

Top management team diversity and innovativeness: The moderating role of interfunctional coordination

Seigyoung Auh¹, Bulent Menguc*

Brock University, Faculty of Business, Department of Marketing, International Business, and Strategy, St. Catharines, ON, Canada L2S 3A1

Received 22 October 2003; received in revised form 8 July 2004; accepted 20 September 2004

Available online 24 November 2004

Abstract

Top management team (TMT) diversity has received considerable attention in the academic literature as well as in the corporate arena. Our paper develops a contingent model on how top management team diversity acts as a form of human capital and can have a positive effect on innovativeness when it is effectively leveraged with favorable social capital. Our theoretical underpinning rests on the argument that greater interfunctional coordination is a source of internal social capital, which mitigates the costs while at the same time highlights the benefits associated with TMT diversity. By testing our model with TMT executives, the results generally supported our hypothesis in that the effect of TMT diversity on innovativeness was positive as interfunctional coordination increased. Implications for marketing theory and practice are discussed.

© 2004 Elsevier Inc. All rights reserved.

Keywords: Diversity; Top management teams; Innovativeness; Interfunctional coordination

1. Introduction

Some of the most successful companies today strive for continuous innovation. It is accepted that the capacity to innovate is influenced by the organizational learning orientation and the orientation towards innovation (Calantone, Cavusgil, & Zhao, 2002; Hurley & Hult, 1998). The notion of an orientation towards innovation captures the spirit of innovativeness, or the innovative culture, residing in an organization. Firms such as General Electric utilize its Quick Market Intelligence system to encourage a culture of experimentation and exploration that is in line with innovativeness (Day, 2002). The innovative culture of 3M is widely known to foster trial-and-error. More recently, an interview with the President and the CEO of Lucent

Technologies Canada, underscored the significance of integrating diversity with innovativeness (Innoversity Network, 2000). The content of the interview suggests how Lucent Technologies is leveraging diversity to further enhance innovativeness. Diversity is a valuable asset to Lucent Technologies. They use it as a springboard, drawing on multiple perspectives to nurture an innovative culture in facilitating development of innovative products.

The pervasiveness of innovativeness on marketing practice has been explored in the strategic marketing literature (e.g., McDaniel & Kolari, 1987). Innovativeness is a hallmark that characterizes prospector firms, a strategic type advanced by Miles and Snow (1978). Since the strategic typologies were introduced, marketers have been interested in the influence of innovativeness on marketing activities. Research has shown that, compared with less innovative organizations (i.e., defenders), innovative firms (i.e., prospectors) invest more resources in new product development, personal selling, sales training for employees, supervision of sales personnel, education of customers, marketing research, and computerized customer information systems (McDaniel

* Corresponding author. Tel.: +1 905 688 5550x5074; fax: +1 905 984 4188.

E-mail addresses: sauh@brocku.ca (S. Auh), bmenguc@brocku.ca (B. Menguc).

¹ Tel.: +1 905 688 5550; fax: +1 905 984 4188.

& Kolari, 1987). Similarly, Hambrick (1983) found that firms with high levels of innovativeness spent relatively more on product R&D and marketing expenses as a percentage of sales than less innovative firms. Hambrick (1983) found that innovative firms devoted more resources to motivating, informing, and educating their sales force and customers.

Based on the aforementioned literature, a firm driven by innovativeness is expected to reveal characteristics which are important to marketing managers. Our study, by taking one step back from the above findings asks, if innovativeness influences some of the previously mentioned marketing activities, how can marketing managers build, maintain, or enhance innovativeness by utilizing a particular type of human capital, namely top management team diversity? Furthermore, we explore the question of whether this relationship is stronger in certain contextual conditions. Our paper builds on previous theoretical work to explain how diversity can be used as a strategic resource to encourage innovativeness—a key determinant of product and service innovation that is of significant practical importance to managers. The relevance of our study comes from the fact that diversity is something that is within the control of the firm; firms have the flexibility and discretion to encourage or discourage diversity.

In the increasingly competitive business environment, innovation is seen as a key factor for both firm survival and performance excellence (Marinova, 2004). An organization that is constantly finding ways to innovate itself will be in a better position to outperform its major rivals. According to the upper echelon perspective, top management teams (TMTs henceforth) provide the impetus for innovative change, organizational performance, and strategic decision-making (Hambrick & Mason, 1984). Marketing researchers have also concurred with the upper echelon perspective, arguing that the extent to which an organization is market-oriented is influenced heavily by TMTs' interest and risk aversion (e.g., Jaworski & Kohli, 1993).

Despite the interest shown by managers in trying to relate diversity to innovativeness, little empirical research exists to support the claims of TMT diversity's influence on the level of innovativeness. Coined after the integration of innovation and diversity, the term *innoversity* has captured significant attention in the business press (Justesen, 2001). Consistent with the attention that TMT has received in the management literature and to a lesser degree in the marketing literature, we posit that different types of TMT diversity—namely, TMT functional, TMT experience, and TMT educational level diversity (educational diversity henceforth)—affect the level of innovativeness in an organization. We also argue that TMT diversity is a form of human capital possessed by an organization. As a result, we posit that innovativeness will be driven by the quality of human capital possessed by an organization.

Innovativeness, as briefly noted before, refers to the inclination for the organization to engage in innovative behavior. Zaltman, Duncan, and Holbek (1973) identified

two stages of innovation: initiation and implementation. Of particular interest to our study is the initiation stage which describes “openness to the innovation” (Zaltman et al., 1973, p. 64). We contend that diversity encourages the creative destruction that is a critical step before creative construction can take place. Creative destruction challenges fixed assumptions and the existing best practices. Levitt (1962, p. 128) observed that “being willing to destroy the old is the heart of innovation and the means to enormous profits”. Therefore, diversity should affect an organization's orientation towards innovation, namely innovativeness.

The direct effect of TMT diversity on innovativeness can be mixed and ambiguous because of the dual impact of the benefits and costs associated with TMT diversity (Williams & O'Reilly, 1998). In other words, the effect of TMT diversity on innovativeness can be either positive or negative depending on whether benefits or costs dominate. Therefore, it is likely that the relationship between TMT diversity and innovativeness will be more transparent under certain contextual conditions. Despite the expected advantages of TMT diversity, having a diverse pool of TMT constituents can bring about side effects, the most prominent of which is the inefficient implementation of the 4Cs (i.e., communication, coordination, collaboration, and cohesiveness). Consequently, excessive diversity can actually impose a bottleneck on information processing and dissemination by impeding and hampering creative and prompt decision-making, leading to less-than-desirable solutions.

In light of the above argument, the central thesis of this paper is that human capital on its own might not be sufficient to realize innovativeness within an organization. We contend that social capital, such as appropriate organizational infrastructure or common work rules, needs to complement human capital to obtain greater innovativeness. This paper addresses this void in the literature by empirically testing the moderating role of social resource on the effect of human resource on innovativeness within an organization. Our model builds on the work of Florin, Lubatkin, and Schulze (2003) who have articulated the leveraging role of social capital in strengthening the impact of human capital.

To this end, the goal of this paper is to address the question of under what conditions can the costs of TMT diversity be alleviated thus enabling the benefits of TMT diversity on organizational innovativeness to be fully exploited by adopting a ‘human capital × social capital’ framework. We posit that a particular type of social capital, interfunctional coordination, will moderate the relationship between TMT diversity and innovativeness, such that the effect of TMT diversity on innovativeness will be stronger as interfunctional coordination increases. Put differently, our paper investigates the interaction between human capital and social capital and its effect on innovativeness. We begin by discussing the theoretical background and our conceptual model, followed by hypothesis development. We then present our empirical results from a survey of TMT executives. We conclude by presenting a discussion of the

Download English Version:

<https://daneshyari.com/en/article/10496231>

Download Persian Version:

<https://daneshyari.com/article/10496231>

[Daneshyari.com](https://daneshyari.com)