a threat to the social identity of each group. In this study, both the BoD and TMT are guaranteed their identity by legislation and the internal policies of the firm – which is why we feel that the suppositions of social identity theory about the threat of similarity between the two power groups is not relevant here. Instead, we base our ‘group diversity interaction’ hypothesis on the self-
categorisation theory, especially the similarity–attraction paradigm (Byrne 1971) which has been successfully applied in small group and organisation research (e.g. Sanders and Schyns 2006; Tsui and O’Reilly 1989).

Similarity–attraction assumes that high-order attraction is based on individuals’ need to evaluate themselves for similarity of features such as values, opinions, attitudes, experiences and abilities. The possession of similar characteristics encourages attraction where they are observable and/or valued by those within the interaction (Newcomb 1956), as behaviour becomes more predictable, validating an individual’s beliefs and attitudes. On the contrary, divergent attributes will lower this attraction (Thibaut and Kelley 1959). This in turn suggests that individuals and groups are more likely to direct their cooperating efforts to those sharing similar attributes (Galaskiewicz and Shatin 1981). Supported by numerous studies in business administration that theorise and empirically prove demographic differences to be proxies for the features described by the similarity–attraction paradigm (Umans 2009), this paper argues that it is the similarity of demographic diversity between two power groups – the BoD and TMT – that would have a positive effect on firm performance. We assume that being similar on different demographic dimensions as a group, the BoD for its part would feel that whatever decisions it makes, being reflective of its composition, will find understanding and support in a TMT with similar composition, and vice versa.

Thus, proceeding from this discussion, we hypothesise the following:

_Hypothesis 1: Diminishing distance of demographic diversity dimensions in the BoD and the TMT is positively associated with the firm’s financial performance_
6.3 Research design

The hypotheses were tested on Swedish listed corporations. Data were collected from the consolidated financial statements in the 2004 annual reports of all Swedish corporations listed on the Stockholm Stock Exchange A list and O list. In total, the data included 195 companies.

Swedish corporations have one account for the parent company and one for the group of companies. We have used the group accounts since they contain relevant information used by the market actors. In a few cases, the corporations do not have the same calendar year as the reporting period. In such cases, 2003/2004 is coded as 2004.

The model includes one dependent variable, twelve independent variables and four control variables. The operationalisation of these variables is presented below.

The dependent variable of performance was measured as ‘return on assets’ and calculated as \( \frac{\text{profit after financial items} + \text{financial costs}}{\text{total assets}} \). Financial costs were not included since they would reflect the financial structure.

Four demographic diversity dimensions have been chosen to investigate the interaction between the BoD and TMT, namely: cultural, gender, age and tenure diversity. Pelled (1996) has identified these four diversity dimensions as the ones being of high visibility. It is argued that the visibility of these dimensions triggers the categorization of individuals within groups (Pelled, 1996). According to Newcomb (1956) it is the observable (visible) nature of demographic characteristics that is of importance in the interaction between the individuals within groups. We extend Newcomb (1956) and Pelled’s (1996) logic by arguing that cultural, gender, age and tenure diversities will serve as a trigger of categorization between the groups (BoD and TMT) in their interaction with each other.
Independent variables were operationalised as follows:

- Cultural, gender, age and tenure diversity interaction was measured as the distance between each diversity measure of the BoD and that of the diversity measure of TMT. Each diversity measure of the BoD was divided by the same diversity measure of the TMT, and vice versa; then the distance that was equal or below 1 was taken as a measure of the distance (1 has been added to each diversity measure in order to avoid division by 0). Thus, the distance between all diversities varied on the scale from 0 to 1, where 1 represented least distance and a measure approaching 0 signalled the largest possible distance between diversities. For example, if gender diversity of BoD equals 0 (indicating only women being part of the BoD) and TMT gender diversity equals 1 (only men in TMT), we added 1 to both diversity measures and made a division of 1 (for BoD) by 2 (for TMT) which then equals 0.5 as well as division of 2 (for TMT) by 1 (for BOD) which equals 2. We performed this double division for each firm and took the distance between the two diversities that was between 0 and 1.

6.3.1 Diversity control variables

The traditional approach of considering the diversity of TMT and BoD in isolation from each other shows mixed performance effects (Elron 1997; Watson et al. 1993; West and Schwenk 1996). This paper proposes instead the importance of considering the interaction effect between the two groups. However, in order to control for isolated diversity influence, we controlled for the four diversity measures of culture, gender, age and tenure in BoD and TMT separately.

- Cultural diversity of the BoD and cultural diversity of the TMT were each measured as diversity of nationality in BoDs and TMTs. The coding was based on the members’ names, photographs and descriptions provided in the annual report, as
well as on resources accessed on the Internet. A BoD/TMT including only foreign or only Swedish members was represented by 0, and a TMT/BoD composed of 50% Swedish and 50% non-Swedish members was represented by 1. Thus, cultural diversity in each BoD/TMT was placed on the continuum between 0 and 1.

- Gender diversity of the BoD and gender diversity of the TMT was measured as a proportion of male versus female directors and TMT members. A TMT/BoD including only women represented by 0, and a TMT/BoD composed of only men was represented by 1. Thus gender diversity in each TMT/BoD was placed on the continuum between 0 and 1, where 0,5 represented equal division between gender on BoD and in TMT. The measure of diversity through the proportion of men was deemed necessary in order to compose the interaction variable. If 0 would represent gender homogeneity 100% women or 100% men on BoD or/and TMT and 1 would represent equal division, the distance between female BoD and male TMT would equal 0, however this would not be an appropriate measure of the diversity distance, since in the case discussed, the distance would be highest of all possible distances.

- Age diversity of the BoDs and age diversity of the TMT was measured as the standard deviation of the directors’ ages versus the TMT members’ ages, as stated in the annual report.

- Tenure diversity of the BoDs and tenure diversity of the TMT was measured as the standard deviation of the directors’ tenure versus the TMT members’ tenure in their current positions, as stated in the annual report.
6.3.2 Traditional control variables

Traditional control variables were defined as follows:

- Firm size was based on the assumption that higher turnover is related to increased performance (e.g. Fama and French 1992; Prevost et al. 2002). Size was measured as turnover (revenues) and calculated as the logarithm of turnover.

- Industry was used as a control variable to control for direct industry effects on performance (cf. Hoskisson 1987). It was coded according to SIX (Scandinavian Information Exchange), which is also used by the largest newspaper in Sweden, Dagens Nyheter, and represented by dummy variables. These industries were identified: finance, health care, manufacturing, information technology, consumer, media, primary products, telecom and service.

- Debt-to-Equity ratio was added as a control variable since, according to agency theory, debt burden can stimulate managers to increase performance (Jensen 1993). The variable is continuous and defined as \((\text{Debt} + \text{Provisions}) / (\text{Equity} + \text{Minority interest})\).

- Past performance (logarithm of ROA from 2003) was used as a control variable since previous research has indicated that the most reliable predictor of firm performance is firm’s performance in the previous year (Dow and McGuire, 2008).

6.4 Analysis

The population of Swedish listed corporations in 2004 was 239 corporations. Of these, it was possible to obtain a full data set from 195 corporations (a loss of 18%). The analysis of the data was conducted via Pearson correlation tests and linear regressions. A number of highly significant correlations are evident in the correlation matrix (Table
5.1). After checking the tolerance values presented below as well as observing that bivariate correlations that do not exceed the recommended cut-off value of 0.7 (Pallant 2007), we conducted a regression analysis (Table 5.2).

The regression models were checked for multi-collinearity, and the tolerance values in the data vary between 0.534 and 0.863. This indicates that all models pass the test for multi-collinearity.

Inspecting the model, we can observe that the majority of the diversity interaction variables are not significant, except for the interaction of the cultural diversities of the BoD and TMT. This significant interaction implies that with the diminishing (i.e. closing) difference between cultural diversity of the BoD and TMT there will be an increase in performance. Additionally to the model presented in Table 5.2 we have performed other regression analysis to inspect the residuals. Our tests have indicated a number of outlier. By removing the outliers we have checked the robustness of the model, the diminishing distance of cultural diversity between the TMT and the BoD was still significant in its positive influence on firm performance albeit on the lower significance level. Inspecting the outliers we however could not find reasoning for their removal, which is why the original model with the outliers was retained. Thus there is an indication for partial support of our hypothesis (Diminishing distance of demographic diversity dimensions in the BoD and the TMT is positively associated with the firm’s financial performance)

Inspecting diversity of the BoD and TMT variables, we can observe that only BoD tenure diversity has a significant positive influence on firm performance. The traditional control variables are all shown to be significant in their influence on firm performance.
Table 5.1: The descriptive data of the variables used in the analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std. Dev</th>
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<tbody>
<tr>
<td>1 Return on Assets</td>
<td>3.2966</td>
<td>20.31934</td>
</tr>
<tr>
<td>2 Cultural diversity interaction</td>
<td>.8381</td>
<td>.15031</td>
</tr>
<tr>
<td>3 Gender diversity interaction</td>
<td>.8659</td>
<td>.10166</td>
</tr>
<tr>
<td>4 Age diversity interaction</td>
<td>.6702</td>
<td>.22894</td>
</tr>
<tr>
<td>5 Tenure diversity interaction</td>
<td>.6187</td>
<td>.25333</td>
</tr>
<tr>
<td>6 Cultural diversity of the BoD</td>
<td>.2485</td>
<td>.32516</td>
</tr>
<tr>
<td>7 Gender diversity of the BoD</td>
<td>.8613</td>
<td>.11239</td>
</tr>
<tr>
<td>8 Age diversity of the BoD</td>
<td>7.8203</td>
<td>3.10854</td>
</tr>
<tr>
<td>9 Tenure diversity of the BoD</td>
<td>4.3261</td>
<td>3.43305</td>
</tr>
<tr>
<td>10 Cultural diversity of the TMT</td>
<td>.2947</td>
<td>.32289</td>
</tr>
<tr>
<td>11 Gender diversity of the TMT</td>
<td>.8917</td>
<td>.12694</td>
</tr>
<tr>
<td>12 Age diversity of the TMT</td>
<td>6.4449</td>
<td>2.86192</td>
</tr>
<tr>
<td>13 Tenure diversity of the TMT</td>
<td>5.8659</td>
<td>4.03805</td>
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<tr>
<td>14 Turnover (Log)</td>
<td>6.0740</td>
<td>1.00057</td>
</tr>
<tr>
<td>15 Debt/Equity ratio</td>
<td>2.0467</td>
<td>3.86753</td>
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<tr>
<td>16 Return on Assets (past/Log)</td>
<td>4.5548</td>
<td>.46953</td>
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* $p < .05$
** $p < .01$
*** $p < .001$
Table 5.2: Results of Regression Analysis for Performance

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<tbody>
<tr>
<td>Diversity interaction</td>
<td>.152*</td>
<td>9.244</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-101.252***</td>
<td>2.904</td>
<td></td>
<td></td>
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<tr>
<td>Diversity Control</td>
<td>-.105</td>
<td>4.166</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>539***</td>
<td>1.657</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Control</td>
<td>.539***</td>
<td>1.657</td>
<td></td>
<td>-.152*</td>
<td>.350</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.190**</td>
<td></td>
<td></td>
<td>-101.252***</td>
<td>2.904</td>
<td></td>
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<tr>
<td></td>
<td>F-value</td>
<td>6.830***</td>
<td>Adj. R²</td>
<td>.311</td>
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† p < .10, * p < .05, ** p < .01, *** p < .001

The regression model was controlled for industry, although it did not affect the result. It was thus excluded from the presentation of the analysis.
6.5 Discussion

The aim of this study was to investigate the interaction between the BoD and TMT through the study of both groups’ demographic diversity alignment in its influence on firm performance. We explored a specific empirical context where physical interaction between the TMT and BoD is almost non-existent since neither CEO duality role is allowed in Sweden nor are the TMT members are by corporate law allowed to be members of the BoD. We argued that, even without physical interaction, the BoD and TMT will be aligned along three rapport lines: rapport over control, rapport over strategy, and rapport over performance. We then based our empirical investigation of the interaction on similarity–attraction between these two groups based on their demographic diversity characteristics – namely, cultural, gender, age, and tenure diversities. We argued that closeness between the BoD and TMT with respect to each and one of the four demographic diversities would increase firm performance.

Our findings partly support the hypothesized relationship and indicate that while diminishing differences between gender, age and tenure diversities have no effect on performance, it is the closing distance between cultural diversity of the BoD and TMT that has a positive effect on performance. On the one hand, the emergence of only one significant interaction based on culture is surprising since, according to the similarity–attraction paradigm, it is the similarity of values, beliefs and meaning embedded in different demographic characteristics between the groups that stimulates positive interaction outcomes. On the other hand, demographic diversity research claims that different demographic characteristics could produce different outcomes in their interaction with each other within groups and between groups (Mannix and Neale, 2005). Moreover, one cannot disregard the environment, which could have a moderating role on the interaction between the BoD and TMT (Finkelstein and Hambrick, 1996). As a result, this allows us to speculate on the emergence of the significant relationship
between cultural diversity interaction and performance (especially taking into account the decrease of the significance of the cultural diversity interaction influence on performance, when removing the outliers in the regression analysis). One explanation of the importance of cultural diversity interaction could be that at the top of Swedish organisations it is a relatively new phenomenon. While gender, age and tenure diversities are considered to be given in the upper echelons of Swedish corporations and are not paid much attention, cultural diversity is unknown, and it can only be utilised by the BoD or TMT for the advantage of the firm by the mirroring act of cultural diversity in both groups. It could be that translating female opinions into strategy (at the BoD) or action (in the TMT) does not require a female counterpart on the other ‘team’, due to increasing understanding of the female way of thinking through communication with other female executives, or possibly due to the high femininity values Swedish nationals were assigned by Hofstede (1984). It is also possible that tenure and age are not considered to be signs of complicity that need translation from the demographically similar on the other team. However, it appears from our study that culture is something that needs explanation and understanding from within each group and alignment between the groups in order to gain in performance.

Our paper offers both theoretical and empirical contributions. The theoretical contribution of this paper is this expressed in combining the social perspective to the governance relationship between the BoD and TMT as well as its impact on firm performance. Through the combination of self-categorisation theory – the similarity–attraction paradigm in particular – we have established that the increasing similarity in cultural make-up of BoD and TMT has a positive effect on firm performance. In showing indication of that, we have also established that in contexts where the BoD and TMT do not have physical interaction with each other, their interaction might be based on their demographic similarities and embedded in their rapport over control, strategy and performance of the firm. The empirical contribution of this paper is expressed in terms of exploring the
existence of the relationship between the BoD and TMT in the Swedish environment, based on role of cultural diversity similarities between the BoD and TMT.

6.6 Future research

Future studies could investigate the interaction effect between TMT and BoD diversities further, by exploring other demographic characteristics and their interaction. One possible topic of inquiry could be the alignment of personality or leadership style diversities, which have gained considerable attention in recent studies of TMT (e.g. Kauer et al. 2009) Moreover one could look into the diversity interaction effects on the other samples from countries where duality of the CEO role as well as management team representation on the BoD is allowed. One could expect that the influences of the BoD and TMT interaction expressed in terms of demographic diversity alignment could show more significant results in these samples, due to the physical interaction taking place. Moreover, it could be interesting to investigate how the different processes within both the BoD and TMT could interact with each other and simultaneously mediate between demographic diversity of the two groups and performance. Finally, further inquiries could be directed towards the interaction of diversity of other work groups present in organisations that are striving towards the same goals or sharing similar responsibilities.
References


Chapter 7

Cultural diversity in top management teams and organisational performance: Black box revisited

Timurs Umans

7.1 Introduction

The composition of the top management team (TMT) and its influence on organisational outcomes has become a fruitful field of research and has been energised by the watershed articles of Pfeffer (1983) and Hambrick and Mason (1984). These authors make two claims on which the field has come to be built: firstly, that it is the ‘top team rather than the top person, [that] has the greatest effects on organisational functioning’ (O’Reilly, Snyder and Boothe, 1993, p.150) and, secondly, that managers make strategic choices based upon their values, cognitions, perspectives and organisational activities or outcomes as the reflection of the collective cognitive biases and abilities of their TMTs (Hambrick and Manson, 1984; Finkelstein and Hambrick, 1990; Finkelstein and Hambrick, 1996) In turn this leads Hambrick and Mason (1984) as well as many others (e.g., Carson, Mosley and Boyar, 2004; Daellenbach, McCarthy and Schoenecker, 1999; Finkelstein and Hambrick, 1990; Michel and Hambrick, 1992) to predict that the demographic characteristics of TMTs will be reflected in organisational outcomes.
Research in the field can be generally divided into two sub-streams (Edmondson, Roberto and Watkins, 2003): TMT composition and TMT process. TMT composition studies have put their primary focus on the firm’s outcomes by empirically investigating the idea put forward by Pfeffer (1983) and Habrick and Mason (1984) that the demography of TMT will be reflected in organisational outcomes. Most researchers have directed most of their attention to the other sub-stream investigation processes within the TMT, motivated by Hambrick (1994) and Lawrence (1997) among others, who claim that little is known about the processes by which top managers manage their tasks (Pettigrew, 1992) and it is the study of TMT process that could overcome the ‘limitations of most research to date on top management groups’ (Hambrick, 1994, p.185).

The two streams rarely interact in scientific articles, presumably due to the complexity of emphasising all variables identified as important, such as TMT composition, TMT process, and firm outcomes as well as external and internal organisation factors influencing these variables and their interrelation. However, both sub-streams have matured enough to offer a number of validated and reliable instruments to bridge the gap between the two and to enable an investigation of TMT demographic composition effects on TMT process and organisational outcomes.

This study concentrates on one demographic variable – national culture (‘culture’), an empirically acknowledged and emerging element of diversity (referred further as ‘cultural diversity’) in the TMT of organisations (Greve, Nielsen and Ruigrok, 2009; Elron, 1997; Heijltjes, Olie and Glunk, 2003) – which has nevertheless received only limited attention in current research (Umans, 2009). The few studies that have addressed this emergent phenomenon have not escaped the mixed results of both the compositional and process sub-streams, claiming both positive (e.g., Gong, 2006) and negative (Elron, 1997) influences of TMT cultural diversity on team- and firm-related outcomes. By borrowing from and synthesizing both sub-streams, this
paper aims to investigate how cultural diversity in the TMT influences organisational outcomes. It is argued that in order to investigate this relationship and satisfy the aim, one has to consider (a) an intervening TMT process, such as Hambrick’s (1994) meta-construct of behavioural integration, defined as ‘the degree to which the group engages in mutual and collaborative interaction’ (Hambrick, 1994, p.188) capturing the complex nature of TMT processes in particular, (b) a moderator of that relationship, which is represented by the TMT’s shared vision, with some anecdotal evidence supporting its moderating effect (Umans, 2008), and (c) an intervening organisational characteristic – ambidextrous orientation – which has been shown to mediate the relationship between TMT behavioural integration and organisational performance (Lubatkin et al., 2006). In these ways, this paper contributes to the study of TMTs by empirically investigating the link between TMT cultural diversity and organisational outcomes, thereby illuminating the elements that connect the two concepts.

The next section presents a review of TMT diversity research, followed by a more focused review of cultural diversity research in TMT and its influence on organisational outcomes. A sequential model is then developed by providing a review of, and arguments for, the relationship between TMT cultural diversity and TMT process, the moderating effect of TMT shared visions on this relationship, then arguments for the relationship between TMT process and ambidextrous orientation and, finally, the relation of the latter to organisational performance.

7.2 Theoretical background and research hypotheses

7.2.1 TMT diversity research

Studies of TMT composition and its relationship to organisational outcomes are primarily based on the argument put forward by Pfeffer (1983) and Hambrick and Mason (1984) who claim that demography
is an appropriate measure of the cognitive make-up of the top team, which in turn influences the decision-making process among the upper echelons of the organisation and which subsequently can be found to influence organisational outcomes such as firm performance, strategic position, and innovation. Following these two studies, many researchers empirically tested the relation between various demographic characteristics in the top team and organisational outcomes; however, after some years, it became apparent that the results of the studies were contradictory. Some studies claimed that TMT demographic composition has positive influences on firm performance (Bunderson and Sutcliffe, 2002), strategic change (Wiersema and Bantel 1992), and innovation (Bantel and Jackson, 1989), while others arrived at opposite conclusions. Thus, West and Shwenk (1989) labelled the field a double-edged sword, where further inquiry based on the same assumption would only bring more mixed results. In response, other researchers proposed that one solution to the inconsistency of the results could be to inquire into the TMT process, borrowing the findings from behavioural sciences, where research indicates that group processes such as communication and social integration has a mediating effect on group performance. Similarly, as a response to the mixed results from the demographic composition–outcomes model, researchers started to inquire into TMT processes such as communication quality and frequency (Smith et al., 1994) social integration (Elron, 1997; Smith et al., 1994) and interdependence (Michel and Hambrick, 1992), and this type of inquiry has been labelled the intervening model.

To summarize, through studies of the TMT process, researchers in this field have opened the so-called black-box of team process (Lawrence, 1997) and have empirically proven that different process variables do serve as mediators between TMT composition and organisational performance. Even though this work represents a step forward in opening the black box of TMT process and empirically investigating the linkages between TMT composition and organisational outcomes, the mixed results of the studies remain, and cause some authors to
assume that the intervening model might not show the complete picture. Thus, Ely and Thomas (2001) propose that a number of moderating variables such as organisational culture and organisational learning might be important to take into account when investigating the relationship between TMT composition and TMT process. While the assumption has been readily upheld in articles by some authors (Milliken and Martins, 1996), few empirical investigations have taken place (but see, e.g., Dwyer, Richard and Chadwick, 2003; Umans, 2008).

Nevertheless, cultural diversity research in TMT, which is a primary focus of this paper, has not escaped the problems associated with the TMT research as a whole. While some authors find cultural diversity in TMT to be related to superior firm performance (Gong, 2006), others have empirically shown negative influences of cultural diversity on organisational outcomes (Elron, 1997; Jackson, Joshi and Erhardt, 2003). Moreover, the few studies that have attempted to investigate the relationship between TMT cultural diversity and team process reach mixed results, on the one hand claiming that cultural diversity results in improved processes (Umans, 2008) and on the other hand showing that cultural diversity in teams results in lack of cohesiveness (Elron, 1997) and process problems in general (Jackson et al., 2003), with the latter findings dominating the field and supported by findings from group diversity research. A number of studies have also investigated the moderating effects of shared vision as well as the international experience of the top executive; however, the results of these investigations are also inconclusive (Mannix and Neale, 2005).

Accordingly, the review of, and argument for, the hypotheses that follow is intended to amalgamate the suppositions and findings of previous research to address the problem at hand – TMT cultural diversity influences on organisational performance. This is done by presenting possible elements of the black box: TMT behavioural integration as a process element, with TMT shared vision as the proposed moderator between diversity and process link, and firm
ambidextrous orientation as a mediator of the relationship between TMT process and organisational performance.

7.2.2 TMT cultural diversity and process

Reviewing research on TMT, several authors come to the conclusion that mixed results in TMT diversity-organisational outcomes can be attributed to the fact that instead of studying the intervening team processes, most researchers of the ‘black box’ leave it unexplored (Miliken and Martins, 1996; Lawrence, 1997; Priem, Lyon and Dess, 1999; Nielsen, 2010). Few articles address the variety of both social and task processes. Smith and colleagues (1994) were among the first to empirically investigate theoretical assumptions of the intervening nature of the TMT process between diversity and organisational outcomes, which were predicted in the conceptual research (e.g., Murray, 1989; Michel and Hambrick, 1992). Smith et al. (1994) study shows that one of the TMT processes – informal communication – serves as a mediator in the diversity-outcome relationship. Later studies provide more support for the intervening role of process, where conflict (Knight et al., 1999), communication quality (O’Reilly et al., 1993; Umans, 2008), communication frequency (Ancona and Caldwell, 1992) social integration (Smith et al., 1994; Elron, 1997), and interdependence (Michel and Hambrick, 1992) are empirically proven to be related to some type of organisational performance.

According to Finkelstein and Hambrick (1996), the process within TMT differs from the organisational team process, since at the upper echelons executives are faced with interdependent strategic complexities and bear large inter-reliant responsibilities for the organisation and its stakeholders which other organisation-embedded teams do not face or bear. According to Hambrick (1994), studies that investigate separate processes within the TMT might not reflect the complexity of interaction between executives so, to capture the unique nature of the work performed by the TMT, a concept of behavioural integration has been developed (Hambrick, 1994). This concept is defined as ‘the
degree to which the group engages in mutual and collaborative interaction’ (Hambrick, 1994, p.188). Behavioural integration in the TMT context covers three major features: (a) quantity and quality of information exchange, (b) collaborative behaviour, and (c) joint decision making (Hambrick, 1994). Unlike the constructs of social integration (O’Reilly et al., 1989; Elron, 1997) and team cohesiveness (O’Reilly et al., 1989) that measure psychological or affective linkages among individuals in the group and attraction among members respectively, behavioural integration as a meta-construct attempts to describe and measure the underlying effectiveness of how the TMT works as a team (Hambrick 1994).

No studies were found that would relate the cultural diversity of the TMT to behavioural integration, presumably because of the relatively few studies investigating behavioural integration empirically (e.g., Carmeli, 2008; Lubatkin, 2006; Mooney and Sonnenfeld, 2001; Simsek et al., 2005) and supported by findings in diversity research in general that suggest any negative influence that cultural differences in groups would have on performance (Umans, 2011).

Thus, the arguments in the present study draw from the team diversity studies that have addressed the relationship between cultural diversity and the three features of behavioural integration: quantity and quality of communication, collaborative behaviour and joint decision making. On the basis of these studies, arguments are derived for its hypotheses, while taking into consideration the specific nature of the TMT as a group. Most studies on the influences of group diversity in general and cultural diversity in particular in relation to the group process have relied on three social psychology theories: similarity–attraction theory, self-categorisation theory and self-identity theory (Mannix and Neale, 2005). These theories highlight the issue that dissimilarities among group members are synonymous with trouble, and it is in homogeneous groups that attraction to similar others will lead to cohesion (O’Reilly et al., 1989) and more commitment (Tsui et al., 1992), while it is in
Diverse groups that negative social processes will arise that result in difficulties in intergroup relations (Mannix and Neale, 2005).

Diversity studies in TMT resonate well with the latter finding. Heterogeneity in the TMT has been empirically shown to have a negative influence on communication (Smith et al., 1994) collaborative behaviour (Elron, 1997) and process of decision making (Miller et al., 1998). The few studies on cultural diversity have primarily come to similar conclusions (Umans, 2009). For example, Elron (1997) finds that cultural diversity in the TMT leads to decreased social integration among top managers. Moreover (Barsade et al., 2000) shows that culturally diverse group members have negative experiences in terms of quality and quantity of communication, while Elron (1997) also shows there is less collaborative behaviour associated with culturally diverse TMTs. Hambirk et al. (1998) have also reported that culturally diverse top teams, in particular, are slower in decision making compared to the culturally homogeneous top teams.

In line with the literature presented here, this paper argues that cultural differences among the TMT would reveal themselves through (a) categorisation of ‘us vs. them’ based on cultural origins, (b) formation of culturally homogeneous (or regionally homogeneous, e.g., Scandinavian, Mediterranean, Asian) cliques within the TMT, (c) strengthening of one’s own cultural identity and concentration on that particular difference rather than on similarity. These ‘properties’ of culturally diverse teams will in turn lead to decreasing behaviour integration brought by the (a) decreased quantity and quality of communication due to team separation along cultural lines, (b) decreasing collaborative behaviour and (c) decreasing ability to make group decisions due to competition-oriented interactions among the cliques within the TMT. Thus we hypothesize that

\textit{H1: Cultural diversity in the TMT will be negatively associated with the level of TMT behavioural integration.}
7.2.3 TMT shared vision

Commonality of goals and sense of common purpose have been long recognized as a prerequisite for a well-functioning team (Arroba and Wedgwood-Oppenheim, 1995) in group research. It is argued that similarity in group members’ goals enhances interpersonal relations within the groups (Hackman, 1990) as well as increases group effectiveness (Pinchot and Pinchot, 1994).

Organisational theorists have picked up on this notion by applying the concept of shared vision, defined in senior team research as an embodiment of the collective goals and aspirations of members of the management team which expresses the developmental path of an organisation’s future (Jansen et al., 2008). It is argued that by possessing shared vision the members of a particular organisational unit would be able to avoid misunderstandings in their communication, and by having commonality in vision the members of the unit would see more potential value in their resources and differences (Tsai and Ghoshal, 1998), whether they be of a personality or demographic nature. Borrowing these arguments and applying them to TMT research, Katzenbach (1997) and later Ensley, Pearson and Pearce (2003) argue that shared vision would enhance the commitment to common purpose and would allow for a gain of a common sense of direction in the TMT. This in turn would result in shared vision on the team level increasing the understanding behind decisions, allowing individuals to act independently and use their diverse backgrounds, with consistency in the essence of the decisions (Amason, 1996). Specifically in demographically diverse teams that are prone to process difficulties (Mannix and Neale, 2005), shared vision could become a common denominator that the TMT would build interactions upon – at the same time allowing the requisite variety (including cultural variety) to remain and enrich team behavioural integration. A lack of shared vision, however, can lead to distrust and suspicion (Jensen et al., 2008) which could amplify the difficulties in process related, as previously argued, to experiences with cultural diversity in the TMT. In
sum, it is argued that shared vision would moderate the relationship between TMT cultural diversity and behavioural integration, by eliminating the negative effects of cultural diversity on TMT process, while preserving the positive effects of cultural variability. The hypothesis may be stated as follows:

\[ H2: \text{Cultural diversity in TMT will be positively associated with the level of TMT behavioural integration when moderated by increasing degree of shared vision.} \]

7.2.4 TMT behavioural integration and organisational ambidexterity

Researchers in business administration have recently adopted the human trait of ambidexterity, or the ability of individuals to use both hands with equal skill, as a metaphor to describe organisations. Ambidextrous organisations are organisations that are able to exploit existing competences while with equal skillfulness being able to explore new opportunities (e.g., Lubatkin et al., 2006; Duncan, 1976; March, 1991; Tushman and O’Reilly, 1996). The idea of ambidexterity nests in the idea that the organisation’s task environment is always in some degree of conflict, so there are always trade-offs to be made (Carmeli and Halevi, 2009). While these trade-offs can never be eliminated, most successful organisations are able to reconcile them, and in doing so are able to achieve long-term competitiveness (Gibson and Birkinshaw, 2004).

The reconciliation act of the trade-offs thus refers to finding the balance between exploration and exploitation of the firm’s available resources. Exploration implies firm behaviour characterized by variance-increasing activities, search, discovery, experimentation, risk-taking and innovation, whereas exploitation is characterized by variance-decreasing, disciplined problem solving, refinement, implementation, efficiency, production and selection (March, 1991). It has been suggested that these capabilities require substantially different strategies,
cultures, structures and processes (e.g., Benner and Tushman, 2003). Exploration is associated with organic structures, loosely coupled systems, path breaking, improvisation, autonomy and chaos, emerging markets and technologies. Exploitation is associated with mechanistic structures, tightly coupled systems, path dependence, routinization, control and bureaucracy, and stable markets and technologies (Ancona et al., 2001). Overemphasizing one or the other leads to certain difficulties. While too much exploitation leads to inertia and dynamic conservatism (Benner and Tushman, 2003), too much exploration leads to ‘building tomorrow’s business at the expense of today’s’ (Gibson and Birkinshaw, 2004). Thus there is a need for balance between the two, and it is ambidextrous organisations (Duncan, 1976) that are capable of simultaneously exploiting existing competences as well as exploring new opportunities (Duncan, 1976).

It is suggested that the TMT influences ambidextrous orientation through the decision-making process, since it is the TMT that is responsible for resource allocation and organisational design decisions (Hambrick, 1994), at the same time balancing short- and long-term outcomes through decisions that are distributive and involves allocation of resources between existing products and innovation, as well as through the integrative decisions that involve the recognition of the opportunities and synergies that might arise from exploitation and exploration (Smith and Tushman, 2005). The researchers are in relative agreement that it is the TMT that influences ambidexterity; however the ‘How’ question is considered to be a theoretical puzzle (Lubatkin et al. 2006), since the handling of contradictory orientations is a complex task.

Building on an established stream of research arguing for the importance of internal process within the TMT (Eisenhardt, 1989; Knight et al., 1999; Smith et al., 1994), Lubatkin et al. (2006) argues that these internal processes enable the TMT to handle large amounts of information and decision alternatives and deal with conflict and ambiguity. According to Lubatkin et al. (2006), a behaviourally
integrated TMT ‘acts as a forum in which senior executives can openly and freely exchange contradictory knowledge, resolve conflicts, and create a set of shared perceptions that then can be integrated and acted upon, thereby facilitating the firm’s development of a more ambidextrous orientation’ (2006, p.652). Carmeli and Halevi (2009) supporting the claim of Lubatkin et al. (2006), argue that behavioural integration is a precondition for making balanced strategic decisions that influences the creation of ambidexterity; at the same time, behaviourally disintegrated teams would tend either towards exploration or exploitation due to their inability to reach balanced decisions on the use of resources at the TMT’s disposal. Thus, we hypothesize that

\[ H3: \text{Increasing level of TMT behavioural integration will be positively associated with the firm’s ambidextrous orientation.} \]

7.2.5 Ambidextrous orientation and organisational performance

Some researchers contend that firms pursuing both exploration and exploitation simultaneously would sacrifice internal consistency, leading to a decrease in firm performance compared to more focused firms (Wernerfelt and Montgomery, 1988). Most researchers, however, state that a simultaneous pursuit of exploration and exploitation will enhance performance compared to firms emphasizing one at the expense of the other (Tushman and O’Reilly, 1996). Firms emphasizing exploration have problems in estimating their returns a priori, and at time these returns take a long time to materialise (Raisch and Birkinshaw, 2008). According to Levinthal and March, ‘an organisation that engages exclusively in exploration will ordinarily suffer from the fact that it never gains the returns of its knowledge’ (1993, p.105). Moreover, firms could become subject to the downward cycle of search, failure and unrewarding change (Raisch and Birkinshaw, 2008). Firms emphasizing exploitation do get expected returns that can also be predicted, but their sustainability is
questionable (ibid.). According to Levinthal and March, ‘an organisation that engages exclusively in exploitation will ordinarily suffer from obsolescence’ (1993, p.105). Pursuit of exploitation may lead to highly specialised competences that could influence short-term performance of the firm; however, in the long run these competences could become core rigidities which in turn would not allow a speedy response to changes in the firm environment (Levitt and March, 1988).

While theoretical studies question the positive effects of organisational ambidexterity on organisational performance (e.g., Tushman and O’Reilly, 1996; Floyd and Lane, 2000), studies empirical in nature, while few, do not always agree. Although some researchers find direct positive links between ambidexterity and performance (Gibson and Birkinshaw, 2004; He and Wong, 2004; Lubatkin et al., 2006), other studies show a contingent effect (e.g., Lin et al., 2007), while yet others report a negative effect (e.g., Atuahene-Gima, 2005). The current paper bases its arguments for the positive effects on performance on those provided by March (1991), which posit that, in essence, exploration and exploitation present companies with a number of risks that would result in lower performance compared to companies involved in the balancing act between the two, which results in the reduction of the risks involved, thereby leading to superior firm performance. Thus we hypothesize that

\[ H4. \text{The firm’s pursuit of ambidextrous orientation will be positively associated with organisational performance.} \]

From the four hypothesized relationships described in this section, the current model can be depicted as the ‘Path-dependency Model of TMT Cultural Diversity and Organisational Performance’ (Fig. 7.1).
7.3 Method

7.3.1 Sampling strategy and data
The data were collected by means of a questionnaire sent to the CEOs of the 247 Swedish and 179 Danish corporations listed on the Stockholm and Copenhagen stock exchanges respectively in 2010. The survey was sent to these firms for several reasons. Firstly, Sweden and Denmark have the largest number of stocklisted firms (426 in total) compared to another geographically defined Scandinavian country, Norway, with only 31 listed corporations. Second, it was assumed that firms in both countries have similar ‘pan-Scandinavian’ organisational and national cultures that would allow for comparison. Third, the Scandinavian data were chosen because of the large number of internationally recognized and active corporations where the probability of finding culturally diverse top team members was deemed high and, furthermore because of the deemed favourable opinion toward research possessed by CEOs in Scandinavia, which would allow a high response rate within the population chosen.
The introduction letter and online self-administered questionnaire were sent to the CEO’s personal email or to the ‘info@___’ general email. In the letter the CEO was asked to answer the questionnaire her/himself or to forward the email to the member of their executive team with intimate knowledge about the team. Responses to the survey were received from 55 Swedish and 35 Danish firms. After excluding the incomplete surveys, there was a usable response from 82 firms (51 Swedish and 31 Danish; or 21% of the Swedish, 17% of the Danish, or 19% of the total sample). Of these 82 surveys, 65 were answered by the CEO personally while 17 were answered by a member of the TMT, in the majority of instances by the vice-president for human relations.

Participant organisations did not differ from non-participant organisations in terms of number of employees or industry. Firms represented in the final sample had a median of 480 employees and were represented in the manufacturing (40%), service (24%) and financial and IT service (36%) industries. The TMT of the firms averaged 6.5 members (including the CEO) and the teams averaged 1.7 years of serving together on the same team.

7.3.2 Measures
The study used existing multi-item scales that were verified through various analyses.

TMT cultural diversity. The survey asked the CEO or responding member of the TMT to indicate the nationality and native language of each and every member of the TMT. While the first characteristic has been used as a proxy for cultural diversity in the majority of the European-based studies (Elron, 1997), the latter has been commonly used to assess ethnicity of group members (Marimuthu, 2008). The differences between the two measures have been almost zero, which led us to use only one of the measures – national diversity – to compose the cultural diversity scale.
In line with previous studies on diversity and the operationalisation of categorical variables (Bantel and Jackson, 1989; Hambrick et al., 1996) Blau’s (1977) index of heterogeneity was used (where \( P \) is a proportion of group members in a category and \( i \) is the number of different categories represented in the TMT) to assess heterogeneity. For homogeneity of culture in the top team, the index was calculated as follows:

\[
(1-\sum Pi^2)
\]

**Behavioural integration.** The survey asked the respondents to evaluate the current behavioural integration of the TMT. TMT behavioural integration was assessed using a nine-item measure and a seven-point scale ranging from 1 (strongly disagree) to 7 (strongly agree); this is a slight deviation from the five-point scale validated by Simsek et al. (2005) and Lubatkin et al., (2006). The measure was designed to capture collaborative behaviour, information exchange and joint decision making, the three interrelated and reinforcing TMT processes associated with Hambrick’s meta-construct. The measure designed by Simsek et al. (2005) and consequently tested by the same author and Lubatkin et al. (2006) was found to have content, construct and convergent validity. The overall measure of the TMT behavioural integration had a reliability of \( \alpha = .887 \), which favourably compares to the Simsek et al. (2005) \( \alpha = .85 \) as well as Lubatkin et al. (2006) \( \alpha = .90 \). The behavioural integration variable was transformed by natural logarithm due to its distribution that departed from normality as well as having a number of outliers, removal of which could not be justified.

**TMT shared vision.** The survey asked respondents to assess their TMT shared vision. TMT shared vision was assessed using a four-item measure and a seven-point scale ranging from 1 (strongly disagree) to 7 (strongly agree). This measure (with a slight modification – removal of one reverse-coded question that otherwise would be the only one in the entire questionnaire) was adopted from Sinkula et al. (1997) and Jansen et al. (2008). The measure was designed to capture the extent to which
the TMT had collective goals and shared aspirations. The overall measure of the TMT shared vision had a reliability of $\alpha = .89$, which compares favourably with Jansen et al. (2008) $\alpha = .84$.

**Interaction of TMT cultural diversity and TMT shared vision.** TMT cultural diversity and TMT shared variables were centred around the mean in order to avoid multi-collinearity issues when performing moderated regression analysis. After centring, the two variables were multiplied by each other and the resulting values used as a measure of interaction between TMT cultural diversity and TMT shared vision.

**Ambidextrous orientation.** The measure of ambidextrous orientation was adopted from the study by Gibson and Birkenshaw (2004) where the concept is represented by multiplicative interaction between exploration and exploitation, based on the assumption that these two capacities are nonsubstitutable and interdependent. The explorative and exploitative orientations used to compute ambidextrous orientation were adopted from the study by Lubatkin et al. (2006). The measures of exploration and exploitation consisted of six items for each orientation (12 items in total). The 12 items measuring explorative and exploitative orientation were subjected to principal component analysis using Oblimin rotation with Kaiser normalization, which in line with Lubatkin et al. (2006) revealed a two-factor structure; however, in our data set, 2 items intended to measure explorative orientations were assigned to the exploitative factor, while one measure of exploitative orientation had a weak primary loading of 0.45. After removing these items and repeating the analysis on nine items, where five items represented exploitative orientation and four represented exploitative orientation, the two-factor structure remained. This accounted for 69% of the variance (which is slightly higher than the 63% of variance shown in the original 12-item scale) with primary loadings for all questions exceeding 0.62 and no cross-loadings detected. Adequate reliabilities were achieved for both exploration ($\alpha = .84$) and exploitation ($\alpha = .88$). Thus, these results suggest discriminate validity of the two measures. The ambidextrous orientation variable was
transformed by natural logarithm due to its distribution, which departed from normality as well as having a number of outliers, removal of which could not be justified.

**Perceived organisational performance.** The measure of perceived organisational performance was based on the original measure by Delaney and Huseld (1996) who used an eight-point measure of perceived organisational and market performance. Perceived performance was used rather than actual performance since respondents were anonymous. While the shortcomings of this measure, in line with Lubatkin et al. (2006) are acknowledged, it is argued that the CEOs are knowledgeable informants, especially in regard to firm performance. Moreover, prior studies (Dess and Robinson, 1984; Robinson and Pearce, 1988) show that CEOs’ reporting of performance significantly correlates with some objective firm performance measures. In the present study, respondents were asked to assess their firm’s organisational performance in relation to its main competitors, and the questions assessed were related to economic performance, service development, and human resources. The overall measure of perceived organisational performance had a reliability of $\alpha = .87$. The perceived organisational performance variable was transformed by natural logarithm due to its distribution that departed from normality as well as having a number of outliers, removal of which could not be justified.

**Control variables.** Controls were applied for TMT size and tenure, organisational size, country and industry. TMT size was measured by the number of individuals on the organisation’s TMT, as reported by the CEO. Team tenure was measured as the number of years the TMT had worked together. Both team variables were discussed in terms of their impact on TMT behavioural integration (Simsek et al., 2005; Lubatkin et al., 2006). Organisational size was measured as the number of employees in the organisation, and was controlled for since it is often denotes economics of scale, allowing larger firms to have an advantage over the smaller-sized organisations (Carmeli, 2008); moreover, organisational size was associated with difficulty in processing
information and inertia (e.g., Tushman and Romanelli, 1985). Industry and country were used to control for environmental influences and specific country conditions. Industry was associated with industry specific organisational variables such as organisational culture, resource conditions and performance. Due to the spread of industries represented in the sample and the small number observed within some industries, three industry clusters were created representing broadly defined manufacturing, service and financial/IT industries. We controlled for country (Denmark/Sweden) since even though we assumed ‘pan-Scandinavian’ unity, one cannot discount some cultural specificities that may be attributed to Sweden and Denmark. Corporations with primary listing on the Stockholm Stock Exchange were coded as 1 while firms with primary listing on the Copenhagen Stock Exchange were coded as 0.

We also controlled for respondent (CEO or other) to check if the position of the respondent in the TMT could be associated with the answers provided.

7.4 Results and analyses

The analysis of the data was conducted via Pearson correlation tests and hierarchical linear regressions. Table 7.1 provides the means, standard deviation and correlations of the study variables.

A number of highly significant correlations are evident in the correlation matrix. None of the correlations except one (between TMT shared vision and TMT behavioural integration where correlation is 0.805 and p<.001) exceed the recommended cut-off value of 0.7 (Pallant, 2007). We treat TMT shared vision and TMT behavioural integration as two distinct theoretical concepts in this paper, relying firstly on the argument put forward by Tsai and Ghoshal (1998) who reason that while shared vision can be embraced by certain units (individual top managers) of one entity (TMT), that does not necessarily means these units would have interaction or relationship
with each other. Secondly, we argue that shared vision within the TMT results from both purposeful recruitment into the TMT of like-minded individuals and the pure luck of finding individuals with the same vision (or ability to adjust their views on where the organisation should go) as those of the team they are recruited into. Moreover, shared vision is future-oriented and, as argued previously, it denotes the commonality of purpose for the entire organisation and its future activities. Thus, shared vision is the view of the TMT on the organisation’s future development and is more related to the team’s view on strategy to be followed rather than current operative decisions. Behavioural integration, on the other hand, is the result of the everyday interactions of the top team and is more present- rather than future-oriented. Behavioural integration is the unity of the top managers on the operative everyday operations rather than somewhat more abstract strategy- and goal-related issues. It is a more team-level interaction that is represented by the behavioural integration, while shared vision is a more constant phenomenon.

We further tested the study’s hypotheses by conducting a regression analysis retaining the independent variables as well as the control variable. In each regression model the control variables were entered in the first step followed by the independent variable in the second step; the control variables of industry and country were excluded from the analysis if they were non-significant and did not change the significance of the other independent variables. However, if they showed significance in the model (as happened in Model 3 [Table 7.3] where country was significant) these control variable were retained and reported. The removal of the control variables of industry and country when appropriate, and as described above, was done because of the relatively small sample size. All models were tested for multi-collinearity; tolerance values in all models varied between 0.732 and 0.987, indicating that all models pass the test for multi-collinearity.
Table 7.1 Means, Standard Deviation (SD) and Correlations

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
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<th>10</th>
<th>11</th>
<th>12</th>
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</thead>
<tbody>
<tr>
<td>1. TMT cultural diversity</td>
<td>.238</td>
<td>.262</td>
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<td></td>
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<td>2. TMT shared vision</td>
<td>5.676</td>
<td>1.155</td>
<td>.044</td>
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<td>3. TMT cultural diversity x TMT shared vision</td>
<td>.013</td>
<td>.279</td>
<td>.138</td>
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<td>4. TMT behavioural integration</td>
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<td>-.098</td>
<td></td>
<td>.805***</td>
<td>-.052</td>
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<tr>
<td>5. Ambidextrous orientation</td>
<td>3.165</td>
<td>.532</td>
<td>-.048</td>
<td></td>
<td>.696***</td>
<td>-.135</td>
<td>.618***</td>
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<td>6. Organisational performance</td>
<td>1.648</td>
<td>.187</td>
<td>-.032</td>
<td>.476***</td>
<td>-.245*</td>
<td>.327**</td>
<td>.693***</td>
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<td>7. TMT size</td>
<td>6.463</td>
<td>2.510</td>
<td>.257*</td>
<td>.043</td>
<td>-.049</td>
<td>-.165</td>
<td>.111</td>
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<td>8. TMT tenure</td>
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<td>.033</td>
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<td>9. Firm size</td>
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<td>.274*</td>
<td>.168</td>
<td>.222*</td>
<td>.002</td>
<td>.218*</td>
<td>.165</td>
<td>.294**</td>
<td>-.103</td>
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<td>10. Manufacturing industry</td>
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<td>.491</td>
<td>.071</td>
<td>.052</td>
<td>.003</td>
<td>-.026</td>
<td>.030</td>
<td>-.117</td>
<td>.122</td>
<td>-.050</td>
<td>.22*</td>
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<td>11. Service industry</td>
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<td>.432</td>
<td>.052</td>
<td>.105</td>
<td>-.016</td>
<td>.065</td>
<td>.058</td>
<td>.173</td>
<td>.088</td>
<td>.042</td>
<td>-.121</td>
<td>-.454***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Financial and IT industry</td>
<td>.366</td>
<td>.485</td>
<td>-.118</td>
<td>-.146</td>
<td>.011</td>
<td>-.032</td>
<td>-.082</td>
<td>-.036</td>
<td>-.131</td>
<td>.014</td>
<td>-.115</td>
<td>-.608***</td>
<td>.431***</td>
<td></td>
</tr>
<tr>
<td>13. Country</td>
<td>.622</td>
<td>.488</td>
<td>.053</td>
<td>.061</td>
<td>-.213†</td>
<td>-.094</td>
<td>.174</td>
<td>.217*</td>
<td>.266*</td>
<td>-.103</td>
<td>.138</td>
<td>-.150</td>
<td>.090</td>
<td>.070</td>
</tr>
</tbody>
</table>

Note: N=82; TMT = top management team
† p < .10
* p < .05
** p < .01
*** p < .001
Table 7.2 Hierarchical Regression Results for the Relationship between TMT Cultural Diversity and TMT Behavioural Integration and TMT Shared Vision

<table>
<thead>
<tr>
<th></th>
<th>Model 1 β (t)</th>
<th>Model 2a β (t)</th>
<th>Model 2b β (t)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TMT Behavioural Integration</td>
<td>TMT Behavioural Integration</td>
<td>TMT Behavioural Integration (Residuals)</td>
</tr>
<tr>
<td>Constantª</td>
<td>3,802 (52,259***)</td>
<td>3,785 (98,203***)</td>
<td>3,794 (117,716***)</td>
</tr>
<tr>
<td>Step 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TMT size</td>
<td>-1,166 (-1,389)</td>
<td>-1,138 (-2,095*)</td>
<td>1,177 (-2,598*)</td>
</tr>
<tr>
<td>TMT tenure</td>
<td>0,019 (0,169)</td>
<td>-0,014 (-0,231)</td>
<td>0,005 (0,079)</td>
</tr>
<tr>
<td>Organisational size</td>
<td>0,072 (0,600)</td>
<td>-0,116 (-1,687†)</td>
<td>-0,078 (-1,123)</td>
</tr>
<tr>
<td>R²</td>
<td>0,031</td>
<td>0,031</td>
<td>0,062</td>
</tr>
<tr>
<td>F for R²</td>
<td>818</td>
<td>818</td>
<td>1,601</td>
</tr>
<tr>
<td>Step 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TMT Cultural diversity</td>
<td>-0,073 (-,011)</td>
<td>-0,093 (-1,430)</td>
<td>-1,133 (-1,975†)</td>
</tr>
<tr>
<td>TMT Shared vision</td>
<td></td>
<td>0,868 (13,559***)</td>
<td>0,851 (12,358***)</td>
</tr>
<tr>
<td>ΔR²</td>
<td>0,005</td>
<td>0,569</td>
<td>0,637</td>
</tr>
<tr>
<td>F for ΔR²</td>
<td>3,731</td>
<td>84,582***</td>
<td>74,974***</td>
</tr>
<tr>
<td>Step 3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TMT cultural diversity x TMT shared vision</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ΔR²</td>
<td>0,035</td>
<td>6,036*</td>
<td>4,205*</td>
</tr>
<tr>
<td>F for ΔR²</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall R²</td>
<td>0,702</td>
<td>32,429***</td>
<td>29,353***</td>
</tr>
</tbody>
</table>

Note: N=82 (N=77 for Model 2b); TMT = top management team
a. Unstandardized coefficient
† p < .10
* p < .05
** p < .01
*** p < .001
Table 7.2 (above) reports the tests of Hypotheses 1 and 2. Model 1 in Table 7.2 shows neither positive nor negative relationship between TMT cultural diversity and TMT behavioural integration, thus leading to the rejection of Hypothesis 1. Model 2a in Table 7.2 provides support for Hypothesis 2, which posited that cultural diversity in TMT would be positively associated with the level of TMT behavioural integration when moderated by increasing degree of shared vision ($\beta=0.161$, $p<.05$). After inspecting Model 2a, the TMT cultural diversity variable was shown to approach significance at the $p<.1$ level. Keeping in mind the departure from normality of the dependent variable – TMT behavioural – we inspected the normal probability plot of the regression standardised residual and removed the five outliers from the right and left sides of the distribution, minimizing the sample to $N=77$. Since we have no theoretical or practical reason for removing the outliers, Model 2b cannot be used to prove or reject the hypotheses. However, what Model 2b shows is that TMT cultural diversity has marginal negative effect on behavioural integration, while that relationship moderated by TMT shared vision changes the direction of the relationship and, cultural diversity moderated by shared vision has a positive effect on TMT behavioural integration.

Table 7.3 reports the test for Hypothesis 3. The results of Model 3 in Table 7.3 provide support for Hypothesis 3, which posits a positive relationship between TMT behavioural integration and ambidextrous orientation of the firm ($\beta=0.656$, $p<.001$).
Table 7.3 Hierarchical Regression Results for the Relationship between TMT Behavioural Integration and Ambidextrous Orientation

<table>
<thead>
<tr>
<th>Model 3 $\beta$ (t)</th>
<th>Ambidextrous orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant$^a$</td>
<td>3,077 (18,000***))</td>
</tr>
<tr>
<td>Step 1</td>
<td></td>
</tr>
<tr>
<td>TMT size</td>
<td>,123 (1,377)</td>
</tr>
<tr>
<td>TMT tenure</td>
<td>,048 ,0,575</td>
</tr>
<tr>
<td>Organisational size</td>
<td>,151 (1,749†)</td>
</tr>
<tr>
<td>Country</td>
<td>,177 (2,056*)</td>
</tr>
<tr>
<td>R²</td>
<td>,052</td>
</tr>
<tr>
<td>F for R²</td>
<td>1,425</td>
</tr>
<tr>
<td>Step 2</td>
<td></td>
</tr>
<tr>
<td>TMT behavioural integration</td>
<td>,656 (7,846***))</td>
</tr>
<tr>
<td>$\Delta$R²</td>
<td>,434</td>
</tr>
<tr>
<td>F for $\Delta$R²</td>
<td>61,557***</td>
</tr>
<tr>
<td>Overall R²</td>
<td>,486</td>
</tr>
<tr>
<td>Overall F for R²</td>
<td>14,382***</td>
</tr>
</tbody>
</table>

Note: N=82; TMT = top management team
$^a$ Unstandardized coefficient
† p < .10
* p < .05
** p < .01
*** p < .001

The results of Model 4 in Table 7.4 provide support for Hypothesis 4, which posited a positive relationship between the ambidextrous orientation of the firm and organisational performance ($\beta=700$, p<.001).
Table 7.4 Hierarchical Regression Results for the Relationship between Ambidextrous orientation and Organisational performance

<table>
<thead>
<tr>
<th></th>
<th>Model 4 $\beta$ (t)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Organisational</td>
</tr>
<tr>
<td></td>
<td>performance</td>
</tr>
<tr>
<td>Constant$^a$</td>
<td>1,618 (26,373***</td>
</tr>
<tr>
<td>Step 1</td>
<td></td>
</tr>
<tr>
<td>TMT size</td>
<td>-.045 (-.543)</td>
</tr>
<tr>
<td>TMT tenure</td>
<td>.169 (2.107*)</td>
</tr>
<tr>
<td>Organisational size</td>
<td>.043 (.505)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>.046</td>
</tr>
<tr>
<td>F for $R^2$</td>
<td>1,260</td>
</tr>
<tr>
<td>Step 2</td>
<td></td>
</tr>
<tr>
<td>Ambidextrous orientation</td>
<td>.700 (8,560***</td>
</tr>
<tr>
<td>$\Delta R^2$</td>
<td>.465</td>
</tr>
<tr>
<td>F for $\Delta R^2$</td>
<td>73,279***</td>
</tr>
<tr>
<td>Overall $R^2$</td>
<td>.511</td>
</tr>
<tr>
<td>Overall F for $R^2$</td>
<td>20,141***</td>
</tr>
</tbody>
</table>

Note: N=82; TMT = top management team

*a. Unstandardized coefficient
† p < .10
* p < .05
** p < .01
*** p < .001

In summary, three out of four hypotheses were supported and, while no relationship was found between TMT cultural diversity and TMT behavioural integration (H1), support was found for the moderating positive effect of TMT shared vision on the relationship between TMT cultural diversity and TMT behavioural integration (H2). This means that while TMT cultural diversity does not correlate with TMT behavioural integration, when moderated by TMT shared vision it becomes positively related to it. Consequently we found that TMT behavioural integration has a positive effect on ambidextrous orientation (H3), which, in turn, has a positive effect on organisational performance (H4).
7.5 Discussion

7.5.1 Implications

This study sought to inquire into the relationship between TMT cultural diversity and organisational performance. Studies on TMT in general have reported mixed results on the influence of TMT demographic diversity on firm performance, suggesting that the link between TMT demography and performance is not as straightforward as some authors have argued (Pfeffer, 1983, Hambrick and Mason, 1984) and could benefit from the investigation of critical influences of intervening variables on that relationship. TMT cultural diversity influences on performance have not escaped the contradictory findings of the TMT demography field, with a limited number of studies reporting both positive and negative influences of that type of TMT diversity on performance. By synthesizing the studies investigating relationship between TMT demography and TMT process and emergent stream of studies investigating TMT process outcomes, this article posits that interaction between TMT diversity and TMT shared vision influences TMT behavioural integration, which consequently influences ambidextrous orientation and subsequent organisational performance. Apart from building and empirically testing the path dependency model of TMT, cultural diversity influences on organisational performance, this article illuminates the conditions under which emergent empirical phenomenon of cultural diversity in top teams can be put to work in order to achieve superior organisational performance.

The results of the study suggest that the relationship between TMT demography and organisational outcomes is complex and requires taking into consideration both moderating variables such as TMT shared visions, as well as intervening variables such as TMT behavioural integration, and ambidextrous orientation. First, no relationship was found between TMT cultural diversity and the process meta-construct of TMT behavioural integration. This non-result is very different from
the previous few studies in TMT cultural diversity, which on one side have argued for value of diversity, and on the other side claim the destructive nature of that diversity on TMT process. While we have not offered hypotheses on the direct relationship between TMT cultural diversity and organisational performance, ad hoc analysis has indicated no relationship between TMT cultural diversity and organisational performance, thus indicating that Pfeffer’s (1983) argument for black-boxing the processes variables might not be the axiom in TMT research.

Second, we found that the relationship between TMT cultural diversity and TMT process could be moderated by TMT shared vision. When the latter is increasing, the TMT is able to reap the benefits of its cultural diversity to achieve behavioural integration. These results support and extend previous diversity research that found similar associations (Amason, 1996; Jansen et al., 2008) albeit treating shared vision as an intervening or independent variable rather than a moderator, or investigating other moderating variables such as growth orientation (Dwyer et al., 2003) or/and organisational culture (Richard, 2000) as a moderator in the TMT diversity–TMT process/organisational outcome relationship.

Third, the study empirically investigated the link between TMT behavioural integration and performance mediated by the firm’s ambidextrous orientation, where increasing degree of integration has a positive effect in ambidextrous orientation and subsequently has a positive effect on organisational performance. These results also support and extend previous research on that relationship (Lubatkin et al., 2006) where the study also found ambidextrous orientation to mediate the relationship between TMT behavioural integration and organisational performance. The present study extends the findings by empirically testing and refining the measures of behavioural integration which were found to behave slightly different in our (Scandinavian) sample of stocklisted corporations compared to the Lubatkin et al.

Finally, following the path dependency model (see Fig. 1), this is the first field study of which we are aware to establish a link between TMT cultural diversity and shared vision with respect to TMT process and two organisational outcomes – ambidextrous orientation and organisational performance. More specifically, the study finds support for the interaction effect between diversity and shared vision in respect to processes and organisational outcomes. By testing and finding support for three out of four hypotheses, we have empirically shown that if certain conditions are met, TMT cultural diversity could have positive effects on organisational performance, a supposition often rejected because of the increasing number of studies showing a negative effect of that performance, while at the same time an increasing number of culturally diverse managers are entering the upper echelons of organisations. Thus, one could assume that the mystery of irrational behaviour by firms that culturally diversify their top management teams facing the threat of decreasing performance is solved since this study provides some answers, such as under which conditions this diversification could instead benefit the firm.

It is also of importance to discuss the variables that we used to control for in our models, since that discussion could provide us with further ideas on how TMT cultural diversity influences performance, for it is the control variables that provide the setting and conditions for that influence. While organisational size, industry and country provide an external environment for the relationship, TMT size and TMT tenure provide the conditions for the internal team environment. Most external control factors are in line with our expectations; however, it is the significance of the effect the country has on ambidextrous orientation (Model 3) that catches our particular attention. The regression shows that Swedish firms are more ambidextrous in their orientation than Danish ones. This might be attributed to the fact that Swedish management decision making style is more consensus-oriented
and thus allows for longer debate and weighted and balanced decisions, while Danish management decision-making style is more top down and reduces the possibility for consensus with decisions being made that are more one-sided (explorative or exploitative) in their nature. When it comes to internal team environment factors, TMT size behaves in accordance to our expectations and has significantly negative effects on the behavioural integration – the more people in the team, the harder it is to be behaviourally integrated; however, TMT tenure was not found to be of importance in the relationship between diversity and process variables, which is surprising given the number of investigators in group research (e.g., Watson et al., 1998) who have claimed that increasing tenure of the team would reduce the perceived negative diversity effects on team process. One explanation of this could be that in our sample the team has spent on average 1.7 years together, which might insufficient for the team members to accept or get used to each other’s differences. Another explanation could be that while group studies have examined the groups in experimental settings with one particular task at hand, our study provides indications that in the case of organisationally embedded groups with high amounts of decision-making power, tenure becomes less important, and it is the size of the TMT and the diversity and shared vision that explain the variation in process and organisational outcomes.

7.5.2 Limitations and future research

This study contributes to the exploration of the relationship between TMT cultural diversity and organisational performance but is not without limitations. While the study explores the black box between diversity and outcomes relationship and contributes to the limited stream of research on cultural diversity in TMT, it focuses only on one demographic characteristic. Future studies, therefore, could explore how other demographic diversity characteristics of TMT such as gender, age, and educational background could influence organisational performance through behavioural integration and ambidextrous orientation. Moreover this article investigates only one moderator –
shared vision – while the exploration of the moderating effects of other variables such as organisational culture, organisational learning and team tenure could yield interesting results. Nor can one discount the effects of the Scandinavian environment in which this study was performed. Being consensus-oriented, Scandinavian management culture could have had an effect on the outcome of this study; consequently, future research should investigate firms in different environments, all of which would provide a good base for comparative studies in search of general theory explaining the effects of TMT diversity on firm outcomes.
References


Chapter 8

Conclusions

8.1 Summary and contribution of the dissertation

The overall purpose of this composite dissertation has been to apply and empirically test the theoretical framework that explains how TMT cultural diversity influences organisational outcomes. The framework was developed in Chapters 2 and 3 through review and analysis of the literature on relational demography in TMTs and its influence on organisational outcomes. The review identified that the theoretical framework explaining how TMT cultural diversity (as a part of relational demography) influences performance is fragmented into three distinct modes of inquiry. These are (1) the demographic composition model, which investigates TMT diversity in its direct relationship to organisational outcomes; (2) the intervening model, which studies TMT diversity influences on organisational outcomes through the analysis of TMT processes; and (3) the moderating model, which illuminates the contingencies/moderators of the relationship between TMT diversity and TMT processes and their subsequent influence on organisational outcomes. The review also identified that data collection techniques in conjunction with the overall methodology used in the inquiry as well as operationalisation of cultural variable could influence the outcomes of the research. Through empirical investigation as presented in Chapters 4 to 7, the dissertation combines the models, methods of inquiry, data collection techniques and operationalisation of culture in order to meet its overall purpose. This chapter summarizes the empirical, methodological and theoretical contributions of the dissertation and offers suggestions for future research.
8.2 Summarizing the empirical contributions of the dissertation

While TMT cultural diversity has received increasing attention worldwide, most of the studies have been conducted on U.S. corporations, leaving TMT cultural diversity in other settings largely unexplored (Heijltjes, Olie, and Glunk, 2003). Specifically, the use of racio-ethnicity as an operationalisation for culture has rendered the U.S. studies largely non-applicable to European settings, where the cultural diversity of upper echelons has often been associated with nationality (ibid.). This section therefore summarizes the contributions from the empirical studies of European settings described in Chapter 6 and 7 of this dissertation.

The empirical study in Paper 5 (Chapter 6) investigates demographic diversity in TMTs with regard to its influence on organisational outcomes in interaction with the demographic diversity of boards of directors in Sweden. This study indicates that Swedish firms are run by culturally diverse top management in which on average 28% are non-Swedes. This is the first time to my knowledge that cultural diversity of TMTs in Sweden has been empirically investigated and reported, although a study by Greve et al. (2009) on TMTs in the financial service industry in 13 western European countries (including Sweden) reported that on average 23% of TMT members were from a foreign background.

The empirical study in Paper 6 (Chapter 7) also investigates TMT cultural diversity influence on performance, concentrating on contingencies such as TMT shared vision, TMT behavioural integration and the organisation’s ambidextrous orientation; this study was carried out in Sweden and Denmark. The study shows that the average size of the TMT in the two countries is 6.4 managers who on average have spent 1.7 years on the same team. The team size in Scandinavian firms is at the lower end of the range of TMT size in the United States, where the TMT ranges from 6 to 33 executives (Nilesen,
The Scandinavian size, however, compares with the average TMT size of 5.7 in the Netherlands as reported by Godthelp and Glunk (2003).

The most interesting empirical contribution of the dissertation is derived from exploration in Paper 5 (Chapter 6) which indirectly confirms that the TMT and board of directors (BoD) interact with each other and that the cultural diversity dimension might need to be on the same level in both upper apex groups in order to benefit organisational performance. It is especially worth noting since the TMT and BoD in Swedish stocklisted corporations are two separate entities with no cross-sitting. The findings indicate there is a non-physical interaction between TMT and the BoD which is in line with an emergent stream of research that claims that BoDs take a very active role in strategy implementation (Barroso Castro et al., 2009) which has been usually the prerogative of the TMT. Thus the common view on how to control the firm, which strategy it should pursue and what should be its optimal performance creates a commonality or interaction between the BoD and TMT, but it appears that to achieve this commonality they should be equally diverse or homogeneous in the cultural dimension.

Summarizing, the empirical contribution of this dissertation is expressed in terms of

- mapping the cultural makeup of Swedish top teams, as well as general demographic characteristics of the TMT in Danish and Swedish stocklisted corporations; and
- uncovering the interactions TMT is involved in with other parts of the organisation, particularly the BoD, where alignment of demographic diversities, cultural diversity in particular, influences organisational performance.
8.3 Summarizing the methodological contributions of the dissertation

According to Pitcher and Smith (2001), four out of five potential problems of inconsistency in TMT research are of a methodological nature. Unmeasured moderating variables, unmeasured or wrongly measured intervening variables, misconceptualisation of independent variables or misspecification of both independent and dependent variables could be the cause of the mixed findings that characterise the studies of TMTs. This dissertation has attempted to address some of these issues.

In Paper 3 (Chapter 4), by using the experimental study design, I attempt to measure cultural diversity and process variables. Cultural diversity is measured in terms of nationality as well as ethnicity in that paper. However, only the nationality operationalisation of culture shows significant negative influence on performance, thus indicating the strength of national identity and its instrumentality in measuring culture. Apart from illuminating national diversity as a strong negative force when it comes to performance, the study also shows that the demographic composition model is very much applicable and still could explain the direct influence of cultural diversity (nationality) on performance, at least in the experimental study. The study also attempted to inquire into the black box of team process by using self-reporting of each and every member of the team; however, this technique proved to be fruitless in capturing the mediating role of these process in the diversity–outcome relationship. Thus, the methodological contribution of the paper is in its illumination of national rather than ethnic diversity as an appropriate operationalisation of culture, as well as the fact that when measured separately on a self-reporting basis the process variables do not help in opening up the black box of process.

In Paper 4 (Chapter 5) it was found that through the use of a case study data collection technique the nature of the TMT process as well as
moderators of TMT cultural diversity and the process relationship could be made evident. The study reveals that TMT cultural diversity could have a positive effect on TMT process communication when moderated by the TMT shared goals and international experiences of top managers. However, the evidence in the paper is of an anecdotal nature and so its methodological contribution consists more in identifying the concepts rather than investigating them thoroughly.

In order to further investigate the findings of Papers 3 and 4, and to address the methodological concerns, in Paper 6 (Chapter 7) I first measured cultural diversity in terms of nationality and, secondly, adopted behavioural integration as a meta-construct capturing the complexity of team internal processes, rather than investigating the separate processes as well as the moderating effects of shared goals and vision (identified in Paper 4). In this way, I found a strong explanatory power of TMT cultural diversity expressed in terms of nationality in TMT processes moderated by TMT shared vision. The methodological contribution of the paper could be thus expressed in terms of using qualitative concepts of shared vision and TMT behavioural integration and measuring them quantitatively by means of the survey used in Paper 6. Moreover, the instruments used in primarily U.S.-based studies were refined for Scandinavian settings by means of statistical analysis; this development of instrumentation is thus yet another methodological contribution of the paper.

To summarise, the overall methodological contributions of this dissertation are

- the identification of national diversity as the most applicable measure of cultural diversity;
- the emergence and development of moderators in the relationship between TMT cultural diversity and TMT process: namely, TMT shared vision and TMT international experience;
the development of an instrument that is an appropriate fit for Scandinavian settings; and

- the development of an instrument that allows for inquiry into the black box between TMT cultural diversity and organisational outcomes.

8.4 Summarizing the theoretical contributions of the dissertation

According to Whitten (1989), theoretical contributions or insights ‘come from demonstrating how the addition of a new variable significantly alters our understanding of the phenomenon by reorganizing our causal maps’ (p.493). This quotation applies to relationships that may be uncovered in the search for an answer to the question ‘How’. In this sense, the theoretical contributions of this dissertation lie in its approach to answering the question addressed in the discussion that follows.

In the beginning of the dissertation, two major underlying assumptions were put forward. First, the assumption of bounded rationality advanced by the Carnegie school theorists (Cyert and March, 1963; March and Simon, 1958) illuminates the limitation of the ability of individuals to process all information relevant for taking decisions in complex environments, which in turn provides an argument for studies of personal demography, of managers in organisations, being the base for specific perceptions and responses to environmental stimuli. The second assumption, building on the first and put forward by Hambrick and Mason (1984) and by Pfeffer (1983), presumes that organisations and more specifically organisational activities and outcomes are the reflection of a dominant coalition or TMT, who make strategic choices based upon their values, cognitions and perspectives which are assumed to be embedded in the individuals’ demographic backgrounds. While these two assumptions have provided a general framework for the large stream of studies relating TMT demography to organisational
outcomes, the questions of which demographic characteristics, which outcomes and by what means (in other words, the 'How') have remained largely unanswered due to the mixed results of the empirical investigation of the behavioural theory of the firm which the two assumptions represent.

By illuminating culture as a complex and emergent demographic characteristic of TMT, I therefore investigated how and under which conditions it influences organisational outcomes; my aim was to develop the behavioural theory of the firm, where empirical investigations have been labelled as a double-edged sword (West and Shwenk, 1989) due to their mixed and contradictory findings.

The empirical finding in Paper 4 (Chapter 5) suggests that the relationship between TMT cultural diversity and TMT process, i.e., communication, is moderated by TMT shared goals and vision and TMT international experience. The resulting increased agreement over the direction of the firm as well as the experience of working in different countries has a positive effect on TMT process. These findings are in line with the limited number of theoretical papers in the field claiming that, in order for cultural diversity in teams to be beneficial for those groups, a number of moderators must be present (Ely and Thomas, 2001). Consequently, the empirical findings provide partial (since the organisational outcomes are not considered in Paper 4) empirical support for the moderating model identified as one of the competing models of inquiry into the link between TMT cultural diversity and organisational outcomes.

Paper 4 (Chapter 5) provides anecdotal evidence of the triangulation between TMT cultural diversity, TMT shared visions and international experience, and TMT process, which were then empirically tested in Paper 6 (Chapter 7). The empirical findings of the latter paper suggest that TMT cultural diversity influences on organisational outcomes are contingent on the TMT process, i.e., behavioural integration of the team that is in turn contingent on the TMT shared vision. This
triangulation in turn influences the resource allocation performed by the team – an ambidextrous orientation that then influences organisational performance. Thus, the moderator model identified in the theoretical framework in Paper 2 (Chapter 3) is again shown to be superior in explaining the link between TMT cultural diversity and organisational outcomes; moreover, the empirical findings supporting that model have shown the conditions under which TMT cultural diversity might have positive effects on organisational outcomes. The findings of Paper 6 therefore go against the mainstream empirical articles that have indicated the negative consequences that TMT cultural diversity has on organisational outcomes due to difficulties in TMT process (Elron, 1997; Barsade et al., 2000; Miller et al., 1998; Hambrick et al., 1998), in showing that, by having a shared vision, culturally diverse TMT can overcome TMT process difficulties. Moreover, Paper 6 uncovers the outcome variable – the ambidextrous orientation of the firm, which is shown to mediate the relationship between TMT process and organisational performance. This indicates that previous studies that have primarily looked at one organisational outcome – mostly firm performance – could have missed an important outcome variable that mediates the TMT process link to organisational performance.

The first theoretical contribution of this dissertation is thus uncovering the conditions under which TMT cultural diversity has an influence on organisational outcomes, and the answer to the question ‘How?’ can be phrased as follows: TMT cultural diversity will have a positive effect on organisational outcomes if TMT has a strong shared vision that improves TMT behavioural integration, which in turn improves the ambidextrous orientation of the firm, which ultimately leads to improved organisational performance. This theoretical contribution could indicate that the predominantly negative organisational outcomes shown to be a result of TMT cultural diversity are due to unmeasured powerful moderators such as TMT shared vision, that allow the TMT retain the creativity associated with cultural diversity but dampen the misunderstanding and categorisation of ‘us versus them’.

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The empirical findings in Paper 1 (Chapter 2) indicate that the TMT process cannot necessarily be captured by internal variables such as communication, social integration and conflict, as has been attempted in mainstream TMT research; instead, one can capture the process through the study of frequency of interaction between the top managers. Paper 1 primarily uses the interaction among decision makers as a way to define the TMT of Swedish business groups: however, it also shows that the process through which TMT demography influences organisational outcomes is not necessarily found within the group but can be of an external nature such as networking outside the formally defined TMT. Picking up on this finding, Paper 5 (Chapter 6) investigates how the process of interaction between the TMT and the board of directors influences the relationship between TMT diversity and organisational performance. The paper empirically explores the assumption of the externality of the TMT process and shows that cultural diversity of TMT in interaction with that of cultural diversity of the board has a positive influence on organisational performance.

The empirical findings of both papers resonate well with the findings in the relational or network studies in TMT, which, however, have been characterised by a limited number of articles (e.g., Clark and Smith, 2003; Gulati, Nohria, and Zaheer, 2000; Nahapiet and Ghoshal, 1998). This approach is believed to be a shift from the attributes of atomistic study that characterise composition and process research (Clark and Smith, 2003). This approach suggests that, whereas the study of demographic composition may reflect the stock of experiences and values held by the team (Hambrick and Mason, 1984), and the study of process is a sign of how the team transfers and manipulates knowledge and information (Shaw, 1981), the study of top management social networks exposes the types and amount of potential additional information that is available to team members through their connections to others.
Thus, the second theoretical contribution of this dissertation uncovers a second set of conditions under which TMT cultural diversity influences organisational outcomes. The second answer to the question ‘How?’ can be phrased as follows: *TMT cultural diversity will have a positive influence on organisational outcome when TMT cultural diversity is interacting with similarly culturally diverse BoDs.* This in turn means that TMT may be considered within a network context, and this resonates with idea of Finkelstein and Hambrick (1996) who adopted the label of ‘Supra TMT’ to refer to the network of managers and representatives of the shareholder.

In summary, the theoretical contributions of this dissertation are expressed by the identification of the conditions that fill the research gap on the influences of TMT cultural diversity on performance. These conditions can be divided into

- external TMT-related factors such as TMT shared vision and TMT network with other parts of organisation such as the BoD;
- internal TMT-related factors such as TMT behavioural integration; and
- firm-specific factors such as ambidextrous orientation.

In combination, these conditions determine how cultural diversity in TMT influences organisational outcomes.

### 8.5 Summarising managerial implications of the dissertation

The area within the field of business administration that this dissertation primarily contributes to is executive recruitment and selection, in other words the “art of composing a TMT”. The outcomes of this study could be used as a base for the decisions of recruitment into the upper apex of the firm.
The shared vision and executive international experience have been shown to reduce the frictions among culturally diverse top managers. However, what creates the shared vision is unclear. On the one hand, clear vision could be assumed to be created within the TMT through the socialisation of managers prior to their entry to the TMT that takes place during their tenure at the corporation. It can be assumed that it is through the socialisation within the firm that the ideas of firm development and long-term strategy are created, shaped and aligned with the other managers. On the other hand, shared vision in the TMT could be a result of the external recruitment, which thus indicates the importance of individual assessment of the manager in order to be recruited into the team from the outside of organisation. Therefore, there are indications (Papers 4 and 6) that in order to create the shared vision that helps the culturally diverse TMT to overcome their differences, both internal and external candidates will be assessed in terms of their common ideas of the firm’s future.

Another important factor in reducing issues related to cultural diversity in TMT, as found in Paper 4, is prior international experience of top managers. It is possible that international experience increases cultural tolerance as well as ability to interpret and understand people of different cultural backgrounds. Thus, international experience of top executives could yet be another dimension to consider when recruiting into TMT.

This study (Paper 5) has also indicated that the similarities of the cultural makeup of the TMT and BoD result in increasing firm performance. This can be used as a guideline for both the shareholders in appointing the board members and to the CEO in recruiting their team. When the new CEO takes on the position, one could suggest that in choosing the members of the TMT they consider the cultural composition of the BoD. If, for example, the BoD consists of five Swedes and five Danes, the CEO should match this even division of cultures in their own top team. When it comes to the BoD recruitment, the shareholders appointing the BoD members should consider the
cultural makeup of the TMT and also try to mirror the cultural variety of the TMT in the BoD.

Cultural diversity at the top of organisations is still relatively low, judging by the Swedish sample used in the dissertation. However, conditions in the business environment in general might push for its increase due to the (1) increase of international ownership that results in the culturally diverse BoD; (2) increase in the national diversity of top managers due to the internationalisation of the firm’s operations and as a consequence enlargement of the managerial pool to choose from; and (3) potential increase in ethnic diversity of top managers due to the transparency of national boarders and raising the number of second- and third-generation immigrants entering the corporations. Thus, the recruitment practices of the firm should reflect current and potential cultural diversification at the top in order to rip its benefits and avoid its shortcomings.

8.6 Reflecting on findings and non-findings

The very first reference of this dissertation has been made to Hambrick and Mason’s (1984) seminal article that laid the groundwork for the inquiry into the TMT demography and its reflection on organisational outcomes. It is also this work that inspired this dissertation. Further incentive to conduct research in the field, however, have been provided by the second reference in this dissertation, that is West and Schwenk (1996), who labelled the field as a “double-edged sword”, arguing that the outcomes of TMT diversity research have been mixed and inconclusive, and unable to show how TMT demographic diversity influences firm outcomes. Therefore, the intention of this dissertation was to advance the field by showing how particular diversity dimension – cultural one, influences organisational outcomes, ultimately providing a clear answer on the how question through the investigation of the contingencies. However, what was found didn’t provide any straight answers but rather raised further questions, which have thus indicated
that the fragmentation of the field due to the models of inquiry, the use of methods, and the use of concept (Umans, 2009) remain unsolved. The discussion that follows indicates the limitation of the findings of this dissertation, which give rise to new research questions.

In Papers 1 and 2, which helped build the theoretical framework for this dissertation and is in line with West and Schwenk (1996), it was established that TMT cultural diversity must be studied with caution in its relationship to organisational outcomes due to the variety of model, method and definitions that are currently being used in the field. Primarily, the focus in these papers have been placed on the TMT demography (cultural diversity) and the TMT processes side of the model. In doing so the organisational outcomes, which are part of the model, have been more in the shadow. Thus, while adding more clarity to the models and methods in use, the definitions dealt with diversity and process. Outcomes of the TMT cultural diversity were rather unproblematic within this dissertation, apart from the introduction of the ambidextrous orientation of the firms with culturally diverse TMT in Paper 6. Paper 3, for example, focuses on the ethnic/national diversity in teams and group performance, aiming at extracting the team process out of the black box. Paper 4 concentrates on the TMT ethnic diversity and communication as a process, while Paper 5 focuses on the interaction of BoD and TMT based on cultural dimension and its relation to firm performance. Therefore, while potentially clarifying the relationship between TMT cultural diversity and process, those papers that concentrated on the outcome have always assumed it to be firm/group performance. In a way, solving the black box of the TMT process, that is assumed to be the major shortcoming of the field (Lawrence, 1997), has put a limitation on the concentration on the organisational outcome. Therefore, potential research questions are: Which organisational outcomes are the result of cultural diversity in TMT, as well as which culturally diverse TMT processes have which influences on which organisational outcomes.
Inconsistencies in the operationalisation of culture have been identified in Paper 2 of this dissertation. Since then most of the papers comprising this dissertation focus on the TMT national and ethnic dimensions. This dissertation has primarily adopted the measure of diversity as separation (Papers 3, 5 and 6), referring to the differences in position among top team members that reflect horizontal distance along a single continuum in a particular attribute (Blau index). While a common way of measuring diversity in TMT research, the other two ways of measuring diversity as variety—differences in kind or category (standard deviation) or disparity—differences in concentration (fault lines approach) did not find its way into this dissertation. In Paper 5, cultural diversity of TMT was taken from financial reports that made observations of cultural diversity (nationality) impossible due to non-reporting, which is why locals and foreigners formed two categories that could not be measured through variety or disparity, and only the separation measure could be applied. Paper 6 made it possible to use variety as a measure; however, the results of the paper could not be compared to those results of Paper 5, which have pushed for the use of separation as a measurement of culture. Moreover, as it appeared in Paper 3, the cultural diversity measured as variety have not had an effect on the group outcomes, and the tests performed in Paper 6 have shown a similar outcome. Thus, it appeared that the psychic distances between different cultures represented in TMT did not matter for neither process nor group/firm performance; however, it is the difference itself that mattered. In one way, trying to consistently measure cultural diversity throughout the paper was thought to bring continuity to the papers, making them comparable to each other. At the same time, it has overshadowed alternative ways of measuring cultural diversity. The measures of cultural diversity left in the shadow within this dissertation, namely variety and separation, thus could be suggested for use in further studies. Thus, a potential research question could be: How differences in operationalisation of cultural diversity as a separation, variety and disparity influence the outcomes of the studies and organisational outcomes.
In a way, investigating the consistency in concentration on TMT diversity and process, as well as consistency in measuring cultural diversity, I have tried to avoid and even solve the mistakes I thought researchers in the field before me have made. However, what appeared to be the case of over concentration on certain issues reduced the multiple perspectives some researchers have asked for in the field (Miliken and Martins, 1996). Thus, while creating clarity within the path I have chosen, I have just added more confusion to the paths that were not investigated. Ultimately, at the end one appears to contribute to the inconsistent field, but by doing so one only adds more confusion, which means that I made the field of my study even more confused albeit hopefully on a higher theoretical level. While admitting to bring more confusion, this dissertation has shown the way forward in theoretical, empirical and practical senses, which could be one of the ideas behind a doctoral dissertation.

Apart from the future research questions outlined above, the next section presents more broadly defined venues for future research.

8.7 Suggestions for future research

TMT demography and its influence on organisational outcomes is a mature field with more than 25 years of empirical research following one considered seminal article by Hambrick and Mason (1984) that began it all. While many authors have attempted to contribute to the discussion on how and why TMT influences organisational outcomes, the field is still characterised by mixed findings which are attributed to the use of different ways or models of inquiry, data collection techniques and operationalisation of independent and dependent variables. This dissertation has attempted to use the combination of models, methods and operationalisation of independent and dependent variables in order to solve some of the contradictions in the field; however, the findings of the dissertation have led to new questions
which future research in the field could investigate. Three themes for future inquiry may be defined:

TMT network model
For its theoretical frame, this dissertation has relied on three models of inquiry into TMT cultural diversity and organisational outcomes: namely, demographic composition, intervening and moderating models. It is especially the last model that has shown great promise of uncovering the conditions under which TMT cultural diversity could be beneficial for organisational performance; however, it appears that a fourth model that has been reflected in a very few articles (Clark and Smith, 2003; Gulati, Nohria and Zaheer, 2000) could be used in such investigations. Up to now, the research in this relatively narrow stream of inquiry has primarily concentrated on the TMT network and its link to organisational outcomes, without considering the interaction of the TMT network with TMT demographic diversity. Paper 1 and Paper 5 of this dissertation, however, have shown that using the network approach in defining the TMT or exploring the network in the upper apex in conjunction with TMT diversity could provide insights into TMT influence on organisational outcomes. Future research could look into structural aspects of the TMT network (size, structure and orientation), as well as into its social aspects (such as friendship, trust and reciprocity) in conjunction with TMT demographic diversity characteristics. Looking at both the network and diversity of TMT could explain TMT recruitment and turnover and TMT information acquisition and sharing which could be important factors in influencing TMT process and subsequent organisational outcomes. By investigating TMT networks in conjunction with TMT cultural diversity, one could expect to further the knowledge of how the cultural identity of TMT is being created within and outside of the formally defined TMT, which could help to investigate the behavioural patterns of individual TMT members and TMT behaviour as a team composed of complex cultural identities.
TMT cultural diversity and organisational outcomes – contingencies

Another possible avenue for future research could be the exploration and identification of contingencies, or in other words, processes, mechanisms and conditions through which cultural diversity could benefit organisational outcomes. While this dissertation has identified several contingencies such as TMT shared goals and vision, TMT combined international experience and TMT networking with other parts of the organisation, there is a need to further identify and test contingency factors. Some team diversity studies have begun investigating other moderators of the team diversity link to team process. For example, Dwyer, Richard and Chadwick (2003) investigated the moderating role of organisational culture on the link between gender diversity in management teams and the growth orientation of the firm, finding a positive interaction between some types of organisational culture with gender diversity in its influences on the growth orientation of the firm. Since organisational culture can be viewed as a pattern of shared values and beliefs that help members to understand organisational functioning and to provide them with norms of behaviour in the organisation, it can serve as a control mechanism by being a framework through which members of organisations internalise expectations about corporate roles and behaviours (Deshpandé and Webster, 1989). Thus, possibly stronger organisational identity among the top managers could reduce the negative effects of cultural differences, which in turn could result in improved team process and ultimately organisational performance. Other possible contingencies of the cultural diversity in teams and outcome relationship could be found in the other demographic characteristics of the top team, as in the group faultlines approach (Lau and Murnighan, 1998, 2005) that looks at demographic characteristics not as single attributes but considers them simultaneously and in relation with each other to identify possible sub-group formation in the team; this could be a way forward both in investigating the influences of TMT cultural diversity on organisational
outcomes. being contingent on other demographic characteristics of the team and in operationalising diversity as a construct.

Operationalisation of cultural diversity
Cultural diversity in TMT has been operationalised in three distinct ways in management research: as racio-ethnicity, as nationality and as ethnicity. While racio-ethnicity and nationality have proved instrumental in exploring cultural differences among top managers and have been shown as capturing some part of a person’s culture, the geopolitical landscape and mobility might soon reduce the strength of these two constructs; instead, the construct of ethnicity or ethnic identity, religion and regional affiliation could become the dominant means of mapping cultural differences. While this dissertation has attempted to use ethnicity as a construct, it has not succeeded in capturing its specific nature due to the data at hand where nationality and ethnicity were highly correlated. Nevertheless, there might be great promise in future studies of TMT to investigate it since the second and third generation of immigrants in Europe are already or will soon be entering the upper echelons of organisations holding the nationality of the receiving country yet still maintaining the ethnic cultures of their countries of origin. Religion as one of the cultural measures could possibly soon also enter the corporate scene. Discussion of the connections between religion and business ethics as well as connection between religion and wealth acquisition and profit are by no means new, although it has not found its way into the TMT research. However, since racial and national identity might be weakening, it is religious and ethnic affiliations which with time could matter and thus provide new constructs in measuring and investigating the link between managerial cultural diversity and organisational outcomes.

8.8 Conclusion
What this dissertation has uncovered is how cultural diversity in TMT influences organisational outcomes, and while several answers to this
question have been found through the combination of model, methods and definitions of concepts, the probability that many more answers remain to be found cannot be discounted. One has to accept the fact of the bounded rationality of the human being that makes us see and investigate those things we are capable of understanding and avoiding those things we cannot comprehend, a fact which the author of this dissertation accepts and embraces.
References


Appendix: Questionnaires and Interview guides

Chapter 4.

Ethnic and gender diversity, process and performance in groups of business students in Sweden

**Block 1**

Your group number

How many people are in your group you were working on Case number.3 (2-5)

How many male and female were in your group (Female/Male)

What is your nationality? If more then one please state both!

What is the country of your birth?

If country of your birth is different from the country you are currently living in, please indicate how many years you have lived in the country of present residence. (Otherwise leave it blank)

What is your native language?

What is the country of birth of your father?

What is your father’s native language?

What is the country of birth of your mother?

What is your mother’s native language?

Please identify country of origin of your group members (in other words which ethnic background your group members have, for example if the person is a Swedish citizen but you know he/she
has Serbian roots, please write Serbian). If it is hard to identify it, please write to the best of your knowledge.

Please state which nation do you mostly associate yourself with?

How would you evaluate the performance of your group on case number 3? (1-20)

**Block 2** *(1 is the lowest grade and 7 is the highest)*

How would you evaluate your own performance dealing with case number 3

How would you evaluate performance of each member of your group on case number 3

Name (1-7)

Name (1-7)

Name (1-7)

Name (1-7)

Name (1-7)

Please identify the person who had a leader position in the group.

Name:

How constructive were your discussions while making the case number 3?

How effective was your group in solving case number 3?

Please indicate the degree of conflict present in your group while solving the case number 3?

How freely you personally could express your own opinion in the group while working on case 3?
Please indicate the degree of comfort you felt while working with your group on case 3?

Please indicate how many hours of work were spent on case 3?

Please indicate how effective was the communication flow in the group while working on case 3?

**Block 3**

Please indicate the number of semesters (including Fall 2006) you have studied on the university level.

General comments on your group work on case number 3 if any:
Chapter 5:

Ethnic Identity, Power, and Communication in Top Management Teams

Warming up

Could you please describe how you have come to the company you are presently working in?

Could you please describe how you have reached the position you are presently occupying?

What do you think are you strongest characteristics that have allowed you to reach the top of the organisation?

How long have you been working in the company?

Where have you worked before (ICA, Ericsson, Prime, GE Money)?

When have you entered the position you are currently occupying?

What was your previous position?

Identification of Top Management Team

Could you please identify your colleagues who are involved in the decision making in your company?

What are the areas these colleagues are responsible for?

How often do you hold the meeting with these colleagues (peers) (together)?

What are the primary issues you are usually discussing during these meetings?
Processes in the team
Please describe recent event of high importance to the company when your peers had to make a combined decision.

How was this decision being made, please describe.

Could you please describe your personal involvement in the decision making?

Could you please describe personal involvement of each member of the executive group?

Communication and Social Integration
How often do you meet with your peers at work?

(Please mentions every peer of yours and frequency of your meetings)

Why do you meet them more often/rarely then the others?

How often do you meet with your peers outside work?

(Please mentions every peer of yours and frequency of your meetings)

Why do you meet them more often/rarely then the others?

Please tell me how you socialize with each top manager at work?

Please tell how you socialize with each top manager outside work?

Meeting
Please describe a usual meeting of the top managers.

(What is the structure of the meeting, who does most of the talking, how issues are being raised, how issues are being discussed)?
Conflict
Could you please describe a situation when you had a conflict with one or more members of your executive group?

How often the conflict occurs among your peers?

And if it does could you say why? (How do you mean it?)

Colleagues
What do you think are the strongest characteristics of your peers that have reached the top of the organisation?

Could you tell me the first time you have met your peers (please describe the meeting with each peer, and the emotions that you have experienced).

Do you think your peers are different from you (in which way)?

In which way are they similar to you?

Outcomes
How do you think your group performs?

Do you think the executive group works as a team?

Why not?

How do you think your group works together?

Values
Please tell me what you have in common with your peers?

Ethnic identity
What is the country of your birth?

What nationality do you hold?
What is your ethnic identity of different from the country of your birth?

How important is your ethnicity to you?

What was you primary language of communication at home?

What is you primary language of communication at home?

What is your primary language of communication at work?

What is your native language?

Could you please tell me what is your family background: your parents, your partner?

Could you please shortly tell me where you have studied, starting from the primary school?

What was the language of instructions?

Could you tell me what are the ethnic origins of you peers in your executive team (if known)

What else do you know about the background of your peers (educational, functional, family)

**Ethnicity Direct Questions**

What would you say is typical Russian, Latvian, Swedish, Finish, and Portuguese (depending on the company)?

Are your colleagues in the top management team matching these characteristics?

In which way? Please discuss each colleague.

Do you think your peers ethnic background has something to do with the way they are?
Chapter 7:

Cultural diversity in top management teams and organisational performance: Black box revisited

I (the CEO) am filling this survey myself YES/NO

**Demography CEO**

I am: Male/Female

I born (year)

My nationality

I company since (year)

I CEO position since

Highest level of education: high school diploma, professional after high school diploma, some university courses, bachelor degree, master degree, research degree(lic. Phd )

**TMT Demography**

Please identify below the people that belong to your executive team (top management team) excluding yourself.

<table>
<thead>
<tr>
<th>TMT Nr.</th>
<th>Gender</th>
<th>Aprox Age</th>
<th>Nationality</th>
<th>Native Language</th>
<th>Aprox year in the team</th>
<th>Function</th>
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TMT Behavioural Integration (BI)

Please indicate below to which extend the following statements describe the top management team (TMT)

Where 1=strongly disagree to 7=strongly agree

BI: Information exchange

The ideas that our TMT members exchange are of high quality.

The solutions that our TMT members put forward are of high quality.

The dialogue among the TMT members produces a high level of creativity and innovation.

BI: Collaborative behaviour

When a team member is busy, other team member often volunteer to help her or him to manage her or his workload.

The fact that the TMT members are flexible about sharing responsibilities makes things easier for each of them.

The TMT members are willing to help each other with complex jobs and meeting deadlines.

BI: Joint decision-making

The TMT members usually let each other know when their actions affect another team member’s work.

The TMT members have a clear understanding of job-related problems and the needs of other team members.

TMT Shared Visions

Please indicate below to which extend the following statements describe the top management team (TMT)

Where 1=strongly disagree to 7=strongly agree
There is a commonality of purpose in my senior team.

There is total agreement on our organisational visions.

All senior team members are committed to the goals of this organisation.

People are enthusiastic about the collective goals and mission of the whole organisation.

**Ambidextrous Orientation**

Please assess how the following statements reflect your firm’s orientation during the past 3 years using a 5-point scale ranging from 1 = strongly disagree to 7 = strongly agree.

**Explorative orientation**

Looks for novel technological ideas by thinking “outside the box”
Bases its success on its ability to explore new technologies
Creates products or services that are innovative to the firm
Looks for creative ways to satisfy its customers’ needs
Aggressively ventures into new market segments
Actively targets new customer groups

**Exploitative orientation**

Commits to improve quality and lower costs
Continuously improves the reliability of its products and services
Increases the levels of automation in its operations
Constantly surveys existing customers’ satisfaction
Fine-tunes what it offers to keep its current customers satisfied
Penetrates more deeply into its existing customer base.
Organisational Performance
How would you compare the organisation’s performance over the past 3 years to that of the organisations that do the same kind of work? What about
1=much worse than the competitors to 7=much better than the competitors

Economic performance
- Growth in sales/revenues
- Return on sales/revenues
- Return on assets

Service development and quality
- Quality of products, services
- Development of new product services

Human resource performance
- Ability to attract and retain talented employees
- Relations between management and employees
- Relations among employees

Control (Size)
Please state approximate number of employees in your corporation in 2010

Please state approximate turnover of your corporation in 2010 (in SEK/DDK)

Industry (DI index)
125. Timurs Umans 2012; The Bottom Line of Cultural Diversity at the Top – The Top Management Team’s Cultural Diversity and its Influence on Organisational Outcomes, 266 s.
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120. Jonas Fjertorp 2010; Investeringar i kommunal infrastruktur – Förutsättningar för en målfokuserad investeringsverksamhet, 328 s.
119. Fredrik Ericsson 2010; Säkringsredovisning - Implementeringen av IAS 39 i svenska icke-finansiella börsföretag och konsekvenser för säkringsverksamheten, 242 s.
118. Steve Burt, Ulf Johansson & Åsa Thelander 2010 (editors); Consuming IKEA. Different perspectives on consumer images of a global retailer, 268 s.
117. Niklas Persson 2010; Tracing the drivers of B2B brand strength and value, 294 s.
116. Sandra Erntoft 2010; The use of health economic evaluations in pharmaceutical priority setting – The case of Sweden, 196 s.
114. Jon Bertilsson 2009; The way brands work – Consumers’ understanding of the creation and usage of brands, 247 s.
112. Agneta Moulettes 2009; The discursive construction, reproduction and continuance of national cultures – A critical study of the cross-cultural management discourse, 250 s.
111. Carl Cederström 2009; The Other Side of Technology: Lacan and the Desire for the Purity of Non-Being, 300 s.
110. Anna Thomasson 2009; Navigating in the landscape of ambiguity - A stakeholder approach to the governance and management of hybrid organisations, 295 s.
108. Jaqueline Bergendahl 2009; Entreprenörskapssesan genom beslutsprocesser i team – En elektronisk dagboksstudie i realtid, 318 s.
107. Louise D. Bringselius 2008; Personnel resistance in mergers of public professional service mergers – The merging of two national audit organizations, 331 s.
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103. Annette Cerne 2008; Working with and Working on Corporate Social Responsibility: The Flexibility of a Management Concept, 257 s.
102. Sofia Ulver-Sneistrup 2008; Status Spotting - A Consumer Cultural Exploration into Ordinary Status Consumption of “Home” and Home Aesthetics, 297 s.
101. Stefan Henningsson 2008; Managing Information Systems Integration in Corporate Mergers and Acquisitions, 378 s.
100. Niklas L. Hallberg 2008; Pricing Capability and Its Strategic Dimensions, 275 s.
99. Lisen Selander 2008; Call Me Call Me for Some Overtime – On Organizational Consequences of System Changes, 224 s.
98. Viktorija Kalonaityte 2008; Off the Edge of the Map: A Study of Organizational Diversity as Identity Work, 236 s.
96. Sverre Spoelstra 2007; What is organization?, 180 s.
95. Veronika Tarnovskaya 2007; The Mechanism of Market Driving with a Corporate Brand - The Case of a Global Retailer, 371 s.
94. Martin Blom 2007; Aktiemarknadsorienteringens ideologi – En studie av en organisations försök att skapa aktieägarvärde, dess styrning och kontroll samt uppgörelse med sitt förflutna, 260 s.
93. Jens Rennstam 2007; Engineering Work - On Peer Reviewing as a Method of Horizontal Control, 240 s.
92. Catharina Norén 2007; Framgång i säljande - Om värdeskapande i säljar- och köparinteraktionen på industriella marknader, 295 s.
90. Gunilla Nordström 2006; Competing on Manufacturing - How combinations of resources can be a source of competitive advantage, 334 s.
89. Peter W Jönsson 2006; Value-based management - positioning of claimed merits and analysis of application, 359 s.
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