Ethnicity and Global Dexterity: Influence of Upper Echelon Attributes on Firm Innovation and Performance

by

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ABSTRACT

As businesses compete in global markets, organizations depend on decisions steered by upper echelon (i.e., top management, C-suite executives, etc.). Upper echelon theory states that characteristics of top-level executives partially predict organizational outcomes. Some research reveal that foreign experience of top management leads to better firm performance. Others show that companies with diverse leadership are more likely to improve financial returns. This juxtaposition leads to a query: is it more profitable for a firm’s upper echelon (UE) to be ethnically different from the Caucasian standard or have the ability to adapt across cultures through international experience (i.e., global dexterity)? Furthermore, as researchers demonstrate how executive characteristics influence innovation, which affects firm success, innovation could be the mediator that explains the effect of UE characteristics on a firm’s success. There is no prior empirical analysis that demonstrates this relation among CEO global dexterity, CEO ethnicity, firm performance, and firm innovation in one model. Therefore, this research studied the significance of a CEO’s global dexterity and ethnicity on the firm performance of Standard and Poor's (S&P) 250 multinational companies with firm innovation as the mediating variable. Data on CEOs and firms of the S&P 250 was extracted from federal publications, reports of private organizations, reports submitted to research scholars, and self-published websites of the firm. The data was examined using multiple regression analyses that included firm-level controls and CEO-level controls. The overall findings suggest that R&D explained the relationship between CEO ethnicity and average annual total return ($p<0.01$) as well as between CEO ethnicity and 5-year average annual sales growth rate ($p<0.05$). With regard to global dexterity; CEO place of birth, country of origin (i.e., generation), international experience depending on distance from the U.S. (i.e., cultural distance), and post-secondary education had the largest effect on organization performance when firms increased R&D. The significant revelation of this study was that it was more profitable for ethnicity and global dexterity to be complements rather than substitutes. When the interaction between the inherent characteristic (ethnicity) and the acquired characteristic (global dexterity) was present, they both increased firm performance by 15% when R&D was a mediator ($p<0.05$). This implied that the more positive the influence of ethnicity on firm performance, the more positive the effect of global dexterity on firm performance, thus making a CEO more pioneering, thereby effectuating firm success. This research could add to a new approach of strategic management with significant theoretical contribution.