

Top Management Team Characteristics and Firm Performance

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Abstract: Firm performance has attracted many researchers over the years. Effort has been expended on what really influence performance of firms, but it is not clear whether different researchers do have a common ground on the issue. Given that performance could be influenced by several variables both internally and externally. Most research have seen performance as externally influenced. However the current study believe that performance can be internally influenced as well. The current research was a critical review of the existing literature, and endeavoured to identify whether there is an agreement on the influence top management team (TMT) characteristics on firm performance. The key result from the review seem to suggest a clear divide, as there are those who found an association, while others found no relationship between the two variables.

Keywords: Board characteristics, firm performance

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I. Introduction

Firm performance has always been a concern for researchers for many years. Researchers have tried to look at various aspects that explain firm performance, and top management team (TMT) characteristics have been one such area. As pointed out by Mutuku, K'Obonyo & Awino (2013), past studies have been divided on the relationship, some concluded TMT to be influencing performance of organizations while other found no relationship. This current study founded on Upper Echelon Theory, resource based view, and dynamic capability view will investigate the relationship of TMT characteristics (Board members' characteristics) and firm performance.

II. Materials And Methods

Given that this study was a review of the existing literature, this section will capture current studies that have been done on the area of firm performance as may be influenced by TMT. It will present various finding on the relationship between the variables.

The influence of TMT characteristics on firm performance has attracted considerable research over the years (Salim, 2010, Homberg & Bui, 2013, Setiyono & Tarazi, 2014, Milana & Maldaon, 2015, Yohannes, Ayako & Musyoki, 2016). But as much as the interest generated the results have also varied greatly as noted by Mutuku et al. (2013). There seem to be no agreement on the existence and significance of the relationship if at all it exist between TMT characteristics and firm performance. Furthermore, different researchers have used different constructs in measuring TMT characteristics as well as the measure for firm performance.

Research pursuing firm performance from TMT characteristics have been mostly founded on the Upper Echelons theory postulated by Hambrick and Mason (1984). The two argued that organizational outcomes (strategies and effectiveness) are a reflection of the values and cognitive bases of powerful actors in the organization and that this relationship can be detected empirically. Emphasis was paid to observable managerial characteristics (i.e. demographic characteristics) such as age, tenure in the organization, functional background, education, socioeconomic roots, and financial position (Hambrick & Mason, 1984). Upper echelons research employs the use of observable demographic characteristics as proxy measures of executive orientation. Executive orientation works through a perceptual or filtering process that results in what is called managerial perceptions (Hambrick & Mason, 1984). Managerial perceptions, in turn, influence strategic choices and executive actions. Their study triggered researchers to look at these characteristics from different angles and the result have been mixed.

Herrmann & Datta (2005), observed a significant positive association between average TMT educational level and firm performance measured using international diversification. Contradicting this Diaz-Fernandez, Gonzalez-Rodriguez & Pawlak (2014), found educational level diversity to have a negative and significant impact on corporate performance and no significant effects for functionality and education

background diversity. This finding seem to go against Upper Echelon assertion and those of Setiyono & Tarazi (2014). However, their analysis also showed relatively weak influence of international experience diversity on corporate performance. They concluded that organizations are more concerned with employee's education level rather than the degree diversity. Looking at a similar variable-nationality, Darmadi (2010) had found no relationship between board nationality and firm performance. This may be at odd with assumptions that there are some national cultures that are more aggressive than others.

Yohannes et al. (2016), findings were in support of Upper Echelons assumption in as far as TMT demographic characteristics and firm performance is concerned. Their study concluded that TMT demographic characteristics affect performance however, the control variables revealed significant statistically positive effect on firm performance and as such firm performance cannot be totally explained by the characteristics. The focus of their study was on educational level, educational background, experience, age, and gender.

Herrmann & Datta (2005), findings show a negative relationship between organizational tenure, age and internationalization. The findings seem to suggest that managers who were new and younger as likely to pursue internationalization as opposed to those who have been in organization for long and are older. They also attributed these findings to fact that such TMT are likely to exhibit greater flexibility, information-processing capabilities and are likely to take risk. This notion was also affirmed by Philemon & Kessy (2016), who postulated that younger managers are likely to be international minded and cosmopolitan than older ones. Darmadi (2010) also concurred that age influence market performance.

In their study of commercial banks in Kenya, Mutuku et al. (2013), found no significant effect of TMT diversity on performance. They concluded that biases, conflicts and communication barriers which are likely to be present in a diverse team contribute negatively to performance of banks. These findings were supported in part by Wasike, Machuki, Aosa & Pokhariyal (2015), who found no significant results for the model testing the influence of demographic characteristics on organizational performance. However, they found behavioral characteristics to have significant positive influence on performance. Philemon & Kessy (2016), in a study of top management characteristics and firm performance in Tanzania found demographic characteristics to have a positive bearing on firm performance. Youthfulness, length of industrial experience and level of education of the managers positively relate to firm performance. The two noted that younger managers with at least tertiary level of education and come from middle to high socio-economic status families are observed to influence positively the firm's performance. This was supported by Colombelli (2015), who found young and highly educated Chief Executive Officers (CEOs) to positively influence firm growth.

Setiyono & Tarazi (2014), in their research involving 38 commercial banks in Indonesia found that female presence in the TMT does not strongly impact performance and that presence of more diverse ethnic groups is associated with lower performance. Contradicting these findings on gender, Dezso & Ross (2012) found out that female representation in top management leads to better firm performance. The low relationship between ethnic diversity and performance is also supported by Marx, Pons & Suri (2015) in their study of diversity and team performance in a Kenyan organization. Marimuthu & Kolandaisamy (2009) in a study of listed companies in Malaysia, found no relationship between gender, ethnic and performance.

Functional diversity which some research look at as work experience, was found to be positively associated with firm performance in collocated TMTs (Cannella, Park & Lee, 2008). Working experience, education diversity and tenure period were linked to higher performance (Setiyono & Tarazi, 2014). Yang & Wang (2014) looking at the impact of TMT characteristics on entrepreneurial strategic orientation, found age, gender and functional experience to significantly and positively influence entrepreneurial strategic orientation.

Looking at managerial characteristics and organization performance in Syria, Milana & Maldaon (2015), found only tenure of manager as the only one having significant and positive influence on organizational performance. But manager's age, level of education, and functional track didn't have any significant influence on organizational performance. This partly agrees with Yang & Wang (2014) findings, that educational background has no relations to strategic orientation. However, the two researchers pointing the limitation of their study noted that the study could only apply to a highly bureaucratic public organization. Their findings are not far from Homberg & Hong (2013), who found no evidence between TMT diversity and performance and even went ahead to question the assumed link between the two. In support of this rather unique stand point, Jayne & Dipboye (2004), warned that diversity alone does not guarantee immediate, tangible improvement in organization, group or individual performance. Similarly, Mutuku et al. (2013), found that TMT diversity explained only 1% of organizational performance, but when combined with involvement culture it explained 56% of the performance. They concluded therefore, that TMT diversity alone may not be depended upon to explain firm performance.

III. Results

The review produced inconclusive results. There are those who found positive relationship between TMT characteristics and organization performance (Herman & Datta, 2005; Roberson & Park, 2006; Cannella, Park & Lee, 2008; Nielsen, 2007; Nielsen, 2010; Dezso & Ross, 2012; Awino, 2013; Philemon & Kessey, (2016); Setiyono & Tarazi, 2014; Yang & Wang, 2014; Hu, Yoyla & Lei, 2014; Yoon, Kim & Song, 2015; Marx, Pons & Suri, 2015; Yohannes et al., 2016). On the other hand there others who found no relationship or very weak relationship (Marimuthu & Kolondaisamy, 2009; Diaz-Fernandez, Gonzalez-Rudriguez & Pawlak, 2014; Colombelli, 2015; Mutuku et al., 2013, Homberg & Hong, 2013). Finally, there are those who found mixed results from the variables that they used (Jayne & Robert, 2004; Darmadi, 2010; Milana & Maldaon, 2015; Wasike et al., 2015).

IV. Discussion

It is clear from the review that there is no conclusive agreement about the influence of TMT on firm performance. This differences could have resulted due to the contextual and conceptual difference that were present in the findings that were reviewed in this current study. Measurement of the variables can also be attributed to the difference in the research findings, different research measure performance using varying variables. However, irrespective of the differences firms need to be careful in how they seek to achieve diversity in their top management team as this could have some impact on their performance.

V. Recommendations

From the foregoing discussion, it is clear that disagreements and inconclusiveness are there. This point to the need for this area to be explored more so that body of knowledge can be built to help in management of firms. In addition an empirical study could be done to strengthen this standpoint.

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