THE TOP MANAGEMENT TEAM, FORMULATION OF CORPORATE STRATEGY AND ORGANIZATIONAL PERFORMANCE: A CRITICAL REVIEW OF LITERATURE

BY

BWIRE, JOSEPH FRANCIS

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School of Business, University of Nairobi

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DECLARATION

I declare that this Conceptual Independent Study Paper is my original work and has not been presented for a degree in any other university.

Signature ........................................ Date .............

Bwire, Joseph Francis

D80/60978/2010

This Conceptual Independent Study Paper has been submitted for examination with my approval as University supervisor

Signature ........................................ Date .............

Dr. Awino, Z.B.

Lecturer

Department of Business Administration

School of Business

University of Nairobi
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This paper will investigate the relationship between the top management team (TMT), corporate strategy and organizational performance. Hambrick and Mason (1984) stated that the more complex a decision, in strategic measures, the more important the personal characteristics of the decision makers, such as age, career experiences, job tenure, education, culture, socioeconomic background, specialization, and so on. Upper echelons theory focuses on the characteristics of the top management team and especially the top executives who have great power to influence decision making of organizations. The definition of the upper echelon theory mainly states that, decision-making is based on the interpretations of the executives, and these interpretations are embedded in the executives’ cognitions, experiences, values, and knowledge (Hambrick, 2007). This is a significant issue that needs to be solved empirically. The influence of top management on corporate strategy that in turn impacts on organizational performance remains unclear. To advance our knowledge of the role of the CEO and the TMT we need a better understanding of their impact (if any) on strategic decision making processes and/ or the underlying characteristics which are important (Rajagopalan et al., 1997; Smith et al., 1994). The paper further deals with Top Management Teams (TMTs) and how, based on diverse research efforts, this critical group at the apex of the firm has background characteristics that enhance predictability of organizational performance levels (Hambrick & Mason, 1984). These characteristics are founded on a set of values and beliefs or the cognitive base fundamental in the exercise of the formal role associated with the upper echelon of an organization. Although success in most organizations is attributed to TMTs, other organizational members in lower echelons require to be involved in all aspects of organizational life because they are equally important in contributing to organizational performance.

Keywords: Top Management Team, Corporate Strategy, Organizational Performance.
1.0: INTRODUCTION

The top management team (TMT) is defined as the formal decision making organ in the strategic apex of the firm (Wiersema and Bantel, 1992). Notwithstanding the various definitions, a common approach used by scholars to identify TMTs is to ask chief executive officers to identify members of their TMTs (Bourgeois, 1980; Smith, Carson and Alexander, 1984; Fredrickson and Iaquinto, 1989; Bantel and Jackson, 1989).

The study of the top management teams is important because rarely are complex strategic decisions that affect organizational performance made autonomously by individuals (Sundstrum, DeMouse, and Futrell, 1990; Schweiger and Sandberg, 1991). Even if a course of action is eventually authorized by an individual, arriving at a decision is usually a product of input from several sources. Groups have been shown to reach better decisions than individuals when more information is needed than any individual possesses (Maier, 1967), and when the problem is unique, ambiguous, or complex (Robbins, 1994). According to Holloman and Hendrick (1972), the underlying mechanism that enables groups to reach better quality decisions than individuals is based on a social interaction hypothesis whereby “interaction of the group members not only provides an error-correcting function but facilitates individual thinking and involvement.”

1.1 The concept of Top Management Team

Over the last two decades, a comparatively new line of research has gained momentum in organizational behavior and business strategy literatures. It started with the influential work of Hambrick and Mason (1984) and examines the importance of the role of top managers in shaping organizational strategies and performance (Hambrick, 1989; Lewin and Stephens, 1994). This “upper echelons” or “strategic leadership” perspective complements the strategic choice perspective (eg. Child, 1972) and has received considerable theoretical and empirical support (Brouthers et al., 2000; Eisenhardt and Schoonhoven, 1990; Hrebiniak and Joyce, 1985; Wiersema and Bantel, 1992). As a result both the CEO and the top management team are back in the corporate strategy picture. They are now considered as critical nodes in wealth creation and much emphasis has been placed on their influence on corporate strategies (Brouthers et al., 2000; Miller and Toulouse, 1986; Finkelstein and Hambrick, 1990; Michel and Hambrick, 1992); innovation (Bantel and Jackson, 1989); organizational performance
(Haleblian and Finkelstein, 1993; Norburn and Birley, 1988; Eisenhardt and Schoonhoven, 1990; Smith et al., 1994; Waldman and Yammarino, 1999). Despite the profound interest in the above themes, there has been little empirical work on the link between top management team, formulation of corporate strategy and organizational performance.

The study conducted by Hambrick and Mason (1984), endeavors to establish a model to explain how upper echelons characteristics, influence organizational outcomes, review previous literature on the upper echelons perspective and provide a foundation and stimulus that may encourage further empirical research. The upper echelons theory holds that strategies and organizational performance are a reflection of the values and cognitive bases of powerful organizational actors. Hambrick and Mason (1984) further, stated that the more complex a decision, in strategic measures, the more important the personal characteristics of the decision makers, such as age, career experiences, job tenure, education, culture, socioeconomic and functional backgrounds, specialization, and so on.

The top management team heterogeneity may force the team or some of the members to think outside the box and in this way, become more creative in making decisions (Hitt, Ireland and Hoskisson, 2007). Top executives or TMT show a set of values and beliefs or the cognitive base to their formal roles in the organization. The cognitive base represents the means through which understanding and action are embedded within established social worlds (Dill, 1958; Hargadon, 2006). It also serves as the existing knowledge that TMT has and determines the way in which managers, collectively, infuse information with meaning and construe their reality (Gioia and Chittipeddi, 1991).

Chattopadhyay et al. (1999) found out contrary to their expectations that, upper-echelon team members who are more dissimilar in tenure tend to produce similar beliefs in one another, while team members with similar tenures do not influence each other. This can be explained by the fact that gradual introduction of new team members into the upper-echelon allows for more intensive socialization through a process which has been referred to as self-cloning (Hambrick et al., 1993) and as homo social reproduction (Kanter, 1977). Finkelstein and Hambrick’s (1990) study revealed that longer tenured TMT tended to pursue strategies imitative of industry trends, which they speculate reflects a manager’s risk aversion, commitment to prior actions, and restriction in information processing.
The top executive’s better understanding of the system within which they and their business functions, assists them to recognise more opportunities to learn, and to think of new directions for their firms. Due to their understanding and knowledge of the larger environment, strategic leaders can develop more inspirational visions for their firms. Leaders who have broad knowledge of the environment and contextual relationship, and who have cognitive complexity, will also have absorptive capacity than leaders who have a limited understanding of these relationships (Boal and Hooijberg, 2001).

An individual’s abilities, skills, and cognitive bases will be largely reflected by his level of education. The relationship between formal education and managerial positions involves both the nature and scope of education in relation to the executive role or function (Nzomo, 1978). A more educated person exhibits a broader and more complex cognitive functioning. Such individuals can be expected to discriminate among a variety of stimuli and have a higher capacity for information processing.

1.2 Top Management Team Power
Power is the ability to get things done the way one wants them to be done (Salancik and Pfeffer, 1977). Power is a relational property describing the extent to which a given actor can control the behaviour of another actor by manipulating rewards important to the other (Emerson, 1962). Power is essential for producing strategic change because decisions to alter organizational strategies and structures affect internal actors with vested interests, and implementation likewise involves mobilization and deployment of resources controlled by multiple managers (Pfeffer and Salancik, 1978). Power is concentrated in organizations when a small number of members possess power derived from either formal or informal bases (Pichaut, 1995).

The board of directors is a fundamental governance mechanism for monitoring a firm’s strategic direction and for representing stakeholders’ interests. However, the central question is whether boards are an effective management control mechanism or whether they are a management tool. Strong relations between the CEO and the board of directors may have positive or negative results. A CEO is characterized by duality in which he may hold the position of chairman of the board as well as remain a bona fide CEO. Nevertheless, this has provoked much criticism. Duality has been blamed for poor performance and slow response to change in some firms. This phenomenon is most common in the largest firms. TMT
members and CEOs with long tenure, have a greater influence on the board of directors. Such individuals may take actions in their own best interest due to their greater influence. Long tenure executives may also exercise more effective strategic control obviating the need for board members involvement because effective strategy control generally produces higher performance. Boards of directors should develop an effective relationship with firms TMT (Hitt et al., 2007).

The upper echelons of an organization have six influences through which they can influence and change a firm. These include (1) Organization leaders have a control on vision and mission of the organization, (2) they can dictate decision making and setting the climate and structure of the organization, (3) leaders can make decisions such as who is to occupy a certain position in the organization, (4) through resource allocation that support corporate strategy and creates a structure that enables the aspired outcomes, (5) reward system is another way of motivating employees, (6) leaders serve as role models in the organization.

1.3 Top Management Team Models
These models illustrate various facets of TMT composition, decision-making, and context, which are some of the variables of interest in this study. The models include:

1.3.1 Gladstein’s Model
This model focuses on teams’ effectiveness. It was developed by Gladstein (1984); the model uses a macro framework of inputs, processes, and outputs. The input category is divided into the team organizational level and comprises variables such as size, composition and structure of the team, available resources, and organizational structure. From Gladstein’s viewpoint, processes include amongst others, open communication and supportiveness. Team effectiveness as defined by performance and satisfaction falls under the output category.

The team’s task characteristics such as complexity, environmental uncertainty, and interdependence are thought to moderate the relationship between the team process and effectiveness (Matthews, 1998). Goodman, Ravlin, and Schminke (1987) proposes Gladsteins’ model as particularly influential in small teams research and theory due to its comprehensiveness and testability. Overall, Matthews (1998) notes that the model possesses a good fit with Katz and Khan (1978) systems theory.
1.3.2 Gist, Locke and Taylor’s Model

The model was developed by the scholars in 1987 has much in common with the model proposed by Gladstein (1984). In this model variables are subsumed under three categories: inputs (leadership, team size, and personality); processes (effect, team development, and methods of decision-making); and performance (team performance and quality of work life for individuals in the team).

The model strongly supports relatively smaller teams as more efficient, arguing that decision-making appears to be effected by individual team members’ ability and knowledge. Matthews (1998) notes that participative decision-making methods seem to be most effective when respective team members are knowledgeable about the topic being considered and when the task is more complex. As with Gladstein’s (1984) model, this model fits well with the systems theory.

1.3.3 Cohen’s Model

In Cohen’s (1994) model, a large number of inputs impact team performance. Team performance is defined in the context of the teams’ success including controlling costs, improving productivity and quality, in addition to team member attitudes toward their quality of work life. Four broad classes of inputs are thought to directly affect overall team performance and individual team member performance: employee involvement context (power, training, and rewards); encouraging supervisory behaviours (self-observation/evaluation, self-reinforcement, and self-criticism); team task design (variety, autonomy, and feedback); and team characteristics (composition, beliefs, and process).

Matthews (1998) argues that Cohen’s model fits slightly less well with the systems framework than the previously two. In particular, Matthews (1998) argues that Cohen places the team process variables of coordination, sharing of expertise and innovation as inputs, thus departing from traditional systems theory.

1.3.4 Upper Echelon Theory

This was the first model to embark on the study of the top management teams. Hambrick and Mason (1984) developed this model as a framework for research on top managers. Specifically, they emphasize on the importance of individual top manager characteristics, within the context of organizations, on various measures of organizational performance.
The model has four main parts: the objective situation (can be either external or internal); upper echelon characteristics; psychological (values and cognitive base); and observable (age, education, and group characteristics); strategic choices (product innovation, financial leverage, and acquisitions); and performance (relates primarily to organizational performance such as growth and profitability). A number of research questions have been proposed using this framework and a fairly large amount of research conducted along the model (Hambrick, 1994).

1.3.5 Hambrick’s Model

Hambrick (1994) proposed a more complex model, which grew out of a need to more systematically organize the research on top managers. The model was based on the need for “more comprehensive and integrated theoretical conceptions of top management teams.” Along these lines, the model proposes four main elements of top management teams namely: composition (members’ characteristics both individually and collectively); structure (roles and relationships); incentives (organizational rewards and advancement); and processes (intragroup behaviours and communication patterns). Hambrick (1994) defines the capacity to work as a team through “internal exchange, collaboration, and mutual adjustments” as behavioral integration, noting that the two forces influencing behavioural integration are centrifugal and centripetal.

Hambrick (1994) proposes organizations that are not widely diversified, and which tend to use a prospector type of business strategy (for example, focus on product and market opportunities and innovations) where there is a moderate level of organizational slack, and which operate within a dynamic environment, are more likely to have top management teams which are high in behavioural integration. Conversely, when there is high diversification, more narrowly defined domains of product and market opportunities (defender business strategy), very high or very low levels of organizational slack, and a stable business environment, behavioural integration is expected to lessen. Performance, whether it is team or group, financial or organizational, is a part of all of the models.

1.4 Critiques of the Upper Echelon Theory

Greenleaf (1977) stated that one of the key characteristics of a leader is the ability to listen to his juniors and identify with them. This factor will make the support staff in the organization together with other top managers, feel a sense of belonging within the business and in turn
the upper echelon would not be operating in a vacuum. Priem, Lyon, and Dess (1999) concluded that, the upper echelons perspective has been empirically operationalized by researchers measuring demographic differences in the TMT as an explanation of organizational performance. However, Priem et al. (1999) as well as others (Reger, 1997; Smith et al., 1994) have raised serious criticism of demographics-focused TMT research. A main criticism is that the research "assumes that the demographic predictors are correlated with presumed intervening processes, which remain in the black box (Priem et al., 1999). Priem et al., (1999) also argue that a causal gap exists between TMT demographics and firm performance. They argue that the specific mechanisms through which upper echelons theory suggests that TMT heterogeneity may influence firm performance remain generally unexplored.

Gabrielsson, Huse, and Minichilli (2007) in their study of executive boards found that, past theories which explained how the upper echelons lead are becoming less applicable to the boardrooms of today. They found that, most current scholars seem to suggest that board members and other top leaders tend to perform in a vacuum and seem to be operating away from the rest of the organization. The upper echelon theory though, found this as a problem in that, a number of organizations did not provide a solution but instead referred this behavior as a leader's limited field of vision. Nothing much has been done to assist the TMT of organizations overcome this hurdle, or even mentions this as a problem.

Hood (2008) concluded that the upper echelon theory according to Hambrick and Mason (1984), views leading from a leader-centric vantage point and places the TMT as the only dependable unit for the decision making, culture and performance success of an organization. This theory does not in any way reflect how the support staff, in an organization plays a role in the success of the strategic decisions in the organization. The TMT is also seen as only being able to make decisions based on their own values and cognitive base as well as their own background, including age, education, and professional experience.
The term 'strategy' originated from ancient Greeks where its meaning was chief magistrate or commander-in-chief (Ghemawat, 2002). Strategy is part of the planning function of management (Lewis, 2002). Strategy in business management has been described as the manager's game plan that is formulation and achievement of the business objectives (Lewis, 2002). In the course of his historical study of American industrial enterprise, Chandler (1962) developed the concept of strategy in referring to the exercise of choice by a dominant coalition as the major source of organizational variation. 'Strategy', he writes, 'can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.' Ansoff (1965) has stated that "strategy is the rule of making decisions." According to Andrews (1971) strategy is 'The pattern of major objectives, purposes or goals and essential policies or plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.'

Porter (1980) describes four diagnostic components of formulating corporate strategy: future goals that drive it, current strategy (or what the firm is doing and can do), assumptions about itself and the industry and capabilities. Corporate strategy is primarily concerned with identifying the set of different businesses a company is to be in, that is, various businesses in which the company will compete. These may be businesses within the same industry or in different industries. Strategy at this level also specifies how total corporate resources will be allocated among the various businesses that the company is involved (Pearce and Robinson, 1988; Hax and Majluf, 1991).

One metamorphosis has strategy developing through four main generic approaches namely: Classical, processual, evolutionary and systemic. The classical approach is the oldest and most influential. For the classicists what is valued most is the profitability and this is achieved through rational planning, strategy formulation and control is recognized as the work of the CEO whereas the implementation is left to the operational managers. This is in line with its belief of the military analogy where the general formulates the strategies and issues orders for the soldiers to carry out. Proponents of this approach which came into the scene in the 1960s included Chandler (1962); Ansoff (1965), and Porter (1985).
The evolutionary theorists believe that it is only the best performers that will survive chiefly among other things ensuring that in a competitive environment they practice strategies of differentiation. The evolutionists' advice is 'that in searching for the best strategy let the environments do the selecting and not the managers.' Its chief proponents included Williamson, Hannan and Freeman in the 1980s when it came into the scene. The processual approach was proposed in the 1970s by among others Cyert and March (1963); Mintzberg and Pettigrew (1987). The systemic approach shares at least the planning aspects with the classicists. In this approach the strategic goals and processes are in the close conformity with the local social systems, in other words the strategies are socially sensitive. The systemic approach was proposed in the 1990s. Another metamorphosis has current strategy literature giving three perspective schools of thought, namely: Design, planning and positioning; and seven descriptive schools of thought, namely: entrepreneurial, cognitive, learning, power, cultural, environmental and configuration.

The main objective of the firm strategy is to maximize an organization performance by improving its position in comparison to other organization operating under similar competitive environment (Feurer and Chahabarghi, 1997). Strategies do not need to be deliberate as they also emerge. Mintzberg (1987) has argued that strategies can form as well as be formulated. It is appropriate to be on the lookout constantly so as to weed out strategies that look set to fail (Mintzberg, 1987). Collis and Montgomery (1995) have argued that in formulating strategies it is essential that managers ensure that these strategies as far as possible meet the critical tests of the resource based view (RBV) theory, namely: Inimitability, durability, appropriability, substitutability, and competitive superiority.

Some scholars such as Andrews (1971); Hamermash (1986); Porter (1985); Ohmae (1983); and Johnson and Scholes (1993) are of the view that the process of studying strategy can be broken down into clear separate activities that can even be sequentially arranged, namely: data collection and analysis, strategy development, strategy evaluation, strategy formulation and strategy implementation. This has resulted in what is commonly referred to as design or fit school. On the other hand other scholars including Rumelt (1996) believe that corporate strategy cannot have separate parts but rather it is one continuous process that incorporates all the necessary subsections.
Rumelt (1996) posits that ‘strategy can neither be formulated nor adjusted to changing circumstances without a process of strategy evaluation.’ Mintzberg (1984) has argued that firms need to be aware of the fact that the realized strategies are often quite different from the intended strategies.

Strategies can be said to exist at four levels (De wit and Meyer, 2004) namely: Financial level strategies used at the departmental levels; Business level strategies found at Strategic Business Units (SBUs) level; corporate level strategies; and network level strategies which are as a result of firms aligning their corporate strategies to achieve a certain desired outcome. If the business strategies of the various SBUs are not realized then common sense dictates that the firm’s corporate strategy will not be realized as well. Hence a firm with several SBUs, the progress of achieving at least one business strategy must be shown for the firm corporate strategy to be termed as being on the way to be achieved. Some business strategies for a firm with several strategies could be altered without necessarily altering the firm’s corporate strategy. In fact some business strategies could be entirely eliminated without fundamentally affecting the firm corporate strategy (De wit & Meyer, 2004).

According to Daniel (2006) successful strategies have clear and correct vision, structured optimization, operating excellence, right organizational model, enhanced capabilities, integrated and aligned strategic design, and detailed implementation design.

Tushman and Romanelli (1985) pointed out that low organizational performance results when a firm’s strategy fails to achieve an appropriate alignment with its environment. Thus, poor performance is often the impetus for changes in strategy (Hambrick & Schechter, 1983; Tushman & Romanelli, 1985), particularly as top managers often feel more vulnerable to unfriendly takeovers, internal upheavals, and losing their jobs when performance is poor (James & Soref, 1981). The integrated organization perspective identifies a central aspect termed as the core competence, created form the synergies of the various SBUs which is then vigorously supported (Prahalad & Hamel, 1990). This core competence should be capable of being redeployed across all SBUs. Supporting the core competence means that the individual SBUs suffer a bit, but they are more than compensated for this loss by the strategic benefits gained (De wit & Meyer, 2004). The integrated organization perspective is highly suited for internal growth. There are pros and cons of each of the two perspectives and the current strategic management literature does not state which is better.
2.1 Formulation of Corporate Strategy

The formulation of strategy entails aligning a firm’s strengths and weaknesses with the problems and opportunities in its environment (Andrews, 1971). As the strategic decision-making process is by its very nature ambiguous, complex, and unstructured, the perceptions and interpretations of top management team’s members critically influence strategic decisions (Dutton & Duncan, 1987). A team’s decision to initiate changes in strategy will be based on members’ perceptions of opportunities and constraints (Tushman & Romanelli, 1985).

Mintzberg (1973) proposed that there were three strategy making modes: the entrepreneurial, adaptive and planning modes. In the entrepreneurial mode, strategy is developed by an individual (CEO) who relies on intuition, experience and personal judgement in formulating strategy. In the adaptive mode, strategy formulation is characterized by “muddling through.” Managers seek solutions as problems emerge. They react to situations as they arise. In planning mode, strategy is formulated through conscious managerial efforts. Managers undertake various analyses and try to anticipate the future. There is conscious planning ahead.

There are those who view strategy formulation as a basically analytical and rational process (Vancil, 1976; Porter, 1980; Ansoff, 1984; Hax and Majluf, 1988). Managers employ various analytical tools and methods to make strategic decisions. There are well defined processes to formulate the various company strategies. There is a tendency to favour formal planning methods here. This view most closely resembles Mintzberg’s planning mode. A second competing view holds that strategies are shaped by power and behavioural forces (Lindblom, 1959; Mumford and Pettigrew, 1975; Pettigrew, 1977; Kotter, 1982; Mintzberg, 1987; Etzioni, 1989). Emphasis here is on the multiplicity of organizational goals (hence conflict), the need for negotiation, bargaining and building network in the strategy formulation process. These two views do contribute to our understanding of the strategy formulation process but none of them in isolation fully explains the process. Quinn (1980) has recognized this and argued that analytic thinking, power and behavioural forces should be combined in the strategy formulation process. He proposes such integration in an approach he calls “logical incrementalism.” In doing this Quinn (1980) appears to be echoing the same thoughts as did Mintzberg (1973).
When deliberate efforts are made to formulate strategy, certain activities need to be undertaken by the company. These activities are important components in the strategy formulation process: (1) it is necessary for the company to define its market(s). Strategy will only make sense when the markets to which it relates are known (Abell, 1980; Day, 1984). (2) It is necessary to have an understanding of the environment in which the company is operating; these are the broad trends in such as legislation, economic, socio-cultural and technology (Hofer and Schendel, 1978; Glueck and Jauch, 1984). (3) There is need to understand the nature of industry in which the company is operating, this will help indicate the current and future attractiveness of that industry (Porter, 1980; Rothschild, 1989; Thompson, 1990). (4) It is necessary for a company to know and understand its competitors. It is amongst such competitors that the company is trying to succeed. One of the functions of strategy is help a company develop a competitive edge in its markets (Porter, 1980). (5) The resource profile of a company helps in identifying its strengths and weaknesses (Hax and Majluf, 1991). These activities are summarised in the following strategy model; (1) specification of the corporate mission (2) setting objectives and goals (3) external analysis (4) internal analysis (5) selection of appropriate strategies (5) implementation of selected strategies (6) measurement and evaluation. All the information obtained by performing the above activities is important input to strategy formulation process. Managers who have such information will be in a good position to develop deliberate strategies or to appreciate any emerging ones and also choose between competing strategies alternatives.

Ideally each business should have its business strategy. In a situation where an organization is involved in several businesses or activities then it becomes appropriate for the organization to have a common strategy encompassing all the businesses and the activities. This common strategy is referred to as the corporate strategy (Johnson and Scholes, 1993; De wit and Meyer, 2004). De wit and Meyer (2004) argue that 'corporate level strategy is about selecting an optimal set of businesses and determining how they should be integrated into the corporation as a whole' a process they call corporate configuration.
Organizational performance is crucial to the survival of any organization, and over time, provides the test of leadership and strategy (Schendel and Hofer, 1979). Staws (1986) proposes that organizational performance may be staged at the level of industrial, group or organization. Peacock (1995) offers that there is one correct definition of good organizational performance and suggests that conflicts between managerial perspectives of success should be recognized.

Nonetheless, organizational performance has been perceived as the integration of three broad dimensions: efficiency, effectiveness, and adaptability (Monseng and Bredrup, 1993). The classical approach to organization performance and measurement is best described by Sink and Tuttle model (Sink, 1985; Sink and Tuttle, 1989); the model proposes that the performance of an organizational system is a complex interrelationship among seven performance criteria: effectiveness, efficiency, and quality of products, productivity, and quality of work life, innovation, and profitability (budgetability). As such, organizational performance can be judged in terms of whether or not an organization achieves the various objectives set before it.

Organization performance relate to the efficiency and effectiveness of the firm. Understanding organizational goals and strategies is the first step towards understanding organizational effectiveness. Organizational effectiveness is the measure of how successfully organizations achieve their missions through their core strategies. Organizational effectiveness is concerned with the unique capabilities that organizations develop to ensure that success (McCann, 2004). Efficiency is the cost per unit output, describing the relationship between the goods and services produced by a program or activity (outputs) and the resources used to produce them (inputs). Put differently, an activity generating a given output can be said to be efficient if there is no alternative method of generating the output using less input (Richard and Tomassi, 2001).

Hambrick and Mason (1984) stated that, for one to understand the firm’s performance one should not only look at the chief executive officer in isolation, but instead should consider the characteristics and functioning of all the members in the TMT. One can easily predict the performance and outcome of the firm by looking at the characteristics of the whole group of
top-level managers (Finkelstein and Hambrick, 1996; Ancona, 1990). Different studies on the context of executive changes gave varied results which were inconsistent for example Virany, Tushman and Romanelli, (1992) found that both CEO succession and executive team changes have a positive effect on performance. This result matches the common-sense theory. Canella and Hambrick, (1993) provide evidence for a negative performance effect when studying executive turnover in the specific context of acquisitions. This result more closely matches the notion that changes in the top management team have a potentially disruptive effect on performance.

Why do some organizations perform better than others? This may be the defining question of strategy field (Barnett et al., 1994), and yet March and Sutton (1997) have two minds in their answer. Using the lens of industry analysis, they directed attention to a firm’s position in competitive context. From this view, above-average performance results when a firm gains advantage from its location in the market and is sustained when various barriers give it refuge from rivals that would otherwise compete away in terms of profits, sales, market share, productivity, debt ratios, and stock prices among others (March and Sutton, 1997).

At the same time, however, March and Sutton (1997) observed organizations that outperformed others in the same position. Such cases raised the possibility that superior performance was due to idiosyncratic properties of organizations-so-called ‘distinctive competencies’ (Selznick, 1957). Many argue that these capabilities are responsible for sustained performance differences because they are, by definition, difficult to identify and imitate (Wernerfelt, 1984; Barney, 1986).

Most researchers would agree that each of these perspectives is informative. In this spirit, empirical research has turned to the question of how much performance is accounted for by firm position and how much appears to be idiosyncratic to organizations (Hansen and Wernerfelt, 1989; Rumelt, 1991; Henderson and Cockburn, 1994). Most studies of organizational performance define performance as a dependent variable and seek to identify variables that produce variations in performance.
3.1 Measures of Performance
Measuring firm performance has been a major challenge for scholars and practitioners as well. Performance is a multidimensional construct (Chakravathy, 1986), thus any single index may not be able to provide a comprehensive understanding of the performance relationship relative to the constructs of interest. Therefore, it is important to look at multiple indicators. Instead of using a short term indicator of performance it is desirable to study how variables of interest will influence performance over a period of time (Simerly & Mingfang, 2000). Measurement of success of organizations is based on both quantitative and qualitative performance indicators. This will be discussed in the subsequent sub-sections.

3.1.1 Quantitative Performance Indicators
Financial performance is at the core of the organizational effectiveness domain. Such performance measures are considered necessary, but not sufficient to define overall effectiveness (Murphy et al., 1996). Accounting-based standards such as return on assets (ROA), return on investment (ROI), return on sales (ROS), Earnings before interest and taxes (EBIT), and return on equity (ROE) measure financial success (Parker, 2000). These indicators really tap current profitability. Profit is the difference between revenue and expenses over a period of time and it is the ultimate ‘output’ of the firm. Profitability ratios are computed to measure the operating efficiency of firms. Two major types of profitability ratios calculated are those that measure profitability in relation to sales on the one hand and in relation to investments on the other.

A firm’s financial performance can also be adjudged from its liquidity. Liquidity is the amount of cash a company can put its hands on quickly to settle its debts. Liquid funds consist of cash, short-term investment for which there is a ready market, short-term fixed deposits, trade debtors and bills of exchange receivable (Gill, 1990). The standard test of liquidity is the current ratio which is the ratio of current assets to current liabilities. This ratio compares the assets that will turn into cash within the year to the liabilities that must be paid within the year and it is a measure of short-term solvency. A low current ratio implies that the firm cannot reduce its current assets for cash to finance maturing obligations and must instead rely on outside financing and operating income. Pandey (1999) notes that as a conventional rule, a current ratio of 2:1 is considered satisfactory. Current ratio represents a margin of safety for creditors; the higher the current ratio, the greater the margin of safety.
Activity ratios are used to assess the efficiency with which organizations manage and utilize their assets (Higgins, 2001). Financial performance improves as asset turnover rises which is in keeping with the fact that, other than during liquidation, a firm’s value lies in the income stream it generates over time and high assets reflects efficiency with which assets are utilized to achieve this goal. Thus, contrary to misguided opinion, many assets do not necessarily imply high firm value but rather, the quality of those assets and the income they generate. Inventory turnover ratio reflects the efficiency of the firm in producing and selling its products. According to Everingham and Hopkins (1984) operating cash flow ratios are indicators of performance. They determine the extent to which an organization has generated sufficient funds to repay loans, maintain operating capabilities, pay dividends and make new investments without using external financing.

3.1.2 Qualitative Performance Indicators

Qualitative measures are the second major area covered by the literature. Lusthaus (2000) discusses performance by splitting into four main indicators: Efficiency, Effectiveness, Relevance, and Financial viability.

Effectiveness is the degree to which an organization moves towards the attainment of its mission and realization of goals. It is difficult to measure effectiveness unless the mission statement is clear. Some of the issues of effectiveness include presence of a clear mission statement which is known and agreed to by staff, having a system in place to assess effectiveness, and using feedback to improve an organization. Other indicators are number of clients served, knowledge generation and use, and collaborative arrangement.

Efficiency measures the ability of the firm to provide the best services within the most cost effective structure. It is therefore important to assess indicators like the unit cost of providing service, the time it takes to give the service, and so on. Whatever the overall size of the unit, performing organizations are viewed as those that provide good value for the money in both quantitative and qualitative terms (Lusthaus, 2000). Efficiency issues therefore include using staff members to the best of their abilities, optimal use of financial resources, and administrative system providing good value for cost. Output per staff, cost benefit programs, cost per client served, cost per program, and program completion rates are commonly used indicators of efficiency.
Relevance has some survival connotation, as it implies being able to remain meaningful within the dynamics of the changing environment. A firm that fails to adapt to the changing environment risks becoming irrelevant in the eyes of its stakeholders, and may eventually, collapse. To survive, a firm must continuously monitor and adapt to the changing environmental factors, such as economic, socio-cultural, political, and technological factors. The adaptation calls for regular revision of programs to reflect changing environment, regular review of mission, and conducting stakeholder needs assessment on a regular basis. The firm should also encourage innovation.

Financial viability relates to the long term survival of an organization that requires that an organization's inflow of financial resources is greater than the outflow. The firm would therefore need to have multiple sources of affordable funding, positive cash flow, and financial surplus. Indicators of financial viability include consistently obtaining new funding sources, consistently having more revenue than expenses, and having assets greater than liabilities. Financial viability also requires the organization to monitor its finances on a regular basis.

Time-based performance measurement systems have been developed to help organizations control and improve their operations. Stalk and Hout (1990) state that time-based companies should go beyond measures like lead time, on-time delivery and response time to time-based metrics which could be used as diagnostic tools throughout the organization. They summarized the main time-based metrics that organizations could use into four different areas namely developing new products, decision making, processing and production, and customer service.

Customer service has become a measure of competitiveness in markets throughout the world. As competition gets more intense, service quality is seen as a primary determinant of overall customer satisfaction. The need to achieve service excellence in markets characterized by shrinking margins and tight budgets has created a powerful challenge for top management teams. The challenge is to balance these realities with the need for quality customer service. Service quality can be managed effectively even when market conditions are difficult and the resources are limited. Customer satisfaction has been shown to depend directly on performance measurement of effective order fulfilment (Davis, 1988).
4.0: EMPirical LITERATURE AND KNOWLEDGE GAPS

The following are some of the empirical studies and identified gaps in knowledge in the study of top management teams, formulation of corporate strategy and organizational performance. Lieberson and O'Connor (1972) in their empirical study on leadership and organizational performance: a study of large corporations found out that leadership accounts for less performance variance than either industry or organization and hence there is need for a focused research on the role of environment instead of leadership.

Hambrick and Mason (1984) in their empirical study on upper echelons: the organization as reflection of its top managers noted that observed demographic characteristics can be used to infer psychological cognitive bases and values. The gap in knowledge in this study is that these demographic characteristics of top management team may be used as potent predictors of corporate strategies and hence the organizational performance.

Norburn and Birley (1988) in their empirical study focusing on top management team characteristics and organizations success found out that organization managerial team with prevalence of output functional experience, multiple company employment and wider education are expected to outperform those without such prevalence. The study based assumption that TMT characteristics have independent and direct impact on performance and therefore a need to propose the need and source and strength of the impact.

Murray (1989) focusing on top management group heterogeneity and firm performance found out that composition of the TMT affects firm's performance and the effect depends on the environmental conditions and that the effect of TMT characteristics on performance differed on the basis of industry under study (Food and Oil industry). This study was limited to two industries, food and oil industries and it is therefore important to investigate if these effects can be replicated in other sectors. Also, the study was limited to large publicly quoted firms. Studies on small and medium enterprises that are not necessarily publicly quoted can be done.

Aosa (1992) in his empirical investigation of aspects of strategy formulation and implementation within large private manufacturing companies in Kenya studied 84 companies, representing 15% response rate. The objectives of interest included the
investigation of the usage of strategy to develop competitive edge, and the link between strategy formulation and implementation. The former objective used three dimensions of competitor, industry and market analysis. The latter objective had variables of interest including strategy-budget sequence, high success and use of financial strategic criteria for investment. The study adopted survey method of personal interview guided by a structured questionnaire. The study observed the use of low cost and differentiation strategies in some of the companies studied. The author noted that the measure of success level was non-financial based and cautioned that results of the study should be treated as suggestive.

Haleblian and Finkelstein (1993) studying the effect of top management team size and the CEO's dominance on organizations performance found out that organizations with large TMT and less dominant CEOs were more profitable in turbulent environments. A gap exists here since operating in turbulent environments requires information sharing.

Yang (1996) in his empirical study on the relationship between top management team characteristics and the firm's transformational capabilities: a two stage competence model found need of use of socio-psychological rationale in explaining top management team linkages with firm transformational capabilities leading to a knowledge gap of conflicting results in the processes through which top management teams demographic characteristics effect organizational performances.

Day and Lord (1998) in their empirical study on executive leadership and organizational performance: suggestions for a new theory of methodology established that literature on the significance of executive leadership on organizational performance is paradoxical resulting in conflicting implications for practice and theory development; and that leadership is an important aspect in explaining organizational performance. Top management leaders have direct and significant effects on organizational performance. To study leadership in its entirety, various propositions on top management teams' effect on organizational performance require rigorous evaluation.

Knight et al (1999) studying top management team diversity, group processes and strategic consensus found that functional diversity, educational diversity, employment tenure diversity has a negative relationship to strategic consensus and hence a disconnect as direct
interventions intended to encourage cooperation between teams might mitigate negative effects of diversity. They also found the level of consensus was affected by the location of the study (level of consensus was lower in the US) and hence the influence of power differentials within TMT on strategic consensus.

Carl Pegel et al (2000) studying management heterogeneity, competitive interaction groups and firm performance found that the characteristics of the TMT in a firm should be aligned with those of the competitive environment and firms in the same competitive interaction group have similar TMT heterogeneity, compared to the TMT heterogeneity of firms across groups and therefore a need to investigate implications of firms strategic leadership upon the competitive interactions and groupings which govern directly and indirectly the profit generation processes of the firm.

Channon (2001) studying leadership and corporate performance in service industry found that different leaderships exist and tend to operate in managerially distinctive ways with significant differences in economic performance and hence a need for research to focus on appropriate leadership styles for different contexts and sectors.

Entrialgo et al (2002) in their study linking entrepreneurship and strategic management: evidence from SMEs found that entrepreneurship organization served highly in innovation, risk taking, and being fast movers compared to others. Research should focus on the sequence of managerial traits on organizational performance as well as the effect of demographic data in different contexts.

Roberto (2003) in his study entitled the stable core and dynamic periphery in top management teams found that rarely did top management team make all important strategic decisions collectively as different sets of individuals worked with CEOs to make various strategic choices. 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. However, a small set of top management team and CEO participated intensively on all decisions while others were involved depending on the issue at hand. Further investigation on the linkage between the top management teams strategy facilitation and organizational performance in different contexts.
Barth (2003) in his empirical study found that the fit between competitive strategy and organizational structure is related to performance in mature industries and not for organizations in new and rapidly growing industries. Further investigation as to the link between leadership, strategy and organizational performance.

Camelo et al (2004) in their empirical study on the relationship between TMT and innovative capacity in companies found that diversity in TMT tenure has negative results on innovation; diversity in TMT level of education has positive effects on innovation; and not all types of diversity have positive effects on innovation. A gap exists because the study was limited to three demographic variables (functional, tenure and educational background).

Carmen et al (2006) focusing on the influence of top management team vision and work team characteristics on innovation: the Spanish case found that a high degree of diversity leads to a greater number of diverse ideas and perspectives hence raising creativity, raises internal conflict and lowers consensus and internal communication enhances innovation. This study analyzed types of teams in general and didn’t distinguish the types of teams. The study only considered diversity in skills and capabilities ignoring educational and functional diversity.

Irungu (2007) in his empirical study on the effect of top management teams on performance of publicly quoted companies in Kenya studied 47 organizations listed in the Nairobi Stock Exchange. The relevant data was collected form 35 organizations (representing a 74% response rate), with a total of 247 TMT members. At team analysis level, this study revealed statistically insignificant results for the effect of TMT characteristics on corporate performance. However, at TMT individual member characteristics, statistically significant results for multiple linear regressions were reported for the effect of TMT characteristics on decision-making processes and organizational performance. Similarly, statistically significant results for the intervening role of the decision-making processes, and the moderating role of organizational and operating environment characteristics were reported. The study can be critiqued in that statistical evaluation was based on financial performance, hence need for use of non-financial indicators. Further, the hypotheses were tested using linear regression approach. Future studies could focus on other forms of statistical analysis. Lastly, the study sample was drawn from listed companies in the Nairobi Stock Exchange; future studies could include firms from other sectors of the economy. Also, further study on the cause-and-effect relationship is proposed. The study was cross-sectional, further studies can use longitudinal.
Awino (2007) in his empirical study on the effect of selected strategy variables on corporate performance in the supply chain management of large private manufacturing firms in Kenya, studied 52 firms comprising a response level of 78%. Among the objectives of interest in his study included determining the independent and joint effects of core competencies, strategy, strategy implementation and core capabilities on corporate performance. Another objective was to determine the independent and joint effects of leadership, resources, corporate structure, corporate policy and management of change on corporate performance. This study found out that there was empirical evidence that the independent effect of core competencies, core capabilities, strategy and strategy implementation on corporate performance is weaker compared to the joint effect. The researcher noted that performance measures used in the analysis may have largely been qualitative in nature and recommended use of quantitative data for future research.

Zee and Swagerman (2009) observed that the upper echelon theory suggests that TMT personal characteristics influences greatly the decisions that they make. However, the empirical support for this theory is neither conclusive nor uniform. Also this theory focuses mostly on strategic decision making. However, the current situation seems to move towards ethical behaviour and corporate governance, that is to say, decision making alone is no longer realistic. Acquiring knowledge of the about the causes on ethical and non ethical behaviour can minimise the chances of corrupt deals of mismanagement of companies' resources and hence improve performance. They further discovered that, there is a relationship between upper echelon and ethical behaviour which existed through strategic decisions and also in corporate culture.
5.0: CONCEPTUAL FRAMEWORK

The study's conceptual framework is founded on the various relationships as diagrammatically presented in the figure below.

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**TMT characteristics**

<table>
<thead>
<tr>
<th>Psychological</th>
<th>Observable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cognitive base</td>
<td>Age</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>Functional level</td>
</tr>
<tr>
<td>Proactiveness</td>
<td>TMT career experience</td>
</tr>
<tr>
<td>Perception to risk</td>
<td>Education</td>
</tr>
<tr>
<td>Tolerance to ambiguity</td>
<td>TMT tenure</td>
</tr>
<tr>
<td>Open mindedness</td>
<td>Socioeconomic roots</td>
</tr>
<tr>
<td>Aggression</td>
<td>TMT size</td>
</tr>
</tbody>
</table>

**Formulation of Corporate strategy**

- Deliberate strategies
- Emergent strategies

**Organizational Performance**

**Financial**
- Profitability
- Growth
- Earnings per share
- Dividends per share
- Average stock price
- Market share
- Total organization assets

**Non-financial**
- Effectiveness
- Efficiency
- Quality of products
- Quality of work life
- Productivity
- Innovation
- Relevance
This model is expected to explain the effect of the TMT in formulation of corporate strategy and the expected organizational performance. Organization performance is influenced directly by the TMT characteristics in phase one. The upper echelons characteristics that are observable include age, functional level, career experience, education, tenure, socioeconomic roots and size, and psychological characteristics namely cognitive base (innovativeness, proactiveness, perception to risk, tolerance to ambiguity, open mindedness, and aggression), and values.

Phase two comprises of the relationship that exists between TMT and their role in the formulation of the corporate strategy, this is the intervening variable. The variables here include deliberate and emergent strategies. The main objective of formulation of corporate strategy is to maximize organization performance by improving its position in comparison to other organizations operating under similar competitive environment (Feurer and Chahabarghi, 1997). Mintzberg and Waters (1985) make a difference between intended and realized strategies. Comparing intended strategy with realized strategy, helped to distinguish deliberate strategies, realized as intended, from emergent strategies, patterns or consistencies realized despite, or in absence of, intentions. The fundamental difference between deliberate and emergent strategy is that whereas the former focuses on direction and control, getting desired things done, the latter opens up the notion of strategic learning. According to Mintzberg et al, the tendency is in the directions of deliberate and emergent strategies rather than perfect forms of either. They identified eight strategies lying along the continuum between deliberate and emergent strategies: planned, entrepreneurial, ideological, umbrella, process, unconnected, consensus and imposed. The types of strategies that fall along this continuum are introduced beginning with those closest to the deliberate pole ending with those most reflective of the characteristics of emergent strategy. The strategies are briefly discussed below (De Wit and Meyer, 1994).

The planned strategy – leaders at the centre of authority formulate their intentions as precisely as possible and then strive for their implementation with a minimum of distortion. To ensure this, leaders must first articulate their intentions in the form of a plan, to minimize confusion. This plan will be elaborated in budgets, schedules, and so on to pre-empt discretion that might impede the realization of the plan.

The entrepreneurial strategy, here Mintzberg relaxes the condition of precise articulated intentions. One individual in person control of an organization is able to impose his or her vision of direction on it. Because such strategies are common in entrepreneurial firms tightly
controlled by their owners, they are called entrepreneurial strategies. These strategies most commonly appear in young and/or small organizations (where personal control is feasible) that are able to find relatively safe niches in their environments.

The ideological strategy, vision can be collective as well as individual. When members of an organization share a vision and identify so strongly with it that they pursue it as an ideology, then they are bound in to exhibit patterns in their behavior, so that clear realized strategies can be identified.

The umbrella strategy, leaders who only have partial control over other actors in an organization may design what can be called umbrella strategies. They set general guidelines for behavior and then let other actors manoeuvre within them. In effect, these leaders establish kinds of umbrellas under which organizational actions are expected to fall.

The process strategy is especially relevant for businesses in complex environments that are unpredictable and uncontrollable. But instead of trying to control the strategy content at a general level, through boundaries or targets, the leaders control the process of strategy making while leaving the content of strategy to other actors.

The unconnected strategy is perhaps the most straightforward of all. One part of the organization with considerable discretion is able to realize its own pattern in its stream of actions. Most of the times, these actions come from a subunit or sometimes even a single individual.

The consensus strategy, here many different actors naturally converge on the same theme, pattern, so that it becomes pervasive in the organization, without the need for any central direction or control. In other words, the convergence is not driven by any intentions of a central management, or by prior intentions widely shared among the other actors.

The imposed strategy, strategies can be imposed from outside as well, that is, the environment can directly force the organization into a pattern in its stream of actions, regardless of the presence of central controls. Defining strategy as intended and conceiving it as deliberate, as has traditionally been done, effectively precludes the notion of strategic learning. Once intentions have been set, attention is riveted on realizing them, not on adapting them. Mintzberg, however, sees strategy as a process where intentions can be adapted in a process of deliberate and emergent strategies.

In this model organizational performance forms the third phase and is defined as a dependent variable, it is categorized into two namely financial measures (profitability, growth, earnings per share, dividends per share, average stock size, market share, and total organization asset),
and non-financial measures (effectiveness, efficiency, quality of products, quality of work life, productivity, innovation and relevance). TMT takes credit when their own performance is good and blame external causes when their own performance is poor (Jones and Wortman, 1973; Staw et al., 1983; Adams et al., 1985). The resulting self-confidence among successful TMTs is likely to contribute positively to organizational performance.

5.1 Conclusion

Clearly, TMT's characteristics are important and play a major role in the formulation of corporate strategy that enhances predictability of organizational performance. These characteristics are founded on a set of values and beliefs or the cognitive base fundamental in the exercise of the formal role associated with the upper echelon of an organization. Organizational performance is achieved through rational planning, strategy formulation and control is recognized as the work of the CEO and TMT whereas the implementation is left to the operational managers and the lower echelon. This is in line with its belief of the military analogy where the general formulates the strategies and issues orders for the soldiers to carry out because the general cannot operate in a vacuum. Although success in most organizations is attributed to TMTs, other organizational members in lower echelons require to be involved in aspects of organizational life because they are equally important in contributing to organizational performance. This will contribute to the general body of knowledge as well as providing a basis for further development of theory and research.

In general terms, the upper echelon theory has a greater predictive power of organizational performance than contemporary theories. It is also a useful tool to those responsible for selecting and developing upper level executives. A firm's TMT, the dominant coalition of individuals responsible for setting firm direction (Cyert & March, 1963), identifies environmental opportunities and problems, interprets relevant information, considers organizational capabilities and constraints, and formulates strategic change (Mintzberg, 1979). Thus, an examination of what influences how executives assess and direct firm strategy is an important area of investigation.
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