Top Level Management Diversity and Firm Performance in Sino-Foreign Joint Ventures: The Moderating Role of State Ownership

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Statement of Originality

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I give consent to the final version of my thesis being made available worldwide when deposited in the University’s Digital Repository, subject to the provisions of the Copyright Act 1968.

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ABSTRACT

This study examines how top management team (TMT) diversity affects the firm performance and is structured in form of two self-contained papers. The first paper has a scholarly focus and extends the upper echelons literature by investigating the effects of both TMT and board of directors (BOD) diversity on Sino-foreign joint ventures (JVs), conditional on state ownership. Based on data from 137 JVs listed in China, the first paper offers empirical support for the suggestion that the international experience diversity of the BOD is positively related to firm performance, with state ownership strengthening the effect. While the nationality diversity of the BOD and TMT, and the international experience diversity of the TMT do not seem to affect firm performance. Consequently, a fine-grained examination of firm performance not only requires separate analyses of the TMT and BOD effects, but also consideration of the ownership constellation within the institutional contexts prevailing in emerging economies. Based on the findings produced in the first paper, the second paper provides managerial implications about how the JV top level team structure may enhance firm performance. Especially, the second paper suggests that non-Chinese investors should focus more on establishing boards with diverse international experience but not be too concerned about the members’ national backgrounds when partnering with state-owned enterprises in China; whereas the composition of the TMT may be of less a consideration to enhance performance of a new JV. In doing so, the second paper elaborates detailed managerial guidelines.
INTRODUCTION

As the world’s largest emerging economy and second largest economy, China is an important market for multinational companies (MNCs) that seek to further substantiate their global position. More than ninety-five percent of the Fortune 500 companies already have a presence in China. Establishing a joint venture (JV) is the preferred entry mode to get a foothold in the maturing and expanding Chinese economy, but there have been many JV failures: only a few have succeeded, even after years of operation. To ensure a better chance of success, it is common for MNCs to assign their own staff to the top management team (TMT) in the new JVs as to represent their interests, and yet the performance of new JVs is still questionable. With China’s open-door policy having been established for more than thirty years, there are eminent lessons that can be learned from past JV cases so as to attain a higher success rate.

The composition of the TMT is closely tied to managerial strategic decision-making and hence firm performance, as suggested by Hambrick and Manson (1984) in upper echelons theory. There is consistent evidence of the existence of some sort of a relationship between TMT demographic diversity and firm performance. However, the particular effect of TMT composition on performance has been ambiguous, as different types of diversity can either benefit or detract from team performance (Jackson & Joshi, 2011). According to Certo, Lester, Dalton and Dalton (2006), even though a considerable amount of research has used reliable demographic data to investigate the relationship between TMT diversity and firm performance, the findings from such studies have not been consistent. Certo et al. (2006) explain that the mixed findings in TMT research could originate from differences in TMT definitions and operationalisations based on the accessible data domain of different researchers; often
rather studying the top level team rather than just the TMT. A nuanced view should distinguish the TMT from the board of directors (BOD) with their respective roles being an entity’s operational management and corporate governance bodies. Hence, some inconsistencies in the findings reported might be due them being based on treating both entities as one—being the TLT (Top Level Team)—rather than separately. Therefore this study argues that separation of the two (BOD and TMT) may generate a more meaningful interpretation, especially in China, where BOD power overrules that of the TMT (Fu et al., 2002), thus making diversified TMTs less contributable.

Among different demographic characteristics, when TLT diversity is being evaluated in terms of internationalisation, typically only either diversity in international working experience or nationality is considered (Nielsen, 2010) but not both individually. The limitation of using either one proxy as TLT internationalization is that it may account for the impact of one’s country of origin or cultural background, or the impact of any other international experiences due to having worked in a different country or culture. Previous research has suggested that there is a distinction between diversity in observable (nationality) and non-observable (international working experience) attributes. Observable diversity is expected to have a negative effect on team interactions due to prejudices (Milliken & Martins, 1996), and it is the opposite for non-observable diversity. Hence, nationality and experience should be evaluated distinctly instead of a substitution of one by the other for understanding consequences concerning firm performance.

This study investigates the influence of the TMT and BOD individually on firm performance in China. In addition, as the Chinese government remains the largest shareholder in many listed companies, which is different from many Western contexts, the ownership type of the JV Chinese partner should be taken into account. This is
important as different types lead to respective institutional constraints and competitive advantages (Gao et al., 2010). State-owned enterprises (SOEs) usually are laden with various resources such as receiving substantial government support, preferential bank loan rates, and attractiveness to talent. Hence, the TLT-performance relationship may be conditioned by ownership type in a Sino-foreign JV; an argument that will be explored in this study.

Based on the above, this study is to examine the following three main hypotheses:

1. TMT internationalization (separately for international experience and nationality) diversity is positively related to Sino-foreign JV performance.

2. BOD internationalization (separately for international experience and nationality) diversity is positively related to Sino-foreign JV performance.

3. State-ownership moderates the positive relationship between TLT (separately for the BOD and the TMT) and Sino-foreign JV performance.

This dissertation is structured in form of two self-contained papers. The first paper is predominantly focused on producing a contribution to theory through the development of the above-mentioned three main hypotheses, with respective empirical testing that draws on the quantitative analysis of data collected from 137 Sino-foreign JVs in publicly accessible databases such as Bloomberg, GTA Data, and company websites. The second paper puts the emphasis on the development of a managerial framework that draws on the findings from first paper with additional illustrative examples.