Top Management Team And Company Performance In Big Countries Vs Small Countries

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Abstract

There is little research to date on the impact of globalization on corporate governance, particularly the internationalization of the board of directors of international/global companies. There also has been little attention to the nationality composition of top management. This paper investigates how the Nationality Diversity in Top Management Team affects Company Performance in big countries in Europe versus small countries in Europe. The study gives several results. First, there is a positive relationship between the nationality diversity of TMT members and company performance. Second, the size of the companies depends on the size of the country; companies in the big countries have more employees than those in the small countries. Third, the result of company performance in the big countries and the small countries is not significant, so the performance of the companies in the big countries is not better than that of the companies in the small countries.

Keywords: Top Management Team, Nationality Diversity, Company Performance

Abstrak

Selama ini hanya sedikit penelitian tentang dampak globalisasi terhadap tata kelola perusahaan, khususnya internasionalisasi pada dewan direksi perusahaan internasional/global. Juga hanya sedikit perhatian tentang komposisi kewarganegaraan pada *top management*. Artikel ini meneliti bagaimana keberagaman kewarganegaraan pada *top management team* berpengaruh pada performa perusahaan di Negara-negara besar Eropa dengan Negara-negara kecil di Eropa. Penelitian ini memberikan beberapa hasil. Pertama, ada hubungan yang positif antara keberagaman kewarganegaraan antara anggota *top management team* dan kinerja perusahaan. Kedua, ukuran perusahaan tergantung kepada besarnya Negara; perusahaan di Negara besar memiliki lebih banyak karyawan daripada perusahaan di Negara kecil. Ketiga, hasil pada kinerja perusahaan Negara besar dan Negara kecil tidak signifikan, jadi kinerja perusahaan Negara besar tidak lebih baik daripada Negara kecil.

Keywords: Top Management Team, Keberagaman Kewarganegaraan, Kinerja Perusahaan

INTRODUCTION

Firms today are facing an increasingly competitive and changeable environment due to economic instability, globalization, and complex technologies. To perform well among growing competition, greater efficiency is required. Running an enterprise today requires more resources than one person can offer. Being impossible to deal with all rapidly increasing amounts of data and the complexity of the global economy, top managers are forced to deal differently with the management of a firm. Top executives have a significant effect on their firms, but executives are finite in their repertoires. In the heat of competitive battle executives cannot detachedly comprehend all facets of their situations, assess all options, and then select right one (Finkelstein & Hambrick 1996). One of the most important issues in MNC's is nationality diversity in Top Management Team, but the academic literature offers only limited insight about this phenomenon. As a result of dealing with people from many different backgrounds both internationally and domestically on a daily basis, companies have to develop policies and processes that can minimize misunderstanding and harness the potential benefits of diversity. While the internationalization is a worldwide phenomenon, it is interesting to note that companies have taken different routes in their attempt to globalize. Typically the goal behind the internationalization is to capture new technologies, increase market share, and gain a competitive advantage.

Upper echelon theory (Hambrick and Mason, 1984) suggested that the company outcomes can be attributed to the TMT. Many researchers extended this theory. The human capital of the executives who are attracted and retained in the TMT and behavioral factors are important determinants of how well particular TMTs may process information, which in turn allows them to make the strategic choices affecting firm performance (Haleblian & Finkelstein, 1993). Moreover, Tony Simons (1995) found that TMT compositional diversity must be supported by a debate process to have positive performance impact. The research suggests that diversity can improve performance (Early and Mosakowski, 2000). Particularly, diverse teams can be more productive than homogeneous teams (DiStefano and Maznevski, 2000). Team members bring their own backgrounds and personalities to the task at hand. Their views are also influenced by their individual personalities, nationalities, their professional backgrounds, and their cultural backgrounds.

There is little research to date on the impact of globalization on corporate governance, particularly the internationalization of the board of directors of international/global companies. There also has been little attention to the national composition of top management (Gong, 2003; Hambrick et al, 1998, Tulung, 2009). This is changing very slowly. For example, one study by Alexander and Esser (1999) found that between 1995 and 1998 the percentage of companies with directors from other than the headquarters country increased from 39 per cent to 60 per cent. Also, Carpenter and Fredrickson (2001) indicate that "... firms were most likely to be highly global when they had diverse Top Management Team (TMTs)--diverse in terms of the breadth of their international experience and the heterogeneity of their educational backgrounds and firm tenures (2001:541)". Lublin (2005) argues that corporate boards of MNCs are going global, particularly in Europe where 90 per cent of Europe's largest companies by market capitalization have at least one director from outside the home country.

This paper will investigate how the nationality diversity in top management team affects company performance in big countries in Europe versus small countries in Europe. This is due to the limited academic research that investigates a gap between big countries and small countries in Europe.

Country Profile

Germany and France's Economy

Germany's economy is the world's third-biggest and one of its most advanced. At the economic heart of Europe, its performance has far-reaching effects outside Germany, particularly in other EU countries and in central and eastern Europe. In recent years performance has been sluggish, particularly in the ex-communist east. Taxes are high and complicated, and red tape is thick. Angela Merkel's government has done relatively little to grasp the nettles of reform. Still, Germany's economy is rebounding thanks to a restructuring of the labour market that has improved competitiveness. Unemployment, though still high, has dropped sharply over the past few years. Germans have also resisted immodest wage increases, unlike faster growers that have seen their competitive position eroded by soaring labour costs.

In the late 1990s, the economy of France grew faster than the European average, allowing the Socialist government to indulge in such goodies as the 35-hour work week. But the country's cherished social model has in recent years proved a strong disincentive to growth and to job creation. Moreover, special public-sector pensions and rising health-care costs are straining the public finances. Recently, companies that have eschewed France's traditional protectionism and embraced globalization have fared much better. Discontent with the economy—and the government's handling of it—played a large part in France's rejection of the EU constitution. But, as usual in France, economic reforms smacking of *libéralisme* have met strong resistance: in the spring of 2006, after weeks of protests, the government dropped a proposed loosening of first-job contracts.
(Source: http://www.economist.com/node/2142238?story_id=E1_NTQNNPR)

Nationality Diversity in TMT in German and French Companies

Martin Birkner (2005) in his dissertation *"The Status and Dynamics of Change of Top Management Team (TMT) Demographics and Capabilities in German Large Firms Between 1997-2002: A Theoretical Exploration and Extension of the Upper Echelon Perspective"* argues that Diversity in TMT nationality shows high statistical significance at a confidence level of over 95%. Some firms prefer to have German members in their TMT and create diversity through high levels of international work experience of the TMT members. Others rather prefer to recruit different nationalities for their TMT members especially from Austria and Swiss because the same culture and language. Furthermore Van Veen and Marsman (2008) found in their research that a foreigner in top management team on companies in Germany was 21.4 %.

On the other hand, in France, as Maclean et all (2006) found, 85 % of the directors in French top 100 companies are French and 15 % are foreigners, mostly from Italy and UK. The difference between Van Veen and Marsman's (2008) finding of the foreigners in German companies and Maclean et all's finding of the foreigners in French companies is 12.7%.

The Netherlands and Belgium

The economic climate worsened in the first quarter of 2008 in all countries of the Western Europe area. Including in Belgium and the Netherlands optimism has weakened, although the current economic situation is still assessed very positively in these countries. For several years the Dutch economy has been characterized by remarkably high growth of GDP and employment, and steeply declining unemployment rates. The Dutch economic climate has progressed dramatically since the European recession in the early-to-mid 1980's, "During this period, 100,000 jobs were lost every year, partly due to the sharp rise in labor costs. Furthermore, public finances had got completely out of hand. In Belgium, domestic demand is supported by monetary conditions and, partly reflecting the improving labor market situation, historically high levels of consumer and business confidence. On the external side, the world economic situation has strengthened and Belgian competitiveness has improved, in part due to the depreciation of the euro." (Source: www.bz.minbuza.nl and www.imf.org).

Nationality Diversity in TMT in the Netherlands and Belgium

The issue of nationality diversity in the Netherlands and Belgium has been researched. For example, Heiltjes et al (2003) argued that in 1999, the number of foreigners in complete boards in the Netherlands was rather low (11%), but it was better than in 1990 (4,6%). This was supported by Van Veen and Marsman (2008) who concluded that the Dutch companies had much higher nationality diversity (46,6%). On the other hand, the number of the top foreign managers in Belgium was only 19%.

Research question

This research examines the link between the Internationalization of Top Management Teams (TMT) and company performance, and whether differences exist between the big countries in Europe and the small countries in Europe.

The main research question can be formulated as follows: *can differences in company performance of MNCs in Germany, France, the Netherlands and Belgium be explained by the nationality diversity of the top management team members?*

LITERATURE REVIEW

To address this question, we synthesized prior research on composition on top management team. Some studies believe composition of the top management team influences company performance. For example, Tushman and Rosenkopf (1996) examined the top management team composition and argued that TMT composition had a positive effect on change in performance.

According Hambrick and Cannela (2004), adjustment in the composition of the executive cadre can impart powerful effects of firm strategy and performance. Barnhart et al. (1994) investigated the effect of board composition on company performance. When they did not control for variables that had effects on company performance, the relationship between corporate performance, proxied by market-to-book ratio of equity, and board composition was significant. However, Alshimmiri (2004) found that only pure directors were able to practice effective monitoring and gray directors (the director who have some sort of relation with the firm) had no significant effect on firm performance.

Nationality Diversity is part of Top Management Team Composition, but the existing academic literature provides little insight about this. The research of Caliguiri, Lazarova & Zehetbauer (2004) focused on exploring a relationship between nationality diversity of TMT in the USA and four indicators of a firm's internationalization. They did not solely focus on nationality, but also on the number of countries in which the companies were active. Elron (1997) comes close to research on nationality diversity. This researcher studied the effect of cultural heterogeneity of TMT performance on MNC and subsidiary performance. The results provide support for the importance of cultural heterogeneity for the functioning of TMTs and their subsidiaries. Birkner (2005) included nationality of TMTs in his research concerning the change and dynamics in German firms.

Hypotheses

Following the main research question, the hypotheses will be introduced briefly in this part. In addition, strategy researchers have extended Hambrick and Mason's (1984) upper echelons perspective to argue that, since demographic characteristics serve as valid proxies for deep-level characteristics, then the relative heterogeneity or diversity of those former characteristics among team members may be associated with firm performance (Finkelstein & Hambrick, 1996). Consequently, if demographic diversity has implications for top team behaviours and, most importantly, those behaviours are integral to effective management, then heterogeneity is likely to be reflected in firm performance. According to these findings the following hypothesis is formulated:

H1. There is a positive relationship between the nationality diversity of TMT members and company performance

The literature of top management team composition proposed relation between nationality and company performance, Van Veen and Marsman (2008) argue that higher nationality diversity is supposed to lead to better company performance, so increased diversity is an important requirement for quality of strategic decision making. People of different ethnic backgrounds might bring different values and perspectives to the strategy-making process (Jarzabkowski & Searle, 2003). So, the differences in the level of countries have a different result.

H2: The differences in the level of countries among the four countries have a different effect on company performance

METHODOLOGY

The research data were management boards of companies in 111 companies: 30 in Germany, 38 in France, 25 in the Netherlands, and 18 in Belgium. The whole dataset was provided by Van Veen and Marsman (2008) and derived from this study on nationality diversity.

Variables

1. Nationality
   Measured by nationality in board, were provided by the database from Advanced International Management course, assuming the headquarters are located in the home country

2. Countries
   The data for this measure were provided by Van Veen (2007) and derived from his study on nationality diversity

3. Company performance
   Collection of data was calculated by means of two ratios, which can be calculated from the annual financial statements—net return on assets (RoA).

4. Company size

   Measured by the amount of employees, the data were provided by Van Veen (2007) and derived from his study on nationality diversity.

RESULT AND DISCUSSION

Descriptive Result

Overall percentage of nationality diversity in four countries is 25%. The Netherlands is the highest percentage of 44%, next Belgium and France of 28% and 21%, respectively, and the lowest is Germany with 13%. This indicates that the nationality diversity of the small countries (the Netherlands and Belgium) in Europe is higher in percentage than that of the big countries (Germany and France) in Europe.

The result of the descriptive statistics in company size shows that the big countries have big sized companies than the small countries do. There are large differences in the company size: Germany and France have a mean of 111652.10 and 103349.29 employees, respectively, compared to the Netherlands and Belgium that have a mean of 58368.63 and 32782.89 employees, respectively. In other words, the size of employees in Germany and France is almost twice the size of Netherlands and more than thrice the size of Belgium. This is not surprising due to the population factor; big countries have a large number of population than small countries do. So, this is the same with the number of employees in the companies.

Hypothesis Testing

The first hypothesis predicted a positive relationship between the nationality diversity of TMT members and company performance. This relation was tested on having a significant correlation.

Table 1 shows a significant relationship (0.266) between nationality diversity of TMT and company performance (ROA), therefore the first hypothesis is accepted.

Table 1. Correlations

		% of foreigners of complete board	Total in number of employees	Return on Assets	Company country of origin
% of foreigners of complete board	Pearson Correlation	1	-,060	,266(**)	-,297(**)
	Sig. (2-tailed)		,532	,005	,002
	N	111	110	110	111
Total in number of employees	Pearson Correlation	-,060	1	-,188(*)	,097
	Sig. (2-tailed)	,532		,050	,313
	N	110	110	110	110
Return on Assets	Pearson Correlation	,266(**)	-,188(*)	1	-,203(*)
	Sig. (2-tailed)	,005	,050		,033
	N	110	110	110	110
Company country of origin	Pearson Correlation	-,297(**)	,097	-,203(*)	1
	Sig. (2-tailed)	,002	,313	,033	
	N	111	110	110	111

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Table 2 shows the regression analysis and the outcome. The first part of the regression shows an R-Square of 0.100. R-square indicates the proportion of variability in a dataset that is accounted for in a regression, it shows how well the regression line approximates the real data points. Therefore, the value of R-square in this regression tells us about the goodness of fit of the model; it does not fit the data very well, considering R-square only explained by 10 % of the variation by the explanatory variables, so 90 % was explained by the other variables.

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,317(a)	,100	,084	.079123

a Predictors: (Constant), Total in number of employees, % of foreigners of complete board

Table 3 shows the coefficient of the company performance, there is a significant result (.256) in percentage of foreigners and almost significant (-.172) in the relationship between company size and performance.

Table 3. Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	,036	,015		2,442	,016
	% of foreigners of complete board	,115	,041	,256	2,786	,006
	Total in number of employees	-1.54E-007	,000	-,172	-1,875	,064

a Dependent Variable: Return on Assets

The second regression can be seen in Table 4. It shows that the regression analysis supports the correlation but again at a small explanatory level, only an R-square of about 11%: the correlation between the percentage of foreigners in the board and the company size in the big countries and small countries.

Table 4. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,334(a)	,111	,086	.079012

a Predictors: (Constant), comcoo_Ss_L, Total in number of employees, % of foreigners of complete board

Table 5 shows an insignificant result (.19) in percentage of foreigners, company size (-.136) and also relationship between big countries and small countries (-.128).

Table 5. Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	,076	,038		2,016	,046
	% of foreigners of complete board	,087	,048	,194	1,818	,072
	Total in number of employees	-1.21E-007	,000	-,136	-1,398	,165
	comcoo_Ss_L	-,022	,019	-,128	-1,141	,257

a Dependent Variable: Return on Assets

CONCLUSION

This study shows several points. First, there is a positive relationship between the nationality diversity of TMT members and company performance, it does not depend on the largest percentage of foreigners in top management team that has a better performance than the lowest percentage. But, the small countries in Europe have a large percentage of foreigners in top management team than the big countries. The reason might be because the small countries were more open to foreigners to be employed in their companies and then they became members of a top management team. The other reason may be attributed to language factor. People in the Netherlands and Belgium can speak and understand English better than those in France and Germany. Second, the size of the companies; companies in the big countries have more employees than those in the small countries. This is because the big countries surely have more inhabitants than the small countries do. So, this influences the size of employees in a company. Finally, the difference in the result of company performance of the big countries and the small countries is not significant, so the performance of the companies in the big countries is not better than that of the companies in the small countries.

Limitation

However, this study has several limitations. For example, the year of the performance used was just one-year data. The financial performance could not be measured by one-year data. In addition, this study just focused on four countries to represent the small countries and the big countries in Europe. There might be a different result if more countries were added.

Suggestion

In the further research, will be add a data from more than one year of performance and also add some countries. Future research also will be investigate the effects of TMTs on company with the different approach, such as the diversity on gender, level of education, tenure, functional background. Future research may use multilevel design and methodology in term to explore the effects of TMTs diversity on company strategy and performance.

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APPENDIX

Descriptive Statistics

National Diversity

Overall

	N	Minimum	Maximum	Mean	Std. Deviation

	N	Minimum	Maximum	Mean	Std. Deviation
% of foreigners of complete board	111	.00	.73	.2556	.18792
Valid N (listwise)	111				

Netherlands

	N	Minimum	Maximum	Mean	Std. Deviation
% of foreigners of complete board	25	.09	.73	.4404	.17465
Valid N (listwise)	25				

Belgium

	N	Minimum	Maximum	Mean	Std. Deviation
% of foreigners of complete board	18	.00	.68	.2870	.21161
Valid N (listwise)	18				

Germany

	N	Minimum	Maximum	Mean	Std. Deviation
% of foreigners of complete board	30	.00	.38	.1352	.09702
Valid N (listwise)	30				

France

	N	Minimum	Maximum	Mean	Std. Deviation
% of foreigners of complete board	38	.00	.63	.2141	.14198
Valid N (listwise)	38				

Company size

Overall

	N	Minimum	Maximum	Mean	Std. Deviation
empl0405_1	110	81	502545	84252.50	92563.671
Valid N (listwise)	110				

Netherlands

	N	Minimum	Maximum	Mean	Std. Deviation
empl0405_1	24	316	212000	58368.63	61622.899
Valid N (listwise)	24				

Belgium

	N	Minimum	Maximum	Mean	Std. Deviation
empl0405_1	18	81	135739	32782.89	39362.079
Valid N (listwise)	18				

Germany

	N	Minimum	Maximum	Mean	Std. Deviation
empl0405_1	30	1233	502545	111652.10	129092.483
Valid N (listwise)	30				

France

	N	Minimum	Maximum	Mean	Std. Deviation
empl0405_1	38	12304	430695	103349.29	80001.933
Valid N (listwise)	38				

ROA & ROE

Overall

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	110	-.068	.707	.05240	.082655
Valid N (listwise)	110				

	N	Minimum	Maximum	Mean	Std. Deviation
Return on equity	110	-.245	.831	.17205	.124126
Valid N (listwise)	110				

Netherlands

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	24	-.023	.707	.09604	.149776
Valid N (listwise)	24				

	N	Minimum	Maximum	Mean	Std. Deviation
Return on equity	24	-.088	.831	.21608	.180344
Valid N (listwise)	24				

Belgium

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	18	-.005	.243	.05967	.066180
Valid N (listwise)	18				

	N	Minimum	Maximum	Mean	Std. Deviation
Return on equity	18	-.018	.453	.19494	.143662
Valid N (listwise)	18				

Germany

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	30	-.030	.167	.03360	.040986
Valid N (listwise)	30				

	N	Minimum	Maximum	Mean	Std. Deviation
Return on equity	30	-.049	.296	.14620	.069996
Valid N (listwise)	30				

France

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	38	-.068	.117	.03624	.032199
Valid N (listwise)	38				

	N	Minimum	Maximum	Mean	Std. Deviation
Return on equity	38	-.245	.340	.15379	.097218
Valid N (listwise)	38				