TOP MANAGEMENT TEAM DIVERSITY, THE STRATEGIC ISOMORPHISM AND FIRMS’ PERFORMANCE: A STUDY IN THE INDONESIAN BANKING INDUSTRY

Rebi Fara Handika, Andalas University
Amin Wibowo, Universitas Gadjah Mada

ABSTRACT

This study aimed at examining the influence of Top Management Teams’ (TMT) diversity on the strategic isomorphism and tested its impact on firms’ performance. Using upper echelons theory that concerned to the role of TMT in company and institutional theory that discussed the institutional forces that affect company’s performance as framework, this study tried to see how the role of the TMTs’ diversity in demographic characteristics determined their firm’s strategy in dealing with institutional pressures to achieve good performance. This study uses data from listed Indonesian banks and it is analyzed by using hierarchical regression analysis method. The analysis found that several TMT diversity variables affected the strategic isomorphism and firms’ performance. The research also confirmed that the strategic isomorphism affected a firm’s performance. Several implications were discussed.

Keywords: Diversity, Top Management Team, Isomorphism, Strategy, Firm Performance, Banking Industry.

INTRODUCTION

Factors that influence firm performance have been a focus for strategic management research for decades. In general, there were two approaches to revealing the performance of the firms, the first claimed that the environment influenced a firm’s performance (Porter, 1980; DiMaggio & Powell, 1983), the second approach stated that a firm’s internal resources influenced the firm’s performance (Barney, 1991; Hambrick & Mason, 1984). Most of the previous studies approached the study of a firm’s performance using one of these views. To get a better explanation about firms’ performance there was a need to use a more comprehensive view by considering the internal and external factor simultaneously, like proposed by this study.

Based on the Upper Echelons Theory (UET) (Hambrick, 2007; Hambrick & Mason, 1984), the Top Management Team (TMT) is one of a firm’s internal resources. According to this theory, top management perceptions and their cognitive base are expected to influence strategic choices and ultimately, organizational outcomes. The UET suggests that the demographic characteristics of managers act as proxies of their cognitive base and values, which are expected to influence strategy and their firm’s performance.

Research into TMTs generally focused on how the diversity of the team members affected their firm’s performance. The diversity is defined as the degree to which TMT members differ with respect to background characteristics such as age, gender, tenure functional and educational background (Cannella et al., 2008). Some scholars found that the more diverse the
TMT was, the better the performance of the firm (Bunderson, 2003; Bunderson & Sutcliffe, 2002; Kilduff et al., 2000; Hambrick et al., 1996). On the contrary, other scholars found the diversity of the TMT negatively affected the firm’s performance (Ozer, 2010; Wei et al., 2005; Knight et al., 1999). Accordingly, studies about this were inconclusive. Harrison & Klein (2007) stated that inconsistent results from previous studies came from the unclear definition of diversity, both conceptually and operationally, so that it led to erroneous theory reasoning and wrong conclusions about the impact of diversity. Furthermore, Harrison & Klein (2007) claimed that there were three forms of diversity, namely separation, variety and disparity. They suggest to conducts separate studies for each diversity type that are conceptually different.

Besides that, past research on TMT mostly focused on the direct influence of TMT diversity on firm performance (Carpenter, 2002; Hambrick, Cho & Chen, 1996). There is a need to use mediating and/or moderating variables in explaining the effects of diversity on the organization’s output (Hambrick, 2007). Certo et al. (2006) also stated that studies that examined the TMTs’ demographic variables and their relationship with company performance should accommodate mediating variables. Strategy is one of possible variable that could mediate the relationship between TMT’s demographic variables and firm performance (Hambrick, 2007). The logic is the company achieved performance through the strategy taken by top managers. The strategy that chosen are based on their cognitive frame which is formed by their demographic characteristics like values, experience, education and functional background (Talke et al., 2011). The strategy variables that possibly taken by TMT and believed influence the company’s performance are strategic isomorphism or the extent to which an organization's strategies conforms the conventional, normal strategies in the respective industry (Garcia & Sabate, 2010; Deephouse, 1999; Deephouse, 1996). The rationale is the organization would interact with many related parties during their activities to achieved expected performance. Sometimes the strategy which taken by the TMT were a response to the environment, due to the regulations that limited the organization’s choices. In the end, the limitations and bounded rationality that is owned by the TMT made them prefer to perform relatively similar strategy to other organizations and the industry average.

Based on the institutional theory introduced by DiMaggio & Powell (1983), a firm’s tendency to imitate another firm in the same industrial environment was called an isomorphism. From this perspective, strategic choices and actions taken by firms were the thing that is social and normative. Such tendency arrived from firm’s main actors like the TMT to obtain legitimacy from stakeholders. So, it is hoped that by taking the choices and actions that legitimated by stakeholders will help the firm achieve good performance in industry.

This research was taken in the Indonesian banking industry for several reasons. First, in Indonesia the banking industry is highly supervised and regulated by the government through their agencies such as the Bank of Indonesia (BI) as the central bank and the Financial Services Authority (OJK). As stated in an act of the Republic of Indonesia, the BI and the OJK has the authority to grant licenses, regulate, supervise and impose sanctions on businesses engaged in the banking industry in Indonesia. The existence of government institutions such as the BI and the OJK will make the TMT as the representation of company seeks legitimacy. According to the institutional theory, isomorphism is one way to achieve legitimacy, in order to conform to institutional rules, regulations, norms and expectations of the constituents.

Last, the banking industry was very familiar with the process of imitation, such as when a bank uses a new strategy, other banks would quickly follow suit and do the same (Barreto &
Fuller, 2006). This meant that the banking industry was an industry in which the isomorphism process took place.

THEORY AND HYPOTHESES

Upper Echelons Theory

The UET was proposed by Hambrick & Mason (1984) based on the assumption that an organization was a reflection of its top managers. The choices made by the organizations, such as their strategic choices and implementation of such strategies were determined by the actors who had a major role in the organization, like the managers or leaders. So, Strategic choices taken by the leadership ultimately determine the performance of the organization itself (Hambrick, 2007; Hambrick & Mason, 1984). This theory emphasized how the nature of top leader’s characteristics, such as the demographic characteristics affected the company's performance.

Institutional Theory

DiMaggio & Powell (1983) proposed institutional theory with the main idea that company will tend to imitate others in its environment to gain legitimacy. This tendency was called an isomorphism. From this point of view the strategic decision and action was seen as the thing that are social and normative. Such decision and action came from the tendency of actors in company to gain legitimacy from their constituents.

The Diversity of a Top Management Team’s Demographic Characteristics as Variation

Diversity can be classified as separation, variety and disparity. Diversity as variation is an attribute of the differences between members of the team, either qualitatively or categorically (Harrison & Klein, 2007). The differences in this aspect relate to the heterogeneity of the team in terms of knowledge, skills and abilities (Harrison & Klein, 2007), so that each member brings a different perspective of knowledge and resources of information to the other members about organizational issues or problems. Demographic characteristics such as age, gender, educational background, functional background and tenure, related to the experiences and perspectives of the team’s members. This variable is clearly a form of variation, where individuals with different characteristics are categorically distinct (Harrison & Klein, 2007). Being of a similar diversity, these variables can be measured with the same measurement method.

Top Management Team Demographic Characteristics Diversity and Strategic Isomorphism

In previous studies, researchers have identified several organizational characteristics that can be the subject of isomorphism, including companies’ strategies. For example, Lawrence (1999) proposed institutional strategies that based on the isomorphic pressures from the firms. The propensity to resemble others strategies called as strategic isomorphism, a term that can be defined as the extent to which an organization’s strategy resembles the conventional or normal strategy in an industry (Deephouse, 1996). Research by Haunschild (1993); Deephouse (1996) showed the importance of imitating other companies, especially when associated with the merger and acquisition option or financial strategy.
Strategic isomorphism can provide legitimacy and happens when managers face a confusing situation with an unclear solution (Dacin, 1997; Deephouse, 1996). A TMT, with many managers in it, can better identify strategic issues and develop strategic alternatives (Bantel & Jackson, 1989). Research conducted by Garcia & Sabate (2010) stated that the CEO’s traits, especially the affective traits related to strategic conformity. Wiersema & Bantel (1992) also stated that the homogeneity of the TMT in terms of its demographic traits related to the tendency to maintain the strategic status quo. Homogeneous teams also tend to show conformity and a lack of information disclosure.

Differences in age and gender will tend to produce a variety of views and opinions in the team, related to certain issues and will lead to conflict (Milliken & Martins, 1996). Olson et al., (2006) specifically argued that the greater the diversity in age, there would be less potential to reach a consensus on strategic choices. In their study, the TMT’s age diversity negatively related to strategic choices such as mergers and acquisitions, as well as innovation.

The educational background and functional background reflects the managers’ diversity of knowledge, skills and expertise (Hambrick & Mason, 1984; Harrison & Klein, 2007). Wiersema & Bantel (1992) stated that a heterogeneous team would have difficulties understanding each other because of poor communications as a result of the differences in language, terminology and visualization. In addition, differences in educational background and experience also have a significant impact on the company’s strategic behavior (Bolo et al., 2011). A diversity of functional backgrounds leads to unfocused strategic orientation as a result of the differences in the TMT members’ specializations, so strategic orientation will have problems in the search for a deal and consensus (Auh & Menguc, 2005). Knight et al. (1999) found the diversity of educational backgrounds and functional backgrounds negatively affected the strategic consensus.

According to Finkelstein & Hambrick (1990) tenure affected the team's commitment to the status quo, the diversity of information and attitude toward risk. Under certain conditions the diversity may create deceit and mistrust, as the differences in languages, paradigms and purpose (Hambrick et al., 1996). So it may be that differences in organizational tenure will also lead to a diversity of opinions and influence the firm’s strategic choices (Wiersema & Bantel, 1992). Finkelstein & Hambrick (1990) found that the TMT’s tenure had a relationship with strategic conformity.

From the above explanations, it can be concluded that the more diverse the TMT members are in their demographic characteristics (age, gender, educational background, functional background and tenure) the more difficult it could be to reach agreement to resemble the strategies with the industry. Because the more diverse the team members are, the more diverse the orientation of the team will be. So the diversity of the TMT’s demographic characteristics might have a negative relationship with strategic isomorphism. We hypothesized the following:

\[ H_{1a} : \] The TMT’s age diversity is negatively related to the strategic isomorphism.

\[ H_{1b} : \] The TMT’s gender diversity is negatively related to the strategic isomorphism.

\[ H_{1c} : \] The TMT’s educational background diversity is negatively related to the strategic isomorphism.

\[ H_{1d} : \] The TMT’s functional background diversity is negatively related to the strategic isomorphism.

\[ H_{1e} : \] The TMT’s tenure diversity is negatively related to the strategic isomorphism.
Top Management Team’s Demographic Characteristics Diversity and Firm’s Performance

Since the demographic characteristics became a valid proxy for understanding the TMT, the diversity among the team members may have a relationship with the firm’s performance (Finkelstein et al., 2009). If the demographic diversity influenced the top team’s behavior and resulted in an effective management, then the effect of heterogeneity may be reflected in the company’s performance (Carpenter, 2002).

Age is seen as a proxy for experience. The diversity of age implies the variety of experience, values and perceptions that will enhance the TMT capabilities to generate strategic decision and affects firm performance (Finkelstein et al., 2009). Richard & Shelor (2002) confirmed that the TMT’s age diversity had a positive correlation with the performance of the company.

Gender diversity would lead to more thorough information processing and thus richer views (Van Knippenberg et al., 2004). Managerial behavioral differences between genders also provided some benefit and wider spaces in decision making that improved the managerial effectiveness and ultimately affected the performance of the company (Dezso & Ross, 2012).

Diversity in TMT educational backgrounds relates to the diversity of the perspectives, knowledge and expertise of top managers (Fernandez et al., 2014). The diversity in educational backgrounds would also improve the ability to solve problems and make decisions (Finkelstein et al., 2009).

Functional background diversity is also believed to relate to the diversity of the perspectives, knowledge and abilities of top managers. The TMT is naturally made up of individuals from different functional areas who contribute their specific knowledge and experience to successfully manage the complexities of the firm (Fernandez et al., 2014). The diversity of functional backgrounds relates to the amount of perspectives that can influence decision making (Smith et al., 1994). Boone & Hendriks (2009) confirmed the positive relationship between functional background diversity and performance of the firm.

The diversity in tenure relates to members’ differences in experiences, information bases and network ties (Harrison & Klein, 2007). The differences in experience would be implied in the top team’s behavior and result in effective management, so that the effect of diversity may be reflected in the firm’s performance (Carpenter, 2002).

From the explanation regarding the role of TMT demographic diversity on the firm’s performance, the diversity in the age, gender, educational background, functional background and tenure will enhance the team’s ability to generate creative solution because of the richness source of knowledge, perspectives and abilities. Thus, we hypothesized the following:

$H_{2a}$: The TMT’s age diversity is positively related to their firm’s performance.

$H_{2b}$: The TMT’s gender diversity is positively related to their firm’s performance.

$H_{2c}$: The TMT’s educational background diversity is positively related to their firm’s performance.

$H_{2d}$: The TMT’s functional background diversity is positively related to their firm’s performance.

$H_{2e}$: The TMT’s tenure diversity is positively related to their firm’s performance.
Strategic Isomorphism and Firm Performance

Institutional theory stated that conformity to the industry tendency is necessary for company to achieve superior performance (DiMaggio & Powell, 1983). The conformity to the conventional or normal strategy in an industry is called strategic isomorphism (Deehouse, 1996). Various studies have found that this strategic isomorphism leads to higher firm performance because of the firm’s increased legitimacy. For example, research by Chen & Hambrick (1995); Miller & Chen (1995) confirmed the existence of a positive relationship between strategic conformity and the firm’s performance.

H3: The strategic isomorphism is positively related to the firm’s performance.

Strategic isomorphism also can mediate the relationship between the TMT’s diversity and firm performance. From the logic of upper echelon and institutional theory, the TMT’s demographic characteristics, as proxies of their cognitive base and values, will influence their firm’s strategic choices (Finkelstein et al., 2009; Hambrick & Mason, 1984). Then nonconformity as the choices taken by the TMT itself, will challenge the firm’s legitimacy, reduce stakeholders’ confidence, hinder the acquisition of resources and ultimately reduce performance (Deehouse, 1999; DiMaggio & Powell, 1983; Miller & Chen, 1995). Garcia & Sabate (2010) confirmed the mediation effect of strategic conformity between top managers’ traits and firms’ performance (Figure 1).

![FIGURE 1 RESEARCH MODEL](image-url)
Based on the above explanation, we hypothesized:

\( H_{4a} \): The strategic isomorphism mediates the relationship between the TMT’s age diversity and their firm’s performance.

\( H_{4b} \): The strategic isomorphism mediates the relationship between the TMT’s gender diversity and their firm’s performance.

\( H_{4c} \): The strategic isomorphism mediates the relationship between the TMT’s educational background diversity and their firm’s performance.

\( H_{4d} \): The strategic isomorphism mediates the relationship between the TMT’s functional background diversity and their firm’s performance.

\( H_{4e} \): The strategic isomorphism mediates the relationship between the TMT’s tenure diversity and their firm’s performance.

**METHODODOLOGY**

**Sampling and Data Collection**

Using purposive sampling method with data availability as criteria, the research sample consisted of 36 listed banks in Indonesia. The data was secondary data which obtained from company’s annual report and Indonesian Banking Directory (Released by Bank of Indonesia as Indonesian Central Bank). Both data are freely accessible on the organization official website. Data related to the composition and demographic characteristics of TMTs were collected from the companies’ annual reports for the period of 2013. The firms’ financial data were obtained from the Indonesian banking directory for the same period.

**Measurement**

**TMT Diversity**

The TMT are defined as “the firms’ executives who sit above the level of the vice directors like a board of directors” (Souitaris & Maestro, 2010; Finkelstein et al., 2009; Hambrick et al., 1996). Following Harrison & Klein (2007), the diversity of the TMTs’ demographic characteristics like age, gender, educational background, functional background and tenure are conceptualized as variety and calculated using the Blau index of top executives’ age, gender, educational background, dominant functional background and organizational tenure respectively. This Blau’s index computational formula is \( d = [1 - \sum pk^2] \), where \( p \) is the percentage of members in the \( k^{th} \) group. If the size of the TMT for each bank is different, then the value of Blau’s index should be standardized by dividing it by the maximum value that may be obtained in the calculation of the index of the group (Harrison & Klien, 2007).

**Strategic Isomorphism**

Following Deephouse (1996), the strategic isomorphism was measured using strategic conformity or the extent to which an organization's strategies resembled the conventional or normal strategies in its industry. It is measured through several variables representing asset strategies: Cash, deposits to the central bank, securities, loans (corporate, business and
consumer), fixed assets and other assets. These variables represent the categories of asset that shown in the banks’ balance statements and annual reports. Every asset strategy was considered as the proportion by comparing each asset type to the total assets.

To measure the strategic conformity, every asset strategy was compared to the industry mean for the respective strategy and described as a standard deviation. The general strategic deviation was formed by summing all absolute values of the standard deviations. Then the sum was multiplied by minus one (-1) to convert its meaning to conformity (Deephouse, 1999; Deephouse, 1996; Finkelstein & Hambrick, 1990).

**Firm Performance**

We used frequently employed measures to evaluate the banks’ performance including ROA which is the ratio of Return on Assets and NOPM or Net Operating Profit Margin which is the proportion of net income to total assets (Garcia & Sabate, 2010; Deephouse, 1999).

**Data Analysis**

The IBM-SPSS software was employed for the analysis. To test the hypotheses we used a hierarchical regression method that purposed to examine the relationship between variables and consider the effect of mediating variable. To analyze the mediation effect we used the analytic consideration for mediation method proposed by Baron & Kenny (1986). There were several steps in this method. First, examine the effect of independent variable to dependent variable. Second, examine the effect of independent variable to mediating variable. Third, examine the effect of independent and mediating variable jointly to dependent variable. Baron & Kenny (1986) stated that mediating role happens when the first and second step were significant and at the third step the mediating variable were significant to dependent variable and the effect of independent variable on dependent variable were smaller compared to the first step.

**RESULTS**

The assumptions of the data were tested first. From the analysis, the data passed the classical assumption test for the regression model. Table 1 presents the means, standard deviations and correlations of the variables.

Regression analysis showed that the research data did not support hypotheses 1a to 1e. However, the gender diversity showed a positive and significant relationship with the strategic isomorphism ($\beta=3.076$, $p<0.05$).

For hypotheses 2a to 2e, the results of the regression analysis showed that the data supported hypothesis 2e which states that the TMT’s tenure diversity is positively related to the firm’s performance, namely the ROA ($\beta=1.646$, $p<0.1$) and NOPM ($\beta=0.017$, $p<0.01$).

Analysis also showed that the data supported hypothesis 3 which stated that the Strategic isomorphism positively related to the firm’s performance, namely ROA ($\beta=0.163$, $p<0.1$) and NOPM ($\beta=0.001$, $p<0.1$).

Hypotheses 4a to 4e were not supported by the data. Each of these hypotheses stated that the strategic isomorphism mediated the relationship between the age diversity, gender diversity, educational background diversity, functional background diversity and tenure diversity with their firm’s performance. The complete results have been summarized in Table 2. For the relationship between the independent variable and the mediator variable, only the gender diversity variable
had a positive and significant impact on the strategic isomorphism ($\beta=3.076$, p<0.5) while the other independent variables had no significant effect on strategic isomorphism. In the direct model, only the tenure diversity variable had a significant and positive effect on the firm’s performance both on ROA ($\beta=1.646$, p<0.1) and NOPM ($\beta=0.017$, p<0.01). Meanwhile the other variables did not show a significant effect on firms’ performance. So, hypotheses 4a to 4e did not fulfill the prerequisites for mediating the effects as explained by Baron & Kenny (1986).

### Table 1
**DESCRIPTIVE STATISTICS AND CORRELATIONS**

<table>
<thead>
<tr>
<th></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 Age Diversity</td>
<td>0.481533</td>
<td>0.239752</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Gender Diversity</td>
<td>0.365375</td>
<td>0.379685</td>
<td>0.345</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Educational Background Diversity</td>
<td>0.661717</td>
<td>0.212668</td>
<td>0.267</td>
<td>0.060</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Functional Background Diversity</td>
<td>0.682172</td>
<td>0.176823</td>
<td>0.430</td>
<td>0.362</td>
<td>0.274</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Tenure Diversity</td>
<td>0.516956</td>
<td>0.299741</td>
<td>0.295</td>
<td>-0.022</td>
<td>0.439</td>
<td>0.065</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Strategic Isomorphism</td>
<td>- 7.656524</td>
<td>2.609719</td>
<td>-0.014</td>
<td>0.392</td>
<td>0.068</td>
<td>0.145</td>
<td>0.027</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>7 Return On Asset</td>
<td>2.027314</td>
<td>1.335233</td>
<td>0.263</td>
<td>0.051</td>
<td>0.177</td>
<td>-0.039</td>
<td>0.421</td>
<td>0.319</td>
<td>1</td>
</tr>
<tr>
<td>8 Net Operating Profit Margin</td>
<td>0.011183</td>
<td>0.010243</td>
<td>0.351</td>
<td>0.187</td>
<td>0.170</td>
<td>0.174</td>
<td>0.501</td>
<td>0.279</td>
<td>0.807 **</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (1-tailed)
**Correlation is significant at the 0.01 level (1-tailed)

### Table 2
**HIERARCHICAL REGRESSION RESULTS**

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ROA</td>
<td>NOPM</td>
<td>ROA</td>
<td>NOPM</td>
</tr>
<tr>
<td>Age Diversity</td>
<td>-2.529</td>
<td>1.174</td>
<td>0.007</td>
<td>1.683</td>
</tr>
<tr>
<td>Gender Diversity</td>
<td>3.076**</td>
<td>0.170</td>
<td>0.003</td>
<td>-0.449</td>
</tr>
<tr>
<td>Educational Background Diversity</td>
<td>0.632</td>
<td>0.015</td>
<td>-0.006</td>
<td>-0.112</td>
</tr>
<tr>
<td>Functional Background Diversity</td>
<td>0.937</td>
<td>-1.295</td>
<td>0.003</td>
<td>-1.483</td>
</tr>
<tr>
<td>Tenure Diversity</td>
<td>0.685</td>
<td>1.646*</td>
<td>0.017***</td>
<td>1.508*</td>
</tr>
<tr>
<td>Strategic Isomorphism</td>
<td>0.163*</td>
<td>0.001*</td>
<td>0.201**</td>
<td>0.001</td>
</tr>
<tr>
<td>F</td>
<td>1.438</td>
<td>1.697</td>
<td>2.879**</td>
<td>3.841*</td>
</tr>
<tr>
<td>R²</td>
<td>0.193</td>
<td>0.220</td>
<td>0.324</td>
<td>0.101</td>
</tr>
</tbody>
</table>

*significant at 10% (p<0.10), **significant at 5% (p<0.05), ***significant at 1% (p<0.01)
DISCUSSION

The positive and significant effect of gender diversity on the strategic isomorphism can be explained by the argument that gender diversity will lead to a more thorough processing of information, because of the wide variety of views (Van Knippenberg et al., 2004). Dezso & Ross (2012) also stated that the differences in managerial behavior between genders will also provide some benefits and will give a wider space to decision making and improving managerial effectiveness.

There are several possible explanations for the insignificant relationship shown by the demographic characteristic diversity variables both on strategic isomorphism and firms’ performance. First, the correlations between the variables such as age diversity, educational background diversity, functional background diversity and tenure diversity to the strategic isomorphism were not significant. Also, the correlations between age diversity, gender diversity, educational background diversity and functional background diversity and the firms’ performance were not significant. Insignificant correlations between these variables made the regression result justifiable. Second, variables such as age diversity, gender diversity, educational background diversity, functional background diversity and tenure diversity were not strong enough to explain the diversity of views, opinions, knowledge, abilities and skills of the TMT members in the context of the banking industry in Indonesia. It could be seen from the data of the TMTs’ characteristics from the banking companies in Indonesia, which in general only have low or medium levels of diversity. It can be concluded that the concept of team diversity, as measured using the above variables, were not really common or used in the banking industry in Indonesia. Thus, it was reasonable that the analysis showed that diversity had no significant impact on the strategic choices such as the strategic isomorphism, as well as firms’ performance. One can speculate since the upper echelon characteristics consisted of two forms, namely psychological and observable, that the former may have a potential effect on the strategy choices, especially in a complex decision making environment (Hambrick & Mason, 1984). Last, Finkelstein & Hambrick (1990) said that the effect of diversity on strategic leadership would be seen in companies that exist in industries with low and complex regulations. In such industries with low levels of regulation, the TMT has flexibility in designing and making their business decisions. In a complex industry, firms need a management team that is more heterogeneous in terms of knowledge (Finkelstein et al., 2009). In highly regulated industries, such as the banking industry, the TMTs’ tasks are very detailed and structured. The existences of regulations that govern the operations of companies force the decisions taken by the TMTs to adhere to those regulations. For example, regulations on lending or the direction of lending as stipulated in Law No. 10 Year 1998 on banking (Undang-Undang Nomor 10 Tahun 1998 Tentang Perbankan). Or institutional regulations which relate to the banks, the banks’ health, as well as aspects of prudential banking as stipulated in Law No. 21 Year 2011 on the Financial Services Authority (Undang-Undang Nomor 21 Tahun 2011 Tentang Otoritas Jasa Keuangan). These conditions mean the effects of the diversity of views, opinions, knowledge, abilities and skills possessed by each of the members of the TMTs (measured by age diversity, gender diversity, educational background diversity, functional background diversity and tenure diversity) do not play a significant role in making strategic choices such as a strategic isomorphism or on the firms’ performance.

The TMTs’ tenure diversity positively and significantly relates to their firms’ performance and thus supports hypothesis 10. Tenure diversity significantly influences firms’ performance, measured both by the ROA and the NOPM. According to Harrison & Klein (2007);
Carpenter (2002) the teams that were diverse in tenure would be different in term of experience, information bases and network ties. Those differences in experience implied in the top teams’ behavior and result in effective management, thus affecting the firms’ performance. These findings also supported Hambrick et al. (1996) whose findings stated that the organizational tenure heterogeneity significantly and positively associated with the firms’ performance, especially in their market share and profit growth. Certo et al. (2006) also found that the TMTs’ executive tenure was positively related to their firms’ performance.

The strategic isomorphism positively and significantly relates to the firms’ performance and supports hypothesis 11. This result indicates the more a firm’s strategies conform to the industry norm, the better the firm’s performance will be. These results support previous research conducted by Chen & Hambrick (1995); Miller & Chen (1995); Garcia & Sabate (2010) who confirm the existence of a positive relationship between strategic conformity and the firms’ performance. Research conducted by Heugens & Lander (2009) also found that conformity with the institutional norms, as part of the isomorphism, simultaneously enhanced the firms’ performance.

The mediating effect of the strategic isomorphism on the relationship between the TMTs’ demographic characteristic variables and their firms’ performance were not supported. As the regression result could not fulfill the prerequisites for mediating the effect proposed by Baron & Kenny (1986), the analysis could not be done. Thus the hypotheses were not supported.

CONCLUSIONS

The results of the research into this topic reveal that the TMTs’ gender diversity positively and significantly affects the strategic isomorphism. The TMTs that are heterogeneous in gender will increase their firm’s tendency to resemble the strategy within the industry. While the age diversity, educational background diversity, functional background diversity and tenure diversity has no significant effect on the strategic isomorphism. The setting and characteristics of the industry might be the cause of these variables to have no significant relationship with the strategic isomorphism. The settings of the Indonesian banking industry, where the concept of diversity in teams is not really implemented and with industry characteristics that are highly regulated, make these variables not as representative of the impact of diversity in the TMTs.

Tenure diversity has a positive and significant effect on both the firms’ performance measures (ROA and NOPM). Thus, the TMTs with heterogeneous tenure can improve their firms’ performance. Age diversity, gender diversity, educational background diversity and functional background diversity do not significantly influence the firms’ performance. The setting and industry characteristics, which may be the cause of these variables, do not show a significant relationship.

The strategic isomorphism has a significant and positive effect on firms’ performance. The more the strategy of the firm conforms to the industry trends, the better the performance of the firm will be. But the strategic isomorphism is found not to mediate the relationship between age diversity, gender diversity, educational background diversity, functional background diversity and tenure diversity with the firms’ performance.

Gender diversity, educational background diversity and tenure diversity as variations have a consistent effect on the strategic isomorphism and firms’ performance. Meanwhile, the age diversity and functional background diversity have an inconsistent effect on both dependent variables.
Several implications of our research are as follows, first, banking companies in Indonesia should begin to pay attention and apply the concept of TMTs diversity. From the analysis, diversity was found to have a positive impact on the firm. Second, in making strategic choices such as a strategic isomorphism, companies should consider gender diversity in the composition of their TMT. Gender diversity in the team is associated with a diversity of views that facilitates decision-making and leads to managerial effectiveness. Third, the firm should have a TMT that is diverse in its tenure because from the analysis we found that tenure diversity had a positive effect on the performance of the firm, because of the team had a more comprehensive view which led to managerial effectiveness and ultimately improved the firm’s performance. Lastly, to achieve better performance, the firms which are in heavily regulated industries, such as the banking industry, should choose to do utilize a strategic isomorphism or ensure their strategy is in line with the trends in the industry. Conversely, if a firm chooses a strategic that is different from the industry trend, it will potentially reduce the legitimacy of the firm as a result of the reduced trust of the constituents and ultimately decrease the performance of the company.

We cannot conclude our paper without considering its main limitations. Firstly, the sample size was relative small. However, the total sample was appropriate for research of this nature. Secondly, our choice to focus on one industry limited the generalization of our conclusions. We therefore think it would be especially interesting to extend the analysis to other industries.

REFERENCES


