

**DIVERSITY IN THE TOP MANAGEMENT TEAMS AND EFFECTS ON
CORPORATE PERFORMANCE**

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REG NO: D80/81121/09

**INDEPENDENT STUDY PAPER SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF
DOCTOR OF PHILOSOPHY, SCHOOL OF BUSINESS, UNIVERSITY OF
NAIROBI**

MAY 2010

DECLARATION

I confirm that this Independent study paper is my original work and has not been presented in any other University for any award.

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ABBREVIATIONS AND ACCRONYMNS

TMT-Top Management Team

CEO-Chief Executive Officer

ROA-Return on Assets

ROA-Return on Equity

ROE-Return on Sales

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ABSTRACT

The on going globalization process has dramatically changed the business landscape and the society in which we live. This has affected all the business organizations. As the environment becomes more complex, firms seeking to gain competitive advantage over other firms in their environment should attempt to become more innovative and proactive (Brittain and Freeman, 1980). Firms should increase experimental behaviour to find novel answers where old ones no longer work (Dutton and Freedman, 1985). Managing with uncertainties is among the most difficult tasks executives face. The most fundamental challenge faced by top managers is to process many, complex, and often ambiguous stimuli when making strategic decisions under high uncertainty (Starbuck & Milliken, 1988). This is precisely the reason why the strategist must pay close attention to the top management. The notion that the characteristics of senior management, or the upper echelon of an organization, can influence the decisions made and practices adopted by an organization dates back to early upper echelon theory (Hambrick & Mason, 1984). Hambrick and Mason argued that managers' characteristics (demographic) influence the decisions that they make and therefore the actions adopted by the organizations that they lead. They suggest that this occurs because demographic characteristics are associated with the many cognitive bases, values, and perceptions that influence the decision making of managers. Admittedly, to a large extent, diversity enhances greater creativity, innovativeness and quality decision making and could create greater competitiveness (Hambrick et. al., 1996). This paper explores empirical literature and gives conceptual overview that will have its unique contribution on exploring the scope of diversity in the top management, as well as widening the application of the upper echelon theory and the implications on firm performance. It will further help organizations in identifying what characteristics they need to identify in a person who is to take a top management job.

Key Words: Top Management, Diversity, Team, Corporate Performance.

1.0 INTRODUCTION

Business today is facing an increasingly competitive and changing environment. To perform well amidst growing competition, greater efficiency is required. To cope well with change firms must be more adaptive. For over two decades organization theorists have sought the optimal structural response to these two conflicting environmental demands. Yet surprisingly little attention had been paid to those responsible for formulating strategic and structural responses- senior management. An exception to this tendency is the work of Hambrick and Mason (1984), who argue persuasively for study of top management groups and go on to present a series of propositions linking group characteristics with performance and other dependent variables. This paper accepts the Hambrick and Mason challenge and attempts to fill the lacuna they identify. Specifically it sets out to test the links Hambrick and Mason propose between top management group heterogeneity and performance.

1.1 Background of the Study

The search to explain corporate performance variability both within, and across, industries has developed from what are essentially inanimate variables-strategy/structure relationships (Scott, 1971; Wrigley, 1971; Channon, 1976), or from definitions of strategic typologies (Rumelt, 1974). In the genesis of strategic management, early focus was therefore upon the choice of what constituted an appropriate strategy (Hofer and Schendel, 1980), a focus which shifted towards the more animate problems of implementation (Peters and Waterman, 1982) and, more recently, upon the impact of the dominant coalition within the top management team (TMT). Does, in fact, top management matter?

Whereas the population ecologists (Hannan and Freeman, 1977) consider the TMT to be but a passive agent in the determination of corporate performance, or whereas some scholars (Pfeffer and Salancik, 1978) consider top management's role to be mainly symbolic, alternative theory contends that the characteristics of the TMT could well provide useful indicators of corporate competitive performance. Drawing upon the literature from organizational behavior and strategic management, Hambrick and Mason

(1984) advanced propositions relating to TMT characteristics which purported to explain, partially, organizational performance in their 'upper-echelon' theory which focuses upon the pinnacle of the organization's structural hierarchy. The role organization leaders' play in determining firm performance is under debate among organizational theorists. Some view leaders as products of their environments with little power to control structural and systemic factors that determine organizational actions (Aldrich, 1979; Perrow, 1970). Others view leaders as powerful decision-makers who consciously choose among diverse courses of action, and so determine the fate of their firms (Weiner and Mahoney, 1981). An intermediate position views leaders as bridging the external environment and their organization, thereby facilitating adaptation to the environment (Child, 1972; Andrews, 1971). This latter view acknowledges that contextual factors limit viable strategic choices, but assumes they are not fully deterministic.

To date, research examining the relationship between leaders' personal characteristics and organizational outcomes has taken two different approaches. One approach is to directly assess the psychological attributes of decision-makers and examine their relationship to outcomes. This direct assessment approach has generally been used in studies of CEOs (Miller, Kets de Vries and Toulouse, 1982; Hage and Dewar, 1973). Another approach is to assess demographic characteristics (such as age and education), making the assumption that such characteristics are related to cognitive abilities, attitudes, and expertise. When top management teams are the unit of analysis, the demographic approach has the advantage of being more practical than the direct assessment approach; the major disadvantage is that demographic characteristics do not covary perfectly with the psychological attributes of interest (Hambrick and Mason, 1984).

The fundamental question this paper addresses is whether the personal characteristics of leaders affect their decision choices. Following Hambrick and Mason (1984), and in contrast to research that focuses on CEOs as solitary decision-makers, this paper focuses on the top management team as the unit of analysis. Strategic choice theorists (Child, 1972) argue that top management in a firm has substantial discretion in determining the future strategic contour of the firm. Top managers can choose decision-making

environments that are conducive to realizing the organizational potential. Top managers can also influence external and internal environments by constructing, eliminating, or defining characteristic elements of an environment (Child, 1972; Weick, 1979). In this way, top managers can create their own domain of reality and decision-making boundary. The assumption thus is that, this dominant coalition acts as a decision-making unit for the organization thus influencing the performance of the organization unlike the middle and low level managers since their decisions will be influenced by the top managements decisions. Though diversity can exist among the middle level managers and the lower level managers, the effect of this on organizations performance is minimal since the ultimate determiners of the direction the organization will take is the corporate level managers.

1.2 The concept of Diversity

Diversity has been defined in different ways by different authors and scholars. According to Jackson *et al.* (2003) diversity is the distribution of personal attributes among interdependent members of a work unit. The majority of upper echelons studies use variations of this broad definition. According to Cox, (2001), diversity is the variation of social and cultural identities among people existing together in a defined employment or market setting. Social and cultural identity refers to the personal affiliation with groups and research has shown that this has significant influence on peoples' major life experiences. These affiliations include gender, race, national origin, religion, age cohort and work specialization, among others.

Primary categories of diversity include age, race, and ethnicity and gender whereas secondary categories of diversity include education, experience, income, marital status (Slocum and Hellriegel, 2007). Further, diversity can be defined based on observable, surface-level demographic differences such as race, sex or age, or on deep-level psychological differences in values and ways of thinking (Harrison et al., 2002). Often there is an implicit linkage in that it is assumed that organization members with different observable differences will bring along different ways of thinking as part of their identity (Brickson, 2000; Ely, 1994).

However, as pointed recently by Harrison and Klein (2007), diversity can be defined in three different ways: diversity as separation, variety and disparity. Diversity as separation refers to differences in position or opinion among unit members and reflects horizontal distance along a single continuum in a particular attitude or value. Diversity as variety represents differences in kind or category, primarily on information, knowledge or experience among unit members. Finally, diversity as disparity indicates differences in concentration of valued social assets of resources such as pay and status among group members. The vast majority of upper echelons research defines diversity as variety and looks at team heterogeneity across different demographic characteristics.

Studies on diversity can be viewed in two perspectives. These are demographic diversity and cognitive diversity. Demographic diversity includes variables such as age, gender, ethnic background, tenure, functional background, religion, race and education amongst others. Demographic characteristics have served as surrogates for measuring cohort behavior (Pfeffer, 1983). The advantages of using demographic variables include their objectivity, parsimony, comprehensiveness, logical coherence, predictive power, and testability (Hambrick and Mason, 1984; Pfeffer, 1983).

Previous studies show that team demography influences team processes, such as social integration and communication, and these processes in turn affect organizational strategy and outcome. Specifically, the profiles of the TMT influence the selection of competitive fields and the patterns of actions and responses in the chosen fields. For example, firms with high TMT heterogeneity in social and demographic characteristics are likely to compete in a dynamic environment where diverse capabilities of top managers are required to outperform competitors (Michel and Hambrick, 1992; Murray, 1989). Similarly, firms with low TMT heterogeneity may show dominant presence in stable environments where group cohesion produces better results. Therefore, TMT heterogeneity provides vital information on a firm's preference for environmental niches to compete and on the likelihood of success in the chosen market niches.

Further, (Wiersema and Bantel, 1992; Boeker, 1997; Knight et al., 1999) argued that top management team traits such as age, organizational tenure, educational level, and technical specification influence the firm's decision-making process in terms of receptivity to change and willingness to take risk, which in turn affects the degree of corporate strategic changes. Also, Waller, Huber, and Gluck (1995) found that functional background of executives has an effect on which changes they perceive in their organization's effectiveness

Cognitive diversity is defined in terms of differences in beliefs and preferences held by upper- echelon executives within a firm. More specifically, cognitive diversity refers to variation in beliefs concerning cause-effect relationships and variation in preferences concerning various goals for the organization (Miller, 1990). Cognitive diversity includes knowledge, education, values, perception, affection and personality characteristics (Maznevski, 1994; Milliken and Martins, 1996; Pelled, 1996; Boeker, 1997; Watson et al., 1998; Peterson, 2000; Timmerman, 2000). Such variation underlies differences in perspectives that tend to endure through time. Recent research on group problem solving clearly demonstrates that cognitive resources are a key determinant of group performance (Yetton and Bottger, 1983) resulting in either negative outcomes or positive outcomes.

Cognitive diversity may result in positive outcomes since when solving complex, non-routine problems, the presence of people with differing points of view ensures consideration of a larger set of problems and a larger set of alternative potential solutions. The need to reconcile dissimilar solutions stimulates effective group discussion, prevents 'group- think', and leads to high quality and original decisions (Ghiselli and Lodahl, 1958; Hoffman, 1959; Hoffman and Maier, 1961; Janis, 1972; Hall, 1982; Nemeth, 1985). However, cognitive diversity may result in negative outcomes since diversity often implies disagreement over strongly held preferences and beliefs that will not be compromised. Thus, extensive decision-making may lead to head-butting rather than to issue resolution (Glick et al., 1993). Further, cognitive diversity often implies that different people will use their own specialized languages, images, and stories to communicate with each other. Such differentiation can lead to communication failures

(Daft and Lengel, 1986) and this may lead one or a few executives to quietly address strategic issues behind the scenes. Interest in executive diversity has surged in recent years. Among researchers fueling this surge, many have argued that higher levels of diversity lead to executive creativity, more effective executive decision-making, and more positive organizational outcomes (Bantel and Jackson, 1989). Other researchers, however, have argued that higher levels of executive diversity result in less communication among executives, less effective executive decision-making, and less positive organizational outcomes (O'Reilly, Snyder, 2002). Hence, the topic of TMT heterogeneity remains a highly controversial one and is the primary focus of this review of upper echelons research.

1.2.1 Strategic decision-making and diversity

The most fundamental challenge faced by top managers is to process many, complex, and often ambiguous stimuli when making strategic decisions under high uncertainty (Starbuck & Milliken, 1988). In such situations, the stimuli do not clearly point to ideal choices; instead top executives are confronted with far more information, both from within and outside the organization, than they can possibly fully comprehend. As noted by March and Simon (1958: 169), “because of the limits of human intellectual capacities in comparison with the complexities of the problems that individuals and organizations face, rational behavior calls for simplified models that capture main features of a problem without capturing all its complexities”.

Research has demonstrated that humans attempt to reduce cognitive effort through the use of heuristics (or “rules of thumb”) and cognitive structures (schemas) to integrate pieces of information into a single judgment in making decisions (March & Simon, 1958; Schwenk, 1984). Specifically, top managers employ their existing cognitive schemas and heuristics to organize and process information efficiently and simplify the decision process (Shaw, 1990). In this way, decision-makers can make fairly accurate interpretations and evaluations without having to examine all available information.

While facilitating information-processing, the use of prior experiences, cognitive schemas and heuristics may, however, create systematic biases and lead to potential error in decision-making (Tversky & Kahnemann, 1974). For instance, cognitive heuristics will reduce the number of variables included in decision makers' cognitive maps and, as a result, may lead to a smaller number of strategic alternatives being considered (Schwenk, 1988). The use of cognitive schemas may also encourage stereotype thinking, fill data gaps with typical yet potentially inaccurate information, prompt one to ignore discrepant and possibly important information, discourage disconfirmation of the existing knowledge structure, and inhibit creative problem solving (Walsh, 1995). Particularly in complex situations, decision makers rely on the familiar, often drawing on solutions that have worked well in the past (Cyert & March, 1963). In this way, biases affect strategic decisions when existing experiences are used in diagnosing and framing new strategic problems. The more complex, unstructured, and strategic a decision is, the more likely it is that biases may influence the decision process (Duhaime & Schwenk, 1985).

The cognitive schemas and heuristics are largely determined by executives' backgrounds and experiences (Schwenk, 1988). By the same token, upper echelons theory (Hambrick & Mason, 1984) suggests that human limitations influence the perception, evaluation and decision about organizational problems and hence influence firm choices and behavior. The starting point of understanding the upper echelons perspective is March and Simon's (1958) notion that managers bring their own set of "givens", such as values and cognitive bases, to a decision-making situation. Thus, strategic choice is made not on the basis of an actual "real" situation, but rather on managers' perception, a so-called "construed reality" (Sutton, 1987). According to upper echelons theory, observable demographic characteristics of top executives can be used to infer psychological cognitive bases and values and as such may serve as potent predictors of strategies (Hambrick & Mason, 1984). The strategic choice paradigm (Child 1972) postulates that key decision-makers have considerable control over an organization's future direction. The upper echelon perspective articulated by Hambrick and Mason (1984) provides a framework within which the ways managers influence organizational outcomes can be interpreted.

In a classic study, these authors develop a model based on the research of the behavioral theorists (Cyert and March 1963; March and Simon 1958) to explain the link between managerial characteristics and strategy. They describe the process of strategic choice as a perceptual one that occurs in a series of sequential steps. This model suggests that managerial choices reflect the attributes of these managers. Thus, it can be argued that, when faced with the same objective environment, different managers will make different decisions (including strategy decisions) based on their individual characteristics. This makes apparent the critical role managers' attributes play in determining a firm's strategic direction.

1.2.1.1 Effect of Environment on Decision making

All organizations must be open systems (interact with their environment) to some degree. Some organizations deliberately try to eliminate outside interference in an attempt to rationalize their internal operations. In contrast, other organizations choose to have or are forced to have a more open system in which their environmental interactions are greater. The potential for externally derived sources of influence on strategic decision making will grow as the system becomes more open due to the absolute number of environmental interactions as well as the importance of those interactions to the organization.

Numerous authors (Starbuck, 1976; Staw, Sandelands, and Dutton, 1981; Weick, 1969) have argued that characteristics of a firm's environment can have an impact on managerial perceptions. Aiken and Bacharach (1985) went so far as to suggest that 'environmental conditions are paralleled by the internal dynamics of organizations. In a test of this assertion, they found a negative relationship between the level of environmental fragmentation and the level of agreement among managers about the locus of authority of their organization's decision-making process. In a similar study, Hrebiniak and Snow (1980) found that managers' perceptions and subsequent agreement about features of their organization were positively related to the level of certainty in their industry and environment. Based on the arguments cited above, organizations in industries with stable environments will exhibit greater TMT agreement about the nature of their strategic decision-making process than will those whose environments are

unstable. This is due to the fact that stability in the environment should ultimately be reflected in relatively stable decision processes for firms in that environment (Aiken and Bacharach, 1985). And the more stable such processes, the easier it should be for TMT members to understand and agree about how decisions are typically made.

1.2.1.2 Organizational Size and Strategic Decision Making

It has long been argued that organizational size affects the nature of a firm's strategic decision-making process (Mintzberg, 1973). In addition, evidence suggests that size also has an impact, albeit indirect, on the level of TMT agreement about the nature of that process. For example, as organizations grow they tend to create increasingly differentiated and specialized subunits (Tushman and Romanelli, 1985). And as members participate in those subunits, they often acquire differing perceptions of organizational attributes (Weick, 1979), such as the comprehensiveness of their firm's strategic decision process (Schwenk, 1984). Therefore, increased organizational size decreases the likelihood that members of the TMT will share common perceptions of important characteristics of their firm's strategic decision process.

1.2.1.3 Top Management Team size and Decision Making

In addition to organizational size, the size of the top management team also appears likely to be a factor in determining the level of the agreement among TMT members. The effects of size are perhaps the most widely studied and best understood of all the structural properties of groups, and most literature on this topic argues for a simple, negative relationship between size and agreement. As a group grows larger it increases the likelihood that a dissenting opinion will find a sympathetic ear (Nemeth, 1986). When that happens, the group may break into politicized subgroups, and the resulting behavior of self-interested subgroups can be dysfunctional for the overall group (Guzzo, 1986). In addition, as the size of a group increases, communication among group members typically declines. This, in turn, reduces the level of agreement (Thomas and Fink, 1963) and this is likely to reduce the productivity of the group.

1.3 Corporate Performance and Its Measurement

Organizational performance is the ultimate dependent variable of interest for researchers concerned with just about any area of management. Market competition for customers, inputs, and capital make organizational performance essential to the survival and success of the modern business. As a consequence, this construct has acquired a central role as the deemed goal of modern industrial activity. Marketing, operations, human resources (HR), and strategy are all ultimately judged by their contribution to organizational performance. Measuring it is essential in allowing researchers and managers to evaluate the specific actions of firms and managers, where firms stand against their rivals, and how firms evolve and perform over time. Performance the ultimate outcome of top managers' actions Managers are judged on their firm's performance and good performance influences the continuation of the firm (Sabina, 2009).

According to upper-echelon theory (Hambrick and Mason, 1984; Boeker, 1997; Knight et al., 1999), top management team (TMT) characteristics have important impacts on organizational outcomes because top executives are empowered to make strategic decisions for organizations. Since top executives make decisions consistent with their cognition, which is in part a function of the values and the experiences they commonly share, their experiences and values may be associated with organizational outcomes and their firm's performance. There are three common approaches to organizational performance measurement seen in the literature. The first is where a single measure is adopted based on the belief in the relationship of that measure to performance (Hawawini et al., 2003; Hillman & Keim, 2001; Roberts & Dowling, 2002; Spanos, Zaralis, & Lioukas, 2004). Ideally, these beliefs are supported by theory and evidence.

The second approach is where the researcher uses several different measures to compare analyses with different dependent but identical independent variables (Baum & Wally, 2003; Contractor, Kundu, & Hsu, 2003; Miller, 2004; Peng, 2004). The third approach is where the researcher aggregates dependent variables, assuming convergent validity based on the correlation between the measures (Cho & Pucik, 2005; Goerzen & Beamish, 2003). This is most common with subjective measures of performance where the

investigator is seeking something akin to trait-based psychometric validity (Varadarajan & Ramanujam, 1990). However; it is not uncommon to see operational and financial market measures also being aggregated (Rowe & Morrow, 1999). The justifiability of these approaches depends crucially on whether the specific measures used meet the theoretical, statistical, and psychometric assumptions made.

Venkatraman and Ramanujam (1986) have pointed out that firms performance is a multidimensional construct. They proposed three general levels of firm performance. To start with is the financial performance. This is at the core of organizational effectiveness domain. Such performance measures are considered necessary, but not sufficient to define overall effectiveness (Murphy et al, 1996). These indicators really tap current profitability and include accounting based standards such as Return on Assets (ROA), Return on Sales (ROS), Return on Equity (ROE) measuring financial success (Parker, 2000).

Secondly is the Business Performance. These measure market related items such as market share, growth, diversification and product development (Gray, 1997). They appear to be two dimensions here with the first looking at sales growth and market share. Indicators are related to growth/share in the existing business. Second dimension has its indicators related to the future positioning of the firm such as new products development and diversification. Lastly is the organizational effectiveness. These measures are closely related to stakeholders (other than shareholders). Included in this are employee satisfaction, quality of products as perceived by customers and social responsibility.

Although firm performance plays a key role in strategic research, there is considerable debate on appropriateness of various approaches to the concept utilization and measurement of organization performance. The complexity of performance is perhaps the major factor contributing to the debate. There is a general agreement among organizational scholars that objective measures are preferable to subjective measures based on manager's perception (Beal, 2000). Chandler and Hanks (1994) came up with a perceptual performance measure by asking on six items. Three measured growth in

market share, perceived change in cash flow and sales growth. Other three items measured business volume, Sales, earnings and net worth. On the other hand, according to Beaver et al, 1980 commonly used measures of a firm's performance can be separated into two broad categories. First, there are those which assess the stewardship of the top management or how efficiently the firm utilizes its resources to produce a profit. Since the period considered is usually brief these measures can be interpreted as indicators of how well fitted the firm is to present conditions. The second set of measures is based on the prevailing price of the firm's stock. The stock price can be thought of as all the firm's future earnings discounted back to the present. It has been shown that price/earnings ratios are positively correlated with actual subsequent earnings

Studies on the top echelons and their relationship with performance have used various variables to measure performance. Pengel et al, 2000 measured the performance of each airline by each firm's load factor. Load factor is defined as the proportion of an aircraft's seating capacity that is actually sold or used, determined by dividing revenue passenger miles by available seat miles. Load factor is conventionally used as an efficiency measure directly associated with firm profitability Entrialgo, (2002) opted to use a subjective marker of the results, calculated as a weighted average of the manager's satisfaction in different performance markers which included economic and financial profitability and growth, the weighting being the relative importance conceded to each of these markers in relation to the sum of the importance given to the three markers.

Fredrickson et al, (1997) measured performance in terms of Return on assets (ROA), defined as net income before extraordinary items divided by total assets, was used as the measure of firm performance. ROA is a common measure used in numerous studies of strategic decision processes and TMT characteristics (Kim, Hwang and Burgers, 1989), and it has been shown to be highly correlated with other performance measures such as Return On Equity and Return On Investment. Other commonly used methods of measuring organizational performance in the top management include assets growth, market share, share price earnings per share and sales revenue.

2.0 TOP MANAGEMENT TEAMS CHARACTERISTICS

According to upper-echelon theory (Hambrick and Mason, 1984; Boeker, 1997; Knight et al., 1999), top management team (TMT) characteristics have important impacts on organizational outcomes because top executives are empowered to make strategic decisions for organizations. Since top executives make decisions consistent with their cognition, which is in part a function of the values and the experiences they commonly share, their experiences and values may be associated with organizational outcomes and their firm's performance. Based on this logic, researchers have investigated the link between TMT characteristics and the behavior of firms such as organizational innovation (Bantel and Jackson, 1989), strategic planning (Finkelstein and Hambrick, 1990; Grimm and Smith, 1991; Michel and Hambrick, 1992; Wiersema and Bantel, 1992), and firm performance (Finkelstein and Hambrick, 1990, Thomas, Litschert, and Ramaswamy, 1991; Michel and Hambrick, 1992; Hambrick and D'Aveni, 1992; Boeker, 1997). These studies commonly articulate that TMT heterogeneity in social and demographic characteristics do matter in determining activity patterns of firms.

Other researchers also find links of specific TMT characteristics to the heterogeneity of firms in strategic orientation (Wiersema and Bantel, 1992), risk-taking propensity (Bantel and Jackson, 1989), consensus building (Priem, 1990; Knight et al., 1999), and industry experiences (Eisenhardt and Schoonhoven, 1990). Given a plethora of research and significant findings, upper-echelon theorists have successfully established that TMT heterogeneity (particularly in demographic characteristics) is an important driving force for the organizational processes and outcomes. There are a number of characteristics of top management and these have been discussed below and they have been linked to their effect on organizations performance. The assumption this paper makes is that the demographic characteristics of an individual will influence his or her cognitive abilities.

2.1 Age of team members

The association between the age of top executives and organizational characteristics has not been the subject of many studies, but the few that exist yield strikingly consistent results. Managerial youth appears to be associated with corporate growth (Child, 1974,

Hart & Mellons, 1970). A related finding of these studies is that volatility of sales and earnings also is associated with managerial youth. So, what emerges is a picture of youthful managers attempting the novel, the unprecedented, taking risks. There are three possible explanations for the apparent conservative stance of older executives. The first is that older executives may have less physical and mental stamina (Child, 1974) or may be less able to grasp new ideas and learn new behaviors (Chown, 1960). Managerial age has been negatively associated with the ability to integrate information in making decisions and with confidence in decisions, though it appears to be positively associated with tendencies to seek more information, to evaluate information accurately, and to take longer to make decisions (Taylor, 1975). A second explanation is that older executives have greater psychological commitment to the organizational status quo (Alutto & Hrebiniak, 1975; Stevens, Beyer, & Trice, 1978).

Third, older executives may be at a point in their lives at which financial security and career security are important. Their social circles, their spending traits and their expectations about retirement income are established. Any risky actions that might disrupt these generally are avoided (Carlsson & Karlsson, 1970). There are several reasons to expect younger managers to bring better cognitive resources to decision-making tasks. First, some cognitive abilities seem to diminish with age, including learning ability, reasoning, and memory (Botwinick, 1977; Burke and Light, 1981). Second, younger managers are likely to have received their education more recently than older managers, so their technical knowledge should be superior. Third, younger managers have been found to have more favorable attitudes toward risk-taking (Vroom and Pahl, 1971). Younger people tend to be more willing to take risks than older ones, possibly because older individuals may have diminished physical and mental abilities (Child 1972) or may be less able to generate new ideas and learn new behaviors and because having these characteristics makes one fearful of risks. Older people also may have a stronger psychological commitment to the status quo. And older individuals may have reached a time in their lives when financial and career security is of greatest importance. Social circles and retirement expectations become key factors in their lives. At this time, they tend to avoid any risky action that might affect these elements.

2.2 Age heterogeneity

Age cohorts are likely to differ in their attitudes, values and perspectives for two reasons. A major reason is that different age cohorts experience different social, political, and economic environments and events, which have a fundamental role in shaping attitudes and values. In addition, perspectives change as a function of the developmental process of aging (Elder, 1975). Assuming that diversity of attitudes and values facilitates group creativity, teams composed of members of diverse ages should be more innovative. However, differences in values and attitudes could result in conflicts that hinder the development of team cohesiveness (Pfeffer, 1983).

People in teams would tend to associate on the basis of age similarity given that people of the same age (relative to people from different age brackets) tend to have more in common with each other with respect to norms, values, experiences, and topics of conversation (see the arguments in Bantel & Jackson, 1989; Tsui, Egan, & O'Reilly, 1992; Wagner, Pfeffer, & O'Reilly, 1984). We know that people of similar ages in work teams tend to communicate more frequently on technical matters (Zenger & Lawrence, 1989). In teams containing people from different age categories, people of different ages may categorize each other on the basis of age stereotypes, and this categorization may contribute to conflict within the team (see the argument in Pelled, Eisenhardt, & Xin, 1999). Thus, the greater the age heterogeneity of the team, the greater the social fragmentation we might expect.

On the other hand, a social comparison theory perspective (Festinger, 1954) might lead us to suggest that people of the same age would regard each other as competitors within the group for valued roles and promotions. As a recent study explained, age diversity can have unexpectedly negative effects on work group conflict: 'When age similarity in a group increases, these career progress comparisons, which prompt jealous rivalry, often increase' (Pelled et al., 1999). Previous researchers have also suggested that age similarity in teams might promote interpersonal rivalry and conflict (Hambrick, 1994; Lawrence, 1997). Age diversity within the team can also provide the opportunity for mentoring activity between older and younger employees. Recent research (that failed to

look at social fragmentation) showed a significantly positive effect of age diversity on performance outcomes within teams (Kilduff, Angelmar, & Mehra, 2000). The overly competitive behavior of younger employees towards peers may be reduced in the presence of older team members (Chattopadhyay, 1999; Finkelstein, Burke, & Raju, 1995). Teams heterogeneous with respect to age may be better able than more homogenous teams to promote cohesion across social divides. Thus, we recognize the existence of conflicting lines of argument with respect to the effects of age heterogeneity within teams, and like researchers before us (e.g., Bantel & Jackson, 1989), are led to propose two opposing hypotheses concerning age diversity.

2.3 Level of Education

An individual's level of formal education reflects cognitive abilities and qualities. The highest levels of formal education are associated with a high ability to process information and to discriminate between a wide variety of alternatives. Educated individuals are more likely to tolerate ambiguity and to show themselves to be more able in complex situations (Dollinger, 1985). Furthermore, the highest levels of education tend to be associated with receptivity to innovation (Becker 1970; Kimberly and Evanisko 1981; Rogers and Shoemaker 1971).

In short, it is to be expected that individuals with higher levels of education are more likely to adopt entrepreneurial behavior. Further, Hitt and Tyler (1991) found that the type of academic education managers had influenced their strategic decisions, that is, certain academic disciplines are more oriented to innovation and change than others. Thus, since the sciences and engineering are related to invention and innovation, it is to be expected that these disciplines are associated with the willingness to innovate to a greater extent than law, economics, and business.

2.4 Functional Experience

Hambrick and Mason (1984) suggest that managers make different strategic decisions based on their experiences in different functional areas. Hence, it is hypothesized that individuals adopting entrepreneurial strategies have experience in the areas of marketing and research and development (R&D), as these functional areas are more oriented to change and innovation than other areas. By contrast, managers using conservative strategies are expected to have greater experience in the areas of finance and production, given these areas' relative stability and emphasis on efficiency. (1979; Mehra, Kilduff, & Brass, 1998).

2.5 TMT Average tenure

Whereas the average age of team members might affect the level of cognitive ability in a group, the average organizational tenure of team members is more likely to affect their attitudes toward innovation. More tenured executives may have more psychological commitment to the organizational status quo (Alutto and Hrebiniak, 1975; Staw and Ross, 1980; Stevens, Beyer and Trice, 1978) and to organizational values (Schmidt and Posner, 1983). Consequently, change, which is an inherent part of innovation, may be resisted. In addition, long tenure within the same organization may result in insulation and a narrowing of one's perspective (Katz, 1981, and Pfeffer, 1983).

As individuals are socialized, they learn what is important in their organization. This transforms outsiders into participating and effective organizational members by allowing them, through observation and modeling, to understand and assimilate the policies and processes of their organization (Feldman, 1981). Several contributors have explicitly extended this line of reasoning to organizational decision processes (Falcione and Wilson, 1988; Jablin, 1982), arguing that long-tenured individuals are more likely to have assimilated the organization's strategic decision-making norms. Therefore, as the average organizational tenure of TMT members increases, we would expect them to increasingly share a common perception of their firm's strategic decision process.

2.6 Tenure heterogeneity

Like cohort groups defined by age, cohort groups defined by organizational tenure are likely to differ with respect to their experiences and perspectives, as well as their attitudes and values. Again, these differences may benefit the team by adding cognitive diversity and stimulating discussion, and/or the differences may interfere with the communication process and cause dysfunctional conflict (Katz, 1982; Wagner, Pfeffer and O'Reilly, 1984; Pfeffer, 1983).

2.7 Educational background

A person's formal educational background may yield rich but complex information. To some degree, education indicates a person's knowledge and skill base. A person educated in engineering generally can be expected to have a somewhat different cognitive base from someone educated in history or law. Beyond that, if it is assumed that most people take seriously their decisions about education, then education serves to some extent as an indicator of a person's values, cognitive preferences, and so on. Granted, people make their educational decisions at a relatively early age, with incomplete information, and they sometimes later transcend those decisions. But, on average, it could be expected that students who choose to attend the Harvard Business School are somehow different from those who attended the University of Chicago Business School.

Inclusion of the educational backgrounds of managers in macro-organizational research has been limited primarily to studies attempting to predict innovation. The consistent finding is that level of education (either of the CEO or other central actors) is positively related to receptivity to innovation (Becker, 1970; Kimberly & Evanisko, 1981; Rogers & Shoemaker, 1971). One theory of note is that education implies membership in a particular socioeconomic group (Collins, 1971). This theory has been strongly supported by research in England, where class structures are relatively pronounced. Channon (1979) and Stanworth and Giddens (1974), studying two different samples of chief executives in the U.K., each found that about 50 percent of their samples had been educated at Oxford or Cambridge.

Channon noted the importance of this background for establishing strong inter-organizational ties. It is unlikely that such strong findings would emerge in a U.S. sample, but there may be certain industries in which education, or even certain schools, is deemed important to business success. It is noted that there has been little research on the effects of formal professional education (the MBA degree in particular) on corporate outcomes. There certainly are plenty of offline suspicions that MBAs are educated to pursue short term performance at the expense of innovation and asset building. A contrary view is that the degree does not have any substantive effect in the long run for either the holder or the company, but only serves as a filtering device for matching up individuals and jobs (Pfeffer, 1981a).

2.8 Average education level attained

Assuming attained education level is correlated with cognitive ability, higher levels of education should be associated with a team's ability to generate (and implement) creative solutions to complex problems. Their ability to generate creative solutions may explain why people who are more educated have more receptive attitudes toward innovation (Kimberly and Evanisko, 1981; Rogers and Shoemaker, 1971). The association between education and both cognitive abilities and attitudes toward innovation suggests that more high performing firms should have more highly educated top management teams

2.9 Major area of study

Considerable evidence shows that the educational curriculum choices people make correspond to their personalities, attitudes, and cognitive styles (Holland, 1976). Furthermore, educational curriculum is associated with job experiences throughout one's career (National Science Foundation, 1963; Miller, 1968). Thus, we would expect teams composed of members who completed dissimilar types of curricula to benefit from the diversity of perspectives team members bring to the problem-solving task.

2.10 Functional experience

Although members of a firm's dominant coalition, especially the chief executive, are presumed to have a generalist's view, each brings to his or her job an orientation that usually has developed from experience in some primary functional area. This functional-track orientation may not dominate the strategic choices an executive makes, but it can be expected to exert some influence. For example, Dearborn and Simon (1958) found that when a group of executives from different functional areas was presented with the same problem (a case study) and asked to consider it from a company-wide perspective, they defined the problem largely in terms of the activities and goals of their own areas. Managers with differing histories of functional experiences are likely to differ in their attitudes, knowledge, and perspectives (Dearborn and Simon, 1958; Hambrick and Mason, 1984).

Differences among managers from different functions may be due in part to differences in their educations, but work experiences in functional areas are likely to further shape cognitive and attitudinal perspectives. These can affect how managers behave at all stages of the production process: a person's functional background should affect which problems he or she identifies as important, how these problems are formulated, types of solutions generated, evaluations of alternative solutions, and involvement during the implementation phase. Because creativity and innovation require the combining of facts and ideas in novel ways, cross-functional communication is generally acknowledged as an important precursor to innovation (Shrivastava and Souder, 1985; Rothwell and Zegveld, 1985).

While recent studies in general have only found weak empirical relationships between executives' functional background experiences and their perceptions and beliefs (Walsh, 1988; Waller, Huber, and Glick, 1995; Beyer *et al.*, 1997; Chattopadhyay *et al.*, 1999), there is also strong empirical support that corporate elites' functional background experiences predict diversification level and acquisition activities (Song, 1982; Finkelstein, 1992; Michel and Hambrick, 1992). Hayes and Abernathy (1980) and Fligstein (1990) both argue that corporate elites' functional background experiences are

reflected in their firms' diversification level and acquisition activities. They argue specifically that individuals with dominant functional experiences in finance (and accounting and law) typically perceive firms as a collection of return generating assets that need not be associated with a single line of business. The firm, from this perspective, can easily be viewed as a portfolio of multiple businesses, and firms led by corporate elites with dominant functional background experiences in finance are therefore more likely to emphasize growth through diversification and acquisitions.

In fact, several studies document the relationships between functional background experiences in finance and firms' diversification level and acquisition activity. Song (1982) found that finance CEOs, who are thought to typically view the firm as a bundle of financial assets, tend to prefer to diversify through acquisitions, whereas production CEOs, who are thought to emphasize more organic growth, tend to prefer diversification through internal development. Palmer and Barber (2001) report similarly that finance CEOs were more likely to complete diversifying acquisitions between 1963 and 1968 than non-finance CEOs (Haunschild, Henderson, and Davis-Blake, 1999).

Finally, Finkelstein (1992) found that firms dominated by finance executives were likely to be more diversified and do more expensive acquisitions, and Michel and Hambrick (1992) found that firms with more executives with functional background experiences in production (as opposed to finance) diversified less (Fligstein, 1987). These findings suggest a close association between the functional background of a firm's senior executives and a firm's subsequent diversification and acquisition strategies.

2.11 Other Career Experiences

Career experiences other than functional track also can be expected to have a significant effect on the types of actions taken by a manager or an entire top management team. For example, probably more research has been done on length of service and a related variable, inside versus outside succession, than on any other characteristics of top managers. The primary and consistent conclusion coming from such studies is that chief executives brought in from the outside tend to make more changes in structure,

procedures, and people than do chief executives promoted from within (Carlson, 1972; Helmich & Brown, 1972; Kotin & Sharaf, 1967). The behavioral reasons for the changes, as set forth by Carlson (1972), are: less commitment by an outsider to the status quo, a desire to weaken those who resist or resent the new chief executive, and a desire to create new, loyal lieutenants. Of course, outside succession is most likely when the organization is performing poorly, so the corresponding changes may reflect the situation as much as the background of the decision maker.

Executives carry as part of their cognitive and emotional gifts the experiences they have had during their careers. Executives who have spent their entire careers in one organization can be assumed to have relatively limited perspectives. If an entire top management team has risen solely through the organization, it is likely that it will have a very restricted knowledge base from which to conduct its "limited search" (Cyert & March, 1963) when faced with an unprecedented problem such as a deregulation, intensive competition from imports, or a radical technological shift. On the other hand, the in-depth industry familiarity and tested working relationships enjoyed by such a team might serve the organization well in periods of stability (Kotter, 1982)

2.12 Socioeconomic Background

Although the socioeconomic backgrounds of senior executives have been described in some detail (Burck, 1976; Newcomer, 1955; Sturdivant & Adler, 1976), there has been almost no attempt in the organizational literature to relate socioeconomic background to organizational strategy or performance. One reason for the lack of attention to this question may lie in the apparently high degree of homogeneity among socioeconomic backgrounds of executives. In 1975, executives of major U.S. firms were almost exclusively male and white, and predominantly Protestant and Republican. Somewhat more of them came from middle-class families and from the Midwest than was true earlier in this century (Burck, 1976), but they attended largely the same group of prestigious universities as did their predecessors (Sturdivant & Adler, 1976).

Channon (1979) found some relationships between the socioeconomic backgrounds of U.K. executives and the growth strategies of their firms. First classifying firms as entrepreneur-run, family-run, and professionally managed, Channon found companies run by entrepreneurs to be the most widely diversified and to have the highest rate of acquisitions. Then Channon observed that the entrepreneurs themselves were likely to come from relatively humble origins, receive an education through secondary school only, avoid military service (many were refugees from Nazi persecution), and belong to few if any London clubs. At the other extreme were heads of professionally managed firms (lowest acquisition rate) and family-led firms (least diversified), who came from more traditional upper-class English backgrounds: public school, especially Eton; university, usually Cambridge or Oxford; military service, often in famous regiments; and appropriate club membership. It is not possible to conclude whether it is the form of ownership (entrepreneurial) or the humble backgrounds of the entrepreneurs that were causally linked to these firms' strategies of growth and diversification. In a clinical study of entrepreneurs, Collins and Moore (1970) concluded that a common pattern is for an entrepreneur from a relatively disadvantaged background to pursue aggressive, often flamboyant strategies, presumably in order to achieve recognition and esteem.

2.13 Financial Position

The relationship between stock ownership of top executives and corporate performance has been studied at length by economists. Findings have been mixed, but they generally favor the conclusion that owner-managed firms do not outperform firms that are managed by non owners (Hay and Morris, 1979 and Kania and McKean, 1976). Inquiry into the issue has been prompted largely by the Berle and Means (1932) thesis that owners have a greater stake in the firm than do non owners and so will engage in more purely income-seeking behavior. Such reasoning ignores the fact, however, that many non owner executives derive their entire livelihood from the organization and thus are quite dependent on its continuing health.

Because of bonuses and other incentive compensation plans, their income often varies with corporate performance (Lewellyn, 1969; Lewellyn & Huntsman, 1970), and they also run the risk of being fired if firm performance falls off—a risk that owner-managers do not face (James & Soref, 1981; Salancik & Pfeffer, 1980). It would seem that an improved argument lies in Masson's (1971) suggestion that managerial aspirations are due less to the proportion of a company's shares owned by management than to the proportion of the manager's income that is derived from the firm. Managers, be they owners or not, may be relatively inclined to pursue non economic objectives for the focal firm if they have ample income alternatives.

2.14 Ethnic and gender diversity

The bases upon which people can choose similar others are, of course, many (Williams & O'Reilly, 1998). Among the most salient bases of social interaction in organizational settings is ethnicity and gender (Ibarra, 1992; McGuire, McGuire, Child, & Fujimoto, 1978). The theoretical explanations on which much of this work resides are social identity and social categorization theory (Tajfel & Turner, 1986) and similarity-attraction theory (Byrne, 1971). According to social identity and self categorization theory, individuals classify themselves and others into social categories using highly salient characteristics such as age, sex, and race (Tajfel & Turner, 1986).

To maintain a positive social identity, individuals seek to maximize inter group distinctiveness and see out-group (dissimilar) members as less attractive (Tajfel & Turner, 1986). Consequently, individuals of the same sex (Ibarra, 1992) and same race (Lincoln&Miller, 1979) are more likely to associate with one another and interact more frequently. Indeed, demographic similarity increases the frequency (Ibarra, 1992) and quality of interaction (Tsui & O'Reilly, 1989) between individuals and has been associated with higher levels of trust (Jehn & Mannix, 2001; Jehn et al., 1999; Pelled, 1996).

3.0 TOP MANAGEMENT MODELS

Amongst the various aspects of literature available, different comprehensive models of TMT and their relationship have been advanced. These models illustrate various facets of TMT composition, decision making and context which are some of the variables important for this study. These models include Gladstein's Model, Gist, Locke and Taylor's Model, Cohen's model and the Upper Echelon Theory.

3.1 Gladstein's Model

This model focuses on team effectiveness. Developed by Gladstein (1984), the model uses a macro framework of inputs, processes and outputs. The input category is divided into the team organizational level and comprises of variables such as size, composition and structure of the team, available resources and organizational structures. From Gladstein's viewpoint, processes include amongst others, open communication and supportiveness. Team effectiveness as defined by performance and satisfaction falls under the output category. The team tasks characteristics such as complexity, environmental uncertainty and independence are thought to moderate the relationship between team, process and effectiveness (Mathews, 1998). Goodman, Ravlin and Schminke (1987) proposes Gladstein model is particularly influential in small teams research and theory due to its comprehensiveness and testability. Overall, Mathews (1998) notes that the model possesses a good fit with Katz and Khan (1978) systems theory.

3.2 Gist, Locke and Taylor's Model

The model was developed by the scholars in 1987 and its common with Gladstein's model (1984). In this model, variables are sublimed under three categories: Input (Leadership, team size and personality: Processes (effect, team development and methods of decision making and performance (team performance and quality of work life for individuals in the team). The model strongly supports that relatively smaller teams are more efficient arguing that decision making appears to be affected by individual's team members ability and knowledge.

3.3 Cohen's model

In Cohen's (1994) model, a large number of inputs impact team performance. Team performance is defined in the context of teams success including controlling costs, improving productivity and quality in addition to team members' attitudes towards their quality of work life. Four broad classes of inputs are thought to directly affect overall team performance and individual team member performance :employee involvement , context (power, training and rewards) encouraging, supervisory behavior ,self observation/evaluation, self criticism) task design (variety, autonomy and feedback and team characteristics (composition, beliefs and process, including issues such as groups size, norms, coordination and innovation). Matthews (1998) argues that Cohen's (1994) model fits slightly less well with the systems frame work than the previous two. In particular, Mathews (1998) argues that Cohen's places the team process variables of coordination, sharing, expertise and innovation as inputs thus departing from the traditional systems theory.

3.4 Strategic consensus as a mental model

Hambrick and Mason (1984) argue that the psychological and cognitive characteristics underlying observable demographic measures are critical to the group's processes and subsequent decisions. This is consistent with a growing body of research on managerial cognition (Walsh, 1995) which suggests that managers 'mental models will influence the decisions they make (Day and Lord, 1992). Mental models are similar to knowledge structures (Walsh, 1995), schema (Fiske and Taylor, 1984; Ireland et al., 1987; Sims and Gioia, 1986), and implicit theories (Brief and Downey, 1983).With regard to managers Mintzberg (1973) observes that 'it is the power of his mental models that determines to a great extent the effectiveness of his decisions'.

Kiesler and Sproull (1982) assert that 'managers operate on mental representations of the world and those representations are likely to be of historical environments rather than of current ones'. Prior research has shown mental models to be related to strategies (Day and Lord, 1992), strategic actions, and performance (Thomas, Clark, and Gioia, 1993),

and interpretations of and responses to strategic issues (Dutton and Dukerich, 1991). Scholars have also posited that mental models can operate on the group level and have used terms such as shared cognition, team mental model (Klimoski and Mohammed, 1994), collective cognitive map (Axelrod, 1976) or dominant logic (Prahalad and Bettis, 1986) to describe this phenomenon.

3.5 Upper Echelon Theory

This was the first model to embark on the study of the top management teams. Hambrick and Mason (1984) developed this model as a framework for research on top managers. Specifically they emphasized the importance of individual top manager's characteristics, within the context of organization on various measures of organizational performance. The model has four main parts. This include the objective situation (can either be internal or external), psychological (values and cognitive base) and observable (age, educational and group characteristics), strategic choices (product innovation, financial leverage and acquisitions), and performance (relates primarily to organizations performance such as growth and profitability).A number of research questions have been proposed using thus framework and fairly large amount of research conducted along the model (Hambrick,1994).Upper echelons theory builds on the idea of the dominant coalition (Cyert and March, 1963) to propose that executives influence organizational performance through the decisions they make (Hambrick and Mason, 1984). Upper echelons theory suggests that executives will make decisions that are consistent with their cognitive base (Hambrick and Mason, 1984) or orientation (Finkelstein and Hambrick, 1996), which consists of two elements: psychological characteristics (including values, cognitive models, and other personality factors) and observable experiences.

A fundamental principle of upper echelons theory is that observable experiences (demographic measures) are systematically related to the psychological and cognitive elements of executive orientation. 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 and Mason, 1984) or construed reality (Finklestein

and Hambrick, 1996). Managerial perceptions, in turn, influence strategic choices and executive actions. Research using this theoretical framework has linked the demographic characteristics of top managers and/or the demographic diversity of the TMT to a variety of organizational outcomes including performance (Keck, 1991; Hambrick and D'Aveni, 1992; Michel and Hambrick, 1992; O'Reilly and Flatt, 1989; Smith et al., 1994), strategy (Finkelstein and Hambrick, 1990; Michel and Hambrick, 1992), strategic change (Grimmand Smith, 1991; Wiersema and Bantel, 1992), management turnover (Wagner, Pfeffer and O'Reilly, 1984), and organizational innovation (Bantel and Jackson, 1989; O'Reilly and Flatt, 1989; Smith et al., 1993). This study uses the upper echelon theory since is the most appropriate model to explain the fundamental question under study.

4.0 MODELS OF DIVERSITY PERFORMANCE LINKAGE

Comprehensive reviews of diversity research have identified three main theoretical perspectives regarding its relationship to performance (van Knippenberg et al., 2004; Williams and O'Reilly, 1998). The first is termed the information/decision-making perspective, Social categorization perspective and the Similarity/Attraction Theory.

4.1 Information/decision-making perspective

The information/decision-making perspective focuses on knowledge and its role in group outcomes. Research in this area suggests that knowledge-based advantages for functionally-diverse groups are based on cognitive effects stemming from the connection of previously unconnected knowledge, and lead to the proposition that cognitive heterogeneity, defined as the extent to which the team reflects differences in knowledge, including beliefs, preferences and perspectives (Miller et al., 1998), mediates the relationship between professional diversity and team effectiveness (van Knippenberg et al., 2004). The link between both functional and cognitive heterogeneity can be understood in the context of knowledge as socially developed through shared interactions and collective ventures. People understand and interpret the world they experience based on their cognitive structures (Bhatt, 2000). Cognitive structures are the internal representations of ourselves, others and our environments, which are based on previous knowledge, experience and learning and are used to explain how individuals create their

own realities as they make sense of and interact with their world (D'Andrade, 1993; Evans et al., 1999; Goldvarg and Johnson-Laird, 2001; Johnson-Laird, 1983, 2001; Knight et al., 1999; Markovits and Barrouillet, 2002; Nuthall, 1999; Piaget, 1969). In line with the constructivist (Bruner, 1990; Kelly, 1955; Piaget, 1969; von Glaserfeld, 1993) and social constructionist (Gasper, 1999; Gergen, 2001) perspectives, as well as writing on the sociology of knowledge (Berger and Luckmann, 1966), cognitive structures are socially formed and develop based on social paradigms (Bhatt, 2000). People "know" based on their social interaction (Young and Collin, 2004).

It follows that learning is always contextualized, that is, what is learnt and how it is learnt always reflects the social context of the learner (Brown and Duguid, 1998, 2001; Bruner, 1990; Gergen, 2001). At work, the functional identity of the learner, or the collegial context, is vital to the learner's perspective. Through extended in-depth interaction and shared practice, individuals from the same functional area develop similar cognitive structures or corresponding mental models (Brown and Duguid, 2001). This leads to shared perspective and knowledge of the world and work. These commonalities in their cognitive structures differentiate members of one functional area from members of other areas.

The theoretical framework linking cognitive and functional diversity has some empirical support. Evidence has been generated for a positive relationship between functional origin of managers and their perception of task and environmental variables (Dearborn and Simon, 1958; Waller et al., 1995). In addition, research in upper echelons studies (Finkelstein and Hambrick, 1996; Hambrick and Mason, 1984), health administration (Lemieux-Charles and Meslin, 1993), diversity (Pelled et al., 1999), communities-of-practice (Swan et al., 2002) and innovation and corporate entrepreneurship (von Meier, 1999), provides empirical support, based on the interaction of individuals across functional boundaries, for associated differences in perspective and tacit knowledge from within one functional area compared with another. Thus the information-and-decision-making perspective focuses on the potential creativity and problem-solving benefits of

having more diverse information and analyzing it from a variety of perspectives. It therefore predicts a positive impact on performance.

4.2 Social categorization perspective

The social categorization perspective focuses on categorization and attribution processes and their role in group outcomes. Research in this area suggests that barriers to cross-functional collaboration stem from categorization on the basis of functional identity, and lead to the proposition that affective conflict mediates an inverse relationship between diversity and team performance (Van Knippenberg et al., 2004).

Research suggests that affective conflict may be a consequence of diverse due to three inter-related factors. First, affective conflict frequently develops via the mutation of cognitive disagreement, which is a known consequence of diversity (Amason, 1996). Amason (1996) argues that affective conflict is likely to emerge when cognitive disagreement is perceived as personal criticism and Brehmer (1973) argues that such misinterpretation can cause purely cognitive disagreement to turn into a full-scale emotional conflict. Second, affective conflict is also linked to the impact of social categorization in diverse teams. Social categorization provides a basis for affiliation when people share a social identity and conversely provides a basis for conflict when people perceive individuals as belonging to different social categories (Ashforth and Mael, 1989).

Membership of different functional areas potentially acts as sufficient basis for such categorization as numerous studies have evidenced the perception of separateness associated with different functional backgrounds (Pietro et al., 2000). Once categorization has taken place, individuals strive to develop self-esteem by making positive attributions towards their own categories and by stereotyping, distancing and disparaging members of other social categories (Tajfel, 1982). This process has been used to explain the emergence of distrust, conflict and information withholding in diverse teams (Dougherty, 1992; Drach-Zahavy and Somech, 2001; Pelled et al., 1999).

Finally, affective conflict is theorized to be consequent to increases in the cognitive costs of interpersonal interaction associated with discussion of task-related issues among members with different approaches and perspectives, which is a known consequence of diversity (Bhagat et al., 2002; Shaw and Barrett-Power, 1998), which reduces the likelihood that group members will form into a cohesive unit and thus increases the likelihood of affective conflict. Bridging gaps in knowledge requires significant cognitive effort and is likely to result in negative feelings about the interaction.

Affective conflict has also been shown to decrease cognitive functioning due to anxiety (Roseman et al., 1994; Staw et al., 1981), which distracts team members from the task at hand (Argyris, 1962; Dickson et al., 1986). Mueller (1992) summarized findings related to anxiety and learning, noting that anxiety was linked to poorer attention, poorer information encoding, poorer information processing, loss of working memory and the experience of greater cognitive interference. Thus the social categorization perspective emphasizes the conflict-generating possibilities resulting from in-group: out-group biases and predicts a negative effect of diversity on performance.

4.3 Similarity/Attraction Theory

This perspective, proposes that we are less inclined to like people who are different from ourselves, and therefore that increased diversity is likely to lower cohesiveness and organizational performance.

5.0 DIVERSITY AND ORGANIZATIONAL PERFORMANCE

Despite the large number of studies on TMT heterogeneity, however, research has yielded inconsistent results, and the question of whether diversity in managerial backgrounds is advantageous for companies still remains open (Cannella et al. 2008). The findings of empirical studies on the effects of TMT demographic diversity on corporate performance range from positive (Barsade et al. 2000; Carpenter 2002), through non-significant (Ferrier 2001; West and Schwenk 1996) to negative (Michel and Hambrick 1992).

Jackson et al (1995), in their paper on diversity in organizations, reviewed and summarized empirical evidence from a number of related disciplines about the link between diversity (that is, within group heterogeneity) and team effectiveness. Their reading of the literature is that heterogeneity is positively related to the creativity and the decision-making effectiveness of teams. Heterogeneity here was broadly defined here and referred to the mix of personalities, gender, attitudes, and background or experience factors. With enhanced creativity and innovation due to the generation of greater variance in decision-making alternatives (Cox, 1993; Jackson et al., 1995) performance of organization is bound to improve. Bantel & Jackson (1989) found that organizational innovations in the banking industry were positively associated with heterogeneity of functional expertise among members of the top management teams of firms in that industry.

Watson et al (1993) reported that, over time (15 weeks), initial performance differences between newly formed culturally homogeneous and culturally diverse groups disappeared and eventually “crossed-over,” such that culturally-heterogeneous groups that initially performed poorly relative to homogeneous groups later performed better than homogeneous groups on selected aspects of task performance (namely, generating alternative solutions and applying a range of perspectives in analyzing business cases). Bantel and Jackson (1989) concluded that, when solving complex, non-routine problems, groups are more effective when composed of individuals having a variety of skills, knowledge, abilities and perspectives. Further, Schneider (1983) argued that organizational survival in turbulent environments may be aided by attracting, selecting and retaining demographically diverse managers who will later make important strategic decisions. Heterogeneous groups do have the advantage of enhanced adaptability and greater creativity (Katz, 1982). While heterogeneous groups may contain members whose usefulness is not immediately apparent, thus making them less efficient in handling the current situation, they are more likely to possess within them the skills required if that current situation changes. Heterogeneous groups do generate greater conflict but this can be productive (Deutsch, 1969) since resolving the conflict can lead the group to new and

better solutions to the problems of environmental adaptation. Thus, the diversity of skills and outlooks characteristic of heterogeneous groups can increase the adaptability of the group. The higher level of conflict associated with heterogeneous groups can enable them to better discern when adaptation is appropriate. Homogeneous top management groups, then, should contribute to a firm's efficiency (Hambrick and Mason, 1984). Their opposites, heterogeneous groups, should enhance a firm's ability to adapt.

Some empirical findings indicate that diversity results in greater knowledge, creativity and innovation and thus, organizations tend to become more competitive (Watson et al., 1993). In addition, improvement in decision making at strategic level can also be seen in the presence of diversity (Bantel, 1993). Meantime, both educational and cognitive diversity are positively correlated with organizational performance (Simons and Pelled, 1999). Siciliano (1996) found that board diversity paves a way for positive results in performance.

Cultural heterogeneity results in issue-based conflict which in turn enhances greater organizational performance. Heterogeneity is positively linked to better problem solving and offering creating solutions (Michael & Hambrick, 1992). Hence, diversity is positively related to performance. However, there could be no relationship between diversity (cultural heterogeneity and member diversity) and group cohesion. Murray (1989) suggested that the infusion of homogeneous groups would result in better performance.

On the other hand, diversity can be disadvantageous to organizational performance (Hambrick et al., 1996), in which, homogeneous top management tends to produce better results as compared to heterogeneous top management. Knight et al. (1999) also argues that team performance tends to deteriorate as diversity level increases. For example, diversity has been shown to have negative effects on both group cohesion (Katz, 1982; Lott and Lott, 1961; O'Reilly, Caldwell, and Barnett, 1989) and the frequency or quantity of communication (Smith et al., 1994; Wagner, Pfeffer and O'Reilly, 1984). In addition, diversity tends to lead to increased conflict within the group (Eisenhardt and

Schoonhoven, 1990; Wagner et al., 1984) and to increased political activity (Pfeffer, 1981). Hambrick and Mason (1984) and Dess and Origer (1987) argued that differences in TMT's backgrounds may be associated with less strategic consensus and subsequently poorer performance, due in part to decreased communication and increased conflict. However, Dess and Origer (1987) proposed that a firm's industry environment will moderate that entire relationship. Dess (1987) and Murray (1989) contended that firms competing in a dynamic industry may actually benefit from less demographic homogeneity and less strategic consensus. A diversity of opinions as to potential competitive moves and their likelihood for success would be more representative of an unstable and complex external environment. TMTs composed of homogeneous and like-minded individuals may lead to slow reaction times and loss of competitive advantage if new environmental realities are not correctly perceived and reflected in strategic plans.

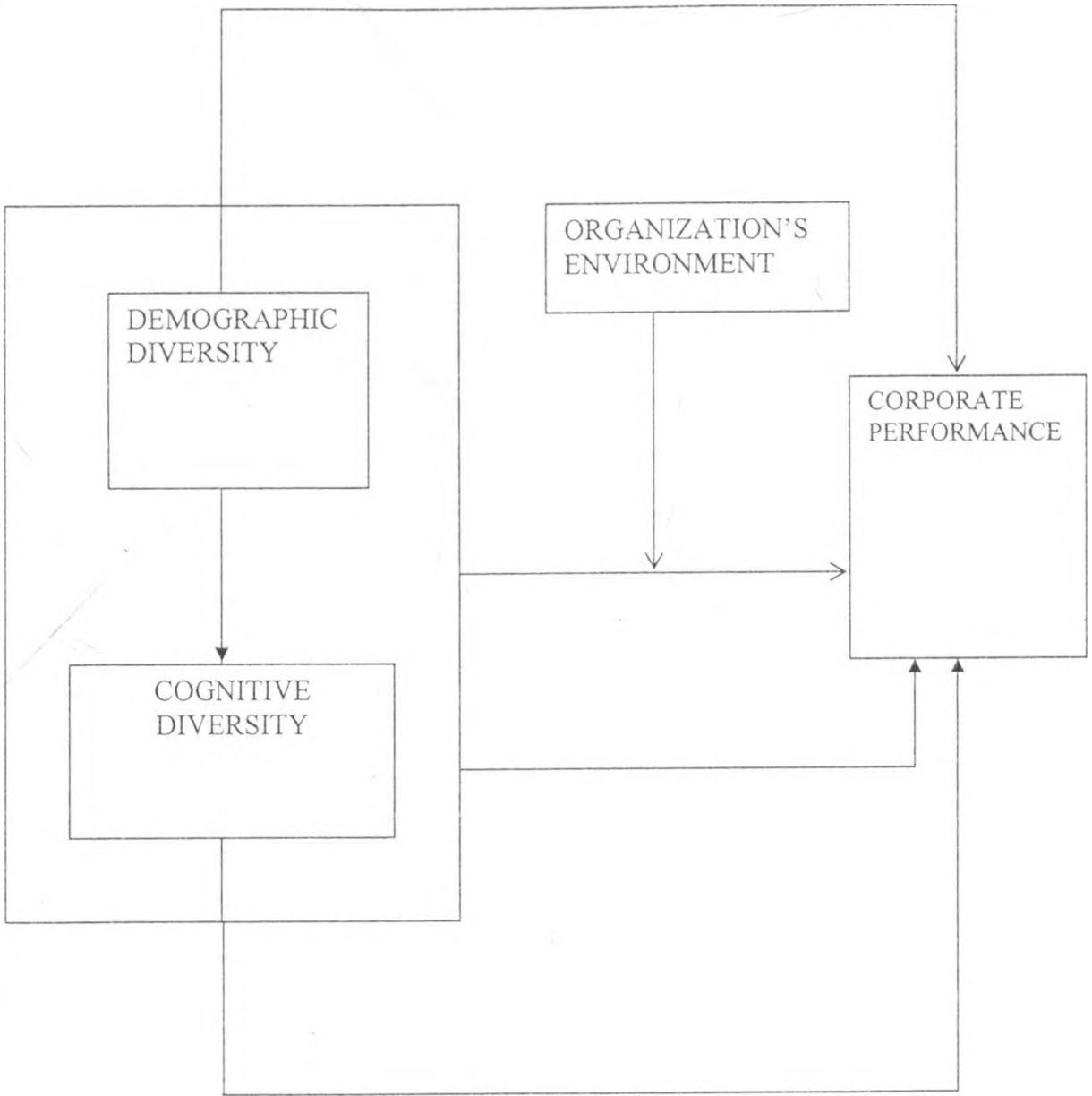
Heterogeneity of members also appears to have other, performance-related consequences. Jackson et al (1991) reported that heterogeneity among members of top management teams in bank holding companies was positively related to turnover in those teams. Wiersema & Bird (1993) found similar, if stronger, results in a sample of Japanese firms. Turnover is usually thought of as dysfunctional for team effectiveness, though it is possible that the consequences of losing and replacing members could work to the advantage of teams in some circumstances. Thus due to the conflicting findings of studies this area; this remains a grey area of research.

6.0 CONCEPTUAL FRAMEWORK

The conceptual framework presented in the figure 1 below, captures the relationships between top management characteristics and corporate performance as discussed in this paper. The conceptual framework suggests interrelationships between and among top management characteristics and organizational performance. The top management characteristics include the demographic and cognitive characteristics. The moderating factor which is likely to influence the relationship between the top management and organizations performance is the environment. Empirical result shows that under high environmental uncertainty, heterogeneous TMTs achieve better performance (Eisenhardt

et al, 1990). However, if the firms under study are operating in the same industry and also the same country, then the influence of the environment as a moderating factor is likely to be minimized since the environmental demands are the same. Bantel and Jackson (1989) adopted this approach in their study by minimizing the differences among firms with respect to environmental demands for innovation by studying firms in the banking sector in the same state. This thus explains the direct relationships between the TMTs characteristics and the organizational performance.

Figure 1: Conceptual Framework



Source: Author

7.0 EMPIRICAL STUDIES ON DIVERSITY IN THE TOP MANAGEMENT

A number of excellent reviews of upper echelons studies exist in the literature (Carpenter et al. 2004; Finkelstein and Hambrick 1996). For example, Miller, Kets de Vries, and Toulouse (1982) investigated the question of whether a relationship exists between the personality of a CEO and his or her strategy-making behavior. They found that firms led by confident and aggressive CEOs adopted riskier and more innovative strategies.

In a similar way, Channon (1979) showed associations between CEO characteristics and the internationalization strategy of their organizations. In an examination of the linkage between diversification strategies and the functional backgrounds of CEOs, Song (1982) reported that firms pursuing internal diversification tended to have CEOs with backgrounds in marketing and production. On the other hand, firms that pursued acquisitive diversification were more likely to have CEOs with backgrounds in accounting, finance, or law.

In the first U.S. test of the theory, a number of the propositions have found support in the study of Hambrick and D'Aveni (1985) who, using a matched-pair design, compared the TMT characteristics of 60 large U.S. companies which experienced bankruptcy within the period 1970-82, to that of financially successful companies within the same industry classification. Characteristics of bankrupt TMTs showed a greater preponderance of throughput functional experience (production, process engineering, accounting) than output functions (marketing, sales, product R&D), of shorter tenure, of fewer technical degrees but more MBAs and BBAs, and of fewer outside directors.

Similarly, Virnay and Tushman (1986) showed that the profiles of management teams of high-performance firms were significantly different from the management teams in firms with poor performance. Along these lines, Child (1974) found evidence indicating strong associations between management youth and firm growth. Drawing heavily upon leadership studies, in addition to organizational behaviour and strategic management, Lornburn (1986) tested the characteristics of top managers who formed the dominant coalition within the U.K.'s largest companies against the financial performance of those

industries in which they were strategically competing. Norburn's 64 independent variables were categorized into similar constituencies to that of Hambrick and Mason-characteristics hypothesized to be influenced by corporate experiences, by domestic and educational experiences, and by their own self-concept. Despite the broader nature of this particular research, considerable support emerged for the proposition that top management characteristics would be significantly different within industry sectors of growth, turbulence, and decline.

Further, Norburn (1987) compared TMTs from the U.S.A. and U.K. He found that there were significant differences between American and British top management teams in terms of corporate experiences, education, and self-concept with regard to aspiration and executive succession traits. Sambharya (1989) examined the TMTs of 53 American MNCs and found that the diversity of age, mean tenure, and proportion of MBAs had a strong influence on firm performance after controlling for firm size and size of TMT. Wiersema and Bird (1993) looked at the composition of Japanese TMTs and its relationship to executive turnover in a four industry sample. They found that age, tenure, and prestige of university were strong predictors of TMT turnover.

More recently, Kilduff, Angelmar, and Mehra (2000), using data from 35 simulated firms, analyzed the relationship between demographic diversity in teams and firm performance. Results showed the existence of a significant relationship between these variables. However, these studies are based on the assumption that the characteristics of managers have an independent and direct impact on organizational success. They also fail to examine the source and strength of this impact, which is a considerable limitation. In addition, while these studies establish that managerial characteristics influence organizational strategy, they again fail to elucidate the process by which this influence is exerted.

8.0 EMPIRICAL LITERATURE REVIEW AND KNOWLEDGE GAPS

The following are some of the empirical studies done in the study of top management and the various areas suggested for further research:

Figure 1: Summary of empirical literature review

Researchers	Focus	Findings	Comments/Knowledge Gap
Lieberson & O'Conner (1972)	Effect of Top Management Team on organizations Performance	Leadership account for less performance variance for either Industry or organization	Need for a more focused research on the role of environment instead of leadership explaining organizations performance.
Hambrick & Mason (1984)	Importance of Top Management Team on Organizations Performance	Observed demographic characteristics can be used to infer psychological cognitive bases and values	Demographic characteristics of Top Management Team may be used as a potent predictors of strategies hence performance.
Norburn & Birley (1988) Virnay & Tushman (1986) Child (1974)	Top Management Team characteristics and Organizations Success.	Organizations managerial teams with prevalence of output functional experience, multiple company employment and wider education are expected to outperform those without such prevalence. The profiles of high performing organizations are significantly different from poor performance organizations. There is a strong association between management youth and organizations performance.	Studies based assumption that TMT characteristics have independent and direct impact on performance. There is need to propose the need and source and strength of the impact.
Haleblian & Finkelstein (1993)	Effect of Top Management Team size & the CEO's dominance on Organizations Performance.	Organizations with large TMT and less dominant CEOs were more profitable in turbulent environments.	Dealing in turbulent situations requires information sharing.

Tang (1996)	Relationship between Top Management Team & Firms transformational capabilities	Use of socio-psychological rationale in explaining TMT linkages with firm's transformational capabilities.	There remains room for more research in the process through which TMT demographic characteristics affect organizations performance.
Entriago (2000)	The extent to which managers' psychological characteristics account for strategic process and organizations performance.	High tolerance with ambiguity was associated with superior performance. Existence of entrepreneurial process independent of strategic process.	Relationship between psychological features, process and success not so straight forward.
Entriago (2002)	Relationship between effect of managerial characteristics and organizations success.	Significant differences reported with respect to managers' experience & type of education to strategic posture. No significant difference was found between conservative and entire entrepreneurial managers with respect to age and tenure.	Proposes tripartite model covering individual characteristics, strategies and successor increased performance. Suggest research focusing on the sequence of managerial traits on organizations performance as well as the effect on demographic data in different context.
Roberto (2003)	How Top Management Team make strategic decisions	Top Management Team interacted regularly and performed some collective work in organizations. Stable teams of Top Management Teams in a typical organization spent a great deal of time monitoring and controlling organizations process and performance and hence strategy formulation occupied less time.	Need for further investigation on the working of the Top Management Team. Linkage between the Top Management Team, Strategy facilitation and Organizations Performance should be further investigated.

Irungu (2007)	Effect of Top Management Team on performance of Publicly Quoted Companies in Kenya.	<p>Academic qualifications translate to more creative solution hence affect decision making positively.</p> <p>Cognitive and demographic - characteristics do not affect decision making process.</p> <p>Effect of Top Management Team characteristics differed in different sectors</p>	<p>Studies used financial indicators and didn't access effect of non financial corporate performance measures.</p> <p>Study limited to companies listed in the NSE.</p> <p>Study focused on the period 2001-2005.</p>
Nielsen (2009)	Top Management Team diversity: A review of theories and methodologies	<p>Limited theory development and empirical research on antecedents of TMT diversity.</p> <p>Understanding of the drivers behind TMT diversity is essential for building a comprehensive theory of top executives and their effect.</p>	<p>Need to investigate sources of differences between top executives in order to understand the effect of these differences</p> <p>Need to further conceptualize the diversity construct</p> <p>Need to investigate if there is relationship between diversity attributes</p>

Source: Reviewed journal articles

9.0 DIRECTIONS FOR FUTURE RESEARCH

Management being context related, it will be beneficial for future researchers to test the relevance of this study in different context. For example future researchers could carry out research to establish the effect of demographic diversity on performance in the Kenyan context in different sectors. It is obvious that replicating this study in different countries and industries would increase our confidence in the results in the area of study. This shift to be accompanied by new theoretical emphases and insights, especially as they relate to the influence of aspects of the teams' environments. In organizations, such environmental factors could include intra organizational factors such as reward practices and information systems, as well as extra organizational factors such as the customer

demands and business environments. Especially desirable would be a study examining top teams in an industry that has more diversity (with respect to education, age, and tenure, but also sex, race, national origin) in the types of people chosen for top management positions. The relatively high degree of homogeneity among in most studies reviewed in this paper may mean that the effects of team composition are underestimated in most studies. This will further help to identify any adverse consequences of extremely high levels of diversity.

Further research in this area will help in clarifying the causal relationships among the variables and specifying the processes that underlie the causal relationships. Longitudinal studies using large samples may be helpful in identifying causal relationships, and intensive case studies, and even field experiments, may be required to inform us about the processes involved. Such research may offer excellent opportunities for, and benefit greatly from, cooperation among researchers interested in the topics such as group dynamics, leadership, human resource management, organization design and strategy.

Diversity refers to dissimilarity among members in terms of gender, ethnicity, race, personality, culture, and functional experience, among other things. There is evidence that team effectiveness is well-served by diverse members when teams perform cognitive, creativity-demanding tasks. This is not to say that diverse membership might not pay off in enhanced effectiveness in other task domains; rather, too little is now known to draw firm conclusions. Also, it is not known whether all forms of diversity contribute in similar portions or in similar ways to team performance on intellectual tasks. In fact, there is a real need to develop theory and data on the ways in which dissimilarity among members contributes to task performance. Just as research on goal and team performance has begun to emphasize the mediating processes connecting goals and team effectiveness, research on diversity in teams should increasingly emphasize the processes that mediate its effects.

10.0 CONCLUSION

It is tempting to conclude that high levels of diversity should be encouraged in executive groups. Although plausible and perhaps valid, this conclusion is premature. Further research is needed to determine the effects of high levels of diversity and how they can be managed better than they are currently being managed. It may be that Maier (1967) was correct several decades ago when he said that differences in a group can be either an asset or a liability depending upon how the group leader handles the diversity. The bottom line appears to be that more research needs to be undertaken in this area to determine the effect of diversity on organizations performance.

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