

## Diversity in top management teams

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The concept of “diversity” enjoys a good reputation, but almost all of us have heard opinions such as, “Years and years of attending awareness and social inclusion seminars, and the bottom line has not increased by a penny” or, “They said solutions would improve, but I still work the same and the innovation has been the same.” Academic research attests to this discrepancy between theory and practice. In this technical note, we will analyze the positive and negative effects of heterogeneity in top management teams (TMTs), the group of executives responsible for making a company’s strategic decisions.

### Introduction: diversity and teams

Carrell and Mann (1995) point out that there is no exact definition of the groups included in the concept of “diversity in the workforce.” A broad definition can be used, such as Melkonian’s (1995), which locates diversity in how interpersonal differences may affect the task or the relationship within the organization, or that of Jackson, Joshi, and Erhardt (2003), who redefine diversity as the degree of similarities and differences among the members of a group or team. On the other hand, Auh and Menguc (2005) understand diversity as the existence of demographic differences or variations within a group, categorizing people according to certain attributes. Thus, the diversity of a group would be measured exclusively in terms of demographic differences. This difference in definitions may be due to differences in the fields of study across these authors. Whereas some focus on the organization, others approach it from a marketing point of view. For this study, we will look at a broader range of diversity in TMTs, with particular emphasis on those issues relevant to them and their management of the company.

Loden (1996, 2012) classifies the dimensions of diversity into two groups: primary (age, social class, gender, and race, among others) and secondary (e.g., communication style, family status, role and level in the organization, work experience, and work style). Similarly, Phillips, Northcraft, and Neale (2006) distinguish between superficial differences (race, ethnicity, etc.) and deep differences (experiences,

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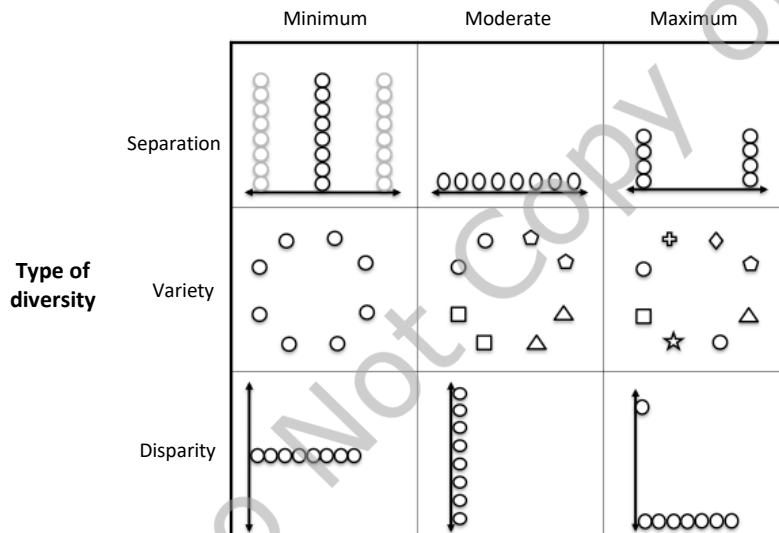
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preferences, and values). Studies by Banks (2009), Hon, Weigold, and Chance (1999), and Unzueta, Knowles, and Ho (2012) point to race, ethnicity, and gender as central dimensions of diversity, focusing on only a portion of what Loden considers primary. Regarding diversity in TMTs, the authors have focused their studies on age, gender, cultural, and social class heterogeneity.

Harrison and Klein (2007) indicate that many authors coin the term “diversity” as a synonym for “heterogeneity,” “dissimilarity,” and “dispersion.” In their study, they use “diversity” to describe the differences between members of a unit with respect to a common attribute: length of time in the company, ethnicity, conscientiousness, and attitude toward the task or salary. To this end, they list three types of diversity: separation, variety, and disparity of its members (see **Figure 1**), which can be minimum, average, and maximum. Knowing the position of team members with respect to these measures will be useful when leading and managing a heterogeneous TMT.

**Figure 1**  
**Representation of three meanings of diversity within work units according to the types and amounts of diversity**



Source: Harrison and Klein (2007).

Finkelstein, Hambrick, and Cannella (2008) define the TMT as a relatively small group of the organization’s most senior—and therefore most influential—executives. Previously, Hambrick and Mason (1984) had shown that the individual characteristics of its members have a direct influence on company performance, which is not surprising since it is the TMT that sets the organization’s strategy in the long term and monitors its fulfillment in the short term. These and other early studies prompted numerous investigations that sought to determine whether the diversity of characteristics in teams in general, and in TMTs in particular, influenced company performance.

In this technical note on diversity in senior management, we will focus on age, gender, and cultural and class diversity, as these are considered central to the existing literature. We will begin by outlining the positive and negative effects of diversity and continue by explaining each of the advantages and disadvantages of homogeneity and heterogeneity in each of the four types of diversity. Finally, we will present some guidelines to promote the benefits of diversity and correct its negative effects.



## Positive and negative effects of diversity in TMTs

Diversity exerts both positive and negative effects on teams, including TMTs. Homberg and Bui (2013), Bantel and Jackson (1989), Van Knippenberg, Dreu, and Homan (2004), and Williams and O'Reilly (1998) have studied the main positive effects of heterogeneous groups. These include a greater amount of information and a broader collective perspective. Diversity of experience, gender, and age provide complementary perspectives, since the circles of influence and action to which these people belong are different, as well as the complementary activities they carry out. From these activities and circles, common ways of thinking and acting emerge that are different from the views of the rest of the TMT, which, when put together, often generate a variety of solutions to the same problem. These three factors make up each individual's point of view, thinking, and acting, and when these are sufficiently different, the team has a wider range of perspectives and ways of acting. Facing problems with this greater range allows for a greater generation of alternatives and a richer set of criteria, making it possible to act in greater harmony with the situation and the company's goals.

However, the internal heterogeneity of the TMT can also have negative effects. Allport (1954) and Williams and O'Reilly (1998) point out that if these teams do not reach a minimally shared point of view, their uncertainty in decision-making increases and, therefore, they are more prone to personal conflicts, which, in turn, make it difficult to express an understandable guide for the rest of the organization. In addition, the quality of decision-making decreases as identification with the group decreases, as participants feel greater discomfort and incomprehension when expressing their ideas and opinions.

In the remainder of this technical note, we will detail the effects of different types of diversity on team performance, with a particular focus on senior management.

### Generational diversity

As Bantel and Jackson (1989) point out, socialization, and integration in the organization are obtained as a result of age group membership or length of service in the company (McCain, O'Reilly, and Pfeffer 1983). It is logical to think that the longer the time spent in the company, the older the age, and that, therefore, integration results go hand in hand. Thus, TMTs that are homogeneous in terms of age or length of service in the company enjoy greater integration and cohesion. On the other hand, the perspective with which problems are viewed changes with age (Elder 1975), usually acquiring direct risk aversion.

Luo, Kanuri, and Andrews (2013) state that when a CEO comes into a position, he, or she focuses on gaining experience while gathering information from both external sources (consumers) and internal sources (workers). As a result, they are more likely to generate innovative ideas and solutions. Over time, it focuses on its internal networks, paying less attention to market movements. With this shift in priorities, the members of the TMT would consider the avoidance of losses over the achievement of gains. Thus, an older homogeneous team will tend to neglect the market, failing to respond to potential or actual demand.

Younger managers have abilities that tend to become limited with age, such as learning ability, reasoning, and memory (Botwinick 1977; Burke and Light 1981). In addition, they have a more favorable attitude toward risk-taking (Vroom and Pahl 1971). Thus, a TMT composed purely of young people may unnecessarily take excessive risks.