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Diversity at the executive suite: A resource-based approach to the customer orientation–organizational performance relationship

Seigyoung Auh [a,1], Bulent Menguc [b,*]

[a] Yonsei School of Business, Yonsei University, 134 Shinchon-dong, Seodaemun-gu, Seoul, 120-749, South Korea
[b] Brock University, Faculty of Business, Department of Marketing, Int'l Business, and Strategy, St. Catharines, Ontario, Canada, L2S3A1

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Abstract

Taking a resource-based approach and thereby arguing that top management team (TMT) diversity is a tacit knowledge, this paper addresses how TMT experience diversity complements TMT functional diversity in explaining the effect of customer orientation on organizational performance. It is argued that when TMT functional diversity is leveraged with TMT experience diversity, this bundled tacit knowledge operates as a transformational capability, strengthening the relationship between customer orientation and organizational performance. Results from a survey of top management executives at the SBU level support our prediction for a positive three-way interaction between customer orientation, TMT functional diversity, and TMT experience diversity on organizational performance. Our findings suggest that the effect of customer orientation on organizational performance increases when the level of both functional diversity and experience diversity increases. Implications for TMT diversity and implementing customer orientation are discussed.
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1. Introduction

Despite the accolades and undivided attention that customer orientation has received in the marketing literature, little empirical evidence exists to suggest that this construct leads to higher organizational performance (e.g., Noble et al., 2002). The few findings that do exist are mixed and equivocal. Several scholars have acknowledged the role that a top management team (TMT) plays in the formation and development of customer orientation (e.g., Kohli and Jaworski, 1990). The term top management team (TMT) is consistent with the upper echelon concept advanced by Hambrick and Mason (1984) and the dominant coalition construct proposed by Cyert and March (1963). A TMT is typically comprised of senior executives such as vice presidents and senior level managers that serve on the board of directors in most firms (Finkelstein and Hambrick, 1990; Haleblian and Finkelstein, 1993).

Drawing on the upper echelon perspective (Hambrick and Mason, 1984), we believe that the inconsistency in explaining the relationship between customer orientation and organizational performance rests on the moderating role of the nature and characteristics of those that initiate and champion such a customer orientation. In particular, we look at two critical types of TMT diversity that we believe will provide important contextual factors in shaping the relationship between customer orientation and organizational performance. These two types of diversity are TMT functional diversity and TMT experience (or tenure) diversity. We argue that these two different dimensions of diversity reflect intangible resources in an organization in that they represent complementary tacit knowledge (Carpenter et al., 2001). We contend that when these two dimensions of diversity are bundled so that experience diversity complements functional diversity, this interaction will contribute to a better understanding of the conditions under which customer orientation will lead to greater organizational performance.

We argue that TMT functional diversity attenuates the effect of customer orientation on organizational performance by binding strategic consensus and impeding effective information dissemination. When TMT functional diversity is complemen-

* Corresponding author. Tel.: +1 905 688 5550x5704; fax: +1 905 984 4188.
E-mail addresses: sauh@yonsei.ac.kr (S. Auh), bmenguc@brocku.ca, (B. Menguc).
[1] Tel.: +82 2 2123 5452.

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ted by TMT experience diversity, however, the latter makes up for what the former lacks, or reduces the costs associated with the former and thereby jointly strengthens the effect of customer orientation on organizational performance. The goal of this research is to acknowledge the combination of TMT functional and experience diversity as complementary human capital resources, which explain the relationship between customer orientation and organizational performance. We believe that this research is unique and thereby contributes to the literature in explaining the mixed and conflicting relationship between customer orientation and organizational performance by drawing on the resource-based view (RBV) as a conceptual framework.

Our central thesis in the paper is that the effect of TMT functional diversity on the customer orientation–organizational performance relationship increases as TMT experience diversity increases. In other words, we expect customer orientation to have a negative effect on organizational performance when functional diversity is not complemented by experience diversity, but a positive effect when functional diversity is complemented by experience diversity.

Our paper is organized as follows. We start by explaining the theoretical background of our research. To this end, we draw on the RBV to develop our arguments about the shortcomings of functional diversity, and how experience diversity, when bundled with functional diversity, can strengthen the customer orientation–organizational performance relationship. Based on our conceptual framework, we develop our contingency hypothesis of how the effect of customer orientation on organizational performance is a function of the combination of TMT functional diversity and TMT experience diversity. This is followed by empirical results obtained from a large survey of TMT executives in the manufacturing industry. We conclude the paper with a discussion of the theoretical contributions, managerial implications, limitations, and future research directions.

2. Theoretical background and hypothesis development

According to the RBV, "firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" (Barney, 1991, p. 101). In line with the above definition, resources that manifest value, rareness, imperfect imitability (i.e., resources that are tacit and less susceptible to being copied), and non-substitutability through resource heterogeneity and immobility (i.e., non-transferability) contribute not only to competitive advantage but also to a competitive position that can be sustained over time (Barney, 1991). Broadly defined, resources come in two forms: tangible and intangible (Hall, 1992, 1993; Madhavan and Grover, 1998). Tangible resources are more observable and less causally ambiguous compared to intangible resources. A typical example of intangible resources is knowledge-based resources (Miller and Shamsie, 1936). Knowledge-based resources represent the stock of intangible assets from possessing human, intellectual, and social capital (Nahapiet and Ghoshal, 1998). In this respect, human capital, especially in the form of TMT diversity, represents an intangible resource that is expected to contribute to greater organizational performance (Barney, 1991; Hitt et al., 2001). The notion of diversity and not just the absolute level of human capital (TMT) increases the tacitness and intangibility aspect of the resource.

Consistent with the RBV, some researchers have argued that firms are a bundle of knowledge-based resources, resources that can be effectively applied to problem solving (Grant, 1996). Two types of knowledge have been the center of attention in academia and practice, namely, explicit and tacit (Polany, 1966). Explicit knowledge is consistent with tangible resources while tacit knowledge is a trademark of intangible resources. Our main focus is on tacit knowledge as we argue that TMT functional diversity and experience diversity are a reflection of such knowledge because possessing TMT diversity enables firms to harness intellectual and social capital, hallmarks of intangible resources, that creates barriers for imitation and institutionalization. We define tacit knowledge as knowledge that is not readily transferable and is difficult to measure and articulate; it accumulates over time and is often embedded in organizational and social contexts and human interactions. All these defining characteristics make tacit knowledge causally ambiguous, complex, and path dependent.

2.1. TMT functional diversity as intangible resources

We define TMT functional diversity as the functional background in which a person has spent the greater part of his or her professional career (Bunderson and Sutcliffe, 2002). Thus, TMT functional diversity can be regarded as intangible resources and more specifically tacit knowledge, as this is work-related practical knowledge that has been accumulated on the job (Polany, 1966). TMT functional diversity measures the range of *specialists* (as opposed to *generalists*) the TMT possesses.

Despite the advantages of functional diversity, which mainly pertain to the rich and abundant cognitive resources generated among diverse TMT members, the disadvantages of functional diversity are also noteworthy. People prefer to belong to groups with whom they can relate and identify, and this is facilitated when members in the group show similarity to each other on several demographic variables. Given that functional diversity leads to task-related conflicts, it is also expected to impede information sharing among members in the TMT (Bunderson and Sutcliffe, 2002). Bunderson and Sutcliffe (2002) revealed that dominant function diversity (similar to our functional diversity) hampered information sharing between team members.

Taken collectively, functional diversity can have mixed effects on organizational performance depending on the extent to which it causes conflict and discourages information sharing (Williams and O'Reilly, 1998). This is clearly evident from the equivocal empirical findings throughout the literature that range from TMT functional diversity supporting organizational

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