



**VALUE OF TOP MANAGEMENT TEAM DIVERSITY IN DRIVING STRATEGIC CHANGE, STRATEGIC LEADERSHIP  
AND ITS IMPACT ON PERFORMANCE OF FIRMS: A CRITICAL REVIEW OF EMPIRICAL EVIDENCE**

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**ABSTRACT**

*Confronted with complexities in the operating environment, contemporary organizations are forced to seek high quality management strategies that allow them to gain sustained competitiveness and ensure optimal performance. Pursuit of Top Management Team (TMT) diversity is one of the key strategies applied in the modern organizations to optimize performance. This study sought to review previous research assessing the influence of TMT diversity on performance of organizations while considering the effects on strategic change, strategic leadership and external environment. This was achieved by systematically reviewing 28 studies selected from various sources to find out the earlier findings on this topic. The study found that prior research suggests that TMT diversity impacts the performance of organizations. In addition, exploring the other dimensions of strategic change, strategic leadership and external environment indicated that outcomes change over time as TMT members interact over the years, though none of the studies reviewed directly assess this relationship. This article reviewed a selection of studies on TMT diversity and concluded with suggestions and implications of future research in this topic. Finally, the study found no evidence of previous research that linked or established the joint influence of TMT diversity, strategic change, strategic leadership, external environment on organization performance. Therefore, the study recommended in-depth scientific research on the influence of strategic change, strategic leadership and external environment on the relationship between top management team diversity and organizational performance.*

**Key Words:** *Top management team diversity; Organization Performance; strategic change; strategic leadership; External environment*

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## INTRODUCTION

Operating in a complex and highly competitive environment, firms have resorted to the application of various strategic management practises to be able to attain sustained competitive edge. Increased competition and dynamic environments have pressed organizations to actively employ capable and diverse leaders within their management teams with the ability to develop high – quality organization strategies, increased profits, and promote organization competitiveness. Significant attention has been devoted to exploring how the diversity among such leaders influences organizational outcomes such as strategy, performance and sustainability. However, whether TMT diversity is valuable or not for organizations remains open to discussion. Clearly, this relationship is not direct and there are other factors that influence it like the role of TMT in formulating and adopting strategic change, strategic leadership and the external organizational environments in which the organizations operate, (Mutuku *et al.*, 2013; Nelson & Nelson, 2012; Brown, 2005).

The introduction of top management team diversity discourse in organization management was documented in the Upper - Echelons Theory (Hambrick & Mason, 1984). The Upper - Echelons Theory (Hambrick & Mason, 1984) posits that the composition and diversity of a top management team can influence strategic decision-making and organizational performance. The Resource Based theory (Wernerfelt 1984; Barney 1991) argues that firms possess tangible and non - tangible resources that enable firms to achieve competitive advantage and lead to superior long-term performance. Strategic leadership theories particularly transformational and transactional theories (Selznick, 1984; Bass & Avolio, 1990; Boal & Hooijberg, 2001) are concerned with the leadership of organizations and are marked by a concern for the evolution of the organization as a whole and focuses on the people. Open Systems theories, posits that organizations are dependent upon their relationship with the environment (Bastedo, 2004).

The external environment comprises of the political, socio-cultural, economic, ecological, technological, stakeholders, beneficiaries, suppliers, competitors, regulators of the industry, raw materials, market sectors, the human resources, and international sectors, all which have a direct link to the organization operation and decision making and operating paradigm and performance (Ogundele, 2005).

Over the past two decades, upper-echelon researchers have extended Hambrick and Mason's (1984) seminal work on how TMT diversity as a corporate strategy can be applied towards enhancement of organization outcomes. However, empirical studies have shown mixed support for this assumption. Early empirical work (Bantel and Jackson, 1989; Wiersema and Bantel, 1992) supported the idea that TMT diversity leads to the consideration of many alternatives and that it enhances creativity and innovative strategic decisions leading to improved firm performance. Miller *et al.*, (1998) observed that more diverse TMTs are able to make more comprehensive evaluations of opportunities and threats as compared to less diverse teams. On the other hand, Boeker (1997a&b) found that diverse TMTs are more likely to enter new product markets and decreased technological innovation. O'Reilly *et al.*, (1993), found that tenure diversity and functional diversity decreased product innovation (Ancona and Caldwell, 1992). More recent studies have revealed clearer relationship between top management team diversity and the modern organization (Ogundele, 2005; Hailey 2006; Hambrick, 2007; Jansen, et al., 2009; Richard et al. 2009; Ci-Rong, 2013). Top management team is engrossed in strategic decision-making processes, which is affected by the manager perceptions and interpretations reflecting their 'cognitive base'. Hailey (2006) found that performance was a function of the extent of fit between the experiences and personalities of TMT and the strategy of the firm, with influence on the external environment.

Top Management Team (TMT) embodies the inner circle of executives who collectively formulate, articulate and execute the strategic and tactical moves of the organization (Nelson and Nelson, 2012). The organizational levels of both TMT and middle managers have an important influence on strategy formulation and implementation (Wooldridge et al., 2008). The basic premise of top management team research is that they influence their organizations through formulating and implementing strategies. TMT diversity in most instances concerns the degree of differences in the demographic, functional, and background dimensions of the management team composition (Simons et al., 1999). Top Management Team diversity is identified as any quality that people are able to identify their differences with others (Mutuku et al., 2013). Many leaders in organizations are now starting to believe that TMT diversity has important bottom-line benefits (Ci-Rong, 2013). TMT diversity can be a competitive advantage tool as it offers different viewpoints in the TMT which facilitate unique and creative methods in problem-solving, thus raising creativity and innovation levels in the organization which translates to better performance.

Strategic change refers to restructuring of organizations' business or marketing plan that is typically performed in order to achieve an important objective (Brown, 2005). Change is necessary and inevitable for sustained flourishing of an organization and overcoming the competitors within the industry. Strategic change in an organization comprises of swings in corporate policies, market dynamics, or organizational structure. Ability of organizations to predict and respond to opportunities or pressures for change, both internal and external, is one of the most critical ways in which its competitiveness and viability is warranted. Strategic change offers an essential way of maintaining proper orientation with ever-changing products demand, competitive, technological, and social environments (Brown, 2005). The nature and effectiveness of

organizational responses vary in part with how top management triggers and interprets strategic issues (Chemengich, 2013).

Strategic leadership refers to the aptitude of influencing others into voluntarily making day-to-day decisions that improve the long-term organization's viability while maintaining short term financial and operational health (Rowe, 2001). It relates to organization transformation through its corporate vision and values, culture and climate, structure, and systems (Amos, et al., 2004). In doing so, managers and executives establish greater clarity, make stronger connections and expand the leadership repertoire, and contribute to their organization's well-being (Jansen, et al., 2009). Davis (2004) defines strategic leaders as those having organizational ability with strategic orientation; translates strategy into action; align people and organizations; determine effective strategic intervention points; and develop strategic competencies. Strategic leaders display dissatisfaction or restlessness with the presence of absorptive capacity, adaptive capacity, and wisdom. The most vital element of strategic leadership is its reliance on shared values and clear vision, enabling and allowing employees to make decisions with minimal formal monitoring or control mechanisms (Amos, et al., 2004). Strategic leadership is seen in all organization levels such as teams, departments, divisions and in all other areas of an organization. Such leaders are visionary, inspiring, daring, risk-takers, and thoughtful thinkers (Bass & Avolio, 1994). It highlights the techniques adopted in decision making consisting of best business practices that are vital in sustaining organization competitiveness and relevance. Jansen, et al., (2009) found strategic leaders to be involved in both the transformational and transactional leadership behaviours that affect organizational learning. Transformational behaviours inspire organization members to challenge institutionalized learning and adopt generative thinking. Transactional behaviours, on the other hand, encourage organization members to improve

existing knowledge. TMT diversity in the firm ensures the occurrence of transformational and transactional leaders within a firm.

The external environment of an organization relates to those factors outside the company that affect its ability to function and perform (Alina, *et al.*, 2010). It encompasses all the entities existing outside organization boundaries but have significant influence on its growth and survival. It is the phenomena not in control of the organization and is classified into remote and task environments (Olsen *et al.*, 1998). The remote environment comprises of political, socio-cultural, economic, ecological, and technological aspects, while the task environment encompasses stakeholders, beneficiaries, suppliers, competitors, and regulators (Dill, 1958). The task environment typically comprises of aspects such as the industry, raw materials, market sectors, human resources, and international sector. These two layers of external environment has direct influence on organization operations and performance, (Ogundele, 2005). An organization has little or no control over its external environment but needs to constantly monitor and adapt to these external changes (Alina, *et al.*, 2010). Some elements of the task environment can be manipulated through company marketing, while others necessitate the organization to make adjustments, but the elements of remote environment cannot be manipulated. The task environment consist of sectors with which the organization interacts directly and has direct impact on its ability to achieve its goals. The top management teams in organizations have greater responsibility in understanding and constantly aligning the organization to the changing needs in the task environment as this can facilitate or impede their performance. Organizations that align well with their task environment records greater success resulting to improved organizational performance (Haleblian & Finkelstein, 2013). A top management team that is diverse might be more able to align the external environment to the organization to drive high performance.

Organizational performance comprises of the actual output or results of an organization as measured against its intended outputs which are mainly goals and objectives (Hailey, 2006). Richard *et al.*, (2009) opined that organization performance covers three specific areas of firm outcomes, including financial performance, product market performance and shareholder return. Organizational performance has also been defined as a set of financial and non-financial indicators which offer information on the degree of achievement of objectives and results (Lebans & Euske, 2006). Most organizations view their performance in terms of effectiveness in achieving company's goals, while another significant majority views it in terms of efficiency in deploying resources (MacPherson & Pabari, 2004). An organization's superior performance results from its strategic choice that provides a better positioning in the industry structure (Rivkin, 2001). The discussion of disparity in the influence of TMT diversity in the strategy formulation and implementation on different dimensions of organizational performance makes it difficult to predict direct links between TMT diversity and operational outcomes.

The rising globalization has caused increased mobility of labour, consequently forcing the modern institution to have a highly diverse workforce, a diversity which has also been observed in the TMT. Rosado (2006) posits that organizations are what their leaders think, feel, perceive, and believe hence the level of TMT diversity is an indication of the variances in thought, perception and beliefs within a firm. TMT diversity is responsible for providing strategic leadership and strategic change to enhance organizational outcomes. Faced with the uncertainty and lack of information that accompanies strategy making in the turbulent conditions brought about by the increased dynamism in the external environment places the strategic capacity of the TMT under stress, an issue that TMT diversity abridges (Ogundele, 2005; Alina, *et al.*, 2010). There has been a wide array of outcomes in empirical studies

targeting TMT diversity, within various geographical and conceptual scopes, though most of the studies reviewed focused on single facets of TMT diversity in the public and private sectors with none singly bringing out the aspects of strategic change, strategic leadership, external environment, and performance of firms. A huge amount of research is produced each year, often with conflicting findings. These between-study differences may be due to contexts, flaws or chance (sampling variation). In such situations, it is not always clear what the overall picture is, or which results are most reliable, and in which setting it should be used as the basis for theory building, practice and policy decisions. This study therefore seeks to clearly assess the gaps in various empirical studies regarding TMT diversity and its relationship with strategic change, strategic leadership and external environment and how this impacts on organization performance.

#### **METHODOLOGY**

This study adopted a systematic review design. Systematic review aim at addressing the research problems by identifying, critically evaluating and integrating the findings of all relevant, high-quality studies while addressing one or more research questions (Baumeister & Leary, 1997; Cooper, 2003; Cooper, Hedges & Valentine, 2008). The study process adopted was such that the researcher sought published and unpublished articles and journals related to the study topic and those that occurred most frequently and seemed most promising were explored to widen the set of publications. A systematic search was conducted using different combinations of the key words TMT diversity, performance and functional diversity, gender diversity, tenure diversity, and educational diversity, strategic change and TMT diversity, strategic leadership and diversity, and external environment and TMT diversity. The relevance of the publications was determined mainly by reading their abstracts. The whole set of selected publications was sorted using a simple citation metric which takes the sum of the publication's citation counts on Google Scholar and Web of

Science and divides this number by the age of the publication in years plus one (so that the papers published in the current year do not end up with count divided by zero). The search was enhanced by undertaking a manual search of the citations of the preliminary studies identified. The term 'TMT diversity and organization performance pdf', was searched in English, in the title, abstract, or issue, depending on the database, was used to locate the studies. This search was performed in August 2018. The next step was the actual reading of the materials. Mainly, only the articles and journal papers were read; some of the books were omitted for reason of the exceedingly long time required to read them, though the study considered excerpts from shorter versions. After reading each paper, the referenced publications were checked for relevance and, if found useful, added to the set of useful publications with their citation metric value calculated. All the identified studies were initially evaluated by their titles and abstracts. In instances where the titles and abstracts were insufficient to make initial selection decisions, the entire article was reviewed.

#### **MATERIALS**

The review identified 3114 references, among them 2402 articles identified through the databases, whereas 712 were identified through grey literature and manual searches. The selection of articles by their title and abstract resulted in 51 references, from which 17 duplicate references were removed. Subsequent assessment of the 34 remaining references led to six being excluded, resulting in 28 references being included in this review. Table 1 showed the number of references identified and selected by database/source and search strategies, after selection by title and abstract. Thus, 28 studies were included in this review. The Table in Appendix 1 offers details of the selected studies based on the authors, year of publication, location, title and form in which it was accessed. From the selected studies 60.7% were global from countries such as USA, India, China, Japan, and Europe, 17.9% were from the African Region with most being published from

Nigeria and one from Egypt, and the rest (21.4%) were published from Kenya. Regarding sequential analysis, the studies were published between 1980s and 2015, with eight studies (28.6%) being published prior to 2000, and six (21.4%) being published between 2000 and 2010, while a further fourteen studies (50.0%) were published after 2010. All of those published prior to 2000 were mainly global studies while none of the regional studies was done in 2000-2010 period and only one local study was done in this period. All regional studies selected were published in the period beyond 2010. All the studies selected dwelt mainly on TMT diversity with a few looking at strategic change and leadership, though none of the studies was found to link TMT diversity and environmental factors. Twenty (71.4%) of the selected studies were

journals while only 4 studies (14.3%) were accessed from university repositories and 3 studies (10.7%) were from newsletters. These are the selected studies presented in table 1.

The study hoped to review empirical studies related to TMT diversity hence all the selected studies are empirical in nature. Most of the studies reviewed applied descriptive research design (71.4%) some of which were cross sectional survey in nature (53.6%), while the rest were case studies (17.8%). Most of the studies applied both quantitative and qualitative data analysis methods, with a few applying either of the methods singly. Most of the studies were done across many sectors though a few targeted varying specific sectors such as banking or manufacturing.

**Table 1: Sources of Selected Studies**

Database/ Source	Search Strategy	References Found	References selected by title and abstract	Remarks
UON Library	Integrative review (Title/ Abstract search)	118	3	1 was a book and other 2 were unpublished Thesis
Online (Google Scholar)	Integrative review (Word / Title Search)	1585	10	All these mainly dwelt on TMT diversity
Web of Sciences	Integrative review (Word / Title Search)	817	7	Most dwelt primarily on TMT diversity with a few linking it with strategic leadership/change
Grey literature and manual searches	Integrative review (Title/ Abstract search)	594	8	Studies found linked to TMT diversity. Others found were based on strategic management, strategic leadership and external environment
<b>Total</b>		<b>3114</b>	<b>28</b>	

## RESULTS

The study found that the selected studies based their studies on varying theories related to TMT diversity. It was observed that 80% of the studies applied the Upper Echelon Theory, while a few of the studies (40%) applied the Resource based view theory, 7% applied the strategic leadership theory, and 7% based their studies on open-systems theory. The TMT Diversity research based on upper echelon paradigm by Hambrick & Mason, (1984) has been widely adopted in studies on top management

diversity (e.g., Wiersema & Bantel 1992; Hambrick, Cho & Chen 1996; Jarzabkowski & Rosalind 2003; Glunk, & Heijltjes 2009; Ci-Rong Li, 2013; Mutuku. 2012; Omoro, Aduda & Okiro 2015). Broadly, Hambrick and Mason (1984) argue that both strategic decision-making and organizational performance can be linked to the characteristics of the top managers.

A few of the selected studies based their theories on the strategic leadership theory proposed by

Blanchard and Hersey (1969). The general idea is that strategies require a broad pool of managerial knowledge and capabilities that is availed by ensuring presence of TMT diversity within the firm (Hambrick 1989). This theory is germane to the TMT diversity studies as it explains the link between TMT diversity and the role played by strategic leaders (top management team) in change management and in maintaining the proper organizational structures, processes and culture as presented within the organization strategy for the success of the organization.

Resource based view theory proposed by Wernerfelt (1984) has also been widely applied in TMT diversity studies. Resource based theory argues that firms possess tangible and non-tangible resources which enable organizations achieve competitive advantage and ensure greater long term performance. This theory is therefore relevant to the TMT diversity studies as it clarifies how resources at organization disposal are a critical factor to be considered while implementing its strategies, analysing the environment, or reviewing its leadership.

Open systems theory is applied in some of the studies. The open-systems theory proposed by Boulding (1956), assumes that all organizations are comprised of multiple subsystems, each of which receives inputs from other subsystems and turns them into outputs for use by other subsystems. The theory provides a great variety in the perspectives of the earlier theories though they share the perspective that an organization's survival is dependent upon its relationship with the environment (Bastedo, 2004). The theory has profoundly altered our understanding of organizations and the demands they place upon leaders within the system that the organization operates. The theory is applicable in TMT diversity studies as it delivers understanding of environment influences on organization performance.

Increasing complexity and uncertainty in the competitive landscape has made it difficult for firms

to solely rely on the CEOs' capabilities. Rather, it is the combined capacity of top management teams (TMTs) that influences long-term success (Carpenter, Geletkanycz, & Sanders, 2004). A frequently examined aspect of TMT composition is diversity, usually defined as the degree to which TMT members differ with respect to background characteristics such as functional experiences, age, and tenure (Bunderson, 2003). TMT diversity studies thrive on the conception that functional and demographic characteristics are useful indicators of individual experiences, skills, values, cognitive styles, and information sources which eventually translates to performance. Jackson, et al., (2003) observed that research on TMT diversity has focused on different forms of diversity including differences in age, gender, nationality, education, organization tenure, and functional or technical background.

Leadership research relating top management team diversity to firm performance has produced mixed empirical results. Gerecke and House (2011) discussed the effect of TMT culture and demographic heterogeneity on performance of company where they observed that, organizations interact with external environment which influence how the different variables relate to produce enhanced organizational performance and that the impact of TMT on firm performance relied upon the complexity observed in the external environment. However, the study was limited in scope for the external environment aspect of the relationship between TMT diversity and Performance, hence it left out other key factors to this relationship. Glunk and Heijltjes (2009) focused on the performance implications of changes in the top management team with a sample of 45 of the largest corporations in the Netherlands. Their findings were that exit and entrance of new leaders affected performance of the organizations. They found that TMT exits and entries have performance implications in the years following the change in that the entrance of new executives to the TMT has a negative effect on performance. They recommend



usage of larger sample size and other moderating variables to test the relationship. On the other hand, some studies found that TMT diversity has negative effects on group cohesion, frequency of communication, increased conflict within the group and increased political activity (Brown, 2005). Yong *et al.*, (2011) further found that effects of TMT diversity is contingent on the pay disparity and the moderating effects of resource slack differ in firms with low and high team pay disparity. They observed that pay disparity weakens the positive effects of organizational tenure diversity and educational background diversity while weakening the negative effect of age diversity. Pay disparity causes competition within TMT which hurts effectiveness of diverse teams by hampering the constructive conflicts within the TMT.

Ultimately, both positive and negative effects of TMT diversity provide an internal environment that has implication on organizational performance. The positive aspects of greater TMT diversity include generating more alternatives, better evaluation of the available alternatives, and better ability to predict the environmental changes within the operating area. The argument rests on the observation in previous studies that diversity at the top can generate better strategic decisions and innovation and considering TMT strategic position, this added value in diversity have significant impact on business. This is the reason why the policy makers realized the need of enforcing diversity within TMT and the Constitution of Kenya (2010) has been a key step towards achieving diversity to the public sector boardroom through its support of gender, regional and religious inclusivity in the country.

It is important to consider the aspect of strategic change when talking of TMT diversity as the two topics are synonymous. The largest impact realized from TMT diversity arises from its influence on organization's strategic change and without which TMT diversity may not have the desired impact. Strategic change refers to restructuring of organizations' business or marketing plan that is

typically performed in order to achieve an important objective (Brown, 2005). For organizations to continue to thrive and overcome industry competition, change is a necessity and inevitable. Strategic change includes shifts in corporation policies, target market, mission and organization structure. The organization ability in anticipating and responding to opportunities as well as the pressures for change is vital element of sustaining competitiveness and viability. It is a fundamental way in which proper alignment is maintained with shifting competitive, demand, technological, and social environments.

Nature and effectiveness of organizational performance vary in part with how TMT triggers and interprets strategic issues. Wiersema *et al.*, (1992), posits that the characteristics of a top management team is expected to be proactive in initiating strategic change include receptivity to change, willingness to take risk, diversity in information sources and perspectives, and creativity and innovativeness. Yong *et al.*, (2011) argue that TMT demographic diversity is affected by organization strategic change. However, though some literature suggests that diversity may be a source of explorative activities such as strategic change, there are others suggesting that diversity may cause integration difficult thus have a negative effect on strategic change. The empirical review leads to the inference that strategic change necessitates optimizing TMT diversity. In many cases, organizations embarking on strategic change have TMT whose demographic traits present their receptivity to change and willingness to take risks. Further, the demographic heterogeneity indicates diversity of information sources, perspectives, creativity and innovativeness in decision making. It is vital for strategic change agents, in most cases the TMT, to critically analyse the strategic content to be able to achieve planned performance levels. Yong *et al.*, (2011) found that organizational tenure diversity and educational background diversity enable strategic change while age and pay diversity has no significant effect on strategic change.

Strategic decision making process is, by its very nature, ambiguous, complex, and unstructured, hence the perceptions and interpretations of TMT members critically influences the strategic decisions. These views were posited by Chemengich, (2013) who further observed that upper-echelons theory and the cognitive resource view explains the aspect of a diverse TMT that it gives broader cognitive resources, wider vision, and more extensive external contacts than a homogeneous team, all which are very vital in matters related to strategic change. One TMT characteristic that might be particularly relevant to strategic change is managers' experience in different industries, particularly with regard to strategy at the corporate level. Managers with varied industrial experience will think more broadly about the diversification possibilities a firm might pursue. In relations to the findings by Yong et al., (2011), firms should match the pay structure with different type of TMT diversity to strengthen the effectiveness of TMT diversity on strategic change and also guide the ways in which TMT diversity exploits the resource slack.

Strategic leadership is the ability to influence others to voluntarily make day-to-day decisions that enhance the long-term organization's viability while maintaining short term financial and operational health (Rowe, 2001). Strategic leadership involves transforming organizations vision and values, culture and climate, structure, and systems. In doing so, managers and executives establish greater clarity, make stronger connections and expand their leadership repertoire, and contribute to their organization's well-being (Jansen, et al., 2009). Davis (2004) defines strategic leaders as those having organizational ability with strategic orientation; translates strategy into action; align people and organizations; determine effective strategic intervention points; and develop strategic competencies. Strategic leaders display dissatisfaction or restlessness with the present; absorptive capacity; adaptive capacity; and wisdom. The most important aspect of strategic leadership is

the shared values and a clear vision, which enable and allow employees to make decisions with minimal formal monitoring or control mechanisms (Amos, et al., 2004). Strategic leadership exists at all organization levels: whether among teams, departments, divisions and the organization as a whole. Such leaders are visionary, inspiring, daring, risk-takers, and thoughtful thinkers (Bass and Avolio, 1994). They offer techniques that organizations focus on when deciding their purpose and the best business practices critical in remaining competitive and relevant.

Organization value necessitates strategic leadership. Organizations and their environments have changed rapidly over the past years and as a result a new style of leadership, one that is less bureaucratic and more democratic, is needed in order to ensure their survival. Strategic leaders attempt to understand how each of their actions impact on the morale of their subordinates, and ultimately on their subordinates' ability and desire to produce superior performance (Ci-Rong 2013). Rowe (2001) maintained that organizations pursue efficient means of enabling them to outperform others, with the longstanding approach being the focus on strategic leadership. Ci-Rong (2013) suggest that the relationship between strategic leadership and performance is mediated by the form of organizational culture that is present. Studies reviewed observed a non-direct link of strategic leadership to performance, most indicating that it is merely indirectly associated. The review confirmed presence of link between TMT diversity, strategic leadership and organizational performance.

The strategic leaders' field of vision and information interpretation is influenced by their values, knowledge stimulation, motivation and personality. Jansen, *et al.*, (2009) observed that strategic leaders engage in transformational and transactional leadership behaviours that affect organization learning and decision making. Transformational behaviours inspire organization members to challenge institutionalized learning and embrace

generative thinking. Transactional behaviours inspire organizational members to develop the existing knowledge. TMT diversity in the organization ensures occurrence of transformational and transactional leaders within the organization. With stiff competition for funding and need for accountability experienced in modern organizations, an approach to leadership and strategic planning that guarantees TMT diversity would be essential in a bid to enhance performance. It is important to note that leader's true leadership style cannot be separated from the basic qualities that produce sound personal character. Diversified top management teams represent the leadership in an organization and are a critical factor in the strategy change of the organizations for exemplary performance. Leader's true leadership style cannot be separated from the basic qualities that produce sound personal character. Diversified TMTs represent the leadership in an organization and are a critical factor in the strategy change of the modern organization.

The external environment of an organization refers to those factors outside the company that affect the company's ability to function (Alina, et al., 2010). It denotes the entities existing outside the organization boundary with significant influence on its growth and survival. In order to assess the impact of task environment on organizational performance, there has been an attempt to characterize the attributes that affect the organization. Dess, *et al.*, (2005) reduced these multidimensional approaches to three basic environmental attributes: munificence, dynamism and complexity. Munificence is the extent to which an environment can support sustained growth; dynamism is the unpredictability or instability of an environment; while complexity is the range of skills, knowledge and information processing capabilities managers need if they are to be successful. On the other hand, a top management team can be considered the information-processing centre of an organization in its relationship with its environment

(Thompson, 1967). Environments vary in their degree of turbulence or stability (Dess, *et al.*, 2005) and in the degree of managerial discretion they permit (Alina, et al., 2010) hence the relationship to TMT diversity is relative to specific environment.

The study found that none of the studies reviewed related to TMT diversity directly considered the external environment which is a key influence on TMT diversity impact on performance of organization. External environment is the combination of many factors both tangible and non-tangible that provides the lifeblood for the organization success by providing a market for its products and services and also by serving as a source of resources. Cannella and Park (2008) examined the relationship between top management team (TMT) functional background diversity and firm performance together with elements of internal and external environmental context where they observed that intrapersonal functional diversity has a strong positive effect on firm performance, a relationship that is moderated by extent of environmental uncertainty. Machuki and Aosa (2011) discussed the effect of the external environment on corporate performance where they found that economic factors, competitive rivalry, market factors, technological factors and legal factors greatly influence strategic decision making. Ogundele, (2005) indicated that the external business environments (political, economic, socio-cultural and technological) have an impact on organizational performance. According to Omoye & Eriki, (2013) environment has been seen as the totality of the factors that affect, influence, or determine the operations or performance of a business, hence have the capacity to influence the relationship between TMT and firm performance. External environment impacts business operations either positively or negatively. A thorough analysis of the same through scanning enables organizations identify opportunities to maximize on them and identify the threats for purpose of mitigating them.

An organization has little or no control over its external environment but needs to constantly

monitor and adapt to these external changes (Alina, et al., 2010). However, some external elements can be manipulated by company marketing, while others require the organization to make adjustments. According to Osuagwu (2001) environment has been seen as the totality of the factors that affect, influence, or determine the operations or performance of a business, hence have the capacity to influence the relationship between TMT and organization performance. External environment is the combination of many factors both tangible and non-tangible that provides the lifeblood for the organizations success by providing a market for its products and services and also by serving as a source of resources to others. It can therefore confirm that the external environment impacts business operations in either a positive or a negative way and a thorough analysis of the same through scanning enables organizations to identify opportunities, to maximize on them, and identify the threats for purpose of mitigating them. An organization with a diverse TMT is better positioned to scan and analyse its environment and implement strategies that assure organization survival.

The study is built on the literature that has shown that TMT diversity has some influence on strategic change and strategic leadership and vice versa, and that TMT diversity, strategic change, and strategic leadership are all significantly influenced by the organization's external environment (Hambrick, 2007; Jansen, *et al.*, 2009; Ci-Rong, 2013). Top management team engages in the strategic decision-making process, each manager's perceptions and interpretations reflecting his or her own "cognitive base". Hailey (2006) found that performance was a function of the extent of fit between the experiences and personalities of TMT and the strategy of the organization, with influence on the external environment. The discussion of the differential influences of top management team diversity during strategy formulation and strategy implementations should consider which dimension of organizational performance will be influenced by

TMT diversity and under which variables. Hence, it is difficult to predict direct links between TMT diversity and operational outcomes.

The empirical research has yielded evidence which can be defined as mostly inconsistent on the influence of TMT diversity on performance with the models introducing varying variables and contexts. The ability of organizations to renew themselves and to move beyond familiar territory is a fundamental issue in management research. It is also important from a practical perspective as firms increasingly compete with other firms to develop new products and technologies and to enter new countries and regions (Glunk & Heijltjes 2009; Mutuku, 2012; Awino 2013). There is an increasing interest in how TMT diversity influences strategic change and leadership (Yong, Michel, & Hambrick, 2011; Ehimare & Ogaga-Oghene, 2011). Researchers in the upper-echelon tradition have argued that demographic diversity in TMTs enhances creativity and the likelihood of strategic innovation, for instance, in the form of technological and bureaucratic innovation and entry into new product markets (Bantel and Jackson, 1989; Boeker, 1997a; Wiersema and Bantel, 1992). While some studies report positive effects (Eisenhardt and Schoonhoven, 1990); others reveal negative (Simons *et al.*, 1999) or no effects (West and Schwenk, 1996). Accordingly, the meta-analysis by Certo *et al.*, (2006) offers evidence of the presence of moderators in the relationship between TMT diversity and performance such as environment, entrepreneurial orientation, information processing, and longevity. Therefore, it is difficult to predict direct links between top management team diversity and operational outcomes. Organization growth, however, especially through the means of new market entry (Boeker, *et al.*, 1997) or mergers and acquisitions (Jensen & Zajac, 2004) can be seen as a direct outcome of top executive decision-making. Organization growth, however, especially through the means of new market entry (Boeker, *et al.*, 1997) or mergers and acquisitions (Jensen & Zajac,

2004) can be seen as a direct outcome of top executive decision making.

There is consensus among the top echelon researchers that TMT diversity is affected by strategic change, strategic leadership and the external environment. However, there lacks a study that singly assesses these factors impact in unison hence issues of autocorrelation have not been ruled out among the factors and this is a fertile ground to base future studies. The studies should be in a position to analyse the moderating and intervening effects of the three factors on the relationship between top management team diversity and organization performance and a joint impact of the four factors (TMT diversity, strategic change, strategic leadership and external environment) on organization performance. It has been well established within upper echelons literature that organizations' business strategy is a reflection of their TMT. Thus, an examination of what influences how top management teams assess and direct organization strategy and its relation to the external environment is an important area of investigation.

## **CONCLUSION**

Influence of top management team diversity on organization performance is still a widely studied relationship within the purview of strategic management. Several studies of this literature conclude that the evidence regarding the TMT and organizational performance relationship remains unclear at best. Evidence suggests that strategic change, strategic leadership, external environment and their relationship to TMT diversity and performance may be a fruitful area for further exploration. The review found some previous research showing mixed or negative effects of TMT diversity (Cannella & Monroe, 1997; Elsaid 2012; Bagudu & Abdulmumini 2015) and by the suggestion that TMT diversity not only has positive cognitive implications but also negative social implications (Hambrick et al., 1996; Haleblian & Finkelstein 2013). As Jarzabkowski & Rosalind (2003) recently argued, these teams may suffer from behavioural disintegration i.e., less

communication within teams and a lower likelihood of reaching consensus with new ideas and strategic initiatives being the first to suffer (Priem, Lyon & Dess, 1999). The review developed the theory that task-related diversity, such as TMT tenure diversity and educational diversity, increases the likelihood that a firm will enter new geographic areas rather than familiar ones and consistently found that TMT tenure diversity increase the likelihood of investing in new geographic markets. No support was found for TMT educational diversity. One possible explanation for this is that by the time managers reach higher echelons in their corporations, they have gained so much experience in different work settings that their formal education, which typically took place decades before, is no longer a good proxy for differences in cognitive characteristics.

## **Implications of the Study**

The study was grounded on four theories: upper echelon theory, strategic leadership theory, open system theory and resource based theory. The study contributes to improved understanding of the three theories in relation to TMT diversity and thereby conveys further knowledge in relation to these theories; hence add to the growing body of knowledge on TMT diversity. The knowledge enshrined in the study can be used by future policy makers in policies creation related to TMT diversity. The study entices organizations to try the appropriate policies for adopting TMT diversity. Given that TMT diversity is realized at the human resource management level, evidence generated from the study provides support to the recruitment policies, human resource management and leadership development policies within the organizations. It enhances the understanding of the dimensions of TMT diversity hence allow managers to carefully evaluate the trade-offs associated with increasing diversity. Moreover, this is a contribution to future research as it provides a point of reference for future researchers involved in this area of study. It provides new perspectives on how TMT diversity influences performance by being responsive to environmental changes, ability to

trigger and drive strategic change and provision of strategic leadership. It contributes to advancing knowledge on how the theories under application can be anchored upon in strategic management research and form a basis of future research on TMT diversity, performance, strategic change, strategic leadership and external environment.

The analysis contributes to literature by theoretically discussing and empirically examining the effects of TMT diversity on corporate performance. The results showed a link between TMT diversity and performance and provide evidence for published articles on TMT diversity but is not able to certify the conditions under which the impacts are observed within primary data based study. Also, the study observed that the influence of top management team diversity and

organizational performance within the realms of strategic leadership, strategic change and external environment has not been studied extensively. However, literature and empirical evidence exist on how the variables relate individually to organization performance. From the literature, most of the studies reviewed focused on single facets of TMT diversity in the public and private sectors. Additionally, the study found no evidence of studies linking or analysing the joint influence of TMT diversity, strategic change, strategic leadership, and external environment on organization performance. Therefore, further studies are endorsed on the relationship between strategic change, strategic leadership and external environment in the relationship between TMT diversity and organization performance, more so within the African and specifically the Kenyan contexts.

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