INDIA’S CONGLOMERATE CAPTAINS
TOP MANAGEMENT TEAM COMPOSITION AND INTERNATIONALIZATION AT THE TATA GROUP

DISSERTATION
of the University of St. Gallen,
School of Management,
Economics, Law, Social Sciences
and International Affairs
to obtain the title of
Doctor of Philosophy in Management

submitted by

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from

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Dissertation no. 4089

Gutenberg, Schaan 2012
For the Data Group it is a great pleasure to have Mathias do such a comprehensive study on the executive leadership structure of the Data Group.

The findings and the data from this study will be of great value to us in the years to come.

Natan J. Sota
May 31, 2012
The University of St. Gallen, School of Management, Economics, Law, Social Sciences and International Affairs hereby consents to the printing of the present dissertation, without hereby expressing any opinion on the views herein expressed.

St. Gallen, October 29, 2012

The President:

Prof. Dr. Thomas Bieger
Acknowledgments

Writing this dissertation has been a satisfying learning experience and was highly stimulating both from an intellectual and a broader personal perspective. I am convinced that I will look back and find that it has significantly impacted the further development of my professional life. My deep gratitude goes to a number of people in Switzerland and India without whom this project could not have been completed.

First of all, I would like to thank my advisor Winfried Ruigrok for his openness towards my research project and approach and his valuable comments along the way. My special thanks go also to my co-referee, Debashis Chatterjee, for providing a different perspective on research as well as for allowing me to write parts of this dissertation on the IIMK campus, and to Sojan George for showing great hospitality when organizing my stays in Kozhikode. I thank my colleagues at FIM, Martin Engeler and Dimitrios Georgakakis, for the opportunity to exchange feedback on each other’s work. Roger Moser for sharing my passion for India and many interesting related discussions. In particular, I would like to thank Peder Greve for teaching me so many things about rigorous research and academic paper writing. Thanks also to Riki Schlickenrieder and Isabelle Chemelli who always were very kind and helpful.

My initial motivation to write this dissertation is very much linked to Mr. Ratan N. Tata, without whose ongoing support this project could not have been conceived in this form. I owe you, dear Mr. Tata, my deepest gratitude for igniting the special interest I have for India and your Group today in many discussions over the last few years. I am writing this with the most genuine admiration of the person and leader you are. I would also like to thank the many other ‘Tatas’ who have significantly contributed to this piece: Satish Pradhan, whose genuine interest in my work and ongoing support was a great source of motivation for me; R. Venkat for guaranteeing access to the Chairman and putting me in touch with many people across the Group; Kishore Dalal, K. Sabarinadhan and the entire Group HR team for helping me out in countless matters; Virginia Matcha and Shiraz Talati for putting up with yet another request to schedule meetings with Tata executives; all the Tata Group directors and executives for granting me some of their precious time and helping me to make the link between academia and practice. In this regard, my special gratitude goes to R. Gopalakrishnan, Farrokh Kavarana and K. R. S. Jamwal for a series of highly
interesting discussions about my research findings. I also thank Maruti Shingade for his invaluable help in the data collection process and database management; and finally Ryan Sadri, Gurveer Singh Chadha and crew for being great friends and making my stays in Mumbai unforgettable also outside the office.

Last but not least, a special thanks to those dearest to my heart and to whom I dedicate this work. My mother and father, Elsbeth and Pius, for their continuous love and unconditional support. Philippe for being a brother I can be extremely proud of. My grandparents for showing me what really matters in life. And to Myriam, my love, for her love, patience and support – whatever I do is also for you.

Zurich, July 2012

Mathias
Abstract

The impact top executives have on their companies’ strategic development and performance as well as how individual careers evolve can take on very different complexions across national contexts. This dissertation combines the upper echelons (UE) perspective with other behavioral, social psychological and economic theories to advance our knowledge about Indian companies’ highest executive decision-making body, the Top Management Team (TMT). In four papers, this thesis explores; the current status of Asian context based UE research, the antecedents and status quo of TMT composition, trends in top executive appointments, and the effects of executives on firms’ choice of market entry mode.

The empirical analysis is conducted on a longitudinal dataset of 72 listed and privately held operating companies of India’s largest business house, which captures 1361 unique executive profiles as well as data on company finances and internationalization from the financial years 2007-08 to 2010-11. The quantitative analysis is complemented by qualitative input from semi-structured interviews with 30 CEOs, Chairmen, Directors and HR Heads of the Tata Group. A number of main findings are drawn from the analysis.

First, executives’ managerial discretion in Asian economies is dependent on characteristic institutions, both informal (cultural traits, CEO centrality, interdependence of TMT members) and formal (ownership concentration, legal origin and law enforcement, board governance rules), and overall tends to be more constrained than in the West. Second, while a trend towards more UE research in Asia is detected, scholars should make the leap from replication to a more context driven approach to put Asia-focused UE research on its own feet. Third, an individual level analysis revealed that executives who have high international career diversity and/ or at least one formal management degree and affiliation with an elite career development program, as well as female executives, take significantly less long to be appointed to the TMT than their peers. Conversely, foreigners’ career velocity seems to be lower in the Indian context. Fourth, an analytical approach to evaluate the status quo of TMT composition in India suggests that some common preconceptions with regard to the allegedly “typical” Indian TMT are outdated. The analysis implies that in the future Indian TMTs are likely to become more diverse in terms of nationality, but in the mid-term not gender. The average age of executives is likely to decrease, though very slowly for non-CEO TMT positions, and lateral hiring seems bound to become even more prevalent. Similarly, the MBA is likely to become even more dominant at the top than it already is today. Fifth, in an ordinal logistic regression model the level of monitoring of the TMT by the Board, which has an impact on executives’ latitude of action, is found to moderate the validity of strategic decision-making (upper echelons) and purely rational choice based research approaches to evaluate companies’ choice of foreign market entry mode.
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<th>Description</th>
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<td>ANOVA</td>
<td>Analysis of Variance</td>
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<tr>
<td>BEBP</td>
<td>Brand Equity and Brand Promotion</td>
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<tr>
<td>BoD</td>
<td>Board of Directors</td>
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<tr>
<td>BSE</td>
<td>Bombay Stock Exchange</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>cf.</td>
<td>confer</td>
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<td>e.g.</td>
<td>exempli gratia (for example)</td>
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<td>etc.</td>
<td>et cetera (and so on)</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FSTS</td>
<td>Foreign Sales to Total Sales</td>
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<td>FY</td>
<td>Financial Year</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GLM</td>
<td>Generalized Least Squares</td>
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<td>GMAT</td>
<td>Graduate Management Admission Test</td>
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<td>HLM</td>
<td>Hierarchical Linear Model</td>
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<td>HR</td>
<td>Human Resources</td>
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<td>i.e.</td>
<td>id est (that is)</td>
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<td>IIM</td>
<td>Indian Institute of Management</td>
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<tr>
<td>IIT</td>
<td>Indian Institute of Technology</td>
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<tr>
<td>JV</td>
<td>Joint Venture</td>
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<td>M&amp;A</td>
<td>Mergers &amp; Acquisitions</td>
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<td>MBA</td>
<td>Master of Business Administration</td>
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<td>MNC</td>
<td>Multinational Corporation</td>
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<td>Abbreviation</td>
<td>Definition</td>
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<tr>
<td>OLI</td>
<td>Ownership-Location-Internalization</td>
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<td>OLS</td>
<td>Ordinary Least Squares</td>
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<tr>
<td>OMA</td>
<td>Optimal Matching Analysis</td>
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<td>PhD</td>
<td>Doctor of Philosophy</td>
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<td>PLS</td>
<td>Partial Least Squares</td>
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<td>RC</td>
<td>Rational Choice</td>
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<td>SDM</td>
<td>Strategic Decision-making</td>
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<td>SEM</td>
<td>Structural Equation Modeling</td>
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<td>SENSEX</td>
<td>Sensitive Index</td>
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<td>TAS</td>
<td>Tata Administrative Services</td>
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<td>TMT</td>
<td>Top Management Team</td>
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<tr>
<td>UE</td>
<td>Upper Echelons</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>US</td>
<td>United States (of America)</td>
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<tr>
<td>VIF</td>
<td>Variance Inflation Factor</td>
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<td>vs.</td>
<td>versus (in opposition to)</td>
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1 Introduction

1.1 Practical and academic relevance of the project

The rise of Asia’s emerging economies has significantly impacted the global distribution of political and economic powers (Kamdar, 2007; Luce, 2006; Meredith, 2007) and has kept both practitioners and researchers on their toes. India is a case in point; in 2011 it overtook Japan as the world’s third largest economy in terms of gross domestic product (GDP) (IBEF, 2011). As an increasing number of Indian MNCs, particularly business houses, undertake decisive actions to augment their international posture (Mathews, 2006; Sun, Peng, Ren & Yan, 2010) their leaders, brands and products are also more and more acknowledged by the West. Brand Finance, a UK-based consultancy firm, ranked the Tata Group, India’s largest business house, 41st among the world’s most valuable brands (Brand Finance, 2011), and the Tata Group Chairman, Mr. Ratan N. Tata, today features among the 50 most influential people worldwide (The Economic Times, 2011a). Reflecting on the greater influence which nowadays comes from the East, Chen and Miller (2010, p. 17) posit that business reality has been transformed from “West leads East” to “West meets East” and that by following an “ambicultural” approach the best of both management approaches can be combined.

Businesses are run by a select group of executives, the Top Management Team (TMT), whose management approach and the decisions they take shape their organization’s future (Hambrick & Mason, 1984). Individual executives’ careers, the composition of TMTs and the overall impact such executives have on firm strategic outcomes are strongly dependent on country specific cultural traits, economic particularities (e.g. dominant ownership structure), national regulations and governance systems (Crossland & Hambrick, 2011; Olie, 2010; Olie & Van Iterson, 2004). Furthermore, TMT composition not only influences companies’ strategic outcomes but also evolves as a result of changes in the business environment or strategic decisions taken at an earlier point in time (Hambrick, 2007). A thorough understanding of these contextual influences and effects is important for both incumbent Asian as well as foreign firms investing in emerging Asian economies as it can provide guidance for strategic (investment) decisions, for example related to leadership development or corporate governance. Furthermore, in today’s globalized
Introduction

TMT research has come a long way since Hambrick and Mason (1984) introduced the upper echelons (UE) concept and today scholars from various disciplines continue to advance our knowledge about the small decision-making body at the apex of companies. In this vein this dissertation project sets out to expand our understanding in a number of yet under-researched areas along the following continuum: antecedents and status quo of TMT composition, trends in top executive appointments, and the effect of TMT composition on the choice of foreign market entry mode.

First, the body of empirical UE work is strongly skewed towards studying TMT composition as an antecedent of firm outcomes and the influence of executives on company strategies and ultimately performance (Carpenter, Geletkanycz & Sanders, 2004). Few studies have analyzed the antecedents of TMT composition (Boone, van Olffen, van Witteloostuijn & de Brabander, 2004; Zhang & Rajagopalan, 2003, 2004), and these studies have focused on environmental, organizational and team context related constructs as antecedents to changes in TMT composition. Hence our knowledge about the individual-level factors that are linked to TMT membership remains very limited. To comprehensively address the question “why do Top Management Teams look the way they do?” (Hambrick, 2007, p. 338) it is proposed that more such research is required.

Second, while a lot of research has looked at CEO and TMT succession and replacement processes (e.g. Boone, et al., 2004; Kesner & Sebora, 1994; Zhang & Rajagopalan, 2003) previous UE work only discusses to a very limited extent how changes in the business environment and/or company strategy are reflected in the composition of the TMT (Hambrick, 2007) and how they may explain trends in top executive appointments: that is, which managers are more likely to make it to the top in the context of altering externalities. Moreover, the limited previous research in this vein does not base its findings on empirical statistical (regression) models and is focused completely on the US (Cappelli & Hamori, 2005; Hamori, 2010).

Third, there is ample untapped potential to explore the effects of executives on strategic outcomes by combining the UE concept with other theories (Carpenter et al., 2004). Firms’ choice of entry mode in the process of expanding internationally is a
case in point. Previous research of this nature is almost exclusively built around rational choice (RC) theories such as transaction cost theory (Brouthers & Hennart, 2007), implying that a company’s FDI decisions would be purely rational. The strategic decision-making perspective (SDM), the impact of managers’ “givens” (March & Simon, 1958) and their past experiences on the decisions they take, has often been ignored entirely. Therefore, this dissertation project introduces and empirically tests a construct that helps to gauge the expected validity of SDM and RC based research approaches in a given situation.

Encompassing all of the above, the (academic) relevance of this project also stems from the context of its study sample. The vast majority of previous UE work is based on Western samples (Olie, 2010). That is, most of what we have learned about executives’ effects was derived in Western contexts and often improvidently generalized to other geographic areas (Heslin, 2005; Olie & Van Iverton, 2004). Scholars have repeatedly urged the research community to extend the focus of UE studies beyond the West (Hambrick, 2007; Olie, 2010; Sullivan & Baruch, 2009). Moreover, the limited UE research conducted in Asian settings has so far not been systematically reviewed and as a result no clear agenda for relevant future UE research questions exists. This is propelled by the fact that Asian researchers often seem to lack the self-confidence to focus on indigenous Asian phenomena and tend to rely too much on research ideas developed in the West (i.e. by reading reviews of Western based studies) (Meyer, 2006). All the empirical analyses of this dissertation project are based on a research sample from India. With the focus on a particular business house, the dominant ownership structure of India Inc., the addressed research questions are tested in the context of an Asia specific phenomenon.

1.2 Research questions

The motivation for this project stems from the aspiration to understand better the composition of TMTs and the impact executives have on firms' strategic outcomes in the Indian context. UE theory was identified as a valid approach to address the topic. Given that very few previous studies have applied UE theory in Asian contexts, it is important first to outline in detail how Asian context-specific phenomena influence the study setup, suitable methodologies and the expected strength of research findings (see research question 1). Only then can further research questions (see 2–4) of this dissertation project be rigorously approached:
1. What is the state of UE research in Asia and how do Asian institutions, informal (e.g. national culture) and formal (e.g. board governance rules), impact the expected explanatory strength of UE research across selected Asian economies?

2. How have executives’ characteristics affected their ascent to the top management team?

3. How do changes in the national regulatory and policy environment and related adaptations in business strategy impact TMT composition and top executive appointments?

4. How does the level of board monitoring of the TMT affect the validity of SDM and RC based approaches to study firms’ choice of market entry mode?

While UE theory is the main building block of this doctoral thesis, it is combined with other theoretical perspectives to address the outlined research questions. In the following the main theories applied are briefly introduced.

1.3 Theoretical perspectives

1.3.1 Upper Echelons theory

The main theoretical perspective followed in this project is upper echelons (UE), a strategy theory which proposes that differences in the strategic outcomes and performance of companies are related to the characteristics of a company’s key decision makers. It was set forth by Hambrick and Mason (1984) with their influential paper, "Upper Echelons: The Organization as a Reflection of Its Top Managers". The theory's foundation lies in the concept of bounded rationality (Cyert & March, 1963), which posits that executives have to deal with far more ambiguous and complex information than they can handle. March and Simon (1958) argue that executives always bring their distinct set of "givens" (their cognitive base) to the table and will refer to their preferences, experiences and other biases to address challenges they are confronted with. As a result, their decision-making is largely the outcome of behavioral factors "rather than a mechanical quest for economic optimization" (Hambrick & Mason, 1984, p. 194). Or as Hodgkinson and Healey (2011, p. 1512) put it, individuals “are governed by thoughts and feelings: always boundedly rational, but
manifestly driven by emotion”. Upper echelons theory proposes a methodological approach which uses observable executive characteristics as a proxy for managers' cognitive base (or "givens"). Referring to Weick (1969), Hambrick and Mason (1984) emphasize that the possibility to describe complicated psychological properties by simpler-to-get-at demographic variables would lead to a more cumulative empirical research in this area.

Figure 1 summarizes in a three-step process how executive characteristics influence strategic choice. First, strategic decision makers face too many complex situations to fully depict all of them. The executive’s values and cognitive base function as a screen between the situation he or she is confronted with and the perception of it. Furthermore, executives will only perceive some of the phenomena included in their field of vision. Second, what is selectively perceived is interpreted on the basis of executives’ “givens”, that is psychological factors (e.g. values) and observable experiences (e.g. age, tenure) (Finkelstein & Hambrick, 1996). Finally, the resulting managerial perception forms the basis for strategic choice (Hambrick & Mason, 1984).

**Figure 1: Strategic choice under conditions of bounded rationality**

Source: Hambrick & Mason (1984, p. 195)

By combining UE theory with other theoretical perspectives, this project follows Carpenter, Geletkanycz and Sanders (2004, p. 772) who argue that “it is through the integration of theories that are concerned with executive behaviors and choice that the UE perspective may provide its richest predictions.”
1.3.2 Managerial discretion

In this project, the concept of managerial discretion is mainly used to debate the influence of national level factors on how much executives matter in a given context. It was introduced as a way to bring together two polar views about executive effects. Other than proposed by UE theory, some scholars have argued that executives’ effects on organizational outcomes may be negligible due to the many external factors managers cannot steer (Hannan & Freeman, 1977; DiMaggio & Powell, 1983). Finkelstein and Hambrick (1987) argue that depending on how much discretion, or latitude of action, executives have they have more or less strategic leeway (Child, 1972) and therefore also matter more or less. In a theoretical contribution they propose that managerial discretion is a function of task environment (e.g. industry growth), internal organization (e.g. level of board involvement) and characteristics of individual executives (e.g. political ingenuity) (see also Crossland & Hambrick, 2011). A number of empirical studies have since explored managerial discretion at all three levels (e.g. Carpenter & Golden, 1997; Finkelstein & Boyd, 1998; Hambrick & Abrahamson, 1995). More recently researchers have started to consider national level factors as important determinants of managerial discretion (Crossland & Hambrick, 2007, 2011).

1.3.3 Human capital and social capital theory

Both human capital and social capital theory have been developed and applied broadly in social science disciplines ranging from psychology to sociology and from political sciences to economics (Adler & Kwon, 2002; Ployhart & Moliterno, 2011). The fundamental insight behind human capital theory is that “individuals possess a stock of skills, knowledge, and experiences that can be leveraged for organizational and/ or personal benefit” (Ployhart & Moliterno, 2011, p. 127). It is an individual-level resource referring to specific abilities and skills which have been developed by the individual him- or herself. Social capital, on the other hand, is created through interactions between people. Adler and Kwon (2002, p. 17) define it as “the goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action”. Burt (1997a, 1997b) argues that without opportunities created by social capital human capital cannot be leveraged. This project draws on human and social capital theory to explain different career velocities of top executives. A large
body of research confirms that human and social capital influences career success (e.g. Belliveau, O’Reilly & Wade, 1996; Burt, 1997b; Judge & Bretz, 1994; Kets de Vries & Mead, 1992; Kim & Cannella, 2008).

1.3.4 Social identity and signaling theory

When discussing and interpreting the status quo of TMT composition at a certain point in time and trends in top executive appointments, social identity theory and signaling theory play a role. Social identity theory (Turner, 1982) is a social psychological theory (Jackson, Joshi & Erhardt, 2003) which, other than sociology, takes the perspective of individuals to study human interactions (Gergen & Gergen, 1986). Together with social categorization theory (Turner, 1987), which builds on social identity theory, it is most often referred to when discussing diversity effects. Ashforth and Mael (1989, p. 20) summarize that social identification would be “a perception of oneness with a group of persons” which stems from categorizing individuals and which, in turn, would lead to “stereotypical perceptions of self and others” and thus group formation. That is, people naturally tend to associate in-group members with positive attributes and out-group members with negative ones (Goethals, 2003). This significantly impacts how groups such as TMTs are formed, how they function and how they develop over time (e.g. Cohen & Bailey, 1997; Williams & O’Reilly, 1998).

Signaling theory is prominently employed in a variety of management literatures ranging from entrepreneurship and HR management to strategic management (Connelly, Certo, Ireland & Reutzel, 2011). It essentially describes how information asymmetry between two parties in transactional situations can be reduced (Spence, 2002). The first and most prominent example of such a situation was put forward by Spence (1973). In his influential paper he develops the argument that the productivity of potential future employees is difficult to observe and that, therefore, employers rely on indicators such as the educational level achieved to gauge their productivity. As a result, applicants with higher levels of education tend to be employed at higher salaries. Spence’s early work has triggered a great number of works which apply signaling theory in the context of selection scenarios (Bird & Smith, 2005). Signaling can also play an important role in the politically delicate decision of selecting which executives move up the career ladder to eventually be appointed to the corporate level.
1.3.5 Economic (rational choice based) internationalization theories

The international business literature can broadly be categorized as following either the economic (i.e. rational choice based view) or the behavioral perspective (Johanson & Valhne, 1977; Johanson & Wiedersheim-Paul, 1975) to study firm internationalization. In the specific case of companies’ choices of foreign market entry mode previous research has almost exclusively relied on transaction cost theory, institutional theory, and the resource-based view as well as Dunning’s eclectic paradigm (Brouthers & Hennart, 2007). From a transaction cost perspective (Williamson, 1985), companies’ decisions on market entry modes have been shown to depend on the benefits and costs associated with sharing equity as opposed to retaining full ownership (Hennart, 1988). Following this rationale sharing equity will always be the rationally preferred option when it reduces the risk of opportunism, i.e. when high transaction costs align parties’ incentives. The resource-based view suggests that a firm’s resources can generate competitive advantage by four indicators, namely; value, rarity, imperfect imitability and absence of commonly available substitutability (Barney, 1991). The resource based-view has been used to explain linkages between a firm's prior international experience and its choice of entry mode (e.g. Erramilli, 1991). The central proposition of the institutional theory is that the institutional environment of a country affects firms’ decisions given that the environment reflects the general conditions by which companies participate in a market. Recent research on entry mode related to institutional theory has focused on concepts derived from new institutional theory (North, 1990; Scott, 1995), which suggest that regulatory, cognitive and also normative dimensions impact a country’s institutional environment.

Dunning’s (1980, 1988) OLI framework is not an alternative theory but rather an “envelope of these theories, and a common analytical framework within which each can be accommodated and fully enriched in their application” (Dunning, 2000, p. 166). Integrating the insights from each of the three theories, Dunning argues that a company’s choice of foreign market entry mode mainly depends on the following factors: ownership advantages in the form of intangible assets which enable a company to compete with host country firms in their incumbent markets; location advantages of the host country; and internalization advantages driven by efficiency gains from economies of scale and scope when integrating activities across borders. A
large body of research has employed the eclectic paradigm to study firms’ choice of market entry mode (for a review see Brouthers & Hennart, 2007).

This thesis aims at advancing our knowledge about how the conditions\(^1\) under which TMTs take their decisions impacts the validity of research designs based purely on rational choice or strategic decision-making to study firms’ choices of market entry mode.

### 1.4 Research scope

This dissertation employs upper echelons research in the Indian context. One unique contribution is that it does so holistically by analyzing TMT composition along the entire “value chain”, from its antecedents, the status quo at a certain point in time and trends in top executive appointments over a certain time period to its consequences for company internationalization. Along all these steps the researcher has taken a perspective both of context and of theory development. Chapter 2 can be viewed as the “prologue” for subsequent empirical work. First, it discusses how national specific particularities impact managerial discretion and thus the expected explanatory strength of UE research. Unlike previous similar work (e.g. Olie, 2010; Crossland & Hambrick, 2011) it does so with a focus on selected Asian (emerging) markets. Second, a detailed review of empirical Asia based UE research unveils theoretical, methodological and context specific aspects from which a future research agenda can be derived. The next empirical contribution focuses its analysis on antecedents of TMT composition and takes into account India specific traits both for the development of hypotheses and the interpretation of results. Similarly, the third paper investigates individual level constructs but by deriving trends in top executive appointment it takes a more forward looking perspective. Here, context is reflected by discussing results in lieu of changes in the regulatory environment and company strategy as well as by incorporating qualitative input from interviews with senior executives and directors. Lastly, the final paper focuses on executive effects. The object of analysis, firms’ choices of market entry mode, is of high relevance in the chosen empirical setting. However, the paper is also motivated by the theoretical

\(^1\) Agency theory (Alchian & Demsetz, 1972; Ross, 1973; Eisenhardt, 1989), which analyzes the role of information asymmetry and differing interests of principals (e.g. company owners) and agents (e.g. company management), is advanced to measure one such condition: the level of monitoring of the TMT.
observation (Brouthers & Hennart, 2007) that most previous work of this nature has completely ignored the role of executives in this highly strategic decision.

As described in section 1.3, in addition to UE theory, a number of other theoretical perspectives are brought forward to address the research questions. This can also influence the research design, for example, which analytical technique is employed. However, the main focus remains on UE theory. It is primarily to this research stream that this dissertation attempts to contribute by extending UE theory to an Asian context in a comprehensive manner.

1.5 Empirical setting

All empirical investigation in this dissertation is based on a sample of affiliate companies of the Indian Tata Group. A number of reasons have led to a focus on India in general and on India’s largest business house in particular. First, India is one of the largest and fastest growing Asian emerging economies with increasing outward FDI activities (IBEF, 2011; Mathews, 2006). Second, hardly any of the previously published UE studies were employed in an Asian, let alone in an Indian context, rendering it a mostly unexplored and thus highly interesting empirical setting. Third, the focus on a particular business house allows for an in-depth analysis of an India-specific phenomenon from a TMT perspective and guarantees very high levels of internal validity. At the same time it responds to recent findings presented in reviews of Asian research which ask for more elaborate investigations in Asian context specific phenomena (Meyer, 2006). India Inc. is still dominated by business houses (and to some extent the state). The Economist (2011a) highlights their important role in the economy by concluding that they would “compete and innovate fiercely [...] and most are prepared to invest billions of dollars in the risky capital projects that India needs so badly”. Therefore, an in-depth look at the largest Indian business house can be considered an analysis representative of the dominant “Indian ownership model”. Last but not least, the focus of this thesis on the Tata Group reflects the special interest the researcher takes in the development of the Indian economy in general and of its business houses in particular.

This doctoral thesis is based on a unique dataset capturing detailed demographic and career data of executives as well as company financial and internationalization
information from 72 Tata Group operating companies. The uniqueness of the dataset stems from a number of factors.

First, all the executive and company data used for analysis is primary in nature. With that problems associated with research designs which rely solely on secondary data (see e.g. Jensen & Zajac, 2004) can be avoided. Moreover, it helps to overcome issues associated with the lack of reliable archival data researchers typically encounter in Asian contexts (Li & Li, 2009). To pursue this research project a co-operation with the Tata Group was established. The Tata Group Chairman and Tata Group Head of HR supported the project and ensured access to all group operating companies for data collection and facilitated the scheduling of interview meetings with senior Tata Group executives. The HR Heads and the CFOs of the 72 operating companies in focus were approached with a data request. To facilitate the data collection process detailed templates were prepared for this purpose. Once the data was submitted to the researcher it was discussed on the phone with the CFO/HR Head whenever certain aspects remained unclear. This ensured consistency in terms of applied definitions (e.g. definition of TMT, financials) across all included companies and led to a very complete and highly robust data basis for the empirical analysis.

Second, the dataset is also unique with regard to the depth of individual level data on the background characteristics of top executives it captures. Detailed individual profiles were created for a total of 1361 senior Tata Group executives associated with any of the 72 analyzed operating companies between 2008 and 2011. Thus this study has a longitudinal character\(^2\). The established profiles include demographic and career related variables such as gender, age, nationality, function, education, international work experience, career length, company and group tenure, etc. Information regarding a company’s board composition (e.g. number of independent directors, nationalities etc.) was also collected. The captured financial and internationalization data is similarly comprehensive. It includes detailed information on companies’ turnover, financial performance, assets, leverage, employee base, market capitalization etc. over a six-year period. Furthermore, it captures comprehensive information about all geographic market entries of the 72 companies between Financial Years 2005-06 and 2010-11. Direct access to companies due to the endorsement from the Group center allowed the collection of the same data from both listed and unlisted companies. The

\(^2\) The same applies to the data captured on company finances and internationalization (see below).
sample is cross-sectional in nature, including companies of different size, age and from all seven industry clusters in which the Tata Group operates.

Third, the executive database includes individual level profiles of TMT members from all 72 companies. In addition, for 45 companies the profiles of all executives working one level below the TMT were obtained. This provides a unique basis for robustness tests aimed at investigating whether findings at the TMT level are also valid at lower management levels (see chapter 3).

The data was mainly analyzed by different types of regression models. A hierarchical OLS multiple regression model with robust standard errors was used to explore the antecedents of TMT composition. Trends in top executive appointment were evaluated by applying an ordered logistic regression model. Similarly, a hierarchical ordered logistic regression model was used to study firms’ choice of market entry mode. 30 semi-structured qualitative interviews with Chairmen, Directors, CEOs and HR Heads of major Tata Group affiliates and the Group corporate center (Tata Sons) were also included in the analysis to validate and interpret the different findings.

1.6 Chapter outline

This doctoral thesis consists of four papers, framed by this introduction and a conclusion (see Figure 2). The first paper sets the stage. It reviews recent trends in UE work and outlines which national context related factors have significant impact on the expected explanatory strength of UE studies. The discussion is focused on four (emerging) Asian countries and put into context by comparison with the US. Furthermore, a review of empirical UE work which is based on a sample from Asian (emerging) economies reveals existing research gaps and methodological, theoretical and context related issues and suggests an agenda for future research, which is partly followed in the subsequent papers. The second paper focuses on antecedents of TMT composition and identifies individual-level executive characteristics which are associated with fast or slow career ascendancy to the TMT level. Paper 3 puts common preconceptions with regard to the typical TMT composition of Indian companies under the analytical microscope and provides an overview of how TMTs of India’s largest business house are composed. Furthermore, recent trends in top executive appointments are identified and interpreted. The fourth paper responds to
calls to study firms’ choice of foreign market entry mode more comprehensively and to consider both the strategic decision making and rational choice perspectives. It introduces the level of monitoring of the TMT as an appropriate construct to gauge the validity of SDM and RC based research approaches in a given national and company context. Finally, the conclusion summarizes the most important findings for research and practice.

**Figure 2: Structure of the dissertation**

1. Introduction
2. Upper Echelons research in Asia: A review & guide for future research
   - Antecedents: Features of fast track executives
   - Status Quo & trends: India’s conglomerate captains now and in the future
   - Consequences: TMT influence and discretion in foreign market entry mode decisions
3. Conclusion

*Source: Author*
2 Upper echelons research in Asia: A review and guide for future research

ABSTRACT

Recent reviews consistently conclude that the vast majority of upper echelons (UE) research is based on US and Western European samples. However, no studies to date have systematically reviewed Asia focused UE research and attempted to understand the challenges that UE researchers face in Asian contexts. This paper reviews the Asian UE literature and explains why Asian executives tend to be more constrained in their actions than their Western peers. We outline key intra-regional differences in informal and formal institutions that are likely to affect the usefulness and applicability of the UE perspective across Asian contexts. The review suggests that there is a rapidly growing number of UE studies using Asian samples. In total, 21 such journal articles were published in 13 academic journals between 1993 and 2011; however, 17 of these articles were published in the last four years of this period. Most studies were conducted using Chinese samples, followed by Japan, Taiwan and India. The reviewed studies typically relied strongly on Western UE research to decide on sample composition, research questions, the unit of analysis to address the research question, the definition of the TMT, and the combination of UE theory with other theories. We conclude that scholars should make the leap from replication to a more context driven approach in Asia-focused UE research, and outlines a set of six context-, theory-, and methodology-related guidelines for future research.

Keywords: Upper echelons, top management team, national informal and formal institutions, managerial discretion, Asia
2.1 Introduction and scope of review

2.1.1 Introduction

Early organizational leadership research was based on the assumption that the CEO would independently have the influence and power to determine organizational outcomes. Empirical work thus often focused on CEOs (Carlson, 1972; Helmich & Brown, 1972). This changed in 1984 when Hambrick and Mason introduced the upper echelons (UE) perspective. The underlying idea behind this perspective is that demographic characteristics of executives such as age, gender, personality attributes and socio-economic background affect their attitudes and preferences and, in turn, the dynamics as well as the decision making of TMTs. The UE perspective proposes that organizational outcomes can be seen as a reflection of executives’ backgrounds. In the first decade of UE research a large number of studies investigated associations between TMT members’ demographic characteristics and organizational outcomes such as performance, degree of innovation or strategic change (Finkelstein & Hambrick, 1996). However, scholars argued that the organizational demography approach would fail to shed light on how the individual cognitive frames of executives work collectively and lead to team-based decisions. The so-called “black box” limitation of the UE perspective has since been discussed extensively (Lawrence, 1997; Priem, Lyon & Dess, 1999). Hambrick and Mason (1984, p. 196) indeed argued in their conceptual paper that “in this approach, some important but complex psychological issues are bypassed in favor of an emphasis on broad tendencies that, if empirically confirmed, can be later held up to the psychologist’s finer lens”.

While it remains a challenge to address the “black box” issue in UE research, scholars have followed a number of avenues to develop the UE perspective further. Hambrick and Finkelstein (1987), for example, introduced the concept of managerial discretion to account for contextual factors influencing the explanatory strength of the UE perspective. Other scholars have integrated the UE perspective with other theories focusing on executive behaviors and choice (Carpenter et al., 2004). Furthermore, several studies have employed the UE model to address questions that are of importance to internationalizing firms (e.g. Carpenter, Pollock & Leary, 2003; Sambharya, 1996; Tihanyi, Ellstrand, Daily & Dalton, 2000). However, the vast majority of UE studies to date have been based on samples from the US or Western European countries (Hambrick, 2007; Olie, 2010). No previous study has attempted to
synthesize the limited work that has been done in the Asian context. This is surprising as previous research finds that national context significantly influences executives’ effects on organizational outcomes (e.g. Crossland & Hambrick, 2007; 2011).

The purpose of this paper is therefore threefold. First, we theorize about how Asian informal and formal institutions impact the explanatory strength of UE research across contexts. Second, we review empirical UE research from 1984 through 2011 that employ Asian samples. Third, we outline a set of specific guidelines and recommendations for future UE research in Asian contexts.

2.1.2 Scope of the review

This paper reviews existing upper echelons-based, empirical research that utilizes samples from emerging Asian economies. The following choices were made to define the scope of the review and to make sure that only relevant articles are considered in the analysis. First, we only included empirical work in the sample. Second, we defined the starting point of the review as 1984, i.e. the publication year of Hambrick and Mason’s seminal article.

Third, unlike most previous reviews of UE research, we did not use journal quality ratings to define a set of academic journals to be included in the review. Earlier reviews have already shown that UE research in the top-rated journals is primarily based on US samples (Carpenter et al., 2004; Olie, 2010; Schoonhoven & Woolley, 2005). Our primary focus in this study is rather to take stock of the limited number of UE studies that have been conducted in Asian contexts, and to consider journal quality as an auxiliary factor within the review itself.

Fourth, this review focuses on Asian emerging economies and Japan. In 2011, the following Asian countries were defined as emerging economies (Dow Jones, 2011): China, India, Indonesia, Malaysia, The Philippines, South Korea, Taiwan and Thailand. Japan was included given that it was the first Asian country where UE research was conducted and published in high-impact academic journals (Wiersema & Bird, 1993; Olie & Van Iterson, 2004). By focusing on these countries we are likely to cover close to the entire body of articles published in reputable academic journals carried out in Asian contexts. Furthermore, limiting the scope of the review to the most economically significant Asian countries made it possible to search for relevant articles effectively by means of a key word search.
The remainder of this paper is structured as follows. The next section reviews the concept of upper echelons and discusses how related empirical research has developed over the years. The most recent trends are summarized. We then discuss how national level factors may impact the implementation and interpretation of UE research. We focus particularly on how informal and formal institutions (North, 1990) influence managerial discretion – and thus the expected explanatory strength of UE research – in selected Asian national contexts. Building on this, the subsequent section reviews existing empirical UE work in an Asian context and highlights theoretical, methodological and context related particularities. Last, findings are discussed and six specific guidelines for future research are made.

2.2 Upper echelons perspective

2.2.1 Development of upper echelons research: First decade

The last decades have witnessed a surge in top management team research. A central catalyst for such work was the UE concept proposed by Hambrick and Mason (1984). In March 2012, according to the Thomson Reuters Web of Science citation index, 1446 peer-reviewed published papers have referenced the initial UE concept paper. The rationale behind the UE perspective is based on the concept of bounded rationality, which in essence holds that decisions are more the result of behavioral factors than an entirely rational assessment based on complete information (March & Simon, 1958; Cyert & March, 1963). According to this view, executives’ actions or inactions are all derived from assumptions and knowledge as well as beliefs and values which they bring to a specific decision setting.

The original UE concept is depicted in Figure 3. It centers on executive cognitions, perceptions and values which impact organizational strategic choices and ultimately firm performance. The empirical implementation of the UE perspective is based on the organizational demography approach, which criticizes attempts to directly operationalize constructs such as perceptions or values as they would be “difficult to reliably measure and conceptually validate [and] are neither concrete nor unambiguous in their meanings and interpretation” (Pfeffer, 1983, p. 302). Therefore, Hambrick and Mason suggest relying on observable demographic variables as proxies for underlying differences in cognitions, perceptions and values. That is, observable executive characteristics such as age, educational background or functional tracks are used as proxies for underlying cognitive processes which form executives’
understanding of the internal and external objective situation and build the basis for the development of suitable strategic choices. These are expected to reflect executives’ characteristics. Finally, the UE concept predicts that the choice of varying strategic actions will impact a company’s performance (measured by profitability, growth or survival). The organizational demography approach has become predominant in TMT research (Daily, Dalton & Cannella, 2003; Pettigrew, 1992).

**Figure 3: Upper Echelons perspective of organizations**

![Upper Echelons perspective of organizations](source: Hambrick & Mason (1984, p. 198))

In addition to the methodological approach based on the demography of executives, the focus on entire top management teams rather than solely the chief executive officer is a key feature of the UE concept. With few exceptions, the steering of a company is a shared endeavor involving a dominant coalition (Cyert & March, 1963) which as a group influences organizational outcomes. Empirical research confirms that collectively teams have a higher impact on organizational outcomes than the CEO alone (Bantel & Jackson, 1989; Hage & Dewar, 1973).

Empirically validating Hambrick and Mason’s concept, initial UE studies analyzed a range of TMT characteristics and their impact on company performance (e.g. D’Aveni, 1990; Haleblian & Finkelstein, 1993) or strategic profiles such as innovativeness (Bantel & Jackson, 1989), strategic corporate change (Wiersema & Bantel, 1992), level of diversification (Michel & Hambrick, 1992) and companies’ competitive behavior (Hambrick, Cho & Chen, 1996; Smith, Grimm, Gannon & Chen, 1991). Furthermore, the applicability of the concept to the US, Western European and
Upper echelons research in Asia

Japanese contexts was established in the first decade of UE research (e.g. Hoffman & Hegarty, 1993; Wiersema & Bird, 1993).

However, the early phase of UE research was also characterized by controversy. A number of scholars argued that given the ambiguity of its results this approach would raise more questions than it answered (e.g. West & Schwenk, 1996). Criticizing the inherent limitations of the organizational demography approach (Lawrence, 1997), researchers cited an urgent need for more research which opens the “black box” by directly measuring the process constructs approximated by demographic characteristics. Given the difficulty of conducting rigorous process research, few empirical studies shed light on the processes and mechanisms by which TMT characteristics shape organizational outcomes (e.g. Denis, Lamothe & Langley, 2001; Smith, Smith, Olian, Sims, O’Bannon & Scully, 1994). However, given the validity of this criticism even many of the more recent UE studies allocate a paragraph in their discussion section to address this persistent limitation. Recently Hambrick (2007) proposed a complex but promising new methodology – a bounded rationality strategy simulation game – to finally open the “black box” of UE research.

2.2.2 Second generation of upper echelons studies

Building on initial empirical findings, top management team research has developed into various directions enhancing our understanding of the mechanisms and processes by which executives can have an effect on relevant strategic outcomes. Over the years, Hambrick and Mason’s (1984) core ideas have found appeal far beyond management research, for example in the field of psychology (e.g. Peterson, Smith, Martorana & Owens, 2003) or economics (e.g. Bertrand & Schoar, 2003). In a review of UE work published between 1996 and 2003, Carpenter et al. (2004) synthesize the most dominant research developments in a stylized model of the UE perspective (see Figure 4).

First, the extended UE model includes the environmental (e.g. national culture, industry characteristics) and organizational antecedents (e.g. firm size or degree of internationalization, governance arrangements) of the TMT. Pettigrew (1992) argued that most research based on the organizational demography approach would completely ignore antecedent theories and that more such research would be required. Geletkanycz (1997), for example, found that national culture moderates managers’ commitment to the status quo. In her study she also reports that cultural differences in
terms of uncertainty avoidance, individualism and power distance (Hofstede, 1980, 2001) are significantly associated with managers’ commitment to status quo.

Second, scholars have introduced a set of moderators and mediators that have since become central to the UE framework. Particularly worthy of mention is the concept of managerial discretion. Hambrick and Finkelstein (1987) introduced the concept of managerial discretion to bridge two opposing views. Contrary to the UE perspective, proponents of a view based on institutional theory (DiMaggio & Powell, 1983) and population ecology (Hannan & Freeman, 1977) argued that given the many unpredictable external forces to which an organization is exposed, the effects of executives would be very limited. The argument Hambrick and Finkelstein proposed is that the strength of managerial effects on organizational outcomes would be contingent upon managerial discretion – or executives’ latitude of action. That is, the higher the managerial discretion the higher the explanatory strength of UE theory. A number of studies have since provided evidence that managerial discretion is an essential moderator in UE research (e.g. Crossland & Hambrick, 2007, 2011; Finkelstein & Hambrick, 1990).

**Figure 4: Stylized model of the upper echelons perspective**

Source: Carpenter, Geletkanycz & Sanders (2004, p. 760)
Third, while many of the early UE papers focused their analysis on how TMT characteristics can have an impact on company performance, over time a wide range of other outcomes have been investigated. Carpenter et al. (2004) differentiate outcomes related to strategy, performance and the upper echelons themselves. The most pronounced trend after the first decade of UE research, however, was its extension to the global arena. An increasing number of studies have analyzed how TMT characteristics can have an impact on companies' internationalization (e.g. Carpenter & Fredrickson, 2001; Reuber & Fischer, 1997; Sambharya, 1996; Sanders & Carpenter, 1998, Tihanyi, Ellstrand, Daily & Dalton, 2000).

Furthermore, the debate about whom to consider as part of the TMT has not lost in actuality. Pettigrew (1992) argues that inconsistent findings in UE studies could be partially explained by the many different definitions of TMT employed. Indeed, most studies identify a company’s TMT by means of formal titles or pre-defined committees as found in publicly available documents or identified by the company CEO in a survey (Finkelstein & Hambrick, 1996). It is unavoidable that such an approach will lead to varying definitions of TMT and ultimately different results. Jensen and Zajac (2004), for example, find that their empirical results change significantly when the TMT definition employed is altered. Also Carpenter et al. (2004) conclude that given the strongly varying sizes of TMTs reported in UE studies (if reported at all) comparability of results would be limited. Therefore, it would be crucial to align the TMT definition with the study context and the particular research question (see 2.3.1 for detailed discussion). Some scholars propose that in order to be able to study the effects of TMT characteristics on organizational outcomes one would have to consider only executives who are involved in the decision-making process in question (e.g. Pitcher & Smith, 2001). This would result in a core TMT with a dynamically altering periphery of executives depending on the decision-making situation (Roberto, 2003). In a similar vein, researchers have proposed also to include actors such as strategy consultants, venture capitalists or board members in the UE analysis, given that with their TMT interactions they have an indirect impact on firm outcomes. For example, Carpenter, Pollock and Leary (2003) find that the positive association between international experience of the TMT and internationalization of the firm is most pronounced when board members or venture capital investors also have international experience.
In an update on UE theory Hambrick (2007) points to further aspects which would require attention in future TMT research; avenues to fix reverse causality and endogeneity and to study executive effects under different national systems. The logic UE theory follows is that TMT characteristics reflect executives’ underlying cognitions and experiences which in turn influence their decision-making. However, executives with certain characteristics are also drawn to companies which fit best their skills and interests. For example, executives with prior M&A experience are naturally attracted by companies which focus on expanding internationally through acquisitions. In such a setting the causal logic that an executive’s past experiences influence the firm's future organizational outcomes does not necessarily hold. In addition to adapting the research methodology to account for such effects, Hambrick (2007, p. 338) emphasizes the need to “turn upper echelons on its head” by employing TMT characteristics as dependent rather than independent variables. Such an approach would increase our knowledge about why TMTs look the way they do and what factors cause their profiles to change.

Most relevant for this paper, however, is Hambrick’s (2007, p. 339) recent call for more UE research in other than the US macrosocial context: “I heartily encourage others to join in advancing our understanding of how upper echelons theory might take on very different complexions, depending on the macrosocial context”.

2.3 Impact of informal and formal Asian national institutions on UE research

Researchers have found that traditions and values inherent to a specific societal context impact leadership styles as well as applied management approaches (Brouthers, Brouthers & Werner, 2000; Hofstede, Van Deusen, Müller & Charles, 2002). The upper echelon of an organization is embedded in a specific institutional context which impacts the power of executives and the role they play in a company (Buck & Shahrim, 2005; Olie & Van Iterson, 2004). Previous reviews consistently conclude that the overwhelming majority of UE studies are based on US samples (e.g. Hambrick, 2007; Schoonhoven & Woolley, 2005; Olie, 2010). Olie (2010, p. 377), for example, posits that “the literature has provided us many insights about US-based top management and culturally homogenous teams, but very little about the dynamics of culturally diverse TMTs and the influence of societal context on top management roles and functioning”.

Upper echelons research in Asia
There is indeed little reason to believe that results derived in a US setting can be widely generalized to other contexts. It is, for example, questionable to assume that the latitude of action of a US CEO is comparable to that of a CEO at the helm of an organization in a more collectivistic country such as Japan. The configurations, responsibilities and roles of TMTs are not culture free. National context influences organizations and their management on several levels: the level of individual managers whose behaviors are linked to societal values and norms associated with a specific country; and the level of national institutions, laws and regulations which impact governance structures and executives’ managerial discretion. A large body of empirical research confirms that leadership effects vary depending on national culture and context (e.g. Crossland & Hambrick, 2007, 2011; Geletkanycz, 1997; Hoffman & Hegarty, 1993; Wiersema & Bird, 1993).

Drawing upon North’s (1990) new institutional theory, Crossland and Hambrick (2011) differentiate between the informal and formal institutions that influence the level of managerial discretion and ultimately executives’ effect on organizational outcomes across different national contexts. Informal institutions exist outside the national legal framework and are usually unwritten and tacit (Helmke & Levitsky, 2006). The society of a particular country indirectly enforces that executives’ actions are in line with these informal institutions, such as specific values or norms. Formal institutions, on the other hand, are codified and include all institutions and laws which help to govern business and transactions in a society (North, 1990). In the following we discuss how country specific informal and formal institutions impact TMT composition and executives’ managerial discretion in Asian contexts.

2.3.1 Informal institutions: Cultural effects on TMT functioning and composition

While some scholars propose that homogenizing forces of globalization lead to a convergence of management techniques, managerial processes, and ultimately managerial effects across different national contexts (Hafsi & Farashahi, 2005), there is widespread empirical evidence that culture continues to have a significant impact on managerial practices. House and Javidan (2004, p. 10), for example, posit:
In other words, cultural differences are likely to have a substantial effect on the structure, composition, and functioning of TMTs. As a consequence, researchers need to pay careful attention to the cultural context within which UE research is being conducted. For instance, contextual differences regarding the group of persons with “overall responsibility for the organization” (Mintzberg, 1979, p. 24) can help to determine whether it is more promising to study UE effects at the individual (CEO, Chairperson) or the team level (Olie & Van Iterson, 2004).

2.3.1.1 Work-related values in Asia

Researchers have referred to society specific values and norms as informal institutions, which can be defined as “socially shared rules, usually unwritten, that are created, communicated, and enforced outside officially sanctioned channels” (Helmke & Levitsky, 2006, p. 5). Such socially shared rules constrain individuals’ behavior and help to structure interactions (Colson, 1974; Crossland & Hambrick, 2011). This also applies to corporate settings. Building on Hofstede’s (2001) work, Crossland and Hambrick (2007) find that the nation specific cultural values related to power distance, uncertainty avoidance and individualism versus collectivism significantly impact how much discretion corporate CEOs have.

Power distance:

The basic tenet behind the cultural dimension of power distance is human inequality, which can encompass prestige, power or wealth (Hofstede, 2001). It significantly impacts executives’ roles and functioning both at the individual and team level. In Asia power distance is typically significantly higher than in North American or Western European societies (see Table 1). First, it influences managerial discretion. House and Javidan (2004) posit that in societies where individual leaders are greatly respected and subject to many privileges managerial discretion should be higher. However, in a recent empirical study, Crossland and Hambrick (2011) find a
significant negative bivariate correlation between power distance and CEO discretion. They speculate that high power distance societies may implicitly recognize that in their context “leaders are figureheads rather than bold strategists” and as a result “emphasize the symbolic and emblemic aspects of leadership, leading to an elevation of executive status” (p. 35). This would support the argument that top executives of Asian organizations may be less influential in directly impacting organizational outcomes than their peers from Western economies.

Second, the level of power distance in a society impacts executives’ leadership style. Westwood and Chan (1992) coined the term "paternalism leadership" as typical in Asian societies. Paternalism leadership is characterized by strong authority and high importance of morality as well as concern and considerateness. For example, compared with Western societies, Chinese people have been found to prefer a distinctively directive leadership style (Lin, 2008) which is characterized by a “benevolent and respected leader” who “is not only considerate of his followers, but also able to take skilled and decisive action” (Bond, 1993, p. 251). Yau (1994) argues that Chinese people’s respect for authority can be traced back to the "five cardinal relations” rooted in Confucian philosophy. Similarly, in India the hierarchical nature of Hinduism (the caste system), the country’s dominant religion (Nair & Schular, 1993), is an important underlying factor explaining people’s acceptance of hierarchies and associated work behaviors (e.g. Krishna, Sahay & Walsham, 2004).

Third, national culture in general, and the level of power distance in a society in particular, influences how specific features of TMT composition impact organizational outcomes. Scholars have found, for example, that national culture affects TMT members’ ability to benefit from diversity (Van der Vegt, Van der Vliert & Huang, 2005). Higher power distance has been associated with lower creative use of diversity. This implies that TMTs in low power distance countries such as the UK or US may tend to become gradually less innovative as team homogeneity increases due to socialization. On the other hand, in Asian cultures, which are typically characterized by high power distance, positive diversity effects may initially not be pronounced, but socialization may form more innovative TMTs over time (Barkema & Shvyrkov, 2007).

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3 Relationship between sovereign and minister, son and father, wife and husband, younger and elder brothers, and between friends.
Overall, the effects of high levels of power distance need to be considered when conducting UE research in Asian contexts. Most notably, the fact that previous research found a negative correlation between power distance and managerial discretion suggests that, ceteris paribus, executive effects studied empirically in Asian contexts may be subtler and less pronounced than in Western cultures.

**Table 1: Work related values in selected Asian countries and the US**

<table>
<thead>
<tr>
<th>Country</th>
<th>Power Distance</th>
<th>Uncertainty Avoidance</th>
<th>Individualism</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>40</td>
<td>46</td>
<td>91</td>
</tr>
<tr>
<td>China</td>
<td>80</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>India</td>
<td>77</td>
<td>40</td>
<td>48</td>
</tr>
<tr>
<td>Indonesia</td>
<td>78</td>
<td>48</td>
<td>14</td>
</tr>
<tr>
<td>Japan</td>
<td>54</td>
<td>92</td>
<td>46</td>
</tr>
<tr>
<td>Malaysia</td>
<td>104</td>
<td>36</td>
<td>26</td>
</tr>
<tr>
<td>Philippines</td>
<td>94</td>
<td>44</td>
<td>32</td>
</tr>
<tr>
<td>South Korea</td>
<td>60</td>
<td>85</td>
<td>18</td>
</tr>
<tr>
<td>Taiwan</td>
<td>58</td>
<td>69</td>
<td>17</td>
</tr>
<tr>
<td>Thailand</td>
<td>64</td>
<td>64</td>
<td>20</td>
</tr>
</tbody>
</table>

*Source: Scores drawn from Hofstede (2001)*

**Individualism versus Collectivism:**

Individualism relates to the relationship between individuals and the collectivity and to what extent autonomous actions are preferred or acceptable in a society (Hofstede, 2001). Asian societies differ substantially from Western cultures regarding this cultural dimension (see Table 1). Scholars have argued that individualistic societies value and focus more on competition (Leung, 1997), while people brought up in collectivist cultures tend to be motivated by working together and thus would typically be more cooperative (e.g. Cox, Lobel & McLeod, 1991; Earley, 1993). Furthermore, research has shown that conflict management varies across the spectrum from individualistic to collectivist societies. For example, Boonsathorn (2007) found that, unlike Americans, Thais preferred conflict avoidance and obliging conflict
management styles. However, Thais who had worked abroad had developed a more dominating conflict management style typical of individualistic societies.

While executives in collectivist cultures tend to be motivated by being part of a strong community in which personal interests are linked to those of the overall group or organization, managers in individualistic societies tend to perceive autonomy, independence and privacy at work as more important (Hofstede, 2001; Olie, 2010). For example, scholars have argued that in India, a rather collectivist society, executives would consider it crucial to build “employee commitment by creating a sense of reciprocity with the workforce, looking after their interests and those of their families and implicitly asking employees to look after the firm’s interests in return” (Cappelli, Singh, Singh & Useem, 2010, p. 13).

Differences along this cultural dimension impact how organizational decisions are reached and how much discretion managers have (Pennings, 1993). Crossland and Hambrick (2011) find that the level of individualism in a society is positively associated with CEO managerial discretion. In individualistic societies unilateral decisions will be more common as "powerful parties" (company owners, stakeholders) are more likely to tolerate such an approach. Conversely, in collectivist societies social compromises and consensus based decisions will be predominant (Smith, Dugan & Trompenaars, 1996). As Crossland and Hambrick (2007, p. 13) posit, managers in such an environment will “be sharply limited in their ability to take any unilateral decisions that might harm or offend any part of the collective (such as layoffs, reorganizations, or outsourcing)”. Again, this suggests that the effects of individual executives on organizational outcomes may be less pronounced in Asian contexts than in the West. At the same time, however, the effects of top management team decisions may be greater due to the high consensus orientation and preference for team-based decision-making.

**Uncertainty avoidance:**

Societies characterized by a high degree of uncertainty avoidance seek to reduce uncertainty about future events and avoid ambiguous situations. Thus, they tend to strictly abide to rules and be less open to change (e.g. Sully de Luque & Javidan, 2004). Previous empirical work finds that managerial discretion is higher in countries scoring low on uncertainty avoidance as such societies display greater tolerance
towards ambiguous and unconventional actions (Crossland & Hambrick, 2007). In such societies executives will feel empowered to take bold decisions with rather uncertain consequences (Crossland & Hambrick, 2011). In countries scoring high on uncertainty avoidance, on the other hand, powerful parties will expect executives to focus more on incremental decision-making.

Unlike ‘power distance’ and ‘individualism’, for the cultural dimension ‘uncertainty avoidance’ there exists no clearly distinguishing pattern when comparing scores from Western to those of Asian societies (Hofstede, 2001; see Table 1). In both regions there are countries with comparatively high (e.g. France: 86; Japan: 92) and low (e.g. Sweden: 29; China: 30) uncertainty avoidance scores. Of the Asian countries considered in this paper China and India display the highest tolerance of uncertainty. Chinese are generally comfortable with ambiguity, open towards change and entrepreneurial (e.g. Hofstede, 2001). In India, a country where scarcity and constraints are abundant, people have developed an acceptance of imperfection and an approach to address challenges by “adjusting” (Hindi: Jugaad). That is, by an ad hoc trial and error innovation that is deeply ingrained in the Indian culture (e.g. Cappelli et al., 2010). Conversely Japan is one of the least uncertainty tolerant countries. Scholars have argued that one of the root causes for this may be found in Japan’s frequent exposure to natural disasters such as tsunamis, earthquakes or volcanic eruptions (Hofstede, 2001). Over time people have developed a way of preparing themselves for every possible situation. This cultural trait is also reflected in corporate settings. For example, Japan’s concept of lifetime employment (Kato, 2001; Tung, 1984) mirrors a preference for a stable, projectable employer-employee relationship.

This suggests that, ceteris paribus, executives at the helm of Chinese and Indian organizations may have a more distinctive direct impact on organizational outcomes than their peers in the upper echelons of, for example, Japanese companies.

2.3.1.2 TMT structure in Asia: Interdependence and power centrality

The previous section outlined how the underlying cultural value system of a society influences executives’ functioning and their impact on organizational outcomes. More broadly, a country’s culture will also impact the institutional legal framework which builds the foundation for corporate governance related decisions. Top management structure can therefore be viewed as a reflection of a society’s prevailing value system as well as its institutional legal context (Olie & Van Iterson,
Understanding how TMTs are structured in a given study context is crucial for UE research. First, the level of interdependence among TMT members may have implications for the explanatory strength of UE studies. Hambrick (1994, p. 173) posits that executive effects on organizational characteristics may “hold with particular strength only when the group is highly integrated”. Second, the relative dominance of the CEO versus other TMT members has implications for whether the focus in UE research should be on CEO or TMT effects (Dalton & Dalton, 2005; Finkelstein, 1992; Finkelstein, Hambrick & Cannella, 2009). Priem, Lyon and Dess (1999, p. 945) argue that the importance of non-CEO TMT members become less relevant “as the power and assertiveness of the CEO increases”. In the following we discuss these two aspects related to TMT structure with a focus on examples from Asian countries.

The level of TMT integration is positively associated with executives’ willingness to support as well as their dependence on others (David, Pearce & Randolph, 1989; Van der Vegt, Vand der Vliert & Oosterhof, 2003). While in some countries TMTs can be characterized by “loosely integrated constellations of people”, in others they are rather “highly distinctive groups with collective responsibilities and official membership” (Olie & Van Iterson, 2004, p. 139). The level of integration of TMTs can be gauged based on a country’s dominant governance practices as well as a team’s dominant values (Wageman & Gordon, 2005). Similarly, leadership centrality is influenced by the level of acceptance of unequal power distribution in a society (Hofstede, 2001) and the extent to which individual leaders possess the authority to appoint or exchange senior management members (Olie, 2010).

Chinese companies are characterized by a powerful chairperson, whose active involvement in daily management activities is not only expected, but also stipulated by law in article 114 of the Company Law of the People's Republic of China (PRC). Given the high centrality of power at Chinese companies, some researchers have chosen to study UE effects in the Chinese context by focusing on chairperson characteristics as the unit of analysis (e.g. Cheng, Chan & Leung, 2010). At the same time, China is a highly collectivist society, which is associated with higher group interdependence. Indeed, previous conflict research in this context reveals that collectivist values lead to a preference for harmony over conflict to sustain

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4 For a similar discussion with a focus on Western European countries, see Olie and Van Iterson (2004).
relationships (guanxi) and to avoid losing social face (Chen, Liu & Tjosvold; 2005; Morris, Williams, Leung et al., 1998). Scholars have argued that a key motive for harmony preference in China would be to avoid team disintegration (Leung, Koch & Lu, 2002). Chairpersons at the helm of Chinese companies are therefore likely to take decisions cooperatively and in close alignment with the CEO and senior management. The formal chairperson power centrality combined with an inclination towards high team integration suggests that UE researchers in the Chinese context may be able to justify either a focus on the chairperson or on the entire senior management team (including chairperson) as the key unit of analysis.

We find parallels to the Chinese case in other Asian contexts. According to Taiwanese company law, the Chairman of the board of directors is the only legal representative of a company and is responsible for overseeing the firm’s management and for signing all contracts with external partners (Chung, 2003; Ke, 1995). The CEO (often referred to as General Manager) implements decisions from the Chairman and supervises company personnel. Yet Chung (2003) finds that Taiwanese business groups are controlled by an ‘inner circle’ (mostly owner family members) of managers which coordinate group affiliates by assuming several chairperson positions at the same time. As a result, the direct involvement of chairpersons in the regular day-to-day management of affiliates is often limited. We can therefore expect the de facto operational power centered on chairpersons in Taiwan to be somewhat less pronounced than in China.

The main executive decision-making and strategy-formulating body in Japan, the jomukai, is clearly defined and composed of a subset of executive board members. Typically it comprises the CEO and four to six senior managers responsible for specific company divisions (Wiersema & Bird, 1993). Centrality of power in the CEO is relatively low for the following reasons. First, decisions taken at the jomukai tend to build on extensive consensus among its members (Aoki, Patrick & Sheard, 1994). Second, Bird (1990) finds that Japanese CEOs’ actions are constrained by former senior managers of the company, firm traditions and norms, their peers from related industries, and interest groups within the company. Consequently, given the high team interdependence and relatively low CEO centrality, UE research in the Japanese context should focus on the TMT rather than solely the CEO.

In India, clause 49 of the BSE listing agreement defines senior management (TMT) as “all members of management one level below the executive directors,
including all functional heads” (Securities and Exchange Board of India, 2004). In practice, this is typically the CEO and those who report directly to him or her. Here, the main constraint CEOs face is related to India’s dominant organizational form, namely the diversified business houses. While group affiliates are legally independent entities, and thus have fully fledged TMTs, separate annual financial statements, and a board of directors, “strong social ties of family, caste, religion, language, ethnicity and region reinforce financial and organizational linkages among affiliated enterprises” (Encarnation, 1989, p. 45; Khanna & Rivkin, 2001). This constrains the degree to which power is centered on individual executives at the affiliate level.

In sum, we find high levels of team interdependence and varying degrees of power centrality in the Asian countries discussed in this study. In India and Japan, studying entire TMTs rather than focusing on the CEO is clearly the recommended approach due to high team interdependence and low(er) power centrality. The unit-of-analysis decision is more ambiguous for UE researchers working with Chinese or Taiwanese samples, as the governance systems in these countries attach significant power to the chairperson.

### 2.3.2 Formal institutions: Context specific governance systems impacting TMTs’ managerial discretion in Asia

Formal institutions (North, 1990) can be defined as tangible “rules and procedures that are created, communicated, and enforced through channels widely accepted as official” (Helmke & Levitsky, 2004, p. 727). They are explicit manifestations of a society’s informal institutions and provide a tangible framework within which relationships and actions between stakeholders can be controlled (Gelauff & Den Broeder, 1996). Formal institutions have been shown to vary significantly across different national contexts (Guisinger, 2001). Scholars found that the predominant ownership structure, legal origin and particularities of board governance in a country significantly impact managerial discretion (Crossland & Hambrick, 2007; 2011; Olie & Van Iterson, 2004). Therefore, a context specific understanding about relevant formal institutions is crucial in UE research.
2.3.2.1 Impact of degree of ownership concentration on managerial discretion

The level of ownership concentration varies greatly across different countries. In a cross-country study Gedajlovic and Shapiro (1998), for example, find that the association between ownership concentration and company profitability is systematically influenced by the national system of corporate governance. Crossland and Hambrick (2007, 2011) provide empirical evidence for a negative correlation between typical ownership concentration in a national context and managerial discretion. The more concentrated ownership is the greater the means and incentives of shareholders to take active influence in managers’ decision making (Demsetz & Lehn, 1985), reducing the zone of acceptance of powerful parties (Finkelstein & Hambrick, 1996). On the other hand, when ownership is dispersed transaction costs for owners to take coordinated actions aimed at limiting managerial discretion are much higher.

At one end of the extreme is the US, where the degree of ownership dispersion in listed companies is particularly high (Lee & O’Neill, 2003). Useem (1993) reports that even institutional investors rarely hold more than 2–3% of a single organization’s shares. In contrast, in most (emerging) Asian economies business groups play a prominent role and ownership concentration is thus generally considerably higher (Carney et al., 2011; Khanna & Rivkin, 2001). While business groups are labeled differently across countries – they are called qiye jituan in China (Keister, 2000), guanxi qiye in Taiwan (Numazaki, 1996), business houses in India (Encarnation, 1989) and keiretsu in Japan (Gerlach, 1992a) – Granovetter (1994, p. 454) synthesizes that they would all be “a collection of firms bound together in some formal and/or informal ways”. The extent to which managerial discretion is limited due to high ownership centrality in these countries varies depending on the core owner elite and related governance rules and practices.

In Japan, the core owner elite are typically financial institutions (‘main bank’) which hold a dominant stake in key keiretsu firms (Wiersema & Bird, 1993). Membership in one or several keiretsu is driven by equity ownership creating reciprocal voting rights, bank relationships and director interlocks (Gerlach, 1992b; Khanna & Rivkin, 2001). While keiretsu firms are legally independent, the equity-based affiliations limit the strategic flexibility of TMTs in terms of choice of suppliers,
markets, products and customers (Kim, Hoskisson & Wan, 2004). Douthett and Jung (2001, p. 136) posit:

 [...] the coalition can exercise control over any firm’s strategic decisions, and ensure that a manager acting opportunistically is fired or demoted. Management control is held in hostage in the *keiretsu* coalition to ensure commitment to efficient, cooperative behavior.

Crossland and Hambrick (2007) conclude that the prevalence of *keiretsu* networks, which protect member companies from unexpected exigencies, would also be a logical consequence of Japan’s preference for uncertainty avoidance. While there are many mechanisms which limit managerial discretion in *keiretsu* member firms, the fact that “decisions are made considering what is best for the collective, not simply for individual firms, however powerful” (Orru, Biggart & Hamilton, 1991, p. 387) also ensures that a certain degree of managerial discretion is allocated to all member firms.

Granovetter (1995) proposes a continuum of power centralization among business group affiliates in different countries. At one extreme is a consolidated and hierarchical management system, mostly featuring an individual executive at the helm of all group member firms. In such groups managerial discretion is likely to be very limited. At the other extreme is an organizational form characterized by more equal partners and where decisions are made through mutual consensus and communication. Here managerial discretion is likely to be lower than in countries where ownership is vastly dispersed but higher than in the first category of business groups. Chung (2003, p. 41) argues that the Japanese *keiretsu* would be an ideal example for a “loosely coordinated governance body composed of more equal partners”.

Following this logic, managerial discretion in Taiwanese and even more so in Chinese business groups is more constrained. In China the core owner elite is the state. According to the Chinese Enterprise Assessment Association (2002), more than 86% of the largest Chinese business groups are controlled by state ownership. The largest shareholder in listed Chinese firms on average holds approximately 46% followed by just 7% of the second largest shareholder (Xu, 2004). State control significantly affects a business group’s coordination mechanisms, hierarchical structures and thus managerial discretion. First, in China the dominant role of the state in business groups
leads to a situation where businesses are *de facto* directed in accordance with state objectives (Yiu, Bruton & Hoskisson, 2007). Yiu, Bruton and Lu (2005), for example, find that the government has used large business groups to monopolize industries with particular strategic relevance for the Chinese economy. Second, the Chinese Code of Corporate Governance (Article 20) notes that the controlling shareholder recommends candidates for the appointment, re-appointment or termination of the Chairperson and other key management positions to the board of directors (Firth, Fung & Rui, 2006). Thus the state has full control over companies’ strategic and personnel related decisions, thereby ensuring that a group’s strategy making is completely in line with state interests. Not surprisingly, Li and Tang (2010) identify state ownership and CEO political appointment as key factors limiting the discretion of company UEs in China.

Taiwan’s *guanxi qiye* can be considered a ‘mixed model’. While typically private entrepreneurs (families) are the core owner elite in this context the state also plays an important role. In the early stage of industrialization the Taiwanese government invested heavily in strategically relevant industries (Yiu et al., 2007). However, the practice of ‘joint investment and separate management’ enabled individual entrepreneurs or families to build a strategy network of investors and to keep control of major business groups (Chung, 2001). Scholars have argued that Taiwan’s business groups would be positioned in the middle of Granovetter’s (1995) power centralization continuum as there is less hierarchical control than in Chinese business groups (state, chairperson) but more coordination than in the Japanese *keiretsu* (Chung, 2003; Hamilton, 1997; Orru, Biggart & Hamilton, 1991).

In India the situation is different again. Business houses such as Birla, Mahindra or Tata have a long tradition and continue to strengthen the role of diversified business houses as the dominant organizational form in India. The core owner elite are typically individual entrepreneurs or a group of family members. Group affiliates are legally independent, can be separately listed and have their own TMT and board of directors. It has been argued that these governance elements increase executives’ psychological ownership of the company thereby fostering entrepreneurial management (Anslinger, Carrey, Fink & Gagnon, 1997). It can also increase intrinsic motivation of affiliates’ management (Osterloh & Frey, 2000). Ramachandran, Manikandan and Pant (2011, p. 1) argue that while allowing relative strategic freedom to affiliates, the role of headquarters of Indian business houses would be focused on (1) identity work by “maintaining a meta-identity for the group” and (2) entrepreneurial
work by “expanding the strategic frames employed within the group firms”. The level of monitoring and of direct influence in strategy formulation or management personnel decisions of the group center is generally not the same in all affiliates. In the Tata Group, for example, the Group Chairman chairs the boards of only the biggest and strategically most important group companies. The same applies to other Tata Sons directors who predominantly chair or sit on boards of key group affiliates. The level of executive latitude of action in these cases depends on the management style of the Chairman. Thus the extent to which managerial discretion of affiliate executives is constrained by the group center varies from company to company.

Overall, the arguments developed above suggest that ownership concentration may reduce managerial discretion more in China and Taiwan than it does in Japan and India.

2.3.2.2 Impact of national legal origin on managerial discretion

Scholars differentiate between two main secular legal traditions; common law and civil law. Common law is derived from English law, established by judges, and rests on the principle of treating similar facts on different occasions equally. Civil law is based on French, German and Scandinavian models and involves codified legal structures (Solomon, Lin, Norton & Solomon, 2003). A key characteristic of legal traditions is that they have been spread geographically (mostly, but not always) through colonization or conquest from a few countries to the rest of the world (Watson, 1974). A large body of research investigates the associations between a company’s legal origin and finance, economic development and related outcomes (e.g. La Porta, Lopez-de-Silanes & Shleifer, 2008; La Porta, Lopez-de-Silanes, Shleifer & Vishny, 1998).

Researchers have associated common law with better protection for investors (La Porta, Lopez-de-Silanes & Shleifer, 1999). This is driven by greater judicial independence which, in turn, fosters better contract enforcement and superior security of property rights (La Porta, Lopez-de-Silanes, Pop-Eleches & Shleifer, 2004). Civil law countries, on the other hand, are characterized by a higher degree of government ownership and regulation which in turn is associated with a tendency towards more corruption and a larger unofficial economy (La Porta et al., 2008). La Porta et al. (2008, p. 286) summarize: “Common law stands for the strategy of social control that
seeks to support private market outcomes, whereas civil law seeks to replace such outcomes with state-desired allocations.”

As a result, legal origin also affects how the interests of a firm’s stakeholders are weighted (De Jong, 1995; Lorsch & Graff, 1997). While in common law countries such as the UK “interests of shareholders have been put above those of other potential stakeholders” (Lane & Quack, 1999, p. 995), in civil law countries interests of all stakeholders are explicitly required to be taken into account. Executives in common law countries have the mandate primarily to maximize shareholder value. The actions of their peers in civil law countries, on the other hand, are bound by legally legitimate demands from a variety of constituencies (employees, customers, society at large). This enhances or reduces managerial discretion respectively. Crossland and Hambrick (2011) find empirical support for higher managerial discretion in common law jurisdictions than in civil law jurisdictions. Consequently, when studying TMTs in Asian contexts, legal origin is another aspect which may reflect differing explanatory strength of UE research across countries.

As a former British colony, India’s legal system is based on common law. Though within the bounds of common law, India has adapted its judicial system following its independence in ways which make today’s system quite different from common law as practiced in the UK or the US (Joireman, 2006). China was strongly influenced by the socialist legal tradition of the Soviet Union. In the course of the country’s economic modernization, however, it relied heavily on German (civil) laws (Beck, Demirgüç-Kunt & Levine, 2002). Taiwan’s law came from China and therefore is also based on a German origin legal system (Solomon, Lin, Norton & Solomon, 2003). The same applies to Japan, which voluntarily adopted the German legal system (La Porta et al., 2008). Ceteris paribus this would imply that managerial discretion should be higher in India than in China, Taiwan and Japan.

However, a country’s formal adoption of either a common law or civil law system alone does not guarantee that laws and regulations are consistently implemented and enforced and that law enforcers are effectively protected from “being bullied with either physical force or bribes by powerful local interests” (Glaeser & Shleifer, 2002, p. 1195). Reinforcing this point by means of historic evidence, Prestwich (1997, p.

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5 For example, the jury system was abandoned in 1960 (Joireman, 2006).
Upper echelons research in Asia

283) posits that “a celebrated statement in the Yorkshire eyre roll of 1294 stated that ‘Justice and Truth are completely choked’, as a result of the way in which influential men manipulated legal proceedings”.

Corruption, lack of transparency and inconsistent law enforcement are often brought forward as an ongoing problem in emerging Asian economies (e.g. Firth, Fung & Rui, 2006). It can reasonably be argued that lack of effective and efficient law enforcement (e.g. regarding property rights or contract enforcement) negatively impacts executives’ managerial discretion as in such a context all their decisions are subject to (legal) ambiguity. A look at the World Bank’s annually published “Worldwide Governance Indicators” (see Kaufmann, Kraay & Mastruzzi, 2009) helps to put the regulatory quality6, rule of law7 and control of corruption8 of the countries here in focus into perspective. In all three categories India ranks clearly lower than Taiwan and Japan, suggesting that a legal foundation in common law alone does not guarantee higher managerial discretion. China ranks lowest in ‘control of corruption’. Japan ranks best in rule of law and control of corruption and Taiwan best in regulatory quality.

Overall, this suggests that from the perspective of legal origin and effectiveness of law enforcement, ceteris paribus, managerial discretion seems most constrained in China (civil law and ineffective law enforcement), followed by Taiwan (civil law and mediocre law enforcement), Japan and India (civil/ common law respectively; effective/ ineffective law enforcement respectively).

2.3.2.3 Impact of context specific board governance characteristics on managerial discretion

The fundamental task of boards of directors is to ensure that CEOs and TMTs manage a company in alignment with the best interests of shareholders (Vance, 1983).

6 Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development (p. 6).
7 Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of the society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence (p. 6).
8 Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests (p. 6).
That is, company boards can be perceived as monitoring committees aligning CEO/TMT and shareholder interests (Fama & Jensen, 1983). A large body of research confirms that effective monitoring is mainly a function of structural arrangements relating to CEO duality (i.e. an individual executive simultaneously holding the CEO and Chairman positions) and the proportion of independent (outside) directors on a board (Dahya & Travlos, 2000; Daily, Johnson & Dalton, 1999; Young, Ahlstrom, Bruton & Chan, 2001; Zahra & Pearce, 1989). CEO duality is associated with lower independence of the monitoring role vis-à-vis executive decision making (Sarkar, Sarkar & Sen, 2006). Similarly, boards of directors composed of primarily inside directors are less likely to monitor the company’s TMT closely as they are less incentivized or willing to stand up to the CEO/ TMT to protect shareholder interests (Duchin, Matsusaka & Ozbas, 2010). For example, many boards of directors of UK or US firms are characterized by strong linkages to the TMT (i.e. CEO duality, high proportion of inside directors) (Finkelstein & D’Aveni, 1994). Dalton and Kesner (1987) find that in 82% of US firms the CEO at the same time chairs the board. US CEOs also play a significant role in appointing or approving individual board members (Lorsch & MacIver, 1989). Such constellations have led scholars and practitioners alike to express concern regarding boards’ ability to monitor senior management effectively (Gedajlovic & Shapiro, 2001).

This also has a significant impact on managerial discretion. Olie and Van Iverton (2004, p. 142) conclude that “managerial discretion is principally a function of the presence of powerful outside shareholders, CEO duality, and the number of outsiders on the board”. Crossland and Hambrick (2007) find empirical evidence that managerial discretion is significantly higher in countries where board governance rules leave executives more leeway to pursue radical action (e.g. US) than in countries with board governance systems associated with tighter management monitoring (e.g. Germany). Questions related to board governance continue to be heavily discussed also in (emerging) Asian countries. While many of the board governance rules implemented recently in Asian countries were formulated based on Western principles (e.g. Solomon et al., 2003), there exist significant differences across countries with regard to how strongly board governance mechanisms limit managerial discretion.

Board governance practice in Japan constrains managerial discretion significantly more than in the US governance system (Crossland & Hambrick, 2007). However, it is argued that for a number of reasons it constrains executives’ latitude of action less
than board governance practice in China, Taiwan and India. First, the role of the formal board of directors (*torishimariyakukai*) has been portrayed as predominantly ceremonial (Ahmadjian, 2003). Second, even though CEO duality is significantly lower than in the UK or US (Dalton & Kesner, 1987), the CEO's influence at the board level is very high. While the Japanese commercial code stipulates that directors be nominated by the board of directors and elected by shareholders, *de facto* it is the CEO who announces his or her choices which are then rubber-stamped by the shareholders (Wiersema & Bird, 1993). Third, Charkham (1993) finds that typically around three-quarters of directors on Japanese boards are company insiders. Therefore, Anderson (1984, p. 235) concludes that the degree of formal board monitoring in Japan is low and that it would mainly rest “*in the behind-the-scenes interaction between financial interests and senior management*”. Overall, the arguments above suggest that *ceteris paribus* Japan’s board governance regulations and practices do not seem to limit managerial discretion extensively.

A look at the Chinese board governance leads to a different conclusion. In the 1990s many state owned enterprises (SOEs) were ‘corporatized’ into joint-stock companies with equity contributions from several shareholders (Peng, 2000). As outlined above, however, even today the state often remains the largest shareholder, particularly in strategically important industries, and thus keeps tight control over both the overall Chinese economy and individual companies’ strategy (Peng, 2004). This is also reflected in Chinese board governance, i.e. the effectiveness of rules related to CEO duality and the proportion of independent directors on boards. According to the China Securities Regulatory Commission (CSRC, 2004), since 2003 at least one-third of a listed company board’s directors have to be independent. However, as largest shareholder the state has a formal right to decide on director appointments (Tenev & Zhang, 2002), rendering the degree of ‘independence’ of directors questionable (Clarke, 2005). In their analysis, Judge, Douglas and Kutan (2008) reveal that in

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9 This does not imply that outside monitoring does not exist. The main bank plays a major role in monitoring given that as creditor and shareholder it has an incentive to be informed in detail about strategic decisions. The *keiretsu* bank typically also gets superior access to company internal information and other banks as well as shareholders rely on the main bank’s monitoring based on this access (Douthett & Jung, 2001). Furthermore, Japanese banks have traditionally made sure that their senior managers sit on the boards of major clients (Morck & Nakamura, 1999; Simeon, 2001).

10 For political reasons the Chinese do not call this process privatization.
China 72% of board members are independent directors, 80% of whom are recruited and appointed by the state government.

In terms of CEO duality, joint-stock companies are left with considerable autonomy to decide whether the CEO and Chairman positions are combined in one person. CSRC (2004) has not issued any strict rules. Still, Bai, Liu, Lu, Song and Zhang (2004) report that CEO duality decreased from 60% to 30% in the 1990s (see also Peng, Zhang & Li, 2007). The caveat from a managerial discretion perspective, however, is that levels of CEO duality are not particularly relevant given that political appointment of CEOs is abundant in China (Li & Tang, 2010). In sum, the Chinese board governance system seems in line with the state’s endeavor to keep (complete) control. In such a context managerial discretion is significantly constrained.

In Taiwan it is not the state but founding families which are at the center of board governance related discussions. Filatotchev, Lien and Piesse (2005, p. 260) note that even in listed companies not dominated by founding families there would be a “perception of family ownership” which, in turn, significantly influences the approach to corporate governance. According to Taiwan's company law, corporate governance evolves around the shareholders meeting, the company board and its directors as well as supervisors (Solomon et al., 2003). The requirement of a minimum of three (non-executive) supervisors, who have to “ensure good practice in terms of audit, transparency and accountability” is a unique feature of Taiwanese board governance (Filatotchev et al., 2005, p. 259). While supervisors have individual monitoring responsibility and do not have as far-reaching powers regarding the monitoring of executive management or the appointment of directors as the supervisory board in German law, some scholars have referred to the Taiwanese system as two-tier (Zeckhauser & Pound, 1990). In addition, to further strengthen the board's monitoring quality, since 2007 at least two, or one-fifth, of the board’s directors have to be independent (Lin, 2011). In reality though the requirements for supervisors and minimum number of independent directors do not seem to guarantee effective monitoring. In a review on Taiwanese board monitoring mechanisms, Solomon et al. (2003) find that in a vast majority of firms both supervisors and outside directors are either related or in a close relationship with the founding family. Filatotchev et al. (2005, p. 260) concludes that “family owners have a great deal of discretion in terms of board appointments and leadership structure”. That is, managerial discretion is not mainly constrained by formal governance mechanisms but all the more by family
owners who manage to bypass formal regulations to keep close control. The fact that in an increasing number of companies the chairperson also serves as CEO only confirms this conclusion (Chen, Kao, Tsao & Wu, 2007).

Although less pronounced than in Taiwan, individual entrepreneurs or founding families of India’s business houses also have significant influence on the practical implications of Indian board governance rules. Indian board governance rules were developed largely based on UK and US models. Clause 49 of the BSE Listing Agreement stipulates that at least one-third of directors on a listed company's board have to be independent. In case of CEO duality the board has to be composed of at least 50% independent directors (Securities and Exchange Board of India, 2004). In a study on SENSEX listed Indian companies, the Indian Merchants’ Chamber (2007) finds that 49% of board directors are independent. Following an agency theory logic (Alchian & Demsetz, 1972; Ross, 1973), this would imply that board monitoring in India should be effective, limiting managerial discretion whenever necessary to maximize shareholder value. However, scholars have argued that lack of clear guidelines and powers for independent directors renders their monitoring effect largely negligible. This implies that a larger proportion of independent directors in this context may in fact be associated with higher managerial discretion. Khanna and Mathew (2010) put forward the following reasons why independent directors in India currently would not be effective monitors: lack of clearly outlined roles of independent directors vis-à-vis executive or promoter-affiliated directors as a result of which independent directors mainly perceive themselves as strategy advisors (and not as ‘watchdogs’); no requirement for an independent nomination committee and pronounced scope for individual director liability in combination with comparatively low compensation of directors.

With regard to CEO duality, in an analysis of India’s 180 largest listed companies by market capitalization, Jackling and Johl (2009) found that in 35% of the companies the Chairperson and CEO roles were combined. In almost half of these cases the Chairperson/CEO was related to the founding family. In sum, this implies that the monitoring effectiveness (and how this impacts managerial discretion) of formal board governance rules in India remains to a large extent at the discretion of the founding family. Given that Indian business houses are highly diversified (much more than in

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11 In many cases the CEO is related to the founding family.
Taiwan, for instance) and generally composed of a large number of separate legal entities, the degree to which promoters exercise this power varies across group operating companies. While in strategically important affiliates the founding family may directly steer the company (CEO duality) and tend to appoint friends as ‘independent’ directors, smaller companies may be managed in a more hands-off manner, as a result of which in these cases managerial discretion may be less limited.

Table 2 summarizes the impact of informal and formal institutions on the expected explanatory strength of UE research across four Asian countries and the US. The table was developed based on the discussion above (‘very low’ to ‘very high’ allocated to each country for each factor). The relative expected explanatory strength of UE research across these countries is calculated based on how much the country’s informal and formal institutions increase or constrain managerial discretion. In summary, based on this (theoretical) comparative analysis the expected effects of executives’ actions and decisions on organizational outcomes are largest for the US, followed by Japan, India, Taiwan and China.

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12 The score was calculated as follows: For positive associations between factor ‘x’ and managerial discretion ‘very low’ (0), ‘low’ (0), ‘low-medium’ (0.25), ‘medium’ (0.5), ‘medium-high’ (0.75), ‘high’ (1), ‘very high’ (1.25); for negative associations between factor ‘x’ and managerial discretion *vice versa*. 

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## Table 2: Impact of informal and formal institutions across countries on explanatory strength of upper echelons research

<table>
<thead>
<tr>
<th>Factor/ Country</th>
<th>China</th>
<th>India</th>
<th>Japan</th>
<th>Taiwan</th>
<th>US</th>
<th>Rel.ship (low-high) to mgrl. discretion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Informal institutions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power distance</td>
<td>high</td>
<td>high</td>
<td>medium</td>
<td>medium- high</td>
<td>low</td>
<td>Negative</td>
</tr>
<tr>
<td>Individualism</td>
<td>very low</td>
<td>low- medium</td>
<td>low- medium</td>
<td>very low</td>
<td>high</td>
<td>Positive</td>
</tr>
<tr>
<td>Uncertainty avoidance</td>
<td>very low</td>
<td>low</td>
<td>high</td>
<td>medium - high</td>
<td>medium</td>
<td>Negative</td>
</tr>
<tr>
<td>TMT member interdependence</td>
<td>high</td>
<td>medium - high</td>
<td>medium - high</td>
<td>high</td>
<td>low</td>
<td>Positive</td>
</tr>
<tr>
<td>CEO centrality</td>
<td>very low*</td>
<td>medium</td>
<td>low- medium</td>
<td>low*</td>
<td>high</td>
<td>Positive</td>
</tr>
<tr>
<td><strong>Formal institutions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ownership concentration</td>
<td>very low</td>
<td>medium - high</td>
<td>low- medium</td>
<td>high</td>
<td>very low</td>
<td>Negative</td>
</tr>
<tr>
<td>Legal origin</td>
<td>civil law</td>
<td>com. law</td>
<td>civil law</td>
<td>civil law</td>
<td>com. law</td>
<td>Higher for common law countries</td>
</tr>
<tr>
<td>Governance quality/ Law enforcement**</td>
<td>Low</td>
<td>low</td>
<td>high</td>
<td>medium</td>
<td>very high</td>
<td>Positive</td>
</tr>
<tr>
<td>Proportion independent outside directors***</td>
<td>high</td>
<td>medium</td>
<td>low</td>
<td>medium</td>
<td>medium</td>
<td>Negative</td>
</tr>
<tr>
<td>CEO duality****</td>
<td>medium</td>
<td>medium</td>
<td>medium</td>
<td>medium</td>
<td>high</td>
<td>Positive</td>
</tr>
<tr>
<td>Expected explanatory strength of upper echelons research</td>
<td>very low (2.75)</td>
<td>medium (4.75)</td>
<td>medium- high (5)</td>
<td>low (3)</td>
<td>very high (8.5)</td>
<td>Na</td>
</tr>
</tbody>
</table>

*Chairperson with significantly more executive powers than CEO

**Based on World Bank "Worldwide Governance Indicators" (Kaufmann, Kraay & Mastruzzi, 2009)

***Effects on managerial discretion vary across countries due to contextual particularities:
- China: Proportion of independent outside directors high but mainly appointed by state
- India: Proportion of independent directors medium but governance duties not clear (ambiguous/ unintended effect on managerial discretion)

****Effects on managerial discretion vary across countries due to contextual particularities:
- China: CEO duality medium but political CEO appointment prevalent
- India: CEO duality ~35%, in ~50% of cases CEO related to founding family
- Japan: CEO duality medium, but CEO significantly involved in appointment of individual directors

Source: Author based on discussion in section 2.3
2.4 Review methodology

2.4.1 Sampling

To review empirical UE studies which employ samples of selected Asian countries we performed a comprehensive search of peer-reviewed articles published between 1984 and 2011. Previous UE reviews typically focus on the most influential management, psychology and organizational behavior journals (Carpenter, Geletkanycz & Sanders, 2004; Olie, 2010; Schoonhoven & Woolley, 2010). We refrained from an ex ante selection of journals to be included in the review to make sure we captured also relevant UE studies published in emerging Asian journals. In essence, our approach leads to a broader search base as we include journals which have (not yet) the highest impact factors. We conducted a key word search on the Ebscohost and Google Scholar\(^{13}\) using the keywords “upper echelons”, “top management”, “tmt” and “Hambrick” in combination with “India”, “China”, “Indonesia”, “Malaysia”, “Phillipines”, “South Korea”, “Taiwan”, “Thailand”, “Japan” or “Asia”. In Google Scholar we limited the search to the fields “Business, Administration, Finance and Economics” and “Social Sciences, Arts, and Humanities”. In addition, we used the Web of Science citation index to find further studies. Assuming that the relevant papers would refer at least once to the Hambrick and Mason (1984) paper, we searched for the above countries in all works referencing this article. Cumulatively this search led to several hundred articles, from which all purely theoretical works were excluded. Given that we conducted a search in three different databases we also made sure that each relevant study is captured only once. Next, we categorized all journals according to the ISI 2010 Journal Citation Report (Thomson Reuters) and excluded all papers published in journals with an impact factor of below 0.6 or with no impact factor at all. We chose 0.6 as a cut-off point as not all journals have the same currency for academics and as we deemed it to be inappropriate to compare papers with an impact factor of below 0.6 with works in more distinguished journals. In all remaining papers we checked whether the empirical part is based fully (single country studies) or partly (cross-country studies) on a sample from the Asian countries in focus. Studies where this was not the case were excluded. This resulted in

\(^{13}\) We also searched Google Scholar given that Ebscohost only captures a pre-defined and limited number of academic journals.
our final sample of 21 studies published in the following 13 journals: Strategic Management Journal (SMJ), Academy of Management Journal (AMJ), International Journal of Human Resource Management (IJHRM), Corporate Governance: An International Review (CGIR), Asia Pacific Journal of Management (APJM), Journal of Management (JOM), Small Business Economics (SBE), Management International Review (MIR), Journal of Organizational Change Management (JOCM), International Business Review (IBR), British Journal of Management (BJM), Asian Business & Management (ABM) and Journal of Management Studies (JMS). Figure 5 provides an overview of the number of relevant UE studies in the 13 journals. For a complete list of articles including a summary of relevant outcomes see Appendix 1.1.

Figure 5: Number of relevant articles per academic journal

![Bar chart showing the number of relevant articles per journal.](image)

Source: Author

2.4.2 Analysis procedure

We applied a set of rules to analyze theoretical, methodological and further contextually relevant aspects in our final sample. Given the significant spread in terms of impact factor across the 13 journals we defined two sub-samples. The first sub-sample includes all top journals with an ISI 2010 impact factor higher than 2.7. We defined this cut-off point following Olie (2010) who, referring to Schoonhoven and
Woolley (2005), only included academic journals with impact factors above this level in his review of UE studies. The second sub-sample is composed of studies published in journals with an impact factor between 0.6 and 2.7.

Inspired by Finkelstein, Hambrick and Cannella’s (2009) comprehensive review of UE theory and empirical research we focused our assessment of theoretical and conceptual aspects on the theoretical level, the unit of analysis and on which theories are combined with upper echelons theory. We differentiated between the following theoretical levels of analysis; individual, team, firm and industry. The following units of analysis were coded; CEO/chairperson, team member and TMT. We followed a two-step approach to derive which theories were used in combination with UE theory. First, we differentiated between studies whose main theoretical foundation is UE theory and studies which draw on UE theory to support a theoretical argument built around another theory. We included a paper in the first group when UE theory was introduced as a main building block of the article’s theoretical concept in the title and/or the abstract and/or the introduction. This was the case for 11 out of 21 papers. In a second step, we scrutinized the theory sections of all the papers and identified theories used in combination with UE theory.

Similar to Finkelstein, Hambrick and Cannella (2009) we analyzed the following methodological aspects; applied statistical technique, research method, data sources as well as sample type and size. We coded the following types of statistical techniques: regression, ANOVA, structural equation modeling (SEM), correlations and further techniques such as optimal matching analysis (OMA). We differentiated between databases, annual reports, surveys, interviews and combinations of these as data sources. Archival research was differentiated from survey-based research methods. A study can be coded in more than one category in the analyzed methodological aspects. In addition to the above outlined theoretical and methodological aspects we also assessed the following; the development of the number of UE studies employing samples from Asia over the years, the number of relevant UE works per Asian country and the definition of TMT applied.

It should be mentioned that a limitation related to the sampling of this review is that we only include selected Asian economies in our evaluation. This does not allow us to conduct an empirically backed comparative analysis with Western based UE research. Also, this review draws conclusions on the basis of contextual, theoretical
and methodological particularities of the analyzed UE papers, but does not perform a meta-analysis per se.

### 2.5 Review results

#### 2.5.1 Context related aspects

Our review reveals that Hambrick’s (2007) encouragement to advance UE research in other than Western contexts has increasingly been taken up in recent years (see Figure 6). For a long time Wiersema and Bird’s (1993) cross-country analysis which included the TMT composition of Japanese firms was the only notable empirical UE study employing an Asian sample. Since 2007 the number of published Asian UE studies has steadily increased from one to six in 2011. More than 60% of these studies were published in academic journals with impact factors above 2.7, suggesting that top researchers and reviewers of the (still mostly) US based leading academic management journals alike are starting to recognize the relevance and importance of advancing UE research in Asian (emerging) economies. There are no reasons to believe that this trend will be reversed in the coming years.

**Figure 6:** Development of number of upper echelons studies employing Asian samples, 1984–2011

[![Figure 6: Development of number of upper echelons studies employing Asian samples, 1984–2011](image)](image)

*Source: Author*
However, Asia based empirical UE research is still focused on very few countries. From a total of nine Asian countries included in the analysis, the 21 empirical UE studies identified all involve samples from four Asian economies. The bulk of the studies employ a sample from China (8) followed by Japan (7), Taiwan (4) and India (2). Our preceding theoretical comparison of informal and formal institutions suggested that the expected explanatory strength of UE research among these four countries is lowest in China. This implies that the selection of study contexts for UE research in Asia does not seem to be mainly driven by the level of expected variance of executive demographics or by national informal and formal institutions which are associated with higher managerial discretion. It seems to be more in line with the level of economic importance associated with these countries.

Employing a TMT definition which is in line with the study context and research question is crucial (e.g. Carpenter et al., 2004). The TMT definition is relevant in 13 of the 21 identified studies (see unit of analysis discussion below). In only three of the reviewed studies are contextual particularities debated in order to employ a fitting definition of TMT (Wiersema & Bird, 1993; Wei, Lau, Young & Wang, 2005; Yokota & Mitsuhashi, 2008). In two further studies the TMT was identified by the CEO directly (Vissa & Chacar, 2009; Cao, Simsek & Zhang, 2010). No empirical study follows Roberto (2003), who argues that a TMT consists of a stable core and a dynamic periphery depending on the strategic decision in question. That is, overall less than 40% of the relevant studies have attempted to overcome the challenge of finding a suitable TMT definition that corresponds with the research context. The remaining studies either rely solely on the application of Western TMT definitions or provide little or no information about their TMT definitions at all (e.g. Gong, 2006; Jaw & Lin, 2009; Sekiguchi, Bebenroth & Li, 2011). Consequently it is often difficult to compare study results even if conducted in the same Asian context. This is reflected in widely varying reported average TMT sizes. In studies employing Japanese samples, for example, the difference between the largest and smallest reported average TMT size is almost 10. 23% of the studies do not report average TMT size at all.

**2.5.2 Theory and construct related aspects**

Similar to what was found in reviews focusing on UE studies based on Western samples (Schoonhoven & Woolley, 2005) a significant proportion (43%) of the reviewed studies combined team and firm level of analysis in their theoretical
development (see Figure 7). The TMT is thus the most often employed unit of analysis. Seven studies combined individual level constructs with firm level outcomes with either the CEO/Chairperson (five studies) or individual TMT members (two studies) as the unit of analysis. Four studies include the individual (two studies TMT members, two studies Chairperson/CEO), team and firm level in their analysis. Finally, one cross-country study analyzes context specific career patterns of individual TMT executives.

**Figure 7: Theoretical level and unit of analysis in upper echelons studies employing Asian samples**

![Diagram showing the theoretical level and unit of analysis in upper echelons studies employing Asian samples.](image)

*Source: Author*

The vast majority (86%) of the reviewed papers employ TMT characteristics as independent variables in their analysis. Four of these studies attempt to open the "black box" (Lawrence, 1997) by directly measuring the psychological traits of executives (e.g. by means of detailed questionnaires). No study analyzes demographic TMT characteristics as a dependent variable. That is, Hambrick’s (2007, p. 338) call to consider “executive characteristics as consequences rather than as causes” has not yet been taken up by UE researchers employing Asian samples. In the future it will be important to develop ‘antecedents theories’ (Lawrence, 1997) in Asian UE research.
Constructs related to executive tenure are the most often studied TMT characteristics (in 38% of the reviewed papers), followed by age (33%) and formal education (24%). Olie and Van Iterson (2004) report that executive tenure, functional expertise and formal education would be the most often studied TMT characteristics analyzed in UE research. Whereas in Western UE studies functional expertise is the second most often studied TMT characteristic, in Asian contexts it is constructs related to the age of the executives. This may be related to the special role of age in collectivist societies such as China, India or Japan. Only one study analyzes the effect of gender on a firm organizational outcome, suggesting how TMTs in Asian contexts typically remain male dominated. This finding also implies that the gender diversity debate has yet to gain any momentum in these contexts. Interestingly, only two studies analyze the effects of nationality of executives and one study the effects of international work experience on organizational outcomes. Given the recent push of emerging Asian economies to increase their international footprint (e.g. Sun, Peng, Ren & Yan, 2010), these concepts remain vastly under-researched.

In previous reviews it was argued that studies which employ TMT characteristics as moderators or mediators are underrepresented (Finkelstein & Hambrick, 1996). We find that there is also room for more such research in the Asian context: three of the reviewed studies model TMT characteristics as moderators and only one as mediator.

In almost half of the papers (48%) company/ subsidiary performance is modeled as outcome variable. Two studies analyze company internationalization and two further studies analyze company strategic change. Company leverage, risk taking, organizational ambidexterity and entrepreneurial strategy making are tested respectively as dependent variable in one study each. Two further studies analyze TMT (1) and CEO turnover (1). Finally, one study evaluates associations of TMT characteristics with certain career patterns. Overall, our results suggest that the vast majority of Asian UE studies explore company performance and organizational level outcomes. Very few studies (3) analyze individual or team level outcomes.

Scholars have noted that a wide range of theories has been used in TMT research. Finkelstein and Hambrick (1996, p. 331), for example, find that 17 different

\[14\] In a review on Top Management Teams in an international context, Schoonhoven and Woolley (2005) report six empirical TMT studies analyzing executives’ international experience (US and Europe based samples between 1995 and 2004).
theoretical perspectives were applied in TMT studies. In this review of 21 studies, 11 used UE theory as their main theoretical perspective. In 10 studies UE was used as supporting theory. Figure 8 provides an overview of the theories with which UE theory was combined. UE theory was most often combined with the concept of managerial discretion (4), followed by agency theory, social capital and social identity theory in three studies respectively. Other theoretical perspectives with which UE theory was combined are the resource-based (2) and knowledge-based view (1), institutional theory (2), decision theory (1), job demands (1) and the competitive dynamics perspective (1). Thus, an array of theoretical perspectives has been combined with UE theory to study the impact of TMT characteristics on organizational outcomes in Asian contexts. The fact that a number of studies have combined UE theory with sociology (e.g. social capital theory) and psychology (e.g. social identity theory) theories implies that Asian UE scholars regard it as relevant and interesting to study proposed executive effects from a distinctly psychological or sociological perspective. This is very much in line with Hambrick and Mason’s (1984) call to do so once a given executive effect has been confirmed empirically with the demography approach.

**Figure 8:** Theoretical perspectives adopted in upper echelons studies employing Asian samples
2.5.3 Methodology related aspects

Data availability can be a major challenge when performing UE research in (emerging) Asian contexts. Li and Li (2009, p. 271), for example, argue that “in most emerging economies such as China, the lack of reliable archival data and an inadequate postal system makes the use of archival and mail survey research methods difficult”. Li and Tang (2010) refer to "limited data availability" to explain why they do not employ certain variables which they would deem as most appropriate. Therefore, in Asian contexts limitations of data availability seem to have an even more distinct impact on the robustness of research results than in Western contexts.

More than 80% of the reviewed studies rely on archival data, in two studies in combination with a quantitative survey (see Figure 9). Four studies are based solely on quantitative surveys. None of the reviewed studies used less traditional research methodologies such as case studies or experiments. For data collection, six out of 21 studies rely solely on financial and executive information databases. Six further studies work with a combination of databases and annual reports of listed sample companies. One study collects data solely from companies’ annual reports. The bulk of studies working with databases and annual reports were published in journals with lower impact factors (between 0.6 and 2.7). Studies published in top impact factor journals, on the other hand, more often use surveys (3) and surveys in combination with databases (2) or qualitative interviews (2). This suggests that a more direct interaction with the sample companies and their executives (e.g. by means of a survey) may be the more complex and time-consuming but most fruitful approach to overcome limitations of archival data and to generate robust research results in Asian contexts.
Figure 9: Research methods and data sources of upper echelons studies employing Asian samples

Source: Author

While the majority of the reviewed studies (86%) rely on purely quantitative methods, three studies complement the quantitative approach with qualitative elements. Lin and Shih (2008), for example, interviewed seven senior executives to derive items for their quantitative survey and to discuss the TMT definition. Wei and colleagues (2005) also rely on interviews to find out whether the issues discussed in the UE literature are relevant for their Chinese sample firms. They legitimize this approach by referring to “the exploratory state of upper echelons research in China” (p. 227). This rationale could be applied to other Asian contexts with as yet limited or no UE research and is in line with calls to combine qualitative and quantitative methodologies in management research (Bryman, 2006). In 18 out of the 21 studies the hypotheses were tested with conventional regression models. Most of these scholars rely on (hierarchical) OLS regression, but PLS (1), GLS (1), HLM (1) and logistic regression models (2) are also used. Two studies apply structural equation models (SEM). ANOVA and T-test techniques as well as optimal matching analysis (OMA) are used in one study each respectively. Overall these findings do not differ notably from the research methods typically applied in UE research based in a Western context.
Two-thirds of the reviewed studies employ a sample consisting of listed companies. The balance includes purely privately held or a combination of public and private companies in their samples. As in other contexts, focusing on public companies obviously facilitates data access and our finding is thus not surprising. However, in Asian economies such as India many large and influential businesses are affiliated with a business group and privately held.

The sample size of the 21 studies varies widely, from 36 to 1182 companies. Roughly the same number of studies falls in each of the following sample size categories: less than 100 companies, 101 to 200 companies, 201 to 300 companies and more than 300 companies. More than half of the reviewed studies (52%) use a cross-sectional sample including companies from various industries. Two of these studies explicitly exclude financial services companies. Ten studies focus on a single industry with IT/ high tech (5) as the most commonly studied industry. Two studies focus on manufacturing (no further specification) industries and financial services, business process outsourcing and textile companies are studied in one study respectively. The vast majority of studies (18) focus the analysis on a single Asian economy. Only three of the reviewed studies employ cross-country samples. All three cross-country studies include Japan, a highly developed economy, as the Asian country represented in the analysis.

2.6 Conclusions and recommendations for future research

In this review we observe a rising trend of Asia-focused UE research and critically examine the current state and recent developments in the literature. As Asia-focused UE research is still at an embryonic stage of development, this review aims to establish a set of common standards to guide future UE research conducted within an Asian context. Based on the extant literature, we identify several best practices as well as key shortcomings in existing research and summarize the lessons learned in six guidelines. These guidelines are intended to help future UE researchers to address key contextual, theoretical, and methodological considerations and produce sound, meaningful, and impactful UE research within an Asian context.
2.6.1 Guideline 1: Align research design and sample selection with Asian economic contexts

Based on our review, we identify two design and sampling issues as particularly critical in Asia-focused UE research, namely cross-sectional research designs and stock market-based sample definitions. Most of the Asian UE studies in this review employ a cross-sectional research design. Indeed, such research designs have also remained common in UE research based on European and North American data. Such research designs are attractive because they are typically less complex than models based on longitudinal or panel data and enable researchers to obtain a ‘snapshot’ of intra-organizational relationships, such as associations between TMT composition and firm strategy, at a given point in time. While criticism of cross-sectional research designs has been a recurring theme in past reviews of the UE literature (e.g. Carpenter, et al., 2004; Certo, Lester, Dalton, & Dalton, 2006), it is arguably more important to develop dynamic models of TMT effects in Asian contexts due to the lower levels of managerial discretion found in this region. Lower managerial discretion implies that the effects of (changes in) TMT composition are less likely to manifest themselves in the immediate strategy and performance outcomes that cross-sectional research designs are able to capture, thus making cross-sectional UE research even less suited to Asian than to Western contexts.

Furthermore, two-thirds of the reviewed studies focus on stock-listed companies. This suggests that scholars conducting UE research in Asia have considered national level economic particularities only to a limited extent when defining their sample. As outlined earlier in this paper, the business group is the dominant ownership structure in the Asian economies where UE research has been conducted so far. Even though individual companies within business groups may be stock-listed, there is a high likelihood of misrepresenting the overall corporate landscape in Asian countries by focusing on stock-listed companies only. It is also likely that the ownership structure itself influences both TMT composition and executives’ effects on organizational outcomes, due to the dependency on supporting structures and networks within business groups, which ultimately affect managerial discretion and decision-making autonomy. UE studies will for instance need to address the dominant role of the state in China, the influence of founding families in Taiwan and India, and the impact of financial institutions in Japan. Specifically, to further advance our knowledge about how TMTs impact organizational outcomes in such companies/ conglomerates it will
be necessary for future UE research to find ways to get access to financial and executive demographic information of both listed and unlisted business group affiliates.

To gain a more nuanced picture of how ownership arrangements affect TMT composition and the extent to which TMT effects are conditional on ownership, it will be necessary to identify a sample of companies that are truly representative of the corporate landscape in a given country, regardless of ownership type. While this confronts researchers with significant challenges in terms of data availability, data constraints in Asia should not be accepted as valid reasons for not addressing factors and ‘complexions’ (Hambrick, 2007) which may significantly impact the results of UE studies in new contexts. The current lack of new research approaches should motivate scholars to develop Asian context specific and innovative research designs and sample definitions that can overcome the key challenges identified here. Indeed, our review showed that work based on primary data (such as survey-based research and mixed method approaches) has been published in academic journals with the highest impact factors.

2.6.2 Guideline 2: Ensure that TMT definition comprises the actual decision-makers

Defining the boundaries of the TMT and deciding whether to focus on the effects of executives as individuals or as groups have been one of the main sources of debate in UE research. Carpenter and colleagues (2004, p. 768), for instance, posit that “mounting evidence suggests that in studying executives collectively, important individual level outcomes have been overlooked”. At the same time, a team-level focus in TMT research has continued to have widespread appeal and has fostered numerous key insights in recent years (Hambrick, 2007; Finkelstein, Hambrick & Cannella, 2009).

Out of the UE studies included in this review, 62% examine TMT effects at the team-level. The other studies either focus on the Chairman/CEO or on individual executives as the primary unit of analysis. Based on our preceding review of Asian institutional contexts and existing UE literature, we propose the following parameters to guide researchers in finding a suitable context-specific definition of the unit of analysis in Asian UE studies. First, the level of CEO centrality and power concentration among top managers matters to determine whether UE research in a
given country context should focus on a single individual or a team of key decision-makers. Second, TMT interdependence and the extent to which top managers are mutually dependent or subject to a hierarchy of top-down dependence have an impact on the definition of the unit of analysis. Third, the unit of analysis in UE studies may be influenced by national governance regulations, such as stock exchange requirements and legal provisions that may in some countries regulate and formalize the definition of the TMT.

As discussed above, at least some of the reviewed studies have paid insufficient attention to the national context and the prevailing actual decision-making structures in the countries studied. Several studies have rather uncritically transferred the TMT definitions employed in Western UE research to the Asian context, e.g. by using title-based TMT definitions. Consequently, there is ample room for future UE research to better legitimize the unit of analysis and, if applicable, adjust the TMT definition to the specific national context(s) studied. For example, no previous UE study employing a Taiwanese sample has focused solely on the Chairperson, who is by far the most powerful executive in the company.

In Asian contexts, the question how “broadly we cast our net in operationally defining who does and does not constitute” the TMT (Carpenter, 2005, p. 11) may ultimately produce different answers than those proposed by Western researchers so far. For instance, Finkelstein and Hambrick (1996) proposed the notion of a “supra-TMT” composed of all TMT executives as well as board members, and suggested that the effects of executives and board members can be reduced to an overall average effect of the company’s key decision-makers, irrespective of their specific roles. Jensen and Zajac (2004) empirically tested this notion and found that characteristics of the CEO, non-CEO TMT managers, and outside directors were associated with different strategic outcomes. As a result they concluded that it would be problematic to use the “supra-TMT” as a unit of analysis in UE studies. However, contextual particularities in certain Asian countries may render a renewed interest and exploration of the “supra-TMT” concept useful. In Japan, for example, three-quarters of the board of directors are typically company insiders, TMT interdependence is high, and the CEO has a significant impact on board-level decisions (e.g. executive appointments). Under such circumstances, including the entire board of directors along with the TMT in the analysis may be valid and lead to more robust results.
2.6.3 Guideline 3: Cautiously combine Western theories with UE theory in Asian study settings

The reviewed papers have combined UE theory with a range of other theories. The most frequent combination is UE theory and agency theory. Chen (2011), for example, employs the proportion of independent directors on Taiwanese company boards as a measure of the level of TMT monitoring. Whereas the study finds that the relationship TMT tenure and firm internationalization is positively moderated by the level of TMT monitoring, it is somewhat questionable whether the agency theory logic is directly applicable in the Taiwanese context. Western economies are characterized by dispersed ownership structures and board governance rules that foster and protect the monitoring role of independent directors. However, this is unlikely to apply equally in business group dominated countries such as Taiwan or India, where it has even been suggested that outside directors may reduce the level of monitoring due to the dependence of outside directors on more powerful (internal) company directors such as the CEO or Chairman (Khanna & Mathew, 2010). This example illustrates the danger of employing theoretical arguments based on a logic that has primarily been verified empirically in Western research contexts.

Whetten (2002) argues that many researchers do not sufficiently discuss the ‘where, when and who’ of the theories employed. Similarly, Hofstede (1993) and Tsui (2004) note that boundary conditions and moderating effects of contextual factors are often insufficiently considered in contemporary management research, leading to culturally constrained and incomplete management theories. Scholars specifically reviewing Asian research have come to similar conclusions. Meyer (2006, p.120), for example, posits that Asian research “agendas tend to be dominated by theories developed for Anglo-American contexts, especially the USA, that are insufficiently adapted to local circumstances”. He urges Asian scholars to display more caution when applying theories developed in other contexts and to be more confident in addressing distinctly context specific research questions as well as to develop new or adapted theories that are better suited to explain Asian phenomena. This should be a key consideration in the further development of UE research in Asian contexts. Researchers are urged to pay careful attention to the suitability of the theories employed and assess the need to adapt the theories to contextual conditions, but also to use the Asian context as an opportunity to further develop UE theory as well as...
auxiliary theories that are often employed in combination, such as agency theory, in a way that can inform our overall understanding of these theories.

### 2.6.4 Guideline 4: Advance antecedents perspective in Asian context

UE research based on Asian samples has so far predominantly addressed performance (48% of reviewed studies) and organizational level outcomes. Hambrick’s (2007) call to turn UE on its head has not yet found resonance in Asia-focused work. To do so will be a key avenue for future UE research, as the underlying drivers of TMT composition (e.g. diversity, seniority, experiential backgrounds) are likely to be contextually bound, due to differences in the (formal and informal) characteristics that are being emphasized and valued in the formation of governance structures around the world. Thus, an understanding of the antecedents of TMT composition in different institutional and economic environments is a key building block of a complete theory of top managers and their impact on organizational outcomes (Hambrick, 2007). Research focusing on the individual level and employing executive characteristics as dependent rather than independent variables will be required to advance our understanding of TMTs and their effects on organizations in Asian contexts. For example, which routes do executives take to get to the top of large Asian companies, and why do executives with certain characteristics advance faster to the TMT level than others? To what extent does career ascendancy influence top managers’ effects on organizational outcomes? What are key trends in executive appointments and TMT composition, and how are they related to changes in the business environment or company strategy? Based on our preceding review of Asian institutional environments in this paper, we propose that researchers should particularly consider the impact of country specific informal and formal institutions on managerial labor markets and prevailing governance systems to advance our understanding of the underlying drivers of TMT composition and individual top manager characteristics in Asian contexts.
2.6.5 Guideline 5: Expand the analytical toolbox

As described above, more than 85% of the reviewed papers employ standard\(^{15}\) regression models in their studies. Therefore, another key aspect to consider in future Asian UE research is to expand the range of applied analytical tools and move towards more innovative research methods. Just like an intriguing research question, innovative research methods can significantly enhance an article’s potential impact (Desrosiers et al., 2002). Indeed, the two reviewed papers that employ advanced structural equation modeling were published in *Academy of Management Journal* (Nadkarni & Herrmann, 2010) and *Journal of Management* (Lin & Shih, 2008), i.e. the two journals with the highest impact factors of the journals included in this review.

However, there are additional reasons why more innovation in terms of research methods would help to advance Asian UE research. First, as McGrath (1984, p. 31) argued, “if all of the studies of a given problem are based on the same methods, then the body of information thus gained is very much contingent on and limited by the flaws of those methods”. Second, depending on the specific research question, relying on multiple regression modeling is not always representative of the state-of-the-art methods in the field. For example, Cannella and Holcomb (2005) argued about the multilevel nature of UE research and urged the research community to employ multilevel empirical tests whenever required by the combination of units of analysis. This is particularly relevant when researchers include variables at the individual, team and firm level in the same analysis. While this is the case in four of the reviewed papers, none of these employ multilevel empirical testing. Only Cao, Simsek and Zhang (2010) acknowledge that variables included in the model span multiple levels and therefore they control for variables at all three relevant levels. In sum, more innovative and (in line with the theoretical debate) more complex and precise research methods will enhance Asia-focused UE research beyond what we know today and contribute to the development of substantial theory-advancing contributions to the field as a whole.

\(^{15}\) Twelve of the studies use regular (hierarchical) OLS regression models.
2.6.6 Guideline 6: Add further Asian contexts and develop intra-regional cross-country studies

As outlined above, Asia-focused UE research is currently skewed heavily towards China and Japan. Overall, the current literature comprises studies from only four of the nine countries that were originally selected for inclusion in this review. This leaves ample room to expand the focus of UE scholars to further Asian economies. Indonesia, for example, is the world’s fourth most populous nation (238 million), the largest economy in South East Asia and a member of the G-20 (US State Department, 2012). It is a mixed economy in which both the government and the private sector play a vital role. Therefore, Indonesia may offer opportunities to study executive effects in a context that is likely to be different again from those studied so far. Similar reasons could be given in favor of expanding UE research to other emerging Asian economies such as Malaysia, the Philippines, South Korea or Thailand, which are all substantial economies with unique cultural, institutional, and economic characteristics that set them apart from other national contexts.

Furthermore, there is ample potential for intra- and cross-regional comparative studies designed to highlight differences in cultural, institutional, and economic contexts. Previous cross-country UE studies have primarily focused on the US and Western European countries, and the few studies integrating an Asian economy all included Japan. UE research that comparatively studies TMT effects in emerging Asian economies or draws cross-regional comparisons, for example between Asia and Europe, constitute promising avenues for future research. Notably, White (2002) encourages Asian researchers to refrain from benchmarking against Anglo-American models and to focus more on comparative research within the region.

2.6.7 Summary and conclusion

Scholars conducting UE research in Asian contexts need to take a step from replication to context driven innovation. There are already some examples of studies – of which all make use of Chinese company samples and have been published very recently – which have either developed the research question or chosen the unit of analysis based on phenomena that emerge out of the local environment in China, as opposed to being positioned within the Western UE discourse. Li and Tang (2010) identify CEO political appointment as a moderator of CEO hubris and firm risk taking
Upper echelons research in Asia

in Chinese UE research. Chan, Cheng and Leung (2011) analyze how relational demographic differences between the two highest ranking executives (Chairperson and CEO) affect firm performance in China. Zhang, Ji, Tao and Wang (2011) evaluate how demographic dissimilarity between CEO and other TMT executives (e.g. in terms of age or tenure) impacts TMT turnover. Finally, Cheng et al. (2010) focus their analysis on the Chairperson given his/her status as the most powerful executive manager in the Chinese context. These studies show that contextual adaptation of UE models and the development of research questions that genuinely emerge out of observations of local phenomena will be key elements in the ‘globalization’ of UE theory and research. Ultimately this may lead to a ‘global’ UE theory that is sufficiently flexible to warrant application of the theory in cultural, institutional, and economic contexts that are vastly different from the U.S. context out of which the theory originally emerged. This will enable researchers to employ UE frameworks to effectively examine TMT effects across national contexts worldwide, while paying careful attention to contextual idiosyncrasies in the development of research questions, model design, and variable operationalization, as well as in the interpretation of findings.

Despite the small steps that have been taken so far, the majority of the reviewed work relies strongly on a Western lens for key decisions such as sample selection, research questions to be addressed, TMT definition and units of analysis, as well as the other theories with which to combine UE theory. This review has outlined a number of challenges facing Asia-based UE research and developed six guidelines that suggest how to at least partially overcome these challenges. To follow these recommendations, scholars will require “greater self-confidence in believing in the relevance of local phenomena and the power of indigenous theoretical development” (Meyer, 2006, p. 122). The findings and ideas in this paper are intended to motivate scholars to develop new high-quality Asia-focused UE research and thereby contribute to the global advancement of upper echelons theory and research into the 21st century.
3 Rocketing up the ranks – The features of fast track executives at a large Indian business house

ABSTRACT

Drawing on human and social capital theory as well as the literature on executive careers, this paper addresses the question “how have executives’ characteristics affected their ascent to the top management team?”. We employ a dataset comprising detailed profiles of the 543 executives who served on the TMTs of 58 group companies within one large Indian business house at the end of Financial Year 2010-11. The results show that being female, having high international career diversity, having at least one management degree, and being affiliated with a career development program significantly reduce the time it takes to be appointed to the top management team (TMT) relative to executives without such characteristics. Foreigners (non-Indians), on the other hand, have comparatively longer careers before they reach the apex of the company. Our findings partially confirm and partially contradict the results of studies conducted in other cultural contexts. Thus, we argue that managerial career paths are at least partially contextual in nature. We discuss the meaning and importance of different types of human and social capital at Indian versus Western companies, and relate our findings to the development stage and internationalization challenges facing Indian companies today. We also discuss implications for human resource practitioners and managers with global career ambitions.

Keywords: Top Management Team (TMT), TMT appointment, career ascendency, TMT diversity, India
3.1 Introduction

The composition of top management teams (TMT) has been subject to nearly three decades of scrutiny guided by the work of Hambrick and Mason (1984). The vast majority of upper echelons studies have focused on TMT composition as an antecedent of organizational outcomes and examined how executive teams matter for firm strategies and performance (for reviews see Carpenter et al., 2004; Certo, Lester, Dalton & Dalton, 2006; Finkelstein & Hambrick, 1996). Meanwhile, only a comparably small number of studies have investigated the antecedents of TMT composition. On the one hand, this is not surprising as the upper echelons literature has been guided by Hambrick and Mason’s (1984) original idea that executive characteristics shape organizations and affect their outcomes. On the other hand, several studies have shown that TMTs do not only affect organizational outcomes, but also that the composition of TMTs is influenced substantially by the organizational context and external environment in which they operate. Thus, a lens focusing on the antecedents of TMT composition produces insights that enhance our understanding of TMTs and will allow for increasingly effective comparisons of their effects on organizations. As Hambrick (2007, p. 338) notes, “there is a need to turn upper echelons theory on its head by considering executive characteristics as consequences rather than as causes”.

A few recent studies have examined the antecedents of TMT composition. Boone, van Olffen, van Witteloostuijn and de Brabander (2004) find that TMTs tend to be particularly homogeneous under conditions of high complexity and that TMTs seem “to close ranks when environmental complexity and pressure increase” (p. 633). Zhang and Rajagopalan (2003) analyze the firm and industry antecedents that explain new CEO origin. In a related study, Zhang and Rajagopalan (2004) study the antecedents and consequences of relay CEO successions. Scholars have also investigated how firm internal and external environmental factors impact TMT composition (Nielsen, 2009; Keck & Tushman, 1993; Thomas & Ramaswamy, 1993). The common denominator of these previous studies is that they have investigated modifications in organizational, environmental and team context as antecedents to changes in TMT composition. However, we still have limited knowledge about the individual-level factors that are associated with TMT membership. In this paper we address this gap by examining the relationship between the background characteristics
of individual executives and the pace of their ascension to the TMT. An examination of this relationship will give us a better understanding of the individual-level factors that contribute to an effective utilization of top managerial talent as well as the factors that may lead to inefficiencies. If there are background characteristics or career paths that are associated with faster ascendency into top management positions, it can help us to explain why certain TMT features have been linked to organizational outcomes in previous studies, as managers with such characteristics are likely to be utilized better during their managerial working life span. We differentiate between characteristics executives can influence (career variables such as education or international exposure) and exogenous demographic characteristics (e.g. gender, nationality), and analyze how these characteristics impact executives’ route to the top. To explain differences in executives’ career ascendency we draw upon human and social capital literature which has often been used to explain executives’ promotion frequency, career success and mobility (Burt, 1997a, 1997b; Adler & Kwon, 2002; Sweetland, 1996).

The contribution of this paper is at least twofold. First, we contribute to the upper echelons literature by examining whether specific executive characteristics are associated systematically with higher or lower utilization of managerial talent in the executive labor market. Second, we contribute to the literature on managerial careers by examining the individual-level correlates of the speed of ascendency in executive career paths. Third, by employing a study sample from India we address the need to extend upper echelons research beyond the Western context (e.g. Kim & Cannella, 2008) and answer the calls for more research on managerial careers in non-Western countries (Sullivan & Baruch, 2009; Sullivan, 1999).

The remainder of this paper is structured as follows. First, we outline the theoretical foundations of the proposed research model. Subsequently, we elaborate the proposed associations between executive background characteristics and advancement to top management positions. Third, we describe the study’s sample and methodology and fourth, the results of our analyses are presented. Finally, we discuss the main findings and identify future research directions.
3.2 Theoretical background

3.2.1 How does human and social capital contribute to career ascendency?

Identifying managerial talent at early career stages and fast-tracking such managers to top-level positions at a young age has several potential advantages for companies. Early development and promotion of talented individuals to TMT positions enables a company to optimize the productive use of its most valuable managerial resources over their lifetime and reduce the likelihood of losing such resources to competitors. Meanwhile, TMT appointments at later managerial career stages may coincide with older managers’ declining productivity rates. While previous research has found mixed statistical evidence regarding the association between age and job performance (McEvoy & Cascio, 1989, Ng & Feldman, 2008; Sturman, 2003; Waldman & Avolio, 1986), organizations are often concerned about older employees displaying lower productivity rates (e.g. Greller & Simpson, 1999; Avolio & Waldman, 1994).

Companies that are able to identify and fast-track managerial talent may be able to reap economic advantages over their peers due to superior utilization of their most valuable managerial resources. At the same time, such companies often run a higher risk of appointing an unsuitable candidate to the TMT, as fast-tracked TMT members have had less time to reveal information about their inherent capabilities and managerial potential prior to TMT appointment (cf. Murphy, 1986). To increase the likelihood of fast-tracking the right candidates, companies are likely to fill the information voids in managerial selection and promotion processes by relying on objectively observable and comparable signals about candidates’ human and social capital. Thus, individually held human and social capital is expected to be a key determinant of career ascendency and the likelihood of being fast-tracked to the upper levels of management.

Despite the vast research interest in TMT composition, including CEO and TMT succession and replacement processes (e.g. Boone, et al., 2004; Kesner & Sebora, 1994; Zhang & Rajagopalan, 2003), only very few studies have examined how human and social capital factors affect the selection, appointment and retention of executives. Gregersen, Morrison and Black (1998) outline the impact that international assignment experience may have on executives’ post-assignment career development. Kim and Cannella (2008) show that both internal and external social capital have a
positive impact on job promotions at the executive level. In an earlier study, Useem and Karabel (1986) show that a university degree from a prestigious university as well as an upper-class background facilitate corporate ascent. A few other studies have descriptively examined the relationship between executive backgrounds and their route to executive positions, for example by comparing the characteristics of executives across time periods (e.g. Cappelli & Hamori, 2005; Hamori, 2010). However, in the existing literature there is no comprehensive understanding of how executives’ human and social capital have influenced their ascent to corporate-level positions.

Ployhart and Moliterno (2011, p. 127) define human capital “as a unit-level resource that is created from the emergence of individuals’ knowledge, skills, abilities, and other characteristics”. The labor market rewards human capital, leading to higher managerial salaries and hierarchical ascendancy in organizations (Becker, 1964). Some of the most frequently invoked measures of human capital in past research on managerial careers include educational level (e.g. Pfeffer & Ross, 1982; Psacharopoulos, 1985), job tenure (e.g. Judge & Bretz, 1994), and international exposure (e.g. Kets de Vries & Mead, 1992). These indicators are primarily used as proxies for individuals’ knowledge, skills, and abilities. However, Ployhart and Moliterno’s (2011) definition also makes it possible to associate human capital with other characteristics, which may for example include inherent individual features like gender and nationality, as long as they are related to valuable knowledge or cognitive abilities in the employment context. Overall, human capital theory suggests that career success and the pace of career ascendancy can be explained by differences in individuals’ abilities and backgrounds.

Besides human capital, social capital has been advanced as a second key determinant of managerial career progress. Burt (1997b, p. 339) posits “while human capital is surely necessary to success it is useless without the social capital of opportunities in which to apply it”. One major difference is that human capital is developed by individuals themselves and refers to individual ability, whereas social capital is created through interactions between people and is about the creation of opportunities (Burt, 1997a). Granovetter (1985) coined the term ‘social embeddedness’ and argued that most behavior would be embedded in networks of interpersonal relations. Building on this argument, Coleman (1988, p. 100) defined social capital as follows:
If physical capital is wholly tangible, being embodied in observable material form, and human capital is less tangible, being embodied in the skills and knowledge acquired by an individual, social capital is less tangible yet, for it exists in the relations among persons.

Researchers have found that social capital significantly impacts executive compensation (e.g. Burt, 1997a) or more broadly career success (Belliveau, O’Reilly & Wade, 1996; Burt, 1992; Gabbay & Zuckerman, 1998; Podolny & Baron, 1997). Kim (2002) finds that social capital positively influences job promotion. Kim and Cannella (2008) differentiate between internal and external social capital and find statistical support that both types of social capital are important for promotions to TMT positions. Burt (1997b) contends that executives who get promoted early have more social capital. Furthermore, he argues that between social and human capital, social capital is the principal factor enabling fast-paced career ascendancy.

3.2.2 Contextualizing TMT appointments: Status, achievement and career ascendancy across cultures

Another factor which is likely to influence the pace of career ascendancy is the context in which human and social capital is acquired and held. In particular, country contexts are likely to vary widely in the extent to which they emphasize human and social capital in hiring and promotion decisions due to cultural and institutional differences. As our study is set in the context of India, a previously unexplored setting for studies of managerial careers and TMT composition, it is crucial to precede the hypotheses with a discussion of the contextual elements of this study that may impact its findings, including the definition of TMTs, the concept of managerial careers, and the relative importance of human and social capital.

The TMT definition employed in a research model can significantly impact results. Jensen and Zajac (2004), for example, purposely altered the TMT definition and found that as a consequence of different definitions, results of their model differed significantly. It is therefore important to align the TMT definition with the research question and the context of a particular study (O’Reilly, Snyder & Boothe, 1993). In the literature the identification of TMT members is often based on the hierarchical
level (indicated by title or position) of executives (Carpenter, Geletkanycz & Sanders, 2004). Hambrick, Cho and Chen (1996), for example, considered all executives above vice president level as part of the TMT. Also Carpenter, Pollock and Leary (2003), Geletkanycz and Hambrick (1997) as well as Keck (1997) apply this definition. However, while generalizations about an immensely large and diverse country such as India is risky, the importance of hierarchy in India and the high prestige attached to holding senior titles may impact companies’ designation policy and foster title inflation. Thus, some TMT definitions that have previously been employed by Western researchers are likely to produce misleadingly large TMTs in an Indian context. Nair and Schular (1993) suggest that dominant influences include family structure, the legacy of British rule and the hierarchical nature of Hinduism (caste system). Hence, a more suitable definition is offered by Finkelstein and Hambrick (1996, p. 8), who define the TMT as “the relatively small group of most influential executives at the apex of an organization – usually the CEO (or general manager) and those who report directly to him or her”.

Mowday and Sutton (1993, p. 198) define context as “stimuli and phenomena that surround and thus exist in the environment external to the individual”. These stimuli and phenomena are likely to differ significantly from country to country. The vast majority of previous studies on managerial careers and TMT composition employ research samples from the US, Australia or Europe (e.g. Biemann & Wolf, 2009; Cappelli & Hamori, 2005; Zhang & Rajagopalan, 2003). Despite the observed impact of country contexts on career patterns (Biemann & Wolf, 2009), cultural or macro-social differences have not yet been sufficiently accounted for in the career literature (Heslin, 2005) and researchers have called for more such research in non-Western countries (Sullivan, 1999). Sullivan and Baruch (2009, p. 1562) underline the need for more research in understudied national contexts. They posit:

Studies of workers in non-Western countries that recognize the economic and societal influences on careers are especially important because most of what we know about careers is based on studies conducted in the United States, United Kingdom, and Australia, making Western models the de facto “standard” against which careers in other countries are compared. In-depth analyses within understudied national contexts […] should be continued.
Osipow and Fitzgerald (1996, p. 275) argue that the fact that individuals (e.g. with different racial backgrounds) do not necessarily have the value systems on which the traditional career theories build is “possibly the most profound challenge to the generalizability of career development theories”. Crossland and Hambrick (2007, p. 769) also emphasize the importance of studying executives in different macro-environments by arguing that executives’ latitude of action differs significantly depending on “the broad social and economic system within which the CEOs operate”. They find empirical support that CEOs’ effect on company performance is significantly stronger in US companies than in Japanese and German firms, clearly indicating that context matters in research on top managers (see also Blustein, 1997; Heslin, 2005; Higgins, 2001; Johns, 2001). Broadening the scope of upper echelons and managerial career studies to other regions, in this case India, thus seems promising as it allows us to test and validate existing findings and examine the relative importance of human and social capital factors on career outcomes in an understudied macro-social context.

3.3 Hypotheses

3.3.1 Gender impact on time to TMT appointment

In recent years, various studies found that the proportion of female executives in TMTs is increasing (e.g. Cappelli & Hamori, 2005; Helfat, Harris & Wolfson, 2006; Singh, 2004). Put into perspective, however, women at the apex of organizations remain rare. According to McKinsey (Barsh & Yee, 2011) women account for around 53% of entry-level professional employees in the largest US industrial corporations. However, in 2011 in Fortune 500 companies women occupied only 14.4% executive officer and 15.7% board posts. Only 2.8% of all Fortune 500 CEOs were female (Catalyst, 2011). Other research reveals a similar picture for women on executive committees outside the US. Results from a cross-cultural study vary from a high of 17% in Sweden to only 2% in India and Germany (Desvaux, Devillard & Sancier-Sultan, 2010). Timberlake (2005) argues that a key reason for the lack of career advancement among female managers may be that women’s ability to access and build social capital lags behind that of their male counterparts. This is related to the fact that most organizational power structures remain vastly male-dominated, hampering women’s access to social ties that are critical to career progress. According to Bevelander and
Page (2011), it may also be that women hamper their own advancement through the way they build social networks.

However, studies that have looked at the characteristics of the few women who have made it to top positions at large Western companies have revealed a rather unexpected pattern. Cappelli and Hamori (2005) find that female executives typically have a different career trajectory than their male counterparts, as they are on average being appointed to the TMT earlier in their careers and at a younger age. They suggest that these women need to display particularly high qualifications to overcome the 'glass ceiling' on their way to the top. In line with Cappelli and Hamori’s (2005) observations, Burt (1992) argues that women enjoy higher organizational visibility and are better at turning structural holes into fast career advancement. Women in the managerial talent pool may benefit from the combined effect of higher visibility and of being perceived as a scarce managerial resource that companies seek to identify and fast-track at earlier career stages. Even though India is a country with below-average ratios of female top managers, it is still possible that high-potential female candidates are fast-tracked into top management positions, as observed recently in samples of European and North American companies.

**Hypothesis 1:** At the time of TMT appointment, female executives on average have had shorter careers than male managers.

### 3.3.2 Impact of nationality on time to TMT appointment

As outlined previously, one of the key considerations that companies are likely to make in the TMT appointment process is an assessment of the risks and potential costs of hiring an unsuitable candidate for the available position. Due to limited talent scouting resources and information asymmetries that are exacerbated by cross-border interactions, it is inherently more difficult for companies to keep track of managerial talent pools outside their home country (Mellahi & Collings, 2010). Thus, the perceived costs and risks of hiring an executive candidate are typically higher for the appointment of foreigners relative to domestic candidates. Indeed, this is in line with the observation that in most countries the majority of firms are reluctant to appoint foreigners to their TMT, even among companies that have reached very high levels of internationalization (e.g. Staples, 2007; Van Veen & Marsman, 2008).
Furthermore, top executives at large firms are often admired and the largest firms may also be associated with a certain amount of national pride. In such cases, a company will be particularly reluctant to give away steering power to foreigners and consequently places higher demands on the profiles of foreign candidates in the TMT appointment process. The perceived costs and risks of hiring foreign candidates can also be associated with high costs of learning and integration that may follow a foreign TMT appointment. Research on culturally diverse teams has shown that moderate levels of nationality diversity (e.g. having one or a few foreigners on the team) is associated with more negative outcomes than in the case of highly diverse and non-diverse teams (Earley & Mosakowski, 2000).

Due to the high uncertainty and perceived costs and risks of hiring foreigners to TMT positions, we hypothesize that it is particularly unlikely that foreign TMT candidates will be appointed to such positions at an early stage of their career. On the other hand, foreign executive candidates with high levels of experience who have proven their managerial pedigree in a multitude of contexts and on a variety of tasks are more likely to be perceived as safe bets for TMT positions than less experienced foreign candidates. Thus, we hypothesize that domestic TMT appointees will on average be promoted to the TMT at earlier career stages than their foreign counterparts.

**Hypothesis 2:** At the time of TMT appointment, domestic executives on average have had shorter careers than foreign executives.

### 3.3.3 Impact of international experience on time to TMT appointment

Due to the co-existence of divergent perspectives in the current literature, we present two countervailing hypotheses on the link between international experience and the pace of career ascendancy into TMT positions. On the one hand, there is abundant evidence that international experience is a sought-after quality among TMT candidates. It provides executives with knowledge, skills and abilities (i.e. human capital) which are particularly relevant for senior executives. According to Judge, Cable, Boudreau and Bretz (1995), international experience increases executives’ likelihood of moving up the career ladder. Kets de Vries and Mead (1992) find that organizations are more likely to reward and promote executives with significant international exposure. Executives with previous international experience can rely on a larger and contextually more diverse set of reference points in the decision-making
process, thereby reducing uncertainty of successive decision-making (Harrison & Klein, 2007). Athanassiou and Nigh (2002) argue that executives with more international experience are more likely to find interesting opportunities for further firm internationalization and that they are better at preparing and taking the right decisions about their companies’ internationalization strategy. Employing a sample of US multinational corporations (MNC) they find a significant positive relationship between the level of TMT international experience and the internationalization of MNCs. Similar results are reported by Carpenter and Fredrickson (2001). In summary, international experience provides executives with “inimitable knowledge, worldviews, and professional ties that help them to better manage multinationals’ far-flung operations” (Carpenter, Sanders & Gregersen, 2001, p. 493). Given these findings, it seems reasonable to argue that companies in emerging markets such as India, which are confronted with the complexity of increasingly international operations, will seek to identify, promote and retain executive candidates with significant international experience.

**Hypothesis 3a:** At the time of TMT appointment, executives with a higher degree of international career diversity on average have had **shorter careers** than executives with a lower degree of international career diversity.

On the other hand, the literature contains a second perspective on career advancement, drawing primarily on social capital and predicting the opposite outcome in terms of career ascendancy. Previous empirical work indicates that international assignment experience, which has been defined as living and working in a foreign country for at least one year (Gregersen, Morrison & Black, 1998), may not necessarily speed up career advancement. On the contrary, stints away from the headquarter country are associated with certain risks, both for managers in terms of career progress and for the company in terms of talent retention. In particular, the strength of social ties in the home country environment and, most importantly, at the company headquarters is negatively affected by time spent abroad. This means that an international posting is likely to reduce the social capital that managers need in order to move up the ranks, thereby hampering the possibility of fast-track promotion at the corporate headquarters.
Antecedents of TMT composition

Several studies corroborate the view that time spent abroad implies lower political clout at headquarters (Carpenter, Sanders & Gregersen, 2001; Lancaster, 1995; Seibert, Kraimer & Liden, 2001). Dickmann and Harris (2005) find that despite major efforts of managers to sustain their professional network at home, a majority of the interviewees acknowledged that the value of their social capital suffered during their international assignment. This, in turn, can have a negative impact on career advancement (e.g. Feldman & Thomas, 1992) and particularly delay the politically delicate decision of being appointed to the TMT.

Hypothesis 3b: At the time of TMT appointment, executives with a higher degree of international career diversity on average have had longer careers than executives with a lower degree of international career diversity.

3.3.4 Impact of type of education on time to TMT appointment

Educational background provides indications about a person’s socioeconomic background (Collins, 1971), risk propensity, cognitive style, motivation and other underlying traits (Hambrick & Mason, 1984). It has been widely employed in previous studies as a measure of human capital (e.g. Pfeffer & Ross, 1982; Psacharopoulos, 1985). Several studies have shown that educational attainment leads to significant returns in terms of pay, promotions and ascendancy (e.g. Jaskoka, Beyer & Trice, 1985; Judge, et al., 1995; Psacharopoulos, 1985) and is associated with a higher probability of being appointed to a TMT position (Useem & Karabel, 1986). Moreover, Useem and Karabel (1986) find that companies reward certain obtained degrees (business, law and engineering) more than others.

Recent studies have argued that over the last three decades, generalist skills at TMT level have become increasingly essential in order to manage and lead large companies effectively (Murphy & Zabojnik, 2004). Frydman (2005) argues that the rising importance of generalist skills at the apex of large companies is driven by several developments: Most importantly, the scope, scale and complexity of large companies have increased immensely with improvements in information and communication technology. As a result, the relative value of general managerial skills has steadily risen relative to the value of specific skills. Murphy and Zabojnik (2004, p. 193) posit:
[...] certain types of knowledge specific to one particular firm, like information about its product markets, its suppliers, clients, and so forth, which 30 years ago was not easily communicable to outsiders and therefore required a manager to spend time within the firm acquiring this information, is nowadays available in computerized form at the tip of the CEO’s (or his secretary’s) fingers. It may therefore be less important that a present-day CEO candidate possesses these types of firm-specific knowledge.

Furthermore, a higher level of sophistication in strategic analysis, finance and management science, driven by highly competitive environments in many industries, have raised the need for generic business skills relative to firm- or industry-specific skills at TMT level.

The rising importance of generalist skills at the TMT level coincides with a trend in the educational system towards greater emphasis on generalist skills at the expense of specialist skills (Frydman, 2005). This is reflected in an increasing proportion of executives holding an MBA degree. Fredman (2003) reported that 36% of Fortune 700 CEOs held a graduate business degree. According to Frydman (2005), an MBA or other formal management degree is increasingly becoming a prerequisite for appointment to the TMT at large firms. Thus, by reducing the perceived uncertainty about an executive candidate’s suitability for a TMT position and by providing the candidate with a set of generic skills that are increasingly required at the apex of large firms, we hypothesize that an MBA or other formal management qualification raises the likelihood of a candidate being appointed to a TMT position at an earlier career stage.

**Hypothesis 4:** At the time of TMT appointment, executives with formal management education on average have had shorter careers than executives without at least one management degree.

3.3.5 Impact of membership in a career development program on time to TMT appointment

Taking steps to ensure the company’s leadership pipeline remains intact and is continuously replenished is a key strategic issue managers in the twenty first century have to face (Boudreau & Ramstad, 2007; Cappelli, 2008; Collings & Mellahi, 2009).
Antecedents of TMT composition

Conger and Fulmer (2003, p. 2) illustrate this by asking “what could be more vital to a company’s long-term health than the choice and cultivation of its future leaders?”. While most HR managers and other executives are likely to agree that grooming the company’s future leaders is crucial, many firms fail to cultivate leadership talent in their ranks early on. Ready and Conger (2007), for example, find in a study involving 40 companies that almost all of these firms perceived the failure to develop a steady talent pipeline for strategically crucial positions in their organizations as a constraint on further business growth. Conger and Benjamin (1999) argue that companies often do little to provide appropriate role models, lack structure in the design of job experiences and tracks, and regularly fail to implement processes that provide ongoing reinforcement and support for the competencies and capabilities learned in training. One way for big global corporations to face this challenge is to offer special 'career start' programs aimed at a select group of high potentials (e.g. graduates from elite universities).

Even though such programs have already been in place for several decades at many large multinational companies, there is limited knowledge about whether affiliation with such career programs significantly impacts the ascendancy of talented managers to the executive level. First, if implemented well, such programs can be an efficient way to groom talent by providing selected candidates with opportunities to develop and benefit from exclusive internal social networks. Participants in such programs generally get more exposure to senior executives than their entry level peers and tend to be popular candidates for headquarter jobs (e.g. Executive Assistant of CEO). The formal network and proximity to key decision-makers may help participants in such programs to assert themselves against others when moving up the career ladder.

Second, affiliation with a prestigious career development program signals ambition and competence (for an overview of the role of signalling in executive career advancement see Hamori, 2006). Similar to a degree from a prestigious business

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16 By ‘internal networks’ we refer to Kim and Cannella (2008) who differentiate between ties to those inside the organization (internal social networks) and ties to those outside the organization (external social capital). They find that both internal and external social capital are positively associated with executive promotion. Internal social capital is measured by the sum of the number of managers in the dominant coalition (non-CEO inside directors of the board) with whom the respective manager has a school tie, a regional tie, or a family tie. The sum was then divided by the total number of inside directors. External social capital is measured by 1) degree from elite institution and 2) membership in external economic associations (Kim & Cannella, 2008, p. 90).
school it generates respect among other employees and trust among supervisors. Third, participants in career development programs may often get exposure to different industries and functions across divisions or operating companies, thereby enabling program participants to develop and nurture their general management skills, which are becoming increasingly important to perform well in top management positions (Murphy & Zabojnik, 2004). Overall, participation in an elite career development program is likely to enhance the required managerial skills and reduce perceived uncertainty about the candidate’s suitability for higher positions, while also providing the social ties required for a fast-track route to upper management positions.

**Hypothesis 5:** At the time of TMT appointment, executives with affiliation to an elite career development program on average have had shorter careers than executives without affiliation to such a career development program.

### 3.4 Methodology

#### 3.4.1 Sample and data

This study is based on a unique dataset comprising profiles of the 543 TMT members at 58 operating companies of a large Indian conglomerate as of June 2011. On June 30, 2011, this conglomerate listed 92 independent group operating companies on its corporate website. To ensure comparability of the executives included in the study, we applied the following exclusion criteria at the company-level. First, we excluded executives at the 20 operating companies that fell into one of the following three categories: (1) divisions or investment arms of the holding company; (2) companies that are controlled only to a limited extent by the conglomerate; and (3) smaller subsidiaries of larger group companies. From the remaining 72 companies, 58 group companies were headquartered in India. We excluded the 14 group companies that were headquartered outside India from the study, as the criteria for moving up the career ladder may differ across national contexts (Heslin, 2005). Our final dataset contains demographics and career profiles of the 543 executives who served as TMT members at the 58 group companies as of June 2011. These companies represent all seven industry sectors in which the conglomerate operates (see Appendix 2.3).

As all executives included in this study operate within the context of a single conglomerate, we avoid much of the noise that would have otherwise emanated from inter-company differences in recruitment practices and company culture if the study
had been based on a sample of entirely independent companies. In the studied conglomerate, a centralized Group HR function ensures that recruiting and promotion strategies are – to the extent possible – aligned across all group companies. Furthermore, a conglomerate’s value system and heritage creates a ‘meta-identity’ across all affiliates, which significantly impacts the way business is done throughout the conglomerate. This means that, even though the operating companies are legally independent entities steered by autonomous TMTs, the companies remain “tied together in a variety of formal and informal ways” (Carney, Gedajlovic, Heugens, Van Essen & Van Oosterhout, 2011, p. 437; see also Khanna & Rivkin, 2001).

To obtain the executive profile data as well as the required financial information, a co-operation was established with the Indian conglomerate. The Chairman of the Group as well as the Group Head of HR endorsed the research project and facilitated access to the 58 group companies. The group companies were approached by the Chairman’s or the HR Head’s offices, asking HR Directors at the operating companies to provide the required data on company executives and CFOs to provide the company financial information. A detailed description of the requested data as well as a data input template was prepared to facilitate the data collection process at each company (see Appendices 2.1 and 2.2). Once companies had submitted their data, the HR Directors and CFOs were approached again by phone in order to make sure that all companies had employed a consistent TMT definition and to clarify any remaining questions about the received data. The final dataset contains complete demographics and career profile information for 535 executives, which corresponds to a data completion rate of 98.5%. The eight executives with incomplete data were subject to listwise deletion in all subsequent analyses.

3.4.2 Measures

3.4.2.1 Dependent variable

The dependent variable employed in this study is defined as the career length (in years) until the executive was first appointed to the TMT. This variable is calculated by subtracting TMT tenure from career length. TMT tenure was measured as the time since an executive initially became a member of the top management team (i.e. from TMT appointment until June 2011), rounded off to the nearest full year. Career length refers to the total length of an executive’s professional career since graduation from school or university (i.e. from graduation until June 2011).
3.4.2.2 Independent variables

The analysis includes five independent variables based on demographic and experiential characteristics of TMT executives: gender, nationality, international career diversity, type of education and membership in the conglomerate’s career development program. Gender was coded as a dummy variable equal to 0 if male and 1 if female. Nationality was also dummy-coded, i.e. equal to 0 if the executive is an Indian national and 1 if the executive is a foreigner. International career diversity was measured using an adaptation of Blau’s (1977) index to capture the geographical diversity of executives’ careers. It is calculated as

\[ 1 - \sum p_i^2, \]

where \( p \) represents the proportion of an executive’s career spent in the \( i \)th country. Blau’s index is considered adequate to measure heterogeneity of categorical variables (Harrison & Klein, 2007) and has been similarly applied in previous studies using career heterogeneity indicators (e.g. Bunderson & Sutcliffe, 2002). Information about executives’ educational background was used to determine type of education. A dummy variable was created to indicate whether executives have obtained formal management education. Executives with at least one educational degree in management (i.e. business and/or economics graduates) were coded as 1, and otherwise they were coded as 0. Finally, membership in the conglomerate’s career development program, which is a prestigious conglomerate-wide network that provides its affiliates with access and exposure to core people at the company from an early career stage, was coded as a dummy variable taking the value of 1 if the executive was a member of the program, and 0 otherwise.

3.4.2.3 Control variables

We include team tenure, conglomerate tenure, dual TMT and board membership, functional responsibility, and firm size as control variables in our model. Team tenure is measured as the number of years an executive has been a member of the current TMT. This variable is employed to account for the likely effect that the most talented and skilled managers move up the career ladder quicker and stay in the TMT longer than other executives. If such an effect exists, this could also result in a survival bias among the executives included in our study. We therefore performed extensive post hoc sensitivity analyses to address this possible bias (see sensitivity analysis section...
Antecedents of TMT composition below). Conglomerate tenure was defined as the number of years executives have spent in the current or any other company belonging to the conglomerate. This variable was preferred over company tenure as a control variable. In the conglomerate context it is common for high-potentials to rotate between different group companies before being appointed to a TMT position, and, such executives are rather considered as insiders than external hires. Dual TMT and board membership was also included as a control variable as some of the top managers in our study have simultaneous roles as members of the TMT (i.e. the executive team) as well as the (non-executive) board of the operating company. These individuals have another level of responsibility within the company and may therefore have followed systematically different career paths en route to their current position. We control for simultaneous TMT and board membership by coding such dual roles as 1, and 0 otherwise.

As the responsibilities within a TMT are heterogeneous, we control for functional responsibilities within the TMT. The literature differentiates between throughput oriented functions, i.e. functions that center on increasing efficiency within the boundaries of the organization, and input/output functions, which focus on operational activities at the interface between the organization and external entities (e.g. Bunderson, 2003; Datta & Rajagopalan, 1998; Hambrick & Mason, 1984). Furthermore, we added two further functional categories, one for positions with regional/ geographical responsibilities and another for general management functions (residual category). To generate dummy variables for throughput functions (e.g. human resources, CFO, operations), input/output functions (e.g. investor relations, marketing), regional responsibilities (e.g. USA, Europe) and general management (e.g. CEO), we employed a three-step approach. First, one researcher assigned the 543 executives to the four functional categories based on job titles and additional descriptions of TMT members’ responsibilities. Second, difficult cases were discussed and aligned with the first author. Third, in the few cases that lacked sufficient information to decide on the functional categorization, the HR team of the respective company was contacted to get clarification. Consistent with past research we employed total sales figures to control for firm size. A graphical representation of the empirical model can be found in Appendix 2.4.
3.4.3 Rationale of analytical strategy

The hypotheses were tested using ordinary least squares multiple regression analysis. First, we create a baseline model (Model I), including control variables only. Subsequently, we introduce the independent variables stepwise into Models II and III. In Model II, we enter the hypothesized demographic predictors (gender, nationality) to test hypotheses 1 and 2. In Model III, we add the experience-related predictors (international career diversity, type of education, affiliation with career development program) to test hypotheses 3 to 5.

We performed several diagnostic tests. First, a White test shows that the models are not affected by heteroscedasticity. Second, there are no indications of multicollinearity issues in our models (mean VIF = 1.33; max. VIF = 2.02). Third, a normality test suggests that the dependent variable is normally distributed. Furthermore, all models were tested with robust standard errors to reduce sensitivity to outliers. Even though all TMT members work for companies that are part of the conglomerate and therefore face aligned human resource policies and an overarching organizational identity, the models are also corrected for possible systematic variance in the dependent variable between the different operating companies\(^\text{17}\).

Prior to introducing our findings, it is important to note how to correctly interpret a statistically significant result in our models. Our dataset only includes executives who at some point in their career to date have been appointed to a TMT position. Therefore, our results should be interpreted as a within-sample comparison of the career velocities between managers who successfully moved up the career ladder to the top. The findings increase our knowledge about how human and social capital factors have affected the career velocities of today’s executive managers, but do not allow for a more general interpretation of the results (e.g. that female managers generally move up the career ladder faster than their male counterparts).

\(^{17}\) Using STATA’s cluster function.
3.5 Results

3.5.1 Descriptive statistics and correlation matrix

The Table in Appendix 2.5 presents the means, standard deviations and correlations among the study variables. Correlation results show a significant negative correlation between TMT tenure and the dependent variable as well as a significant positive correlation between the dependent variable and conglomerate tenure, dual TMT and BoD membership as well as company size. Overall, these correlations suggest that the dependent variable is not independent from the context in which an executive career has taken place. We will extensively address the most important concerns that arise out of these systematic variations in the subsequent sensitivity analysis (see below).

3.5.2 Regression Results

Results of the staged regression are presented in Appendix 2.6. The baseline model (Model I) explains more than 20% ($R^2=22.7\%$) of the overall variance. Adding the demography-based independent variables (Model II) produces a model with an $R^2$ of 24.1% (i.e. $\Delta R^2$ of 1.3% relative to the baseline model). In Model II, we find support for hypothesis 1 at the 5% level. At the same time no support for hypothesis 2 is found. The inclusion of experience-related variables in Model III adds substantially to the model’s explanatory power ($\Delta R^2$ of 7.7% relative to the baseline model). In the full model (i.e. Model III), we find support for hypotheses 1 ($p<0.05$), 3a ($p<0.01$), 4 ($p<0.05$), and 5 ($p<0.001$). Furthermore, the full model suggests that there may also be some limited support in the data for hypothesis 2 ($p<0.10$).

Based on our findings, female executives have typically had shorter careers than their male peers at the time of TMT appointment.Executives with higher international career diversity, formal management education and affiliation with the conglomerate’s career development program display significantly shorter careers prior to TMT appointment than their peers. We only find limited support for the hypothesis that foreign executives have had to endure longer pre-TMT careers than Indian nationals.

The model reveals a statistically significant ($p<0.001$) positive relationship between conglomerate tenure and the number of years to be appointed to the TMT. A possible explanation for this association is related to the external hiring process which generally is associated with high relative costs and risks for companies (Harris &
Antecedents of TMT composition

Helfat, 1997). Our findings indicate that externally hired executives may be able to take advantage of information-asymmetry related to their relative productivity (human capital) compared to internal hires. Externally hired executives seem to be able to 'sell themselves up' leading to in relative terms faster appointment to the TMT. On the other hand, the longer internal candidates have been with the conglomerate, the more information related to their productivity is available. In the studied conglomerate, on average, this seems to prolong the time it takes until conglomerate internal managers are appointed to the TMT.

We also find a statistically significant (p<0.05) positive association between joint TMT and BoD membership and the dependent variable, i.e. executives who at some stage hold a dual TMT and BoD role seem to take longer to be appointed to the TMT. This implies that to develop the skills and to build the required credibility for executives to become candidates for both TMT and BoD appointment seems to take comparatively long. When comparing the 75 dual role executives with the rest of the analyzed TMT executives the following picture emerges (see Appendix 2.7). On average, the former executives are much older, have been with the current company for around 2 years and with the conglomerate for about 10 years longer than the latter. Their TMT tenure is also significantly longer than the average tenure of executives who only hold a TMT role. Overall, the most striking aspect is the significant difference in terms of conglomerate tenure. While outside TMT hires seem to be successful in selling themselves up (see above), the same does not apply to the appointment of executive directors. In the Indian context, internal experience and familiarity with conglomerate culture and purpose of business seems to be valued higher than external experience when appointing TMT members to the Board.

Our model finds no statistically significant correlation between company size and the dependent variable. However, we find a statistically significant (p<0.05) negative correlation between throughput functional experience and time to TMT appointment. This finding confirms the importance of controlling our model for executive functional experience as different types of functional background seem to be associated with different career velocities.

3.5.3 Sensitivity Analysis

As expected, team tenure is negatively associated (p<0.001) with the dependent variable. This suggests that pre-TMT career tracks may have been shorter in the past,
as companies were smaller and less internationally exposed, and thus less complex in terms of management requirements. At the same time, it may also be an indicator of a survival phenomenon, as the most skilled and talented managers are likely to move up the ranks faster and subsequently remain part of the TMT for a longer period than the average company executive.

Before we move on to discuss our findings, it is therefore crucial to elaborate on the possible bias against executives who were appointed to the TMT more recently. To account for this we performed a robustness test by running our regression model with two sub-samples. Sub sample 1 included all executives with a higher TMT tenure than the overall sample mean + 1 std. deviation (i.e. TMT tenure > 9.3 years, N=77). Sub sample 2 included all other executives (N=458). By running our analysis with these two sub-samples we aim to identify potential cohort effects.

While sub-sample 1 produces some deviations from our overall findings, the results with sub-sample 2 are identical to our findings with the full sample. These post-hoc analyses suggest that there may indeed be some cohort effects in our data, and this can be viewed as a limitation of the study. At the same time, the additional analyses reinforce the relevance of our findings by suggesting that the results are particularly representative of the most recently appointed cohort of executive team members, and are thus particularly relevant in the contemporary context.

As the main model presented in this paper only allows us to argue that human and social capital factors produce different career velocities for executives who at some point make it to the highest management level, we used additional manager data (collected in the same data collection process) to test whether our findings apply equally to managers at the level below the TMT. We were able to collect the required data at the second-highest management level, i.e. from all managers who report to the CEO’s direct reports, from 37 of the 58 operating companies that we examined in the overall study. This resulted in a second-level TMT sample of 494 managers. The corresponding results tables of the regression analysis are presented in Appendices 2.8 and 2.9. The results for the second-highest management level are effectively the same as our main findings at the highest management level with the exception of international career diversity, which therefore appears to be a less important career accelerator for managers at the level below the TMT. We discuss this outcome in more detail below.
3.6 Discussion

This study enhances our understanding of TMT composition mechanisms and companies’ utilization of executive talent by investigating how human and social capital factors influence the velocity of executive careers. Based on comparisons with previous studies, our findings also suggest that there is some variation in the impact of human and social capital factors on executive career ascendency across cultures and business contexts.

Our findings show that two types of acquired human capital characteristics are associated with fast-track advancement into executive positions. Specifically, a track record of formal business skills and experience from diverse cultural contexts are found to increase the likelihood of being appointed to TMT positions at earlier career stages. This outcome has at least two key implications for our understanding of executive career advancement.

First, it suggests that the human capital gains from acquiring diverse international career experience are perceived by companies as more important than the social capital losses that managers incur by not being visible at corporate headquarters during assignments abroad. In an environment characterized by high pressure for increasing firm internationalization, which reflects the situation at large Indian business houses today, the value of a diverse international experience base outweighs disadvantages such as decreasing political clout at headquarters. Previous research has shown that executives with international experience are better at identifying internationalization opportunities and formulating internationalization strategies than executives with predominantly domestic career backgrounds (Athanassiou & Nigh, 2002). Our results are also in line with the frequently advanced claim that Asian companies typically adopt a longer-term view of talent management and career planning than Western firms (e.g. Cappelli, et al., 2010; Tung, 1982, 1984b). In an interview conducted at the Indian business house that we examine in this study, the Group Head of HR corroborates this view:

We rolled out a centrally developed talent management procedure across many of our operating companies. In the process we identify the most talented potential future top executives and discuss their ‘next move’ as well as their ‘move after
next move’. Our career planning does not stop at just sending people abroad to gain experience.

Second, these results suggest that the generalist business skills acquired through formal management education are considered to be an important prerequisite for fast-track advancement. This may be particularly relevant in an internationalization-friendly business environment, which requires a combination of youthful boldness to take on new ventures abroad and strong general management skills to oversee increasingly complex international operations. This finding also affirms the trend described by Murphy and Zabojnik (2004) that generalist skills are becoming increasingly important at the TMT level. In sum, these results suggest that an optimal lifetime utilization of raw executive talent can be achieved if companies nurture and develop such talent by providing opportunities to obtain international experience and management education at early career stages.

Furthermore, our findings show that different executive career velocities are influenced by the ‘inherent characteristics’ of executives. First, similar to the findings of Cappelli and Hamori (2005) and Helfat, Harris and Wolfson (2006), whose studies were both based on U.S. samples, we find that the few women who make it into top executive positions do so at a comparatively earlier career stage than their male peers. One explanation of this finding could be that female executive talent may benefit from particularly high visibility in predominantly male-dominated environments (Burt, 1992). A second explanation could be that the extraordinary qualifications and competences that talented women need to possess in order to break through the glass ceiling at the same time predispose the successful women to achieve faster career progress into the top positions. However, a third possible explanation in this study is related to the notion that Indian firms adopt a more “human” approach to human capital than many Western companies. This includes a focus on intrinsic rewards and a high degree of reciprocity in employer-employee relationships (Tymon, Stumpf & Doh, 2010). According to Cappelli and colleagues (2010, p. 13), Indian companies “build employee commitment by creating a sense of reciprocity with the work force, looking after their interests and those of their families and implicitly asking employees to look after the firm’s interests in return”. This environment may indeed be more conducive to produce successful female executive careers than the rather assertive and arm’s length-oriented business cultures that typically dominate executive labor
markets in most developed countries. Pertaining to this finding, it is also notable that more than 75% of the female executives in our sample hold throughput-oriented functional positions (e.g. HR Director), which are generally associated with somewhat faster TMT appointment than other types of positions within the TMT (see Appendix 2.6).

Meanwhile, we find limited statistical support for the notion that foreign executives take longer to be appointed to the TMT than their Indian peers. This finding suggests that it takes longer for non-Indian executive candidates to prove themselves as TMT candidates. It may also be an indication that Indian companies are reluctant to hand over steering power to foreign executives, leading to a bias towards domestic candidates in the TMT appointment process. The HR Director of a large group company explained that non-Indians are primarily hired at mid-management level in order to acquire a specific skill that the company requires. Thus, most foreigners are viewed as specialists, who are not being actively groomed for leadership positions. As most Indian companies are still in the process of adapting management structures to their increasingly international postures, they have yet to face any substantial pressure to internationalize their TMTs.

Finally, this study shows that social capital impacts the velocity of executive careers. Our results show that membership in an elite career development program substantially reduced the length of executives’ career tracks prior to TMT appointment. This program identifies the top talent within the business house and gives them early exposure to senior management. Membership in the elite program signals high levels of competence and ambition, while at the same time providing the required visibility and internal social capital to be considered for high-level promotions at early career stages, thus enabling rapid progression up the company ranks. This finding is also in line with Cappelli et al.’s (2010) argument that Indian companies typically devote a lot of management attention to internal networking and people development. Overall, this study shows that both human and social capital factors affect the length of executive careers prior to entering the TMT. Rapid ascent to the TMT level is particularly associated with executives who are female and Indian, have obtained a management degree, have a diverse international experience base, and are elite network members. Fast-tracking candidates who are female and Indian may be a particularly attractive combination for companies, as female top managers provide uniqueness and visibility advantages in otherwise male-dominated
environments, whereas domestic nationals may mitigate some of the perceived risks and uncertainty associated with hiring new executives. Furthermore, companies are likely to fast-track executive candidates with a management education and vast international experience, especially if combined with a strong performance track record, as such candidates provide the company with generalist business skills and human capital that are particularly valuable during early stages of an internationalization process. Membership in an elite internal network is another trigger of fast-track careers, as it equips executive candidates with opportunity-generating social capital in which they can apply their human capital.

In post-hoc analysis, we find that all but one of these human and social capital factors similarly affect career ascendance at one level below the TMT. Overall, this adds to the robustness and generalizability of our initial outcomes by showing that the triggers of fast-track careers are largely similar for a broader set of upper-level company managers, and thus not only applicable to top-level executives. However, it is also noteworthy that international career diversity is not associated with fast-track career progress below the TMT level. One possible explanation of this outcome may be that companies particularly value a diverse international experience base among managers that are specifically being groomed and fast-tracked to enter TMT positions. At the level below the TMT, it is possible that international experience may in some cases slow down rather than accelerate career progress, as suggested in some Western studies (e.g. Feldman & Thomas, 1992). At the same time, other factors such as network membership and educational credentials may be more prevalent determinants of fast-track career advancement up to the level below the TMT.

Our study has implications for both theory and practice. First, this paper shows that to be able to comprehensively answer Hambrick’s (2007) ‘antecedents’ question, it is as relevant and important to understand executives’ route to the top as it is to investigate the organizational, environmental and contextual antecedents of changes in TMT composition. Our findings demonstrate that the composition of TMTs is not just a response to external conditions facing the firm, but also a function of internal networks and preferred career routes within the organization.

Second, our empirical results emphasize the point that contextual factors matter and that such factors have been insufficiently understood in career research to date (Heslin, 2005; Sullivan & Baruch, 2009). In this study, we outline some possible explanations of our findings that may indeed be specific to the Indian context. For
example, the focus on treating people in the right way and investing in career development can be viewed in connection with the prevalent goal of some Indian business houses to work towards a better society and eventually return to society what is being earned. The typical career model in India is particularly characterized by long-term career planning, sustainable and active development of people and networks, as well as a high level of employer-employee reciprocity. India’s career model has at least partially emerged out of a need to fill ‘career-impacting institutional voids’ (e.g. lack of social security, pension systems, access to the best education), which makes it difficult for the vast majority of Indian employees to take their careers in their own hands. As we have discussed above, these differences may affect both the relative and absolute importance of human and social capital in the context of career development. With this study, we add new perspectives and explanations to our current understanding of managerial careers, which until now has largely been based on studies conducted in North America, Europe, and Japan.

For HR practitioners, our findings offer both opportunities as well as challenges. To maximize the utilization of executive talent over its lifetime, companies can groom the most promising candidates from early career stages by providing opportunities to obtain a management education, international assignment experience, and membership in key networks. At the same time, key differences between Western and Eastern career models pose a major challenge in a world where the most talented and ambitious managers increasingly aim to pursue global careers. In fact, if large Indian companies can withstand the pressure to adapt to Western career models, India’s career model may indeed help to place western HR practices and career planning on a more sustainable footing. Chen and Miller (2010, p. 17) argue that business reality has transformed from “West leads East” to “West meets East” and that an “ambicultural” approach to management – combining the best managerial practices from both cultural settings and avoiding their shortcomings – would “represent ideal intermediate role models”. Following this line of thinking, western companies could benefit from combining their own strength in talent identification, retention and advancement (e.g. transparent processes and compensation systems) with for example the long-term career planning and reciprocity that prevail in the Indian career model. It goes without saying that such a process will take time. However, to be able to effectively identify and make the best use of talent in a global business environment, as well as to enable the most talented managers to pursue global careers that span the major world
economies of the future, a shift towards a more comprehensive and long-term talent management approach may ultimately prove to be the winning model.

Our research is subject to a few limitations. As mentioned above, an important limitation of our research design is that our sample consists solely of executives who made it to the top positions. This implies that the explanatory power of our model is limited to identifying factors which impact career advancement for TMT members within the pool of candidates who at some point made it to the top. However, our robustness test (i.e. re-testing our model with data from the second management level) has at least partially addressed this limitation. Moreover, as discussed above, our model is subject to a natural selection bias towards executives which were appointed to the TMT more recently. This limitation has also been at least partially addressed with additional analysis of the sensitivity of our findings to changes in the sample frame.
4 India’s conglomerate captains now and in the future – the case of the Tata Group

ABSTRACT

Business houses still dominate the Indian private sector. The Tata Group is the most obvious example of a business house which has significantly increased its international posture since 1991. Basing our analysis on primary demographic and career data of 1268 Tata top executives from 72 operating companies as well as interview input from 30 involved senior group executives, we identify the dominant traits of Top Management Team (TMT) composition and trends in top executive appointments of India’s largest business house. We find that while some common preconceptions with regard to the typical Indian TMT and its executives are analytically confirmed, others are not. Results reveal that changes in the national regulatory and policy environment and a strong focus on group internationalization have led to far-reaching changes in TMT composition. Our analysis allows us to speculate about the future: The future Indian TMT will likely be more diverse in terms of nationality, but in the mid-term not necessarily gender. The average executive age is likely to decrease, though very slowly for non-CEO TMT positions. Lateral hiring seems bound to play a yet more important role and in terms of executive educational background, while obtained from an increasingly broader range of universities, the MBA degree is likely to become even more dominant than it is today.

Keywords: Top management team composition, appointment trends, business house, Tata Group, India
4.1 Introduction

Business groups, which Khanna and Rivkin (2001, p. 47) define as “a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action”, remain the backbone of India’s private sector. Following the credo “if you can make money in India you can make it anywhere” (The Economist, 2011b, p. 11), in recent years Indian business houses have demonstrated their aspiration to become truly multinational. With its much reported acquisitions of Corus and Jaguar Land Rover, the USD 83.3 billion\(^{18}\) highly diversified Tata Group is the most prominent example sustaining this trend. Given the importance business houses play in India, and increasingly internationally, it can be argued that the people who are at the helm of these organizations are just as influential and powerful as high-ranking politicians. Expanding our knowledge about who they are is therefore an avenue also to understand better how their firms operate.

Research in this area has a long history, at least in the Western context. Already in 1925, Sorokin studied US millionaires and found that over time a bigger fraction of millionaires had come from upper class backgrounds. He concluded that society had become less meritocratic and thus it was less likely for lower class people to move up economic class levels. While early studies in this field often focused on executives’ social background, a generation later the concept of a ‘corporate career’ (entry level jobs and subsequent promotions) was more established. Warner and Abbeglen (1995), for example, had a sample of 8300 executives in 1953 and not only analyzed their social background, but also their career ascendancy, their age, company tenure and team tenure. In the 1990s, an increasing willingness to lay-off white collar employees broke with the widely believed in concept of lifetime job security. This development triggered a diminishing interest of employees in lifetime careers and as a result the lateral hiring of executives became more common. To the author’s knowledge, very few contemporary academic studies analyze attributes of Top Management Team executives or how such attributes evolve over time, and no previous study does so in the Indian context.

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\(^{18}\) Financial Year 2010-11 Group revenues (Tata Group, 2011).
In our research we consider the Top Management Team (TMT) as ‘the people at the helm of the organization’. Specifically, we refer to the TMT as the CEO and those who report directly to him or her.¹⁹

Few would argue if one described the typical TMT of an Indian business house affiliate as a group of (relatively) old Indian men (hardly any women and foreigners), who worked their way up the ranks in the same company (‘lifers’), the majority of them holding a degree from an Indian, UK or US elite university. In fact, referring to some of these characteristics, in an article on the Tata Group *The Economist* identifies the fact that “the upper management is still dominated by Indians who only know life within Tata” as a “serious problem” (*The Economist*, 2011c, p. 70) and a strategic challenge. Our research puts the above and related largely anecdotally founded preconceptions, under the analytical microscope. Building on detailed demographic and career development data from 1268 top executives of 72 Tata Group operating companies we set out to identify the most dominant traits of the largest Indian conglomerate’s upper echelons.

Scholars have argued for a while that the way companies’ TMTs are composed is also a reflection of changes in the environmental context and altering leadership requirements at the top which go hand in hand with them (e.g. Hambrick, 2007; Pettigrew, 1997). We therefore also analyze trends in top executive appointments over recent years and identify related underlying reasons for altering management capability requirements at the top. In this paper we describe our study and present our most important findings. The analysis of the status quo of TMT composition and trends in top executive appointments allows us to speculate about which executives are most likely to make it to the top in India in the future. Our results should be interesting for HR executives in general and Indian and other managers aspiring to a top position in India, one of the fastest growing emerging Asian economies, in particular.

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¹⁹ A theoretical discussion about why we chose this definition of TMT for the Indian context can be found in chapter 3.
4.2 Why focus the analysis on the Tata Group?

We believe that the Tata Group is particularly interesting for studying the most dominant characteristics and appointment trends of TMT executives in an Indian business house as it has been at the forefront of India Inc.’s internationalization, which is likely to be reflected in its leadership composition at the top. Founded in 1868 by Jamsetji N. Tata, the group has become India’s largest, best reputed and most diversified business house which today employs over 425,000 people in more than 80 countries across seven industry sectors (Tata Group, 2011). The strategy of the Tata Group has changed significantly since 1991, the year that marked the end of the “license Raj” era and when Ratan N. Tata took over as Chairman. Referring to this period Ajay Kumar (2011), Vice President Communications – Tata Group Chairman’s Office, posits: “Our Chairman has always been an advocate of an open economy, proclaiming that the Group can be among the best in ethics, CSR, brand building and performance without protectionism”. In response to the transformative developments in the Indian economy Ratan Tata focused on improving the competitiveness of key operating companies (particularly Tata Motors, Tata Steel) and introduced initiatives to increase group cohesion. First, the principles and values which should govern the manner in which Tata Group companies and their employees conduct business were formally articulated as the Tata Code of Conduct (TCoC) in 1998. Second, Mr. Tata started to increase the share of Tata Sons in Group companies and no longer allowed them to use the Tata brand for free. They would have to sign the ‘Brand Equity and Brand Promotion’ (BEBP) agreement which includes covenants of behavior related to brand use, business practices and values. Also, the BEBP involves the payment of royalty to Tata Sons (0.25% of turnover annually) for using the Tata brand. These initiatives laid the foundation for Mr. Tata’s third strategic focus: building a truly global business house. Tata Group operating companies had been active internationally for a long time, however almost exclusively expanding organically. This changed in 2000, when the Group first started to make headlines with acquisitions that were large by Indian standards. After acquiring Tetley Tea in 2000, the Group focused its acquisition strategy on industries where scale is important to be

20 Starting in 1991, India’s regulatory and restrictive policy regime which was marked by bureaucracy and protectionism was gradually dismantled, industry became open to both domestic and international competition and the government launched a number of far reaching reform and liberalization programs (for more details, see e.g. Mishra & Akbar, 2007).
able to compete globally. This led to several large scale acquisitions in the steel and automotive industry. Most notable are the acquisition of Corus Steel in 2007, which then was the biggest overseas acquisition by an Indian company, and the take-over of Jaguar Land Rover by Tata Motors in 2008. Figure 10 provides an overview of selected important acquisitions of Tata Group operating companies since 2000.

**Figure 10: Selection of key Tata Group acquisitions from 2000**

![Selection of key Tata Group acquisitions from 2000](image)

*Source: Company primary data; Company documents; Media reports*

The ongoing transformation from an India-focused to a multinational business house also becomes clear when looking at the number of countries the 72 analyzed Tata Group operating companies entered between the financial years (FY) 2006-07 to 2010-11 (see Figure 11). Over this period individual group affiliates entered 122 new geographic markets. The group's international sales as a share of total sales increased from 38% in FY 2006-07 to 58% in FY 2010-11 with a peak of 65% in FY 2008-09. With the exception of FY 2008-09, markets have also in recent years largely been entered following a greenfield approach.

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21 A new market entry is defined as new market presence of a Tata Group operating company either through a shared control (Greenfield JV, Licensing, Partial Acquisition) or full control (Greenfield, Full Acquisition) market entry. Data shown does not include FDI activities in countries where the respective company already had market presence before.
While a lot has been written about the big acquisitions of the largest, listed Tata Group operating companies, a closer look at the total number of market entries of both listed and unlisted Group operating companies reveals the breath of the Tata Group’s push for internationalization between FY 2006-07 and FY 2010-11. Arunkumar Gandhi (2011), a director of Tata Sons, argues that going forward, however, the Tata Group internationalization strategy may follow a much more selective approach. We believe that now – as the most aggressive push for internationalization may have come to an end – is an interesting time to analyze the status quo of the TMT compositions of Tata Group operating companies as well as to evaluate how the recent focus on internationalization may shape the profiles of executives most likely to make it to the top in the future.

4.3 Method of conducting study

For the most part the analysis presented here is based on detailed demographics and career profiles of executives (658) and financial data of 72 Tata Group operating companies.
companies as well as semi-structured interviews with senior Tata Group executives (for a list of interviewed executives see Appendix 3.6). At times we also include the management level below the CEO and his or her direct reports in the analysis. Here our analysis captures 610 detailed executive profiles from 45 Tata operating companies. The research project was facilitated by Mr. Ratan N. Tata, Chairman of the Tata Group. All data is primary and was collected with the support of the Group Chairman office and Group HR office from the individual Tata Group operating companies. We collected financial and internationalization data for FY 2005-06 to FY 2010-11 and TMT executive profiles for FY 2007-08 to FY 2010-11. That is our dataset allows us to reconstruct the TMTs of 72 Tata companies for four consecutive financial years. As outlined above, we defined TMT as the CEO and all direct reports. For more details on hypothesis development, methodology and a detailed overview of statistical results please refer to Appendices 3.1–3.6.

4.4 Status quo and trends in composition of TMTs in Tata Group operating companies

4.4.1 Preconception 1: Indian business houses are reluctant to appoint female executives to their TMTs

While in 1980 not a single woman belonged to the top 10 executives in any of the Fortune 100 companies, in 2001 11% of this group of executives was female (Cappelli & Hamori, 2005). Another ten years later, in India, the picture resembles what may have been found in Fortune 100 companies around 1990. Overall, in the 72 analyzed Tata affiliates 5% of all TMT members were female at the end of FY10-11. The proportion of female executives is slightly higher in younger (9%) and unlisted (7%) companies (see Figure 12). Interestingly, the few women who made it to the top took significantly less long until they were appointed than their male peers (for details see chapter 3). Rastogi (2011), HR Head at Trent, reasons that “women whom I have seen rise to the top in our Group have often been extremely bright and dedicated – one could simply not ignore them”.

What we find in the Tata Group seems to hold true on a broader scale in India. In a cross-country study McKinsey finds that female representation in executive committees of SENSEX 30 companies stands at 2%, the lowest proportion of females
of all studied countries\textsuperscript{22} (Desvaux, Devillard & Sancier-Sultan, 2010). This is in line with the 2% of female executives we find in listed Tata companies. Also a study of Assocham\textsuperscript{23} reports that out of the 1112 evaluated executive positions of 100 Bombay Stock Exchange listed companies only 5.3% were held by women (Assocham, 2011).

Figure 12: Gender proportions on Tata Group top management teams across company categories

![Gender proportions on Tata Group top management teams across company categories](image)

Source: Company primary data; Author analysis

Not surprisingly, levels of female representation on TMTs strongly depend on industry type. As Figure 13 illustrates, among the seven Tata Group industry clusters the proportion of female executives is highest in Communications & IT (e.g. Tata Consultancy Services, Tata Communications, Tata Technologies) as well as Services (e.g. Tata Capital, Tata Asset Management, Indian Hotels). At the end of FY 2010-11 no woman was in a top management position in any of the Tata Group’s businesses in Energy (e.g. Tata Power) or Chemicals (e.g. Tata Chemicals, Rallis). Also the above cited study finds that female representation in top management positions is clearly

\textsuperscript{22} Sweden tops the list with a female representation on executive committees of 17%.

\textsuperscript{23} The Associated Chambers of Commerce and Industry of India (Study name: Corporate women: Close the gender gap and dream big).
above average in services companies. For example, in 2011 more than half of all CEO positions of major financial services companies in India were held by women (Assocham, 2011). K. R. S. Jamwal (2011), Executive Director at Tata Industries, suggests that in manufacturing focused, often unionized and thus male dominated industries such as Energy or Chemicals, on the other hand, few women would aspire to have a career in to start with and for those who do the ‘glass ceiling’, partly due to the need to have experience in the plants to reach top management, would mostly be unbreakable.

**Figure 13: Gender proportions on Tata Group top management teams across industry clusters**

In summary, there is ample empirical evidence that India Inc. still has a long way to go to unleash and make the most of female talent. One reason why this has not yet happened is related to regulations. While in the developed world the legal battles for gender equality were won in the 1970s (most pronouncedly in the Nordic countries), in emerging markets such as India women are still suffering “many kinds of disadvantage” (*The Economist*, 2011d, p. 4). The Women Reservation Bill, passed in
Status quo of and trends in TMT composition

2010, which allocates political quotas to women, was a first step to address this situation and illustrates that quotas can increase female leadership and influence policy outcomes in India (Pande & Ford, 2011). However, in the corporate world – leaving aside the Financial Services and partially the IT sector – no shift towards more women at the top seems to be underway. In our sample, the proportion of female executives at TMT level stayed constant at a very low level between FY 2007-08 and FY 2010-11. We find no statistically significant trend in gender proportions over this period.

“A lot of words are said about it” – this was a senior director’s response to the question what the Tata Group and other big Indian corporations would do to promote more women to key management positions. This reaction illustrates that the issue of gender equality in India’s corporate elite is discerned and debated. Yet, words are not often followed by actions and many times the lack of tangible improvements is explained by the ‘Indian culture’ and how difficult it would be to bring women back after a family break. As another director candidly remarks, these arguments should not be put forward too prominently to defend the status quo: “Such thinking will not bring about change. We must put in place policies which make women want to stay and support them in developing their careers even in an environment where they are exposed to manifold societal pressures”.

It is argued that discussions habitually end without really being launched, given that women are hardly involved where related strategic decisions are taken. The female representation on corporate boards in India stands at 5%, lower than in any other analyzed country in a 2010 McKinsey study (Desvaux, Devillard & Sancier-Sultan, 2010). Satish Pradhan (2011a), the Tata Group’s HR Head, identifies one important root cause for the low female proportion on TMTs in the negligibly small number of women on Tata Group companies’ Boards of Directors (BoD). Who will ask provocative but relevant questions on gender diversity in such a setting? And to whom can aspiring women look and use as role models for their own career ambitions? Therefore, a first step for India Inc. to be able to credibly dismiss voices that Indian companies would be reluctant to appoint female executives to senior management positions is to significantly increase the proportion of women on BoDs. As several interviewees stress, however, for obvious reasons it will be a major challenge to identify enough capable and willing female candidates for board nominations in the current environment. Furthermore, as Mr. Ravi Kant, Vice
Chairman of Tata Motors, argues one should not forget that there are always two sides to a story, the current decision-makers and the talented potential future female executives: “We can invest in and try to groom female leaders, but they also have to say yes to a career and all that goes along with it”. The future will tell whether today’s predominantly male leaders and potential future female executives will conclude themselves that significant change is required to unleash the strength of gender diverse TMTs and act accordingly or whether – as in Indian politics or in Norway, where 40% of all BoD members have to be female – quotas and other measures will be necessary to effect change beyond words.

4.4.2 Preconception 2: Indian business houses are reluctant to appoint foreigners to their TMTs

Figure 14 provides an overview of foreigners on Tata Group TMTs across different operating company categories at the end of FY 2010-11. Overall, only 10% of the top leadership of Tata Group operating companies consists of foreigners. On average, the proportion of foreigners on TMTs is larger in listed than in unlisted firms and is positively associated with company size and age. An obvious reason for this is that these firms are also more likely to have extensive international presence and thus have greater need for executives with experience in different regions. This is confirmed when focusing on the 45 operating companies which reported foreign sales in FY 2010-11. More than 11% of their top executives are foreigners, compared with less than 5% in India focused companies.

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24 We define foreigners as executives without passport of the country where the respective Tata Group operating company is headquartered.

25 Of Tata Group operating companies with revenues up to $400 M in FY10-11, 59% generated foreign sales. Of all Tata Group companies with revenues >$4 B, 83% generated foreign sales in FY10-11.
Figure 14: Foreigners in Tata Group top management teams – Proportions across company categories

*Foreigners defined as executives without passport of country where respective Tata operating company is headquartered

Source: Company primary data; Author analysis

Overall, the proportion of foreigners at the apex of Tata companies seems very low and stands in sharp contrast to the fact that in the FY 2010-11 58% of the Group’s total revenues came from international revenues. It also does not confirm TMT research from Western contexts where it was found that entry into new markets and cultural zones typically is associated with higher nationality diversity in TMTs (Greve, Nielsen & Ruigrok, 2009). The low proportion of foreigners at the apex of firms seems to be a broader Indian reality, not specific to the Tata Group. For example, no foreign CEO has been ranked as one of India’s 50 most powerful CEOs in 2011 (The Economic Times, 2011b). We believe that this situation can be explained by a combination of globally applicable factors and those more specific to context as well as to the Tata Group.

First, the biggest companies in a country are often also a source of national pride and it is therefore perceived as a big step to give away steering power to foreigners. As a result, foreigners may be exposed to more rigorous assessment than local managers in the TMT appointment process. This in turn can prolong their route to the
top in such a context (see chapter 3). It is likely that this tendency will diminish over time as company shareholders will increase the pressure to ensure that the companies’ TMTs reflect their geographic spread. A first sign of this is that in 14% of all analyzed companies the CEOs were foreigners at the end of FY 2010-11, compared with only 8% of all other evaluated TMT executives.

Second, as Rastogi (2011) posits, the Tata Group and internationally emerging Indian business houses would often hire foreigners at the middle management level, viewing them more as external specialists for a strategically relevant topic rather than internal employees with potential to move up the ranks to the top. Third, as confirmed by another Tata executive: “We [the Tata Group] do not have a particularly good track record at retaining foreigners” (Pradhan, 2011a). Both anecdotal evidence as well as our research confirms this. In the analyzed companies in the three-year period FY 2008-09 to FY 2010-11, ~20% of all foreign TMT members who were part of a TMT in FY08-09 left their company. This stands in contrast to a drop-out rate of 11% of local top executives in the same period. Anecdotally, the appointments of Alan Rosling, a British citizen, as Tata Sons Executive Director in 2004 and Carl-Peter Forster, a German, as CEO of Tata Motors in January 2010, are two prominent examples. The former left the company again in 2009 – a Tata Sons spokesperson announced that it had been decided by mutual agreement that Alan Rosling’s five-year contract would not be extended beyond 31 March 2009 (Business Standard, 2009). The latter announced in September 2011 that due to “unavoidable personal circumstances” he would no longer be in a position to steer Tata Motors as CEO (The Hindu, 2011). While there were perhaps very personal stories behind these decisions, the frequent occurrence of foreigners leaving the Group relatively soon after joining poses the question why this is the case.

In a special report on business in India, The Economist (2011b, p. 14) concludes that “Indian business culture, while beguiling, is less accessible than it first seems. Hierarchies can be rigid. And deals get done through informal networks”. That is, Western educated and trained executives may expect it to be easier to adapt to the Indian management style than it actually is. In discussions we had with senior Tata Group executives it was unanimously confirmed that most foreigners would find it tough to adapt to India both professionally and personally and thus they tend to be reluctant to settle down in India. Mr. Tata, the Group Chairman (2012), for example, argued:
I have been personally involved in trying to recruit foreigners for CEO positions and have come to realize that families, wives and children belong to the main reasons why foreign executives tend to be reluctant to take on leadership positions in India. Other reasons are that foreigners tend to be very structured in their career planning and rarely find it attractive to come to India for 10 to 15 years. I wanted the Bombay House and our Group to become a melting pot of different cultures. Unfortunately we still have a long way to go to make this happen.

Another aspect is related to money. Foreign top executives typically demand significantly higher salaries and bonuses than their Indian peers and tend to be reluctant to commit themselves for long if not offered a sufficient financial incentive (Jamwal, 2011).

Irrespective of the above, in order to be able to compete sustainably in the global arena Indian business houses will have to find a way to attract and retain more foreign top executives. This need is indirectly articulated by R. Mukundan, the Managing Director of Tata Chemicals: “We are an organization with global footprint but thinking amongst our top management team is still predominantly centered on India”. Gandhi (2011), who played a key role in implementing the largest international acquisitions of the Group, is convinced that TMTs will display higher nationality diversity in the future: “Given our degree of international presence it will be a logical next step to appoint more foreigners to top management positions of our companies”. Our analysis of all TMT appointments in the period from FY 2007-08 to FY 2010-11 in 72 Tata Group operating companies reveals a clear emerging trend. TMT appointees in FY 2010-11 were much more likely to be foreigners than TMT appointees in FY 2007-08 (see Appendices 3.1–3.6). That is, Tata Group operating companies do not seem to be reluctant per se to appoint foreigners to top management positions but rather see the need to increasingly do so. The challenge ahead is to attract the right foreign talents, to incentivize them to stay on board for the long term and to guarantee that the Tata heritage and its ‘leadership with trust’ is upheld as the backgrounds of those who steer its operating companies become more and more diverse. As Jamwal (2011) puts it:
I am of the opinion that we should not enforce, but encourage the appointment of foreigners to our executive committees. However, it sometimes is difficult to find common ground in terms of value systems. A large proportion of Western managers perhaps put increasing their personal wealth on top of their agenda. That is not the usual remuneration style in the Tata Group and most people who are here over the long term have accepted a lower priority to personal wealth creation for the opportunity to work here and make a difference.

As illustrated in Figure 15, at the end of FY 2010-11 the overall proportion of Tata top executives with international experience\textsuperscript{26} was around three times higher than the proportion of foreigners. It varies across company categories, but is in all cases considerably higher than the proportions of foreigners presented above. Particularly conspicuous is the high proportion (64\%) of executives with international experience of the biggest Group companies\textsuperscript{27}. It reflects the need for highly internationalized companies to include executives who are adept at managing the high complexity associated with global operations. This is in line with previous research which finds that managers with international experience have better chances of getting promoted (Judge et al., 1995), and are better at handling uncertainty (Harrison & Klein, 2007) as well as identifying further internationalization opportunities for their companies (Athanassiou & Nigh, 2002). Furthermore, Carpenter and Fredrickson (2001) find empirical support that firms run by managers with international experience are more likely to be highly international.

\textsuperscript{26} We define international experience as permanent work experience outside an executive’s home country (nationality).

\textsuperscript{27} In Tata Consultancy Services, for example, >90\% of all TMT members have international work experience.
However, our analysis of the TMT appointments between FY 2007-08 to FY 2010-11 does not reveal a trend towards recently appointed executives being more or less likely to have international experience than their peers appointed longer ago. Sudhakar (2011), HR Head at Tata Chemicals, posits that “for some time now international exposure has been valued very highly in our Group”. Also Kavarana (2011), a Tata Sons Director, confirms that “we have increasingly sent our management talent abroad to gain experience in the last ten years or so”. While in the early stages of internationalization Indian business houses may have been reluctant to give away steering power to foreigners, they seem to have compensated for the lack of international knowledge by appointing executives with relevant international experience to the helm of their operating companies. As a result, today the proportion of TMT appointees with international exposure seems to remain about constant at the current level. To be able to address the management complexity of international operations even better (as well as to make sure that the TMT composition at least partially reflects the importance of different geographic regions in a company) the logical next step will be to appoint more foreigners to the TMTs. The increasing likelihood of the Tata Group appointing foreigners to the TMTs of its operating companies is an indication that this process may just have begun in recent years.
4.4.3 Preconception 3: Indian business houses are run by comparatively old executives

Previous research shows that executive age has a significant impact on management behavior. Scholars found that higher age of executives is associated with a lower propensity for risk taking (Hambrick & Mason, 1984). As a result, companies run by younger executives tend to grow faster and are subject to higher variability in performance. Furthermore, lower executive age has been associated with a higher frequency of strategic changes (Wiersema & Bantel, 1992), faster internationalization (Tihanyi, Ellstrand, Daily & Dalton, 2000) as well as higher information-processing capabilities (Herrmann & Datta, 2005). Scholars also found that young managers hold significantly different managerial values than old executives (Mellahi & Guermat, 2004). Consequently, higher risk-taking propensity, openness to change and high information-processing capabilities to manage complexity effectively are all characteristics which Indian companies aiming at becoming global champions may look for. A few years ago, Krishna Kumar, Director of Tata Sons and Vice Chairman of Indian Hotels, posited:

I think the biggest challenge that we have in the group is, other than Ratan Tata, who has a global mindset and a global vision, the rank and file of our senior management of the group is extremely risk-averse. (in Khanna, Palepu & Bullock, 2008, p. 14).

Senior leaders of the Tata Group seem to have realized that the prevalent management style in its operating companies may not be entirely suitable to compete globally in the long run. One of the proclaimed measures taken was the rejuvenation of top management. In a 2011 CNBC interview the Group HR Head stressed that in recent years younger top executives had been successfully groomed and installed at the top. A look at key appointments at the helm of major Tata companies in the last few years seems to confirm this. In 2007, N. Srinath took over as CEO of Tata

Communications aged 45. R. Mukundan got the top job at Tata Chemicals aged 42 in 2008 and in 2009 N. Chandrasekaran picked up the reins of TCS at the age of 46. Furthermore, in 2011 Tata Sons decided to bring down the retirement age of directors of Group companies from 75 to 70 (Datta & Vijayraghavan, 2011). As convincing as this anecdotal evidence seems, our detailed analysis of the top leadership teams of 72 Tata companies reveals that the conclusion that the Tatas have managed to rejuvenate their top leadership is only partially valid. Figure 16 provides an overview of the average age of top executives across different Tata company categories.

**Figure 16: Average age of top executives by company category**

![Age of Top Executives by Company Category](image)

*Source: Company primary data; Author analysis*

On average a Tata affiliate executive is around 50 years old. The upper echelons of listed, bigger and older companies on average are significantly older than managers in other companies. The average age of 52 of executives in the biggest companies is in line with what other researchers found for Fortune 100 executives in 2001 (Cappelli & Hamori, 2005). Consequently, our results do not confirm the notion that large Indian

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29 He joined Tata Teleservices as CEO at the end of FY10-11.

30 Overall, between FY 2008-09 and 2010-11 34 new CEOs were appointed and the average age of CEO new appointees decreased by 3 years over this period.
Status quo of and trends in TMT composition

companies are still run predominantly by grey-haired old men. However, looking at all CEO direct reports appointments between FY 2007-08 to FY 2010-11 an unexpected trend emerges. Contrary to our hypothesis we find a trend towards newly appointed executives being older than executives who joined the upper echelon longer ago. That is, the focus of the corporate center on grooming younger talent for the top job in key companies does not seem to have trickled further down the organizations. On the contrary, on the level of CEO direct reports the opposite seems to happen. R. Gopalakrishnan (2011), a director at Tata Sons, argues that “Indians tend to attach a lot of weight to age – they associate grey hair with experience and wisdom” and that as a result rejuvenating top management on a broad(er) scale would take more time. Also Ratan Tata’s (2012) reaction suggests that such a transition requires patience: “We have started to inject young CEOs in a system where for a long time seniority has been the key to making it to the top”.

Given the cultural importance of age in India, the harder the push for young CEOs the stronger the trend towards appointments of older non-CEO top executives may be. As Kumar (2011) posits, “in a society where age is often used as a measure for seniority, younger CEOs may tend to surround themselves with ‘seniority’, that is, older executives”. Tata Chemicals is a case in point. At the end of FY 2010-11 R. Mukundan, the CEO, was 45 years old. The average age of the remaining top management team was 53, eight years older. However, in various discussions with senior leaders another potential reason for this finding came to the fore. The Tata Group has always been characterized by very high employer-employee reciprocity and its brand benefitted tremendously from this image. Yet, as one executive posits, part of this culture is also that “failure, if not related to hampering the Group’s values, is punished less harshly” than would be the case in other firms. As a consequence tenure may sometimes turn out to be more important than meritocracy. Another executive argues: “In many ways our current system is the opposite to an up or out approach”. This in turn can lead to frustration at lower levels of the pyramid and culminate in loss of talent, reinforcing the tendency of tenured, older executives to be appointed to the corporate level.

In summary, ensuring broad rejuvenation of the top leadership of group companies will require more comprehensive measures than grooming selected leadership talent for CEO posts. Only when the ‘young CEO effect’ trickles further down in organizations will the Tata Group be able to benefit fully from the much
needed management qualities younger executives are associated with. The selection of 43 year-old\textsuperscript{31} Cyrus Mistry as Deputy Group Chairman may just have been the required signal to bury persisting doubts – internal and external – that the Tata Group intends to push seriously for a rejuvenation of its leadership even beyond the CEOs.

\subsection*{4.4.4 Preconception 4: Educational background of Indian top executives is very streamlined – MBAs and degrees from Indian elite institutions are dominant}

Indian society is highly hierarchical. Hofstede (2001) finds that, compared with Western countries, Indian culture is high in ‘power distance’, that is Indians are comfortable with (and accepting of) differences in influences and power in organizations and societies (see chapter 2 for detailed discussion). One reason for this can be found in the hierarchical nature of Hinduism (caste system), the dominant religion in the country (Nair & Schular, 1993). In politics the Gandhi family with Sonia Gandhi as the ruling congress parties’ hereditary chief has been the most powerful force for a long time. Business houses controlled by families and with patriarchs at the helm still dominate India’s private sector. That ancestry matters and significantly impacts people’s lives is therefore more pronounced in India than in other, particularly Western countries. It is natural to look for signals to rank people in a hierarchy, be it social, political or corporate.

Educational background is one such signal. When meeting people in India for the first time one is often asked: Where are you staying? Are you married/ do you have children? What is your job? Where did you study? The first two questions help to rank someone in the socio-economic hierarchy (remember that e.g. age signals seniority). The last questions aim at estimating one’s level in the corporate hierarchy (job and university degree) or at gauging one’s potential to move up the ranks (university degree). Past research confirms that in the corporate world higher levels of education are associated with higher pay and ascendancy (Judge, Cable & Bardreau & Bretz, 1995) and a higher likelihood of being appointed to the TMT (Useem & Karabel, 1986). Driven by the above and the fact that generalist business skills have gradually gained importance over the last 30 years (Murphy & Zabojnik, 2004) in India, as in most parts of the world, the MBA degree is booming. Accordingly competition to get

\footnote{\textsuperscript{31} He will be 44 when he takes over from Ratan N. Tata in 2013.}
into the best business schools, where candidates benefit most from positive signaling effects, is harsh. The cut-off of GMAT scores for admission is higher at IIM Ahmedabad (IIM-A) than at the best international business schools such as Harvard or Stanford (Anand, 2008). The media reinforce the hype by tracking MBA salaries and highlighting individual successes in the corporate world (Bhattacherjee, Krishna & Karve, 2001). Also the leading business houses add their bit. For example, for its Tata Administrative Services program (TAS), a prestigious career development program, the Tata Group recruits exclusively from five of India’s IIMs.

The educational background of an executive in India, as in other contexts, functions as a signal for his or her abilities and ambition. It has been discussed that nowadays management degrees seem to be particularly helpful in achieving this goal. The more prestigious the university, the higher the signaling effect the executive can take advantage of. Previous research in Western contexts finds that executives with a degree from Ivy League universities enjoy a very large pay premium (Judge, Cable, Bourdreaux & Bretz, 1995). A plausible explanation for this finding is that these universities (apart from providing high quality education) equip graduates with social and cultural capital in the form of personal contacts (networks), symbols of prestige and perhaps even inculcation of ambition to succeed (Useem & Karabel, 1986). We analyzed the educational backgrounds of 1268 Tata top executives to see whether a similar reasoning may also hold true for the Tata Group. Figure 17 provides an overview of the results. Displayed are the highest academic degrees executives have obtained as well as whether at least one of all obtained degrees was obtained from an Indian elite institution.\(^\text{32}\)

\(^{32}\) All IIM/ ISB as well as IIT institutes were characterized as “elite institutions”.

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As expected, the MBA is the most common degree among Tata senior executives. This is the case for both evaluated management layers. At the end of FY 2010-11, overall 39% of the analyzed CEOs and CEO direct reports held an MBA degree. This is a 2% increase from two years earlier, a trend which indicates that in the future executives with MBA degrees may become even more dominant at the TMT level in India. It confirms anecdotal evidence that MBA degrees are valued highly by India Inc. Analysis of gender differences in highest degrees obtained reveals another interesting aspect. Irrespective of management level, a higher proportion of female executives hold an MBA or a PhD degree. That is, on average female top executives in the Tata Group have obtained a higher academic degree than their male peers. This is in line with the argument developed above, namely that women must be particularly talented to overcome the ‘glass ceiling’ to the top. A high educational degree is one element women may use to signal their above-average competence and ambition.
One-fifth (21%) of all analyzed CEOs and CEO direct reports of 72 Tata companies hold at least one academic degree from an Indian elite institution. On the management level below this is the case for approximately one in ten executives (11%). This difference indicates that, ceteris paribus, holding a degree from an elite institution may be a differentiating factor which helps executives to make the last career step and be appointed to the TMT level. This would be signaling at its best! However, analyzing the TMT appointments between FY 2007-08 and FY 2010-11 we find some statistical indication that the likelihood of newly appointed managers holding a degree from an Indian elite institution is actually diminishing. Several developments may explain this trend.

First, as Pradhan (2011b) argues “track record continues to become more important than pedigree”. That is, in relative terms, the measurable career effect of elite education seems to become less important than the signaling effect of a strong corporate track record over time after graduation. Second, our results reflect the combined effect of a democratization of education and the increased battle for talent already at the bottom of the corporate pyramid. In the last 20 years the Indian higher education sector has boomed and at the end of 2011 the country had 544 university level institutions (OIFC, 2011). Kumar (2011) summarizes: “The increasing war for talent driven by the economy’s high growth led to a democratization of higher education. The number of institutions which provide quality education has increased significantly over the last decades”. As a result, of all potential TMT executives a diminishing proportion has actually obtained a degree from an elite institution. Also, those who have are attracted by numerous firms, increasingly also by foreign multinationals which offer packages hard to match by most Indian companies. A Managing Director of a large Group engineering company confirms that talent has been lost to entrant international companies which “need to build special competencies fast, whatever it costs”.

A third reason which may explain our findings is related to higher demand for talent not only at the bottom of the pyramid but also at the TMT level. This argument will be developed in more detail below.
4.4.5 Preconception 5: A dominant proportion of Indian business houses’ top executives started their career in their current company and/or the respective business house

As mentioned in the introductory section it has been proposed that one of the key strategic challenges of Indian business houses in general and the Tata Group in particular would be that many of its leaders “only know life within Tata” (The Economist, 2011c, p. 70). We put this preconception under the analytical microscope and analyzed what proportion of top executives started their career in their current company (company lifers) and/or have spent their entire career in different Tata Group affiliates (group lifers). Figure 18 displays related descriptive statistics.

**Figure 18: Proportion of company/group ‘lifers’ by company category**

Only 11% of the 658 analyzed top executives have started their career with their current employer and 20% have spent their entire professional career in the Tata Group. Not surprisingly, the proportion of ‘group lifers’ is considerably higher than ‘company lifers’. A significantly higher proportion of executives in listed companies and the biggest group operating companies have moved up the ranks in only one company. Still, with a maximum ‘lifer’ proportion of 32% in Tata companies with over USD 4 billion in revenues in FY 2010-11 it is hard to argue that the group is
reluctant to integrate outsiders into its upper echelons. A study on top executives of Fortune 100 companies reports a ‘lifer’ rate of 45% (Cappelli & Hamori, 2005). Even though we employ a very strict definition to identify ‘lifers’ – we only counted executives who joined their company/ the Tata Group straight from college as ‘lifers’ – for a business house often associated with high employee loyalty these results are unexpectedly low.

When put into context our findings for FY 2010-11 reflect that external economic developments as well as the business house’s internal strategy decisions over time significantly impact TMT composition. Scholars have for some time urged the research community to investigate the ‘antecedents’ of TMT composition more thoroughly (Hambrick, 2007; Pettigrew, 1992). “20 years ago these figures would have looked much different and even in the course of the last 5 to 10 years the proportion of lifers in our Group must have dropped significantly” (Kumar, 2011). The end of the "license Raj" era in 1991 brought about significant change and exposed domestic companies to increased competition. While lack of competition (also internally) up to 1991 led to a situation where many moderately performing lifers made it to the top of operating companies, this changed significantly thereafter. K. R. S. Jamwal (2011) mentions that “Mr. Tata’s drive for results and management excellence probably did not find adequate depth of talent, with fairly average HR resources at that time. Gradually low performing executives were replaced, and talent induced from outside, and as a result lifer proportions must have come down”. This trend continued as the Group focused more and more on increasing its international posture. Between the FY 2007-08 to FY 2010-11 alone the 72 analyzed Tata companies entered 101 new geographic markets and were involved in major cross-border acquisitions. It seems plausible that such a shift in strategy also changes the leadership requirements at the top. The Group seems to have increasingly brought in executives from outside to manage the higher complexity associated with more internationalized organizations. As discussed above, for example, we find a trend towards more foreigners being appointed to the TMTs. Furthermore, the Tatas have also often refrained from replacing the management of acquired companies with internal people (Gandhi, 2011). Also, some of the increased lateral hiring can be explained by the fact that the Tata Group continuously invests in new business ventures such as retail or insurance where the required industry knowledge is simply not (yet) available internally (Chaukar, 2012). Lastly, increasing levels of lateral
hiring is also a reflection of a broader trend of executives’ careers becoming more flexible and executive labor markets becoming more global and competitive. Researchers refer to “a sequence of job opportunities that go beyond the boundaries of a single employment setting” (DeFillippi & Arthur, 1994, p. 116, see also DeFillippi & Arthur, 1996) as the boundaryless career.

The above reasoning is sustained when looking at our sample data more closely. Comparing the executives who were appointed to the TMT in the past five years (backwards from FY 2010-11) to those appointed from 5 to 10 years ago we find that the company ‘lifer’ proportion of the former is around half (8.6%) that of the latter (17.0%). That is, lateral hiring of top executives seems to have increased significantly in recent years. This trend also brings about some challenges for Indian business houses. Jamwal (2011) argues that “too much lateral hiring damages the cultural fabric” and that he believes that it would be a dangerous development if the Tata Group tended to pay more to hire than to retain talent. In a similar vein, Kishor Chaukar, Managing Director of Tata Industries, emphasizes the need to “significantly adapt HR and incentive policies” to signal to (young) talents that the Tata Group is willing to invest in order to retain its best human resources.

Given that the pressure to constantly adapt the leadership structure to a more global business setting is likely to further increase – and with that the trend towards fewer internally groomed leaders is likely to continue – taking measures to ensure that outsiders act in line with the Tata heritage and value system will be of paramount importance. It constitutes a key competitive advantage of companies allowed to use the Tata brand. Ratan Tata indirectly confirms this by stating that “our brand is one of our most valuable assets and we put a lot of energy and resources in protecting it” (Tata, 2011).

4.4.6 Increasing size of TMT as a means of handling higher managerial complexity

The TMT can be characterized as the information-processing center of a company in its relationship with the environment (Thompson, 1967). Hambrick and D’Aveni (1992, p. 1449) posit that “at a basic level, the resources available on a team result from how many people are on it”. Hence, its size helps to gauge a TMT’s information-processing capabilities, with large TMTs having greater information-processing and decision-making capabilities than smaller TMTs. Researchers have
found both theoretical and empirical support for the notion that large teams have more abilities and skills with which to address large and complex challenges (e.g. Hill, 1982; Jackson, 1992). However, at the same time a large TMT size may also create coordination and communication problems not typically found in smaller teams (e.g. Blau, 1970; Shaw & Harkey, 1976).

Most previous empirical research studies have modeled TMT size as a control variable (e.g. Wiersema & Bantel, 1992). Yet there are a few studies that analyze the role of TMT size in the context of different triggers for higher management complexity and thus higher information-processing requirements. Hambrick and D’Aveni (1992), for example, find that companies approaching bankruptcy are more likely to be run by small teams than matched-paired survivors. Halebian and Finkelstein (1992) develop the argument that decision-making complexity increases with higher environmental turbulence and find that companies with large teams perform better in complex environments. Sanders and Carpenter’s (1998) work is the most relevant in the context of this paper. They argue that “managerial complexity increases along with increases in the extent and dispersion of a firm’s dependence on its international operations” (p. 159). In their sample they find that a company's degree of internationalization is positively and significantly associated with the size of its TMT. That is, firms seem to absorb the complexity of higher degrees of internationalization by increasing the pool of resources (size of TMT) responsible for handling it.

Following these theoretical arguments, managerial complexity in the Tata Group has significantly increased since 1991. As discussed in detail above, in FY 2010-11 international sales contributed 58% to overall group sales and between FY 2008-09 and FY 2010-11 alone the analyzed Group companies entered 72 new countries. Figure 19 descriptively illustrates how this impacted the average TMT size across different categories of Tata Group companies.
Status quo of and trends in TMT composition

Figure 19: Development of size of TMT by company category (FY 2008-09 to FY 2010-11)

Source: Company primary data

Looking at all 72 analyzed group companies, the average TMT size has increased by 1.7 from 7.3 in FY 2008-09 to 9.0 in FY 2010-11. Taking into account the above developed arguments that increased international posture goes hand in hand with higher management complexity, this sharp rise of the average TMT size over a period of just three years seems to indicate that the Tata Group added management capacity at the apex of its companies to deal with higher management complexity. Sudhakar (2011) sustains this argument when stating: “We find ourselves in a period where we have grown and continue to grow substantially both organically and inorganically. We therefore need executives who can manage the consolidation agenda as well as growth aspirations of the company. Hence the search and appointment of additional qualified top executives is a necessary and logical consequence to the growth strategy of the company”. This led to overall more TMT appointments which, in turn, may also have triggered a top executive ‘supply-demand equilibrium’ where conventional

33 It should be noted that the author is aware that the presented descriptive statistics only allow for an informed discussion about possible underlying reasons for the sharp increase in average size of the TMTs of the analyzed Tata Group operating companies.
signaling characteristics (such as e.g. a degree from an Indian elite institution) tend to play a diminishing role in the TMT appointment selection process (see above).

Between FY 2008-09 and FY 2010-11 the average TMT size increased significantly across all company categories. Whether companies are listed or not does not seem to change findings. The average increase of TMT size is greatest for Tata companies headquartered outside India. In these companies the average TMT size has increased by 2.1 over a three-year time period. We can only speculate about the root causes for this finding. It may be related to the Tata Group’s handling of foreign companies it has recently acquired. Our discussions with the senior management of the Tata Group (e.g. Gandhi, 2011) as well as previous work by scholars (e.g. Kale, Singh & Raman, 2009) alike confirm that the Tata Group has generally allowed its acquisitions to continue operating relatively independently and has more often than not refrained from replacing large parts of the incumbent TMT. However, our analysis suggests that instead the Tata Group may have installed additional Indian top executives in its acquisition targets’ TMTs to secure influence as well as to provide additional resources to handle the increased management complexity associated with the post-merger integration process. In addition, previous research finds that management turnover rates tend to be higher than ‘normal’ following an acquisition (Walsh, 1988) and that retaining the best talent is a challenge for the new parent company (Drucker, 1981). That is, the Tata Group may have replaced top executives it could not retain predominantly with Indian executives. These arguments are supported by the proportion of foreigners in Tata companies headquartered outside India at the end of FY 2010-11 (see above, Figure 14). In these companies 37% of all top executives are foreigners\textsuperscript{34}, a much higher rate than the 10% of foreigners in the overall sample.

In summary, the example of the Tata Group seems to confirm that firms tend to adapt the size of the TMT to the level of management complexity. Additional executives at the top are viewed as sources of added information-processing and decision-making capabilities. Large teams can benefit substantially from a division of labor. Companies which increase their international activities (organically or through

\textsuperscript{34} Executives working outside their home country, i.e. Indian executives working for a Tata company headquartered outside India are counted as ‘foreigners’ in our analysis.
M&A) are thus likely to increase the size of their TMTs as this raises their collective capacity to process the higher complexity of global operations.

### 4.5 Conclusions

Our analysis of the composition and appointment trends of TMTs since FY 2007-08 in affiliates of India’s largest business house confirms that context seems to have a significant impact upon how top teams are composed and reveals that the typical profiles of executives who make it to the corporate level in India are changing. We argue that to an important extent these changes can be attributed to the increased international posture and the higher management complexity which goes hand in hand with it. While some common preconceptions with regard to the typical Indian TMT and its executives are analytically confirmed, others are clearly not.

Only about 5% of 658 Tata top executives analyzed at the end of FY 2010-11 are female, and in some industry clusters (Energy, Chemicals) companies are steered entirely by men. No trend towards a higher proportion of females in recent TMT appointments was found. The total number of foreigners at the helm of Tata companies is still relatively low and retaining expat executives seems to be an ongoing challenge. However, more foreigners have joined the upper echelons in recent years, which may be an indication for the emergence of a continuing trend. The preconception that Indian top executives would be comparatively old was not entirely sustained. The average TMT executive age of 50 overall and 52 in the biggest companies in the group falls into a similar range as researchers have recently found in Fortune 100 companies. Anecdotal evidence and discussions with senior Tata executives illustrate the push to install younger CEOs. Yet Indian business houses will only be able to benefit from the typical management traits of younger executives – which have been found to be particularly useful for the management of multinational organizations – when TMTs are rejuvenated on a broader level. So far the appointment of relatively young CEOs goes hand in hand with a tendency for other newly appointed TMT members to be older. It was argued that the distinct signaling effect of age in the Indian society may explain this finding. Young CEOs seem to surround themselves with what they believe themselves to lack: experience typified by older colleagues.
Furthermore, an increasing proportion of Indian executives hold an MBA degree, illustrating the importance of exhibiting generalist business skills to steer Indian companies. On average female managers are better educated than male, indicating that women may use a high academic degree as one signal for competence and thus seek to increase their chances of breaking through the ‘glass ceiling’. We also find that newly appointed Tata executives are becoming less likely to have obtained at least one academic degree from an Indian elite institution. Increasing size of TMTs in response to greater management complexity and the resulting additional demand for executives at the top of the pyramid, the democratization of academic education, and the trend towards measurable career performance being valued more highly than pedigree in the TMT appointment process have been put forward to explain this finding.

Contrary to expectation, our analysis does not confirm the notion that most Tata top executives would only “know life within Tata”. Overall, only 11% of all analyzed executives have spent their entire career in their current company and a mere 20% have been employed by the Tata Group straight after college. The ‘lifer’ proportion even in the biggest group companies is lower than what was found in previous research on the most powerful executives of Fortune 100 companies. The fact that in the Tata Group ‘lifer’ proportions have decreased significantly in recent years illustrates how Indian business houses seem to adapt their TMT composition to altering internal (e.g. focus on internationalization) and external (e.g. global and more competitive executive labor market, emergence of boundaryless career in India) factors, with more lateral hiring at the TMT level being one tangible outcome.

What does all this imply when looking ahead? What will a typical TMT of a Tata (or more broadly an Indian business house) operating company in five to ten years look like? And what implications does this have for Indian or foreign professionals aiming to move up the ranks in an Indian company? First, our analysis suggests that, going forward, diversity of nationality in TMTs of internationally operating Indian business houses is likely to continue to increase. While up to now necessary international management knowledge has predominantly come from local executives who spent time abroad, going forward it is likely to be drawn more often from foreign managers. Indian executives who have been sent abroad in recent years to gain international work experience will play an instrumental role in identifying and attracting foreigners through the networks they built in various countries. For ambitious foreign executives this brings interesting career opportunities to ‘flee’
stagnating Western markets and to help shape the Indian growth story. However, the question is whether Indian business houses will find ways to retain foreign talent by providing them with the support they need to make their venture to ‘Incredible India’ rewarding both professionally and privately. Ratan Tata (2012) agrees that “the Group has not yet done enough” in this regard.

Having said that, for ambitious and talented Indian executives international exposure will continue to be valued highly and is likely to remain a (near) prerequisite to be eligible for a TMT post in an internationally diversified company. More broadly, Indian business houses’ increased interest in foreign executives will also be a factor which fosters lateral hiring. Thus ‘lifer’ rates are likely to decrease further. Also the fact that foreign multinational companies are likely to continue to attract Tata talent will add to this trend. Second, given our analysis, we have no reason to believe in a rapid shift towards TMTs of India’s business houses becoming more gender diverse. Indian TMTs are likely to continue to be composed predominantly of male executives. While at the surface the ‘issue’ seems to be understood, it is likely to take time until words are followed by action. An important identified step to bring about broader change at the TMT level would be to install more women on corporate boards. Until this is implemented ambitious women will have no other option than to make sure that decision-makers simply cannot ignore them and to break through the ‘glass ceiling’ by displaying above average competence and commitment. Third, our results indicate that it is likely to take time until a broad rejuvenation of TMT members in Indian companies will take place. However, the presented evidence of the Tata Group increasingly installing young CEOs in key group companies illustrates the intention to do so. It reflects an emerging belief that young leadership may often be good for business. Therefore, for the future generation of managers it will be more important than ever to enter professional life as early as possible (efficient education track) and to move up the ranks fast enough already at the beginning of their career to remain eligible potential candidates for a TMT position. The conclusion presented above, that the proportion of TMT executives holding an MBA degree is likely to continue to rise, reflects such a perspective. Obtaining MBA degrees is efficient (maximum of two years study as opposed to three to five years for a PhD) and signals that an executive has developed generalist business skills, which are crucial to be able to run a modern complex organization.
5 Rational or experience based? Top management team influence and discretion in foreign market entry mode decisions

ABSTRACT

How firms expand beyond their home country is one of the most fundamental questions in international business. Drawing on agency theory and taking into account particularities of the Indian study sample and context, we find that board monitoring of the TMT, which impacts executives’ latitude of action, moderates the validity of strategic decision-making (SDM) and rational choice (RC) based approaches to study firms’ market entry mode decisions. In the SDM model the preference for lower control entry modes of TMTs with high international capacity is stronger in environments with low TMT monitoring. In the RC model the association between prior firm multinational experience and preference for high control entry modes is stronger in environments with high TMT monitoring. In such environments a certain degree of ‘complete rationality’ seems to be forced upon executives. Our results also show that Upper Echelons results take on different complexions when applied to non-Western contexts and that the effects of Western based board governance measures can be ambiguous if not unintended when applied to an Asian context.

Keywords: Market entry mode choice, upper echelons, OLI framework, managerial discretion, Top management team, international experience, agency theory, business house, India
5.1 Introduction

How firms expand beyond their home country is one of the most fundamental questions in international business. Taking the right decision on mode of entry is crucial given that it defines the boundaries of the firm, which can have a significant impact on performance (Brouthers, 2002; Brouthers, Brouthers & Werner, 2003). Furthermore, entry mode choices are hard to undo and may thus have long-term consequences for the firm (Pedersen, Petersen & Benito, 2002). In empirical research on choice of entry mode, economic theories have often been used to explain entry mode choice as a function of firm, industry, and country characteristics. These studies are based on rational choice (RC) models, suggesting that a firm’s foreign direct investment (FDI) decisions can be explained on the basis of economic rationality. Meanwhile, only few scholars have employed a strategic decision-making (SDM) perspective to study firms’ entry mode decisions. A rational-choice based logic does not take into account that managerial decisions are influenced by a variety of factors (Hitt & Tyler, 1991), including top managers’ limited information-processing capacities, individual preferences, and myopia. In particular, the upper echelons (UE) perspective (Hambrick & Mason, 1984) suggests that decisions leading to strategic outcomes are affected by both the objective situation facing the firm as well as the characteristics of its top executives. In a review of research on international entry modes, Brouthers and Hennart (2007, p. 419) conclude that a combination of RC and SDM perspectives is a necessary next step to advance our understanding of foreign market entry decisions. Carpenter, Geletkanycz and Sanders (2004, p. 772) also argue that “it is through the integration of theories” that the UE perspective “may provide its richest predictions”.

Only few studies to date have utilized the UE perspective to study firms’ choice of market entry mode. Of these, two focus on the role of CEOs (Herrmann & Datta, 2002; 2006) and one on the role of entire TMTs (Nielsen & Nielsen, 2011) in the market entry mode decision-making process. The development of foreign market entry strategies typically involves the entire TMT and is therefore an especially appropriate setting in which to examine the role of TMT composition in the decision-making process (Hambrick, Cho & Chen, 1996).

The intended contribution of this paper is at least twofold. First, we contribute to the literature on international market entry by simultaneously testing the effects of
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RC- and SDM-based determinants of market entry mode decisions. This means that we respond to calls from scholars to combine the UE perspective with auxiliary theories to derive richer predictions. Second, this study is based on data from internationalizing operating companies at a large Indian business house, allowing us to test the applicability of the RC, SDM, and agency theory logics in the context of a large emerging market.

5.2 Theoretical background

5.2.1 Rational choice: Dunning’s OLI framework

Economic RC based theories are used as the conceptual basis for most of the published studies on market entry mode (Brouthers & Hennart, 2007). The OLI framework (Dunning, 1980, 1988) has been (and remains) a leading theoretical approach to explain the internationalization activity of multinational corporations (MNCs) for the last three decades. It “seeks to offer a general framework for determining the extent and pattern of both foreign-owned production undertaken by a country’s own enterprises, and that of domestic production owned or controlled by foreign enterprises” (Dunning & Lundan, 2008, p. 95). Rather than being an alternative theory of international production, it brings together the key propositions of theories that originally developed separately from each other. Therefore, it has been referred to as “an envelope of complementary and context-specific economic and business theories” (Dunning, 2000). The OLI framework integrates insights from the resource-based (ownership), institutional (location) and transaction cost (internalization) view. It stipulates that a firm’s choice of entry mode is impacted by three factors, namely ownership advantages, location-specific advantages, and internalization advantages in the form of the firm’s propensity to internalize market failure.

Ownership advantages are intangible assets that a firm needs to be able to successfully compete with host country firms in their incumbent markets. Dunning (1988) differentiates between asset-specific advantages (Oa) and transaction cost-minimizing advantages (Ot). A firm’s Oa, for example, are property rights from product innovations or accumulated experience in finance, marketing, or other functions. Ot advantages, on the other hand, refer to a firm’s ability to manage geographically dispersed activities in an efficient manner, capturing the advantages of risk diversification. Recently, Dunning and Lundan (2008) have added institutional
assets (Oi) to the paradigm. With this they respond to a recent trend of scholars applying an institutional perspective to study the determinants of MNE behavior (e.g. Peng & Delios, 2006), thereby also debating whether the eclectic paradigm in its original form is still valid (Collinson & Rugman, 2007; Dunning, 2006; Narula, 2006). Dunning and Lundan (2008, p. 130) draw on the work of North (1990, 1994, 2005), who focused on institutions’ impact at the macro level, and extended his analysis “to achieve a unified framework within which to accommodate both firm- and country-specific considerations”. They define Oi as firm specific incentive structures and differentiate between formal (e.g. legislation, regulation) and informal (e.g. codes, norms, country/corporate culture) advantages.

Firms going global will follow a selective strategy and choose to enter the markets that are most attractive in their view. The location-specific sub-paradigm proclaims that whenever a combination of a firm’s O advantages and a country’s “immobile, natural or created endowments” (Dunning, 2000, p. 164) leads to a situation where additional investments in a host, rather than in the firm’s domestic country, is favorable, firms will increase FDI. Location-specific endowments may be deployed in the legal, cultural, political, financial and institutional environment of a country. The third sub-paradigm, internalization advantages, refers to firms’ perception that internalizing their O advantages is more advantageous to them than selling them or passing the rights of their use to independent foreign firms. Internalization advantages can largely be explained by transaction-cost theory (Williamson, 1985). Firms internalize efficiency gains from economies of scale and scope by integrating their activities across borders.

In the 1980s, several scholars employed Dunning’s framework indirectly or directly to analyze the choice between licensing and greenfield entry (Caves, 1982; Davidson & McFetridge, 1985), between joint venture and greenfield entry (Kogut & Singh, 1988), extent of FDI (e.g. Cho, 1985; Dunning, 1980), and proportion of acquisition to total subsidiaries (Wilson, 1980). However, Agarwal and Ramaswami’s (1992) study was the first to apply the OLI framework comprehensively in this context (Brouthers & Hennart, 2007). Their widely cited study analyzes how interrelationships between ownership (measured by firms’ ability to develop differentiated products, size and multinational experience), location (measured by country investment risk and market potential) and internalization advantages (measured by contractual risk) affect firms’ choice of foreign entry mode. They find,
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for example, that small firms with limited multinational experience favor entering markets which are perceived to have high potential with a joint venture partner, indicating the necessity to complement their resource needs to expand into an attractive foreign market. Other researchers have built on these findings and applied the eclectic framework to other industries and contexts to analyze firms’ market entry choice (Anand & Delios, 1997; Cloninger, 2004; Erramilli, Agarwal & Kim, 1997; Nakos & Brouthers, 2002; Padmanabhan & Cho, 1999). Particularly notable is the study conducted by Brouthers, Brouthers and Werner (1999), who find that companies which base their entry mode decision on factors brought forward by all OLI sub-paradigms showed better subsidiary performance.

5.2.2 Strategic decision-making: Bounded rationality and the Upper Echelons perspective

Carnegie School theorists argue that decision-making is primarily the result of behavioral factors rather than perfectly rational judgment built around complete information (March & Simon, 1958; Cyert & March, 1963). They refer to this by the term 'bounded rationality', which can be defined as a decision-maker’s exposure to “multiple and conflicting goals, ill-defined options, and varying aspiration levels” (Finkelstein & Hambrick, 1990, p. 485). In their view, all actions or inactions are the result of the knowledge, assumptions, beliefs and values decision-makers bring to the table. Managers face vast information flows that demand their attention at the same time (Mintzberg, 1973), meaning that they frequently have to decide which of these issues are relevant and which information they can discard (Weick, 1979). The behavioral view of decision-making posits that executives simplify this screening and selection process by applying general rules they can rely on (Ranson, Hinings & Greenwood, 1980). Therefore, their decisions are “always exercised with respect to a limited, approximate, simplified 'model' of the real situation” (March & Simon, 1958, p. 139). This is a basic premise of the UE perspective, in which the essential proposition is that “executives’ experiences, values, and personalities greatly influence their interpretations of the situations they face and, in turn, affect their choices” with which they impact organizational outcomes (Hambrick, 2007, p. 334). Hambrick and Mason (1984) proposed that the demographic characteristics of executives can be used as valid (albeit incomplete and approximate) proxies of executives’ cognitive frames.
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Only three previous studies on market entry mode decisions employ the UE perspective in the research design. Herrmann and Datta (2002) find that CEO throughput\(^{35}\) functional background, position tenure and international experience are associated with full-control entry modes. Furthermore, their results show that these relationships are particularly valid for high-performing firms. In a second study, Herrmann and Datta (2006) find that CEOs with less company tenure favor acquisitions and greenfield entries over joint ventures, and, that older CEOs tend to prefer joint ventures over greenfield investments. Their results also show that CEOs with throughput functional experience prefer acquisitions over joint ventures and greenfield entries. Lastly, they find that CEOs with higher international experience tend to favor acquisitions and greenfield entries over joint ventures and greenfield entries over acquisitions. Nielsen and Nielsen (2011) analyze the impact of the international experience and nationality diversity of the TMT on the choice of foreign entry mode. Their results indicate that TMT international experience is associated with full control entry modes, whereas TMT nationality diversity is associated with shared control entry mode decisions.

5.2.3 TMT monitoring as a moderator of SDM and RC models

Recent work suggests that executives do not always have the same level of influence on a firm’s organizational outcomes. For example, Hambrick, Finkelstein and Mooney (2005, p. 478) introduce the concept of executive job demands\(^{36}\) and argue that “executives who are under great job demands take mental shortcuts and engage in limited search to arrive at their choices”. They conclude that the concept of bounded rationality (and with that the logic of UE) is most predictive when executive job demands are high. Under conditions of low executive job demands, on the other hand, strategic decision-making will be based on information that is more reliable, unambiguous, and complete, thus producing strategic decisions that can be described as more economically rational.

\(^{35}\) Throughput functional experience (accounting, operations, process R&D) stands in contrast to output functional experience (marketing, sales, product R&D, entrepreneurship) as defined by Hambrick and Mason (1984).

\(^{36}\) Executive job demands are defined as “the degree to which a given executive experiences his or her job as difficult or challenging” (Hambrick, Finkelstein & Mooney, 2005, p. 473).
The concept of managerial discretion follows a similar logic. When discretion is high, the TMT composition has a major influence on organizational outcomes and therefore the explanatory strength of UE theory will be high. In low discretion environments, on the other hand, managers can shape organizations only to a limited extent due to the dominant influence of environmental forces and inertia (Hannan & Freeman, 1977; Lieberson & O’Connor, 1972; Salancik & Pfeffer, 1977). Hambrick and Finkelstein (1987) propose that managerial discretion can be measured by three factors, namely (1) the extent to which the environment enables change, (2) the extent to which the company is receptive to a set of actions and empowers executives to take these actions, and (3) the extent to which the manager is capable of formulating and executing different sets of actions. Executives’ managerial discretion, i.e. “the latitude of action available to top executives” (Finkelstein & Hambrick, 1990, p. 484), always lies within the zone of acceptance of powerful parties (Finkelstein & Hambrick, 1990). In some environments, only a narrow range of options are considered acceptable in the eyes of powerful parties (Thompson, 1967), whereas in other environments the zone of acceptance is larger, leaving executives with more managerial discretion.

From an agency theory perspective, the level of TMT monitoring can be employed as a proxy for managerial discretion. Executives’ latitude of action is constrained by higher levels of TMT monitoring, which forces executives to rely less on their intuitive inclinations and past experiences, and rather pursue economic rationality in strategic decision-making processes.

Agency theory (Alchian & Demsetz, 1972; Ross, 1973; Eisenhardt, 1989) suggests that the interests of principals and agents do not always coincide. While owners primarily want to maximize their profits, agents (executives) may have neither the incentive nor the interest to generate the highest possible profit (Berle & Means, 1932). As a result, company performance depends to some extent on owners’ abilities to effectively monitor and control their executives (Gedajlovic & Shapiro, 1998). Companies’ decisions regarding their internationalization strategy are of high strategic relevance and are likely to be subject to outside scrutiny. A large body of research shows that internationalization has an impact on a firm's performance (e.g. Contractor, Kundu & Hsu, 2003; Grant, 1987; Lu & Beamish, 2001; Ruigrok & Wagner, 2003; Sullivan, 1994). It can therefore be assumed that, in principle, owners of a company will closely monitor decisions related to increasing involvement outside the home country. This is particularly the case for publicly listed companies where corporate
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governance laws ensure that shareholders have access to transparent information regarding the firm’s (internationalization) strategy. However, the monitoring effect does not only hold for publicly listed companies. In India, for example, the business house structure is prevalent. In such a setting, executives of unlisted group companies are monitored by the group’s central governing body, which influences their decision making.

The more monitoring a TMT faces, the lower is its managerial discretion. That is under high TMT monitoring conditions the decision-making process takes place within a more closely observed (and potentially narrower) zone of what powerful parties perceive as acceptable. This, in turn, is associated with less room for executives to rely on their previously developed knowledge, past experiences, and intuition in decision-making. On the contrary, under such circumstances managers will be more conscious of ‘living by the rules’ and to have a clear (economic) rationale behind their decisions. In low TMT monitoring situations, on the other hand, executives are left with more room to rely on their intuition, which is influenced by their past experiences and their individual (career) characteristics.

5.2.4 Measuring the level of TMT monitoring

Agency theory proponents argue that a market for corporate control exists and becomes active when executives fail to maximize principals’ wealth (Fama & Jensen, 1983). The market for corporate control is likely to play a key role in the context of developments which greatly impact firm performance. The effectiveness of corporate control mechanisms in such decision-making situations largely depends on the quality of the governance mechanisms that companies have put in place.

Executives can be monitored by internal and external actors. This differentiation is important due to the information asymmetry that exists between internal (e.g. TMT and inside BoD members) and external actors (shareholders, regulators). Internal actors have access to extensive information regarding the operation of the firm, its economic potential and the quality of its work force (e.g. Leland & Pyle, 1977). Carter and Manaster (1990) use the example of an IPO situation to illustrate this point. Compared with current company owners, public market investors only have access to very limited information, which leaves substantial scope for information asymmetry (Downes & Heinkel, 1982). Similarly, shareholders of a publicly listed company will have only limited access to information compared to the company’s TMT or BoD.
This is driven by the fact that organizations are a complex creation of culture, technology, leadership, strategy and products active in a market and industry context (Cohen & Dean, 2005). Secondly, most of the information passed on to external actors is screened and filtered by the TMT and BoD.

Internal monitoring can be undertaken by the company’s BoD and among agents themselves. Boards of directors are economic institutions which, in theory, should help to solve the agency problems inherent in managing organizations (Hermalin & Weisbach, 2003). The distinction between inside and outside board members has been shown to be critical in corporate governance. As discussed above, inside directors have superior access to information which in principle would enable them to monitor executives better than outside directors (Baysinger & Hoskisson, 1990; Young, Ahlstrom, Bruton & Chan, 2001). However, they may be dependent on the CEO and therefore be less likely to challenge his or her decisions openly. Outside directors, on the other hand, are typically more closely aligned with the firm’s shareholders and therefore play a key role in monitoring the TMT. Their independence allows them to investigate and question the TMT’s decisions openly without having to fear negative consequences (financial, reputational or career wise) from such monitoring behavior. In fact the monitoring role can be viewed as the raison d'être of independent outside directors (Hillman & Dalziel, 2003). Past research indicates that the more independent outside directors on a board the higher the cumulative TMT monitoring will be, particularly in strategic decisions with potentially far-reaching financial impact. For example, in empirical studies it is found that in low performance situations, CEOs are more likely to be dismissed when the proportion of outside directors is high (Coughlan & Schmidt, 1985; Weisbach, 1988). Furthermore, Hermalin and Weisbach (1988) find that following poor performance firms are likely to add more outside directors to their board as a means of strengthening TMT monitoring. Therefore, it has often been argued that the proportion of (independent) outside directors on a board can be employed as a proxy for the level of TMT monitoring.

5.3 Hypotheses

Previous research suggests that different entry mode choices are associated with varying levels of risk, resource commitment and control (Anderson & Gatignon, 1986). Kogut and Singh (1988, p. 412) define a joint venture (shared control entry mode) as “the pooling of assets in a common and separate organization by two or
more firms who share joint ownership and control over the use and fruits of these assets”. By doing so participating firms also limit their risk, resource commitment and control. This stands in contrast to firms who choose to enter new markets through wholly owned subsidiaries or full acquisitions (full control entry mode) which requires maximum commitment and the willingness to carry the associated risk independently.

5.3.1 RC perspective: Prior company multinational experience and market entry mode preference

The RC perspective suggests that a firm’s choice of entry mode is associated with a set of firm and country level ownership, location and internalization advantages. In this paper we focus on one key ownership related entry mode choice association often put forward by RC scholars. As Datta, Herrmann and Rasheed (2002) posit, the international experience of the entrant firm is one of the most extensively analyzed antecedents of the choice of entry mode. Internationalization (Johanson & Vahlne, 1977) and transaction cost theory (Williamson, 1985) discuss international experience as a factor which greatly influences firms’ choice of market entry mode. As firms gain experience in internationalization they gradually develop the skills required to estimate costs and returns, to judge customer needs and to evaluate the overall economic benefit of foreign expansion (Davidson, 1980; Erramilli, 1991). Firms lacking international experience perceive significant uncertainty and tend to overstate risk and underestimate returns (Davidson, 1982; Gatignon & Anderson, 1988; Terpstra & Yu, 1988). As a result they often refrain from significant cross-border investments that require high levels of control (Johanson & Vahlne, 1977). However, with increasing experience firms acquire relevant knowledge and learn to deal with uncertainty, and as a result they become more confident in committing resources and assuming control (Anderson & Gatignon, 1986). Kogut (1983) posits that internationally experienced firms have moved so far down the learning curve that it can become a competitive advantage that is hard for other firms to emulate.

Overall, these arguments suggest that internationally experienced firms prefer high control over low control entry modes. Several studies have previously found empirical support for this argument in Western contexts (e.g. Agarwal & Ramaswami, 1992; Anderson & Gattignon, 1986; Caves & Mehra, 1986; Rajan & Pangarkar, 2000; for a review see Datta, Herrmann & Rasheed, 2002).
**Hypothesis 1a:** Higher degrees of company multinational experience prior to market entry are associated with a preference for full-control foreign market entry modes.

The extent to which top executives are monitored by the BoD influences the relationship between prior company experience and entry mode decisions. As the RC model predicts that it is economically rational for companies with higher levels of (firm-level) international experience to pursue higher-control entry modes, we expect that this inclination will be stronger with higher levels of monitoring of the TMT. Agency theory logic suggests that outside board members are more likely to question the actions and decisions of top managers. This puts pressure on top managers to be able to justify their strategic decisions on analytical grounds. A higher proportion of company outsiders on the BoD is therefore likely to intensify TMT monitoring and thereby encourage top managers to adopt a more rational and analytical approach to decision-making. Therefore, with higher levels of TMT monitoring, TMTs will increasingly make use of analytical tools and rational decision-making processes to assess arising opportunities relative to the company’s strengths and weaknesses. Thus, we expect that the RC-based relationship between prior multinational experience and higher-control entry modes will become stronger with higher proportions of outside BoD members.

**Hypothesis 1b:** The association between company multinational experience and full-control entry modes will be stronger with higher levels of TMT monitoring.

### 5.3.2 SDM perspective: TMT international capacity and market entry mode preference

Over the last decade researchers have shown an increasing interest in executives’ international experience and the outcomes associated with this aspect of career background (Finkelstein, Hambrick & Cannella, 2009). Jackson and Joshi (2011) emphasize that the rise of TMTs with multinational experience would be a key characteristic of the age of globalization. Theorists and scholars have argued that in the context of a firm’s internationalization its executives face particularly high information-processing requirements (Thompson, 1967; Sanders & Carpenter, 1998).
First, this can be explained by a “psychic distance” between the home and host country which complicates the process of accessing information (Johanson & Vahlne, 1977). Second, firms going global are exposed to a greater diversity of cultures (Gomez-Mejia & Palich, 1997; Hofstede, 2001), competitors, customers and regulatory realities (Brahm, 1994). Such an environment can be at odds with a “domestic managerial mindset” (Sanders & Carpenter, 1998, p. 160) of the TMT and pressures executives to allocate their attention to several geographical locations at the same time (Kim & Mauborgne, 1991). It can therefore be reasoned that being able to draw on prior experiences and knowledge in different contexts will help executives to handle decision making relating to firm internationalization more confidently. This is in line with previous work which finds a significant positive relationship between executives’ international experience and a firm’s degree of internationalization (Carpenter, Sanders & Gregersen, 2001; Sambharya, 1996). Nielsen and Nielsen (2011) as well as Herrmann and Datta (2002, 2006) studied the international experience of the TMT/CEO in the context of firms’ choice of market entry mode. The latter find that CEOs with no or only limited international experience tend to exaggerate the risks and understate the returns associated with high control entry modes (full acquisition, greenfield entry) and therefore would prefer low control entry modes (contracts, partial acquisitions, JVs). Nielsen and Nielsen (2011) find that TMTs with a high proportion of internationally experienced executives tend to prefer high over low control entry modes.

Yet previous research also provides support for the opposite argument. According to Athanassiou and Nigh (2002), for example, the international business experience of TMTs facilitates access to international networks and with that increases executives’ social capital (Burt, 1997a, 1997b). This, in turn, develops an executive’s ability to identify and work with foreign partners effectively. Executive international experience helps to mitigate the challenges which are associated with coordination and communications between culturally distant partners (Child, Markoczy & Cheung, 1992). Furthermore, it augments executives’ awareness of international opportunities (Tihanyi, Ellstrand, Daily & Dalton, 2000). Tung and Miller (1990) find that experience of international assignment increases managers’ confidence in being able to manage their firm’s international activities effectively. Following this rationale one could conclude that it reduces the “psychic distance” (Johnson & Vahlne, 1977) between international business partners and allows for more efficient cross-cultural
management. Unlike high control entry modes, low control market entries, particularly joint ventures, provide companies with opportunities to expand their geographic market participation rapidly, create critical mass and build new intellectual property while taking comparatively low risks (Bleeke & Ernst, 1993; Park & Ungson, 1997; Slocum & Lei, 1992). Taken together these arguments propose that internationally experienced TMTs may be inclined to prefer low control over high control foreign market entry modes:

**Hypothesis 2a:** Higher TMT international experience is associated with a preference for shared-control foreign market entry modes.

The extent to which top executives are monitored by the BoD influences the relationship between TMT international experience and the choice of foreign market entry modes. In line with agency theory predictions, insider-dominated BoDs are less likely to be active and vigilant monitors of TMT decision-making, as the relationships between inside board members and top managers are often characterized by high levels of mutual dependence. A lower proportion of outside BoD members is therefore likely to increase TMT members’ latitude of action, allowing top managers to act more intuitively based on their accumulated knowledge and past experiences to derive strategic decisions. Vice versa, outsider-dominated BoDs will reduce TMT members’ discretion and require more analysis and rational justification in strategic decision-making processes. Thus, we expect that with decreasing levels of TMT monitoring, the SDM-based relationship between TMT international experience and lower-control entry modes will become increasingly pronounced, as top managers under such circumstances are able to fully utilize their international experience backgrounds to carve out foreign market opportunities and seek new partnerships abroad.

**Hypothesis 2b:** The association between TMT international experience and shared-control entry modes will be stronger with lower levels of TMT monitoring.

Figure 20 illustrates the hypothesized associations graphically.
5.4 Methodology

5.4.1 Sample

Our sample consists of detailed data on executive demographics, company finances and market entry mode strategies from operating companies of India’s largest business house. On June 30, 2011, the Tata business house listed 92 independent group operating companies on its corporate website. We excluded 20 of these companies because they fell in one of the following categories: divisions or investment arms of the holding company; companies where the business house only has limited steering power; and small subsidiaries of larger companies in the group. Excluding these companies increased the comparability of the sample firms and means that the business house has significant steering power in all of them. Of the remaining 72 companies, 25 entered at least one new country between FY 2008-09 and FY 2010-11 (72 market entries in total). These companies entered an average of 2.9 new countries during this three-year period. FDI activities in a country where a company already had an established presence (independent or with a partner) were not
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considered. In our sample we reconstruct the TMTs (CEO and direct reports) of the 25 operating companies with foreign market entries in FY 2008-09, FY 2009-10 and FY 2010-11. If a company has entered at least one new country every year over a three year period three different TMTs are included in the sample (changes in TMT composition reflected). In total 297 detailed executive profiles are included in the analysis. The dataset holds complete data across all variables included in the analysis, both in terms of executive demographics and company financial/ market entry mode data.

Our analysis is based solely on primary data. To obtain the required information on executive demographics and company finances and internationalization, cooperation with the Indian business house was established. The group Chairman and Group HR Head endorsed the research project and facilitated access to group companies. Group affiliates were approached by the Chairman’s or the HR Head’s offices, requesting HR Directors and CFOs to provide the required executive demographic and company financial and market entry mode data respectively. A detailed description of the necessary data as well as a data input template was prepared to facilitate the data collection process (see Appendices 2.1 and 2.2). Data requests were sent out in stages to allow for timely follow-up. Once companies had submitted their data the HR Heads and CFOs were approached again by phone in order to make sure that the TMT definition employed in this study is followed consistently across all companies and to understand distinctive features of the submitted data (e.g. reasons for creating a new management position in a certain Financial Year) more thoroughly.

5.4.2 Measures

5.4.2.1 Dependent variable

The dependent variable employed in this study is defined as the varying levels of control associated with different choices of market entry mode. Shared control market entry modes are coded as 1. We include Greenfield JVs, Contracts (e.g. Licensing) and Partial Acquisitions (<=95% of equity) in this category. Greenfield JVs are new entities created by pooling the assets of at least two firms (Herrmann & Datta, 2006; Kogut & Singh, 1988). We define full acquisitions and greenfield entries as full-control entries where the investing firm owns more than 95% of the equity (Arregle, Hebert & Beamish, 2006; Brouthers, Brouthers & Werner, 2008). Full acquisitions
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and independent greenfield entries are coded as 2 and 3 respectively. This approach is in line with previous work which arranges the different modes of entries along a continuum of increasing control, commitment and risk (e.g. Erramilli & Rao, 1990; Hill, Hwang & Kim, 1990; see also Brouthers & Hennart, 2007). In this context control means authority over strategic and operational decision-making (Porter, 1986). Control has traditionally been perceived as flowing from ownership. That is, the greater the level of ownership of a venture, the greater the control associated with it (Anderson & Gatignon, 1986). Resource commitment means deploying assets which cannot be redeployed in other ventures without loss of value (Kim & Hwang, 1992).

5.4.2.2 Independent variables

The analysis includes different predictor variables for the SDM and RC models. We employ two different independent variables in the SDM model (run in separate models) to capture a TMT’s collective international experience. The first measure, following the concept of intrapersonal functional diversity (Bunderson & Sutcliffe, 2002), captures the extent to which TMT executives have built international experience in only a few versus many different geographic areas. Operationally, intrapersonal international career diversity is first measured at the individual level using Blau’s (1977) index, calculated as $1 - \sum p_i^2$, where $p$ represents the proportion of an executive’s career spent in the $i$th country. Blau’s index is considered adequate to measure heterogeneity of categorical variables (Harrison & Klein, 2007). In a second step, international career diversity at the team level is calculated as the average individual intrapersonal international career diversity of all TMT members. One of the strengths of this construct is that it accounts for both breadth (number of geographic areas/ countries where an executive obtained international experience) and depth (number of years per geographic area) of executives’ international experience. In addition, following Carpenter et al. (2002) and Nielsen and Nielsen (2011), we also measure TMT international experience as the percentage of TMT members with international experience.

Constructs related to ownership advantages such as a firm's multinational experience have previously been modeled by a combination of direct measures and proxy variables. Agarwal and Ramaswami (1992), for example, employ a survey to

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37 Other than Nielsen and Nielsen (2011) we include the CEO in our calculations.
Consequences of TMT composition

obtain information on firms’ OLI determinant factors. They measure company multinational experience with a combination of proxy variables and direct measures, i.e. foreign sales to total sales (proxy), perceived degree of multinationality (direct) and perceived readiness to handle international business (direct). However, the use of direct measures to gauge firm ownership advantages may not be adequate when aiming to discuss the relative validity of RC versus SDM based research models. Ramaswami and Agarwal (1992, p. 3) state that “perceptions may be different due to variations’ in managers’ past experiences”. This argument builds on the concept of bounded rationality put forward by Cyert and March (1963), which is also a cornerstone of the UE perspective. We therefore rely solely on a proxy measure to capture firms’ multinational experience in our research design. In the RC model, prior multinational experience of the firm is measured as the average of the degree of internationalization (DOI, defined as foreign sales to total sales) of the three financial years prior to the analyzed market entry. A number of previous studies have measured companies’ multinational experience (or international diversification) as foreign sales divided by total sales (see Tihanyi, Griffith & Russell, 2005, for a meta-analysis).

5.4.2.3 Moderating variables

We include the proportion of non-executive independent outside directors on a company’s Board of Directors in the year the market entry takes place as moderator variable in both the SDM and RC models. We define non-executive independent outside directors following the Securities and Exchange Board of India (2004, clause 49):

[...] an independent director, apart from receiving director’s remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director.

Applied to our study sample this means that non-executive independent outside directors are board members who have no executive or non-executive function in the promoter company or in any of the other operating companies of the business house.
Consequences of TMT composition

This definition is in line with what Peng (2004) calls non-affiliated outside directors. As theoretically derived above, we employ the moderating variable as proxy for the level of TMT monitoring.

5.4.2.4 Control variables

We include the following control variables in our research models. Industry characteristics may influence the choice of foreign entry mode (Luo, 2001). We therefore control for industry affiliation. Operating companies of the studied business house are categorized in seven industry clusters: Communications & IT, Services, Engineering, Materials, Energy, Consumer Products and Chemicals. From these clusters we build the industry categories ‘Services’ (Services, Communications & IT) and ‘Manufacturing’ (all other industry clusters) and include one of these categories as a dummy variable in the empirical models. Consistent with prior research we control for two aspects related to the host country which may influence the choice of entry mode (Nielsen & Nielsen, 2011; Slangen & van Tulder, 2009): cultural distance and quality of governance.

We follow Kogut and Singh (1988) to measure cultural distance. Based on the four cultural dimensions of power distance, uncertainty avoidance, masculinity/femininity and individualism (Hofstede, 1980, 2001) we form a composite index on the deviation along each of the four cultural dimensions for every country from the score of India. The deviations of the host country scores from India are corrected for differences in the variance of each dimension and then averaged. In summary, cultural distance was calculated as follows: 

$$CD_a = \sum \left( \frac{(I_{ba} - I_{bc})^2}{V_b} \right)/4.$$ 

$I_{ba}$ represents the index for the $b$th cultural dimension and the $a$th country, $c$ is India and $V_b$ is the variance of the index of the $b$th dimension. We average Kaufmann, Kraay and Mastruzzi’s (2009) six dimensions of host country governance quality (voice and accountability, political stability, government effectiveness, regulatory quality, rules of law and control of corruption) of the year a market entry takes place to control for quality of governance in the host country. Higher values indicate higher levels of governance quality. Furthermore, given that firm size may impact choice of entry mode (Brouthers & Brouthers, 2003) we employ the total number of employees in the year of the market entry as control for company size (e.g. Gatignon & Anderson, 1988). Finally, in our SDM models we control for TMT size by the number of TMT members.
5.4.3 Analytical strategy

Our dependent variable is treated as ordinal under the assumption that the levels of firm control, resource commitment and risk associated with a particular choice of market entry mode have a natural ordering (low to high), but the exact distances between adjacent levels are unknown. We therefore tested the hypotheses using staged ordinal logistic regression analysis (Menard, 1995). Separate SDM and RC models were employed. All control variables including the TMT monitoring proxy hypothesized to moderate the main effect were entered in the first step of regression. In a second step, the main predictor variables were added to the model (SDM: TMT international diversity/ proportion of executives with international experience; RC: prior firm multinational experience). In Model III the moderator was added. It is acknowledged that in our research setup high internal validity (focus on market entries of one Indian business house) comes at the cost of a relatively small sample size (N=72). Nemes, Jonasson, Genell and Steineck (2009) find that in logistic regression models sample size determines the size of bias in regression parameter estimates. That is, logistic regression tends to overestimate odds ratios for small to moderate samples. This explains the high/low odds ratios we report in our models (particularly in the full models, see below). However, all empirically tested models follow Peduzzi, Concato, Kemper, Holford and Feinstein’s (1996) guideline not to fall below 10 cases per model variable to obtain valid results when employing ordinal logistic regression.

5.5 Results

Below we present the logistic regression results of the RC and SDM models separately.

5.5.1 RC model: Means, standard deviations, correlations and regression results

The means, standard deviations and correlations among the RC study variables are presented in Appendix 4.1. The correlation matrix shows a very high correlation between the predictor and moderator variable with industry affiliation. This indicates that the inclusion of industry affiliation as a control significantly impacts regression results. No further potentially problematic correlations are identified.
Ordinal logistic regression results of the RC model including industry affiliation as control variable are presented in Appendix 4.2. The base model with all control variables is statistically significant with a log likelihood chi-square of 25.54 (p<0.001). Model 2a, including the predictor variable, is also statistically significant (p<0.001). However, in this model no support for Hypothesis 1a is found as it does not show a statistically significant association between prior degree of company multinational experience and the outcome variable. Only after including the moderator (Model 3a) is Hypothesis 1a confirmed. Contrary to expectations, we find that the level of TMT monitoring negatively moderates the main effect. The higher the proportion of outside board directors the weaker the positive association between the predictor and outcome variable seems to be (Hypothesis 1b).

**Figure 21: Graphical illustration of moderating effect in rational choice model**

![Graphical illustration of moderating effect in rational choice model](image-url)

*Source: Author*
It is acknowledged that the magnitude of moderator effects in nonlinear models differs from the marginal effect of the moderator term (Ai & Norton, 2003)\(^{38}\). Therefore, it is only possible to interpret the moderator term rigorously by plotting its effect in relation to the predictor and outcome variable. Drawing inferences of statistical effects by looking at the odds ratios alone is not possible as it may lead to incorrect interpretations. Figure 21 displays the moderating effect graphically. The positive association between firms’ prior multinational experience and market entry mode level of control is stronger for companies with lower proportions of outside directors on their boards. In firms with many outside independent relative to dependent board directors the hypothesized RC main effect is weaker. Overall, Model 3a is statistically significant with a log likelihood chi-square of 34.33 (p<0.001) and a mean VIF of 2.67 (max. VIF = 5.79). Therefore, multicollinearity is not problematic in this analysis as the greatest VIF factor found lies substantially below the conservative cut-off of 10 suggested by Hair, Anderson, Tatham and Black (2006). Finally, the likelihood ratio test reveals that predictor and moderator variables significantly add to the prediction of our dependent variable (LR chi(3) = 12.31; p>chi2 = 0.0064).

Given the very high correlation between the predictor and moderator variable with industry affiliation (0.65 and 0.76 respectively, p<0.001) we also ran our model excluding industry affiliation as control (see Appendix 4.3). Becker (2005) suggests that highly correlated variables may cause biased estimates of parameters and thus distort results. Another reason why the exclusion of industry affiliation as control is defensible is related to our study sample. We test our model in the context of an Indian business house for whose operating companies one can expect a certain degree of alignment and cohesion in how their international expansion strategy is implemented. That is, certain group level rules and trusted strategy approaches apply across different industries (Encarnation, 1989; Granovetter, 1994; Khanna & Rivkin, 2001). The resulting Models 2b and 3b are both statistically significant at the 10% and 0.1% levels respectively. Without employing industry affiliation as control, Hypothesis 1a is clearly supported. Model 3b confirms the results presented above. The final model has a mean VIF of 2.57 (max. VIF = 5.22) and the proportional odds

\(^{38}\) Therefore the odds ratios in all our full models deviate strongly from 1.
assumption is met. The likelihood ratio test is statistically significant (LR chi2(3) = 12.67; p>chi2 = 0.0054).

5.5.2 SDM model: Means, standard deviations, correlations and regression results

Appendix 4.4 presents the means, standard deviations and correlations among the SDM study variables. The very high correlation between company size and TMT size stands out (0.991, p<0.1%). Following Becker (2005) we decided not to include TMT size in the ordinal logistic regression as highly correlated control variables could cause biased estimates of our parameters. The correlation matrix does not bring to the fore any further problematic correlations between variables included in the analysis.

Results of the staged logistic regression with average of international career diversity of the TMT as predictor are presented in Appendix 4.5. Model 1 includes all control variables and is statistically significant with a log likelihood chi-square of 25.5 (p<0.1%). The addition of the main predictor variable results in a statistically significant model (Log likelihood chi-square: 29.6, p<0.1%) confirming Hypothesis 2a. For a one-unit increase in international career diversity at the TMT level we would expect a 11.9 decrease in the log odds of high versus lower control market entry modes. In terms of the reported odds ratio this means that increasing TMT international career diversity is associated with a significantly lower probability of companies choosing high versus lower control market entry modes. The inclusion of the hypothesized moderator leads to Model 3. When governance of the host country is included as control the proportional odds assumption is violated. Given that this variable was not statistically significant at the 95% confidence level in Models 1 and 2, we ran the final model without host country governance as control. The exclusion of this control does not change the statistical findings. The final model (3a) is statistically significant with a log likelihood chi-square of 31.9 (p<0.1%). The main predictor as well as the moderator variables were centered to avoid multicollinearity (mean VIF = 2.21, max. VIF = 4.52). The proportional odds assumption is met (p>chi2 = 0.2458). The likelihood-ratio test reveals that the inclusion of the predictor and moderator variables significantly improve the prediction of the choice of market entry mode (LR chi2(1) = 6.35; p>chi2 = 0.0118). As in Model 2a, the TMT's level of international
career diversity is negatively associated with the level of market entry control (Hypothesis 2a). Furthermore, the proportion of independent outside directors seems to moderate the main effect negatively (Hypothesis 2b, p<0.1%).

Figure 22 illustrates how the level of TMT monitoring moderates the main effect. The negative association between the TMT's international capacity and the level of control of market entry mode is stronger for companies with a higher proportion of outside directors on their boards. Conversely the main effect is weaker for firms with boards dominated by internal directors.

**Figure 22: Graphical illustration of moderating effect in strategic decision-making model**

![Graphical illustration of moderating effect in strategic decision-making model](image)

*Source: Author*

The results presented above are confirmed when we include the percentage of TMT members with international experience as predictor (instead of TMT level

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39 For a one-unit increase in TMT level international career diversity we would expect a 12.4 decrease in the log odds of high versus lower control market entry modes.
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international career diversity) in our models. Here the proportional odds assumption is also met when we include host country governance as control (see Appendices 6 and 7). Multicollinearity is not problematic (mean VIF = 1.83; max. VIF = 3.39). Again, the likelihood ratio tests confirm that predictor and moderator variables significantly add to the prediction of our dependent variable (LR chi(2) = 11.88; p>chi2 = 0.0026).

It should be noted that in both presented versions of the model services companies seem to have a preference for higher control market entry modes. This is in line with previous research which finds that, driven by the people-intensive nature of the business, the choice of market entry mode by service firms is influenced by factors different than those of investment-intensive manufacturing companies (Brouthers & Brouthers, 2003).

5.6 Discussion and conclusions

The findings of this study have several key implications for our understanding of foreign market entry behavior and the interdependence of firm governance characteristics in strategic decision-making at Indian firms. We illustrate how TMT- and firm-level factors interact and complement each other to determine firms’ internationalization behavior, extending Kirca, Hult, Deligonul, Perry, and Cavusgil’s (2012) finding that TMT- and firm-level characteristics are antecedents of firm multinationality. Furthermore, we challenge the established logic that both firm- and TMT-level international experience are associated with higher-control entry mode preferences in foreign markets. Instead, we show that opposing logics may apply to the effects of international experience at firm- and TMT-level on firms’ internationalization behavior in the Indian context and explain how these logics may co-exist. Finally, our findings suggest that the monitoring and advisory roles of inside vs. outside BoD members in TMT decision-making processes require an alternative assessment in the context of our study.

First, we find that TMT international experience, regardless of whether it is measured as experiential depth or breadth is associated with a preference for lower control market entry modes. At the same time, firm-level international experience is associated with a preference for higher-control entry modes. These findings suggest that in the Indian context in which our study is situated, there may be two competing logics that co-exist with regard to the value of international experience in the
internationalization process. On the one hand, individually held international experience is likely to be a relatively rare commodity among TMT members, providing top managers that have such experience with the required levels of confidence and credibility to develop foreign market opportunities and build foreign partnerships at their own discretion on behalf of the company. As most Indian companies are at rather early stages of internationalization, such managers may prefer a rather low-risk, exploratory approach to foreign market entry, which is congruent with a preference for shared-control entry modes. A second possible explanation may be related to ownership structure. Highly diversified business houses still dominate India’s private sector (Khanna & Rivkin, 2001; Yiu, Lu, Bruton & Hoskisson, 2007). Unlike most Western companies, Indian business group affiliates are actively supported by the promoter company when expanding into new markets. Becker-Ritterspach and Bruche (2012, p. 240) argue that group embeddedness provides affiliates with access to “internal project execution capabilities” which can be converted into successful exploitation of international assets. For example, Ratan Tata, the Tata Group Chairman, has been the strategist and driving force behind his group’s international M&A spree. Tata Sons, the promoter company of the Tata Group, has also appointed an experienced M&A specialist to its board. His main role is to provide M&A specialist knowledge to group affiliates. Another Tata Sons director reports that the M&A specialist’s appointment would have led to a significantly higher proportion of market entries through M&A: “When you put an M&A specialist on the board he will create work and advise affiliates to buy companies”.

TMTs with limited international capacity may particularly rely on the advice of the promoter company. Lack of self-confidence in handling international partners in combination with extensive M&A expertise at the group center may explain the preference of such firms for high control entry modes. Western companies with low TMT international capacity cannot count on similar ‘internal support’. As a result, as empirical studies show (e.g. Nielsen & Nielsen, 2011) they seem to display a preference for low investment market entries to minimize risks.

On the other hand, collectively held multinational experience at the firm-level is associated with a preference for higher control entry modes. Our findings suggest that previous results from Western contexts (Agarwal & Ramaswami, 1992; Anderson & Gattignon, 1986; Caves & Mehra, 1986; Rajan & Pangarkar, 2000; for a review see Datta, Herrmann & Rasheed, 2002) are also valid in the Indian context. The more
cumulative international experience firms obtain the more confident they become to committing resources and to entering additional new markets with high control entry modes. The Managing Director of one of the biggest companies included in our analysis confirms this logic by stating: “We have only started to seriously consider entering new markets by M&A in the last four to five years. Before that we lacked experience in internationalizing our business, size and were not yet mature enough to integrate other companies in our own organization”.

Taken together, our findings suggest that TMT- and firm-level factors are not only antecedents of firm multinationality, as outlined by Kirca, et al. (2012), but they also determine firms’ internationalization behavior by influencing their strategic choices and entry mode preferences. These findings suggest that economic rationality and TMT backgrounds concurrently determine firms’ internationalization behavior and strategic decision-making and that they need to be viewed as complementary lenses to be considered simultaneously to explain internationalization behavior in future research.

The monitoring context under which foreign market entry decisions are made helps us to further improve our understanding of the complementarity of the RC- and SDM-based models of internationalization behavior. Contrary to our hypotheses, the level of TMT monitoring moderates the main RC effect negatively. Likewise, in the SDM model we find opposite to expected moderating effects. Deviating from what was theoretically derived these results would have to be interpreted as follows: the more tightly the TMT is controlled the more scope seems to exist for executives to rely on their past experiences (bounded rationality) in the decision-making process. This seems to be a highly counter-intuitive finding. Therefore, when putting the findings into a bigger context to draw conclusions it is crucial to discuss potential underlying reasons for the unexpected moderating effect found in the empirical models.

The underlying assumption of how we capture the level of TMT monitoring in our models is related to agency theory. Research and practice in corporate governance is predominantly based on agency theory and a focus on board monitoring tasks (Huse, 2005; Roberts, McNulty & Stiles, 2005; Shen, 2005). Following this line of thinking, independent outside directors are perceived as being best equipped to control the behavior and decisions of the TMT in order to maximize owners’ value (Fama & Jensen, 1983). Their monitoring task typically includes control of company
Consequences of TMT composition

performance, the assessment of TMT behaviors, the monitoring of the company’s activities and the like (Huse, 2005; Johnson, Daily & Ellstrand, 1996; Stiles & Taylor, 2001). The rationale that the higher the proportion of independent outside directors on a company board, the higher the level of monitoring of the TMT and the lower executives’ latitude of action should be was built around this logic. However, the rationale behind agency theory is largely based on the US and UK contexts where the concept of independent outside directors originated. It is argued that our counter-intuitive findings may be explained by the inappropriateness of applying this rationale to the Indian context.

While in the US and the UK diffused shareholding structures are predominant, in India concentrated ownership structures are common (Zattoni, Pedersen & Kumar, 2009). These different structures lead to varying agency problems and corporate governance models. The US and the UK follow the outside model of corporate governance, where measures to enhance corporate governance are mainly aimed at resolving the principal-agent problem. India, on the other hand, follows the insider model of corporate governance, “which is characterized by cohesive groups of ‘insiders’ who have a closer and more long-term relationship with the company” (Varottil, 2010, p. 288). In such a setting, protecting minority shareholders vis-à-vis the controlling shareholders is more important (the majority-minority agency problem). These differences also explain why the role and effectiveness of independent outside directors, particularly with regard to TMT monitoring, in India may not be comparable with the West. In fact, contrary to what the traditional agency theory (Fama, 1980) logic predicts, a higher proportion of independent outside directors on boards in India may be associated with more rather than less executive latitude of action. Below we discuss the role of independent outside directors in India in more detail to sustain this argument.

First, recent studies conclude that a lack of clear guidelines and powers for independent outside directors in India arguably renders their impact on firm governance negligible. Khanna and Mathew (2010, p. 37), for example, highlight that “neither the listing standards, nor the Companies Act, prescribe a particular role for independent directors vis-à-vis the executives, promoter-affiliated directors or the public shareholders, or define the contours of their liability with any real precision”. As a result, most independent outside directors would perceive their role principally as that of a strategic advisor and not as a ‘watchdog’ over the management and
promoters. Second, there exists no requirement for an independent nomination committee to appoint independent outside directors. As a result, the currently predominant nomination process allows the “appointment of friends or colleagues of promoters or controlling shareholders” as independent outside directors (NFCG India, 2007, p. 52). The implicit power of controlling shareholders to appoint and replace the entire board renders it questionable whether such directors are truly independent, let alone capable of taking on a monitoring role. Several executives and directors whom we interviewed in this context confirm that one could often sense a certain degree of ‘playing along’ by independent directors with whatever promoter directors propose. Similar tendencies are found in China. According to Judge, Douglas and Kutan (2008), in China 72% of BoD members are independent outside directors, 80% of whom are recruited and appointed by the government, which in turn is generally the controlling shareholder. Third, the fact that controlling shareholders have almost complete control over who sits on the board also makes it likely that the information asymmetry (Johanson & Vahlne, 1977) between internal and outside directors is particularly distinct. In sum, monitoring, which has been the driver behind the emergence of independent outside directors in the US and the UK, does not seem to be an integral part of an Indian independent outside director’s role. In fact, the status quo rather implies that more independent outside directors on a board may be associated with lower overall monitoring of the TMT and promoter. That independent outside directors in India do not primarily fulfill a “watchdog” role may also be driven by a fundamentally different approach of traditional Indian business houses towards governance. The Tata Group, for example, has from its inception been built around trust and the concept of returning to society what is earned. In such an organization the perceived need for independent “watchdogs” may implicitly be lower.

When applying this contextual rationale to the logic of our moderating hypotheses the empirical results support Hypotheses 1b and 2b. In the RC model we find that the lower the proportion of independent outside directors the lower executives’ latitude of action, which in turn strengthens the positive association between a firm’s prior multinational experience and market entry mode control. On the other hand, the higher executives’ latitude of action the weaker is the main effect. That is, the more closely executives are monitored the higher the explanatory strength of RC based models, which are based on the idea that company decisions are always taken in line with economic rationality. In our SDM model the opposite effect is the case. Here we find
that the explanatory strength of the model is higher when executives’ latitude of action is high\(^40\). Conversely, in high TMT monitoring environments the explanatory strength of such models is lower. In theoretical terms this means that the validity of bounded rationality (Cyert & March, 1963) based analysis is reduced as a degree of ‘complete rationality’ may be forced upon executives in high monitoring environments. Tightly monitored TMTs may feel pressure to always go ‘by the books’, to rely solely on fact-based market analysis, comprehensive due diligence and tangible economic measures to evaluate which market entry mode will maximize value for the company. Such an approach makes it easier for executives to legitimate their decisions in front of the powerful parties, which ultimately define executives’ current and future latitude of action (Crossland & Hambrick, 2011) as well as decide about their future role in the company. As a result, executives’ backgrounds, past experiences and instinct automatically play an ancillary role. This is in line with Hambrick and Finkelstein’s (1987) proposition that UE theory would be more valid in high discretion (high executive latitude of action) environments.

Our findings have implications for scholars, practitioners as well as policy makers. In an update on UE theory Hambrick (2007) encourages researchers to apply the UE logic to contexts other than the US or Western Europe and proposes that outcomes may vary significantly depending on the macro social context. The main effect reported in the SDM model is a case in point. We find that the impact of international capacity of the TMT on firms’ choice of market entry mode in the Indian context seems to be different than in the West. This stresses the importance of caution when generalizing UE findings across contexts. Moreover, our results illustrate that the logic of agency theory dominant in the literature is not directly transferable to countries with agency problems and corporate governance systems different than those typically found in the West. In fact, not taking these contextual particularities into account and blindly following the Western agency theory view may lead to misinterpretation of results. Our work also puts UE theory in context with other factors which impact executive behavior, and with that it responds to Carpenter et al. (2004, p. 772) who posit:

\(^{40}\) Low level of TMT monitoring due to high proportion of independent outside directors.
Consequences of TMT composition

[...] that the UE perspective focuses on executive backgrounds as the primary indicator of their mindsets and potential behaviors. This, however, ignores other structural determinants of their behaviors and orientations such as corporate governance (e.g. boards and compensation) and organizational structure.

More broadly, we hope that our work encourages both RC and SDM scholars to take a more comprehensive view when studying key strategic decisions such as choice of market entry mode and to find ways to integrate both lines of thinking. As our models show, the level of TMT monitoring by the BoD is a promising measure to gauge the validity of RC and SDM models depending on the study context.

For practitioners and policy makers alike our results provide confirmatory insights with regard to the effectiveness of monitoring by independent outside directors in India. The application of typical Western corporate governance measures to India does not necessarily have the desired effect. To enable independent outside directors to play an effective monitoring role in Indian companies, policies need to account for contextual characteristics, above all the predominant ownership structure in India. Overall, practitioners in general and Indian promoter companies in particular should take note that factors both of TMT composition and the level of monitoring of the TMT seem to have a profound impact on how key strategic decisions such as the choice of a foreign market entry mode are taken.

This study has limitations, some of which also serve to delineate potential future research directions. First, one could argue that our models suffer from endogeneity, a common reverse causality issue (Hambrick, 2007). Firms’ preference for higher or lower control entry modes may not be explained mainly by their prior multinational experience or higher international capacity of the TMT. The causal chain may also be propelled by other firm characteristics which are typically associated with more or less international experience or international career diversity of the TMT. For example, it is possible that more mature firms (e.g. in terms of age and available capital for venturing abroad) will tend to prefer higher versus lower control entry modes. Our models do not account for all these possible endogeneity effects. Second, we employ a dataset of operating companies all affiliated with one Indian business house. While the fact that we use primary data capturing all geographic market entries of India’s largest
business house over a three-year period leads to highly robust results in our study setting (internal validity) and can be deemed representative of internationally emerging Indian business houses, generalizability to a broader international context is limited. Furthermore, it also explains the relatively small sample size employed in our statistical models and related limitations (see analytical strategy).

Third, we focus on prior multinational experience of the firm (RC model) and international capacity of the TMT (SDM model) to address how the validity of RC and SDM models varies depending on TMT monitoring levels. Going forward there is ample room to analyze whether our results are confirmed when tested with other researched firm level variables such as company size (RC) or constructs related to TMT size or executive tenure (SDM). Fourth, our contextually driven conclusion that unlike in Western contexts a higher proportion of independent outside directors on corporate boards in India may increase rather than limit executives’ latitude of action needs further (empirical) validation. More broadly, it would be interesting to explore further ways to measure effectively the level of TMT monitoring and how this impacts executives’ latitude of action (e.g. culture or ownership structure related constructs). Finally, we acknowledge the ‘black box’ issues associated with the demography approach (Lawrence, 1997; Priem, Lyon & Dess, 1999). We hope that our study will provoke more research which includes both RC and SDM related constructs to study strategically important decisions such as companies’ choice of foreign market entry mode.
6 Conclusions

This doctoral thesis aimed at exploring UE research in the Asian context and at advancing our knowledge about the antecedents and the status quo of TMT composition, trends in top executive appointments, and executive effects on firms’ choice of market entry mode, in India. While the empirical work was mainly based on quantitative data, the interpretation of study findings also rests on qualitative input from 30 CEOs, Chairmen, Directors and HR Heads. The entire project was conducted with the support of the Tata Group. Though the study setup and research questions are clearly tailored towards fulfilling the requirements of an academic dissertation and the main contribution is thus of this nature, the use of quantitative primary data complemented at times with qualitative input from involved practitioners made sure that the investigations performed also have implications for practice. With that it also responds to one of the main points of criticism of UE research, which emphasizes the lack of direct practical relevance of large-scale studies based entirely on secondary data.

The focus of this dissertation fits well with a growing trend to conduct UE research in Asian contexts, as identified in the first paper. One of the main messages of this thesis is that the choice of study context significantly impacts the expected explanatory strength as well as the outcomes of UE research. A comparative theoretical overview of how informal institutions such as national cultural traits and formal institutions such as a country's legal origin or rules related to board governance influence executives’ latitude of action revealed that top executives working in Asian contexts typically seem to be more constrained in their decision-making than their peers in the West. When comparing different (emerging) Asian economies, Chinese and Taiwanese executives seem to be more constrained and therefore should have less direct impact on organizational outcomes than their counterparts in India or Japan.

The impact of context on results comes to the fore across all investigations in this thesis and confirms Hambrick’s (2007) proposition that UE theory may take on different complexions when applied to non-Western contexts. The analysis of characteristics associated with different career velocities revealed that, unlike in Western contexts, in India higher levels of international career diversity tend to be associated with faster, not slower, career ascendancy. The recent focus of Indian business houses to increase their international posture and consequently their
Conclusions

dependence on international management capabilities was brought forward as an important explanation for the finding. The result that recent TMT appointees are more likely to be foreigners than peers appointed earlier was interpreted in a similar vein. Also, while recently appointed CEOs of Tata Group affiliates are tending to be younger, the opposite is the case for other TMT members, indicating that in a society where age, tenure and seniority play an important role, young leaders may prefer to surround themselves with “tenured experience”. Finally, the ownership structure and the stage of internationalization of the studied business house and India-specific board governance mechanisms also played a major role in interpreting results related to companies’ choice of market entry mode.

Statements from various discussions with involved executives suggest that some of these findings may also reflect a tendency of the group center leadership of Indian business houses to focus mainly on the CEO level when implementing management related policies across operating companies (e.g. rejuvenation of management). Developments at the non-CEO TMT level, on the other hand, may not always be followed as closely. This implies that Hambrick and Mason’s (1984) proposition to focus on entire TMTs rather than only the CEO may also prove to be beneficial for practitioners: As could be read from the opinions expressed by several executives interviewed, a closer look at the entire TMT can indeed be eye-opening and foster a more informed and holistic discussion about promising policies related to leadership development and structure.

The above and other findings of this dissertation have direct implications for practice. First, the results of the second paper suggest that investing in the development of experience related characteristics (international exposure, management education) or providing talents with opportunities to build a strong professional network early in their careers significantly helps to optimize the use of a company’s best human resources and to secure a solid leadership pipeline. Second, the analytically backed overview of how the TMTs of India’s largest business house are currently composed and which career profiles recently have given executives a higher probability of making it to the corporate level provide aspiring executives with hints about what backgrounds and skills are likely to be valued most going forward, and may guide them when deciding about ‘next steps’ in their careers. Moreover, these results indicate that Indian TMTs are in the process of becoming more and more diverse (in some but not all aspects), which will render them increasingly interesting
Conclusions

for both researchers (to conduct diversity or UE research in general) and various private sector services providers (e.g. executive relocation services, inter-cultural management consultants). The analysis presented in the third paper also exposes ongoing challenges related to TMT composition (e.g. the fact that less than 5% of all executives analyzed in this study are female) and can be used as basis for an informed discussion about how to address them. Last but not least, the findings of the fourth paper create awareness that TMT composition, specifically the level of international career capacity available in a team, significantly impacts what routes companies tend to choose when they venture abroad. Given the strategic importance, complexity and potentially considerable impact on performance of market entry mode choices, a thorough understanding of related TMT compositional effects can be beneficial for companies. Furthermore, the paper reveals that the effects of corporate governance measures originating from the West (derived on the basis of Western theories) and implemented in India can be ambiguous, if not unintended, in this context.

A further important message of this dissertation is that while there is a growing trend towards more empirical UE research based on Asian samples, significant room exists to move from replication to context driven innovation, providing scholars with a unique opportunity to leave their mark by further developing UE theory in still relatively untapped study settings. As discussed in the first paper of this thesis, a majority of the existing work tends to rely on Western ideas and theories to decide how to frame and approach UE related research questions. This study has tried to break with these tendencies in a number of ways: first, by being one of the first projects to choose India as study context to conduct UE research; second, by finding a suitable approach to overcome issues of data availability pertinent to Asian contexts (primary data due to corporate academia partnership) which allowed us to investigate an Asian/India specific phenomenon more comprehensively (sample consisting of listed and unlisted companies of a business house); third, by studying the TMT composition “value chain” holistically from antecedents of TMT composition to Indian executives’ effects on firm internationalization; and fourth, by suggesting a promising future research agenda based on a review of previous Asian UE research which will hopefully motivate others to join in further advancing our knowledge about the upper echelons in India or other emerging Asian economies.

Hitherto, this dissertation has followed a distinctly analytical, Aristotelian approach and is written by a Westerner who despite his best efforts will never have
the full contextual understanding necessary to entirely decipher and explain Asian/India-specific phenomena related to TMT composition and executive effects. I hope that others will build on this work and debate some of its findings, taking a yet more holistic Asian/Indian perspective. Combining the best from the West and the East may not only be the way forward for the formulation of promising new management approaches but similarly for a new generation of highly impactful management research.
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References


## Appendices

### Appendix 1.1 Empirical upper echelons works employing Asian samples (1984-2011)

<table>
<thead>
<tr>
<th>Authors (Year)</th>
<th>Journal (ISI 2010)</th>
<th>Unit of Analysis</th>
<th>Sample Description</th>
<th>Relevant Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Li &amp; Tang (2010)</td>
<td>Academy of Management Journal (5.252)</td>
<td>CEO/ Firm</td>
<td>2790 CEOs of diverse Chinese manufacturing firms</td>
<td>The positive relationship between CEO hubris and firm risk taking is stronger when CEO managerial discretion is stronger; when a firm faces munificent but complex markets; has less inertia and more intangible resources; has a CEO who also chairs its board; and has a CEO who was not politically appointed.</td>
</tr>
<tr>
<td>Cao, Simsek &amp; Zhang (2010)</td>
<td>Journal of Management Studies (3.817)</td>
<td>Individual/ Team/ Firm</td>
<td>122 Chinese SMEs</td>
<td>CEOs' network extensiveness positively impacts ambidexterity. This impact is bolstered when the CEO-TMT interactional interface, including communication richness, functional complementarity, and power decentralization, enable the entire TMT to process disparate information demands essential to attaining ambidexterity.</td>
</tr>
<tr>
<td>Authors</td>
<td>Journal</td>
<td>Type / Firm</td>
<td>Sample Size / Description</td>
<td>Summary</td>
</tr>
<tr>
<td>--------------------------</td>
<td>----------------------------------------------</td>
<td>------------------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Crossland &amp; Hambrick (2011)</td>
<td>Strategic Management Journal (3.583)</td>
<td>CEO / Firm</td>
<td>746 public firms from 15 countries (also Japan and South Korea)</td>
<td>Informal and formal national institutions - individualism, tolerance of uncertainty, cultural looseness, dispersed firm ownership, a common-law legal origin, and employer flexibility - are associated with CEOs' managerial discretion in public firms in a country. Country-level managerial discretion is associated with how much impact CEOs have on firm performance. Managerial discretion mediates the relationship between national institutions and CEO effects on firm performance.</td>
</tr>
<tr>
<td>Crossland &amp; Hambrick (2007)</td>
<td>Strategic Management Journal (3.583)</td>
<td>CEO / Firm</td>
<td>300 public firms from three countries (US, Germany, Japan)</td>
<td>The effects of CEOs on firm performance are substantially greater in US firms than in Germany and Japanese firms.</td>
</tr>
<tr>
<td>Li &amp; Li (2009)</td>
<td>Asia Pacific Journal of Management (3.355)</td>
<td>Team / Firm</td>
<td>184 Chinese new technology ventures (8 years or younger)</td>
<td>Cognitive conflict among TMT members is positively associated with entrepreneurial strategy making. This relationship is moderated by dysfunctional competition and team deftness.</td>
</tr>
<tr>
<td>Yokota &amp; Mitsuhashi (2008)</td>
<td>Asia Pacific Journal of Management (3.355)</td>
<td>Team / Firm</td>
<td>36 firms in the Japanese textile industry from 1980 to 2004</td>
<td>Executive succession does not trigger strategic change unless succession entails change in the values and interests of executives embedded in their demographic traits.</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Journal/Book Details</td>
<td>Team/ Firm</td>
<td>Sample Size</td>
<td>Note</td>
</tr>
<tr>
<td>-----------</td>
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<td>-------------</td>
<td>------</td>
</tr>
<tr>
<td>Chen (2011)</td>
<td>Corporate Governance: An International Review (2.753)</td>
<td>Team/ Firm</td>
<td>254 Taiwanese listed companies</td>
<td>TMT Tenure and international experience is positively, TMT age negatively associated with firm internationalization. The positive association is stronger in firms with a higher proportion of independent board members who may offer better advice and counsel to executives and enhance their strategy action capabilities in the internationalization process.</td>
</tr>
<tr>
<td>Zhang, Ji, Tao &amp; Wang (2011)</td>
<td>Corporate Governance: An International Review (2.753)</td>
<td>Individual/ Firm</td>
<td>1182 listed Chinese firms during a three-year period</td>
<td>When CEO-executive demographic dissimilarity is inconsistent with social norms (e.g. the non-CEO executive is older and has longer team tenure than the CEO), the non-CEO executive is more likely to exit from the TMT. This association is strengthened by the CEO’s founder status and low firm performance, whereas it is weakened by CEO ownership.</td>
</tr>
<tr>
<td>Chen, Hsu &amp; Huang (2010)</td>
<td>Small Business Economics (1.555)</td>
<td>Team/ Firm</td>
<td>95 Taiwanese listed SMEs</td>
<td>SMEs involved in R&amp;D activities tend to have lower debt levels. TMT characteristics exert considerable influence on the R&amp;D investment-financial leverage relationship in SMEs.</td>
</tr>
<tr>
<td>Cheng, Chan &amp; Leung (2010)</td>
<td>International Business Review (1.489)</td>
<td>Chairperson/ Firm</td>
<td>5339 firm-year events of Chinese companies (no further information)</td>
<td>Management demographic characteristics (education level, titles, age and tenure) of chairpersons exert significant influence on firm performance. Findings are consistent with the management structure of Chinese firms where the executive chairperson instead of general manager or CEO is the key decision-maker of a firm.</td>
</tr>
<tr>
<td>Chan, Cheng &amp; Leung (2011)</td>
<td>British Journal of Management (1.385)</td>
<td>Individual/ Firm</td>
<td>5451 company-year events of listed Chinese firms</td>
<td>For status-laden demographic attributes such as age and title possession, relational-norm-consistent demographic differences (between Chairperson and GM) lead to better corporate performance. Industry sales growth moderates this effects.</td>
</tr>
<tr>
<td>Authors &amp; Year</td>
<td>Journal/ Conference</td>
<td>Field</td>
<td>Study Details</td>
<td>Findings</td>
</tr>
<tr>
<td>---------------</td>
<td>---------------------</td>
<td>-------</td>
<td>---------------</td>
<td>----------</td>
</tr>
<tr>
<td>Gong (2006)</td>
<td>Management International Review (0.882)</td>
<td>Team/ Firm</td>
<td>370 subsidiary TMTs with a total of 2290 top managers from 28 Japanese MNCs</td>
<td>Subsidiary TMT nationality heterogeneity is positively associated with subsidiary labor productivity. The older the subsidiary, the stronger the effect of subsidiary TMT nationality heterogeneity on subsidiary performance.</td>
</tr>
<tr>
<td>Sekiguchi, Bebenroth &amp; Li (2011)</td>
<td>International Journal of Human Resource Management (0.869)</td>
<td>CEO/ Team/ Firm</td>
<td>Executive profiles of 643 foreign MNC affiliates from 31 countries operating in Japan</td>
<td>At early stages of affiliate operation performance is better under expatriate MDs rather than Japanese MDs. For larger such affiliates the affiliate performed better when the proportion of expatriates in a TMT was high.</td>
</tr>
<tr>
<td>Biemann &amp; Wolf (2009)</td>
<td>International Journal of Human Resource Management (0.869)</td>
<td>Individual</td>
<td>166 top executives from 42 corporations in Denmark, Germany, Japan, UK and USA</td>
<td>Occurrence of six distinctive career patterns (international experience, organizational tenure, professional experience) differ significantly between the fields of activity within the TMT (chairperson, head of a division, primary activities and support activities).</td>
</tr>
<tr>
<td>Wu, Wie &amp; Liang (2011)</td>
<td>Journal of Organizational Change Management (0.65)</td>
<td>Team/ Firm</td>
<td>391 listed Chinese firms (Shanghai and Shenzhen stock exchange)</td>
<td>TMT demography diversity impacts level of strategic change. The strength of the effect is contingent on TMT pay imparity.</td>
</tr>
<tr>
<td>Wei, Lau, Young &amp; Wang (2005)</td>
<td>Asian Business &amp; Management (0.61)</td>
<td>Team/ Firm</td>
<td>111 listed Chinese firms, qualitative interviews with 8 senior executives</td>
<td>Average TMT age is positively associated and TMT education heterogeneity and experience heterogeneity negatively associated with firm performance.</td>
</tr>
</tbody>
</table>
# Appendix 2.1 Data collection template (executive data)

<table>
<thead>
<tr>
<th>Template Executive Data</th>
<th>University of St. Gallen</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Variable</td>
<td>Definition/ Description</td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Last Name of executive</td>
<td>Mr. Last Name</td>
</tr>
<tr>
<td>First Name</td>
<td>First Name of executive</td>
<td>First Name</td>
</tr>
<tr>
<td>Name of Tata Company</td>
<td>Tata Company name</td>
<td>Tata Company x</td>
</tr>
<tr>
<td>Position</td>
<td>Executive position in Top Management Team</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Top Management Team membership (Narrow or Broad)</td>
<td>Narrow: CEO and direct reports; Broad: mgmt. level below CEO direct reports</td>
<td>Narrow</td>
</tr>
<tr>
<td>Birth Year</td>
<td>Year of birth</td>
<td>1967</td>
</tr>
<tr>
<td>Gender</td>
<td>Gender</td>
<td>Male</td>
</tr>
<tr>
<td>Nationality(ies)</td>
<td>All nationalities which the executive holds</td>
<td>Indian; USA</td>
</tr>
<tr>
<td>Career Length (in years)</td>
<td>Total length of professional career since graduation from school or university (time spent on full-time education during the professional career, e.g. MBA, to be deducted)</td>
<td>18</td>
</tr>
<tr>
<td>Company Tenure (in years)</td>
<td># of years with the current Tata Group company until end of FY10/ FY10-11</td>
<td>9</td>
</tr>
<tr>
<td>Tata Group Tenure (in years)</td>
<td># of years with the Tata Group in current or other Tata Group company, until end of FY10/ FY10-11</td>
<td>10</td>
</tr>
<tr>
<td>Team Tenure (in years)</td>
<td># of years part of Top Management Team in current company (in current or other function, until end of FY10/ FY10-11)</td>
<td>5</td>
</tr>
<tr>
<td>International Work Experience</td>
<td>Work experience after graduation outside India for current or other companies. Please specify country and time for each stint abroad</td>
<td>1) USA, 2 years 2) Spain, 0.5 years 3) …</td>
</tr>
<tr>
<td>Type of International Work Experience</td>
<td>Within or outside Tata Group (for each stint)?</td>
<td>1) Tata Group 2) Other company 3) …</td>
</tr>
<tr>
<td>Educational level</td>
<td>1=Doctoral level (PhD); 2=Postgraduate Master's level (MBA); 3=Graduate Master's level (MSc, MA, LLM, etc.); 4=Bachelor level (BSc, BA, etc.); 5=School</td>
<td>1 (Doctoral level)</td>
</tr>
<tr>
<td>Education Focus (for each degree obtained)</td>
<td>Please specify for all degrees: Degree, University, Country, Field (1=Management incl. Economics, Business); 2=Law; 3=Other Social Sciences; 4=Engineering; 5=Medicine; 6=Other National Sciences; 7=Other</td>
<td>BA, LSE, UK, Management (1)</td>
</tr>
<tr>
<td>cont. (education focus)</td>
<td>MSc, LSE, UK, Management (1)</td>
<td></td>
</tr>
<tr>
<td>cont. (education focus)</td>
<td>MBA, Harvard, US, Management (1)</td>
<td></td>
</tr>
<tr>
<td>Dominant Function (functional area within which the executive has spent most time during the professional career)</td>
<td>What is the executive's dominant functional background: 1=Production/Operations/Divisions; 2=Research/Technology; 3=Marketing/Sales/Commercial/Corporate Services; 4=Manufacturing/Design &amp; Engineering; 5=Finance/accounting; 6=Personnel/HR; 7=General mgmt. &amp; admin.; 8=Law; 9=Strategy &amp; Corporate Development; 10=Other</td>
<td>8 (Law)</td>
</tr>
</tbody>
</table>
## Appendix 2.2 Data collection template (company data)

<table>
<thead>
<tr>
<th>Data Variable</th>
<th>Text Answer</th>
<th>Unit</th>
<th>FY 05-06</th>
<th>…</th>
<th>FY 10-11</th>
<th>Definition/ Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company name</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Name of Tata Group Company</td>
</tr>
<tr>
<td>Country Company Headquarters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Country of company headquarters</td>
</tr>
<tr>
<td>Tata Group Industry Cluster</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1=Communications and IT; 2=Engineering; 3=Materials; 4=Services; 5=Energy; 6=Consumer Products; 7=Chemicals</td>
</tr>
<tr>
<td>Public Listing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Is the Tata Group Company listed?</td>
</tr>
<tr>
<td>Number of Directors (Board)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>How many Board members does the Tata Group company have?</td>
</tr>
<tr>
<td>Number of Outside Directors (Board)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>How many Board members are non-executive independent outside directors as defined by article 49 of the listing agreement?</td>
</tr>
<tr>
<td>Are non-Indians on the Board? If so, who and what nationalities?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>E.g. Director 1 (US); Director 2 (UK); Director 3 (Singapore)</td>
</tr>
<tr>
<td>Group Executive Office (GEO)/ Group Corporate Center (GCC) Members on Board (BoD)</td>
<td></td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td>Are there any GEO, GCC members on the company’s Board of Directors? If so, who?*</td>
</tr>
<tr>
<td>Total Employees FY05-06 to FY10-11</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total # of employees (annually, end of FY)</td>
</tr>
<tr>
<td>Total Foreign Employees</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Foreign # of employees per geographic segment (for FY05-06 to FY10-11). Geographic segmentation as per company accounting standards</td>
</tr>
<tr>
<td>North America</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Adapt geographic segmentation according to own reporting (add rows if necessary)</td>
</tr>
<tr>
<td>Europe</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>APAC</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MEA</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Sales</td>
<td>USD M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total Company Sales (for FY05-06 to FY10-11, in USD M)</td>
</tr>
<tr>
<td></td>
<td>USD M</td>
<td></td>
<td>USD M</td>
<td></td>
<td>USD M</td>
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</tr>
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</tr>
<tr>
<td><strong>Total foreign Sales</strong></td>
<td></td>
<td><strong>USD M</strong></td>
<td></td>
<td><strong>Adapt geographic segmentation according to own reporting (add rows if necessary)</strong></td>
<td></td>
<td><strong>Total Foreign Company Sales</strong></td>
</tr>
<tr>
<td>North America</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>APAC</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MEA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>USD M</td>
<td></td>
<td></td>
<td><strong>Total Company Assets</strong></td>
<td>USD M</td>
<td>(annually, in USD M)</td>
</tr>
<tr>
<td>North America</td>
<td>USD M</td>
<td></td>
<td></td>
<td></td>
<td>USD M</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>USD M</td>
<td></td>
<td></td>
<td></td>
<td>USD M</td>
<td></td>
</tr>
<tr>
<td>APAC</td>
<td>USD M</td>
<td></td>
<td></td>
<td></td>
<td>USD M</td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>USD M</td>
<td></td>
<td></td>
<td></td>
<td>USD M</td>
<td></td>
</tr>
<tr>
<td>MEA</td>
<td>USD M</td>
<td></td>
<td></td>
<td></td>
<td>USD M</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>USD M</td>
<td></td>
<td></td>
<td></td>
<td>USD M</td>
<td></td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>USD M</td>
<td></td>
<td></td>
<td><strong>Total Company Net Income</strong></td>
<td>USD M</td>
<td>(annually, in USD M)</td>
</tr>
<tr>
<td><strong>Return on Equity</strong></td>
<td>In %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>ROE: Defined as Net Income/Shareholder’s Equity (annually, in %)</strong></td>
</tr>
<tr>
<td><strong>Market Capitalization</strong></td>
<td>USD M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>For public listed companies</strong>: Total market value of all outstanding shares, annually end of financial year, in USD M</td>
</tr>
<tr>
<td><strong>R&amp;D Expenditures</strong></td>
<td>USD M</td>
<td></td>
<td></td>
<td><strong>Definition</strong>:</td>
<td></td>
<td><strong>Total Company R&amp;D expenditures</strong></td>
</tr>
<tr>
<td><strong>Advertising Expenditures</strong></td>
<td>USD M</td>
<td></td>
<td></td>
<td><strong>Definition</strong>:</td>
<td></td>
<td><strong>Total Company advertising expenditures</strong></td>
</tr>
<tr>
<td><strong>Firm Leverage</strong></td>
<td>In %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Defined as long-term debt to total capital (annually end of financial year, in %)</strong></td>
</tr>
<tr>
<td><strong>Foreign Presence (countries)</strong></td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Company offices/operations in how many countries (annually)?</strong></td>
</tr>
</tbody>
</table>

*Please provide separate list with # of subsidiaries/legal company entities PER country (annually, FY05-06 to FY10-11) - see sheet "# of subsidiaries per country" for suggested output format*
### New foreign Market Entries

<table>
<thead>
<tr>
<th>Country 1</th>
<th>E.g. USA (FY07-08)</th>
<th>Text/ Number</th>
<th>E.g. 2b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country 2</td>
<td>Text/ Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country 3</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Country 4</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Country 5</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Country 6</td>
<td>Text/ Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country 7</td>
<td>Text/ Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country 8</td>
<td>Text/ Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country 9</td>
<td>Text/ Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country 10</td>
<td>Text/ Number</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Indicate country below**

Column B: Launch of new operations in country x (FY05-06 to FY10-11); Columns D to I: Indicate type of market entry in respective column/row (Shared control: 1a=Greenfield JV, 1b=Licensing, 1c=Partial Acquisition (<=95%); Full control: 2a=Greenfield entry, 2b=Full acquisition)

### Other foreign direct investments (in countries with previously existing operations)

<table>
<thead>
<tr>
<th>Country 1</th>
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</thead>
<tbody>
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<tr>
<td>Country 3</td>
<td>Text/ Number</td>
</tr>
<tr>
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<td>Country 6</td>
<td>Text/ Number</td>
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<tr>
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<td>Text/ Number</td>
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<tr>
<td>Country 9</td>
<td>Text/ Number</td>
</tr>
<tr>
<td>Country 10</td>
<td>Text/ Number</td>
</tr>
</tbody>
</table>

**Indicate country below**

Column B: Foreign investments in country x (FY05-06 to FY10-11); Columns D to I: Indicate type of investment in respective column/row (Shared control: 1a=Greenfield JV, 1b=Licensing, 1c=Partial Acquisition (<=95%); Full control: 2a=Greenfield, 2b=Full acquisition)

---

**Tata Group Executive Office:** Ratan N. Tata, R. Gopalakrishnan, Ishaat Hussain, Kishor Chaukar, Arunkumar Gandhi; **Tata Group Corporate Centre:** Ratan N. Tata, JJ Irani, RK Krishna Kumar, R. Gopalakrishnan, Ishaat Hussain, Kishor Chaukar, Arunkumar Gandhi

**Net Income before dividends paid to common stock holders but after dividends to preferred stock. Shareholder's equity does not include preferred shares**
Appendix 2.3 Industry distribution of companies included in sample

<table>
<thead>
<tr>
<th>Industry cluster</th>
<th>#</th>
</tr>
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<tbody>
<tr>
<td>Communications &amp; IT</td>
<td>12</td>
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<tr>
<td>Engineering</td>
<td>9</td>
</tr>
<tr>
<td>Materials</td>
<td>10</td>
</tr>
<tr>
<td>Services</td>
<td>15</td>
</tr>
<tr>
<td>Energy</td>
<td>5</td>
</tr>
<tr>
<td>Consumer Products</td>
<td>3</td>
</tr>
<tr>
<td>Chemicals</td>
<td>3</td>
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<tr>
<td>Promoter company</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>58</strong></td>
</tr>
</tbody>
</table>

Appendix 2.4 Empirical research model

Exogenous demographic variables
- Gender
- Nationality

Career variables
- International Career Diversity
- Management Education
- Career Dev. Program

Control: Team Tenure, Conglomerate Tenure, Company Size, Board & TMT Membership, Responsibility Cluster
Appendix 2.5 Descriptive statistics & correlations main model (N=535)

<table>
<thead>
<tr>
<th></th>
<th>µ</th>
<th>σ</th>
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<tbody>
<tr>
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<td>20.80</td>
<td>7.40</td>
<td>20.80</td>
<td>7.40</td>
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<td>0.22***</td>
<td>0.22***</td>
<td>0.22***</td>
<td>0.22***</td>
<td>0.22***</td>
<td>0.22***</td>
<td>0.22***</td>
<td>0.22***</td>
<td>0.22***</td>
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<tr>
<td>2: TMT Tenure</td>
<td>5.00</td>
<td>4.30</td>
<td>5.00</td>
<td>4.30</td>
<td>0.23***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
</tr>
<tr>
<td>3: Conglomerate Tenure</td>
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<td>11.20</td>
<td>14.30</td>
<td>11.20</td>
<td>0.23***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
<td>0.42***</td>
</tr>
<tr>
<td>4: TMT &amp; BoD (Dummy)</td>
<td>0.14</td>
<td>0.35</td>
<td>0.14</td>
<td>0.35</td>
<td>0.18***</td>
<td>0.29***</td>
<td>0.30***</td>
<td>0.30***</td>
<td>0.30***</td>
<td>0.30***</td>
<td>0.30***</td>
<td>0.30***</td>
<td>0.30***</td>
<td>0.30***</td>
</tr>
<tr>
<td>5: Revenues FY10-11</td>
<td>1225.30</td>
<td>2241.60</td>
<td>1225.30</td>
<td>2241.60</td>
<td>0.15***</td>
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<td>0.15***</td>
<td>0.15***</td>
<td>0.15***</td>
<td>0.15***</td>
<td>0.15***</td>
<td>0.15***</td>
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</tr>
<tr>
<td>6: Throughput function (Dummy)</td>
<td>0.58</td>
<td>0.49</td>
<td>0.58</td>
<td>0.49</td>
<td>-0.11*</td>
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<td>-0.02</td>
<td>-0.22***</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
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<tr>
<td>7: Input Output function (Dummy)</td>
<td>0.17</td>
<td>0.37</td>
<td>0.17</td>
<td>0.37</td>
<td>-0.03</td>
<td>-0.08†</td>
<td>-0.07</td>
<td>-0.18***</td>
<td>-0.06</td>
<td>-0.53***</td>
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<td>0.06</td>
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<tr>
<td>8: Regional function (Dummy)</td>
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<td>0.02</td>
<td>0.02</td>
<td>0.03</td>
<td>0.06</td>
<td>0.18***</td>
<td>0.25***</td>
<td>-0.10*</td>
<td>0.04</td>
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<td>9: Gender (Dummy)</td>
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<td>-0.06</td>
<td>-0.09</td>
<td>-0.03</td>
<td>0.08†</td>
<td>0.02</td>
<td>-0.05</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
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<td>10: Nationality (Dummy)</td>
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<td>0.15</td>
<td>-0.00</td>
<td>0.19***</td>
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<td>0.05</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
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<tr>
<td>11: International Career Diversity</td>
<td>0.08</td>
<td>0.17</td>
<td>-0.09*</td>
<td>0.03</td>
<td>-0.02</td>
<td>0.06</td>
<td>0.34***</td>
<td>0.13**</td>
<td>-0.13**</td>
<td>0.06</td>
<td>-0.03</td>
<td>0.25***</td>
<td>0.25***</td>
<td>0.25***</td>
</tr>
<tr>
<td>12: Management Degree (Dummy)</td>
<td>0.63</td>
<td>0.48</td>
<td>-0.18***</td>
<td>-0.03</td>
<td>-0.16***</td>
<td>0.01</td>
<td>-0.11*</td>
<td>-0.01</td>
<td>-0.05</td>
<td>0.06</td>
<td>0.02</td>
<td>0.15***</td>
<td>0.15***</td>
<td>0.15***</td>
</tr>
<tr>
<td>13: Career Development Program (Dummy)</td>
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<td>0.16***</td>
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<td>-0.06</td>
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<td>-0.01</td>
<td>0.04</td>
<td>-0.05</td>
<td>-0.07*</td>
<td>0.13**</td>
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</table>

†p<0.1; *p<0.05; **p<0.01; ***p<0.001
Appendix 2.6 Regression results main model

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model I</th>
<th>Model II</th>
<th>Model III</th>
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</thead>
<tbody>
<tr>
<td>TMT Tenure</td>
<td>-0.70***</td>
<td>-0.70***</td>
<td>-0.70***</td>
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<td>0.23***</td>
<td>0.23***</td>
<td>0.23***</td>
</tr>
<tr>
<td>TMT &amp; BoD (Dummy)</td>
<td>3.10*</td>
<td>2.95*</td>
<td>3.46**</td>
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<td>Revenues FY10-11</td>
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<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Throughput function (Dummy)</td>
<td>-2.07*</td>
<td>-1.89*</td>
<td>-1.81†</td>
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<td>Input Output function (Dummy)</td>
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<td>-1.73</td>
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<td>Regional function (Dummy)</td>
<td>-2.89†</td>
<td>-2.92†</td>
<td>-2.84†</td>
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<td>Gender (Dummy)</td>
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<td>-3.44*</td>
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<td>Nationality (Dummy)</td>
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<tr>
<td>International Career Diversity</td>
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<td></td>
<td>-7.72**</td>
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<td>Management Degree (Dummy)</td>
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<td>-2.05*</td>
</tr>
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<td>Career Development Program (Dummy)</td>
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<td>-5.60***</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Model I</th>
<th>Model II</th>
<th>Model III</th>
</tr>
</thead>
<tbody>
<tr>
<td>R²</td>
<td>0.227</td>
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<td>Adj. R²</td>
<td>0.216</td>
<td>0.230</td>
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<tr>
<td>Δ R²</td>
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<td>0.0637</td>
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<tr>
<td>Δ Adj. R²</td>
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<td>0.059</td>
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<td>F</td>
<td>25.51***</td>
<td>3.72*</td>
<td>12.63***</td>
</tr>
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</table>

†p<0.1; *p<0.05; **p<0.01; ***p<0.001

Coefficients: N=535
Dependent Variable = # of years to be appointed to Top Management Team

Appendix 2.7 Descriptive statistics TMT vs TMT & BoD members

<table>
<thead>
<tr>
<th>Executive role</th>
<th>N</th>
<th>Ø Age</th>
<th>Ø Career Length</th>
<th>Ø Company tenure</th>
<th>Ø conglomerate tenure</th>
<th>Ø TMT tenure</th>
</tr>
</thead>
<tbody>
<tr>
<td>TMT members</td>
<td>468</td>
<td>48.9</td>
<td>24.8</td>
<td>9.3</td>
<td>12.9</td>
<td>4.5</td>
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<tr>
<td>TMT &amp; BoD members</td>
<td>75</td>
<td>55.9</td>
<td>32.1</td>
<td>11.5</td>
<td>22.5</td>
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### Appendix 2.8 Descriptive statistics & correlations robustness test (N=494)

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<th>σ</th>
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<th>7</th>
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<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
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<tbody>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2: TMT Tenure</td>
<td>3.7</td>
<td>3.4</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3: Conglomerate Tenure</td>
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<td>0.37***</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>4: TMT &amp; BoD (Dummy)</td>
<td>-</td>
<td>-</td>
<td></td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
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<td></td>
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<tr>
<td>5: Revenues FY10-11</td>
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<td>-</td>
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<tr>
<td>7: Input Output function (Dummy)</td>
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<td>-</td>
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<td>-0.60***</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>8: Regional function (Dummy)</td>
<td>0.11</td>
<td>0.32</td>
<td></td>
<td>0.02</td>
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<td>0.04</td>
<td>-</td>
<td></td>
<td>0.06</td>
<td>-0.39***</td>
<td>-0.20***</td>
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<td></td>
</tr>
<tr>
<td>9: Gender (Dummy)</td>
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<td>0.27</td>
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<td>-0.07</td>
<td>-</td>
<td></td>
<td>-0.09*</td>
<td>-0.08†</td>
<td>0.17***</td>
<td>-0.06</td>
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<td></td>
</tr>
<tr>
<td>10: Nationality (Dummy)</td>
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<td></td>
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<td>-0.00</td>
<td>-0.12**</td>
<td>-</td>
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<td>-0.03</td>
<td>0.05</td>
<td>-0.01</td>
<td>0.06</td>
<td></td>
</tr>
<tr>
<td>11: International Career Diversity</td>
<td>0.04</td>
<td>0.12</td>
<td></td>
<td>0.05</td>
<td>-0.03</td>
<td>-0.08†</td>
<td>-</td>
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<td>0.03</td>
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<td>-0.16***</td>
<td>-</td>
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<td>-0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.05</td>
<td>-0.01</td>
</tr>
<tr>
<td>13: Career Development Program (Dummy)</td>
<td>0.02</td>
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<td>-0.01</td>
<td>0.07</td>
<td>-</td>
<td></td>
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<td>0.05</td>
<td>0.02</td>
<td>-0.25</td>
<td>0.01</td>
<td>-0.02</td>
</tr>
</tbody>
</table>

†p<0.1; *p<0.05; **p<0.01; ***p<0.001
### Appendix 2.9 Regression results robustness test

<table>
<thead>
<tr>
<th></th>
<th>Model I</th>
<th>Model II</th>
<th>Model III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management level Tenure</td>
<td>-0.63***</td>
<td>-0.65***</td>
<td>-0.64***</td>
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<tr>
<td>Conglomerate Tenure</td>
<td>0.31***</td>
<td>0.32***</td>
<td>0.30***</td>
</tr>
<tr>
<td>TMT &amp; BoD (Dummy)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Revenues FY10-11</td>
<td>0.00*</td>
<td>0.00*</td>
<td>0.00*</td>
</tr>
<tr>
<td>Throughput function (Dummy)</td>
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<td>-0.65</td>
<td>-0.46</td>
</tr>
<tr>
<td>Input Output function (Dummy)</td>
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<td>-0.96</td>
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<td>-0.96</td>
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<tr>
<td>Gender (Dummy)</td>
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<td>-2.60*</td>
<td>-</td>
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<tr>
<td>Nationality (Dummy)</td>
<td>3.45*</td>
<td>2.45†</td>
<td>2.48</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Management Degree (Dummy)</td>
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<td></td>
<td>-6.25***</td>
</tr>
<tr>
<td>Career Development Program (Dummy)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.258</td>
<td>0.274</td>
<td>0.336</td>
</tr>
<tr>
<td>Δ R²</td>
<td></td>
<td>0.016</td>
<td>0.062</td>
</tr>
<tr>
<td>F</td>
<td>18.44***</td>
<td>5.39**</td>
<td>17.48***</td>
</tr>
</tbody>
</table>

†p<0.1; *p<0.05; **p<0.01; ***p<0.001

Coefficients: N=494

Dependent Variable = # of years to be appointed to Top Management Team
Appendices

Appendix 3.1 Hypotheses and methodology

Chapter 4 discusses trends in top executive appointment in Tata Group operating companies. This Appendix serves to present underlying statistical results in more detail, aiming to satisfy the academic reader that the results presented are based on rigorous statistical models. It also provides further theoretical explanation regarding the hypotheses tested empirically.

Hypotheses tested in empirical models

The hypotheses theoretically developed below are all related to how the characteristics of TMT appointees, and as a result the composition of the TMT, may change as a consequence of alterations in a company’s business environment and/ or strategy (Hambrick, 2007). We empirically test our hypotheses with a data set of new appointees to TMTs of Tata Group operating companies between FY 2007-08 and FY 2010-11. Analyzing TMT appointment trends during this period in the Tata Group is particularly interesting given that its international posture changed significantly. As was described in detail in chapter 4, from FY 2006-07 to FY 2010-11 Tata Group operating companies entered 122 new countries in total. It is argued that the process of becoming a highly multinational business house goes hand in hand with changing leadership requirements which should be mirrored by the characteristics of recently appointed top executives. An important reason for this is related to the fact that increased international posture is associated with higher management complexity (Bartlett & Ghoshal, 1992; Sanders & Carpenter, 1998). It is furthermore argued that more context related developments (e.g. democratization of education, increasingly competitive executive labor markets) may explain the changing characteristics of TMT appointees over time. Social identity, social capital and signaling theory are used to develop these arguments.

Trend towards more gender diversity at the TMT level

Hambrick, Cho and Chen (1996, p. 662) define TMT diversity as “the variation in team members’ characteristics” and argue that a diverse TMT possesses a broader repertoire of the capabilities and skills necessary for effective decision making. TMT
diversity is a prerequisite for companies to be able to deal effectively with alterations in the business environment in which they operate (Hambrick & Pettigrew, 2001). Gender constitutes an important measure of TMT diversity (Krishnan & Park, 2005). Previous research has tried to find an association between TMT heterogeneity and firm performance. However, the findings are not univocal. While some scholars find a positive relationship between TMT diversity variables and firm performance or innovation (e.g. Bantel & Jackson, 1989; Hambrick et al., 1996), others challenge this and emphasize that the cost of diversity would be, among other things, lower social integration (Miller, Burke & Glick, 1998; Murray, 1989). Other researchers posit that the diversity-performance relationship would be entirely context-driven (Carpenter, 2002; Keck, 1997).

As shown above (see Figure 12), in India the proportion of female top executives in group companies of India’s largest business house is only 4.8%. Gender proportions in corporate executive committees in Western countries vary but are mostly significantly higher than in India (Desvaux, Devillard & Sancier-Sultan, 2010). This illustrates that the opening up of the executive suite to women also seems to be dependent on contextual factors. This argument is sustained by a recent study of Assocham which shows that out of the 1112 executives of 100 Bombay Stock Exchange listed companies only 5.3% are held by women (Assocham, 2011). However, the report also outlines that the end of the "license raj", the increased importance of the private sector and more local presence of multinational corporations has fostered a slow but steady increase of female top executives. For example, the authors note that India’s growing financial services sector is a good example of increased female presence at the top. The literature provides theoretical and empirical explanations why certain business environments (i.e. a more globally intertwined business environment) may foster companies’ interest in appointing more female executives to their TMTs.

Building on social identity theory, which takes the perspective of individuals to study human interactions and is often referred to when explaining diversity effects (Ashforth & Mael, 1989; Gergen & Gergen, 1986), Kent and Moss (1994) posit that in

41 The Associated Chambers of Commerce and Industry of India (Study name: Corporate women: Close the gender gap and dream big)

42 54% of all CEO positions of major financial services companies were held by women in 2011.
environments where a high level of social interaction is crucial women would be more likely to be perceived as leaders than men. Organizations which operate globally increasingly find themselves in such an environment. Furthermore, women have been found to be characterized by a cognitive style that emphasizes harmony. This, in turn, enables female executives to emanate confidence to subordinates and peers and to bring people together (e.g. Hurst, Rush & White, 1989). Higher proportions of female executives in TMTs have also been associated with a lower likelihood of the formation of subgroups in teams (Earley & Mosakowski, 2000). These findings resonate well with Indian companies’ endeavor to invest in human capital and to build employee loyalty by creating a sense of reciprocity with their work force (Cappelli, Singh, Singh & Useem, 2010). In an environment which becomes increasingly international and is dominated by a business culture of high employer-employee reciprocity companies may take active steps to increase the proportion of female executives at their apex. We hypothesize:

**Hypothesis 1:** Recently appointed top executives in group operating companies of Indian business houses are more likely to be female than executives appointed to the TMT earlier.

**Trend towards more foreigners and executives with international work experience at the TMT level**

A large body of research identifies the prerequisites for global companies to be successful. The performance of highly internationalized companies has been found to be dependent on firms’ ability to manage geographically dispersed resources (Roth, 1995), to capitalize innovations across borders (Hitt, Hoskisson & Kim, 1997), and to handle diverse institutional, cultural and competitive environments effectively (Ricks, Toyne & Martinez, 1990). Hence, managing organizations with a significant international posture is highly complex (Bartlett & Ghoshal, 1992; Sanders & Carpenter, 1998).

Research suggests that demographic heterogeneity in the TMT helps to deal with the complex managerial decision-making environment associated with global organizations (Carpenter & Fredrickson, 2001). Such teams have been found to be less susceptible to domestic short-sightedness (Barkema & Vermeulen, 1998) and to be
more creative and adept at strategy development (Dutton & Duncan, 1987). Also, ‘groupthink’ occurs less frequently in such teams (Jackson, 1992). Murtha, Lenway and Bagozzi (1998, p. 112) argue that demographically heterogeneous teams are particularly good at interpreting international opportunities as well as to “reconcile the conflicts and paradoxes” associated with globalization. It thus seems plausible that nationality diversity (A) as well as executive international experience (B) plays a particularly relevant role in this context.

(A) The impact of foreigners appointed to the TMT on a firm’s internationalization trajectory has been the subject of many studies. Nationality diversity on TMTs has been found to be an important success factor for internationalizing companies (Bartlett & Ghoshal, 1989; Heijltjes, Olie and Glunk, 2003). Various studies confirm that including experience from diverse countries in a TMT increases its overall information-processing and decision-making capabilities (Harrison & Klein, 2007; Thompson, 1967). The level of diversity of nationalities on a team does also seem to affect a company’s choice of market entry mode (Nielsen & Nielsen, 2011). Furthermore, previous research indicates that firms’ expansion into new markets has an impact on TMT composition. Greve, Nielsen and Ruigrok (2009) studied 264 executives serving on TMTs of 41 European financial services companies and found that entry into new markets and cultural zones is associated with higher nationality diversity in the TMTs. Consequently, firms seem to align TMT composition with firm strategy. It seems reasonable to argue that this should be mirrored in changing characteristics (i.e. nationality) of those appointed to the TMT over time. The more actively a company pursues its internationalization strategy the higher the probability of newly appointed executives being foreigners (compared to earlier). In recent years Indian business houses have strongly focused on internationalizing their businesses and testing this argument in this context therefore seems promising. We hypothesize:

Hypothesis 2a: Recently appointed top executives in group operating companies of Indian business houses are more likely to be foreigners than executives appointed to the TMT earlier.
(B) International experience complements and expands other experiences (Reuber & Fischer, 1997; Roth, 1995) and therefore can be considered “one of the most broadening elements of executives’ backgrounds” (Carpenter & Fredrickson, 2001, p. 535). The advantages of executive international experience, particularly in the context of highly internationalized firms, have been discussed in detail in chapter 3. In short, executives with international experience have been associated with a higher probability of promotion (Judge et al., 1995), a larger and more diverse set of reference points through which uncertainty of future decision-making is reduced (Harrison & Klein, 2007), and sensitivity towards further internationalization opportunities for their companies (Athanassiou & Nigh, 2002). One underlying reason for this is related to the international networks such executives build over time. These networks, or social capital, are associated with better access (more and earlier) to information and referrals (Burt, 1992, 1997a, 1997b). Finally, Carpenter and Fredrickson (2001) find that firms led by executives with a breadth of international experience are more likely to act globally. Similar to the argument developed above (firms tend to align their TMT composition with their strategy) we argue that companies which are in the process of increasing their international posture are likely to demand the qualities associated with executive international experience. This, in turn, should be reflected in an increasing proportion of more recently appointed TMT executives having international work experience. Therefore:

**Hypothesis 2b:** Recently appointed top executives in operating companies of Indian business houses are more likely to have international work experience than executives appointed to the TMT earlier.

**Trend towards younger executives at the TMT level**

Previous research shows that age has a significant impact on executives’ managerial behavior and management style. Hambrick and Mason (1984) argue that executive age is negatively associated with the level of risk-taking propensity and suggest that as a result companies run by younger executives are subject to greater growth and higher variability of performance. Other scholars show that the impact of a lower propensity for risk taking of older executives is particularly strong in the context of internationalization (Tihanyi et al., 2000). Furthermore, Wiersema and Bantel (1992)
find that age is negatively associated with the frequency of companies’ strategic changes. Herrmann and Datta (2005) argue that older executives have lower information-processing capabilities than their younger peers. Similar arguments were put forward by Child (1974). In summary, management characteristics associated with younger executives – higher risk-taking propensity, openness to change and high information-processing capabilities – all seem to be particularly relevant in high growth, high complexity environments. Managing organizations with a significant international posture is highly complex (Bartlett & Ghoshal, 1992; Sanders & Carpenter, 1998). Consequently, as Indian business groups work towards becoming globally more diversified they may find it more and more attractive to appoint younger executives to the TMT level to benefit from the qualities typically associated with younger leadership. It is hypothesized:

**Hypothesis 3:** Recently appointed top executives in group operating companies of Indian business houses are younger than executives appointed to the TMT earlier.

*Trend towards fewer TMT executives with degrees from elite institutions*

Previous research confirms that in the corporate world higher levels of education are associated with higher pay and ascendancy (Judge et al., 1995) and a higher likelihood of being appointed to the TMT (Useem & Karabel, 1986). In Western contexts executives with a degree from an Ivy League university were found to enjoy a very large pay premium (Judge et al, 1995). A plausible explanation for this finding is that these universities (apart from providing high quality education) equip graduates with social (Burt, 1997b) and cultural capital in the form of personal contacts (networks), symbols of prestige and perhaps even inculcation of ambition to succeed (Useem & Karabel, 1986). Signaling theory (Spence, 1974) can be put forward to explain an important root cause of this: It argues that employers face information asymmetry with regard to the productive capabilities and skills of a candidate at the point of appointing a new employee/ executive. As a result, they have to rely on

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43 In fact, in a 2011 article on the Tata Group in The Economic Times (Biswas, 2011), the following is stated: "The [Tata] Group, which has been in the process of identifying a successor to Ratan Tata, plans to look inwards for younger executives to elevate to the positions of greater power and drive future (international) growth".
visible hints such as educational background which candidates use to signal their potential (Rosenbaum, 1984). The more prestigious the university the stronger the signaling effect. This, in turn, may also increase the probability of executives with degrees from elite institutions being appointed to the TMT level.

However, previous research provides indications that the corporate upper echelons may have gradually become less elitist in terms of the alma mater of executives. Cappelli and Hamori (2005) find that between 1980 and 2001 the proportion of Fortune 100 top managers with Ivy League undergraduate or second degrees fell significantly. We argue that developments in India should lead to a similar effect in business group affiliates. First, in the last 20 years the Indian higher education sector has boomed and at the end of 2011 India had 544 university level institutions (OIFC, 2011). As a result, of all potential TMT executives, a diminishing proportion has actually obtained a degree from an elite institution. That is, Indian elite institutions (i.e. IIMs/ IITs/ ISB) simply produce a smaller fraction of graduates today than, say, 20 years ago. Second, those executives who have obtained their degrees at an elite institution are increasingly attracted by numerous firms, including foreign MNCs which offer packages often hard for most Indian companies to match. Third, it has been argued that in India’s corporate world track record will continue to become more important than educational pedigree (Pradhan, 2011b). We hypothesize that these developments are reflected in changing educational backgrounds of recent versus earlier TMT appointees:

**Hypothesis 4:** Recently appointed top executives in group operating companies of Indian business houses are less likely to hold a university degree from an Indian elite institution than executives appointed to the TMT earlier.

**Methodology**

**Sample**

Our analysis of TMT appointment trends is based on detailed profiles of TMT members (CEO and direct reports) of 72 Tata Group operating companies. Given that the initial data basis is the same as for the analysis in chapter 3, this section only outlines the specific sub-sample employed in this study. In our database we capture
demographic and career data of executives for FY 2007-08 to FY 2010-11. This allows us to reconstruct the TMTs of 72 Tata Group operating companies for four consecutive financial years. Consequently, we include all executives who were appointed to the TMT in FY 2007-08, 2008-09, 2009-10 or 2010-11 in our sample. The final dataset employed in this analysis contains 410 individual records of TMT members of 69\textsuperscript{44} Tata Group operating companies, all of them appointed between FY 2007-08 and FY 2010-11. The dataset holds complete data across all variables included in the analysis for 408 executives, which corresponds to a data completion rate of 99.5%. The high completion rate is explained by our research design which relies solely on primary data from the analyzed companies. The establishment of a corporate-academia co-operation made this possible.

Dependent variable

The dependent variable employed in this study is defined as the number of years since an executive has been appointed to the TMT (counted backwards from FY 2010-11, which is set as “1”). The sample captures all TMT appointments in 72 Tata Group operating companies in FY 2007-08 (coded as 4), FY 2008-09 (coded as 3), FY 2009-10 (coded as 2) and FY 2010-11 (coded as 1).

Independent variables

The analysis includes five independent variables; gender, nationality, age in year of TMT appointment, international work experience and whether or not executive holds at least one university degree from an Indian elite institution. Gender was coded as a dummy variable equal to 0 if the executive was male and 1 if female. Nationality was first recorded as a categorical variable reflecting the country of origin of the respective TMT manager. For hypothesis testing a dummy variable on the basis of the categorical variable was built. An executive is included in the analysis as a foreigner (coded as 1) if his/her nationality does not correspond to the country where the respective Tata Group operating company is headquartered. Age of appointment to the TMT was calculated by subtracting an executive’s TMT tenure from his or her

\textsuperscript{44} In three of the 72 Tata Group operating companies studied no TMT appointment took place between FY 2007-08 and FY 2010-11.
reported age. Our dataset captures detailed information on executives' international work experience (entire career length divided into different stints in home and foreign countries). For the purpose of this analysis, we built a dummy variable indicating whether (coded as 1) or not (coded as 0) an executive has international work experience. Finally, we employ a dummy variable which indicates whether (coded as 1) or not (coded as 0) an executive holds at least one university degree from an Indian elite institution. We include all IIMs, ISB as well as all IITs in this category.

Control variables

We include three control variables in our analysis. First, consistent with previous research (e.g. Magnusson & Boggs, 2006) we employ firm sales (FY 2010-11 revenues, measured in USD million) as a control for firm size. Second, we control for the company's industry affiliation as differing industry trends, dynamics and related skill portfolios may have an impact on the company's leadership requirements and how they evolve over time. For that purpose we built seven dummy variables indicating the companies’ affiliation to one of the seven Tata Group industry clusters\textsuperscript{45}. Executive responsibilities within a TMT are heterogeneous. In our model we therefore control for the functional responsibilities executives hold when they join the TMT. Details on how we categorized different TMT functions based on theory and how we included these variables in our analysis were described in detail in chapter 3. The empirical research model is depicted in Appendix 3.2.

Results

The dependent variable employed in this analysis can be considered an ordered categorical variable indicating in what financial year a TMT member was appointed. Therefore, to test the hypotheses an ordinal logistic regression model is employed. Appendix 3.3 presents the statistical results of the regression model. It is statistically significant at the 0.1% level (log-likelihood chi-square = 41.7). Mc Kelyey and Zavioria’s pseudo \( R^2 \) stands at 8.7%. The model does not violate the proportional odds assumption (\( \chi^2(30) = 36.6; \text{prob} > \chi^2 = 0.1892 \)). We find statistically significant

\textsuperscript{45} Communications & IT (1), Engineering (2), Materials (3), Services (4), Energy (5), Consumer Products (6), Chemicals (7).
results for the predictor variables nationality, age at appointment and elite education. The results indicate that the probability of foreigners being appointed to the TMT has been higher in recent financial years compared with FY 2007-08\textsuperscript{46}. Hypothesis 2a is therefore confirmed. Unexpectedly, we find that the probability of more recently appointed executives being older is higher than for executives who were appointed in FY 2007-08. As a result Hypothesis 3 is rejected. Furthermore, statistical results confirm hypothesis 4: the probability of recently appointed TMT members holding at least one degree from an Indian elite institution is lower than for executives appointed some time ago. Finally, we do not find statistically significant results for hypotheses 1 and 2b.

These results become more tangible when we look at the changes of probabilities for the dependent variable across certain independent variables in different financial years (see Appendix 3.4). The delta of probabilities for a foreigner versus a local manager being appointed to the TMT, for example, is positive for FY 2009-10 and FY 2010-11, but negative for the two preceding years. That is, over the years the probability of foreigners being appointed to the TMT of a Tata Group operating company has increased. In the same vein trends regarding appointment age (more recently appointed executives are on average older) and degrees from Indian elite institutions (more recently appointed executives are on average less likely to hold a degree from an elite institution) come to the fore. As stated above, we do not find any statistical results for the role of gender or for executives’ international experience in recent TMT appointments.

Underlying reasons, effects and interpretations of the statistical results presented here are discussed in the main body of the thesis (see chapter 4).

\textsuperscript{46} In statistical terms we would say that for a one unit increase in “nationality” (0->1 = foreigner), we would expect a -0.86 decrease in the log odds of having been appointed to the TMT a longer time ago (FY 2007-08 coded as 4, FY 2010-11 coded as 1).
Appendix 3.2 Empirical research model

- **Executive gender (Dummy)**
  - $H_1$ (negative)

- **Executive nationality (Dummy) International exp. (Dummy)**
  - $H_{2a}$ (negative)
  - $H_{2b}$ (negative)

- **Executive appointment age**
  - $H_3$ (positive)

- **Degree from elite institution (Dummy)**
  - $H_4$ (positive)

**TMT appointment trends**

**# of years since TMT appointment**

**Control:** Industry cluster, company size, functional cluster
Appendices

Appendix 3.3 Regression results

<table>
<thead>
<tr>
<th>Ordered Logistic Regression (N=408)</th>
<th>Empirical Model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY of TMT appointment</strong></td>
<td><strong>Logistic Coefficients</strong></td>
</tr>
<tr>
<td>Communications &amp; IT (Dummy)</td>
<td>-0.35</td>
</tr>
<tr>
<td>Engineering (Dummy)</td>
<td>-0.72†</td>
</tr>
<tr>
<td>Materials (Dummy)</td>
<td>-0.63</td>
</tr>
<tr>
<td>Services (Dummy)</td>
<td>-0.23</td>
</tr>
<tr>
<td>Energy (Dummy)</td>
<td>0.27</td>
</tr>
<tr>
<td>Consumer Products (Dummy)</td>
<td>-1.28*</td>
</tr>
<tr>
<td>Revenues FY10-11 (USD M)</td>
<td>0.00*</td>
</tr>
<tr>
<td>Throughput function (Dummy)</td>
<td>-0.46†</td>
</tr>
<tr>
<td>Input Output function (Dummy)</td>
<td>-0.63†</td>
</tr>
<tr>
<td>Regional function (Dummy)</td>
<td>-0.09</td>
</tr>
<tr>
<td>Gender (Dummy)</td>
<td>0.11</td>
</tr>
<tr>
<td>Nationality (Dummy)</td>
<td>-0.86**</td>
</tr>
<tr>
<td>Appointment age</td>
<td>-0.04**</td>
</tr>
<tr>
<td>International experience (Dummy)</td>
<td>-1.19</td>
</tr>
<tr>
<td>Degree from elite institution (Dummy)</td>
<td>0.53†</td>
</tr>
</tbody>
</table>

Goodness of fit (Log likelihood chi-square)

Pseudo R²:
- Mc Fadden's R²: 0.037
- Mc Kelvey & Zavoria's R²: 0.087

†p<0.1; *p<0.05; **p<0.01; ***p<0.001
Logistic Coefficients: N=408
Probability of odds test:
chi² (30) = 36.60
P>chi² = 0.1892

Appendix 3.4 Changes in predicted probabilities for outcome variables

<table>
<thead>
<tr>
<th>Min-&gt;Max/ 0-&gt;1</th>
<th>FY10-11</th>
<th>FY09-10</th>
<th>FY08-09</th>
<th>FY07-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationality (Dummy, 1=foreigner)</td>
<td>0.20</td>
<td>0.01</td>
<td>-0.09</td>
<td>-0.12</td>
</tr>
<tr>
<td>Appointment age</td>
<td>0.33</td>
<td>0.07</td>
<td>-0.12</td>
<td>-0.28</td>
</tr>
<tr>
<td>Degree from elite institution (Dummy)</td>
<td>-0.10</td>
<td>-0.03</td>
<td>0.03</td>
<td>0.10</td>
</tr>
</tbody>
</table>

Min->Max: Appointment age

0->1: Nationality; degree from elite institution
## Appendix 3.5 Tata Group companies included in the analysis

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenue Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advinus Therapeutics</td>
<td>&gt;400 M</td>
</tr>
<tr>
<td>Brunner Mond (Tata Chemicals Europe)</td>
<td>&gt;400 M</td>
</tr>
<tr>
<td>CMC*</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Computational Research Laboratories</td>
<td>&gt;4000 M</td>
</tr>
<tr>
<td>Drive India Enterprise Solutions</td>
<td>&gt;400 M</td>
</tr>
<tr>
<td>General Chemical Industrial Products</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Hispuno Carrocera</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Infiniti Retail</td>
<td>&gt;4000 M</td>
</tr>
<tr>
<td>JAMIPOL</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Jamshedpur Utilities and Services Company</td>
<td>&gt;400 M</td>
</tr>
<tr>
<td>Magadi Soda Company</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Nelco*</td>
<td>&gt;4000 M</td>
</tr>
<tr>
<td>Nelito Systems</td>
<td>&gt;4000 M</td>
</tr>
<tr>
<td>Powerlinks Transmission</td>
<td>&gt;4000 M</td>
</tr>
<tr>
<td>Rallis India*</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Roots Corporation</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Taj Air</td>
<td>&gt;400 M</td>
</tr>
<tr>
<td>TAL Manufacturing Solutions</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Tata Advanced Materials</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Tata Advanced Systems</td>
<td>&gt;4000 M</td>
</tr>
<tr>
<td>Tata AIG General Insurance</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Tata Asset Management</td>
<td>&gt;4000 M</td>
</tr>
<tr>
<td>Tata BlueScope Steel</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Tata BP Solar</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Tata Business Support Services</td>
<td>&gt;4000 M</td>
</tr>
<tr>
<td>Tata Capital</td>
<td>&gt;4000 M</td>
</tr>
<tr>
<td>Tata Consulting Engineers</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Tata Elxsi*</td>
<td>&gt;4000 M</td>
</tr>
<tr>
<td>Tata Housing Development Company</td>
<td>&gt;1000-4000 M</td>
</tr>
<tr>
<td>Tata Industrial Services</td>
<td>&gt;4000 M</td>
</tr>
<tr>
<td>Tata Interactive Systems</td>
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*listed
### Appendix 3.6 List of interviewed executives

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<th>Interview date &amp; time</th>
<th>Interview location</th>
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<td>Tata Sons</td>
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<td>31.05.2012, 14:30</td>
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<td>12.06.2012, 18:30</td>
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<tr>
<td>Mr. R. Gopalakrishnan</td>
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<td>Mr. B. Muthuraman</td>
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<td>Mr. Ravi Kant</td>
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<td>Tata Quality Management Services</td>
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<td>Name</td>
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<td>Time</td>
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*Executive Director Tata Sons (2004-2009)
### Appendix 4.1 Descriptive statistics & correlations (RC model)

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<td>0.31**</td>
<td>0.08</td>
<td>0.39***</td>
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<td>0.29*</td>
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<td>0.76***</td>
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†p<0.1; *p<0.05; **p<0.01; ***p<0.001
Appendices

### Appendix 4.2 Regression results (RC model a)

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<th>Ordered Logistic Regression (N=72)</th>
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<th>Model IIIa</th>
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<td>Logistic Coefficients</td>
<td>z</td>
<td>Odds Ratio</td>
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<td>7.23***</td>
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†p<0.1; *p<0.05; **p<0.01; ***p<0.001
Logistic Coefficients: N=72
Probability of odds test Model III:
chi² (7) = 5.72
P>chi² = 0.5734
Appendix 4.3 Regression results (RC model b)

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<th>Model IIb</th>
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<td>Prior Company International Experience</td>
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<td>Moderator: Level of TMT monitoring x Prior Company International Experience</td>
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Goodness of fit (Log likelihood chi-square)

Pseudo $R^2$:

Mc Fadden's $R^2$ 0.086 0.124 0.159

Mc Kelvey & Zavoria's $R^2$ 0.227 0.302 0.354

†p<0.1; *p<0.05; **p<0.01; ***p<0.001

Logistic Coefficients: N=72

Probability of odds test Model III:

$chi^2 (6) = 6.86$

$P>chi^2 = 0.3340$
### Appendix 4.4 Descriptive statistics & correlations (SDM model a)

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<td>50750.85</td>
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<td>0.31**</td>
<td>0.02</td>
<td>0.52***</td>
<td>-0.52***</td>
<td>-0.04</td>
<td>-0.10</td>
<td>0.91***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9: Avg. Intrapersonal International Career Diversity</td>
<td>0.09</td>
<td>0.08</td>
<td>0.24*</td>
<td>0.00</td>
<td>0.49***</td>
<td>-0.49***</td>
<td>-0.05</td>
<td>0.04</td>
<td>0.85***</td>
<td>0.76***</td>
<td></td>
</tr>
<tr>
<td>10: Level of TMT monitoring x Intrapersonal</td>
<td>0.05</td>
<td>0.05</td>
<td>0.24*</td>
<td>0.41***</td>
<td>0.40***</td>
<td>-0.40***</td>
<td>-0.09</td>
<td>0.05</td>
<td>0.80***</td>
<td>0.70***</td>
<td>0.88***</td>
</tr>
</tbody>
</table>

†p<0.1; *p<0.05; **p<0.01; ***p<0.001
## Appendix 4.5 Regression results (SDM model a)

<table>
<thead>
<tr>
<th>Ordered Logistic Regression (N=72)</th>
<th>Model</th>
<th>Model IIa</th>
<th>Model IIIa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of control of market entry mode choice</td>
<td>Logistic Coefficients</td>
<td>z</td>
<td>Odds Ratio</td>
</tr>
<tr>
<td>Level of TMT monitoring</td>
<td>1.74†</td>
<td>1.83</td>
<td>5.71†</td>
</tr>
<tr>
<td>Industry Dummy (Services)</td>
<td>1.98***</td>
<td>3.29</td>
<td>7.23***</td>
</tr>
<tr>
<td>Market Entry Country Governance</td>
<td>-0.55</td>
<td>-1.60</td>
<td>0.58</td>
</tr>
<tr>
<td>Market Entry Cultural Distance</td>
<td>0.14</td>
<td>0.58</td>
<td>1.14</td>
</tr>
<tr>
<td>Company Size</td>
<td>0.00</td>
<td>1.21</td>
<td>1.00</td>
</tr>
<tr>
<td>Avg. Intrapersonal International Career Diversity Moderator: Level of TMT monitoring x Intrapersonal International Career Diversity</td>
<td>-11.86*</td>
<td>-1.98</td>
<td>7.09E-6*</td>
</tr>
<tr>
<td>Probability of odds test Model III: ch2 (6) = 7.9</td>
<td>P&gt;ch2 = 0.2458</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Pseudo R²: 0.165 0.192 0.210
Mc Fadden's R²: 0.376 0.441 0.485

†p<0.1; *p<0.05; **p<0.01; ***p<0.001

Logistic Coefficients: N=72
### Appendix 4.6 Descriptive statistics & correlations (SDM model b)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Level of control of market entry mode choice</td>
<td>2.17</td>
<td>0.84</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2: Level of TMT monitoring</td>
<td>0.50</td>
<td>0.26</td>
<td></td>
<td></td>
<td></td>
<td>0.19</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3: Industry Dummy (Services)</td>
<td>0.36</td>
<td>0.48</td>
<td></td>
<td></td>
<td>0.44***</td>
<td>-0.06</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4: Market Entry Country Governance</td>
<td>0.60</td>
<td>0.81</td>
<td>-0.20†</td>
<td>-0.12</td>
<td>-0.05</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5: Market Entry Cultural Distance</td>
<td>1.51</td>
<td>1.26</td>
<td>-0.06</td>
<td>0.03</td>
<td>-0.14</td>
<td>0.38**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6: Company Size</td>
<td>25789.92</td>
<td>50750.85</td>
<td>0.31**</td>
<td>0.08</td>
<td>0.39***</td>
<td>-0.05</td>
<td>-0.02</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7: Proportion of TMT Members with International Experience</td>
<td>0.31</td>
<td>0.26</td>
<td>0.12</td>
<td>-0.04</td>
<td>0.30**</td>
<td>-0.13</td>
<td>-0.05</td>
<td>0.80***</td>
<td></td>
</tr>
<tr>
<td>8: Moderator: Level of TMT monitoring x Proportion of TMT Members with International Experience</td>
<td>0.15</td>
<td>0.16</td>
<td>0.13</td>
<td>0.43***</td>
<td>0.27*</td>
<td>-0.15</td>
<td>-0.04</td>
<td>0.72***</td>
<td>0.85***</td>
</tr>
</tbody>
</table>
### Appendix 4.7 Regression results (SDM model b)

<table>
<thead>
<tr>
<th>Ordered Logistic Regression (N=72)</th>
<th>Model I</th>
<th>Model IIb</th>
<th>Model IIIb</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level of control of market entry mode choice</strong></td>
<td>Logistic Coefficients</td>
<td>Logistic Coefficients</td>
<td>Logistic Coefficients</td>
</tr>
<tr>
<td>Level of TMT monitoring</td>
<td>1.74†</td>
<td>1.37</td>
<td>0.70</td>
</tr>
<tr>
<td>Industry Dummy (Services)</td>
<td>1.98***</td>
<td>2.20***</td>
<td>2.61***</td>
</tr>
<tr>
<td>Market Entry Country Governance</td>
<td>-0.55</td>
<td>-0.72*</td>
<td>-0.70†</td>
</tr>
<tr>
<td>Market Entry Cultural Distance</td>
<td>0.14</td>
<td>0.16</td>
<td>0.12</td>
</tr>
<tr>
<td>Company Size</td>
<td>0.00</td>
<td>0.00*</td>
<td>0.00*</td>
</tr>
<tr>
<td>Proportion of TMT Members with International Experience</td>
<td>-3.83*</td>
<td>-3.92*</td>
<td>-18.90*</td>
</tr>
<tr>
<td><strong>Moderator:</strong> Level of TMT monitoring x Proportion of TMT Members with International Experience</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodness of fit (Log likelihood chi-square)</td>
<td>25.54***</td>
<td>31.21***</td>
<td>37.43***</td>
</tr>
<tr>
<td>Pseudo R^2:</td>
<td>0.165</td>
<td>0.202</td>
<td>0.242</td>
</tr>
<tr>
<td>Mc Faddern's R^2</td>
<td>0.376</td>
<td>0.447</td>
<td>0.508</td>
</tr>
</tbody>
</table>

†p<0.1; ‡p<0.05; *p<0.01; **p<0.001
Logistic Coefficients: N=72
Goodness of fit: chi^2 (7) = 12.77
P>chi^2 = 0.0779
Curriculum Vitae

Mathias Imbach

Date of birth: November 14, 1982
Place of birth: Langenthal, Switzerland

WORK EXPERIENCE

01/2009 – Associate Consultant/ Consultant, Bain & Company, Switzerland
01/2008 – 04/2008 External Consultant, Leadership Edge, US
08/2007 – 09/2007 Internship, Dennree GmbH, Germany/ India
05/2007 – 08/2007 Internship, Tata Consultancy Services, India
04/2007 – 05/2007 Internship, Tata Management Training Centre, India

ACADEMIC POSITIONS

01/2011 – 02/2012 Project Manager, India Competence Center, Research Institute for International Management (FIM-HSG), University of St. Gallen, Switzerland

EDUCATION

01/2011 – 02/2013 Dr. of Philosophy in Management (Dr. oec. HSG), University of St. Gallen, Switzerland
10/2007 – 10/2008 MSc in International Management, London School of Economics & Political Science (LSE)
01/2008 – 05/2008 Exchange program, Fuqua School of Business (Duke MBA), US
10/2003 – 03/2007 B. A. HSG in Business Administration, University of St. Gallen, Switzerland

LANGUAGES

German (native), English (very good), French (good), Spanish (basics), Latin