

Current Status and Prospect of Research on the Functional Background Heterogeneity of Top Management Team

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Abstract: The functional background heterogeneity of top management team has gradually attracted the attention of research in the field of management, and it has also affected firm practice. This paper sorts out the current research status of the heterogeneity of top management team functional background and its relationship with firm value, and finally points out the limitations of existing research from the perspective of firm life cycle. Future research can build a theoretical model of the impact of the functional background heterogeneity of top management team on firm value in different life cycle stages, explore its specific effects, promote the idea of maximizing firm value, and enhance market competitiveness.

1. Introduction

The study of heterogeneity in the functional background of top management teams has gained increased attention in the field of management and organizational behavior. The functional background of a top management team, defined as the collective expertise and experience of its members, has been found to have a significant impact on a firm's value and performance. Moreover, the relationship between heterogeneity in the functional background of top management teams and firm value can be influenced by the life cycle stage of the firm. While previous studies have explored the relationship between heterogeneity in top management team functional background and firm value, the results have been mixed and lack a comprehensive analysis of the effect of the firm's life cycle stage. To address this gap in the literature, future studies should consider the life cycle stage of firms in their examination of the relationship between top management team heterogeneity and firm value. This will not only refine the current understanding of the topic, but also provide practical implications for firms in enhancing their value by optimizing the functional background heterogeneity of their top management teams.

2. Upper Echelons Theory and Functional Background of Top Management Team

The introduction of upper echelons theory has prompted many scholars to explore the impact of top management team characteristics on organizational outcome variables. According to the upper echelons theory^[1], the behavior of top management teams, as the primary decision-makers of corporate strategy, is dependent on their background characteristics, including age, professional background, academic experience, and functional background, in interpreting the current environmental and organizational situation, thereby differentially affecting the choice of corporate strategy and behavioral patterns. Among these characteristics, functional background refers to an individual executive's prior work experience in different functional areas within an organization, and is a crucial feature of top management teams^[2]. Researchers have noted that compared to other features, functional background directly determines the tasks involved and has a deeper impact on the cognitive patterns and choice preferences of executives, which is then reflected in their strategic decision-making and impacts the development of the firm. This feature is increasingly gaining high attention from both academia and practice.

3. The Impact of Different Functional Backgrounds of the Top Management Team on the Firm

3.1 Research on Mainstream Classification Methods

In the current literature, most scholars draw upon Hambrick and Mason's research^[1] and categorize functional backgrounds into three types: output function, throughput function, and peripheral function. Output function includes market marketing, sales, and product development, while throughput function includes product production, process management, and accounting. Peripheral function includes law and financing. Researchers have studied the impact of these three backgrounds on the firm. Some scholars found that the functional background of the top management team has a positive impact on the firm's independent innovation based on social capital theory and resource-based views and that the roles played by the three functional backgrounds are different^[3]. Some scholars used real estate listed companies as a research sample and found that only peripheral functional background had a significant correlation with the firm's performance^[4]. Different scholars have adopted various firm samples and found that compared to other functional backgrounds, executives with a "production-oriented" functional background have a positive and strongest impact on firm performance, while executives with an "output-oriented" functional background have a significant positive correlation with technological innovation in the firm.

3.2 Research on Other Classification Methods

In addition to the above-mentioned categorization, some researchers combined practical situations and divided the functional background of executives into two categories: "functional management" represented by marketing, finance, and human resources and "composite" combining technical backgrounds such as production, research and development, and design. The research concluded that the innovation investment attitudes and characteristics of executives from these two backgrounds in the top management team are different, leading to significant differences in the short-term and long-term performance of the firm^[5]. Additionally, some scholars found from the perspective of regulatory effects that the different functional backgrounds of members in the top management team play different regulatory roles in the relationship between R&D competitive behavior and firm performance^[6]. Hence, the differences in executive functional background can

result in different impacts on the firm.

4. Functional Background Heterogeneity of Top Management Team and Firm Value

4.1 Research on the Functional Background Heterogeneity of Top Management Team

A team of executives is often composed of individuals with different functional backgrounds and the composition characteristics of the top management team explain more variations in corporate performance than the personal characteristics of the CEO ^[7]. The degree of heterogeneity of functional background plays a role in corporate governance and the creation of firm value. Teams with different functional backgrounds not only have differentiated knowledge and skills, but also have broader social capital based on human capital theory. The higher the heterogeneity of functional background, the more external support can be obtained in the face of adversity. Previous research has verified that the heterogeneity of functional background of top management teams has a positive effect on corporate strategy and innovation decisions, cross-boundary technology mergers and acquisitions performance, innovation and change in firms, and autonomous innovation of firms. Scholars have also focused on the impact of executive functional background heterogeneity on the internationalization of firms, organizational performance, and investment and financing decisions.

4.2 Research on the Relationship with Firm Value

The relationship between executive functional heterogeneity and value creation of firms has yet to be conclusively established. The general consensus among scholars is that the three factors of return, growth, and risk determine a firm's value. However, in literature on the relationship between executive functional heterogeneity and these three factors, conflicting viewpoints have arisen. On the one hand, based on the information decision-making theory ^[8], the heterogeneity of executives can enable firms to have access to more resources and information, and improve the cognitive level of the top management team. This advantage can provide a diversified perspective for organizational development, which not only helps to enhance the firm's market judgment and decision-making diversity, but also helps to resolve the crises faced by the firm. On this basis, researchers have confirmed that functional heterogeneity can enable firms to make more favorable strategic planning and has a positive correlation with firm performance and firm innovation output.

On the other hand, some scholars believe that heterogeneous functional background of executives may decrease the quantity and quality of information communication ^[9]. Executives with different functional backgrounds may have cognitive differences that lead to disagreement on the same issue or cause information bias during communication, thus reducing the authenticity of team decision-making. This can lead to reduced efficiency in the social operation and work-related processes of the top management team and may result in internal conflicts that are not favorable for the performance of the firm and innovation. Moreover, top management teams dominated by "multi-functional backgrounds" are helpful for improving overseas performance, but have a significant negative impact on innovation performance, which can be explained by social categorization theory. Some scholars, based on different research samples, found that the heterogeneous functional background of executives has no significant impact on the performance of the firm compared to other heterogeneous characteristics of the top management team. Therefore, the impact of heterogeneous functional background of executives on corporate value remains unknown and the relationship between the two is complex and requires further exploration using a large amount of data.

5. Functional Background Heterogeneity of Top Management Team and Firm Life Cycle

5.1 Previous Research Results

Most scholars have further studied the relationship between the heterogeneity of executive functions and the creation of corporate value in order to address the inconsistent views on this issue. For example, some scholars introduced the CEO power distance as a moderator variable, which was further divided into structural power, ownership power, expert power, and reputation power, to explore the roles each of the four powers played in the process of executive function heterogeneity affecting corporate performance^[10]. Some scholars used panel data analysis methods and found that as CEO power increases, the impact of executive differences on corporate performance will gradually be weakened, even if the internal cognitive conflicts and emotional conflicts within the team are sufficiently large, it is difficult to have a substantial impact on corporate performance^[11]. And scholars studied the moderating effects of the cash pay gap and stock pay gap on the relationship between top management team heterogeneity and corporate performance, and the results showed that the effects of the two pay gaps on the relationship between different types of top management team heterogeneity and corporate performance are significantly different^[12]. Besides, some scholars conducted a meta-analytic coding of related literature and found that cultural differences between the East and West, as well as the source of data, can impact the promotion of heterogeneity in top management teams on organizational performance^[13]. The promotion of heterogeneity is stronger in Western cultural backgrounds compared to Eastern cultural backgrounds, and results obtained from primary data are more representative of this promotion than those obtained from secondary data. Scholars also consider situational factors such as the level of marketization and available slack, in which a high marketization environment leads to increased transparency and competition, catalyzing the advantages of executive heterogeneity, and the level of available slack also affects the cognitive sharing advantages of top management teams.

5.2 Current Research Limitations

Although previous literature has considered the influence of rich contextual factors and tested their moderating effects in order to better interpret the relationship between variables, existing research on executive background heterogeneity mostly places firms under the same cross-sectional characteristics, and rarely considers the dynamic effects of firm development. Additionally, during the literature review, it was found that scholars often used samples of listed companies that were mostly small and medium-sized firms and start-up firms listed on the Growth Firm Market, with a low threshold but high risk. Or, they used a single industry firm as a sample, such as high-tech firms, strategic emerging industry firms, and China's information technology industry, etc. These firms are characterized by being in the early stages of development, small in scale, high in risk and high in growth potential. The research conclusions based on these firms may not be applicable to other firms in different growth stages, which may also be one of the reasons for the emergence of contradictory conclusions.

Additionally, studies conducted by scholars have shown that the higher the complexity of the business environment and the faster the pace of change, the greater the challenge for managers in their decision-making process. In a less complex business environment, executives are more likely to have a unified view, and on this basis, scholars divide the business environment into high uncertainty and low uncertainty based on the differences in development strategies^[11]. The research finds that the cognitive and emotional conflicts caused by differences among executives will decrease in a stable business environment, thus reducing the impact of team conflicts on business performance. Moreover, companies at different stages of the life cycle face vastly different internal

and external business environments, with differences in internal organizational structure, human resource allocation, strategic planning, communication channels, and information transfer methods. The extent to which the heterogeneity advantage of executive functions can be leveraged will be impacted as a result.

In general, by dividing the life cycle of a business into stages, the impact of executive function heterogeneity on business value will vary, with a more significant impact in certain stages. Exploring these questions will contribute to expanding the idea of maximizing business value and enhancing market competitiveness.

6. Conclusions

In conclusion, scholars have not reached a consensus on the impact of top management team heterogeneity in functional background on firm value, and there is a lack of in-depth analysis from the perspective of different firm life cycle stages on the effectiveness of top management team heterogeneity on firm value. Future research can construct a theoretical model of the impact of top management team heterogeneity in functional background on firm value in different stages of the firm life cycle, using publicly listed companies of various industries and life cycle stages as research samples, and conduct regression analysis on the impact of top management team heterogeneity on firm value, while discussing the moderating role of life cycle in the relationship. The research findings will improve and enrich the top management team theory, and provide a theoretical basis for different life cycle firms to enhance firm value by optimizing the heterogeneity of functional backgrounds of top management team members.

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