Top Management Team Entrepreneurial Behavior: Insights from Team Process

ABSTRACT: Integrating insights from the upper echelons perspective with entrepreneurship literature, this study argues for the importance of TMT (top management team) processes in understanding of their entrepreneurial behaviour. The implications of this discussion and possible extensions are presented in the concluding section.

Keywords: Upper echelons theory, TMT process, Entrepreneurship, Entrepreneurial orientation

Strategic management scholars have long assumed that managers influence a firm’s behaviour. While some researchers have focused on the role of individual CEOs (e.g. Nadkarni and Herrmann, 2010), others have drawn attention to top managers as a team (e.g. Hambrick and Mason, 1984; Wei and Wu, 2013). The advocates of the latter approach have argued that a focus on the entire team of top managers would provide stronger explanations of the firm’s behaviour (Hambrick, 2007). Given the importance of such a focus, scholars have directed their efforts toward studying TMTs (top management teams), their characteristics and processes to understand why the behaviour of firms varies (Carmeli, 2008; Certo, et al., 2006). A review of this body of literature shows the importance of TMT characteristics (e.g. functional background) in explaining the firm performance (Nielsen and Nielsen, 2013; Buyl, et al., 2011). Likewise, TMT process, which describes top management team members’ interactions directed toward task accomplishment (Mathieu, et al., 2008:412), has been shown to be important in both team and firm-level outcomes (Carmeli, Schaubroeck, and Tishler, 2011; Lubatkin, et al., 2006).

Despite the important of the TMT in the firm decision-making and action (Certo, et al., 2006), entrepreneurship literature seems not to have paid adequate attention to this phenomenon. Indeed, entrepreneurship research has mainly focused on an individual level of analysis, while it is the combined abilities of managers which direct the firm’s entrepreneurial activities (West, 2007). In particular, TMT process seems important in the context of entrepreneurship where the dynamism and uncertainty requires managers to interact in order to access to each other’s understanding of the
situation (Talke, Salomo, and Kock, 2011). Given the potential of team process for entrepreneurship research, this study takes the entrepreneurial orientation as an example of team entrepreneurial behaviour to discuss this potential.

This discussion is organized into the following sections. First, a brief review of the upper echelons theory, and the concepts of TMT process and entrepreneurial orientation are presented. Then, the potential of TMT process within the entrepreneurship literature, in particular entrepreneurial orientation is discussed.

**UPPER ECHELONS THEORY**

Until the 1980’s, research on strategic leadership was mainly concentrated on the behaviour of the organization’s strategic leader (Carmeli, et al., 2011). In the 1980’s the term "top management team" or TMT was introduced to the management literature (Hambrick, 1995). In particular, the theoretical work of Hambrick and Mason (1984), known as “upper echelons”, drew attention to top managers and their characteristics as a team. They argued that a focus on an entire team yields stronger explanations of a firm’s decision-making and outcomes as top managers share tasks and to some extent power with each other. They further underlined the importance of the TMT cognitive base and values in their interpretation of the situations they confront and their choice making (Hambrick, 2007). Nevertheless, due to the difficulties in gaining psychological data of top managers, Hambrick and Mason (1984) further suggested that TMT demographics (e.g. education, age, experience) could be used as reasonable proxies of their cognitive frames to examine organizational outcomes (Hambrick, 2007).

Their work not only gave rise to a new perspective but also a methodology through which researchers have been able to link different organizational outcomes to the attributes of the most powerful actors of the firm (Carpenter, Geletkanycz, and Sanders, 2004; Smith, et al., 1994). It should be mentioned that based on the upper echelons perspective, the TMT refers to the relatively small group of powerful and important executives at the top of an organization (Hambrick, 1995; Wei and Lau, 2012). The team usually consists of the CEO and several of his or her most senior managers (Finkelstein, 1992).

Since the theory of upper echelons, there has been a surge of interest in applying its assumptions which has led to a large body of literature investigating the influences of different TMT demographics on a wide variety of organizational outcomes. A review of this body of literature shows that the
findings on the relationship between TMT demographic diversity, which is the variation among team members' demographics (Hambrick, Cho, and Chen, 1996), and firm performance have been inconsistent (Nielsen, 2010). That is, while positive effects have been observed by some researchers, other studies have found negative or non-significant effects of TMT demographic diversity (Wei and Wu, 2013; Nielsen and Nielsen, 2013). In this regard, several scholars have argued that such mixed results are due to inherent limitations of organizational demography which does not account for the intermediate role of cognitive diversity and team processes (Lawrence 1997; Priem, Lyon, and Dess, 1999; Nielsen, 2010). Following the criticism related to team process, a number of TMT processes such as; TMT behavioural integration (Hambrick, 1994) and information exchange frequency (Ling and Kellermanns, 2010) have been studied to further upper echelons research in this direction (Nielsen, 2010).

**TMT Process**

As noted in the previous section, the lack of clarity in the findings and the criticism of the organizational demography approach (Lawrence, 1997; Priem, et al., 1999) have made the researchers apply an alternative approach to examining the association between TMT diversity and firm performance (Nielsen, 2010). This stream of research integrates upper echelons perspective with insights from the group process theory (Shaw, 1981) to examine how the nature of interaction among team members, known as team process, (Ling, et al., 2008) impacts on the way team characteristics influence both team- and firm-level outcomes (Lubatkin, et al., 2006). The criticism of the causal link between TMT diversity and organizational outcomes has led to a broader application of group psychology theories which have a long practice of analyzing the interactions among team members (Smith, et al., 1994; Nielsen, 2010).

Team processes explain team members’ interactions guided toward task accomplishment, thus, they could describe how team inputs (e.g. diversity) are converted into both team- and firm-level outcomes (Mathieu, et al., 2008). Team process and dynamism at the top management level differ from other levels of management within the organization (Hambrick, 1994; Carmeli and Shsteigman, 2010) since TMT members as the firm’s decision makers, deal with the main activities of the firm (Carmeli, et al., 2011; Carmeli and Halevi, 2009). Scholars have utilized a variety of team processes
such as informal communication, communication frequency (e.g. Smith, et al., 1994), debate (Simons, Pelled, and Smith, 1999), and TMT sociobehavioral integration (e.g. O’Reilly, Caldwell, and Barnett, 1989; Chen, Lin, and Michel, 2010). The empirical studies showed that team processes add significant explanatory power about the role of TMT attributes in the firm performance (Nielsen, 2010).

Given that entrepreneurial success often depends on how the top management or founding team collectively makes decisions and allocates appropriate resources (West, 2007), it could be argued that upper echelons perspective, in general, and team process, in particular, would offer complementary insights into the team’s entrepreneurial behaviour and endeavour. Entrepreneurial orientation as one of the most important concepts in entrepreneurship literature (Wales, Gupta, and Mousa, 2011) would be a good example to discuss this phenomenon. The next section will briefly explain this concept.

**ENTREPRENEURIAL ORIENTATION**

The entrepreneurship research has its roots in economics and it has been argued that the notion of entrepreneurship is as old as economics itself (Cole, 1946; Soltow, 1968). However, the contemporary literature attributes the current understanding of entrepreneurship as a field of study and entrepreneur as a unit of study to the works of Joseph Schumpeter (1934) and Israel Kirzner (1973).

The notion of entrepreneurial orientation as a firm level characteristic was developed by Miller (1983) based on the concept of business orientation of Khandwalla (1977). Miller’s intention was to capture the entrepreneurial activities of the firm. He argued that, entrepreneurial orientation does not focus on who does the activities, rather its focus is to see what organizational processes and aspects are involved in an organization that is behaving entrepreneurially. Other scholars extended this logic (Covin and Slevin, 1988) into a new organizational construct that distinguishes entrepreneurial firms from non-entrepreneurial firms.

While different definitions of entrepreneurial orientation exist in the literature, this study defines entrepreneurial orientation as a tendency of a firm’s top management towards risk taking, innovativeness, and proactiveness (Covin and Slevin, 1989; Zhao, et al., 2011). Innovativeness indicates a firm’s strong pledge to introduce new product offerings (Kreiser, 2011). It reflects a firm’s willingness to move and embrace new ideas (Baker and Sinkula, 2009), and support new products and radical product changes (Wales, Parida, and Patel, 2013). Risk taking captures a firm’s tendency
towards bold and high risk projects (Wales, et al., 2013), and accordingly reflects its acceptance of uncertainty and risky activities (Grande, Madsen, and Borch, 2011). Proactiveness refers to a firm’s efforts to discover and seize opportunities (Lumpkin, Brigham, Moss, 2010) and the tendency to initiate new products, services, and technologies ahead of its competitors (Wales, et al., 2013).

Given the definition of entrepreneurial orientation and its components, the next section discusses the importance of team process in understating of this team level entrepreneurial tendency.

**TMT PROCESS AND ENTREPRENEURIAL ORIENTATION**

Team processes involve members’ actions and behaviour (Mathieu, et al., 2008). Given that each top management team member, or founding team member in the case of new ventures, brings his\her own perspective and understanding about their firms, it is a collective perspective or a collective understanding of the team that directs the firm (West, 2007). It is the case not only for established firms (e.g. Olson, Parayitam, and Bao, 2007) but also for new ventures which are often started by entrepreneurial teams rather than single entrepreneurs (Schjoedt, et al., 2013). Indeed, the pursuit of new business opportunities has been argued to be driven by the top-managerial team (Wales, Monsen, and McKelvie, 2011). Thus, investigating the team members’ interactions towards their entrepreneurial tasks could provide important insights into the team interactions and its implications in pursuit of entrepreneurial activities. These activities have been argued as an important factor in a firm’s survival and success (Simsek, Heavey, and Veiga, 2010).

As noted earlier, there is a wide variety of team processes such as debate, informal communication, communication frequency, and behavioural integration which could be examined to address the team entrepreneurial behaviour. They could, for instance, show the way team members interactions impacts on the transferring as well as the use of knowledge and resources to deal with environment challenges (Lubatkin, et al., 2006; Magni, et al., 2009). It is particularly important for entrepreneurial teams who need to be alert to opportunities (Zahra and Wiklund, 2010) and committed to new entrepreneurial initiatives (Ling, et al., 2008). The team members’ interaction also has implications for team effectiveness as the uncertain, dynamic and often complex nature of the entrepreneurial activities requires managers to access different cognitive resources (Talke, et al., 2011).
Entrepreneurial orientation, as explained earlier, is defined as the tendency of a firm’s top management towards risk taking, innovativeness, and proactiveness. Innovativeness reflects a firm’s inclination towards new ideas (Lumpkin, et al., 2010), new product offerings (Kreiser, 2011), technological leadership and dramatic product changes (Wales, et al., 2013). Each top manager has a different recognition and interpretation of innovative opportunities (Talke, et al., 2011). Team process in this respect could show how team members’ interactions result in the embracing of those different interpretations to pursue innovative ideas. For instance, behavioural integration is an important team process which reflects the extent to which team members engage in mutual and collective interaction (Hambrick, 2007). It has shown to benefit teams to identify opportunities and pursue product innovation (Zahra and Wiklund, 2010). The more behaviourally integrated the team the greater the potential benefit in the reduction of time it takes for the team to understand environmental changes (Ling, et al., 2008; Magni, et al., 2009). Accordingly, it would be insightful to investigate how other team processes and dynamisms such as the elaboration of task-relevant information (van Knippenberg, De Dreu, and Homan, 2004; Kearney, Gebert, and Voelpel, 2009) and communication frequency (Smith, et al., 1994) impact on the team innovative behaviour. The elaboration of task-relevant information is defined as the exchange, discussion, and integration of ideas, knowledge, and insights relevant to a team’s tasks (van Knippenberg, et al., 2004:1010). Communication frequency concerns the amount of interaction among team members (Smith, et al., 1994: 418).

Risk taking captures a firm’s propensity to commit resources to projects whose outcomes are uncertain (Kreiser, 2011; Wiklund and Shepherd, 2005). Top managers are different in their understandings of the environment and their ability to adapt to uncertainty. Thus, they will have diverse views on the potential and impact of risk in order to accept, reject or mediate it. Team processes such as decision comprehensiveness in which team members view an issue with a wide lens, considering multiple approaches, courses of action, and decision criteria (Simons et al., 1999) could show how these different understandings could lead to a propensity towards risk taking. Debate would be another example of team processes which could show the impact when team members challenge and oppose one another on task issues (Simons, et al., 1999) and on their risk-taking behaviour.
Proactiveness reflects a firm’s tendency to predict opportunities, launch new product, services, and technologies ahead of its competitors (Wales, et al., 2013; Grande, et al., 2011). Managers have different assessments and interpretations of opportunities stemming from their different perspectives. How these different recognitions of opportunities and assessments of investment strategies can help them to seize opportunities faster than their competitors could be a function of the way they interact. It is because team process could impact on the time required for the team to understand the environmental changes (Ling, et al., 2008) and obtain relevant information in a timely manner (Magni, et al., 2009). Accordingly, it might be interesting to examine which aspects of team processes and dynamism create or influence the team proactive behaviour. For instance, information exchange frequency (Ling and Kellermanns, 2010) could provide important insights into the team’s ability to pursue market opportunities in a timely manner.

While the aforementioned team processes could be insightful, there exist other team processes and dynamism such as agreement seeking (Knight, et al., 1999) and information sharing (Bunderson and Sutcliffe, 2002) which would provide new insights into a wide variety of a team’s entrepreneurial activities including opportunity evaluation and new venture creation.

This study also points to some managerial implications. A majority of team processes and dynamism are able to be managed, so, an understanding of their implications could provide practical insights into team members’ interactions, the impacts and their management within a firm. It has been argued that if a situation demands that TMT members rely on each other to carry out their work, such as entrepreneurial tasks, then the team process and dynamics seem to play an important role (Barrick, et al., 2007). More importantly, as indicated by Wales, et al., (2011: 899) “top managers develop their firm’s entrepreneurial strategy, communicate it within their organization, and watch as entrepreneurial behaviour begins to blossom throughout their firm”. Hence, top managers need to know that the way they interact could impact on their ability as a team to communicate and develop entrepreneurial strategies within their organizations. In particular, CEOs as the person responsible for motivating and directing the TMT (Cao, Simsek, and Zhang, 2010) should be aware of the interaction of their fellow top managers.
Despite its brevity, this paper attempts to bring together upper echelons perspective and entrepreneurship literature to argue the importance of the team and their behaviour in a firm’s entrepreneurial activities. While team process and dynamism have received considerable attention in the upper echelons research, entrepreneurship scholars have yet to fully investigate how they could explain team entrepreneurial behaviour. Although, entrepreneurship literature suggests the potential of the entrepreneurs’ attributes in explaining their decision-making and actions (e.g. Foo, 2011; Haynie, Shepherd, and Patzelt, 2012), this study further argues that potential could best be realized through team process and dynamism. This study draws attention to different types of team processes and discusses their importance in understanding of the team entrepreneurial endeavour.
REFERENCES


