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The Impact of Top Management Team Characteristics and Board Service Involvement on Team Effectiveness in High-Tech Start-Ups



Ekaterina S. Bjornali, Mirjam Knockaert, Truls Erikson

In this paper, we unite upper echelon theory and the attention based view of the firm to provide a deeper understanding of which top management team (TMT) characteristics, directly, or indirectly through board service involvement, result in TMT effectiveness in high-tech start-ups. In order to do so, we build upon data collected from 103 Norwegian academic spin-outs. The findings demonstrate that diversity and cohesion among TMT members directly and positively affect TMT effectiveness, and that board service involvement mediates the relationship between TMT diversity and TMT effectiveness. Finally, we find that higher proportions of board outsiders positively moderate the relationship between board service involvement and TMT effectiveness.

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Introduction

TMT (Top Management Team) effectiveness refers to the degree of collective efficacy within a TMT toward achieving its goals (Ensley and Hmieleski, 2005). TMT effectiveness and its antecedents are studied extensively in team research (see Mathieu et al., 2008 for an excellent overview of TMT effectiveness research), often as a reaction to the difficulties of using financial and non-financial yardsticks in an early stage context (Davidsson et al., 2007). Despite the importance of “members staying together and remaining excited about the team’s ideas” in early stage ventures (Foo et al., 2006, 390), there is little research on TMT effectiveness in an entrepreneurial setting. This is surprising as research indicates that how members evaluate their team matters (Foo, 2011), and that team effectiveness may help new ventures succeed when the odds are against them (Shane and Foo, 1999). Further, several TMT characteristics are identified as important determinants for new venture success (e.g., Colombo and Grilli, 2005; Francis and Sandberg, 2000; Hambrick and Mason, 1984; Vanaelst et al., 2006; Wright et al., 2007). The interest in the TMT is even more pronounced in the case of high-tech start-ups. High-tech start-ups face a number of challenges, including the liabilities of smallness and newness. Such challenges require a strong TMT (Hannan and Freeman, 1977; Kale and Ardit, 1998), while TMTs in these firms often face a “knowledge gap” as they remain largely homogeneous in terms of education, industry experience, functional expertise, and skills (Ensley and Hmieleski, 2005; Lockett et al., 2005). Despite the importance of the TMT in high-tech start-ups, the TMT-level antecedents of TMT effectiveness in these firms have received limited attention. Hence, this study seeks to address this research gap by exploring the relationship between TMT characteristics and TMT effectiveness in high-tech start-ups. Furthermore, we extend our study beyond the examination of the core TMT,¹ and study the extended TMT, which consists of the core TMT and the board of directors. This is particularly relevant in an early stage high tech context as higher levels of discretion and engagement distinguish high-tech boards from other boards (Forbes and Milliken, 1999; Garg, 2013). As such, we also examine the interactions between actors at the apex of the entrepreneurial organization, namely the TMT and the board, and how these interactions impact TMT effectiveness.

In doing so, we build upon Upper Echelon Theory (UET), which views organizational outcomes – including strategic choices and performance levels – as a function of the background characteristics of key decision makers: i.e., the TMT members (Hambrick and Mason, 1984). Both the UET and entrepreneurial team literatures point to the TMT as a potential determinant of new venture success. While both views recognize the importance of the TMT’s cognition, it remains unclear which

¹ Traditionally, this core TMT consists of those people identified as the CEO, president, and the critical staff who function as executives (Roure and Maidique, 1986).

TMT characteristics are related to TMT effectiveness in high-tech start-ups. Building upon UET and the Attention Based View of the firm (ABV), this study addresses this first research gap by examining the influence of core TMT characteristics on TMT effectiveness in high-tech start-ups.

The second research gap we address is related to the specificity of the TMT in high-tech start-ups. While it is most common to focus on the characteristics of the core TMT, an increasing number of researchers point to the need to look beyond this core or limited TMT. For instance, [Vanaelst et al. \(2006\)](#) and [Zhang et al. \(2011\)](#) indicate that outside board members can be considered an extension of the TMT, with the latter even using the term “collective entrepreneurs” to unite TMT and boards in high-tech ventures. Indeed, many studies emphasize the strategic role of the board, also referred to as the service or advisory board role ([Daily and Dalton, 1992](#); [Fiegenger et al., 2000](#); [Zhang et al., 2011](#)), which appears to be more decisive for the early stage firm’s success than the board control role.² Therefore, in this study, we focus on the board’s service involvement, through which boards provide access to resources ([Deutsch and Ross, 2003](#); [Hillman and Dalziel, 2003](#)) and enhance the legitimacy of the firm they serve ([Certo et al., 2001](#)). As such, they can help overcome the liabilities of smallness and newness early-stage high-tech firms face ([Daily and Dalton, 1992](#); [Fiegenger, 2005](#); [Huse, 1990](#)). Through its focus on the board’s service role, our study is in line with prior research that points out the importance of such focus in an early stage high tech context (e.g., [Knockaert and Ucbasaran, 2013](#); [Vandenbroucke et al., 2015](#)). In her review study, [Nielsen \(2010\)](#) identifies a great potential for studies exploring the independent and interacting effects of TMTs, boards of directors, and CEOs, pointing to a dividing gap between TMT and board research: “Although both governance bodies... influence its organization, including structure, strategic decisions and future directions, research on TMT and board runs in two separate streams” ([Nielsen, 2010, 6](#)). Despite increasing interest in research into the board’s influence on strategic decisions made by the TMT (e.g., [Hillman et al., 2000](#); [Pugliese et al., 2009](#)), few studies unite TMT and board perspectives when studying TMT effectiveness; the second research gap we aim to address.

Hence, this study aims at filling both gaps by not only studying the direct mechanisms linking TMT characteristics to TMT effectiveness, but also by providing an improved understanding of the mechanisms, and more specifically, the relation between TMT characteristics and board service involvement, and its impact on TMT effectiveness. As such, we aim at understanding the antecedents (in terms of TMT characteristics and board service involvement) of TMT effectiveness in contexts in which TMTs and boards can be considered to be working closely together. In order to do so, we focus on two core TMT characteristics, namely TMT cohesion and TMT diversity, which are particularly emphasized in both UET and entrepreneurial team research. In this paper, we study whether TMT diversity and cohesion directly, or through board service involvement, can affect TMT effectiveness in high-tech start-ups, drawing from the upper echelon theory, entrepreneurial team literature, and the attention-based view.

In doing so, our paper makes a number of contributions. First, our results related to TMT diversity and cohesion support findings in prior management and entrepreneurship research (e.g., [Beckman et al., 2007](#); [Ensley et al., 2002](#); [Knockaert et al., 2015](#)). However, this study has taken a step further by incorporating the board perspective alongside the TMT level. As such, our study contributes to the broader on-going discussion about the benefits and disadvantages of having heterogeneous versus homogeneous teams providing potential explanations for the contradictory results found in previous studies. Also, by examining the impact of the board’s service role, we add to the corporate governance literature that questions the traditional monitoring role of boards in the context of high-technology ventures and calls for research into the board service role and board as an extension of the TMT ([Zhang et al., 2011](#)). In particular, the results show how TMT and board antecedents are related to each other and may jointly affect TMT effectiveness.

The article is structured as follows. We start by building our conceptual framework. Next, we present the research design, data collection methodology and measures used. We then discuss the findings; finally, we discuss implications, future research directions and limitations of the study.

Conceptual framework

The main theoretical perspective used to develop our conceptual framework is the upper echelon theory (UET). Upper echelon theory, introduced in a seminal article by [Hambrick and Mason \(1984\)](#), indicates that organizational outcomes are predicted by managerial background. Similarly, [Ensley et al. \(2002\)](#) argue that the success of a venture is often a reflection of the TMT’s ability to meld talent and ability in a creative and coordinated fashion. Along the same lines, [Foss et al. \(2008\)](#) suggest that successful team entrepreneurship requires achieving “synergistic cognitive synthesis,” consisting of a diversity of mental models within the TMT, on the one hand, and a shared team-specific experience to facilitate: e.g., cooperation and learning on the other. According to [Hambrick \(2007, 334\)](#), the core of UET has two interconnected parts: “1) executive act on the basis of their personalized interpretations of the strategic situations they face and 2) these personalized construals are a function of the executives’ experiences, values and personalities.” As such, the UET was built on the premise of bounded rationality ([Cyert and March, 1963](#); [March and Simon, 1958](#)) through which perceptions of TMT members are filtered and interpreted through their own cognitions and values ([Carpenter et al., 2004](#)). Excellent reviews of the UET literature include

² Studies in the context of larger, established firms have traditionally focused on studying the control role, hereby often employing an agency perspective.

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