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ABSTRACT

Organizations aspire to achieve their goals in dynamic and competitive environments. In order for them to do this, they rely on the key people charged with steering them towards corporate success through the strategic decisions that they make. Empirical studies refer to these decision makers as Top Management Teams (TMTs). TMT characteristics have been linked to strategic decisions like diversification and acquisitions that have changed the direction of their firms. However, research differs as to whether TMT diversity affects strategic decisions and hence organizational performance. This has called for further research on TMTs and especially on their performance as influenced by other factors like their structures. Structures provide the necessary systems and processes required for effective strategy implementation. TMTs are structured differently such that in some, members operate autonomously while in others there is high interdependence. When there is high interdependence and diversity, team processes may be affected and consequently firm performance. Despite interdependence receiving scholarly attention, focus in earlier studies was on work groups and not TMTs. Additionally, it was not objectively operationalized. These gaps together with the inconsistent findings on how interdependence relates to performance require attention in upper echelon studies. This study paper provided insights on TMT by answering the question on how it may impact on performance and hence advance theory in TMT studies. Research from this study paper would have implications on policy and practice for managers charged with selection and structuring of TMTs in organizations as it would give an understanding on how TMTs should be structured or designed for effectiveness and better firm performance.

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INTRODUCTION

Understanding why organizations perform as they do, we must consider the biases and dispositions of their most powerful actors, the top management teams (Hambrick & Mason, 1984). A key inclusion in the definition of top management teams (TMTs) is on their role in strategic decision making (Papadakis & Barwise, 2002; Knight et al., 1999). Finkelstein et al. (2009) define TMTs as the small group of most influential executives at the apex of an organization, the Chief Executive Officer (CEO) or general manager and those who report directly to them.

TMT diversity is defined as the relative homogeneity or heterogeneity of a team characteristic (Wiersema & Bantel, 1992). Diversity is a reflection of the variety of knowledge, skills and abilities among top managers and is a key driver of organizational innovation (Qian et al., 2013). TMT diversity can be manifested in demographic characteristics like age, functional background, level of education, tenure in the organization (Hambrick & Mason, 1984), race, ethnicity and gender (Awino, 2013). Diversity can be based on psychographics resulting in differences in personalities, beliefs, values and preferences (Hambrick, 2007).

Harrison & Klein (2007) define diversity in three ways: as separation, variety and disparity. They state that as separation, it represents differences in opinion among unit members and as variety the differences primarily on knowledge or experience. As disparity it portrays differences in social assets such as pay and status among group members. Wiersema & Bantel (1992) posit that a team's diversity with respect to demographics is a key indicator of receptivity to change, willingness to take risks, diversity of information sources and creativity in decision making.

Diversity is termed a mixed blessing (Canella et al., 2008). In TMTs, it is argued to have negative, positive and no effects on team outcomes. It can lead to enhanced creativity and innovation (Bantel & Jackson, 1986), better generation and evaluation of alternatives and better prediction of

environmental changes (Canella et al., 2008). Conversely, it may result in slower decision making, poor communication and a lack of cohesion (Knight et al., 1999) causing member departures. Halebian & Finkelstein (1993) state that the increased capabilities and resources a diverse and large team brings to the strategic decision making process is advantageous especially in turbulent environments.

TMT diversity on its own does not drive performance. Many other factors come into play to moderate performance, key among them are structure and the environment (Machuki & Aosa, 2011). Focus more recently has shifted on interdependence and its influence on the TMT diversity-performance relationship (Hambrick et al., 2015). This study paper after reviewing empirical studies on TMT diversity hopes to give a contribution into understanding how TMT diversity and structural interdependence impact performance.

TMT characteristics can be classified into demographics, psychographics and behavioral characteristics (Wasike et al., 2015). The demographics such as age, level of education and functional background can be operationalized objectively. Kinuu (2014) operationalized psychographics using qualities such as innovativeness, proactiveness, perception to risk, tolerance to ambiguity, open mindedness and aggression. Hunt et al. (1990) included personal attributes like locus of control, cognitive complexity, tolerance for stress, value structure, machiavellianism and self-monitoring in their analysis of top managers psychographics.

Hambrick & Mason (1984) state that since cognitive frameworks cannot be measured directly, observable managerial characteristics can be used to represent them. Similarly, Daily et al. (2003) posit that owing to the difficulties of gaining access to and assessing intricate psychological dimensions of top managers and their actual behavior, the organizational demography approach is preferred. Scholars have measured cognitive diversity by analyzing the content of cognitive beliefs and the

degree of influence of individual members on TMTs. This approach is criticized as the use of such constructs is difficult to reliably measure and conceptually validate (Nielsen, 2010). The demographic approach in upper echelon studies remains the dominant approach.

This section has broadly looked at diversity as manifested in the demographics and in the psychographics of TMTs. Using empirical studies, it has highlighted TMT diversity measurements and the positive, negative and no effects of diversity on organizational performance. TMT diversity is especially critical where TMTs are structured such that managers are highly dependent on each other for organizational outcomes. This is covered in the next section which gives an understanding of TMT structural interdependence and its performance implications.

Success or failure of organizations is reflected in their performance. According to Cohen & Bailey (1997), TMT studies define organizational performance as effectiveness. Performance is a result of strategic choices made. It reflects largely on the TMTs and affects the varied organization stakeholders. Organizational performance is viewed as a concept that incorporates the two aspects of efficiency and effectiveness. Kozlowski & Bell (2001) posit that team effectiveness incorporates both internal (member satisfaction and team viability) and external (productivity performance) dimensions.

Scholars distinguish performance into operational and organizational performance. Operational includes functions like marketing and sales, human resource service, procurement and logistics, whereas organizational has the constructs of stock market performance, accounting returns and growth. Venkatraman & Ramanujam (1986) distinguish between three levels of performance that include operational performance, organizational effectiveness and financial performance. Performance has also been distinguished into aspects of efficiency, growth, profitability and size (Murphy et al., 1996).

The importance of organizational performance can be seen from the theoretical, empirical and managerial lenses (Venkatraman & Ramanujam, 1986). The theoretical lens looks at strategy effectiveness, the empirical lens looks at performance as operationalized in research and the managerial lens focuses on the quality of decisions made by managers that reflect on firm performance. Performance of firms should reflect in the different aspects of an organization. Among these should be on the profitability and growth of firms, the welfare of employees working in an organization, organizational processes and systems and the environment at large.

Despite its many constructs, organizational performance measures have been largely termed as either qualitative or quantitative in nature. Some scholars refer to them as financial and non financial measures of performance (Kaplan & Norton, 1992). Many researchers have relied on financial measures of profitability to gauge performance (Hambrick et al., 2015; Cannella et al., 2008; Barrick et al., 2007). These are widely accepted as objective. They include, Return on Assets (ROA) and Return on Investments. The issues arising with the use of traditional measures of performance is that they fail to include the less tangible factors of organizational performance like customer satisfaction.

Awino (2013) states that performance can be measured in two ways: based on stewardship of TMT or how efficient it utilizes its resources and the prevailing price of an organization. He cites qualitative measures as affective (satisfaction, commitment, turnover, role conflict, group social number, quality of ideas), cognitive (innovation, range of perspective, quality of ideas) and symbolic (behavior of lower level employees, communication among others). Similarly, Venkatraman & Ramanujam (1986) state that firm performance can be measured using qualitative aspects of employee and customer satisfaction, social and environmental performance.

Kaplan & Norton's (1992) Balanced Score Card (BSC) is a performance tool that includes both financial

and non-financial measures of performance. It incorporates measures of aspects such as quality, customer satisfaction and employee morale hence taking into consideration the varied stakeholders in organizations. The BSC has been advanced to the Sustainable Balanced Score Card (SBSC) as a stakeholder measure of organizational performance. The SBSC has six perspectives of financial, customer satisfaction, internal business process, learning, social and environmental measures of performance.

After reviewing empirical literature on TMT studies, this section has presented the different constructs of organizational performance used. It has also differentiated the financial and non-financial measures of performance while highlighting the need to combine both measures of organizational performance as done in the SBSC. Many TMT studies have used financial measures of firm performance citing their objectivity. The next section integrates the variables in this study paper to understand how they relate to each other. It also presents the conceptual framework used and knowledge gaps from empirical studies.

THEORETICAL FOUNDATION

Homberg & Bui (2013) cite two theoretical approaches to TMT diversity studies. The first is the upper echelon theory where individual characteristics of top managers are captured using the demographic characteristics. The second has its roots in social psychology and is related to the role of individual psychographics in influencing decision making. Research related to interdependence has developed from two perspectives (Stewart & Barrick, 2000). In one, interdependence is viewed as a product of technological requirements and not as a structural feature that can be manipulated. The second applies social psychology theory where group level goals and feedback are assumed to affect interdependence.

Upper Echelon Theory

The dominant theory in many studies on TMTs is the upper echelon theory (Hambrick & Mason,

1984). It states that organizations are a reflection of its top managers and organizational outcomes are partially predicted by managerial background characteristics. This theory relates observable managerial characteristics like age, tenure in the organization, functional background and education to the cognitive and psychographic characteristics of managers which are then related to their decisions and firm outcomes.

The organizational demography approach has dominated a lot of research on TMTs (Hambrick et al., 2015; Irungu, 2007). Hambrick & Mason (1984) argue that they can be used as valid though imprecise measures of managerial characteristics. This is owing to the difficulties of gaining access to and assessing intricate psychological dimensions of top managers and their actual behaviours (Daily et al., 2003). Despite its dominance, arguments on its accuracy remain. Scholars have called for a better understanding of the psychographics of managers in influencing strategic choices.

The Resource Based View

The Resource Based View (RBV) of the firm has been useful in many studies on organizations. It advances that competitive advantage is a result of a firm possessing valuable resources or competences that enable it gain a competitive advantage (Barney, 1991; Wernerfelt, 1984). Valuable resources are those that are superior in nature, hard to imitate and more valuable within the firm than outside (Porter, 1991). They enable certain strategies. Organizations for example that have advanced technology may attain market leadership through a differentiation strategy.

Newman et al. (2014) differentiate the three people based resources: psychological, human and social capital. Human capital refers to an individual's stock of knowledge, skills and abilities that can be influenced by training. Social capital is the actual or potential resources that come from having social networks and psychological capital refers to the "inner self" with values and beliefs that will

influence decision making. The RBV is useful in this study paper because TMTs are a people based resource. They bring to the organization knowledge, expertise, skills and unique abilities that influence strategic choices which affect performance.

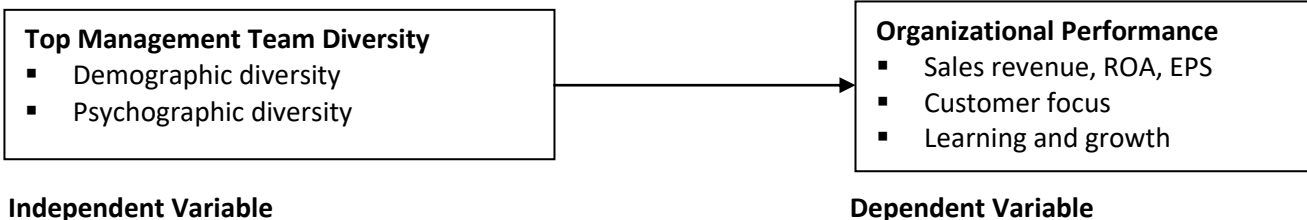
This section has covered the theoretical foundation of this study paper. It has highlighted the four theories that anchor it, namely the upper echelon theory and the resource based view. These four theories are important in this study paper as they enable us understand the importance of the variables from empirical studies and how they influence organizational performance. In the next section, the study paper reviews diversity as it is manifested in TMTs and its role in organizational performance.

Empirical Studies on Top Management Team Diversity and Organizational Performance

TMT members are individuals having chief responsibility for their organizations and multiple stakeholders making them an important influence

on organizational outcomes (Barrick et al., 2007). Many TMT studies define performance as effectiveness. Organizations that fail to achieve superior performance are perceived to have weak TMTs. Hunt et al. (1990) state that up to 45 percent of a firm’s performance is determined by the leadership in organizations.

Diversity is defined as the degree to which TMT members differ with respect to background characteristics such as age, tenure and functional experience (Cannella et al., 2008). Diversity brings with it different experiences, talents and skills hence creativity and innovation that will result in superior organizational performance. Conversely, diversity may result in increased conflicts and challenges in information processing resulting in poor organizational performance.



Independent Variable

Dependent Variable

Figure 1: Conceptual Framework

CONCLUSION AND IMPLICATIONS OF THE STUDY

From the empirical studies reviewed, TMTs influence firm outcomes. However, there are conflicting results as to the effect of TMT diversity on performance. Scholars have argued that this may be explained by the variation of the constructs used in research, the varied methodologies and the contexts of the studies. Majority of the studies on TMTs have used the arguably imprecise organizational demography approach as proxies of

TMT psychographics. These issues have highlighted a number of gaps in TMT studies making it necessary to study the roles of other factors in influencing TMT performance. This study paper seeks to make a contribution to upper echelon studies by addressing the gaps identified in previous studies. This study paper sought to advance theory in upper echelon studies by giving insights on how TMT structural interdependence may affect organizational performance.

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