Top management team psychological characteristics, institutional environment, team processes and performance of companies listed in Nairobi securities Exchange

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Abstract:

Researchers have established that top executives affect company outcomes. This finding is grounded on the top management teams demography research, which forms the bulk of the extant literature in upper echelons theory. As the volume of research linking top management teams and strategic outcome grows, so too does the call for research that goes inside the “black box” of the upper echelons. The black box criticism is so common in a majority of upper echelon studies that some researchers encourage a moratorium on the use of demographic variables as surrogates for top management team behavior. This study sought to contribute to knowledge by departing from the demographic path to assess the effect of top management team psychological characteristics on organizational performance, cognizant of the probable role of institutional environment and team processes. The main objective of the study was to establish the influence of institutional environment and team processes on the relationship between top management team psychological characteristics and organizational performance. The study’s population consisted of 61 companies listed at Nairobi Securities Exchange and data was collected from 46 organizations. Data was analyzed and interpreted based on descriptive statistics, multivariate regression analysis and structural equation modeling. The study revealed on one hand, significant results for the effects of top management team psychological characteristics on non-financial performance and on the other hand non-significant results for the effects of top management team psychological characteristics on earnings per share performance. Additionally, the study also revealed significant results for the moderating role of institutional environment on top management team psychological characteristics and performance relationship. In opening up the top management team „black box“, this study has provided an empirical foundation for investigating the impact of top management team psychological characteristics on organizational performance. The study has also made a unique contribution to the academic literature arising from integration of upper echelon theory, group dynamics theory, institutional theory and social psychology theory. The study has also made a unique contribution to policy formulation and development in Kenya. Policy makers will benefit in understanding how institutional forces in the Kenyan context impact organizational performance and hence be guided in formulation of reforms in various political, judicial and economic institutions. This research has given rise to several new research avenues and practical implications such as the need to replicate this study in different contexts in order for researchers to draw patterns showing effect of top management team behavior on various organizational outcomes. One of the main drawbacks of this study was that all the study’s data except organizational earnings per share were obtained through self-reporting measures, which are subjective in nature. The reliance on primary data has the potential associated with sources of systematic measurement error. Future studies could focus on using secondary data to measure, for example, organizational non-financial performance. Secondly, the study employed a cross sectional approach whereas a longitudinal approach would provide for a longer time of study to observe relationships among study’s variables.