Journal of Business Research 69 (2016) 2182–2186

Contents lists available at ScienceDirect

Journal of Business Research

The interaction of chief executive officer and top management team on organization performance☆

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ARTICLE INFO

Article history:
Received 1 August 2015
Received in revised form 1 October 2015
Accepted 1 November 2015
Available online 21 December 2015

Keywords:
Chief executive officer
FsQCA
Organization performance
Top management team

ABSTRACT

Human resources can be the most important competitive advantage for organizations. Chief executive officers (CEO) and top management teams (TMT) dominate the organization strategy. Further, CEOs closely influence TMT members. This research explores the interaction between CEOs and TMTs and their effect on organization performance including sustainability, growth, and internationalization. The study draws on the OSIRIS database to select a sample of 697 firms in the information technology industry that complete an initial public offering in 2010 in United States. The study adopts a multiple regression analysis and fsQCA (fuzzy-set qualitative comparative analysis) to address the hypotheses and research questions. Results support that the interaction of CEOs and TMTs can improve organization performance.

1. Introduction

Human resources play an important role in organization performance (Becker & Gerhart, 1996; Chen & Huang, 2009). According to resource-based view, the more abundant resources firms have, the more profit firms can make (Mahoney, 1995). Thus, the key point for sustainable development for firms is abundant human resources (Collins & Clark, 2003). Abundant human resources are beneficial due to their knowledge, skill, and competence on organizations (Jiang, Takeuchi, & Lepak, 2013; Sánchez, Marín, & Morales, 2015). People can manage and make strategy for firms; abundant human resources also increase knowledge and experience so that firms can reduce the risks and uncertainty.

This study draws on upper echelons theory (Hambrick & Mason, 1984) to examine how the interaction of the top levels managers affects organization performance. Barney (1991) finds out that the top management team (TMT) is a very important human resource for firms: High-level managers develop the key strategies for firms; therefore, TMT resources' endowment will deeply influence the firm's performance. The interaction of human resources between TMTs and chief executive officers (CEOs) may have synergy. Because of the decision-making nature of their positions, CEOs and TMTs are critical for strategy design and therefore greatly affect organization performance. CEOs' decisions are quicker and efficient, based on the ideas of one person, but rationality limits those decisions. The interaction with the TMT allows multiple-source information, which can benefit CEO's decision.

Because CEOs closely influence TMT members (Ling, Simsek, Lubatkin, & Veiga, 2008), this research therefore investigates the interaction of different level managers. Previous studies of TMT seldom consider the role of CEO in the TMT; this study addresses this research gap and seeks to shed light on the interaction between CEO and TMT and their effect on the organization performance.

The structure of the study is as follows. Section 2 presents the literature review and research hypotheses. Section 3 offers the research design and method. Section 4 offers the findings of this study and Section 5 presents the conclusions.

2. Literature review and hypotheses

2.1. CEO resources

At the competition markets, firm's core human resources make key decisions that deeply affect the future direction of the firm. Human resources have the following characteristics: valuable, rare, non-substitutable but imitable, and can become the sustainable competitive advantage for a firm (Barney, 1991). Managers are valuable and have a clear effect in the firm's strategy and performance (Colbert, Barrick, & Bradley, 2014), and according to Phelan and Lewin (2000), the most

☆ The authors thank the financial support of Ministry of Science and Technology (NSC 101-2410-H-035-045), Professors Kun-Huang Huarng and Feng-Jyh Lin, Feng Chia University, for their careful reading and suggestions.
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http://dx.doi.org/10.1016/j.jbusres.2015.12.027
0148-2963/

important asset of any business is its employees, especially their know-how and inherent knowledge (Nayyar, 1993). Thus, the future development and strategies of the firm depend on the assistance and decisions of relevant personnel, especially that of senior executives, who can greatly affect the firm's overall operation. The values and awareness of these managers have a crucial effect on the business's policy decisions and operating performance.

H1. CEO resources have a positive effect on organization performance.

2.2. TMT resources

The decisions within big-scale firms do not come from a single person but from a team. Hambrick and Mason's (1984) upper-echelon theory suggests that TMTs comprise not only a single person but a team. The team communicates and coordinates to sustain the firm's operation (Barnard, 1938; Hambrick, 1989). The direction and goals of the firm come from debates and discussions of that team, whose decisions become the firm's future direction. The TMT is the executive body most responsible for strategic decision making and, by extension, for firm strategy, structure, and performance (Finkelstein, Hambrick, & Canella, 2008; Rau, 2006). When running a business, the key factor in its success lies in human resources, especially in senior executives (Hambrick & Mason, 1984). These usually include intellectual resources such as the inherent knowledge of experts (Nayyar, 1993).

H2. TMT resources have a positive effect on organization performance.

2.3. The interaction of CEO and TMT resources

TMTs play an important role in firms, but CEOs deeply influence the whole firm; therefore, investigating TMTs and CEOs at the same time is necessary. Although the joint effect of CEOs and TMTs is an important theme (Rivas, 2012), few studies deal with the relationship between TMT resource endowment and organization performance. Co-evolutions between CEO and TMT's traits or characteristics are important phenomena in organizations (Abatecola, 2014). Buyl, Boone, Hendriks, & Matthyssens (2011) argue that CEOs are the bridge to TMT members. CEOs and TMTs thus have a close relationship that can gain the firm good strategy and performance. Conceptual model please see Fig. 1.

H3. The interactions of CEO and TMT resources have positive effects on organization performance.

Table 1
MRA results.

Variables	Model 1: Sustainability		Model 2: Growth		Model 3: Internationalization	
	β	t-value	β	t-value	β	t-value
CEO age	0.14***	3.60	−0.01	−0.38	−0.01	−0.33
CEO tenure	−0.03	−0.66	−0.02	−0.44	0.01	0.26
CEO compensation	0.08**	1.88	0.29***	7.72	0.40***	11.47
TMT scale	0.26***	6.32	0.24***	6.33	0.27***	7.71
TMT network	0.06*	1.56	0.05	1.24	0.02	0.61
F-Value	16.51		34.61		65.63	
R^2	0.11		0.20		0.32	
Adjusted R^2	0.10		0.20		0.32	
Sig.	0.00		0.00		0.00	

* $p < 0.1$ (one-tailed tests).
** $p < 0.05$ (one-tailed tests).
*** $p < 0.01$ (one-tailed tests).

3. Method

3.1. Data and sample

This study explores the effect of CEOs and TMTs on organization performance. The sample of this study includes 697 listed firms in the United States that operated in the information technology industry in 2010. The relevant performance information comes from the OSIRIS global database. OSIRIS is a commercially available financial database provided by Bureau Van Dijk that includes up to 70,000 firms from around the world. OSIRIS is one of the most comprehensive databases of listed firms (Shao, Kwok, & Guedhami, 2010), and international research increasingly uses this database (e.g.Banalieva & Dhanaraj, 2013; Oh & Rugman, 2012). The parent firms that this study examines had expanded internationally and owned at least one foreign subsidiary. The study excluded firms that had announced bankruptcy, as well as those that had merged with other firms.

3.2. Measurements

3.2.1. CEO resource

The CEO resource includes three variables: CEO age, CEO tenure, and CEO compensation. Regarding the CEO age, an experienced CEO can produce better performance with superior working experiences and personal skills; the age comes from subtracting the CEO's birth year to 2010. Second, CEO tenure can represent a kind of commitment over this organization (Carpenter, 2002). To obtain the tenure, the study subtracts the year the CEO started working in the firm to 2010; that

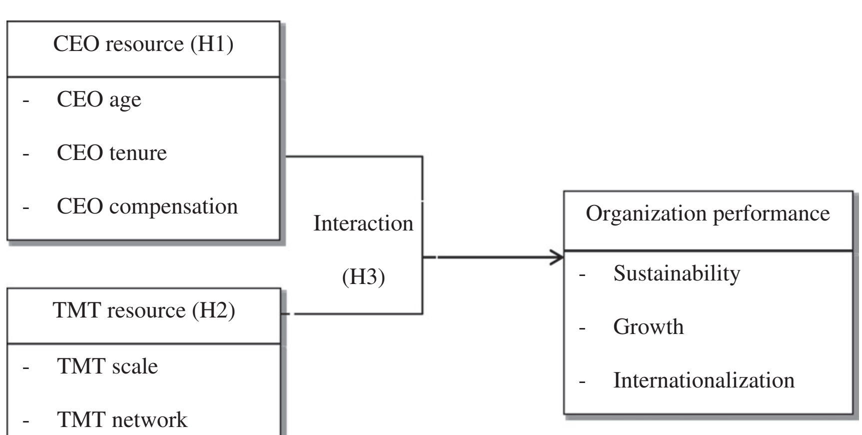

Fig. 1. Conceptual model.