

Effect of Cognitive Diversity in the Top Management on the Firm Performance

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ABSTRACT

The aim of the study is to explore about the relationship of cognitive diversity in top management and job performance of the firm. For this purpose different studies and researches have been consulted. On the basis of the reviewed literature, study is attempting to answer the questions, that whether there any relationship exists in the cognitive diversity and performance of the firm? If yes, then how cognitive diversity in upper level management affect organizational performance.

KEYWORDS: - Cognitive Diversity in Top Management, Organizational outcomes, Performance.

INTRODUCTION

How the performance of a firm can be accelerated? A question that is always a topic of attention in the literary world. There are number of researches, conferences, news and reports on this issue. No one can deny the role of top management in enhancing the efficiency and effectiveness in the performance of an organization. The literature on the strategic management shows that the Top Management Team (TMT) plays a decisive role in the strategic decision making and firm performance (Hambrick & Mason, 1984).

The role of diversity in the top management is also topic of interest by the researchers and practitioners. Results of different studies present inconsistent results on this topic. According to some of the researchers, diversity in the top management results in better achieving the organizational goal and profitability (McCuiston, Wooldridge, & Pierce, 2004). While other studies shows that the diversity at upper level of management results in less communication, less effective decision making and negative outcomes (O'Reilly, Snyder, & Boothe, 1993). A major reason behind these inconsistent results is that the focus of the researchers was on demographical diversity. No one emphasized on the cognitive diversity among the upper level management of organization. So Diversity can be divided into two major classes, observable diversity and non-observable diversity (Erhardt, Werbel, & Shrader, 2003). Observable diversity refers to the demographic diversity as difference in age, gender, race, color, background etc, while non-observable diversity refers to cognitive diversity.

Cognitive Diversity refers to the differences in the set of beliefs, regarding the cause and effect relationship and the variation in the preferences about the different goals of an organization (Miller, 1990). According to Olson, Parayitam, & Bao, (2007), cognitive diversity refers to the facet of accepting knowledge while trying to minimize risk connotes trust in other abilities. In simple word cognitive diversity means diversity in the knowledge, skills, abilities and beliefs of workforce.

The purpose of this article is to investigate how cognitive diversity in the top management affects the overall performance of the organization.

DISCUSSION

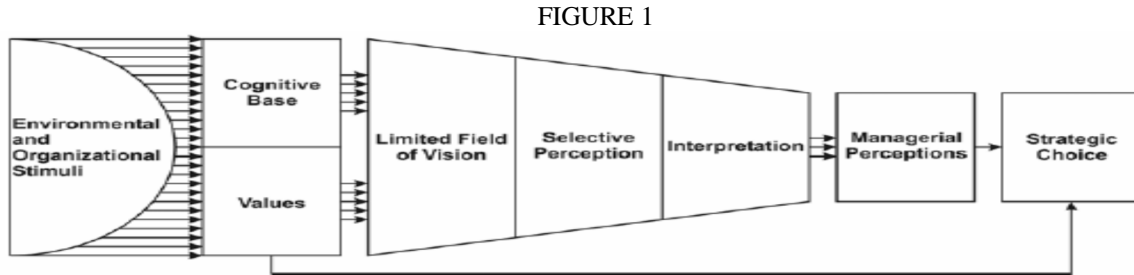
The existing literature widely discusses the relation of diversity and firm performance. But most of the researches focused on the demographical diversity. There are limited numbers of researches discussing the cognitive diversity. However, it is important to know what the existing literature says about the cognitive diversity in the top management.

Nevertheless, before discussing the cognitive diversity in Top management and its impact on the organizational performance, the first question arises that whether the top management is too important that it can influence the organizational outcomes. There are two schools of thoughts in this context. According to one school of thoughts, the top management plays an important role in the strategic decision making (Henke, 1998). On the other hand, there are number of researches that state the external factors play an important role in decision-making. There are number of theories presented on this opinion as contingency theory, resource dependency theory etc. (Finkelstein & Hambrick, 1996). But the most recent studies emphasizes on the role of top management in organizational decision (Ford-

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Eickhoff, Plowman, & McDaniel, 2011). Now it is clear that top management plays important strategic role in decision making because the top management refers to the strategic leadership that gets information from number of sources and filters it for utilizing it decision making process because the information top management gets, is usually ambiguous and unclear (Cannella, 2001).

Now the question arises how the cognitive diversity in the top management affects the performance of firm. A very important theory in this regard belongs to Hambrick & Mason (1984) that is Upper-Echelons Theory. In their study they presented a whole model which shows how the cognitive diversity in the top management affects the performance of an organization. In their theory they have considered the demographic traits of the managers as the determinants of the cognitive base in them. The study believed that the performance of the firm is affected by the demographical factors and strategic decision making. The below given figure shows that how the the managers bounded rationality affects the strategic decision making in an organization:



Adopted from: Hambrick & Mason (1984)

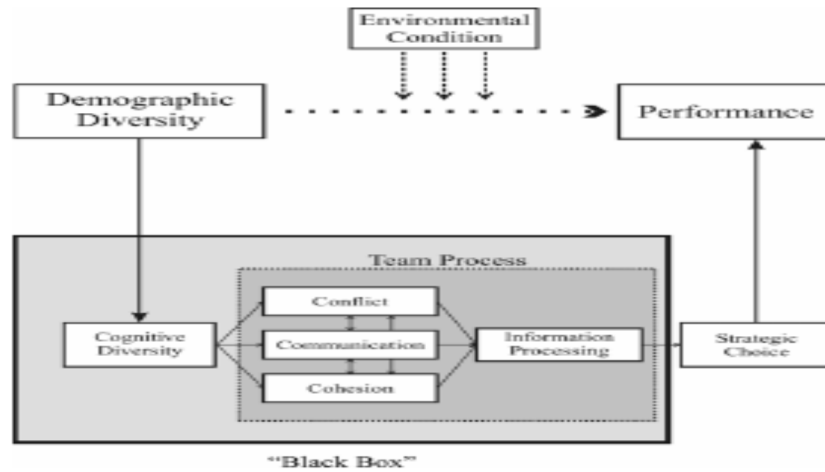
Another important study that is conducted with the purpose to explain that how the diversity in the upper level management affects the strategic decision making, considered the two important strategic process variable that are comprehensiveness of decision making process and extensiveness of strategic planning. So the study was actually investigating the two aspects. The first one is finding out that how cognitive diversity affects the strategic decision making process and second one is about the assumption that cognitive diversity affects the performance indirectly. The study was conducted on the Chief executive officers and Chief administrators. The results of the studies concluded that high level of cognitive diversity at the upper level of management should be avoided because it can be very much problematic if not dealt properly (Miller, Burke, & Glick, 1998).

Study of Kilduff, Angelmar, & Mehra (2000) was conducted in the same time period, on the 159 managers that shows almost the same results as the above mentioned research shows. This study has treated the cognitive diversity as disagreement on the team processes. The results of the studies shows that there are less evidences to support the hypothesis that cognitive diversity in the team of top management affects the firm performance. In this study interpretative ambiguity is treated as predictor of performance. Better management of the interpretative ambiguity by the teams leads to better team performance.

Kiefer (2005), has explained the cognitive diversity through indirect phenomena that can be viewed through the figure 2. This study just measured the Demographic diversity but this it is important in aspect that it provides a model and linkage of demographic traits and cognitive diversity.

As it can be observed that old researches conducted to find out the impact of cognitive diversity on the job performance shows the negative results. But the latest researches on this topic shows favorable results. As the study of (Verduijn, 2010) supports the openness to cognitive diversity because it handles the views, perceptions, values, Norms, thoughts and served as an important predictor of job satisfaction, job performance and team cohesion.

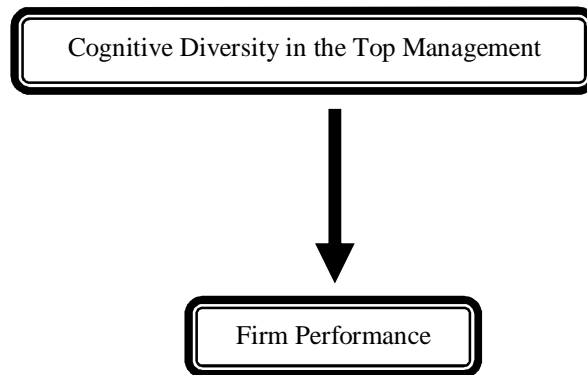
FIGURE 2



Adonted from: Glick, Miller, & Huber. (1993); Williams & O'Reilly (1998)

RESEARCH DESIGN

The focus of the study is to analyze the question, whether the cognitive diversity in top management affect the performance of the firm or not? If yes, then how cognitive diversity in top management works? So the study is analytical type of research. For which extensive literature is reviewed dated from 1980s to the date that consists of books, magazines, working papers and journal articles. The conclusion is drawn on the basis of the work done in the past on this topic.



CONCLUSION

The study was initiated with the aim to resolve the mystery behind the issue that whether the cognitive diversification in top management affects the firm performance or not? The in-detail insight on the past literature, regarding this topic presents inconsistent answers of this question. The old studies conducted in 1990s and 2000 era shows that cognitive diversity negatively affects the firm performance. On the other hand the recent studies on this topic shows that cognitive diversity in upper echelons positively impacts the performance level. The study has concluded from all the review literature that results of the cognitive diversity in the top management actually depend upon the ability of the firm to effectively manage the cognition in the different managers. These results are consistent with the one of the pioneer researches on this topic (Miller, Burke, & Glick, 1998).

IMPLICATIONS OF THE STUDY

This study opens the new avenues for the prospective researchers to investigate the management of cognition in top management instead of keeping their focus on the cognitive diversity. As this topic is already discussed a lot in literature so this study gives a new direction to researchers.

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