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HOW TOP MANAGEMENT TEAM DIVERSITY INFLUENCES COMPANY PERFORMANCE?: THE CASE OF INDONESIAN STATE-OWNED ENTERPRISES HOLDING

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Abstract: The research conducted at SOEs Holding aims to analyze the effect of TMT diversity on company performance. The research samples are forty Indonesian SOEs that incorporated into four SOEs Holding that surveyed through the questionnaire. The data analysis technique uses Structural Equation Model (SEM) with SmartPLS. The results concluded that TMT diversity had a significant effect on corporate culture, which mediates TMT diversity's significant effect on company performance. Nevertheless, without corporate culture as the mediating variable, TMT diversity has no significant effect on company performance.

Keywords: SOE Holding, TMT, corporate culture and performance

INTRODUCTION

The company's top management is an internal resource that determines company performance. Based on *Upper Echelon Theory* proposed by Hambrick (2016), the choices made by organizations such as strategic choices and strategy implementation are determined by people who have a significant role in the organization such as the managers and leaders. The strategic choices made by the leader will ultimately determine the performance of the organization itself.

Hambrick (2016) explains that top leaders usually receive a large amount of information that exceeds their ability to process that information as a basis for decision making, so leaders will tend to filter only relevant information for their decision making. Furthermore, after screening it, leaders will interpret it based on managerial perceptions and

use it to become valuable data to create a strategic decision. Hence, as the business getting more dynamic and global, a leader has a significant informational and decisional role that might positively influence the company's growth (Finkelstein, Hambrick, & Cannell, 2009).

The decision-making process consists of several systematic stages and intricate processes that involve interactions between top leaders (Finkelstein et al., 2009). Complexity in the decision-making process can lead to ambiguity if a group of organizational leaders has heterogeneity in terms of values, beliefs, and cognitive (Finkelstein et al., 2009). To overcome this problem, leaders must create an effective coalition in reducing adverse effects and taking advantage of heterogeneity in the form of diversity in the Top Management Team (TMT) (Finkelstein et al., 2009).

Organizational leaders, executives, and managers always strive to get the best performance in organizational performance by managing the culture of the organization and how to influence or change the culture as desired (Ward et al., 2007). Moreover, Robbins & Judge (2007) explain in the model about how organizational culture is formed, starting from creating the philosophy of the organization, top management, and outreach, how to make it becomes an acceptable organizational culture. When a group identifies a particular culture that undermines their performance in a competitive market, it will be reviewed for change by the organization's leaders.

In various studies about TMT, companies generally discuss how the influence of the composition or diversity of individuals within a team impacts on organizational performance. Some researchers find that higher diversity in TMT diversity will encourage positive performance (Hernández, & Fernández-Alles, 2017; Hambrick, 2016). However, some researchers find the opposite; heterogeneity of TMT diversity hurts company performance (Ling et al., 2015; Ward et al., 2007).

Furthermore, Harrison & Klein (2007) stated that different types of diversity in the category of different conceptual definitions bring different consequences for the company. As such, combining diversity distribution, variation, and disparity into a single construct, then developing a common theoretical mechanism for each diversity variable, will obscure the effect of team diversity on company performance (Harrison & Klein, 2007).

In previous studies, there was a lack of conceptualization of diversity to be studied. For example, Certo et al. (2010) hypothesized the impact of the diversity of the functional role, education, and tenure into one hypothesis mechanism, although these variables have different measurement methods. The Blau Index measured the functional role variable because the variable has a different conceptual definition with other variables measured by the coefficient of variation, which is supposed to be a disparity of diversity (Harrison & Klein, 2007).

Therefore, besides striving to create a more precise conceptual definitions of TMT diversity and company performance, this study also analyzes the effect of TMT diversity on performance through organizational culture. Organizational culture was employed as an intervening variable in order to identify the organizational culture in which already formed or in the process of being formed at BUMN Holdings.

LITERATURE REVIEW

(Gallén, 2009) stated that TMT is a top-level management team that directs the company as a whole and coordinates all the main functions so that the company's goals can be achieved. Based on this definition, the role of TMT is very significant in supporting the company's success. TMT determines the strategy and guarantees the company's future success, manages performance, and influences people inside and outside the company so that company goals can be achieved.

(Harrison & Klein, 2007) explains that diversity is divided into diversity, distribution, and disparity. Diversity of variation describes the diversity of information, namely, differences in knowledge and primary sources of information between one member and another member. Diversity can increase creativity, innovation, better decision quality, work conflict, and flexibility.

Furthermore, the diversity of distribution is the difference between one member psychologically with another member. Diversity of distribution can increase conflicts between individuals, reduce cohesion within a team, and reduce trust between team members. Meanwhile, the diversity of disparity reflects differences in organizational and social resource ownership in teams (Harrison & Klein, 2007).

Along with the development of science in the TMT discipline, researchers believe that individual characteristics such as age, tenure, sex, status as insiders or outsiders, are determinants of decision factors and managerial values (Park & Cho, 2014). The social characteristics theory is also explained by self-categorization theory which proposes TMT diversity dimensions using social characteristics such as age, gender, race, education, or organizational membership to determine psychological groups and to promote positive self-identity (Nadolska, A., & Barkema, 2014)(Hambrick, 2007b) added the demographic dimension when discussing the topic of TMT diversity. (Hambrick, 2007b) states that in discussing TMT diversity, the dimensions of demographic diversity have become an essential antecedent for determining the performance of large companies. Overall demographic diversity explains age, length of service, functional background, educational differences, and gender can lead to superior performance. The concept of demographic characteristics is very accepted and proven first by (Hambrick & Mason, 1984) with the introduction of the Upper Echelon theory in their research. (Yang & Wang, 2014) explored the relationship between TMT diversity characteristics into two dimensions: simple demographics and relational demographics. Simple demographics, namely age, and gender, while relational demographics, namely educational background and functional experience (Yang & Wang, 2014).

The literature review on TMT is very closely related to company culture. It is because the characteristics of TMT will determine the characteristics of the company. Hence, organizational culture is a process by which the founders of the organization, top management, and employees learn, socialize, and adopt from time to time. This means that organizational culture can be chosen by leaders and enable them to select the best culture that suits the organization's goals and can be readily accepted by the wider environment (Robbins & Judge, 2007).

Hawkins et al. (2013) defined "organizational culture as norms, values, assumptions, beliefs, philosophies, organizational habits, and so on." Organizational culture is developed for a long time by the founders, leaders, and members of the organization in producing products, serving consumers, and achieving organizational goals (Hawkins et al., 2013). Leaders influence their subordinates, both directly through interaction and also through organizational culture.

According to Jones (2000), a positive correlation was found between various dimensions of corporate culture on performance. Research refers to the dimension proposed by (Huang, 2010) which summarizes the dimensions of organizational culture into the bureaucratic culture, innovative culture, mutual support culture, and effective culture. In general, companies with bureaucratic culture tend to have relatively stable, mature, and careful operations (Frohman, 1998). Innovative culture describes changes in old and convenient ways to become new ways that better in doing business. (Mitchell & Yates, 2002) stated that when companies are taking the risk, their leaders are committed to building an innovative culture by understanding the innovative process and committing to policies. Supportive culture is usually reflected by open working space, harmonious organizational climate, and excellent communication between lower and upper-level staff and rapid information circulation inside the companies. Corporations with effective cultures will pay special attention to control the balance between efficiency and effectiveness that ultimately drive business performance. Company performance describes a complete view of the state of the company during a certain period as a result of the achievement of the company's operational activities in utilizing the resources owned (Schönborn, 2010). Nevertheless, many empirical studies report differences in performance indicators (Combs, Crook, & Shook, 2005).

According to Kim, Lee, & Yu (2004) and Tachiki (2014), there are three dimensions of performance: efficiency, coordination, and trade. The efficiency dimension refers to employee productivity and efficient processes. The coordination dimension is related to coordination with suppliers. The trade dimension is related to increasing sales, expanding sales areas, improving customer service, and competitive position. Aliyu (2016) utilizes the concept of Total Quality Management (TQM) to measure the performance of the Company. Douglas & Judge (2001) operationalize TQM as one-dimensional construction. Based on a literature review, the most commonly used is TQM critical factors that affect business performance, such as management leadership, training, customer focus, continuous improvement, strategic planning, and process management. Meanwhile, Aliyu (2016) analyzes three dimensions, including management leadership, continuous improvement, and customer focus. The result is that management leadership has a significant effect on performance, while continuous improvement and customer focus do not significantly influence company performance.

A study conducted by Das, Paul, & Swierczek (2008) developed nine dimensions of TQM that have been tested their validity and reliability. The TQM dimensions are (1) top management commitment; (2) continuous improvement; (3) innovation; (4) comparative studies; (5) employee involvement; (6) training (7) customer focus; (8) supplier quality

management; (9) incentives and appreciation. These constructs are inspired the further studies about TQM on company performance in large companies (Ahire & Golhar, 1996), in high-tech companies (Amasaka, 2013), in small, medium enterprises (Aliyu, 2016), in manufacturing industry (Das et al., 2008; Zhang, Z., Waszink, A. and Wijngaard, 2000), and an e-commerce company (Tachiki, 2014). Moreover, considering these previous studies, this study aims to measure the influence of TQM on SOEs Holding's performance in Indonesia.

Therefore, this research proposes three hypotheses:

H1: TMT diversity affects company culture

H2: TMT diversity affects company performance

H3: Corporate culture on company performance

RESEARCH METHODS

1.1. Research Design and Period

This research is quantitative research. (Creswell, 2014) stated that quantitative research is an approach to test the objective theory by analyzing variables that can be measured numerically and can be analyzed using statistical procedures. The period of study was from September to December 2019.

1.2 Population and Sample

The sampling technique is the *census* method, which examines the research population as a sample. (Sugiyono, 2010) stated that the census is a sampling technique if all members of the population are used as samples. This study analyzes the empirical phenomenon about the influence of TMT on SOE's performance. The research population is forty-five business entities that have been incorporated into SOE Holding in Indonesia. Four state-owned enterprises used as the research focus, namely *PT. Pupuk Indonesia* with nine subsidiaries; *PT. Cement Indonesia* with seventeen subsidiaries; *PT. Perkebunan Nusantara* with fourteen subsidiaries; and *PT. Perhutani* with five subsidiaries.

1.3 Variable Measurement

The measurement scale of this study is based on a Likert-Scale that scaling method by measuring respondents' opinion responses to questionnaire statements. (Naresh, 2010) stated that the Likert-scale submitted to respondents uses five-point scale: 5 = strongly agree, 4 = agree, 3 = neither agree nor disagree, 2 = disagree, 1 = strongly disagree. The detail of the research questionnaire is listed in Appendix 1.

FINDINGS AND DISCUSSION

Results

This research uses Structural Equation Model (SEM) with Square Least Square (PLS) analysis. SEM with PLS analysis is carried out in three stages, namely *outer model analysis*, *inner model analysis*, and *hypothesis testing*.

Outer Model Analysis

The following table presents an analysis of the outer model analysis:

Table 1. Cronbach Alpha, Composite Reliability and Average Variance Extracted

Dimension	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
<i>Cutt Off</i>	>0.6	>0.7	>0.5
Corporate Culture	0.772	0.853	0.594
Performance	0.903	0.926	0.619
TMT Diversity	0.741	0.853	0.661
Notes	All aspects meet the standard		

Source: Output SmartPLS 3.0 (2019).

According to (Ghozali, 2014) for construct reliability tests measured by composite reliability and *Cronbach's Alpha*. The construct is declared reliable if it has a composite reliability value above 0.70 and *Cronbach's Alpha* above 0.60. Meanwhile, the average variance extracted (AVE) to measure validity is 0.5. Based on Table 2, if the output data meet all the outer model criteria, it can be concluded that the research data has good validity and reliability and can be proceeded to the *inner model analysis*.

Inner Model Analysis

An *inner model analysis* / structural model analysis is carried out to ensure that the structural model that is constructed is robust and accurate. Robust regression is a regression method used when the data has an abnormal error distribution, or some outliers affect the model (Ghozali, 2014). This method is an essential tool for analyzing data that is affected by outliers so that a model that is resistant to outliers. A resistant estimate is one that is not affected by significant changes in small pieces of data or small changes in large portions of data.

The evaluation of the *inner model* can be seen from several indicators, including coefficient of determination (R²), predictive relevance (Q²), Goodness of Fit Index (GoF). The following are presented for each indicator.

1. Coefficient of determination (R²) value is calculated by SmartPLS 3 software output that presented by Table 2 below:

Table 2. Value of R²

	R Square	R Adjusted Square
Corporate culture	0.397	0.387
Performance	0.708	0.696

Source: Output SmartPLS 3 (2018)

The R square values that above 0.67 mean strong, 0.67 to 0.18 means moderate, and 0.19 means weak. Therefore, among the dimensions involved in this study, the variables tested have moderate and robust relationships (Chin, 1998).

2. Predictive relevance (Q²)

Furthermore, to calculate Q² formula, this study uses:

$$Q^2 = 1 - (1 - R_1^2) (1 - R_2^2) \dots (1 - R_n^2)$$

$$Q^2 = 1 - (1 - 0,397) (1 - 0,708)$$

$$Q^2 = 0.823924$$

This test aims to determine the predictive capability with the blindfolding procedure. According to (Chin, 1998), if the value obtained is between 0.02 and 0.15, the model has little predictive ability. If the value obtained is between 0.15 to 0.35, the model has a moderate predictive ability. Finally, if the value obtained is above 0.35, the model has a high predictive ability. The calculation of the Q2 value is 0.999; the model has a high predictive capability.

3. *The goodness of Fit Index (GoF)*

This study calculates the GoF value and finds that the model has a large GoF value. This means that the model can represent a real phenomenon. GoF values in SEM with PLS are calculated manually (Tenenhaus & Esposito, 2005) with the formula

$$GoF = \sqrt{AVE}^2 \times R^2$$

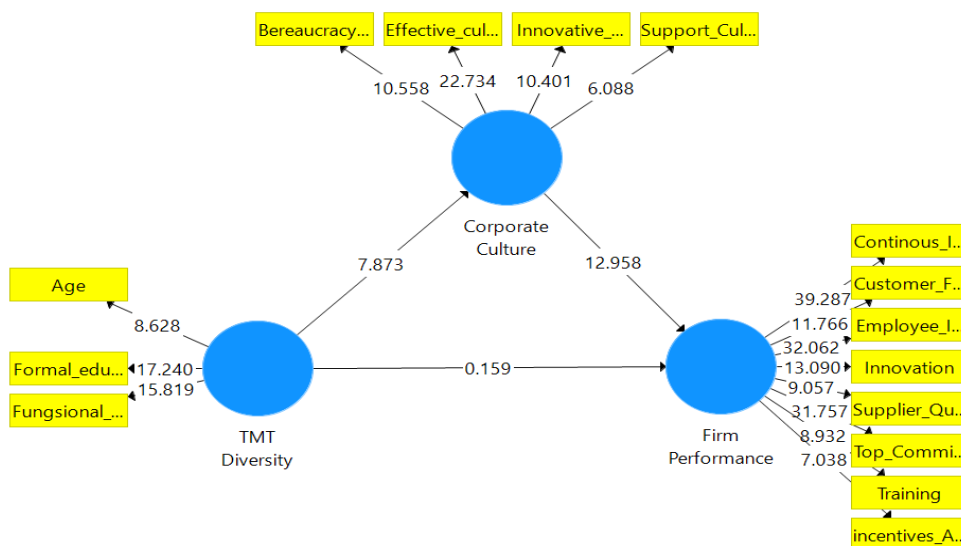
$$GoF = 0.59$$

The result of calculating the GoF value is 0.59. Therefore, it is concluded that the research model can capture the real phenomenon of performance with the TQM dimension on BUMN Holding in Indonesia.

Hypothesis Testing

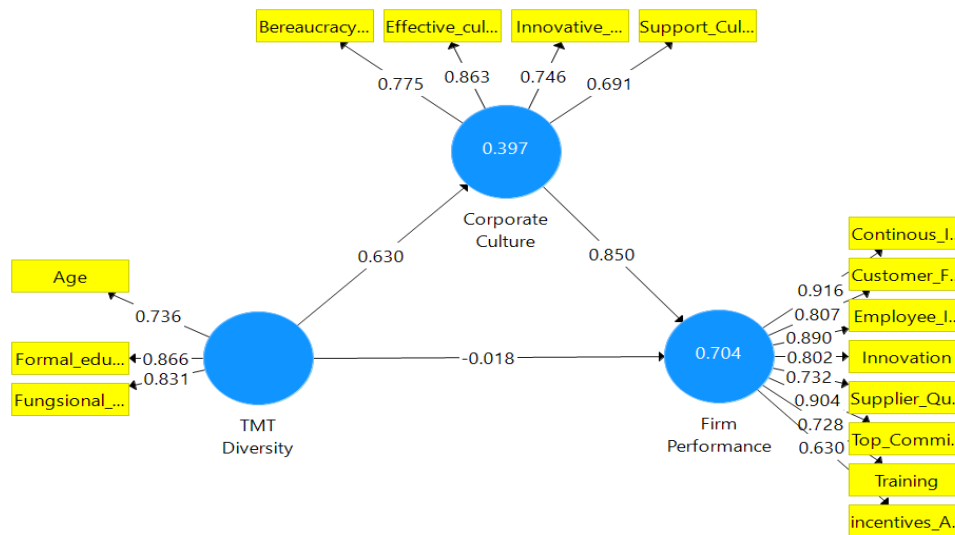
The result of calculating the GoF value is 0.59. Therefore, it is concluded that the research model can capture the real phenomenon of performance with the TQM dimension on SOEs Holding in Indonesia.

The structural model in SEM-PLS is carried out with a *bootstrapping* process that produces a t-statistic value. If the t-statistic value is higher than t-table with a confidence level of 95% (> 1.96), that represents a significant influence between variables, meanwhile, the value of the loading factor of the original sample (O) output can be seen in the path coefficient table on the smartPLS output in Figure 1.



Picture 1 SmartPLS Bootstrapping

Based on Figure 1 above, all hypotheses have a t-value above 1.96. This means that all nine dimensions of the study have a positive and significant influence on developing TMT diversity. Meanwhile, the path coefficient for each dimension can be seen in Figure 2. PLS algorithm:



Picture 2. Algorithm PLS

Based on the results of *bootstrapping* and the following PLS algorithm is presented in Table 3 below

Table 3. Algorithm Value of PLS, Bootstrapping, and Hypothesis

No	Dimension	Bootstrapping	Algorithm	Hypothesis
H1	TMT Diversity → Corporate Culture	7,873	0.630	Accepted
H2	Corporate culture → Firm performance	12,958	0.850	Accepted
H3	TMT Diversity → Firm Performance	0,159	-0,018	Declined

Source: Processed by the researcher (2020).

Discussion

Based on the results of SmartPLS, TMT diversity has a significant positive effect on corporate culture. This result supports the previous study of (Lee & Yu, 2004) that concludes "that culture has historically been developed, socially preserved and interpreted individually." Every culture tends to integrate behavior by creating standard norms and shared social identities. Such behavior related to specific organizations is called corporate culture. Franzoni (2013) shows "that every employee of a company is forming a corporate culture."

Based on this perspective, a good or bad company culture is determined by individual company employees. However, it is known that members of the top management team have a more significant role in shaping corporate culture. The best method for shaping the company culture of top management team members is uniting and leading in productive behavior. In other words, "shaping corporate culture cannot only depend on staff awareness but must be actively developed by top management" (Linnenluecke & Griffiths, 2010).

Top-level management who know the company well will be more easily to strengthen the company culture, while the new management will make the company culture becomes more dynamic. Therefore, the integration of the old top management team with the new one

is critical in shaping the company culture. The results stated that the effect of TMT diversity was significant in shaping corporate culture, one of which was formed by the composition of the old TMT with the new TMT. If you pay attention to the composition of TMT, which has a linear position from the previous position, it is known that as many as 62.5% BUMN Holding has TMT with a linear position, while 37.5% TMT is a TMT composition originating from different companies.

This condition provides an ideal picture of the composition of TMT diversity, which effectively shapes the company culture, which is a combination of TMT purely pioneering career in the company with new TMT originating from other companies.

The new TMT is ideal in shaping corporate culture. This finding proves that the composition of 62.5% of old TMT and 37.5% of new TMT can shape corporate culture. The entry of the new TMT is like "fresh blood" to form a more dynamic and not rigid corporate culture. (Lee, et al., 2016) said TMT with different cultural backgrounds and coordination of different languages to work together is essential for business success.

(Kim Jean Lee & Yu., 2004) stated that corporate culture is mostly disseminated thoughts from the top management team and has a visionary mindset that future-oriented. Therefore, the concept and direction of the top management team are fundamental to influence the objectives, processes, and behavior of the company. Moreover, the members of the top management team who consist of professionals enable them to deal with company culture.

The results also showed that corporate culture influences company performance. This condition provides an ideal picture of the composition of TMT diversity, which effectively shapes the company culture. A combination of TMT purely pioneering career in the company with new TMT recruited from other companies. The new TMT is ideal in shaping corporate culture. This finding proves that the composition of 62.5% of old TMT and 37.5% of new TMT can shape corporate culture. The entry of the new TMT is like "fresh blood" to form a more dynamic and not rigid corporate culture. (Lee, et al., 2016) "said TMT with different cultural backgrounds and coordination of different languages to work together is important for business success."

The result of the study shows the variable TMT diversity that had a significant effect on performance. This finding is different from the findings of several previous studies which show that top manager diversity is positively related to performance results (Kim Jean Lee & Yu., 2004), but supports several other studies (Ferreira & Azevedo, 2007; Zachary Bolo, 2011) which state that TMT diversity has no significant effect on performance.

Refers to (Yang & Wang, 2014), this research explores the relationship between the diversity of TMT characteristics, which reveals two main dimensions: *simple demographics and relational demographics*. Then, the two dimensions are reduced to four indicators, namely *age, sex, educational background, and functional experience* (Yang & Wang, 2014). There are three significant implications to human, functional experience and educational background. Nevertheless, the three dimensions are not sufficiently diverse. From the enthusiasm as many as 55% of TMTs are aged between 50-60 years, 37.5% aged between 40-50 years, and 7.5% aged between 30-40 years.

Meanwhile, based on the formal education system: the majority of TMT members are master graduate (70%), undergraduate (22.5%) and doctoral (7.5%) with mostly majoring economics (80%), engineering (10%), law (7%) and social (3%) respectively. Meanwhile, 62.5% of TMT members have working experience only in the current company, while 37.5% of TMT members have working experience with a different company.

According to the theory of contingency of Knockaert et al. (2011), "team homogeneity can solve routine problems better, while heterogeneous teams are suitable for overcoming new problems and dynamic environments." Based on this theory, it is revealed that the existing TMT cannot directly affect performance even though the composition of TMT is relatively heterogeneous in terms of functional experience.

CONCLUSION

Based on the results of quantitative analysis and the results of the discussion that has been stated, it is concluded that TMT diversity has a significant effect on corporate culture, corporate culture has a significant effect on company performance, and TMT diversity has no significant effect on company performance. This explains that corporate culture is the main link between TMT diversity to produce performance. TMT diversity must transform policies, values, norms into a corporate culture so that it can be converted into company performance.

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Appendix 1
Questionnaire of Research

No	Statement
<i>DIVERSITY OF TOP MANAGEMENT TEAM (TMT)</i>	
<i>Gender</i>	
1	The composition of gender in TMT is equal between male and female
2	The diversity of gender in TMT is reflected by the significant involvement of male or female leader in strategic decision making
<i>Age</i>	
3	High variation of age composition
4	Young leader in TMT
5	The age diversity in TMT is reflected on value and discussion topic
<i>Tenure</i>	
6	High variation of director's working period (tenure)
<i>Formal Education</i>	
7	High variation of education level of TMT
8	High variation of university as education background in TMT
9	High variation of expertise in TMT (based on their formal education background)
<i>Ethnic</i>	
10	TMT consist of leaders from varied ethnic in Indonesia
11	TMT consist of leaders that originated from similar region and have intensive interaction compared to TMT members that originated from different region.
<i>Functional Background</i>	
12	TMT consists of people who have different background experiences
13	TMT consists of people who have a variety of years of service
14	Differences in background are reflected in the company's strategic decision-making process
<i>BUSINESS PERFORMANCE</i>	
Top management commitment	
15	The company always plans targets that are set every year
16	The company has always organized a team to achieve performance
17	The company has mechanisms control for workforce
18	The company always evaluates the work of employees regularly
Continual improvement	
19	The company always evaluates the sales often avoiding the time
20	The company is always creating company management improvements
21	The company always improve employee relations
Inovation	
22	The company is always learning the latest production techniques
23	The company is always learning the latest marketing techniques
24	The company routinely carry out product development innovations
Benchmarking	
25	The company routinely conduct comparative studies with similar companies in other countries
26	The company routinely conduct comparative studies on improving company management to other countries

No	Statement
27	The company routinely conduct comparative studies related to the production process
Employee involvement	
28	The company always improve its SOP
29	The company applies a clear and non-overlapping job description
30	The company minimize disruption in the production process and sales
Training	
31	The company send employees to participate in training related to entrepreneurial orientation
32	The company send employees to join competency training
33	The company send employees to participate in training related to self-development
Customer Focus	
34	Customer satisfaction is a priority for the company
35	The company always contact with customers
36	Consumers provide input on the development of new products
Supplier Quality Management	
37	The company has never experienced a delay in the production of raw materials
38	The company can obtain raw materials if production increases significantly
39	The company always maintains good relations with suppliers
Incentive and Reward	
40	The company give employees to employees who have work performance
41	The company provides incentives in the form of promotions to employees who have worked for a long time despite mediocre achievements
42	The company gives bonuses to employees every religious holiday
43	Companies give bonuses if company profits increase.

Source: processed by the researcher (2019)