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RESEARCH NOTES AND COMMENTARIES

TOP MANAGEMENT TEAM NATIONALITY DIVERSITY AND FIRM PERFORMANCE: A MULTILEVEL STUDY

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This research reexamines the equivocal relationship between top management team (TMT) diversity and firm performance. Combining upper echelons theory with insights from institutional theory, we establish a new, timely dimension of TMT diversity—nationality diversity—and develop an integrated multilevel framework explaining how its performance implications vary across contextual settings. We find that nationality diversity is positively related to performance; and this effect is stronger in (a) longer tenured teams, (b) highly internationalized firms, and (c) munificent environments. More generally, our research demonstrates that the consequences of TMT diversity depend on the (1) specific attributes of diversity being considered and (2) firm and industry conditions under which strategic decisions take place. Copyright © 2012 John Wiley & Sons, Ltd.

INTRODUCTION

Top management teams (TMTs) have become increasingly diverse over the past several decades, yet the performance implications of TMT diversity are not clearly established in the literature. Empirical studies show the effect of TMT demographic diversity on performance to range from positive through nonsignificant to negative; some research even report mixed results for different diversity attributes within the same study (for reviews see Carpenter, Geletkanycz, and Sanders, 2004; Finkelstein, Hambrick, and Cannella, 2009; Nielsen, 2009). These findings indicate a need to decompose the construct of diversity to single attributes as group processes and firm performance are not influenced in the same way by every aspect of diversity. Treating diversity as a generic unidimensional concept is unlikely to capture its complex nature and impact.

Theory suggests that diversity may result in both positive (cognitive) as well as negative (affective) consequences (Milliken and Martins, 1996). For instance, the increased quality of strategic decision making may come at the expense of potential disruption to TMT dynamics (Amason, 1996). The

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inherent tension between the positive and negative consequences of TMT diversity for performance puts a premium on developing a better understanding of *when* (under what conditions) the benefits will outweigh the costs of TMT diversity (Carpenter, 2002). First, the sources of diversity must be unpacked in order to understand the costs and benefits associated with each specific attribute. Next, the extent to which the net benefit of these countervailing forces will manifest itself in firm performance is likely to depend on the context in which strategic decision making takes place (Cannella, Park, and Lee, 2008). We argue that the impact of TMT diversity on performance is not unitary (positive or negative); rather the salience of specific diversity attributes may vary with different layers of context.

Specifically, we develop a multilevel theoretical framework explaining how team, firm, and industry contexts moderate the relationship between TMT nationality diversity and performance. We limit our study to nationality diversity as it is a timely, yet under-researched aspect of TMT composition that captures the variety in institutionally embedded experiences of the team members. While prior studies have shown the importance of TMT international experience (e.g., Carpenter and Frederickson, 2001; Carpenter, Sanders, and Gregersen, 2001), empirical studies on the role of TMT nationality are still rare (Carpenter *et al*., 2004; Nielsen and Nielsen, 2010). With globalization accelerating and executive search transcending national borders, the number of non-nationals on TMTs of multinational corporations (MNCs) is steadily increasing (Staples, 2007). The resulting TMT nationality diversity may have important implications as national origin has a profound influence on strategic decision making, team dynamics, and firm performance (Hambrick *et al*., 1998).

Our study makes several contributions. First, we integrate insights from institutional economics (North, 1990) with upper echelons theory (Hambrick and Mason, 1984) to introduce the concept of TMT nationality diversity. Second, we develop and test an integrated multilevel framework that accounts for trade-offs of diversity across multiple levels of context that are inherent to the study of TMTs: team, firm, and industry (Cannella *et al*., 2008; Carpenter, 2002). Specifically, we demonstrate how the influence of TMT nationality diversity on performance varies with TMT tenure, firm internationalization, and industry munificence. Finally, while focusing on diversity in nationality, we further control for the interactions of the most prevalent TMT diversity attributes with the different layers of context. Our findings illustrate the importance of paying attention to combinations of different level factors, which may constrain or enhance the performance implications of specific TMT diversity attributes.

THEORY AND HYPOTHESES

TMT nationality diversity and firm performance

The national origin of individuals reflects the institutional environment of the country in which they spend the majority of their formative years (Hambrick *et al*., 1998). A combination of formal and informal institutions in a country guide individuals and organizations in dealing with uncertainty, deciphering the environment, and taking appropriate actions (Crossland and Hambrick, 2007). Formal institutions are explicit and codified, and consist of the political and economic rules and contracts that govern property rights and transactions in a society, whereas informal institutions consist of tacit norms, conventions, and values that shape social interaction (North, 1990). As such, institutions form a continuum moving from the legally enforced to the taken for granted and interact with each other in shaping human behavior.

Prior research on multinational teams has predominantly focused on the effects of informal institutions, or national culture, defined as a system of collectively held beliefs and values (Hofstede, 1980). Cultural patterns of thinking, feeling, and acting are acquired in early childhood because at that time a person is most susceptible to learning and assimilation. These patterns are deeply rooted and once established within a person's mind, they are unlikely to substantially change through subsequent experiences (Hofstede and Hofstede, 2005). National culture has been found to have an enduring impact on executive mindsets (Geletkanycz, 1997) and interpretation and response to strategic issues (Schneider and DeMeyer, 1991).

Yet, culture provides only partial explanation for the influence of national-level institutions on executive decision making (Crossland and Hambrick, 2011). Formal institutions play an important role in reducing uncertainty about the behavior of others

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and allowing actors to make credible commitments to each other. Formal institutions provide capacities for the exchange of information among actors, the monitoring of behavior, and the sanctioning of defection from cooperative endeavor (Scott, 2008). Since formal institutions constrain and regulate economic behavior, they affect information processing and problem solving in executive decision making.

Institutions are embodied in and carried by structured activities in the form of routines pertaining to the learning of modes of acting and problem solving (Scott, 2008). Growing up in a society with a particular configuration of (formal and informal) institutions influences how top managers process and interpret information and act on strategic opportunities and threats. Such effects are profound and enduring and executives are likely to internalize and carry them along when they join a TMT in a foreign country. In this way, the formal and informal institutions of an executive's country of origin jointly influence his/her field of vision, selective perception, and interpretation of strategic situations (Hambrick and Mason, 1984). As such, nationality is a superordinate construct that encompasses the influences of both formal and informal institutionally embedded experiences on executive orientation and decision making.

Consistent with the information-processing/decision-making perspective, nationally diverse teams bring a wide range of knowledge of, and experiences with different institutional environments. As multinational teams strive to integrate and reconcile their diverse institutionally embedded experiences, they engage in in-depth discussions, consideration of various alternatives, and generation of new creative ideas (Hambrick *et al*., 1998). As a result, nationally diverse teams are better at solving complex tasks and arriving at more innovative solutions. Watson, Kumar, and Michaelsen (1993) demonstrated that multinational groups outperformed homogenous groups in range of perspectives and alternatives generated. Since strategic decision making is a task characterized by high complexity, uncertainty, and lack of routines, nationality diversity is likely to improve the comprehensiveness and quality of TMT strategic decisions, which in turn influence firm performance.

At the same time, social categorization theory (Turner, 1987) suggests that diversity may also come at costs for team dynamics. As nationality, and particularly informal institutions (culture), determines communication patterns and interaction styles, multinational teams may experience affective conflict, lower cohesiveness, and slower decision making (Earley and Mosakowski, 2000; Hambrick *et al*., 1998). However, Elron (1997) found that while national cultural diversity may increase issue-based conflict, it is positively related to overall team and subsidiary performance. Similarly, Gong (2006) illustrated that subsidiary TMT nationality diversity enhanced subsidiary labor productivity of Japanese MNCs. Hence, on balance, the benefits associated with enhanced creativity and problem solving of nationally diverse TMTs are likely to outweigh any affective costs related to team dynamics. Nationality diversity will lead to superior firm performance through (1) access to—and more thorough processing of—relevant information and (2) diverse institutionally embedded experiences leading to higher quality decisions via better filtering and interpretation:

Hypothesis 1: TMT nationality diversity is positively related to firm performance.

The moderating role of TMT tenure

Social categorization theory provides an explanation for how the effects of specific team characteristics may change over time (Chatman and Flynn, 2001). While newly formed multinational TMTs are likely to be the most vulnerable to the drawbacks of nationality diversity, with time they develop more trust and rapport. Members come to respect and welcome the group complementarities, overlooking (perhaps even relishing) differences in demeanor, values, beliefs, and so forth (Hambrick *et al*., 1998) and improving intragroup communication and cooperation. After spending time working together, norms of interaction become established, reducing affective conflict and friction even in very diverse teams (Chatman and Flynn, 2001). Moreover, time also allows nationally diverse teams to create a common identity, which enhances their performance (Earley and Mosakowski, 2000). As a result, the negative effects of nationality diversity on TMT dynamics are likely to diminish over time.

At the same time, the information-processing benefits of nationality diversity are not likely to disappear with tenure. The risk of socialization of beliefs and homogeneity of perceptions, often referred to as groupthink (Janis, 1972), is less

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likely to interfere with effective decision making in multinational teams (Stahl *et al*., 2010) as differences stemming from the institutions of executives' countries of origin are imprinted and difficult to erase. As a result, TMT tenure will reduce some of the costs associated with affective conflict and impairment of group dynamics without attenuating the positive cognitive effects of TMT nationality diversity. To this end, Watson and colleagues (1993) found that initially, nationally diverse teams reported less effective interaction processes and had lower performance than homogeneous teams; however, over time, team processes improved and diverse groups performed better in range of perspectives and alternatives generated. Therefore, we expect the positive performance effects of nationality diversity to be stronger in TMTs with longer tenure:

Hypothesis 2: TMT tenure positively moderates the relationship between TMT nationality diversity and firm performance.

The moderating role of firm internationalization

Consistent with information-processing theory, the benefits of diversity in TMT members' nationalities will vary depending on the strategic complexity a firm faces. Firm internationalization intensifies managerial complexity and poses new challenges, such as information-processing, coordination, and governance demands (Sanders and Carpenter, 1998). In such contexts, nationally diverse TMTs can exploit their diverse institutionally embedded experiences to overcome difficulties of coordinating and managing a geographically and culturally dispersed organization with a large proportion of foreign staff, business networks, suppliers, and customers. Nationality diversity may permit valuable knowledge of formal and informal institutions of different countries to be integrated into strategic decisions; it may also be a source of reducing the information-processing costs of globalization because more nationally diverse TMTs have greater processing capacity and can attend to more environmental cues (Luo, 2005). In addition, multinational TMTs have access to rare and valuable knowledge, resources, expertise, and network contacts in relation to multinational management, which may help reduce the costs of liability of foreignness (Hymer, 1976). Hence, TMT nationality diversity is more beneficial for firms faced with increased complexity resulting from firm internationalization:

Hypothesis 3: Firm internationalization positively moderates the relationship between TMT nationality diversity and corporate performance.

The moderating role of industry munificence

The information-processing advantages of TMT diversity may be further influenced by the external (environmental) context in which the team is embedded (Cannella *et al*., 2008). Munificence refers to the extent to which the environment can support sustained growth (Aldrich, 1979). Munificent environments help buffer organizations from external threats and allow them to generate slack resources. In such conditions, TMTs operate with less constraint (more flexibility) and the wider breadth of choices available to executives leaves room for greater diversity in opinions and perspectives (Finkelstein *et al*., 2009). As a result, firms are more likely to allocate resources to pursue new strategies generated by nationally diverse TMTs. Moreover, as TMTs in munificent environments face less time pressure, the speed of decision making is not a decisive factor and nationally diverse teams are more likely to reap the benefits of information processing resulting from nationality diversity:

Hypothesis 4: Industry munificence positively moderates the relationship between TMT nationality diversity and corporate performance.

METHODOLOGY

Data and measures

The sample of this study consists of 146 Swiss listed firms representing 32 industries. Data on TMT composition was collected from company annual reports and Web sites on an annual basis for the period 2001–2008. Firm and industry data were obtained from the *Worldscope* and *Datastream* databases of Thomson One Banker for the same period.

The dependent variable *firm performance* is operationalized as return on assets (ROA) at the end of each calendar year while TMT composition

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is measured in the beginning of the same year. We choose this lag structure in order to ensure that our antecedent variables temporally precede the dependent variable and avoid problems with causality of the studied relationship (Hambrick, 2007). We also calculated subsequent firm performance as ROA, averaged over $t + 1$ and $t + 2$, in order to reduce bias of single year outliers (Cannella *et al*., 2008). The results essentially remained the same.

The TMT is defined as the executive team listed in the company annual reports. In Switzerland, listed firms are required to file the nationalities of their top executives in these reports. *TMT nationality diversity* is calculated with a Blau index (Blau, 1977) using the formula $B = [1 - \Sigma(p_i)^2]$, where p is the percentage of members in the i^{th} group (i.e., nationality). We also used alternative measures that captured the diversity in the formal and informal institutions of the TMT members' countries of origin and obtained essentially equivalent results. *TMT international experience* is measured as the percentage of TMT members with professional experience from outside Switzerland. *TMT functional diversity* and *TMT educational diversity* are calculated as the Blau index of top executives' current functions and educational backgrounds. *Industry experience diversity* is measured as the proportion of TMT members with previous work experience in an industry different from the primary industry in which the firm operates. Coefficient of variation is used for the continuous variable *TMT age diversity. TMT tenure* is measured as the median of the tenures of all TMT members. *TMT size* is the count number of TMT members.

Internationalization is the average of (1) foreign sales to total sales, (2) foreign assets to total assets, and (3) geographic dispersion of foreign sales. Industry variables are measured based on two-digit Standard Industrial Classification codes. *Industry munificence* is calculated as the rate of growth (regression coefficient of time on annual average sales for each industry) divided by the mean value of sales for the study period (Dess and Beard, 1984). We control for *industry dynamism,* measured by dividing the standard error of the slope coefficient by mean value of sales. We further account for possible time effects on performance (Short *et al*., 2006). In addition, we control for firm-level variables expected to influence performance. *Firm size* is the logarithm of firm employees. *Firm leverage* is the percentage of long-term debt to total capital. *Product diversification* is an entropy measure of firm diversification (Palepu, 1985).

RESULTS

The research design resulted in a nested hierarchical structure with three levels of random variation: TMTs within firms over time (level 1), firms within industries (level 2), and between industries (level 3). Consequently, we use hierarchical linear modeling (HLM) for three-level data in the HLM Software version 6.02. HLM accounts for firm- and industry-specific effects over time (Short *et al*., 2006). The χ^2 statistics of the empty model indicate that the variances at both firm and industry levels are significantly different from zero, suggesting that HLM3 is the right analytical strategy. Table 1 provides descriptive statistics.

Table 2 shows the results of our analyses (with robust standard errors). Model 1 presents the main effects, whereas Models 2–4 add the interactions one level at a time. Consistent with Hypothesis 1, the results presented in Model 1 show that nationality diversity is significantly positively associated with performance ($p < 0.05$). The interaction between TMT nationality diversity and team tenure (Hypothesis 2) is significant ($p < 0.05$) as shown in Model 2. In support of Hypothesis 3, the level 2-1 interaction between firm internationalization and TMT nationality diversity is positive and significant ($p < 0.10$) as reported in Model 3. Finally, the results show a positive interaction effect between TMT nationality diversity and industry munificence ($p < 0.05$) as predicted in Hypothesis 4 (see Model 4). Examining the other TMT demographic attributes, only functional diversity has a significant (positive) main effect on performance ($p < 0.05$). This effect is negatively moderated by TMT tenure ($p < 0.10$). The effect of TMT international experience is also negatively moderated by TMT tenure ($p < 0.05$), however, positively moderated by firm internationalization ($p < 0.05$). Educational diversity interacts negatively with industry munificence ($p < 0.05$).

DISCUSSION

While nationality has received very little attention compared to other TMT characteristics, our study

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Table 1. Descriptive statistics and correlations

	Variable	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Industry munificence	0.08	0.05	1														
2	Industry dynamism	0.02	0.01	0.15**	1													
3	Product diversification	0.73	0.48	−0.05+	−0.01	1												
4	Internationalization	0.40	0.27	0.10*	−0.24**	0.10**	1											
5	Leverage	24.52	28.72	0.04	−0.04	0.06*	−0.03	1										
6	Employees (log)	7.60	1.83	−0.07*	−0.01	0.42**	0.18**	0.05	1									
7	Nationality diversity	0.35	0.27	−0.03	−0.14**	0.23**	0.24**	0.02	0.36**	1								
8	Functional diversity	0.57	0.19	0.06*	−0.07*	−0.02	0.12**	−0.08**	0.03	0.11**	1							
9	Educational diversity	0.45	0.19	0.16**	−0.03	0.15**	0.09**	−0.03	0.13**	0.17**	0.20**	1						
10	International experience	0.28	0.28	0.04	−0.08*	0.12**	0.18**	0.00	0.27**	0.34**	0.02	−0.08**	1					
11	Industry experience	0.39	0.32	−0.00	−0.02	0.07*	−0.11**	−0.07*	−0.03	−0.05	0.10**	0.01	−0.11**	1				
12	Age diversity	0.13	0.05	−0.04	0.02	−0.09**	−0.10**	−0.02	−0.29**	−0.08*	−0.04	−0.14**	−0.07**	0.02	1			
13	TMT tenure (months)	74.65	47.68	−0.03	0.08*	−0.12**	−0.05	−0.07*	−0.09**	−0.17**	−0.01	−0.01	−0.02	−0.01	−0.05	1		
14	TMT size	6.06	2.67	−0.08**	−0.01	0.26**	0.11**	0.01	0.41**	0.45**	0.24**	0.21**	0.13**	0.00	−0.12**	−0.19**	1	
15	Return on assets (ROA)	3.64	12.12	0.02	−0.08**	0.03	0.00	−0.15**	0.17**	0.06*	0.10**	0.03	0.01	0.07**	−0.04	0.11**	0.11**	1

+ $p < 0.10$; * $p < 0.05$; ** $p < 0.01$

shows that TMT nationality diversity is among the few diversity attributes that help increase firm performance. These results augment Geletkanycz's (1997) findings that while both professional experiences and cultural socialization contribute to the shaping of executives' strategic mindset, national values are stronger predictors of executive decision making. It appears that nationality has a profound and enduring effect on executives' orientations, independent of the logics and wisdom accrued in management development. Therefore, nationality diversity is important in the mix of executive characteristics and will be even more so in the future as leading MNCs hire more non-nationals to their executive management teams.

Prior upper echelons research often investigates the effects of multiple diversity attributes; yet these effects are typically conceptualized as if all diversity attributes will have the same impact on performance (frequently formulated in a single diversity hypothesis). We demonstrate that some diversity attributes (e.g., nationality and function) have positive main effects on performance, while others have no such effects (e.g., age, education, industry, and international experience). These results are not only consistent with recent meta-analyses showing that from all previously studied TMT diversity attributes only functional diversity has consistent positive effects on performance (e.g., Certo et *al*., 2006) but also render important insights into the multidimensionality of the diversity construct. The implicit assumption that the same theoretical arguments hold for each TMT diversity attribute may lead to erroneous conclusions. Hence, future studies may benefit from moving away from treating diversity as a general construct and explore how the benefits and costs of TMT diversity vary depending on the specific attributes on which diversity is being considered.

In addition, inconsistent findings in the upper echelons literature may be attributable to the omission of important contextual variables (Cannella *et al*., 2008) as decontextualization of TMT research runs the risk of ignoring the effects of embeddedness of TMTs in social context (Carpenter, 2002). Our multilevel study shows that it is pivotal to consider relevant layers of context (e.g., team, firm, industry, and national contexts) in order to understand when and under what conditions TMT diversity is beneficial for companies. Given the often-cited 'mixed blessings' of diversity, it is critical to identify relevant

Table 2. Hierarchical linear modeling results

Variable	Model 1	se	Model 2	Se	Model 3	se	Model 4	se
Intercept	−1185.35**	334.50	−1084.18**	297.31	−1081.78**	308.55	−1074.77**	315.37
Industry level								
Industry munificence	16.25	11.78	13.52	12.76	15.51	11.80	18.65	13.84
Industry dynamism	−91.61+	47.00	−59.36	48.25	−71.81	49.08	−69.16	55.56
Firm level								
Product diversification	−0.87	1.60	−1.22	1.24	−0.96	1.40	−0.78	1.38
Internationalization	−3.00	2.24	−3.45+	1.98	−2.40	1.82	−3.55	3.05
Leverage	−0.11*	0.05	−0.11*	0.05	−0.11*	0.05	−0.11**	0.03
Employees	0.89	0.59	0.91	0.58	0.82	0.57	0.93*	0.41
Team/time level								
TMT nationality diversity	3.22*	1.60	4.49*	2.19	4.21*	1.99	4.09*	1.95
TMT functional diversity	3.17*	1.26	2.48+	1.39	2.33	1.64	2.78	2.44
TMT educational diversity	−1.41	1.48	−2.00	1.59	−2.32	1.77	−2.40	2.48
TMT international experience	−2.68	1.78	−3.72*	1.67	−4.62**	1.52	−4.77*	1.91
TMT industry experience	−1.34	2.26	−1.58	2.13	−1.49	2.34	−1.86	1.41
TMT age diversity	0.91	5.37	−0.47	5.22	0.55	5.37	−1.27	7.67
TMT tenure	0.01	0.01	0.02+	0.01	0.02+	0.01	0.00**	0.00
TMT size	0.15	0.18	0.18	0.17	0.15	0.19	0.02+	0.01
Year	0.59**	0.17	0.54**	0.15	0.54**	0.15	0.54**	0.16
Level 1 Interactions								
Nationality diversity × tenure			0.14*	0.06	0.13*	0.06	0.13**	0.04
Functional diversity × tenure			−0.05+	0.03	−0.04	0.03	−0.05	0.05
Educational diversity × tenure			0.07	0.05	0.08	0.06	0.09+	0.05
International experience × tenure			−0.11*	0.05	−0.10*	0.05	−0.11**	0.04
Industry experience × tenure			−0.03	0.02	−0.03	0.02	−0.03	0.03
Age diversity × tenure			−1.16	0.15	−0.15	0.15	−0.15	0.12
Level 2-1 Interactions								
Nationality diversity × internationalization					11.62+	7.06	9.29	8.70
Functional diversity × internationalization					5.37	8.83	4.26	11.03
Educational diversity × internationalization					5.76	9.22	12.08	12.66
International experience × internationalization					11.91*	5.96	11.08	8.68
Industry experience × internationalization					−2.17	7.81	1.43	6.69
Age diversity × internationalization					16.60	21.63	9.66	35.40
Level 3-1 Interactions								
Nationality diversity × munificence							73.35*	37.43
Functional diversity × munificence							50.12	54.62
Educational diversity × munificence							−105.70*	47.00
International experience × munificence							32.81	40.14
Industry experience × munificence							−38.77	33.48
Age diversity × munificence							31.19	115.06
Deviance	6400		6380		6374		6364	

+ $p < 0.10$; * $p < 0.05$; ** $p < 0.01$

factors at each contextual level that may influence the TMT diversity-performance relationship. We find that the strength and direction of the performance implications of specific TMT diversity attributes vary with different configurations of contextual factors. Specifically, we demonstrate how the impact of nationality diversity on performance is strengthened by team tenure, firm internationalization, and industry munificence, whereas other diversity dimensions are negatively influenced by the same contextual factors. As such, this study helps reconcile mixed findings of prior research on the relationship between TMT diversity and firm performance by distinguishing between different diversity attributes and investigating moderating influences of multiple layers of context.

In particular, we find that the effects of international experience and functional diversity diminish over time, whereas the impact of nationality diversity becomes stronger. Prior research suggests that team tenure may neutralize differences in executive experiences and eliminate any positive performance effects of TMT functional diversity (Carpenter, 2002). However, our results suggest that differences rooted in nationality are not easy to erase; such differences may even counter tendencies toward groupthink and adherence to *status quo* and, thus, lead to better performance over time.

Moreover, we find that internationalization serves as a critical firm-level moderator of the performance effects of TMT nationality diversity and international experience, yet not of other diversity attributes. This suggests that TMT international orientation will be more beneficial for internationalized firms, while other aspects of TMT diversity may be valuable for firms pursuing different strategies (e.g., functional diversity for product diversification as suggested by Michel and Hambrick, 1992). We also find that industry munificence positively interacts with nationality diversity, but negatively with educational diversity. While these findings confirm that the outcome of TMT diversity depends on industry characteristics (e.g., Cannella *et al*., 2008), they also illustrate that environmental conditions may serve as either an opportunity or a constraint on different diversity attributes. Together, these results point to the importance of considering various diversity attributes independently, and that the cost/benefits of such diversity may vary according to the context in which strategic decision making takes place. Future studies should develop fine-grained propositions regarding interactions of specific diversity attributes with particular types of context.

Finally, national context may play an important role for the TMT diversity-performance relationship. Switzerland was chosen as the empirical setting for our study as it is among the most competitive executive labor markets in Europe, with one of the highest percentages of foreign executives. Further, Swiss firms have a relatively high degree of internationalization by virtue of the small home market size and long history of international operations. If we had studied the same phenomenon (nationality diversity) in another context (e.g., North America), we may have concluded that nationality diversity does not matter. For instance, Carpenter (2002) finds only a weak relationship between TMT nationality and performance; however, only six percent of firms in his North American sample had a foreigner on their TMT, and none had more than one. As such, our study advances the understanding of how upper echelons theory might take on very different complexions depending on the macro-social context and future research may benefit from conducting cross-country studies as suggested by Hambrick (2007).

This study has limitations, which, in turn, provide opportunities for future research. First, while nationality is a powerful analytical construct (Hambrick *et al*., 1998: 183), it is not completely deterministic as other factors may influence an individual's institutionally embedded experiences. For instance, some individuals may have dual nationalities, parents of different nationalities, or their nationality may not correspond to the place of their upbringing, and so forth. Given the secondary nature of our data, except for dual nationalities, we are not able to account for such variations; future research may benefit from developing more fine-grained measures of executives' institutional experiences during their formative years. Second, while we argue that TMT nationality diversity brings benefits to strategic decision making, this study does not formally measure strategic choice. Future research may seek to explore the mediating mechanisms (e.g., various strategic decisions, such as mergers and acquisitions, joint ventures, and new establishments) through which nationality diversity may influence performance.

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