

Unfolding the concept of a TMT-diversification strategy fit

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Abstract

Purpose – This paper aims to develop a conceptual foundation of a fit between top management teams (TMTs) and their company's corporate strategy. The authors fortify the importance of the concept of fit if the impact of upper echelons on organizational performance is trying to be explained. Yet, a constitutive concept of fit for the corporate strategy, a particularly important dimension of strategy, was previously neglected.

Design/methodology/approach – In a conceptual/theoretical approach, the authors selected demographic managerial characteristics from previous empirical studies from the research stream on upper echelons and combined them with other promising characteristics. To analyze them in respect to the requirements of low and highly diversified companies, the authors applied the concept of the dominant logic, an important theory in the field of corporate strategy.

Findings – The authors establish two distinct profiles of TMT members for low and high degrees of diversification and provide guidance on how to measure the TMT-corporate strategy fit – for individual TMT members and for the entire TMT – as a degree of fit on a ratio scale.

Originality/value – This work constitutes the first exhaustive concept of a TMT-corporate strategy fit. It provides a profound research foundation for scholars in the field of TMTs and the upper echelons theory as well as a promising and complementary perspective for practitioners when assessing their TMT composition.

Keywords Corporate strategy, Demographics

Paper type Conceptual paper

Introduction

What is the "right" top management team (TMT) for a company? One answer might be that the "right" TMT will be the one that has the skills and capabilities required for the respective company's strategy. The challenges that remain, equally intriguing and relevant for practitioners and researchers, are how such a suitability or fit can be assessed and if it really translates into superior organizational performance.

In this context, the upper echelons theory of Hambrick and Mason (1984) has elicited numerous studies examining the impact of top executives' demographic characteristics on organizational outcomes, with a particular focus on TMTs (Hambrick, 2007). So far, the examination of direct linkages between TMT demographic characteristics and organizational outcomes was prevalent in TMT upper echelons research (Carpenter *et al.*, 2004). However, previous studies found – at best – a weak connection between TMT demographic characteristics and performance (Srivastava and Lee, 2008).

To better explain the relation between TMT's demographic characteristics and corporate performance, scholars assumed the concept of fit from other research streams. The concept of fit matches demographic characteristics of top managers with strategies



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and postulates performance implications for a fit (Venkatraman, 1989; Venkatraman and Prescott, 1990). Applying the concept of fit underlines that not only a characteristic by itself is of relevance for organizational performance, it is rather the characteristic's appropriateness for the specific needs of the company. Hence, if the suitability of a TMT for a specific strategy and the subsequent impact on organizational performance are to be investigated, applying the concept of fit appears mandatory.

For an analysis of a fit to strategy, various strategy dimensions might be applicable. Considering the complexity and far-reaching influence of the TMT's actions (Carmeli *et al.*, 2009; Floyd and Lane, 2000; Bass, 1983), it seems that TMTs have a substantial impact on corporate strategy, leading to a crucial importance of the TMT-corporate strategy fit. The relevance of corporate strategy in the sphere of TMTs is further supported by the high occurrence of TMT studies focusing on elements of strategy on the corporate level. In this respect, special emphasis was put on the global strategic posture, competitive moves and strategic alliances (Carpenter *et al.*, 2004). The field of diversification strategy, by contrast, has largely remained unobserved. In fact, to best of our knowledge, only three studies in this field do exist; of which one considers a direct impact of TMT demographic characteristics on corporate strategy (Jensen and Zajac, 2004) and two examine the TMT-diversification strategy fit (Michel and Hambrick, 1992; Marlin *et al.*, 2004). In this respect, only Marlin and colleagues found support for a positive impact of TMT-diversification strategy fit on corporate performance. Besides only finding a very limited number of studies addressing this important topic, it is even more critical that prior research lacked in establishing a profound exploration of what a holistic fit between the TMT's demographic characteristics and diversification strategy exactly is. However, a clear description of such a TMT-diversification strategy fit would be very beneficial for further research in an important, yet under investigated, research stream.

Therefore, the aim of the paper is to develop a conceptual framework to address this research gap, which is done in two steps: In a first step, we develop two distinct profiles for TMT members fitting to two distinct diversification strategies – low degrees and high degrees of diversification. Additionally, we provide a proposal for the composition of the TMT in relation to the company's diversification strategy. The profiles are based on demographic characteristics that have already received empirical support (e.g. functional career experience) and are complemented with additional demographic characteristics that seem highly relevant in our specific context (e.g. international work experience), resulting in a total of six characteristics (Finkelstein, 1992; Jensen and Zajac, 2004; Palmer and Barber, 2001; Song, 1982; Daily *et al.*, 2000; Herrmann and Datta, 2002). To establish the outline of those demographic characteristics for a fit to the different diversification strategies, we borrowed from the concept of dominant logic (Pralhad and Bettis, 1986), which is of great importance in the field of diversification strategy. The dominant logic is a shared cognitive map among the corporate TMT, reflecting their mindset of administrative tools to accomplish goals and, therefore, make decisions in a specific business. Regarding the composition of the TMT, we discuss which levels of TMT diversity are rather beneficial for different corporate strategies, meaning that we address both the fit of individuals within the TMT and of the TMT as a whole. In the second step, we provide guidance on how to eventually measure the TMT-diversification strategy fit. Based on our developed profiles, fit can be measured as a ratio scale, representing the degree of fit of a single TMT member. TMT diversity

can then be measured as the standard deviation of the degrees of fit of single TMT members.

With our conceptual study, we contribute to the literature on TMTs by providing a conceptualization of a TMT-diversification strategy fit. Based on our results, researchers are readily enabled to measure a fit between TMT members – as well as the entire TMT – to the company’s diversification strategy. The fit, albeit conceptual at this stage, also provides practical implications, as decision makers might view their TMT composition through a different, yet promising lens. Thereby, practitioners can easily assess whether current or potential TMT members carry the necessary demographic characteristics to fit to the company’s diversification strategy.

The remainder of the paper is structured as follows. In the following chapter, we deduce the impact of TMTs and their demographic characteristics on strategic decisions on the corporate level and the crucial role of the TMT-diversification strategy fit for corporate performance. Subsequently, we develop two distinct profiles of TMT members for different diversification strategies. After that, we will propose how to measure the fit variable. The paper concludes with a discussion of the results and suggestions for future research.

TMTs and a fit to diversification strategy

Hambrick and Mason’s (1984) upper echelons theory is one of the most influential theoretical concepts in organization research and has elicited numerous subsequent studies. The central idea of the theory is that characteristics of top executives substantially influence their way to interpret different situations, and thus affect their strategic choices. Building on that premise, organizational outcomes (i.e. strategies, effectiveness) are viewed as reflections of the values and cognitive bases of powerful people in the organization – upper-level executives (Hambrick and Mason, 1984). Despite being originally designed for application to top executives in general, a powerful group within the organization – the TMT – receives special attention in upper echelons research. In a subsequent study, Hambrick (2007) accentuates the relevance of the TMT as the object of study. The advantageousness of TMTs compared to focusing on individual top executives (e.g. CEOs) is based on a significantly higher explanatory power of organizational outcomes (Hambrick, 2007). Thinking about the complexity of organizations, the requirement of a shared leadership of TMT members becomes apparent involving their entire demographic characteristics being reflected by the organization’s strategic behavior. Therefore, demographic managerial characteristics influence the strategic behavior of organizations, while the characteristics of TMTs are prevalent in terms of explanatory power.

As the original upper echelons model is seen as validated through prior research, recent research in the field with TMTs as the object of study was able to make use of empirically established connections (Carpenter *et al.*, 2004). Thus, recent studies have focused on examining the linkages between TMT demographics and processes (Amason and Sapienza, 1997; Papadakis and Barwise, 2002; Athanassiou and Nigh, 1999), strategy (Ferrier, 2001; Carpenter, 2002; Williams and O’Reilly, 1998; Eisenhardt and Schoonhoven, 1990; Sambharya, 1996; Sanders and Carpenter, 1998) and performance (Kor, 2003; Collins and Clark, 2003; Norburn and Birley, 1988). However, previous research neglected to clarify, which type of strategy is particularly influenced, even though this topic seems of major interest for TMT research.

To address this issue, a possible clarification can be deduced from strategic management literature. The literature on strategic management basically differentiates between two levels of management concerning the organizational structure of a company: business level and corporate level (Grant, 1995). Whereas business-level strategy deals with the ways in which a single-business firm or an individual business unit of a larger firm competes within a particular industry or market, corporate-level strategy deals with the ways in which a corporation manages a set of businesses altogether. To determine which of those strategy types is influenced by TMTs, it seems helpful to have a closer look at the activities TMTs are involved in. TMTs are assigned to the solution of strategic and structural problems, entailing a high level of organizational responsibilities (Carmeli *et al.*, 2009). In fact, TMTs are responsible for long-term-oriented decisions addressing the organization's strategic orientation and profitability (Floyd and Lane, 2000; Bass, 1983), e.g. pursuing acquisitions or entering new markets (Carmeli *et al.*, 2009). The wide influence of the TMT's actions affects the outcomes of the whole set of the organization's businesses, which might indicate that TMTs have a major impact on corporate strategy. As the corporate strategy linkage has already been investigated for CEOs (Reed and Reed, 1989; Guthrie and Datta, 1998; Song, 1982; Manner, 2010), it leads to the assumption that the analysis of this relationship for TMTs is certainly worthwhile.

Along with our assumption, elements of corporate strategy have already oftentimes been the object of investigation in TMT research. However, research focusing on TMT-corporate strategy linkages is largely narrowed down to niche topics of strategic behavior, more precisely competitive behavior (Hambrick *et al.*, 1996; Smith *et al.*, 1991), alliance formation (Eisenhardt and Schoonhoven, 1990; Ferrier, 2001) or international involvement (Carpenter and Fredrickson, 2001; Carpenter *et al.*, 2003; Reuber and Fischer, 1997; Sanders and Carpenter, 1998; Tihanyi *et al.*, 2000). A topic which has stayed rather underexplored, even though being of high relevance for corporate performance, is the domain of corporate diversification strategy. To our best knowledge, only three studies so far have focused on TMT-diversification strategy linkages (Jensen and Zajac, 2004; Michel and Hambrick, 1992; Marlin *et al.*, 2004), pointing to a considerable gap in this research field.

Looking at the impact of TMT demographic characteristics on corporate strategy entails the question of how those characteristics might eventually affect the corporate performance. Performance implications are a central field of management research, which is also reflected in the publications building on the upper echelons theory. In fact, TMT upper echelons studies focused not only on strategy linkages but also to a great extent on performance linkages (Carpenter *et al.*, 2001). In both cases, a direct linkage between TMT demographic characteristics and the respective dependent variable has been examined, meaning that a direct influence of TMT demographic characteristics on strategy and performance was anticipated. While the TMT-strategy linkage was supported in several studies (Norburn and Birley, 1988; Goll *et al.*, 2008), the research on TMT-performance linkages experienced some difficulties. In a meta-analysis on the relationship between TMT demographics and organizational performance, for example, Srivastava and Lee (2008) found only a weak connection between TMT education and performance and an overall non-existent connection between TMT age and tenure and performance.

Subsequently, to analyze the relationship between TMT demographic characteristics and organizational performance, the upper echelons perspective borrowed from other research streams, particularly the strategic staffing literature, by applying the concept of fit. Stemming from research on organizational behavior (Fiedler, 1965; Lawler, 1974), the concept of fit matches demographic characteristics of top managers with strategies and postulates performance implications for a fit (Venkatraman, 1989; Venkatraman and Prescott, 1990). Therefore, different strategic postures of a company require different top management attributes and behavior (Gupta, 1984; Szilagyi and Schweiger, 1984). As such, a given executive may be highly suited for one context but not for another (Gupta and Govindarajan, 1984). Consequently, a closer fit between the TMT members' demographic characteristics and the company's corporate strategy should carry positive performance implications.

Interestingly, the fit between demographic characteristics and corporate strategy was explored in a very limited number of studies, focusing on CEOs or on TMTs. In the case of TMTs, solely two studies are targeted at this relationship, of which both focused on corporate strategy in terms of diversification posture (Michel and Hambrick, 1992; Marlin *et al.*, 2004). Michel and Hambrick (1992) tested the assumption, that a company's diversification posture defines the degree of integration needed across its business units and thereby constitutes the optimal demographic characteristics of its TMT. In the case of diversification strategies, the paper refers to Rumelt's (1974) four major types of diversified firms ranging in the interdependence of their business units, namely, unrelated, related-linked, related-constrained and vertically integrated companies. The different amount of integration required by companies across their business units postulates in turn the social cohesion, corporate-wide operating knowledge base and core-functional experience needed within the TMT. Those requirements are operationalized through demographic variables. Social cohesion is represented by the tenure of TMT members, knowledge base by the members' inter-unit moves within the company and core-functional experience corresponds to primary functional careers in law, finance/accounting, personnel/human resources, government/public relations or general administration. Thereby, Michel and Hambrick (1992) do not only measure the average value of those demographic characteristics within the TMT but also their homogeneity. The study contains two distinct types of hypotheses. First, descriptive links between diversification postures and TMT composition are analyzed, testing for the assumption that companies with different diversification postures have significantly dissimilar TMTs. Second, the researchers examine prescriptive links between compositions of the TMT and organizational performance (Michel and Hambrick, 1992). While the first type of hypotheses in large part received empirical support, Michel and Hambrick (1992) only found little support for the assumption that different diversification strategies require different TMT demographic characteristics to perform well. In fact, empirical support for this effect was found only in the case of core-functional experience and not for other regarded demographic characteristics. Marlin *et al.* (2004) extended the view of Michel and Hambrick (1992) by operationalizing the diversification posture not only by its relatedness, but also by its mode (i.e. diversifying internally or externally). Regarding the same TMT demographic characteristics as Michel and Hambrick (1992), in relation to diversification posture, Marlin *et al.* (2004) included both the interdependency aspect and four distinct diversification postures into their analysis. Being based on mode and relatedness, the

four postures are as follows: unrelated-acquisitive, related-internal, unrelated-internal and related-acquisitive. Similar to Michel and Hambrick (1992), Marlin *et al.* (2004) developed two types of hypotheses, testing linkages between diversification postures and TMT compositions as well as between TMT compositions and company performance. Marlin *et al.* (2004) were generally able to confirm the positive impact of aligning TMT demographic characteristics to diversification strategy, e.g. in the case of TMT tenure, which confirms the general relevance of the fit idea. However, for some characteristics in certain strategies, e.g. core-functional experience and functional homogeneity in related-internal companies, no effect at all was determined (Marlin *et al.*, 2004). This non-finding indicates that both the used measurement concept and the choice of demographic variables require enhancement. One major drawback we see in both studies is the fact, that the study design used is only applicable to highly diversified firms. Marlin *et al.* (2004) even further limit their sample by only regarding actively growing firms, as their diversification postures include a distinction between acquisitive and internal growth. In addition, the used concepts only allow for a fit measurement of the whole TMT and not of single TMT members. At the same time, the hypotheses design can be solely used for examining the fit for single characteristics and not a holistic fit, which disregards the possibility of interplays between different characteristics. Interestingly, to our best knowledge, no further research on the topic was published after the study of Marlin *et al.* (2004), meaning that empirical results are yet to be conclusive.

Although prior research in this particular field of a fit between demographic characteristics and corporate strategy has generated valuable insights, we believe that this stream of research might strongly benefit from advanced conceptualizations that allow for further empirical investigations. Hence, it seems of particular importance to further explore the fit between TMT demographic characteristics and diversification strategy due to its supposed direct effect on corporate performance. However, a clear synopsis of what exactly establishes a fit between TMT and diversification strategy is still missing. Even though the described studies made some first attempts to measure this fit, a holistic exploration and description are not provided.

Proposed fit profiles between demographic managerial characteristics and diversification strategy

To address the previously illustrated gap, we will propose distinct profiles for TMT members, which fit to the respective diversification strategy. For that, first, we will define the different types of diversification strategy for which the profiles will be developed – low and high degrees of diversification. Then, demographic characteristics, which are needed to assess the fit, will be selected, followed by the description of their required outline to fit to the respective diversification strategy. In terms of theoretical backing, we use former upper echelons research to define the choice of demographic characteristics, while we will incorporate the concept of the dominant logic from Prahalad and Bettis (1986) to define the necessary outline for each demographic characteristic. The introduction of the concept of dominant logic is particularly necessary, as the upper echelons theory only provides information on relevant demographic characteristics but not on their beneficial outlines for different diversification strategies. To determine which outline of the demographic characteristics indicates if the TMT members are rather beneficial for the management

of either low or highly diversified firms, the concept of dominant logic offers an appropriate theoretical foundation, although not having been used in this context in prior studies. Subsequently, we continue with two distinct profiles of TMT members for low and highly diversified companies. Given the fact that TMTs consist of several individuals, the profiles serve as an intermediate step to determine a TMT composition regarding the diversity of the TMT members – the overall TMT-diversification strategy fit.

To begin with corporate strategy, the primary strategic decision concerns the number of businesses a firm should engage in, which results in different diversification profiles, ranging from low to high levels of diversification (Guthrie and Datta, 1998). In highly diversified companies, for example, the main task of top managers relates to the design and the management of the portfolio of businesses of the company (Gupta, 1988). That is, multiple business segments need to be managed and diverse strategic situations need to be handled. Especially, in diversified firms with businesses in strategically dissimilar industries, top managers face high requirements of coordinating information and coping with complexity (Prahalad and Bettis, 1986). In contrast, TMTs of low diversified companies tend to be much more involved in operative matters. Thus, these companies require TMT members who have a deep operational understanding of the very limited number of business units (Goold and Campbell, 1987). One of the main tasks of managers in low diversified firms is the realization of specific synergies on a product and process level (Goold and Campbell, 1987; Gupta, 1984, 1988). Moreover, managing a single-business firm requires intimate knowledge of the firm's input, throughput and output strengths and weaknesses along with an understanding of the product market or industry in which it competes (Gupta, 1984).

The rationale that different types of diversification strategy require different managerial capabilities raises the question of how to assess whether a TMT member possesses the respective capabilities. A common approach to do so would be to assess managerial characteristics (Norburn and Birley, 1988; Wiersema, 1992; Thomas and Ramaswamy, 1996). Managerial characteristics are either psychological (e.g. risk aversion) or demographic (e.g. educational background). Both categories have impressive (inverse) advantages, are of equal importance and even condition each other (Finkelstein *et al.*, 2009; Hitt and Tyler, 1991). Nevertheless, demographic characteristics are dominant in upper echelons research (Priem *et al.*, 1999). This is particularly the case, because demographic characteristics can be used as proxies for the cognitive frames of executives while not implicating considerable difficulties in obtaining data as in the case of psychological characteristics (Hambrick, 2007). Consequently, we focus our further analysis on demographic characteristics.

To select relevant demographic characteristics, we refer to the argumentation of the original upper echelons theory (Hambrick and Mason, 1984) and choose characteristics that have already been empirically supported in several prior studies. In this regard, the four demographic characteristics inter-company moves, inter-industry moves, functional career experience and type of education found empirical support as valid indicators of the strategic decision-making behavior of executives (Reed and Reed, 1989; Michel and Hambrick, 1992; Strandholm *et al.*, 2004; Thomas and Ramaswamy, 1996; Guthrie and Datta, 1998). We assume that those demographic characteristics are also appropriate to assess a fit between the TMT and diversification strategy.

In addition to the four already established demographic characteristics, we propose to include further demographic managerial characteristics that could also reflect the built-up of dominant capabilities that are required for the management of low or highly diversified firms. Thus, we introduce experience on management boards and international work experience as two new demographic managerial characteristics, which deem to be particularly relevant for a fit to diversification strategy. Even though those characteristics were not mentioned in the original upper echelons theory by Hambrick and Mason (1984), the inclusion of new demographic managerial characteristics has become common in recent upper echelons research (Carpenter *et al.*, 2004). Additionally, in the case of international experience, relevance for strategic outcomes has already found initial empirical support. Sambharya (1996), for example, has shown that international experience of the TMT is positively related to the international involvement of their company. Further on, top managers with international experience are more likely to establish international partnerships and have a positive impact on the speed in which their firms achieve foreign sales (Reuber and Fischer, 1997). Finally, the engagement in international assignments has also been found to positively associate with the performance of multinational companies (Carpenter *et al.*, 2001). However, international experience has not yet been examined in the context of corporate diversification strategy, highlighting once more the necessity for investigation of this pivotal variable within our concept.

To elaborate, which outline of the six demographic characteristics indicates if the TMT members possess the dominant capabilities that are required for the management of either low or highly diversified firms, it deems necessary to borrow insights from the concept of the dominant logic, as the upper echelons theory does not provide such information (Prahalad and Bettis, 1986). The dominant logic is a mental map developed through experiences. It is reflected in schemas executives use – and have used before – in specific (strategic) situations. It can also be described as a learned problem-solving behavior. To manage a (highly) diversified firm with its strategic variety imposes the need for multiple mental solution schemas, respectively multiple dominant logics (Prahalad and Bettis, 1986). Consequently, if TMT members are assumed to be beneficial for highly diversified companies, they must have developed multiple dominant logics. Hence, they need a broader set of experiences and the ability of highly complex thinking. In contrast, TMT members who are assumed to be beneficial for low diversified firms require a more operative view and proximity to the core business. Consequently, these executives deeply familiarize themselves with one or few dominant logics. As a result, the already established demographic managerial characteristics might also reflect if TMT members have developed the capabilities to successfully manage either low or highly diversified firms. Therefore, every demographic characteristic has to be assessed to derive, whether multiple dominant logics (for highly diversified) or only one or few dominant logics (for low diversified) have been acquired. This approach is in many ways similar to the assumption that TMT members of highly diversified companies need outstanding complexity handling skills, while in low diversified companies, operational expertise is of high relevance. However, to guarantee the derivation of conclusions from a profound theoretical base, making use of the concept of dominant logic seems indispensable. In the following, we analyze all six demographic managerial characteristics and propose how they might reflect the dominant logic(s) required for the management of both types of diversification strategy.

Inter-company moves

TMT members who frequently change the company they are working for (inter-company moves) typically acquire very broad experiences (Michel and Hambrick, 1992). They develop the ability to compare operative and strategic experiences across companies and take a strong external perspective. Thus, they experience multiple dominant logics which help them to handle diverse strategic situations. On the other hand, TMT members who have stayed with one company develop comprehensive experience and personal networks within that company (Miller, 1991). TMT members with no or rare inter-company moves tend to take a more internal perspective and spend more time on operational aspects in the company (Entrialgo, 2002). Thus, they possess specific and deep knowledge of the core business and only one or few dominant logics. Accordingly, our first proposition can be formulated as follows:

- P1. While TMT members with frequent inter-company moves are rather beneficial for highly diversified companies, TMT members with no or rare inter-company moves are rather beneficial for low diversified companies.

Inter-industry moves

Although the general logic of inter-company moves can analogously be applied to inter-industry moves (Strandholm *et al.*, 2004), they have to be considered individually, as both characteristics do not condition each other. TMT members with frequent inter-industry moves gain broad experiences across industries. This helps them to develop multiple dominant logics necessary for managing multiple business segments (Hambrick *et al.*, 1993; Strandholm *et al.*, 2004). TMT members with no or rare inter-industry moves typically acquire rather deep industry knowledge (Starbuck and Milliken, 1988; Strandholm *et al.*, 2004; Gupta, 1984). Because of this industry specialization, they stick to their one or few dominant logics. Building on those assumptions, our second proposition is:

- P2. While TMT members with frequent inter-industry moves are rather beneficial for highly diversified companies, TMT members with no or rare inter-industry moves are rather beneficial for low diversified companies.

Functional career experience

Functional career experience, in which TMT members spent most of their time before a top management position, significantly influences their thinking and acting, as it contributes to the development of distinctly different orientations toward a firm and its environment (Dearborn and Simon, 1958; Hambrick and Mason, 1984). Top managers choose functional areas within a company that particularly reflect their personality and affinity (Schein, 1967). This self-selection causes homogeneity within a functional area and heterogeneity between functional areas (Schein, 1967). In addition, processes of socialization within a functional area reinforce homogeneity of cognition and values, so that typical paradigms of thinking and acting are memorized and stick to individuals beyond their functional activity (Blau and McKinley, 1979; Katz, 1982). Based on previous research – and extended by related functions – we assume that TMT members with a functional career experience in finance, accounting, administration, general management, law or consulting acquire dominant capabilities needed for tasks such as portfolio management and controlling of financial performance (Finkelstein, 1992;

Jensen and Zajac, 2004; Palmer and Barber, 2001; Song, 1982). These tasks require rather complex thinking and, thus, help to develop multiple dominant logics. On the contrary, a functional career experience of TMT members in marketing, sales, R&D, purchasing, logistics or production leads to operative understanding and to the knowledge of realizing specific synergies (Montgomery and Wernerfelt, 1988) and, thus, is assumed to require only one or few dominant logics. This leads us to the third proposition:

- P3. While TMT members with a functional career experience in finance, accounting, administration, general management, law or consulting are rather beneficial for highly diversified companies, TMT members with a functional career experience in marketing, sales, R&D, purchasing, logistics or production are rather beneficial for low diversified companies.

Type of education

Education marks an important step of socialization with long-term impact on individuals' cognitive imprint (Byrne, 1984; Schein, 1967). Analogous to functional career experience, the type of education is able to form a TMT member's thinking and acting, as self-selection and socialization within a type of education lead to homogeneity of cognition and values (Fondas and Wiersema, 1997; Hitt and Tyler, 1991; Schein, 1967). A major distinction between an education in humanities and one in natural sciences is that the study of natural sciences entails attempting to explain phenomena and occurrences with a maximum degree of accuracy, whereas in humanities, the understanding of the human mind comes to the fore. Thus, and similar to previous studies, we assume that an education of TMT members in humanities and social sciences fosters paradigms of comprehensive thinking and, hence, helps TMT members to develop multiple dominant logics. TMT members with a natural scientific, formal scientific or technical education as background are assumed to rather take a more operative view and tend to stick to their one or few dominant logics. These connections can be summarized as follows:

- P4. While TMT members with an education in humanities and social sciences are rather beneficial for highly diversified companies, TMT members with an education in natural sciences, engineering or a technical education are rather beneficial for low diversified companies.

Experience on management boards

Strategic decision behavior and processes of experienced managers differ significantly from less experienced ones (Hitt and Barr, 1989). Experience collected over time allows top managers to build and apply complex cognitive models that lead to successful decisions (Fredrickson, 1985; Hitt and Tyler, 1991). Therefore, we include experience on management boards as a new demographic characteristic that can differentiate the fit of a TMT member to a company's diversification strategy. We assume that TMT members with long experience on management boards develop multiple dominant logics as they acquire knowledge, analogies and methods for complex situations that ensure efficient and effective information gathering, decision making and execution. In contrast, TMT members with no or short experience on management boards effectively focus on the core business and possess operative proximity. Thus, these TMT members stick to their one or few dominant logics. Those assumptions result in our next proposition:

- P5. While TMT members with long experience on management boards are rather beneficial for highly diversified companies, TMT members with no or short experience on management boards are rather beneficial for low diversified companies.

International work experience

TMT members acquire unique capabilities and typical paradigms of thinking and acting through their international experience (Daily *et al.*, 2000; Herrmann and Datta, 2002). International work experience engenders capabilities that are required in companies with high complexity and strong interdependencies. Leading highly internationalized companies confronts the TMT member with very complex challenges, such as managing many entities and coordinating information (Roth, 1995; Sanders and Carpenter, 1998). Thus, international work experience of TMT members is included as further additional demographic managerial characteristic new to the research stream. We assume that long international work experience requires complex thinking and accumulates multiple dominant logics. In contrast, TMT members with no or short international work are assumed to have strengths in effectively focusing on the core business and, thus, require only one or few dominant logics. The argumentation for international work experience enables the formulation of the next proposition:

- P6. While TMT members with long international work experience are rather beneficial for highly diversified companies, TMT members with no or short international work experience are rather beneficial for low diversified companies.

Following our argumentation for the six demographic managerial characteristics, we propose two profiles of TMT members for both types of diversification strategy. As TMT members of highly diversified companies face complex challenges, they should have acquired multiple dominant logics. On the contrary, TMT members of low diversified companies should possess proximity to the core business and operative understanding and, therefore, better stick to their one or few deepened dominant logics. Table I constitutes an overview of the two distinct profiles and associated beneficial demographic characteristics for the two types of diversification strategy. However, it is important to note, that the dichotomous profiles given in Table I refer to the fit of single TMT members to the company's diversification strategy. The assessment of the single fits is a crucial step to arrive at the determination of an overall TMT fit.

To further illustrate our model, we introduce Figure 1 as a visualization of the described concept. Figure 1 provides an overview of the TMT-diversification strategy fit for single members including relevant TMT characteristics and regarded diversification strategy types. The figure shows that the degree of fit, which is the result of a fit between TMT demographic characteristics and the respective diversification strategy, affects organizational performance.

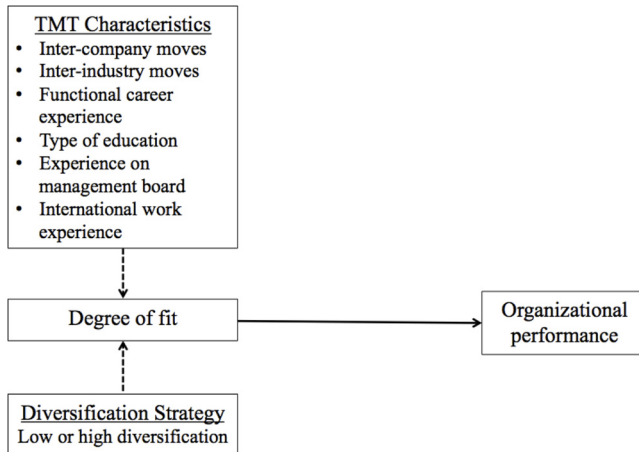
To determine the overall TMT-diversification strategy fit, we might directly think of the average of the degree of fit of all TMT members, following our previous fit logic. However, it is further important to not only consider the fit between the TMT members and diversification strategy itself but also the appropriateness of the TMT composition. In this regard, TMT diversity is a widely explored field of research (Carpenter, 2002; Carpenter and Fredrickson, 2001; Hambrick *et al.*, 1996). Measuring the direct impact of

Table I.

Profiles of TMT members for low and high degrees of diversification

Demographic characteristics	Rather beneficial for high degree of diversification	Rather beneficial for low degree of diversification
Inter-company moves	Frequent	No or rare
Inter-industry moves	Frequent	No or rare
Functional career experience	Finance, accounting, administration, general management, law, consulting	Marketing, sales, R&D, purchasing, logistics, production
Type of education	Humanities, social sciences	Natural scientific, engineering, technical
Experience on management board	Long	No or short
International work experience	Long	No or short

Figure 1.
Concept of TMT-diversification strategy fit for single members



TMT diversity on organizational performance, researchers did not succeed in achieving consensus about the direction of the supposed causality, leaving open whether TMT diversity has a positive, negative or neutral effect on performance (Certo *et al.*, 2006; Homberg and Bui, 2013). Along with the main idea of our work, we propose to regard TMT diversity in relation to the respective diversification strategy of the company. In accordance with Harrison and Klein (2007) and for our purposes, we define diversity as separation, meaning the extent to which individuals differ in their location along the continuum of a variable. Minimal separation is, therefore, achieved if all members are positioned at the same location, while maximum separation occurs for members being evenly divided at opposite end points of the variable (Harrison and Klein, 2007). Especially in the case of companies operating within extremely diversified business segments, it seems highly beneficial to have a high degree of separation within the TMT to be able to react to highly diverse challenges. Consequently, we propose that for highly diversified companies, the most beneficial TMT will be the one with members being at most separated in respect to their diversification strategy fit. In low diversified

companies, however, the TMT should be rather homogenous to assure the efficient achievement of consensus, which is needed when operating in homogeneous business segments.

It is important to point out that our argumentation with regard to the overall TMT composition and the idea of diversity within the TMT are not against our prior argumentation and the logic of a fit, but rather add another potential performance effect. In the case of low diversified companies, we would assume the effect of a fit as previously described. However, following the work on TMT diversity, we assume that an additional effect might become effective if all TMTs would have a similar (high) level of fit; or, in other words, if the TMT composition shows a low degree of diversity. In the case of highly diversified companies, we would assume that a higher level of diversity within the TMT composition causes this additional effect. However, this high diversity regarding a TMT-diversification strategy fit can only exist, if the fit of single TMT members varies from high to low. Hence, we have to acknowledge that an additional effect of diversity in the TMT composition might exist, but might be offset in this particular case because of the misfit of single TMT members.

Nonetheless, as the TMT composition establishes another effect that, on the one hand, takes up the important discussion on diversity from the field of TMT research and, on the other hand, adds to our previous argumentation on the TMT-diversification strategy fit, we suggest including it in our overall model.

Measuring the TMT-diversification strategy fit

With our proposed fit profiles, additional research in this field can be initiated. To further support such initiatives, we would like to extend our view on the profiles and build a foundation on how to measure the fit variable. Before computing the TMT-diversification strategy fit, both data on the six demographic characteristics of each TMT member and on the diversification strategy of the company need to be obtained. Due to the wide use of the upper echelons theory and the related need for demographic data, the required information on demographic characteristics can be obtained from various databases, such as Gale Biography Resource Center, Munzinger International Biographic Archive, Debrett's People of Today, Thomson Reuters Worldscope or Datastream. Another data source often used is the Dun and Bradstreet Reference Book of Corporate Management (Michel and Hambrick, 1992; Marlin *et al.*, 2004). In the case of diversification strategy, we propose to use segment sales which are typically published by companies in their yearly reports.

To measure the TMT-diversification strategy fit, each member's characteristics have to be analyzed for their fit to the diversification strategy of the company. To assess the respective corporate diversification strategy, the entropy measure by Jacquemin and Berry (1979) can be used to interpret the company's sales per segment. Using a sample's average or median as the cutoff point between low and high degrees of diversification, the variable is then dichotomized, showing only high and low degrees of diversification. Thereupon, the fit of each demographic characteristic can be measured with a binary variable, 0 indicating the absence and 1 indicating the presence of a fit. For the characteristics with relative manifestations (e.g. experience on management board or international work experience to be coded as either long or short/none), similarly, a sample's average or median can be used, but also individual cluster analyses seem applicable. Having assessed the fit of each of the six demographic characteristics per

TMT member, a degree of fit can be calculated for each TMT member as the percentage of his demographic characteristics, which fit to the diversification strategy of the respective company. Calculating the degree of fit as a ratio scale provides empirical advantages when regarding the effect on corporate performance.

Having determined the fit between each TMT member and the diversification strategy, the diversity of the different degrees of fit within the TMT can be assessed. As the fit is calculated as a ratio scale and thus is a metric variable, the standard deviation of the fit degrees within the TMT is an appropriate diversity measure. Choosing standard deviation as a diversity measure also corresponds to the recommendation of [Harrison and Klein \(2007\)](#). As we mentioned above, the diversity of the TMT composition adds an additional effect that might be offset by the misfit of individual TMT members. Hence, it would be also interesting to compare the diversity effect with the fit of single TMT members or even the overall fit of the entire TMT, which might be simply measured as the average of the degree of fit of all TMT members.

Discussion

Having shown the relevance of TMTs in upper echelons research and their impact on corporate diversification strategy, we identified a research gap in TMT-diversification strategy fit research – a clear exploration of the fit itself. To approach the gap, we developed two distinct profiles of TMT members for six demographic characteristics and two types of diversification strategy – low and high diversification. To determine the required outline of those characteristics to fit to the diversification strategy, we used the pivotal concept of dominant logics. Referring to the prevalent research topic of TMT diversity, we offered a proposal for the optimal TMT composition. Additionally, we provided guidance on how to eventually measure the TMT-diversification strategy fit.

Our work substantially differs from prior studies in the TMT research. In contrast to the majority of prior studies, we presume a non-direct impact of TMT characteristics on organizational outcomes. Instead, our work points out the importance of a highly underexplored research stream – the interaction between TMT characteristics and diversification strategy, resulting in an eventual TMT-diversification strategy fit. To help close the research gap in this highly important field, our work constitutes the so far only concept enabling researchers to measure a TMT-diversification strategy fit, at the same time being holistic in terms of demographic characteristics. In addition, our framework is simple in handling due to the inclusion of easily retrievable data and the provided measurement instructions. The established profiles are directly applicable and allow for multi-layered examinations due to the inclusion of a wide range of demographic characteristics, different diversification strategies and aspects of TMT composition.

Our concept offers a unique instrument for researchers. Those can conduct several empirical examinations, such as measuring the fit per demographic characteristic, for single TMT members who are of special importance, e.g. the CEO, and analyzing whether the TMT composition of a company fits its diversification strategy. We hope that our work considerably facilitates future research and thus contributes substantially to closing the outlined research gap in this area of research on TMTs.

Albeit the conceptual state of our study, we already offer implications to practitioners. Highlighting the importance of a fit between TMTs and diversification strategy can be beneficial for assessments of the current TMT composition as well as of

individual executives during the recruiting process and in management audits. Our distinct profiles can be used as another, yet promising perspective with easily accessible demographic characteristics that managers should carry to fit to the company's diversification strategy. As those characteristics can typically be retrieved from a CV, our concept offers an exceedingly easy and quick way of assessment. In addition, in the case of required change of a company's diversification strategy, the profiles can help to initially assess whether the current TMT members seem suitable to accomplish that goal or which characteristics potential members should have. Furthermore, our profiles can be used to define the needed demographic characteristics for a company's diversification strategy to specifically search for them in job descriptions.

Nonetheless, our study has major limitations due to the stringent design of our propositions and the resulting profiles. As we assume rather beneficial TMT members of low diversified companies to have no or rare/short experiences in certain demographic characteristics, we imply a very exact distinction between those two categories of TMT members. This strict distinction may not completely represent the real-life effect of the TMT members' demographic characteristics. However, this approach was necessary to enable the dichotomization of the variables and thereby the creation of our distinctive profiles. A further point resulting from the stringent profile design, is the impression that TMT members of highly diversified firms have to offer generally higher qualifications than members of low diversified firms. However, the main idea of our work is to regard the qualifications of TMT members – represented through demographic characteristics – in relation to the diversification strategy of the respective company and not in an absolute way. Even though recruiters of low diversified companies might prefer candidates with, e.g., international experience, following our concept, those would fit less to the company's diversification strategy. In addition, the beneficial outline for functional career experience is defined in a rather simplified way, as it only refers to the function in which TMT members spent most of their time before a top management position, not considering any possible functional career moves. Nevertheless, to stick to the usual approach of other upper echelons studies, the used method seems appropriate.

Due to our study's conceptual approach, both the established profiles and our fit variable still need to be verified empirically. This implies both testing for the supposed positive effect of a fit between the TMT and the company's diversification strategy and analyzing the proposed effect of TMT composition. When performing such analyses, control variables relating to both, the company and the TMT members, should be incorporated to base further research on findings from prior research. Examples for company controls are the company's size or age (Michel and Hambrick, 1992; Marlin *et al.*, 2004; Thomas and Ramaswamy, 1996; Guthrie and Datta, 1998), while concerning TMTs, researchers should control for the members' tenure and functional expertise (Michel and Hambrick, 1992; Marlin *et al.*, 2004). Furthermore, future researchers should analyze whether certain demographic characteristics are of higher importance than others and thus should be weighted more within the fit measure. Other interesting questions at this would be, if the characteristics correlate or presuppose each other. In this regard, correlation and factor analyses are conceivable methods.

Once empirical verification is achieved, researchers could think about further evolving the concept, especially in terms of including further demographic variables. Even though we tried to provide a holistic concept and, therefore, even included

additional variables that have not yet been object of investigation in prior research, our aim was to be concise in the choice of variables. Therefore, the inclusion of further demographic variables could be a meaningful complement of our concept in the future. For example, functional experience from different companies would be an appropriate extension of the concept, due to its strong relevance for gaining operational expertise.

Further on, scholars should consider additional effects which received attention in research on upper echelons and TMTs. As our profiles allow for taking decisions that are more informed on the suitability of TMT members, it is of interest to further investigate whether a TMT-strategy fit leads to superior organizational performance. Another major point arising when exploring the fit-performance relationship is the necessity to consider a major effect, which has proved to be of utmost importance in explaining the importance of upper echelons: the moderating effect of managerial discretion (Hambrick, 2007). The concept of managerial discretion refers to the latitude of action available to executives. Depending on how much discretion executives are granted, their demographic characteristics will be reflected more or less strongly in organizational performance. Several upper echelons studies focusing both on CEOs (Finkelstein and Boyd, 1998; Crossland and Hambrick, 2011) and TMTs (Goll *et al.*, 2008; Halebian and Finkelstein, 1993) already have investigated managerial discretion as a moderator. Including managerial discretion implies that the mere choice of the “right” TMT members is not sufficient in itself, as the TMT must also have the latitude to develop and execute strategies.

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