

The Configuration of Top Managers and Types of Corporate Venturing Portfolio

Chih-Hua Lin, Shu-Jou Lin

Graduate Institute of Global Business and Strategy
National Taiwan Normal University, Taipei, Taiwan
e-mail:699560126@ntnu.edu.tw

Abstract

This study investigates how a firm's configuration of top management team (TMT) influences types of corporate venturing portfolio. The study focuses on three characteristics of TMT configuration: turnover rate, diversity and density of external ties. The researchers explore whether and how these three factors associate with the types of corporate venturing portfolio. Furthermore, in this paper, we distinguish two groups of top managers, one is board of directors, and the other is upper-echelon executives.

In this study, we choose firms listed in Taiwan Stock Exchange before the 2004 and operating in the electronics industry. The result of this study shows that turnover rate, diversity and density of external of board of directors are positively correlated with portfolio diversity. And upper-echelon executives of these three characteristics are also positively correlated with portfolio diversity.

In our research context of Taiwan and the family business is prevalent. We therefore include the family business as the moderator. We find that family ownership positively moderate the aforementioned relationship between the TMT configuration and portfolio diversity of corporate venturing investments. Implications are also provided.

Keywords : top managers, corporate venturing, turnover rate, diversity, external ties

Introduction

In this section, four issues are incorporated. First, we describe the research background; second, we describe our motivation; third, we focus on our research purposes; the last we build the research framework of this study.

Research background

Firms seek to maintain stable growth. With the uncertainty of the future environment and rapid changes in the society, the firm try to grow by keeping sustainable competitive

advantage. For instance, increasing the number of subsidiaries enables the businesses to increased profit. Besides, a firm increases the number of subsidiaries also have a better ability to respond when the firm face the uncertainty of the external environment. Corporate Venturing Investments(CVIs) is a firm's capital or equity investments on the new enterprise.

However, for different companies, types of new venture investment are not necessarily the same. For instance, the parent companies might invest all funds in one industry or allocate them in multiple industries. The firm's different decision would cause different types of commerce combinations. For example, what is the distribution of the investment? Does the company investment in new ventures concentrate in a small number of industrial segment, or scatter (diversification) to a variety of industries? In case of the firm invests in a small number of industry segments, whether the funds focus on just one company, or distributed to several targets?

There are few literatures to discuss what kind of factors influence the types of the corporate venturing portfolios. The difference between this paper and previous studies is that the paper use the empirical analysis to figure out how the composition of the senior managers within the parent company to influence the diversity of the type of corporate venturing portfolio.

Research Motivation

In this study, we reference the view of Hambrick (1984), he advocated the organization reveal the decision of their senior managers, with a step further he infer that the composition of the senior managers is an important factor to influence the types of new ventures portfolio.

We find past literatures often discuss the situation that the parent company starts to invest outward when it reach a certain stage of development, less discussed the factor of staff composition within parent company. If different composition determine different outward-investment strategy? If different composition affect the diversity of investment patterns? Therefore, in this paper we would like to know whether the different management members of parent company will result in more diversity of the portfolio of the new ventures.

Research Objectives

This research focuses on exploring what will affect the types of portfolio between the internal board of directors and the upper-echelon executives. The past literature less discussed about the diversity of the types of portfolio. Thus our study focuses on this part to discuss. Based on the literatures of top managers, with integration of the new venture. Therefore, we can discuss if it cause the different types of the investment portfolio between management rights and operation rights.

In this paper we want to achieve the following objectives:
First, we want to distinguish the different between the management rights which belong to

board of directors and the operation rights which belong to upper-echelon executives, whether their different composition(such as turnover rate, diversity and density of external ties) cause the different type of investment.

Second, because our research focus on Taiwan enterprises, for the culture reason, we add the family business to discuss. We want to know if family business affect the whole types of corporate venturing portfolio or not.

Hypothesis

When it comes to the configuration of top managers, we usually investigate the age, educational background, socioeconomic background and work experience. It use the heterogenous way to classify managers. Homogeneous top management teams will make strategic decisions more quickly than will heterogeneous teams (Hambrick, 1984).

In this paper, we discuss on heterogenous, and we also add two items to enhance our argument, turnover rate and density of external ties. We depend on the implementation rights to subdivided top managers into the board of directors as well as upper-echelon executives.

For the board of directors, they have ownership, they can decide whether to support the upper-echelon executives' decision-making, and also plays an important role in supervision and senior operators. On the other hand, the upper-echelon executives is the main operators in the enterprise. And they have to be responsible for the implementation and planning business model throughout the enterprise.

Organizational outcomes-both strategies and effectiveness-are viewed as reflections of the values and cognitive bases of powerful actors in the organization. It is expected that, to some extent, such linkages can be detected empirically (Hambrick,1984). According to the past research about TMT, We know that people are more complex than the results of empirical research, not exactly what we observed. In general, the research may just focus on the management team, ignoring these people's views of the board members, consultants and industry associations. Therefore, this study integrated the point of view from Hambrick and other people, and try to discuss the two different aspect between board of directors and upper-echelon executives about their layout of the new venture.

This study based on the configuration of top managers to explore the different types of corporate venturing portfolio. By the past literature, we find that within the enterprise ownership belongs to supervisor and manage right belongs to important decision-making initiator.

From the above point of view, this study will infer the difference of the types of corporate venturing portfolio under different composition of the top managers.

Changes rate of a top managers team

Past literature referred that because new strategy may rise the uncertainty, the longer term of high-level managers (CEO) would avoid pursuing a new strategy to own the better interests for them, and the new strategy could make the upper-echelon executives have no confidence. Therefore, they are gradually become the risk averse(Simsek, 2007).

Relatively to the short term of top management team, the future development of enterprises is not directly affect themselves. Thus high-level managers will pursue some new strategies in their short term so that they can enhance their performance and benefit more for their own (Carpenter, 2002).

Thus, the more frequent turnover of the upper-echelon executives , the higher of their risk-loving. Base on the above inferred, the higher change rate in the company member, the more chance and diversity of outward investment parent company would make. Thus, the turnover rate of the top management team will decide the type of its portfolio of new ventures. Executing new strategy or not, is related to the board of director's corporate ownership. Therefore, we assume that the length of the turnover rate also affect the diversity of the newly created career portfolio.

For the above reasons, we can develop the following hypothesis:

H1a: The higher the turnover rates in board members, the more diversity of types of corporate venturing portfolio.

H1b: The higher the turnover rates in upper-echelon executives , the more diversity of types of corporate venturing portfolio.

Top managers heterogeneity

By the above assumptions, the length of tenure is a certain impact on a business strategy for the future development. And shorter-tenured, heterogenous teams are found to provide the skills needed to address environmental complexities and will be more productive in turbulent environments(Keck,1997). The most important thing is they deliver problem solving skills and new perspectives on strategic formulation and implementation processes.

According to the above description , this paper focus on the heterogeneity and development the following hypothesis:

H2a: The higher heterogenous in board members, the more diversity of types of corporate venturing portfolio.

H2b: The higher heterogenous in upper-echelon executives , the more diversity of types of corporate venturing portfolio.

Top managers density of external ties

H3a: The higher external ties in board members, the more diversity of types of corporate venturing portfolio.

H3b: The higher external ties in upper-echelon executives , the more diversity of types of

corporate venturing portfolio.

In the process of study, because our samples are from Taiwan, the board members and upper-echelon executives may be the same person or same family. In family members, if they have higher shareholding ratio, they are risk averse. And the diversity of corporate venturing portfolio are lower; if they have lower shareholding ratio, they are risk lovers. And the corporate venturing portfolio are more diversity.

Therefore, within the family business stake, for the diversity of the entire portfolio of new ventures will be different, so we finally joined the family business as moderator to explore.

Methods

To avoid the unstable in new listed companies in the electronics industry, we selected the electronics industry companies listed before the 2004 as the research object.

In the part of the corporate venturing portfolio sample selected, this study limited in technology-related. In the following study, we will illustrate the whole information and the processing.

Sample selection

Parent company of the sample screening

In this study, we select the Taiwan listed companies in electronics before the 2004, and the observation period is from 2001 to 2010. We use disclosure in the financial statements of the parent company sample from 2001 to 2010 long-term investment details data from TEJ(Taiwan Economic Journal). Besides, we screening corporate reinvestment and the total number of samples are 258. And then delete the overseas investment and the financial investment. Just retain domestic non-financial investment cases.

A corporate venturing portfolio sample selection

Although the amount of the reinvestment is excess, we selected from the 2001 projected forward to the establishment of six subsidiaries based on Hambrick (1985). Then we defined them the corporate venturing and ensure to more line with this study.

Sample property description

Due to this study was investigate the composition of the configuration of top managers, we have to ensure the companies provide the top managers' information.

Sample Source

Sample company information

1. A sample companies invested detail data from the Taiwan Economic Journal

(TEJ)database.

2. Board of directors and TMT data are from Market Observation Post System(MOPS).

To study the definitions in disguise

Dependent Variable

In this study we used Entropy formula (Palepu, 1985), calculate the portfolio diversity of the corporate venturing. We learned that the more different the configuration of top managers, indicating that the variation is greater. Then we can infer that new ventures portfolio types are more diversity.

Independent Variable

1. **length of tenure**

2. **demographic diversity of BOD**

Such as functional diversity of educational background

3. **density of external ties**

4. **shareholding ratio**

Moderator

Family business

Results and Conclusions

Due to the past few studies on the correlation between top managers and corporate venturing , this study want to discuss composition of the top managers. And whether the different kind of the configuration of top managers will affect the future development of the company. Resulting in new businesses created diversity, we explore the current turnover rate, diversity and density of external ties. And the three independent variables will cause the impact on the selection strategy. From the board of directors and upper-echelon executives, we can notice that the experiments of the results are positively correlated. But a correlation they demonstrated is not exactly the same influence.

References

- Carpenter, M. A. (2002). "The implications of strategy and social context for the relationship between top management team heterogeneity and firm performance." *Strategic Management Journal* 23(3): 275-284.
- Hambrick, D. C. and I. C. Macmillan (1985). "Efficiency of product R&D in business units: The role of strategic context." *Academy of Management Journal* 28(3): 527-547.

- Hambrick, D. C. and P. A. Mason (1984). "Upper Echelons: The Organization as a Reflection of Its Top Managers." *Academy of Management Review* 9(2): 193-206.
- Palepu, K. (1985). "Diversification Strategy, Profit Performance and the Entropy Measure." *Strategic Management Journal* 6(3): 239-255.
- Keck, S. L. (1997). "Top Management Team Structure: Differential Effects by Environmental Context." *Organization Science* 8(2): 143-156.
- Simsek, Z. (2007). "CEO tenure and organizational performance: an intervening model." *Strategic Management Journal* 28(6): 653-662.

Acknowledgment

The author gratefully acknowledges the cooperation and efforts of my advisor and co-author Shu-Jou Lin. She assisted in data gathering, and give me some advice and encourage. If the readers have any suggestions or questions, at the following correspondence address: 699560126@ntnu.edu.tw