Chapter 11
Leveraging Multinational Firm Performance through the Use of Diversified Top Management Teams

Güven Alpay
Boğaziçi University, Turkey

Pınar Büyükbalcı
Yıldız Technical University, Turkey

ABSTRACT

This chapter discusses the theoretical framework covering the relationship between top management team diversity determinants and certain organization-level variables in order to capture the essence of possible strategic outcomes. Accordingly, it attempts to summarize and clarify the theoretical and empirical literature regarding the effects of diversity on the functioning of top management teams. In this sense, the main aim of this study is to contribute to and improve the current literature on diversity through the viewpoint of strategic international business literature by directly focusing on the organizational unit—top management teams—which is responsible for formulating and implementing strategies that will leverage organizational performance in the long run.

INTRODUCTION

The challenge for today's manager highly resides in managing the workforce diversity in organizations. In a way, diversity represents the unique talents, experiences, and intellectual assets introduced by the individual to the organiza-

tion. In this sense, it provides a great potential that needs to be controlled wisely to improve competitiveness; otherwise, such power may be devastating for every organization. To state more specifically, when managed right, diversity becomes a source of creativity and innovation and act as a basis for competitive advantage. On the other hand, if managed wrong, it may become a cause of misunderstanding, and conflict in the

workplace, which result in absenteeism, poor quality, low morale and loss of competitiveness (Bassett-Jones, 2005). This "aggregated potential" brought by differences among organization members must be well-realized, respected and diverted in compliance with the individual's and the organization's best interest. In other words, workforce diversity makes sense only when it is turned into "workforce success" which depends on creating value through managing relationships in order to improve financial, operational and customer related firm performance (Huselid, Becker, & Beatty, 2005).

Accordingly, ignoring diversity is not an option for organizations any more. Rather, organizations seek out ways to understand the dynamics introduced by such diversity in order to develop necessary skills to cope with its possible impacts. These skills are especially important for multinational firms, which experience an extreme degree of workforce diversity at each organizational level. In these firms, the most strategic effects of diversity are observed at managerial levels. This is mainly due to the fact that operations of multinationals are carried out in many different regions all of which are managed by executives diversified mainly in terms of culture related dynamics. To provide coordination among these executives who are responsible for different operations in distant regions, teamwork becomes of crucial importance. While studying dynamics related to these Top Management Teams (TMTs), along with several mezzo level (organization level) and macro level (industry and operational region level) contextual factors, diversity related variables stemming from the individual level should also be considered to complement the whole theoretical framework.

Literature on workforce diversity presents both complementary and controversial views on the relation between Top Management Team (TMT) diversity and performance indicators. In this sense, the current study first attempts to briefly summarize these viewpoints and related findings. Following this, to extend current de-

bate on diversity, a new integrative perspective structured on the interaction of TMT diversity and certain organization-level variables (such as "nature of team task" and "the influence of board of directors") is presented. Regarding this framework, the chapter further states main issues and controversies along with certain solutions and recommendations. Finally, moving from this debate on, future research directions are put forth to open new venues in this field and thus contribute to the body of research on multinational TMT diversity.

BACKGROUND

Diversity is traced in terms of several different dimensions. According to Loden (1996), there are "primary" and "secondary" dimensions that cause diversity (p. 16). Among primary dimensions are age, gender, ethnic heritage, race, mental/physical abilities and characteristics, and sexual orientation, while secondary dimensions consist of variables such as education, work style, family status, religion, income, work experience, and geographical location. Similar to this, Erhardt, Werbe,l and Shrader (2003) puts forth two general distinctions described by the observable (demographic—gender, age, race, and ethnicity based) and non-observable (cognitive—knowledge, education, values, perception, affection, and personality based) dimensions. In terms of contextual variables affecting the degree of diversity, Triandis (1996) emphasize the importance of cultural distance, level of adaptation, history of intergroup relations, acculturation, and isomorphic attributions.

Despite of differences in terms of all these variables; future trends of internationalization, proclivity towards operating through virtual and decentralized organizations and acts against prejudice and discrimination foster extensive networking and collaboration (Allard, 2008). These high-coordination based mechanisms are

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