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**UPPER ECHELONS AND CORPORATE OUTCOMES:
THE CASE OF INTERNATIONAL DIVISIONS
OF US MULTINATIONAL CORPORATIONS IN IRELAND**

This paper presents a review of the extant literature on top management teams and their likely impact on organizational performance and success. The relationship between top management team demography, team process and the sales growth performance in a sample of international divisions of US multinational corporations is tested. Multiple regression is used to analyse the impact of these demographic and process variables on the performance of 25 companies. Sales growth is the sole performance proxy employed in the research. Demographic and team process characteristics are found to have both direct and indirect effects on sales growth.

1. INTRODUCTION

After nearly twenty years of “relative inattention” (Daily and Schwenk 1996, p.185) the re-emergence of an upper echelons perspective was, according to Hambrick (1989, p. 5) “inevitable” principally because the top management group “account for what happens to the organization”. Daily and Schwenk (1996), in their recent review of the extant literature, demonstrate the revival of this aspect of strategic leadership by amassing no less than 65 references between 1989 and 1994 dealing with Chief Executive Officers (CEOs), Top Management Teams and Boards of Directors. Dedicated to moving beyond a simple examination of singular leaders at the top of organizations, much of this research has cast its net wider to focus on the cluster of executives who comprise the “dominant coalition” (Cyert and March 1963) in organizations (see for example, Bantel and Jackson 1989; Boeker 1992; Day and Lord 1988; Finkelstein 1992; Hambrick 1981; Hambrick and Mason 1984; Smith et al.1994). Thus, according to Hambrick (1994), the expression “top management team”, entered the organization literature in about 1980 and has been pervasive ever since. The logic of the necessity for such teams is that it is difficult for any one individual to gather, assimilate and act upon all of the information that is needed to make strategic decisions and consequently effective strategic management

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is best achieved through the bringing together of a group, especially in the context of multiproduct multinational enterprises operating in complex dynamic environments (Ghoshal and Nohria 1989; Grant 1987; Hill and Hoskisson 1987; Morley et al. 1996). Recently popularised organizational forms emphasise the concept of the top team as a pivotal lever for sustained competitive advantage. Bodies of literature associated with the excellence school (Peters and Waterman 1982; Moss Kanter 1983; Quinn-Mills 1991), the high performance movement (Lawler 1991; Hanna 1988; Buchanan and McCalman 1989; Morley and Heraty 1994; Morley and Garavan, 1995) and the resource base theory of the firm (Barney 1991; Roth, 1995) dedicated to expanding the principles of the value chain (Porter 1985) have all embraced the team concept as a means of delivering flexibility, continuous improvement and sustainable competitiveness. This collective group at the top of the organizational hierarchy will almost invariably have more influence on the course of the firm than any other people in the organization (Hambrick 1994; Pucik et al. 1989). Indeed, Daily and Schwenk (1996) conclude that one of the most important themes in the body of research in this area involves the homogeneity/heterogeneity of the management group operating at the top of the organization and its impact on critical corporate performance outcomes such as financial performance, growth and innovation. Thus Hambrick (1994, p. 174) predicts that "for those interested in explaining organizational outcomes, analytic attention to the group of executives at the top will not be misplaced".

While there is an obvious and growing interest in TMTs and although the late 1980s witnessed a significant evolution of academic interest in the multinational enterprise (Kogut 1980; Grant 1987; Bartlett and Ghosal 1986; Hoffman 1988; Lobel 1990; Monks 1996), there has been little previous research on such teams in foreign divisions of US multinational enterprises. Yet TMT issues are of crucial importance in this setting since corporate headquarters must depend on TMTs in the subsidiary for the creation of acceptable operating results (Ancona and Nadler 1989; Marsick and Cederholm 1988). Furthermore, the TMT is particularly important in such companies because of the particular problems that they face. Complex dynamic environments (Bartlett and Ghosal 1986; Tung and Miller 1990), tensions regarding the degree of autonomy afforded the subsidiary (Hoffman 1988; Wickham 1989), intersubsidiary rivalry (Hoffman 1988; Prahalad and Doz 1987), cross cultural puzzles (Lauren 1986) and expatriate mal-adjustment (Mendenhall and Oddou, 1985; Brewster 1991, Brewster 1993, Morley et al. 1997) are all multinational subsidiary issues that require strong coping mechanisms. As Chang (1993, p. 1) argues:

The dramatic growth of multinational enterprises since W. W. II has significantly affected the economy of virtually all industrialized nations. With subsidiaries operating in different countries, multinational enterprises face a degree of complexity and cultural diversity that far exceeds those faced by domestic corporations. This diversity and complexity increases the importance of

building a body of knowledge about the effective management of multinational enterprises. The TMT may well be such a mechanism.

In relation to the growth of multinational companies in the Irish context, over the last 20 years such multinational corporations have been a key element in the development of the manufacturing base. Intense competition has created a situation where it is vital that Ireland is more competitive than other locations chosen by such companies. The key benchmark used by headquarters will be the relative performance of the Irish plant when compared with other subsidiary rivals in other parts of the world. Gunnigle et al.(1994) highlight that there are over 950 foreign owned firms operating in the industrial sector in Ireland. This represents almost 20 percent of all firms, of which 46 per cent are US owned. US owned establishments now account for over half of the total number of large Greenfield site start-ups in Ireland. Furthermore, Ireland has been the most profitable location for US firms operating in the EU, achieving an average return on investment of 23 percent in the period 1982 to 1987, or three times the EU average.

2. TOP MANAGEMENT TEAMS AND THE MULTINATIONAL ENTERPRISE

While it is generally agreed that in most firms the Chief Executive Officer (CEO) possesses the most power (Keegan 1974; Hambrick and Mason 1984; Lobel 1990; Marsick and Cederholm 1988), it is also evident that the bringing together of a mix of personalities with different backgrounds, different cognitive styles, task relevant knowledge and skill and past histories is viewed as an effective means of strategic decision making and management (Pucik et al. 1989; Moore et al. 1995). The expression "top management team" has been adopted by academics working in the organization theory and strategy fields to refer to a relatively small group of the most influential executives at the top of an organization (Hambrick 1994; Hambrick and Mason 1984; Smith et al. 1994; Roth 1995).

However, TMTs in international divisions of multinational enterprises arguably play an even more important role given the complexity and uncertainty of their environments and, according to Hambrick (1994, p. 174) "TMTs within such business units or divisions need to be studied more than they have been to date". The way the international operations are structured is critical. The TMT and the balance achieved between inclusiveness and flexibility is a core issue for the multinational enterprise (Hoffman 1988; Prahalad and Doz 1987).

In the context of the multinational enterprise, this team must be internationalised (Pucik et al. 1989; Humes 1993).

No one person possesses the necessary talents, perspectives and experience to run a mega-multinational without the advice and assistance of a team of peers who complement and have confidence in one another. Those multinationals that wish to ensure the necessary cross-section of

international perspectives would gain by including in the executive team individuals who have multiple insights. (Humes 1993, p. 260).

Multinational enterprises are physically dispersed in environmental settings that represent very different economic, social and cultural milieus (Fayerweather 1978; Hofstede 1989; Humes 1993). They are internationally differentiated in complex ways to respond to both environmental and organizational differences in different businesses, functions and geographic locations (Bartlett and Ghosal 1986). The management task therefore becomes one of managing international diversity (Tung and Miller 1990; Tung 1995).

Three major developments have contributed to the growing need to relate and work effectively with peoples from different societal, cultural and economic backgrounds. The first development is the formation of global strategic alliances across entities from different countries. The second is the increasing globalization of the workforce. The third development is the emergence of the network structure (Tung 1995, p. 484).

TMTs, which represent a critical link in the network of such multinational enterprises, embrace this diversity by including people from different functions, different products, different nationalities and different areas (corporate headquarters, continental affiliates and national affiliates) as well as different languages and cultures (Humes 1993; Roth 1995; Alder and Bartholomew 1992).

In an excellent treatise of branch plant management, Wickham (1989) examines aspects of local autonomy for multinational enterprises operating in Ireland and argues that the managers of these subsidiaries can form a distinct social group who develop interests and aspirations that are distinct from those of corporate headquarters. This clearly has implications for headquarter/subsidiary relationships, particularly in the area of goal congruence between plants, decision making authority and network communications, and reinforces Humes' (1993) call for the internationalization of such teams in multinational enterprises.

3. THE PRESENT RESEARCH AND THE MEASURES

The central proposition of this paper is based on the premise that the demography of the TMT, coupled with how they actually conduct their business (process) are seen to influence (both positively and negatively) organizational outcomes (see: Pfeffer 1983, Smith et al. 1994). Demography refers to the biographical characteristics of the team such as educational background, experience and team size, while process refers to team behaviour and interactions such as how frequently they communicate, the communication

methods they employ and how socially integrated they are. The research represents a replication of that conducted by Smith et al. (1994) in their paper *Top Management Team Demography and Process: The Role of Social Integration and Communication*. Using data gathered from 53 high technology US based companies, Smith et al. test three alternative models of the effect of the TMT's demography and process on organizational performance and they present a fourth empirically derived model. They argue that only by understanding the relationship between team demography and process can organizations effectively structure their teams for survival and success. Their research sought to answer two key questions: (1) To what extent does team demography predict variation in either intervening team process variables or organizational outcomes? And (2) To what extent does the addition of team process account for variation that demography measures leave unexplained? They report that while the top management team's demography does have direct effects on performance, demography is also indirectly related to performance through process and process is directly related to performance. Using data gathered from 25 divisions (strategic business units) of US multinational enterprises operating in the Republic of Ireland, this paper tests the impact of TMT demographic and process variables specifically on the sales growth performance of the establishments. Thus the central question addressed in this paper is the extent to which the TMT demography and process variables impact (directly and indirectly) on the sales growth performance of international divisions of US multinational enterprises operating in Ireland. Arising from the results presented by Smith et al. (1994) one would predict that the following relationships should obtain (Fig. 1).

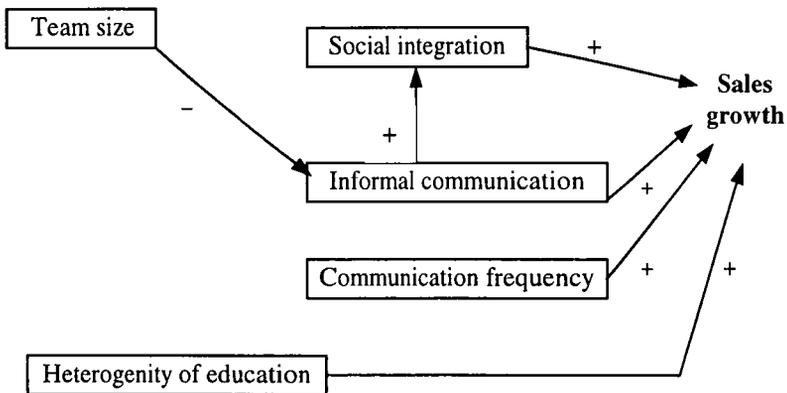


Fig. 1. Anticipated relationships between selected top management team variables and sales
Source: Smith et al. 1994, pp. 412-438.

Consistent with other research on TMTs, it is posited the TMT structure will influence organizational performance through the TMT process. It is also proposed that TMT process directly impacts on performance. While the US findings represent a template for the research reported here, they also represent a rather complex pattern of relationships and a difficult research agenda, primarily because TMT process is much more difficult to operationalize than is demography. Demography, referring to the biographical characteristics of the team such as educational background, experience and team size is factual, observable and measurable. Process, on the other hand, referring to team behaviour and interactions such as how frequently they communicate, the communication methods they employ and how socially integrated they are, is largely perceptual. Smith et al.(1994) have found little support for the simple demography model. This finding contradicts earlier research which concluded that TMT demography explained performance outcomes. While some demographic variables do seem to have a direct impact, the impact of a majority of them is mediated through process variables. The importance of this research focus is highlighted by reference to the dichotomy emerging within the literature. Thus Hambrick and Mason (1984) have identified that there is a relationship between managerial background characteristics and strategic choices and performance levels. Similarly, Gupta and Govindarajan (1984) and Norburn and Birley (1988) respectively, have concluded that leadership does make a difference to strategy and that the TMT characteristics do predict performance variations within industries. Conversely, others such as Liberson and O'Connor (1972) and Astley and Van de Ven (1983) have found no evidence to support the existence of such relationships.

Drawing upon the extant literature, with particular reference to Smith et al.(1994), the following TMT demographic and process variables were used in the present study:

Demography Variables

- The multifaceted construct of heterogeneity includes experience, education and functional background: Heterogeneity of Experience refers to the variety of previous industry experience in existence in the TMT; Heterogeneity of Education relates to the dissimilarity of the educational backgrounds of the members of the TMT; Functional Heterogeneity refers to the extent of functional diversity that exists within the TMT. Several TMT studies have linked TMT heterogeneity to organizational performance outcomes such as innovation (O'Reilly and Flatt 1989), turnover (Wagner et al. 1984) diversification (Michel and Hambrick 1992) and performance (Murray 1989). The implicit explanation, according to Smith et al. (1994) has generally been that TMT heterogeneity impedes the team processes of integration and communication, which in turn affects organizational outcomes. Heterogeneity of experience was measured by the amount of time spent working in the present industry and the length of service with the present company.

Heterogeneity of education was assessed by the number of years of formal education completed by each member of the TMT. Functional heterogeneity was arrived at by identifying the functional background of each of the team members.

- **Job Tenure** refers to the stability of employment of the members of the TMT. Previous research has revealed the importance of team tenure for overall organizational performance (Hambrick 1994; Michel and Hambrick 1992). Other studies have linked tenure to organizational strategy (Michel and Hambrick 1992), firm growth (Eisenhardt and Schoonhoven 1990) and strategic change (Wiersema and Bantel 1992). It has been argued that tenure produces stability and reduces conflict, produces patterns of predictability among the TMT and well acculturated TMT members. Longer team tenure is thought to enhance social integration and inter group communication. Linked to the principle of tenure is the age profile of the TMT members. Previous studies have suggested that older decision makers have more cognitive limitations and are less adept at handling information than their younger counterparts (Kirchner 1958; Weir 1964). The stereotype of the older manager is that he possesses less physical and mental stamina, has greater psychological commitment to the organizational status quo and views financial and career security as his primary goal (Moore et al. 1995). In the present study team tenure was measured as the length of time, in years, each team member had been in his/her current position. It was predicted that TMT tenure is positively related to performance, mediated through TMT process.

- **Team Size** refers to the number of participants/members in the team. The number of members is a critical element of group structure and composition. The general argument seems to be that a larger team negatively impacts on team integration, communication and subsequent performance, while smaller teams tend to have higher levels of cohesiveness and have less communication and co-ordination problems than do larger teams. A single item was used, namely who were the TMT members as identified by the Chief Executive Officer. It was hypothesised that TMT size will be negatively related to team process (social integration, communication frequently and communication informality).

Process Variables

- **Social Integration** refers to the extent to which the members of the TMT experience a sense of belonging and a sense of satisfaction with other members of the group. A multifaceted phenomenon, it manifests itself in "the attraction to the group, satisfaction with other members of the group and social interaction among the group members" (O'Reilly et al, 1989, p.22). It also reflects the degree to which team members work cohesively with one another, reach consensus in decision making and agree on the organizations goals. Participants in socially integrated teams are said to experience higher morale, greater satisfaction, greater organizational commitment and greater task efficiency (Shaw 1981; McGrath 1984; Morley and Heraty 1994). Previous research (Smith et al. 1994) has demonstrated

that firms managed by TMTs that have a high degree of social integration – teams that cohesively stick together, strive for consensus and agree on organizational goals – will accept more risk in their strategy than firms managed by more fragmented teams. Such a higher degree of strategic risk can be desirable to the extent that it results in greater performance outcomes. Here, social integration was measured by nine likert scaled items adapted from Shaw (1981). This measure has been created by and used in the original study by Smith et al. (1994). It was hypothesised that TMT social integration is positively related to organizational performance.

- Frequency of Communication refers to the amount of interaction between the team members (both formal and informal) and Communication Informality refers to the extent to which there is a preference among the members of the TMT for informal methods of communication such as spontaneous conversations and chance meetings. Frequency of communication here reflects team members interactions through a whole array of channels including face to face encounters as well as written and verbal communications. In relation to communication informality, Shaw (1981) argues that if a team is to function effectively, its members must be able to communicate easily and efficiently. Therefore, informal communication is expected to facilitate and increase the easy and efficient flow of communication among team members. Scales developed by Smith et al. (1994) were again used. It was hypothesised that both communication frequency and communication informality will be positively related to organizational performance.

Multiple regression was used to analyse the impact of these demographic and process variables on the performance of the 25 companies. Sales growth is the sole performance proxy used here. While return on investment was used in the study as a performance indicator, several respondents failed to provide reliable information in this area and it has therefore been dropped from this analysis. Total employment in 1991 was entered into the equation as a control variable.

4. THE DATA AND THE METHODS

This research was conducted as part of an ongoing collaborative project between the University of Maryland at College Park (USA) and the University of Limerick. The Irish data was collected from top management teams in divisions of US multinational enterprises operating in the Republic of Ireland. The data were gathered and analysed by an interdisciplinary team of researchers at the University of Limerick, namely Patrick Flood, Sarah Moore, Philip O'Regan and Michael Morley. A total of 58 enterprises were invited to

participate, of which 32 agreed. Usable responses from 25 TMTs were obtained. The sample, randomly chosen from a directory of overseas companies operating in Ireland were all single business, high velocity environments, similar to the high technology sample in Smith et al. (1994).

Following the approach adopted by Bourgeois (1980) and Smith et al. (1994), the TMT was simply identified by asking the CEO to name the members of his/her TMT. The key advantage of this approach lies in how restrictive it actually is. The more restrictive the approach to identifying the TMT, the more those identified can be expected to approximate a team and thus the greater the reliability of the phenomenon under investigation (see: Hambrick 1994).

A methodologically pluralist approach was employed involving the collection of three different types of data. Firstly, all 25 chief executives were individually interviewed with the aid of a structured interview schedule. Secondly questionnaires were administered to the members of each of the TMTs. Thirdly, company documentation such as annual reports, mission statements and long term strategic plans (where provided) were reviewed and content analysed.

5. RESULTS

A total of four TMT demography variables and two TMT process variables achieved significance in our analysis, confirming the findings from the Smith et al. (1994) study that both demography and process variables are critical in explaining variation in company performance. Table 1 reports the means and the standard deviations of the variables in the study while Table 2 reports the results of the multiple regression with sales growth as the dependent variable.

Table 1
Means and standard deviations

Variable	Mean	STD DEV
Team tenure	55.83	39.47
Social integration	3.51	.428
Frequency of communication	.03	.472
Heterogeneity of experience (Industry)	.45	.212
Communication informality	2.20	.319
Heterogeneity of education	.50	.264
Team size	4.37	1.07
Functional background Heterogeneity	.56	.182
No. of permanent employees (1991)	171.26	179.75

Source Table 1 and 2: the present research.

Table 2
Multiple regression

Variable	Beta	SE β
Team tenure	-.03	.00
Social integration	.03	.15
Frequency of communication	.30*	.13
Heterogeneity of experience (industry)	-.76**	.32
Communication informality	.42*	.18
Heterogeneity of education	-.09*	.23
Team size	-1.07*	.09
Functional heterogeneity	.68*	.53
No. of permanent employees (1991)	.25	.11

* $p < 0.05$ $R^2 = 0.59$;
 ** $p < 0.01$ $F = 3.38^*$;
 *** $p < 0.001$ $df = 18$

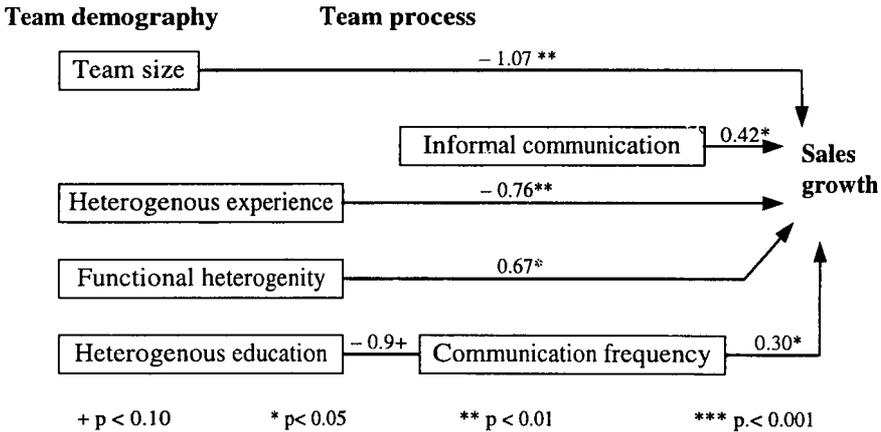


Fig. 2: Impact of TMT demography and process on sales growth
 Source: the present research

Team tenure and levels of social integration pertaining in the TMT have no impact on sales growth in the organizations studied. In relation to the remaining variables, demographic and process characteristics are seen to have both a direct and indirect effect on sales growth. Team size and heterogeneity of industrial experience have a direct negative impact on sales growth. Conversely, functional heterogeneity has a direct positive impact. Variation in educational backgrounds has an indirect negative effect on sales growth. Finally two

process variables, namely communication informality and frequency of communication, are seen to be significant. Figure 2 graphically presents a path model of the results of our analysis. (More detailed results are available from the authors – we do not report these results here as the sample size is small and the results are indicative only).

6. DISCUSSION

In common with our US colleagues, our data does not support any pure demographic, process or intervening model in relation to the impact of the TMT on sales growth and we do find some support, albeit tentative, for their conceptualization of the “extended” model whereby some demography variables impact directly on performance and some impact through process variables. However, the relationships we have identified do differ somewhat from those identified by Smith et al. (1994).

In relation to demography variables, team size has a direct negative relationship on sales growth, but our hypothesis, derived from Smith et al. (1994) that this will occur through negatively impacting on process is not supported. One would have anticipated that larger teams are arguably less socially integrated and encounter greater difficulties in communicating which results in poorer performance. This again runs contrary to the findings from the US study (Smith et al. 1994).

Team Tenure has no impact on sales growth, or indeed on TMT processes. This finding supports our US colleagues, but clearly is at variance with the literature generally. One would expect that this demographic variable would be positively related to performance through its impact on TMT process. The stability and familiarity that tenure should bring would be expected to positively influence social integration and communication and enhance organizational performance. Smith et al. suggest that a partial explanation for this result might be the measure used in the study. We used “time in the job” as a proxy for tenure. While clearly it is a useful measure, it may not be a sensitive enough one, telling us little about the history of the team together.

Our results suggest that heterogeneity of experience has a direct negative impact on sales growth. Smith et al. (1994) suggest that an explanation may be that teams with diverse experiential backgrounds encounter difficulties in decision making which hinders performance. However, this would run counter to Belbin’s (1981) work on team role types which suggests that the over-riding objective in putting together an effective performance oriented team should be to achieve an experiential mix. In line with Belbin’s research we do find that functional heterogeneity has a direct positive impact on sales growth.

In relation to variation in educational backgrounds, the US research revealed that it has a direct positive impact on performance. Here we find it has a negative impact on the process variable of frequency of communication suggesting that the amount of interaction between the members of the TMT is reduced where members of the team have diverse educational backgrounds.

In relation to process variables, social integration has no impact on sales growth in the Irish context and Smith's et al. (1994) hypothesis that TMT social integration is positively related to organizational performance is not supported. A possible explanation emerges when one considers that the relationship between social integration on any measure of performance is likely to be complex and is likely to be contingent on the configuration and/or simultaneous existence of many other variables.

Communication informality and communication frequency have a positive impact on sales growth, and in line with Smith et al. (1994) our hypothesis is thus supported. As expected, informal communication would appear to facilitate the flow of communication (Shaw 1981) and the number of interactions would appear to be related to performance. However, as the US results demonstrate, this may only be the case up to a certain point. A high frequency of communication may be indicative of some team conflict which must be solved. In solving it, the team is distracted from performance oriented behaviour. Increased communication may also ultimately place a cost on organizations (Smith et al. 1994).

7. CONCLUSIONS

In conclusion, this study has highlighted the possible existence of certain relationships between TMT demography and process variables and firm performance in the form of sales growth. In so doing it serves to reinforce the major conclusion drawn by Smith et al. (1994) that team demography and, especially team process directly and indirectly impact on establishment performance. Heretofore, the intervening effect of team process was largely assumed. A number of caveats need to be pointed out. While the measures and proxies employed in the study do appear telling and instructive, there may well be a range of other variables that could be employed. Our sample was limited and confined to high velocity environments. Furthermore, all firms were US subsidiaries. Thus our generalizability is restricted. In our favour is the fact that this does represent a first attempt at examining these issues in such subsidiaries. Much of the research in this area emanates from the US. However, as Hofstede (1980) demonstrates, there may well be a strong cultural dimension or context in which this research has to be explained. This national culture would,

arguably, be central when constructing the process variables relating to communication, social integration etc. Furthermore, there may be Irish structural and institutional influences which explain the differing results. Obvious directions for future research might include a broadening of the variables included in the study, a refinement of the measures used for some of the key variables and a closer examination of the extent to which team process characteristics reflect predominantly cultural influences. Furthermore, a line of enquiry which focuses on the impact of behaviour modification could possibly prove at least as fruitful as research which focuses solely on the manipulation of the demographic characteristics of the team.

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