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Linking TMT Characteristics and Strategy Execution with Firm Performance: A Review of Literature

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Abstract:
Firm performance indicators are shifting day by day, and how firms make their business decisions and execute them so as to survive in the current challenging business environments has become a matter of research interest to management scholars and practitioners alike. Focus has now shifted to the top leadership of organizations commonly referred to as top management teams (TMT); their characteristics and how they influence the firms they lead to performance levels that meet expectations of the diverse stakeholders of the firms. This study, which is founded on the Upper Echelon Theory, investigated the effect of TMT characteristics on firm performance. The paper discusses the results of the review of literature in relation to the linkages between TMT characteristics, Strategy Execution, Organizational Structure and Firm Performance. The study concluded by proposing that even though TMT characteristics may influence the performance of their firms, such an influence will be through the execution of the various strategies identified by the firm. It next proposed that the execution of strategies of the firm may influence the performance of the firm, but this relationship happens through the decisions and actions of the TMT. Lastly it proposed that even though TMT characteristics may influence the performance of their firms, such influence is dependent upon the prevailing organizational structure in the firm. Finally the study proposed that future research should test the model with TMT characteristics as the independent variable, Organization Structure as the moderating variable, Strategy Execution as the mediating variable and Firm Performance as the dependent variable.

Keywords: *Top management team characteristics, strategy execution, organizational structure and firm performance*

1. Introduction

There has been great concern amongst strategic management researchers and practitioners alike to attempt to understand why some organizations achieve higher levels of performance than others albeit operating in the same or similar environments (Ogollah Bolo & Ogutu, 2011). Some previous studies in strategic management have illustrated that top management team characteristics have the potential to result in effective strategic decision making, greater creativity, more innovation and the ability to reach more and different types of stakeholders, which is in effect positively impact on firm performance (Mutuku, K'Obonyo & Awino, 2013). It has also been noted that the strategy execution process can make a sound strategic decision ineffective or a debatable strategic choice successful (Wit & Meyer, 2004). Previous research in strategic management have also confirmed that performance of organizations is always influenced by several other factors such as organization structure, the operating environments and organizational strategies (Mkalama, 2014)

The fact that the strategy execution process can make a sound strategic decision ineffective or a debatable strategic choice successful, attention of strategic management scholars have been drawn to it in trying to explain firm performance. The process of strategy execution has been viewed as that of weighing the advantages of available strategic alternatives before choosing the most appropriate one. Strategy execution therefore comprises a series of sub-activities that are primarily administrative which start by defining and understanding the purpose of what is to be achieved, mobilizing resources to carry out the identified sub-activities or tasks, putting in place an organization structure appropriate for the efficient performance of the identified tasks, deploying information systems to assist in coordination of the sub-divided tasks and lastly establishing the process of performance measurement with incentives and controls (Wit & Meyer, 2004).

1.1. Statement of the Problem

Organizational performance is the mostly widely used dependent variable in research in the area of strategic management but it still remains vaguely and loosely defined and there is hardly a consensus about its definition, dimensionality and measurement (Richard, Devinney, Yip and Johnson, 2009). In their research, Mankins and Steele (2005), reported that companies realized only 63% of the financial performances promised by their strategies with Kaplan and Norton (2005) attributing such performance gap to the fact that 95% of firm employees are not aware of or do not understand their firms' strategies. Several studies have also identified voids in strategy formulation to strategy execution stages, with Johnson (2004) noting that 66% of corporate strategy are never implemented. Also empirical work on the relationship between TMT and organizational performance has yielded conflicting and inconclusive results with some studies showing positive results, others showing negative results whereas others showing no relationship (Wasike, Ambula & Kariuki, 2016).

The general aim of this study was to review the literature on firm performance and how they relate to the firms' execution of their strategies. The study reviewed literature on Top Management Teams, their role in Strategy Execution and how these roles affect firm performance. The specific objectives of the study were; to review relevant concepts and highlight issues arising from the conceptual discussions, to review relevant theories and identify issues leading to knowledge gaps, to review literature on the linkage between Top Management Teams, Strategy Execution and Firm Performance, and lastly to propose a theoretical model explaining the relationship between TMTs, Strategy Execution and Firm Performance.

The study is meant to benefit the citizens and the general public by trying to expand firm performance measures so as to quantify and measure service delivery in the public sector in parameters that correctly reflect public satisfaction, expectations and accountability. To the strategic management researchers and scholars, the study purposed to investigate the role of organizational structure on the relationship between TMT and firm performance so as to generate new insights. Lastly the study strived to identify and highlight issues arising from how top management teams, strategy execution and firm performance have been conceptualized by previous scholars, to identify and highlight any issues leading to knowledge gaps from the theoretical reviews and, to investigate empirical and contextual gaps in previous studies so as to summarize them and recommend necessary improvements which can be instituted in future research.

2. Literature Review

2.1. Conceptual Review

2.1.1. The Concept of the Firm

The concept of the firm has three main paradigms, the economic view of the firm, the resource based view of the firm and the organization view of the firm. The economic paradigm posits that the firm exists to combine resources to produce an end product. It views the firm as the embodiment of team production. The firm's product is the joint output of multiple inputs working together; the entity we call the firm owns the rights to productive services of the inputs (Alchian &Demsetz, 1972). The resource based view of the firm on its part posits that the critical problem faced by the firm is how to maintain the distinctiveness of its products, or, for identical products, its low-cost position, while not investing so much in obtaining this difference above normal returns (Barney, 1986).

Organizational view of the firm on its part is concerned with how the internal organizational structure works to motivate participants to produce outcomes consistent with the goals of those who control the firm (Pfeffer, 1981). A firm can therefore be defined as a collection of resources under common management, which transforms inputs into outputs. Firms exists because it is cheaper to work collectively under a few broad rules and open ended contracts than it would be for the employees to split apart, rely on arm's length agreements, and get the same business done (Coase, 1937). The output a firm generates is either in form of products or services and is always meant to serve an identified need in the society (Adam, 1776).

2.1.2. The Concept of Top Management Teams (TMT)

The concept of TMTs cannot be clearly expounded and internalized without first explaining what management is, who managers are and what managers in a firm actually do. Management has four main elements namely; a process of interrelated social and technical functions and activities, achieve these objectives through people and other resources, and do so in a social organizational setting. Together with other managers at various levels, TMTs establish organizational objectives, and all who work in the organization must strive to achieve these objectives. Management's work includes providing an organizational context in which direct and support work can be performed effectively, and preparing the organization to deal with threats and opportunities in its external environment (Burke and Friedman, 2011).

Top Management Team (TMT) in any organization comprise of highest ranking executives with titles such as chairman/chairperson, president, chief executive officer, managing director, executive directors, executive vice presidents, among others. These positions are responsible for the entire organization. TMT, translate policies formulated by board of directors into goals, objectives, strategies and projects meant to steer the organization to success both in the present and future. They make decisions that affect everyone in the organization and are held responsible for the success or failure of the organization. Top Management Teams formulate collective purpose, instill values, influence culture, develop the organizational structure, deploy resources, and determine the strategic plan for the organization and oversee its execution (Hambrick, 2007).

2.1.3. The Concept of Strategy Execution

Strategy execution is critical to a company's success, addressing who, where, when, and how of reaching the desired goals and objectives of the firm. It focuses on the entire organization. Strategy execution occurs after environmental scans, PESTEL and SWOT analysis, and identifying strategic issues and goals (Wit & Meyer, 2004). Strategy execution put simply is the process that puts plans and strategies into action to reach the identified firm goals. A strategic plan is a written document that lays out the plans of the business to reach goals, but will sit forgotten without strategy implementation or execution. Strategy execution therefore makes the company's plans happen (Alexander, 1985). Strategy execution in any organization requires a team effort headed by the organization's leadership team (Top Management Team). Each person involved in change management has their responsibilities, and it is important for the entire organization to understand the role of leadership in strategy execution to make the process yield desired firm performance (Finkelstein & Hambrick, 1996).

Business firms' interest in strategy execution has grown in recent years and will continue to do so. A global report from the Conference Board in 2005 found that consistent execution of strategy by top management is one of the top 10 challenges facing CEOs, with a third choosing it as the challenge "of greatest concern." The paper concluded that TMT play a crucial role in strategy execution as they are the principal owners of the strategy execution in their department, division or team. They contribute content; act as the link between organizational levels and between their organizational level and their direct reports and serve as a performance role model. The paper further disagreed by the many scholars who have limited the contribution of TMT to the strategy formulation stage by ignoring the fact that the greatest factors that affect strategy execution are resource allocation, technology employed in the various firm processes, firm organizational structure, firm organizational culture and resistance to change in the organization, all which require TMT direct involvement (Conference Board 2005, 2006).

2.1.4. The Concept of the Firm Performance

Two major streams of thought have emerged on how scholars conceptualize firm performance namely; the economic tradition and, the behavioural and sociological paradigm. The economic tradition emphasizes the importance of the external market factors in determining firm success. The behavioural and sociological paradigm stream on their part sees organizational factors and their fit with the environment as the major determinants of firm performance. Within this school of thought, little direct attention is given to the firm's competitive position. On their part, economics tradition stream, has disregarded factors internal to the firm (Buzzell & Gale, 1987). Theory and empirical evidence on linkages of several parameters to success of the firm is evident within each paradigm, but little has been done to integrate the two and evaluate the relative effect of each on firm performance. Some scholars like Grinyer, McKiernan and Yasai-Ardekani (1988), Miller (1986), White (1986), White and Hamlnermesh (1981), and Lenz (1981), have discussed and/or evaluated a limited number of contingent relationships between economic and administrative factors but no conclusive work has been done, however, to assess the relative importance of these two sets of explanatory factors to firm performance.

Doyle (1994) expounded that there is no single measure or best measure of organizational performance as organizations adopt different objectives which require different measurements for their achievements. Zou and Stan (1998), proposed seven categories of financial, non-financial and composite scales based on their review of empirical literature between 1987 and 1997. The financial measures they proposed were; sales measures, profit measures and growth measures. The non-financial measures they proposed were; perceived success, satisfaction and goal achievement while their composite scales included measures that are based on overall scores of a variety of performance parameters.

2.1.5. The Concept of Organizational Structure

There are many different opinions and definitions of organizational structure put forth by several scholars. Some of these views have looked at organizational structure as the arrangement of duties useful for the work to be accomplished and mostly represented by organizational chart (Jackson & Morgan, 1982). Walton (1986) on his contribution to the topic, identified structure as the basis for organizing which include hierarchical levels and spans of responsibility, roles and positions, and mechanisms for problem solving. Thomson (1966) posited that organizational structure is the internal differential and patterning of relationships, and further viewed structure as the means by which the organization sets its limits and boundaries for efficient performance by its members, through delimiting responsibilities, control over resources, and other matters.

Jackson and Morgan (1982) further defined organizational structure as the relatively enduring allocation of work roles and an administrative mechanism that creates a pattern of interrelated work activities that allows the organization to conduct, coordinate, and control its activities. Organizational structure is used by various firms as a control mechanism to affect employee work outcomes, to ensure that the required tasks are performed effectively and efficiently, and to assist the attainment of organizational goals and objectives (Katsikea et al, 2011). According to Daft (1995) Organizational structure describes the internal characteristics of an organization. These internal characteristics receive attention since they are critical to organizational failure and success.

2.1.6. Contribution of the Conceptual Review to the Study

From the conceptual review, it imperative to understand changes in what levels of managers should be referred to as TMT, more so with the advent of Information Technology (IT) which has caused many firms to adapt flatter organizational structures. Also, IT systems are nowadays widely used in decision making with a resultant impact on the quality of decisions and hence their intended outcomes (Daft & Macintosh, 1984). Organizational Structure has also been identified by several previous scholars to have great impact on strategy execution as an enabler for TMT (Galbraith, 1973 and 1995).

The concept of strategy execution has also evolved over time with the need for clarifying where the process of strategy execution starts and ends becoming more and more necessary. Also, the managers and staffs of the firm involve in the process and their roles needs to be clarified through theoretical views. Conceptualization of firm performance has seen two streams namely; economic view, and behavioural and sociological views. It is therefore imperative to review the relevant theories so as to identifying evolving trends and justify which stream to consider appropriate or how to integrate the two streams for this study and future research in the area of firm performance (Mankins & Steele, 2005).

2.2. Theoretical Review

2.2.1. The Upper Echelons Theory

The study is anchored on the upper echelon theory because it aims to look at the Top Management Teams in organizations and how they affect their firms' performance. The upper echelon theory postulates that top management teams in organizations make decisions that are consistent with their background characteristics (Kilduf, Angelmar & Mehra, 2000). Cognitive Psychology perspective on their part posits that as TMT engage in the strategic management process, they act on the basis of their interpretations of the strategic situations they face, informed by their experiences, values and personalities (Hambrick, 2007). Finkelstein and Hambrick (1990), stress that corporate performance can be explained by different characteristics of the TMT.

Top executives bring to the organization values and personalities which impact on the way they visualize, interpret happenings in their work life and the decisions they finally arrive at on the issues they face (Hambrick, 2007). According to some proponents of the upper echelon theory like Wiersema and Bantel (1992), and Tacheva (2007), the entire team as a unit share collective responsibility of determining organizational outcomes rather than the firm's Chief Executive Officer. From the upper echelons theory perspective, the contribution of top management teams to firm performance can be studied through the following attributes; age, field of study, level of education, work experience, cultural upbringing and values, and personalities

2.2.2. The Theory of the Firm

The theory of the firm is considered fundamental to this study as it postulates ways of conceptualizing the firm and answers to the questions why firms exist and what precisely a firm is, is fundamental in the understanding of how firms are organized and how they should operate. The theory of the firm not only tries to answer why businesses are organized in firms but also how the relationships within the firm as well as between the firm and society at large should look like. The theory explains what firms are for and whose interests they should serve. The theory covers the economic, social and legal aspects of the firm, how they are connected and what they mean for the smooth functioning of the firm. Before the theory, the firm was very often seen as a black box which was assumed to behave like any other self-interested utility maximizing economic actor. This view was based on the belief that the firm had the ability to almost instantaneously adjust itself to a changing environment. Consequently, resources of a firm were assumed to be put to their most efficient use without having to look at inside the firm. It was treated as an entity competing with other firms in the market without any internal forces affecting its operations (Coase, 1937).

2.2.3. Agency Theory

The study considered Agency theory important as the theory is based on the incompleteness of contracts and the separation of ownership between shareholders and management, which is the main characteristic of corporations nowadays (Berle & Means, 1932). One of the key elements of agency theory is opportunism. This occurs if one party; the agent, has discretion which he/she is supposed to exercise for the benefit of another party; the principal, he/she may exercise it to maximize his/her own utility instead. This is inefficient where the resulting loss to the principal exceeds the benefits to the agent. If the agent is rewarded by the principal on a basis which does not correlate his/her effort to the reward, the agent may not have the incentive to exercise the highest effort. The costs resulting from this agency problem includes both the loss of potential benefits and the costs of measures designed to reduce the loss of potential benefits (Williamson, 1979).

2.2.4. Stakeholder Theory

The last theory considered important and relevant to the study is the stakeholder theory. This is because in their work on firm performance in the late 1980s and early 1990s, Archie Carroll and Ed Freeman theorized that by taking the interests of all the firm's stakeholders into account, the firm could achieve greater performance than by just simply focusing on shareholder interests. The stakeholder theory of the firm as known today therefore postulates that all of the firm's legitimate stakeholders have customer-like power to engage or not to engage with a firm and that the utility that is created for one stakeholder is dependent, in part, on the behaviour of the firm's other stakeholders and that stakeholders determine their own utility functions. The amount of utility they receive from the firm influences whether they choose to engage with the firm and how they act when engaged in transactions with the firm (Freeman, 1994).

2.2.5. Contributions of the Theoretical Review to the Study

From the theory of the firm, it is difficult to determine whether the managers actually maximize firm value or merely attempts to satisfy stakeholders while pursuing other goals. It is equally difficult to quantify the social contribution of the firm; hence firm performance is usually measured in terms of economic factors like profits generated which does not capture the entire factors key to firm performance (Demsetz, 1988). Also from the upper echelons theory it is important to recognize and craft methodologies of how to segregate the contributions of the various players involved in the strategy execution before generalizing on their effect on firm performance which may be inaccurate and misleading (Tacheva, 2007).

2.3. Empirical Review

The formation of TMT is a major factor that will affect TMT diversity and TMT cohesiveness, which in turn will affect how they make important decisions and hence firm performance. It is therefore imperative for scholars and practitioners to do much more work in this area so that the success of the firms is not compromised from the on-set when the TMT are being constituted or coming together. Clear criteria on the composition of the TMT in terms of diversity in age, educational backgrounds and educational levels, employment tenure, gender and ethnic balance, and interest group balance is set for every firm depending on its mission, complexity and type of firm (Knight et al, 1999).

In the strategy execution, what level the strategy falls into within the firm can be identified as a critical issue which must be decided immediately a strategy has been crafted and agreed upon by TMT. This will guide on which group should execute the strategy, what resources and how the required resources will be made available and by whom. The most challenging kind of strategies identified are cross-cutting strategies which require clear portioning a cross the concern functions or levels so that each of the involved parties clearly understand where they should start and end in the strategy execution (Higgins, 2005).

Firm performance measurement has also not been accurately and comprehensively conceptualized more so for the public service. Also, it has been assumed that there are no competitive forces in the public service which has led to serious poor performance by the government departments, state agencies and state corporations. The study therefore recommends that strategy execution research be conducted in both public and private sector firms in Kenya with particular reference to the levels of strategies, how the strategies are communicated and to expand the performance measurement of the public service organizations to include the expectation of the various stakeholder. It is also important to study the role of organization structure on the relationship between TMTs and performance (Freeman, 1994).

3. Proposed Theoretical Framework

The proposed theoretical framework aims to reflect on the theoretical gaps as well as the empirical gaps identified from the reviews of the relevant theories and reviews of the previous work by scholars on the subject matter respectively. It then proposes a theoretical model deemed appropriate for future research that can generate new knowledge in the subject of study.It is evident that firm performance measurement has not been accurately and comprehensively conceptualized in a way to take care of all types of organizations, more so for the public service. Also, it has been assumed that there are no competitive forces in the public service which has led to serious poor performance by the government departments, state agencies and state corporations. There is therefore need to conceptualize performance in the public service in such a way that governmental bodies, government ministries or departments can compete with each other in their levels of service delivery. This can be done by enhancing performance measurement indicators to take cognizance of organizational objectives as well as contextual factors and also through stirring competitive forces among public sector organizations, government ministries or departments that offer comparable services (Hague, 2001).Clarification on who is responsible for strategy formulation and strategy execution in the various firms under study should be made in the context of the particular organizational structure so as to know how to measure the performance of the TMT in line with the postulates of the upper echelon theory. The extent of delegation of authority and space for the TMT to run the various functional areas they head is also critical in assessing the performance of the TMT. Scholars should be concerned with the role organization structures play in moderating the effect of TMT on firm performance (Johnson, Scholes & Whittington, 2008).

There have been no studies comparing similarities and differences of strategy implementation among private firms and state-owned corporations, or among local firms and multinational firms. There is also evidence that not many studies have been conducted in the African context and that the specific differences that exist regarding strategy execution within and between these various forms of organizations have not been thoroughly investigated. There are also very few studies that have examined the inter-relationships of functional and business strategies. The many soft, hard and mixed factors that influence the success of strategy execution, ranging from the people who communicate or implement the strategy to the systems or mechanisms in place for co-ordination and control have also not been given prominence is the previous studies (Mutuku, K'Obonyo & Awino, 2013).There is also an identified gap from previous research on how strategy is communicated within the firms. Very many excellent strategies are not implemented as they should have been and hence do not achieve the desired performance effects just because, they are not communicated in time, clearly and to all those who require the information (Daft & Macintosh, 1984). Lastly there have been very few empirical studies on how competitive forces can be introduced and sustained in the public service, more so in the African context and specifically in Kenya. Performance contracting was introduced in Kenya but its benefits have not been fully exploited as its integration with the actual performance of the public-sector organizations in regard to service delivery has not fully been fully institutionalized (Letangule & Letting, 2012).

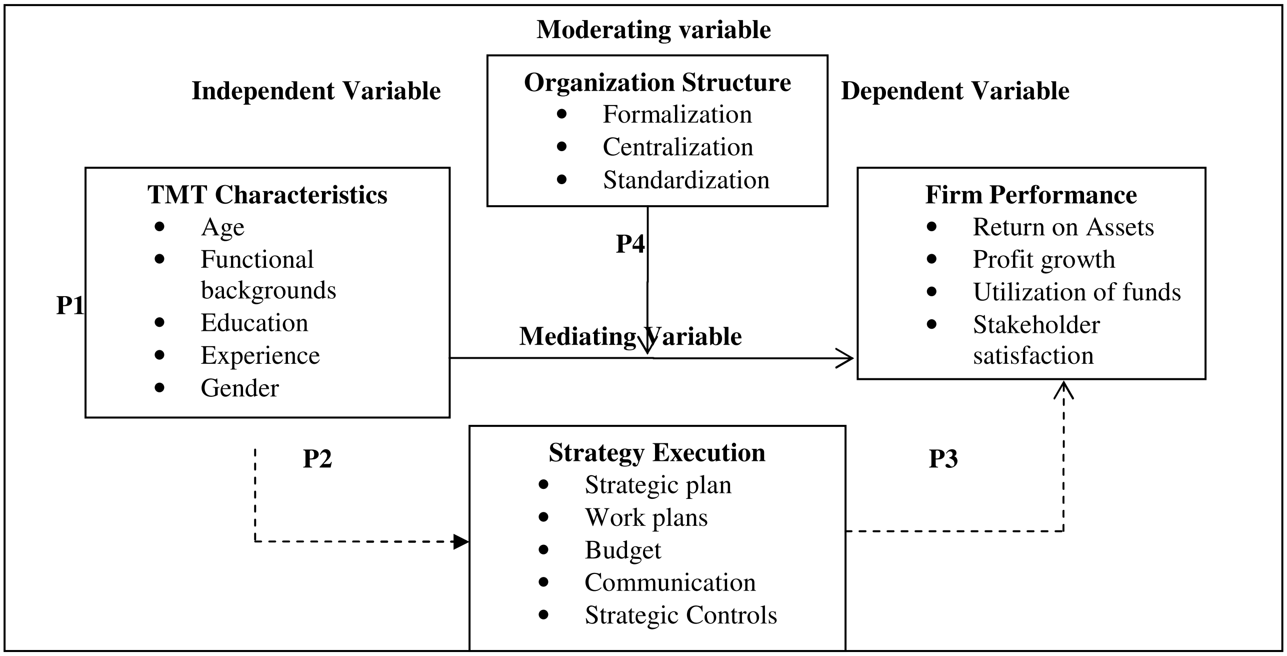

Figure 1: Theoretical model explaining role of Organization Structure and Strategy Execution on the relationship between TMT and Firm Performance

3.1. Top Management Teams and Firm Performance

Top Management Teams as a construct in management research has been argued to play a key role in the performance of firms. Most of the previous researchers have operationalized TMT through their diversity which comprises their age, tenure, functional backgrounds, education, experience, gender, regional backgrounds and compensation. Firm performance from the view point of previous scholars has been operationalized using indicators such as return on assets, return on investment, profit growth, customer service, utilization of funds, return on equity and stakeholder satisfaction depending on whether the firm is private or public (Jalali, 2012).

In view of the convincing argument drawn from both the theoretical and empirical literature that TMT translate policies formulated by board of directors into goals, objectives, strategies and projects meant to steer the organization to success both in the present and future, it is worthwhile to conclude that TMT influence in any firm will directly affect the performance of the firm (Haleblian and Finkelstein, 1993).Thus, the study proposes that:

- Proposition 1: TMT characteristics in any firm will determine the level of the firm's performance.

3.2. Top Management Teams and Strategy Execution

Top Management Team characteristics as so far argued have the potential to determine the level of firm performance; however, such a relationship is likely to depend on the level of execution of particular strategies selected by the firm. Studies on the role of TMT in strategy execution in relation to firm performance have identified the following items as key in shaping that relationship, strategic plans, work plans, budget, communication, and monitoring and evaluation (David, 1997).

- Proposition 2: Even though TMT characteristics may influence the performance of the firm, such influence will be through the execution of the various strategies identified by the firm.

3.3. Strategy Execution and Firm Performance

Successful execution of strategies by the firm has been identified through theoretical and empirical literature to influence the performance of the firm, but this relationship only happens through the actions of the TMTs in the firm whose actions make the strategies to be accomplished (Li, Guohui & Epller, 2008).

- Proposition 3: Execution of strategies of the firm may influence the performance of the firm, but this relationship happens through the actions of the TMT.

3.4. Top Management Teams, Organization Structure and Firm Performance

Top Management Team characteristics as so far argued have the potential to determine the level of firm performance; however, such a relationship is greatly influenced by the organization structure prevailing in the firm. Studies on the role of organization structure and how it shapes the relationship between TMT and firm performance have identified the following characteristics of organization structure as important; formalization, centralization and standardization (Trian & Tian, 2013).

- Proposition 4: Even though TMT characteristics may influence the performance of the firm, such influence is greatly affected by the prevailing organization structure in the firm.

3.5. Conclusions and Recommendation

The proposed theoretical framework will test the specific objectives of the study, namely finding the linkage between Top Management Teams, Strategy Execution and Firm Performance. Also, the proposed theoretical model can enable future research to address the issue of not determining the actual effect of organization structure on the relationship between TMT and firm performance as well as the issues of expanding firm performance indicators in such a way that all stakeholder expectations can be captured. The mediating effect of strategy execution on the relationship between TMT characteristics and firm performance can also be investigated further through empirical research so as to minimize knowledge gaps identified in the study.

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