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The role of top management involvement in firms performing projects: A dynamic capabilities approach

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ABSTRACT

The role of top managers in firm performance is central to strategic management. Specifically, the influence of top management involvement in project and portfolio performance has been widely research. However, the nature of that influence is still unknown. Based on an international sample of firms performing projects, this paper addresses the question of how top managers influence project, portfolio, and firm performance. Results of our structural equation model show that the relation between top managers and project, portfolio, and firm performance is mediated by operational and dynamic capability building. Thus, the building of operational capabilities at project level and dynamic capabilities at the portfolio level appears as the generative mechanism for top managers' influence over firm performance.

1. Introduction

Firms are increasingly using projects to achieve their business objectives (Engwall, 2003; Söderlund & Tell, 2009). Moreover, scholars claim that today's society is suffering a projectification process in which the so called project-based firms[1] are taking the leading role (Soderlund, 2005). Project and portfolio implementation is viewed as an organizational strategy ideally suited to compete in turbulent and dynamic environments since it provides the firm with the flexibility and innovation capacity needed to address environmental changes (Hobday, 2000; Söderlund & Tell, 2009; Turner & Keegan, 1999). However, research evidence is still limited on the superiority of these project-based structures and the critical factors for achieving project and portfolio performance remain hidden (Reich et al., 2013).

Theoretical research on these project-based structures has focused on the influence of top management's involvement on project (Pinto & Slevin, 1987) and portfolio performance (Cooper, Edgett, & Kleinschmidt, 2000; Meskendahl, 2010), which directly affects firm performance. Meanwhile, empirical research has been restricted to studies that provide lists of good practices for top managers or case studies that analyze the influence of certain top managers' actions that, at best, constitute lip-service advice or exhortation but are far removed from the root cause of top managers' influence on project and portfolio performance (Jarvenpaa & Ives, 1991; Young & Poon, 2013). Therefore, although top management involvement is considered a necessary and sometimes sufficient condition for project and portfolio performance (Young & Poon, 2013), empirical research shows that top managers are usually reluctant to play an active role during the project life cycle because they consider projects to be operational concerns rather than strategic tools (Crawford, 2005; Young & Poon, 2013). Moreover, during the last 30 years, scholars in project management have been misdirecting their efforts by stressing the importance of technical factors such as budget, schedule, and quality management as the main success factors in projects and relegating to second place managerial factors such as top management involvement and decision-making processes (Morris, Pinto, & Söderlund, 2012; Thomsett, 1989). Thus, in order to shed light on the real critical success factors for projects and portfolios, a cross-fertilization between project and strategic management is needed (Grundy, 1998). By applying a business perspective, future research will clarify that the expert advice of project managers and researchers has less impact on project success than previously believed and will also confirm that the involvement of top managers is mandatory for increased firm performance (Young & Poon, 2013).

In the strategic management literature, the effect of top managers on firm performance has been profusely studied (Hambrick & Mason, 1984). Research in strategic management has addressed top managers' role from three key perspectives. The first perspective, the agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976), focuses on the costs associated with the separation between firm property and control. According to agency theory, to enhance firm performance, both the manager's and the firm's objectives should be aligned (i.e., managerial pay must be linked to firm performance). The second perspective, the

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[1] Project-based firms are frequently defined as a firm in which projects are the primary unit of production, innovation, and competition (Hobday, 2000: 874).

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upper echelons theory (Hambrick, 2007; Hambrick & Mason, 1984), posits that firms are a reflection of their key decision-makers (i.e., top managers) and thus focuses on how different characteristics of the top management team, such as its size and the different personal traits of its members, influence the performance of the firm. The third perspective, organizational behavior theory, explores the questions of how a CEO's leadership behaviors influence firm outcomes (Bass & Stogdill, 1990; Cannella & Monroe, 1997; Waldman & Yammarino, 1999). Specifically, most recent scholars focus on charismatic and transformational leadership as antecedents of organizational performance (Elenkov, 2002; Jung, Wu, & Chow, 2008; Kissi, Dainty, & Tuuli, 2013; Shamir, House, & Arthur, 1993; Waldman & Yammarino, 1999).

Although these perspectives have enriched our understanding of top managers' influence on firm performance, they have yet to examine fully the important aspects of this relation. Some empirical studies find the direct relation between managerial pay and firm performance posited by agency theory to be inconsistent (Barkema & Gomez-Mejia, 1998), and thus some scholars suggest that this relation may be influenced by issues such as governance factors and environmental contingencies (Barkema & Gomez-Mejia, 1998). In addition, although the upper echelons theory examines the influence of top managers on firm performance, the essence of that influence – that is, the generative mechanism of that influence – is still unknown (Boonstra, 2013). Finally, there is some degree of controversy regarding the influence of top management leadership on firm performance (Bass & Stogdill, 1990; Hunt, 1991).

We address the question about how top managers influence projects and portfolio performance. Specifically, we provide a deeper understanding of the process by which top managers enhance project and portfolio performance using a dynamic capabilities approach. We focus on top managers' capability building, both at the project and portfolio levels, and on the role of these capabilities in enhancing both project and portfolio performance. Top management involvement, defined as "devoting time to the [project] in proportion to its cost and potential, reviewing plans, following up on results and facilitating the management problems involved with integrating [project management] with the management process of the business" (Young & Jordan, 2008: 715), plays a crucial role in creating the conditions needed for project success. Thus, top management involvement is considered a critical factor in project success (Staehr, 2010). In addition, top managers have the potential to build the architecture of communications within the project-based firm. Their involvement is a sign of project-based organizational maturity, which fosters inter-project and project-to-organization learning (Söderlund & Tell, 2009) and leads the firm to achieve overall performance through multiple project implementations (Boh, 2007).

The remainder of the paper is structured as follows. Section 2 presents a literature review on the role of top management. Section 3 introduces our theoretical model and our set of hypotheses. In Section 4, we apply partial least squares (PLS) structural equation modeling (SEM) to test our model on a sample of project-based firms. Finally, Section 5 discusses the main results of model testing and offers some conclusions and implications for research and practice.

2. The role of top management in the firm

Top managers are identified as a firm's top tier members, and they are viewed as the driving force behind a firm's performance (Hambrick & Mason, 1984). The influence of top managers and their involvement in firm performance are two of the most widely studied issues in strategic management (Hambrick, 2007; Menz & Scheef, 2013; Ozer, 2010; Smith, Houghton, Hood, & Ryman, 2006). Three different perspectives address the influence of top managers on firm performance. First, agency theory focuses on the so-called agency dilemma, which concerns the difficulties associated with ensuring that the agents (i.e., top managers) act in the best interest of the principals (i.e., shareholders) rather than pursuing their own interests (Jensen & Meckling, 1976). Thus, agency theory states that top managers are self-serving and that mechanisms such as monitoring or reward structures must be developed to align top managers' objectives with shareholders' objectives (Fama & Jensen, 1983; Jensen & Meckling, 1976). One of the most researched topics inside agency theory is top management compensation and especially the relation between top managers' compensation and firm performance (Barkema & Gomez-Mejia, 1998). Despite numerous studies, empirical research has found weak statistically significant relations between compensation and performance, and researchers are exploring the role played by context and contingency factors such as research and development level, national culture, and market growth (Barkema & Gomez-Mejia, 1998). Upper echelons theory stresses the predominant role of top managers as firm key decision-makers (Hambrick & Mason, 1984). This theory suggests that the personal traits of top managers such as age, education, experience, and race influence firm performance (Hambrick, 2007). Although prior empirical studies support this perspective, recent research finds that managers' personal traits are nearly irrelevant to firm performance (Elenkov, Judge, & Wright, 2005). A possible explanation for these mixed findings may be that the processes that managers developed or even their emotions rather than their personal traits are the actual cause of their influence on firm performance (Elenkov et al., 2005; Harmancioglu, Grinstein, & Goldman, 2010). Charismatic or transformational leadership emphasizes the importance of leaders' relations with followers and includes six different dimensions articulating a vision, providing an appropriate model, accepting group goals, communicating high performance expectations, support for individuals and intellectual stimulations (Cannella & Monroe, 1997; Podsakoff, MacKenzie, Moorman, & Fetter, 1990; Wang, Tsui, & Xin, 2011). Transformational leadership approach suggests leading changes in followers making them to look beyond self-interest in favor of group objectives generating followers' confidence in the leader and so causing followers to do more than they are expected to do (Pieterse, Van Knippenberg, Schippers, & Stam, 2010; Yukl, 2002). However, empirical papers have found ambivalent results for the influence of transformational leadership on firm performance. On the one hand, some authors found that top management leadership is an important ingredient for the revitalization and performance of firms (Peterson, Smith, Martorana, & Owens, 2003; Thomas, 1988). On the other hand, scholars have argued that top management leadership is inconsequential to firm performance (Agle, Nagarajan, Sonnenfeld, & Srinivasan, 2006; Meindl, Ehrlich, & Dukerich, 1985; Pfeffer, 1977). One of the reasons for these mixed results is that leadership effects have been mainly studied at employee level (Waldman & Yammarino, 1999), hence, some scholars call for more research on leadership influence through various levels of mediators and moderators at firm level (Waldman & Yammarino, 1999).

Given that empirical literature has found ambivalent results for the agency theory, upper echelons' theoretical perspective, and transformational leadership approach, we turn to project management literature in an attempt to discover the essence of the influence of top management in project and portfolio performance, and so, in overall firm performance. Project management literature considers top management a critical stakeholder whose support and involvement must be ensured (Lin, 2010; Ragu-Nathan, Apigian, Ragu-Nathan, & Tu, 2004). Thus, top management involvement is considered a critical success factor both for projects and portfolios (Fortune & White, 2006; Pinto & Slevin, 1987). Ensuring top management involvement is essential for providing projects with the appropriate conditions for their success (Staehr, 2010). Specifically, an involved top management team provides the project with the necessary resources along with visibility and legitimacy that reinforce project team effectiveness and inter-project conflict resolution (Boonstra, 2013; Rodríguez, Pérez, & Gutiérrez, 2008; Swink, 2000). Recently, different empirical studies stress the importance of top management involvement in different project contexts, as information systems (Ragu-Nathan et al., 2004), alliances (Wittmann, Hunt, &

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