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THE IMPACT OF THE TOP MANAGEMENT TEAM ON THE SALES GROWTH PERFORMANCE OF INTERNATIONAL DIVISIONS OF US MULTINATIONAL ENTERPRISES OPERATING IN THE REPUBLIC OF IRELAND

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Abstract

This paper examines the relationship between top management team demography, team process and the sales growth performance of a sample of international divisions of US multinationals operating in Ireland. Demographic and team process characteristics were found to have both direct and indirect effects on sales growth.

Introduction

In a concerted effort to move beyond a simple examination of singular leaders at the top of organisations, recent research (Bantel & Jackson 1989; Hambrick 1981; Hambrick & Mason 1984; Smith et al 1994) has cast its net wider to focus on the cluster of executives who comprise the "dominant coalition" (Cyert & March, 1963) in organisations. Thus, according to Hambrick (1994), the expression "top management team", entered the organisation literature in about 1980 and has been pervasive ever

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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 is best achieved through the bringing together of a group. Recently popularised organisational 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 & Waterman 1982; Moss Kanter 1983; Quinn Mills 1991), the high performance movement (Lawler 1986; Hanna 1988; Buchanan & McCalman 1989) and the resource based view 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 organisational hierarchy will almost invariably have more influence on the course of the firm than any other group in the organisation (Hambrick, 1994; Pucik et al, 1989). Thus Hambrick (1994: 174) predicts that "for those interested in explaining organisational 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; Bartlett & Ghoshal, 1986; Hoffman, 1988, Lobel, 1990), there has been little previous research on such teams in foreign divisions of US multinational enterprises. As Chang (1993: 1) argues this represents a rich research opportunity: The dramatic growth of multinational enterprises since W. W. II has significantly affected the economy of virtually all industrialised nations. With subsidiaries operating in different countries, MNEs 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. 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 & Nadler 1989; Marsick & Cederholm, 1988). Furthermore the TMT is particularly important in such companies because of the particular problems that they face. Complex dynamic environments (Bartlett & Ghoshal, 1986; Tung & Miller, 1990), tensions regarding the degree of autonomy afforded the subsidiary (Hoffman, 1988; Wickham, 1989), intersubsidiary rivalry (Hoffman, 1988; Prahalad & Doz, 1987), cross cultural puzzles (Lauren, 1986) and expatriate mal-adjustment (Mendenhall & Oddou, 1985; Morley et al 1996) are all

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multinational subsidiary issues that require strong coping mechanisms. The TMT is one such coping mechanism.

In relation to the growth of multinational companies in the Irish context, Donnelly (1985) notes that over the last 20 years such MNCs have been a key element in the development of the manufacturing base. 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 become 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 (US Department of Commerce, 1989).

Top Management Teams and the Multinational Enterprise (MNE)

While it is generally agreed that in most firms the CEO possesses the most power (Keegan, 1974; Hambrick & Mason, 1984; Lobel, 1990; Marsick & Cederholm, 1988), it is also evident that the bringing together of a top management group posessing a mix of personalities, functional backgrounds, cognitive styles, task relevant knowledge and skills is an important supplement in effecting strategic decision making (Pucik et al, 1989; Moore et al, 1995) . This is particularly true in the context of the MNE. As Humes (1993: 260) puts it:

> 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.

MNEs 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 organisational differences in different businesses, functions and geographic locations (Bartlett & Ghoshal, 1986). The management task therefore becomes one of managing international diversity (Tung & Miller, 1990; Tung, 1995):

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> 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 globalizatoin of the workforce. The third development is the emergence of the network structure. (Tung 1995: 484).

TMTs, which represent a critical link in the network of such MNEs, 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 & Bartholomew, 1992).

In an excellent treatise of branch plant management, Wickham (1989) examines aspects of local autonomy for MNEs 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 internationalisation of such teams in MNEs.

The Present Research

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 within the TMT *(process)* will influence (both positively and negatively) organisational outcomes (see Pfeffer 1983, Smith et al 1994). *Demography* refers to the characteristics of the team including such variables as educational background, experience and team size, while *process* refers to team behaviour and interactions such as how frequently team members 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* ", reprinted here in IBAR. 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 organisational performance and they present a fourth empirically derived model. They argue that only by understanding the relationship between team demography and process can CEOs

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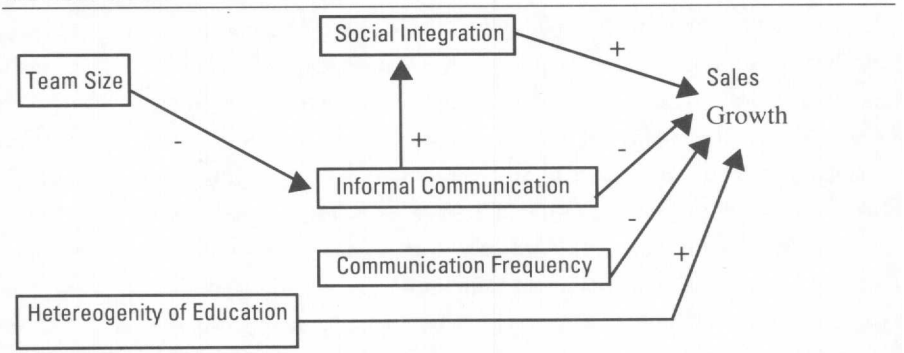
effectively structure their teams for survival and success. Their research sought to answer two key questions: (1) To what extent does team demography predict variation in either intervening team process variables or organisational outcomes? and (2) To what extent does the addition of team process account 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 in turn is directly related to performance. Using data gathered from 25 divisions (strategic business units) of US MNEs operating in the Republic of Ireland, this paper tests the impact of TMT demographic and process variables specifically on the sales growth performance of these establishments.

The Research Question and the Measures

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) in their paper "*Top Management Team Demography and Process: The Role of Social Integration and Communication*", one would predict that the following relationships should obtain (see Figure 1).

Figure 1: Anticipated Relationships between Selected Top Management Team Variables and Sales Growth



Source: Adapted from Smith, K.G., Olian, J., Sims, H., O'Bannon, D. and Scully, J. (1994). "Top Management Team Demography and Process: The Role of Social Integration and Communication", Administrative Science Quarterly, Vol. 39: 431.

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Consistent with other research on TMTs, it is posited the TMT structure will influence organisational performance through the TMT process. It is also proposed that TMT process directly impacts on performance. While the US findings represent a template for 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 operationalise 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) found little support for the simple demography -performance model. Their findings contradict earlier research which concluded that TMT demography alone was adequate to explain 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 & Mason (1984) have identified that there is a relationship between managerial background characteristics and strategic choices and performance levels. Similarly, Gupta & Govindarajan (1984) and Norburn & 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 & O Connor (1972) and Zastket & 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 team heterogeneity includes experience, education and functional background. *Heterogeneity of Experience* refers to the variety of previous industry experience in existence in the TMT and was assessed in terms of each team members (1) total months of experience in the industry and (2) total months of experience with the company. A coefficient of variation across top management team members in each company was calculated for each of the two measures to assess

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variation in team experience and a single heterogeneity index was used ranging from 0 representing perfect homogeneity to 1 indicating maximum heterogeneity. *Heterogeneity of Education* (ranging from 0-1) relates to the dissimilarity of the educational backgrounds of the members of the TMT and was measured using a coefficient of variation for years of education for each top management team. *Functional Heterogeneity* refers to the extent of functional diversity that exists within the TMT. This was measured using Blau's (1977) heterogeneity index (see Smith et al, 1994 p: 425). Several TMT studies have linked TMT heterogeneity to organisational performance outcomes such as innovation (O Reilly & Flatt, 1989), turnover (Wagner et al, 1984) diversification (Michel & 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 organisational outcomes.

Team Tenure was measured by the length of time each team member had been in his or her current position. It was created by averaging the individual time-in-job scores across team members. A high score indicates a team that has worked together for a long time. Previous research has revealed the importance of team tenure for overall organisational performance (Hambrick 1994; Michel & Hambrick 1992). Other studies have linked tenure to organisational strategy (Michel & Hambrick, 1992), firm growth (Eisenhardt & Schoonhoven, 1990) and strategic change (Wiersema & 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. It was predicted that TMT tenure is positively related to sales growth performance, mediated through TMT process.

Team Size refers to the number of team members in the TMT as defined by the CEO. 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. It was hypothesised that TMT size will be negatively related to team process (social integration, communication frequency and communication informality).

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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: 22). It also reflects the degree to which team members work cohesively with one another, reach consensus in decision making and agree on the organisation's goals. Participants in socially integrated teams are said to experience higher morale, greater satisfaction, greater organisational commitment and greater task efficiency (Shaw, 1981; McGrath, 1984; Morley & 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 organisational 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 was created and used in the original study by Smith et al (1994). It was hypothesised that TMT social integration is positively related to organisational 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 organisational performance.

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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 Smith el al (1994) 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.

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. 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 technology companies operating in high velocity environments, similar to the high technology sample in the original study by 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 CEOs 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.

Results

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.

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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: Means and Standard Deviations

VARIABLE	*MEAN*	*STD DEV*
Team Tenure	55.83	39.07
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

Table 2: Multiple Regression

VARIABLE	*BETA*	*SE B*
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

* $p<0.05$ $\overline{R^2} = 0.59$
** $p<0.01$ $F = 3.88*$
*** $p<0.001$ $df = 18$

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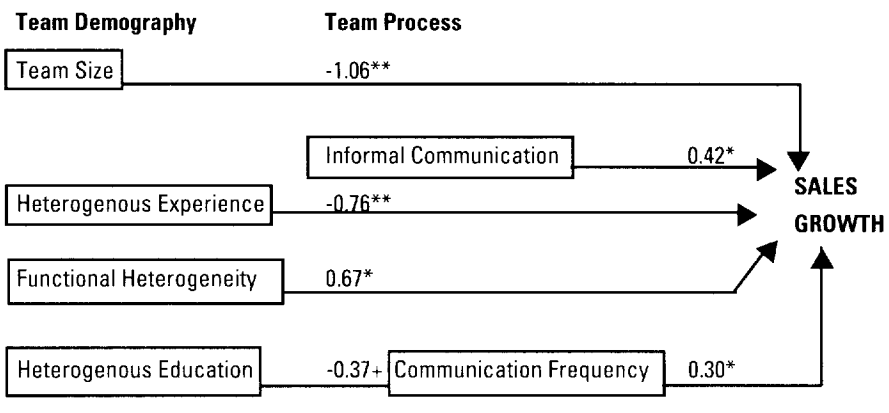
Team tenure and levels of social integration pertaining in the TMT have no impact on sales growth in the organisations studied. In relation to the remaining variables, demographic and process characteristics are seen to have both a direct and indirect effect on sales growth. Team size and heterogeneity 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 an indicative path model of the results of our analysis. (More detailed results are available from the authors - we do not report the sub regression results of the path analysis here as the sample size is small and the results are therefore indicative only).

Figure 2: Impact of TMT Demography and Process on Sales Growth



\+ p<0.10
* p<0.05
** p<0.01
*** p<0.001

Discussion

In common with Smith et al (1994), 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 conceptualisation of the "extended" model whereby some demography variables impact directly on performance and some

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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 Smith et al (1994), 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 organisational 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 industry experience has a direct negative impact on sales growth. Smith et al (1994) suggest that an explanation may be that teams with diverse industry backgrounds encounter difficulties in decision making which hinders performance. However, this would run counter to Belbins 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 Belbins research we 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 our study and the Smith et al (1994) hypothesis that TMT social integration is positively related to organisational performance is not supported. A possible explanation emerges when one considers that the relationship between social integration on any

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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 (Janis 1976).

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 organisations (Smith et al 1994).

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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