

# Simulation Of The Influence Of Top Management Team On Performance Of Companies Listed At The Nairobi Securities Exchange

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**Abstract:** The top management team (TMT) influences a crucial decision carried meant for the whole company. The TMT are made up of high-level executives, generally with designations such as president, General Managers, Managers and associated titles. They are accountable to the entire organization. Organizational strategies are influenced by the personal attributes of TMT are such as experience, expertise, values and dispositions. Leaders make decisions that conform to the basic characteristics of management and consist of elements of psychological characteristics and observable experiences. This study operationalizes the characteristics of the management team to include functional background, tenure, age, gender and education. This research seeks to understand how the qualities managers play on achievement of company goals, since the question of whether diversity in the configuration of the management context is valuable and crucial for companies remains unanswered and open to the discussion. The survey was grounded on the theory of the upper echelon. This research embraced a cross-sectional descriptive survey plan. Questionnaires containing closed and open questions were applied to obtain primary information from 66 companies listed on the Nairobi Security Exchange (NSE), 50 of the 66 responses were returned, indicating a response rate of 75.76. The study revealed a moderate relationship among the attributes of TMT and the performance of the company. The management team (education, seniority, age, gender, functional history) accounted for 51.4% of the change in company accomplishment. The inferences show that the managing team has a substantial influence on the performance of firms listed at NSE. The outcome adds to the boosting of literature by validating the postulation of the theory of the higher level.

**Key words:** Top Management Team, Firm Performance, Nairobi Securities Exchange.

## INTRODUCTION

Organizations top management teams is made up of executives holding designations such as president, chairman, CEO, directors/vice president. According to Wasike, Machuki, Aosa and Ganesh, (2015), top management positions hold responsibility for running organization. Top management team (TMT) characteristics denote exceptional personal qualities attributed to colleagues of TMT which are innate or studied, evident or intellectual. Kinuu (2014) posited that these characteristics exhibit the value top management members brings to the management of the firm. TMT interpret plans devised by board of the company into objectives, objectives, tactics meant to guide the organization to win in their field operation. TMT establish choices that involve everybody in the company and hence add to the achievement or collapse of the companies (Pearce & Robinson, 2011). According to Thompson (1967), top management processes information of the firm depending on how the dynamism in the operating environment. TMT influences the strategy and actions taken chosen the to realize the objectives of firm (Ondari, 2015).

According to Kasomi (2015), researchers group TMT traits into three main groups, such as, cognitive, demographic, and psychological characteristics. Demographic attributes including gender, education, age, functional history, work experience, seniority in organization and the size of the TMT. Cognitive traits in TMT facilitate goal-oriented behavior. Mental qualities are linked to flexibility or ability to change to the suitable emotional state. It entail proposition of thinking or understanding of individuals' thoughts and expectations or predictions. They manifest themselves for form identification, crisis definition and problem solving, which are the

result of possible solutions and the crisis handling. The implication affecting self-control or the aptitude to recognize and achieve your own emotions (Narayana, Zane & Kemmerer, 2011).

The study adopted the implementation of Nielson and Nielson (2013) of TMT, i.e. duration of occupation, functional context, age, sex and education. TMT composed of members with varied occupancy gains from different skills and points of view distributed by each member with a positive influence on organizational achievement. A company's performance must be reflected in the establishment's aptitude to achieve its objectives and aims, using its resources effectively and efficiently (Daft, 2000). Njoroge (2015), contended that no sole measure of company performance, as different measures are adopted by businesses depending on their orientation. According to Awino et al., (2011), the combination of different measures of a company's performance is an effective way to measure overall achievement. Kaplan and Norton (1992) concluded that four perspectives are used to measure performance: these perspectives are customer satisfaction, learning and growth, financial and internal processes. The study was based on the upper echelon theory (Hambrick & Mason, 1984). It postulates that the result of an organization depends on the attributes of TMT (Hambrick and Mason, 1984).

The main deliberation and orientation of any serious organization is to try to outdo industry competitors by providing shareholders with sustainable and superior returns and to satisfy all other stakeholders (Child, 1972). According to Machuki and Aosa (2011), organizations should assess fundamental success and failure as a discourse in the business of organizational management. Actual results against planned objectives, goals and outputs constitute the actual accomplishment of the corporation.

The conduct of corporations listed at the NSE is of major strategic importance in driving the socio-economic agenda of Kenya, as envisaged in Vision 2030 of the country which anchors on the three key pillars, which are; economic, social and policy to transform Kenya into an industrialized economy by 2030. Businesses need effective management teams to overcome the competitive challenges they face in an operating environment in order to achieve superior performance (Cannella, Park & Lee, 2008).

Surveys that have looked at TMT and business performance have produced varied findings, with some reporting a positive impact, others showing a negative impact and still others having no influence. Irungu (2007) focused on the association among TMT demography and organizational performance and established that various demographic factors have different magnitudes and directions of influence on performance. Praptiningsih (2009) in his study linked company governance devices and corporate performance in Asian banks using cross-sectional surveys and panel data and concluded that duality of CEOs positively affected performance of enterprises. Guo and Kumara (2012) in their research on the impact of company sovereignty devices using a random effects model on non-financial businesses in Sri Lanka, established that there is a substantial negative association among the size of the non-executive board of directors in a firm.

Irungu (2007) studied effect of TMT on listed companies at NSE applying relevant data collected from 29 banks and established existence of positive relationship among the characteristics of TMT and various business performing indicators. Lishenga (2012) assessed the consequence of board meetings using a cross-sectional survey and panel data and established positive relationship. Mkalama (2014) researched on the link among the characteristics of TMTs and the performance of state-owned companies using cross-sectional descriptive survey method and observed that the traits of TMT impact on the accomplishment of corporations. The above studies present contextual, conceptual, and procedural gaps to be covered by this survey.

## .MATERIALS

Hambrick and Mason (1984), contends that TMT attributes act as a reflection of the corporation by playing a significant and influential role towards the overall performance of the company. The attributes of managers have an effect on the choices they make, and consequently on strategies and measures to be implemented by the companies they are responsible for propelling towards the achievement of their mandate and their key objectives (Hambrick et al., 2015). Cannella, Park & Lee, (2008), believes that TMT attributes are correlated together with cognitive and psychological elements of settings; thus, organizations have the upper hand in developing, adapting and executing strategies that maximize their advantage over other competing companies. The value of upper echelon theory acknowledges that the various qualities of TMT impact on their decisions on strategy and structure, thus clearly affecting both strategic choice and business performance (Nielsen 2010). Hambrick and Mason (1984) propose an connection amongthe extent of the experience of the TMT members and the emphasis placed on exits in the company's strategy. Proposals of upper echelontheory have broadened the field of knowledge in research on the role of TMT and business performance (Kinuu, Murgor, Ongeti, Letting & Aosa, 2012). UET theory makes it easier to underestimate the characteristics of TMTs and how their potential improves business performance.

In a study by Jaw and Lin (2009) on the characteristics of the company elite and the internationalization of firms, a sample of 165 Taiwanese companies in a technically intensive firms, and discovered that there is a curvilinear association among the length of the CEO Post, the Size of TMT and the heterogeneity of TMT tenures and the internalization business. The connection among the tenure of the CEO position and the TMT contract was in the form of an inverting U.

Carpenter and Frederickson (20010, studied effect of operating environment on the association amongst TMT with global strategic posture, discovered that environmental factors were created without uncertainty the lack of information required for the price of decision thus moderates the relationship by affecting the probabilities to the results of the organization. Akpan and Amran (2014) found that the size and education level of boards were positively linked to the performance of companies among 90 companies sampled from Nigerian Stock Market as at 2010-2012. It suggested that the independence, equity and age of the board were linked to the performance of the business. The report observed a negative association among women's board membership and turnover.

Herrmann and Datta (2005), posted that organizations with a high level of global expansion attract TMT members of advanced education, more international experience, a younger workforce and long-lasting performance. The literature review revealed conceptual, contextual and methodological gaps. Other contradictory results from various studies validate the need for this current study.

## METHODS

The study was based on a positivist philosophy approach. The positivism approach was adopted because the study aimed to empirically and objectively analyze the association among TMT and business performance and to test the hypothesis drawn from the theory. The survey espoused a descriptive cross-sectional survey. Nachmias and Nachmias (2004) postulate that cross-sectional studies allow the academic to cause if there is substantial relations among the variables and the strength of these associations.

. This design has been used successfully by, Machuki (2011), Irungu (2007) and Mutuku (2012) to test hypothesis and draw conclusions. The study used census approach where all 66 listed companies at Nairobi Securities Exchange were surveyed. Out of 66

companies, 50 companies responded therefore their responses were analyzed. Diagnostic test, that is linearity, normality, multicollinearity and homoscedasticity were conducted.

## RESEARCH FINDINGS

Outcomes of the survey are presented in Table 1 below.

Table 1: Influence of Top Management Team on and Overall Firm Performance

Model	Model Summary						Change Statistics			
	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	
	1	.717 <sup>a</sup>	.514	.446	.91411	.514	7.409	5	44	.004
<b>ANOVA<sup>a</sup></b>										
Model		Sum of Squares	df	Mean Square		F	Sig.			
1	Regression	14.113	5	2.823	7.409	.004 <sup>b</sup>				
	Residual	16.767	44	.381						
	Total	30.880	49							
<b>Coefficients<sup>a</sup></b>										
Model	Unstandardized Coefficients			Standardized Coefficients			Collinearity Statistics			
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF			
1	(Constant)	0.074	0.034		2.143	.000				
	Functional Background	.217	.069	.220	3.144	.002	.743	1.346		
	Tenure	.212	.082	.206	2.561	.006	.781	1.280		
	Age	.020	.007	.020	2.754	.004	.840	1.191		
	Gender	.025	.007	.020	3.218	.000	.853	1.173		
	Education	.124	.037	.112	3.314	.003	.918	1.090		

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), Education, Tenure, Age, Gender, Functional Background

The study found a moderate association among TMT and performance ( $R = .717$ ). Coefficient of determination ( $R^2 = .514$ ) indicates that top management team (Education, Tenure, Age, Gender, Functional context) represented 51.4% of the variation in business performance. The other variables not included in the study represent 48.6%. ( $F = 7.409$ ,  $p$  value = 0.004 < 0.05) indicated that the model established was too significant. The non-standardized beta coefficient indicated that education ( $\beta = .124$ , the value  $p = .003 < .05$ ), the length of the mandate ( $\beta = .212$ , the value  $p = .006 < .05$ ), age ( $\beta = .020$ ,  $p$ -value = .004 < .05), sex ( $\beta = .025$ , the value  $p = .000 < .05$ ) and the functional context ( $\beta = .217$ , the value  $p = .002 < .05$ ) are individually significantly statistically significant contribution to business. It also indicates that the functional context has the highest positive impact on company performance, followed by education, tenure, gender and age, respectively. The assumption that the management team does not have a significant effect on the performance of companies listed on the NSE has been rejected, and the management team significantly influences the performance of companies listed on the Nairobi Securities Exchange.

The results support the theory of the upper echelon. Therefore, when recruiting senior managers, the panel should be guided to match the characteristic profiles of candidates with members of the existing management team. The results are consistent with those of Mutuku, K'Obonyo and Awino (2013) who postulated that the characteristics of the management team can translate into effective strategic decision-making, greater creativity, more innovation and the ability to reach more and different types of stakeholders, which indeed have a positive impact on business performance. The results further indicate that senior management leads the organizations as agents of the shareholders (principals). As the business grows, the company's shareholders hire professional executives to help manage the business by creating a principal / agent relationship. Education as well as levels of specialization were associated with receptiveness to innovation and reflected personal elegance and mentality, thus resulting in tangible performance. Functional skills are taken into account when recruiting senior managers. These results support the research work of Dezso and Ross (2012) according to which the characteristics of the management team (education, functional training and work experience) contribute to organizational performance. The results are consistent with studies by Yang and Wang (2014) who have argued that the age and work experience of senior managers lead to better identification of corporate governance practices resulting in superior performance.

## CONCLUSION AND RECOMMENDATION

It has been found that the TMT dimensions collectively and individually positively significantly influence the performance of the business. The functional context has the highest clear effect on the accomplishment of the business, followed respectively by education, tenure, gender and age. The study also found that the characteristics of the team's senior management are highly valued and that the leaders appointed must have the values and qualifications set to drive businesses to success. The characteristics of senior team management reflect their mental alignment, their morals and their information base and therefore impact the planned choices they make in their functions to ensure the success of the organization, because TMT's professional experience and expertise offer superior advice and improved corporate governance resulting in competitive advantage. The results of the hypothesis test established that TMT significantly affects the performance of companies listed on the NSE, so companies should put more emphasis on the selection and composition of TMT. The study added to the theory of the upper echelon and justifies the hypothesis. The empirical support from this survey adds to the overall literature review for future researchers and academics.

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