UPPER ECHELONS
THEORY AND RESEARCH
A review of theory and empirical literature
28 years later

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Review

Upper Echelons Theory and Research: A review of theory and empirical literature 28 years later

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Since the seminal work of Hambrick and Mason (1984) researchers have devoted significant attention to exploring how the human side of managers, such as their backgrounds and psychological characteristics, influence the decisions they make (Nielsen 2010). However the upper echelons research in the last three decades has been equivocal in the light of the question “Do top executives really matter as much to company outcomes as the theory seems to presume?” This paper set to review the literature on upper echelons research and theory. Our review highlights that, (1) upper echelons theory is still relevant to strategic management today as it was three decades ago, and (2) in line with Hambrick (2007) top executives really matter to company outcomes as they make decisions and engage in behaviors that affect the health, wealth, and welfare of firms – but they do so as flawed human beings. Key concerns of our highlight are, (1) the concentration of upper echelons research in the United States of America and, (2) the near-absence of upper echelons research in Africa. Finally our review highlights a number of future research directions.

Key words: Upper echelons theory, top executives, United States of America, Africa.

INTRODUCTION

The roots of the upper echelons perspective lie in the behavioral theory of the firm, which suggests that managerial choices are not always following rational motives but are to a large extent influenced by the natural limitations of managers as human beings (Nielsen 2010). Behavioral factors, such as bounded rationality, multiple and conflicting goals, various aspiration levels are believed to influence strategic choices made by top executives, which in turn determine firm performance (Nielsen 2010).

Bounded rationality is the idea that informationally complex and uncertain situations are not objectively “knowable” but, rather, are merely interpretable (Hambrick 2007). As summarized in Figure 1, the situation a strategic decision maker faces is complex and made up of far more complex phenomena than he can possibly comprehend (Hambrick and Mason 1984) and the decision maker brings a cognitive base and values to a decision, which create a screen between the situation and his eventual perception of it. The perceptual process can be conceptualized by taking a sequential view (Hannan and Freeman, 1977). First, as posited by (Hambrick and Mason 1984) the manager’s field of vision - those areas to which attention is directed - is restricted, posing a sharp limitation on eventual perceptions. Second, the manager’s perceptions are further limited because one selectively perceives only some of the phenomena included in the field of vision. Finally, the bits of information selected for processing are interpreted through a filter woven by one’s cognitive base and values. The manager’s eventual perception of the situation combines with his values to provide the basis for strategic choice. Values are treated as something that, on the one hand, can affect perceptions (Scott and Mitchell, 1972) but, on the other hand, can directly enter into a strategic choice, because theoretically a decision maker can arrive at a set of perceptions that suggest a certain choice but discard that choice on the basis of values (Hambrick and Mason 1984). Figure 1
differ from sector to sector (Irungu 2007). However some researchers have argued that Top Management Teams have little influence on strategic directions. Characteristics of both Top Management Teams and the Chief Executive Officers influence strategic decision making process (Papadakis and Barwise 2002) but the former influences different dimensions of strategic decision-making and most importantly the broader context of strategic decision

**Upper Echelons Theory**

The upper echelons theory states that organizational outcomes, strategic choices and performance levels are partially predicted by managerial background characteristics (Hambrick and Mason, 1984). The central idea and the core of upper echelons theory, has two interconnected parts: executives act on the basis of their personalized interpretations of the strategic situations they face, and these personalized construal's are a function of the executives' experiences, values, and personalities (Hambrick 2007). If we want to understand why organizations do the things they do, or why they perform the way they do, we must consider the biases and dispositions of their most powerful actors—their top executives (Hambrick 2007) for top executives matter contrary to the view—that large organizations are swept along by events or somehow run themselves— as has been argued directly by Hall (1977) and indirectly by the population ecologists (Hannan and Freeman, 1977). Top management team in a firm has substantial discretion in determining the future strategic contour of the firm (Child, 1972).

Since the seminal article of Hambrick and Mason (1984) researchers have devoted significant attention to exploring how the human side of managers, such as their backgrounds and psychological characteristics, influences the decisions they make (Nielsen 2010). Early empirical research on upper echelons investigated the effects of Top Management Teams heterogeneity in observable background characteristics, such as age, functional track, career experiences and education level on various organizational outcomes, that is, firm’s competitive behavior, level of diversification, innovativeness, corporate strategic change and ultimately performance (Nielsen 2010). If strategic choices have a large behavioral component, then to some extent they reflect the idiosyncrasies of decision makers. As March and Simon (1958) argued, each decision maker brings his or her own set of "givens" to an administrative situation (Hambrick and Mason 1984).

**Top management team characteristics**

**Age of top executives**

The association between the ages 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. 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). Managerial youth appears to be

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**Figure 1: Strategic choice under conditions of bounded rationality**

associated with corporate growth (Child, 1974; Hart and Mellons, 1970). Volatility of sales and earnings is associated with managerial youth (Bolo, Muchemi and Ogutu 2011) and some cognitive abilities seem to diminish with age, including learning ability, reasoning and memory (Botwinick, 1977; Burke and Light, 1981). Young managers are likely to have received their education more recently than older managers, so their technical knowledge is seen to be superior (Bolo et. al, 2011). However, this is not typically the case since older managers are also enthusiastically acquiring new skills by furthering their studies and are more experienced. Young managers have been found to have more favorable attitudes towards risk taking (Vroom and Pahl 1971).

**Functional track**

According to Hambrick and Mason (1984) members of the Top Management Teams and especially the Chief Executive Officers are presumed to have a generalist’s view and each brings to his or her job orientation that that usually has developed from experience in some primary functional area namely output (marketing, sales, product, research and development), throughput (production, process engineering and accounting) and peripherals (Law and Finance). This functional track may not dominate the strategic choices an executive makes but it can be expected to exert some influence. Hambrick and Mason (1984) suggested that there is a positive association between the degree of output function experience of top managers and the extent to which the firm emphasizes output in its strategy. They further propose that there exists a positive association between throughput-function experience of top managers and the extent to which firms emphasizes throughput in its strategy. In stable commodity like industries throughput function experience will be positively associated with profitability. Finally they proposed that the degree of peripheral-function experience of top managers will be positively related to the degree of unrelated diversification in the firm. Indeed one can always see a manager’s functional background in their decision making.

**Other Career Experiences**

Chief executives brought in from the outside tend to make more changes in structure, procedures and people than those promoted from within (Carlson, 1972) due to the less commitment by the outsider for status quo, desire to weaken those who resist or resent the new chief executive officer and a desire to create new loyal. 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 tap (Hambrick 2007). Executives’ career experiences partially shape the lenses through which they view current strategic opportunities and problems. Organizations today recruit executives from well performing organizations with the hope that they will come in with the experience and turn around or outperform competitors.

**Formal education**

Education indicates a person’s knowledge and skill base (Hambrick and Mason 1984) and the level of education of the chief executive officer or top management team is positively related to receptivity to innovation. Academic qualifications translate to more creative solutions hence affect decision making positively (Irungu, 2007). There is a difference between an executive who has attended management class and one who uses intuition in an organization. It is for this reason that executives in other fields like engineering, medicine and law are undertaking Master of Business Administration to horn their management skills. However Collins and Moore (1970) argue that MBA candidates are not as innovative or risk-prone as more “self-made” executives; and business schools are not particularly well inclined or equipped to develop innovative or risk taking tendencies. Education can only enhance capabilities of an individual who has demonstrated management abilities (Mintzberg 2007).

**Socio-economic background and financial position**

Firms whose top managers come from disproportionately lower socioeconomic groups will tend to pursue strategies of acquisition and unrelated diversification and such firms will experience greater growth and profit variability than will firms whose top managers come from higher socio-economic growth (Hambrick and Mason 1984). Owner managed firms do not outperform firms that are managed by non-owners (Morris, 1979). This is because of the benefits and incentives such as bonuses, livelihoods and dependency on the survival of the firm and risk of being fired for none performance (Pfeffer,1980).

**Group Heterogeneity**

Janis (1972) argued that homogeneity as manifested in cohesiveness and insularity, leads to inferior decision making. In his view homogeneity is one of the several conditions that bring group think, which amounts to restricted generation and assessment of alternatives. However, House et. al (1976) stated that routine problem solving is best handled by a homogenous group and that ill-defined, novel problem solving is best handled by heterogeneous group in which there is diverse opinion, knowledge and background allowing thorough airing of alternatives. Homogeneous top management teams make strategic decisions more quickly than heterogeneous teams. Further in stable environments team homogeneity will be associated with profitability while in turbulence heterogeneity will be associated with profitability. (Hambrick and Mason, 1984). When top management teams are a unit of analysis the
demographic approach has the advantage of being more practical than the direct assessment approach (Bolo et al., 2011); the major disadvantage is that demographic characteristics do not co-vary perfectly with attributes of interest (Hambrick and Mason, 1984).

Ethnicity and gender diversity
Bolo et al, (2011) argue that to maintain a positive social identity, individuals seek to maximize intergroup distinctiveness and see out-group (dissimilar) members as less attractive (Tajfel and Turner 1986). Demographic similarities increase the rate and quality of interactions between individuals and thus high levels of trust (Bolo et al 2011). People seek to govern or run organizations with people they trust. However, these scenarios are highly unlikely since external pressure for gender and ethnic balance may not allow it. Further diversity in tribe, race and gender may bring in diverse experience and strategic dimensions in organizational management.

Refinement of the upper echelons theory
Among the most notable refinements have been the introduction of two important moderators that is, managerial discretion and executive job demand which affect the theory’s predictive strength (Hambrick 2007). The implications of managerial discretion for upper echelons theory are straightforward and profound: upper echelons theory offers good predictions of organizational outcomes in direct proportion to how much managerial discretion exists. Executive job demands stem from three sets of factors: task challenges (e.g., difficult strategic conditions), performance challenges (e.g., demanding owners or board), and executive aspirations (e.g., strong personal desire to deliver maximum performance). The greater the executive job demands, the stronger the relationship between executive characteristics and strategic choices (Hambrick 2007).

Intra-Top Management Teams power distributions and Top Management Teams behavioral integration are the other notable refinements to the Upper Echelons Theory. Top Management Teams characteristics yield stronger predictions of strategic behavior when the differing amounts of power of members are accounted for behavioral integration; same is the degree to which a Top Management Teams engage in mutual and collective interaction. A behaviorally integrated shares information, resources, and decisions. Behavioral integration has been shown to have direct positive effects on organizational performance (Hambrick, 1998; Li and Hambrick, 2005; Lubatkin, Simsek, Ling, and Veiga, 2006). But it’s most important implications for Upper Echelons Theory concern is how it affects the basic relevance as a meaningful unit of analysis. Namely, if top Executives do not collectively engage in information processing or decision making, then what is the point in trying to use their collective characteristics (Hambrick 2007)

demographic or otherwise to predict company strategy or performance?

Diversity represents differences in kind or category, primary on information, knowledge or experience among unit members (Bolo et al 2011). They allude to demographic diversity including age, gender, ethnic background tenure, functional background, religion, race and education. Irungu (2007) argued that organizational survival in turbulent environments may be aided by attracting, selecting and retaining demographically diverse manager who will make important strategic decisions.

Upper echelons perspective blend with other theories
Hambrick and Mason (1984) called for the blending of upper echelons with other theories. Upper echelons theory has most often been combined with social psychological theories, most common among which are group process and effectiveness theories. Social psychology theories delve into cognitive and behavioral aspects of firm upper echelons and shed light on the role of individual psychological factors and team processes on executive decision-making (Nielsen 2010). Upper echelons have also been used together strategy process and firm internationalization. Other theories include agency theory, entrepreneurship, change, signaling, firm growth, resource-based view and social network theories. Hence, a variety of theoretical perspectives have been applied together with upper echelons theory to explain the antecedents and consequences of Top Management Theory diversity.

Clearly, the call by Hambrick and Mason (1984) to blend upper echelons with sociology and psychology theories has been addressed. Yet, there are a number of theories that are gaining importance in management research which may also inform future upper echelons research, such as institutional theory, human capital and social capital theories (Nielsen 2010).

Studies in upper echelons
Relevance of upper echelons theory in strategic management
Is Upper echelons perspective relevant to strategic management? Can we predict the performance and strategic direction of an organization by simply looking at its top management team? Why do organizations act the way they do? These questions provoke the upper echelons debate. Upper echelons theory is relevant in strategic management as it may assist in predicting organizational outcomes or assist in selecting and developing upper level executives. Upper echelons are also relevant in predicting competitor moves and countermoves. Indeed studies of upper echelons provide links between managerial background and organizational backgrounds. The absences of a clear vision, the failure of Top Management to communicate it, or the
unwillingness to adhere to it are reasons why many long-range plans have been ineffective. Too often, corporate plans are developed by employees who do not use. Accordingly, strategies are either inconsistent with the vision and hence fail to receive support from others. Table 1.

**CONCLUSION**

Executives make decisions and engage in behaviors that affect the progress of the organizations they lead but they do so as imperfect human beings. Top executives really matter as much to company outcomes as the theory

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**Table 1: Summary of empirical literature review**

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<thead>
<tr>
<th>Researchers</th>
<th>Focus</th>
<th>Findings</th>
<th>Comments/Knowledge Gap</th>
</tr>
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<tbody>
<tr>
<td>Lieberson &amp; O'Connor (1972)</td>
<td>Effect of Top Management Team on organizations Performance</td>
<td>Leadership account for less performance variance for either industry or organization</td>
<td>Need for a more focused research on the role of environment instead of leadership explaining organizations performance.</td>
</tr>
<tr>
<td>Hambrick &amp; Mason (1984)</td>
<td>Importance of Top Management Team on Organizations Performance</td>
<td>Observed demographic characteristics can be used to infer psychological cognitive bases and values</td>
<td>Demographic characteristics of Top Management Team may be used as a potential predictors of strategies hence performance.</td>
</tr>
<tr>
<td>Norburn &amp; Birley (1988)</td>
<td>Top Management Team characteristics and Organizations Success.</td>
<td>Organizations managerial teams with prevalence of output functional experience, multiple company employment and wider education are expected to outperform those without such prevalence.</td>
<td>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.</td>
</tr>
<tr>
<td>Bolo et al., (2011)</td>
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Haleblian & Finkelstein (1993) | Effect of Top Management Team size and 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. |
| Enriago (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 entreprenurial 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. |
| Bolo et al., (2011) | | | |

**Source:** Bolo et al., (2011)
seems to presume for good and for ill of the organizations. They sometimes do smart things and sometimes do dumb things. Their individual characteristics such as age, gender and experience determine their success or criticism. The review also raises a number of theoretical and practical implications. A major theoretical implication of this review is that upper echelon theory (UET), the theoretical framework used for this review, can serve as an effective framework for understanding how the characteristics of the Top Management Teams can influence management decisions.

**Future research directions**

In terms of causality, the vast majority of studies apply Top Management Team’s diversity as an independent variable according to the dominant logic of the upper echelons perspective (Nielsen 2010). There is a need to turn upper echelons theory on its head by considering executive characteristics as consequences rather than as causes. (Hambrick 2007). The second important issue that deserves further attention in future upper echelons research is the conceptualization of the diversity construct. There is a clear need to distinguish between different types of diversity in terms of both theory and analysis, as not all diversity aspects can be expected to have the same consequences for team decision-making and corporate performance (Nielsen 2010).

Future research may also investigate the effects of subsidiary level Top Management Teams within multinational corporations (MNCs), which are increasingly gaining importance in the global economy (Nielsen 2010). The fact that even novel studies delving into team processes are still predominantly based on quantitative research methods and rarely triangulate with non-quantitative data sources is remarkable. If all of the studies of a given problem are based on the same methods, then the body of information thus gained is very much contingent on and limited by the flaws of those methods (Nielsen 2010).

The psychological and social processes by which executive profiles are converted into strategic choices still remain largely a mystery—the proverbial black box (Hambrick 2007). There are two interrelated reasons why researchers have not studied the actual psychological and social processes that serve to transform executive characteristics into strategic action. First, there are relatively few researchers who have an interest in and facility with both micro-processes and macro-organizational phenomena. Second, this black box research has not been done because it is exceedingly difficult. It requires very intrusive access to large numbers of executives and Top Management teams, who are notoriously unwilling to submit themselves to scholarly poking and probing (Hambrick 2007).

Research in the upper echelons vein indicates that executive characteristics influence strategic outcomes. A separate body of literature demonstrates that executive rewards systems affect company behaviors (Milgrom and Roberts, 1992; Sanders, 2001). But almost no literature examines executive characteristics and compensation in tandem, or their interactive effects in shaping company outcomes (Hambrick 2007). The overwhelming majority of empirical upper echelons studies have used samples of American firms. Advancing an understanding of how upper echelons theory might take on very different complexion, depending on the macro-social context would shed more light to the theory (Hambrick 2007).

There is need of sorting out reverse causality and endogeneity (Hambrick 2007). First, it is certainly the case that executives are drawn to, and advance within, settings that suit their profiles. So, while upper echelons theory might predict that Top Management Teams possessing an abundance of technology expertise will tend to invest a great deal in research and development, we can also expect that such executives will be drawn to research and development intensive companies. Regrettably, a number of upper echelons studies have been strictly cross-sectional in their design and, thus, have failed to empirically distinguish between these two opposing causal mechanisms. The second type of reverse causality is a the problem of endogeneity that is, executives’ actions are due more to their mandate than to any unwittingly biased information processing on their part (Hambrick 2007).

**REFERENCES**


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