

Journal of Strategic Management



Top Management Team Diversity and Organizational Performance: An Empirical Investigation of Strategic Leadership Influence

Gachugu Ehud M., Prof. Z. B Awino, Prof. X.N Iraki & Dr. Machuki Vincent

ISSN NO: 2616-8472

Top Management Team Diversity and Organizational Performance: An Empirical Investigation of Strategic Leadership Influence

^{1*}Gachugu Ehud M., ²Prof. Z.B Awino, ³Prof. X.N Iraki & ⁴Dr. Machuki Vincent

^{1*}PhD Student, School of Business - University of Nairobi

²Associate Professor Department of Business Administration, School of Business,
University of Nairobi

³Associate Professor Department of Management Science, School of Business, University of
Nairobi

⁴Senior Lecturer, Department of Business Administration, School of Business, University of
Nairobi

Corresponding Author Email: ehudmg@gmail.com

How to cite this article: Gachugu E. M., Awino Z. B., Iraki X. N., & Machuki V. (2019): Top Management Team Diversity and Organizational Performance: An Empirical Investigation of Strategic Leadership Influence. *Journal of Strategic Management*, Vol 2(2) pp. 14-29.

Abstract

Competition has pushed contemporary organizations to diversify their workforce, with significant attention being paid to exploring how the diversity of leaders influence organizational outcomes. Despite growth in TMT (Top Management Team) diversity research in the last four decades, results have been inconsistent and unclear. An emerging field of research hints of a link between strategic leadership and TMT diversity and how this association influences performance. The study explored the moderating effect of strategic leadership on the relationship between TMT diversity and organization performance on Public Benefit Organizations (PBOs) in Kenya. A sample of 138 PBOs was developed and data collected and analyzed on various aspects of TMT diversity, strategic leadership and organizational performance. The study found that both transformational and transactional leadership behaviors moderates the relationship between TMT diversity and PBO performance. The research has theoretical implications on upper echelons and strategic leadership theories as well as policy inferences in assisting policy makers leverage on the diversity of TMTs

in enhancing performance. The study recommends adoption of the strategic leadership practices in PBOs so as to enhance the outcomes of TMT diversity. Relatedly, further studies should be undertaken in other regions and sectors while at the same time testing the research model in varying environmental settings.

Key Words: *Strategic leadership, TMT Diversity, Performance, Moderating effect, Public Benefit Organizations.*

1. Introduction

Increased competition has pressed contemporary organizations to employ capable and diverse leaders who are able to develop high-quality strategies, increase profits, and promote development. Significant attention has been devoted to exploring how the diversity of such leaders influence organizational outcomes. Despite the exponential growth of research in the area of Top Management Teams (TMT) diversity in the last four decades, the results have been inconclusive, leaving the question whether TMT diversity is advantageous for organizations and in most instances unclear (Aparna & Hyuntak, 2009; Harrison & Klein, 2007; Jackson, Joshi, & Erhardt, 2003). Relatedly, emerging research suggests an association between TMT diversity and strategic leadership in enhancing organizational performance (Costa *et al.*, 2013). However, the value of strategic leadership in moderating the TMT diversity and organization performance relationship has barely been looked at, and it is not yet known.

Top Management Team (TMT) embodies the inner circle of executives who jointly formulate, articulate and execute the strategic and tactical moves of the firm (Nielson and Nielson, 2012). The organizational levels of both TMT and middle managers influence strategy formulation and implementation (Wooldridge, *et al.*, 2008). Diversity is often described as the distribution of personal characteristics between the interdependent members (Jackson, *et al.*, 2003). TMT diversity is defined as the extent to which there are differences in background, demographic and functional dimensions in the composition of TMT (Simons, *et al.*, 1999). TMT diversity is identified as the variances in qualities that members of top management team can be able to identify their differences with each other, (Mutuku, *et al.*, 2013). TMT diversity introduces human social biases, filters and idiosyncratic processes at the helm of an organization which significantly influences the competitive behaviors likely to influence organization performance (Li & Hambrick, 2005).

Strategic leadership relates to the organization ability to acquire leaders who are able to influence others in voluntarily making the routine decisions that are able to improve the organization long-term viability while maintaining the organization's short term financial and operational health (Rowe, 2001). Strategic leadership entails the transformation of a firm through its structure, culture and climate, vision and values as well as its systems, which in doing so allows the executives and managers to make stronger connections, establish greater clarity, enhance the organization's wellbeing and expand their leadership repertoire (Jansen, *et al.*, 2009). According to Davis (2004), strategic leaders exhibit high strategic orientation; effectively align people with the organizations;

flexible in translating strategy into action, develop strategic competencies and determine effective strategic intervention points.

Strategic leaders' vision and interpretive capability for available information is affected by his values, knowledge stimulation, motivation and personality. Jansen, *et al.*, (2009) established that strategic leaders engage in transactional and transformational leadership behaviors which affect organizational learning and outcomes. Transformational behaviors entice the staff to challenge institutionalized learning and adopt generative thinking while, conversely, transactional behaviors encourage organizational members to improve existing knowledge (Rowe, 2001). TMT diversity in the organization allows for the occurrence of transformational and transactional leaders within the organization, which essentially influences organization performance.

One of the most researched topic in strategic management is organizational performance (Rumelt, 1984). Organizational performance is a multidimensional construct that can be viewed from both financial and non-financial perspectives, (Kaplan & Norton, 1992). Venkatraman and Ramanujam, (1986) viewed performance as set of dimensions that facilitates strategic leaders in achieving organizational goals. As such, the diversity of the TMT influences the quality and strategic choices that an organization makes to enhance organizational outcomes.

Based on the aforementioned, the association between TMT diversity and Organizational performance is not direct. This relationship is affected by several factors which include environment, organizational factors, strategic choice and type of leadership. In this paper, we therefore explore how strategic leadership behaviors influences the relationship between top management team diversity and organizational performance. We review the existing literature and body of knowledge, presents empirical finding and offer recommendations for future research.

2. Literature Review

This section discusses the previous findings observed in different studies explaining the general propositions made in the past regarding the study concepts and variables, offering a foundation upon which the research is fashioned. We discuss the theoretical review involving a discussion of the theoretical and empirical foundations; and also incorporates the key study concepts within the hypothesized relationships. We finally propose a hypothesis to test the relationship.

Most of the TMT diversity research has focused on singular theoretical perspective, mainly applying the Upper Echelon Theory (West and Schwenk 1996; Pegels, Song & Yang, 2000; Carpenter, 2002). However, this study is anchored on the Upper Echelons theory and the Strategic Leadership theory. The two theories and their application in this study are discussed.

TMT Diversity research anchored on the upper echelon paradigm (Hambrick and Mason, 1984) has been widely used in many studies (such as Pitcher & Smith, 2000; Carpenter, 2002; Knight *et al.*, 1999; Pegels, Song & Yang, 2000; Geletkanycz, 1997). According to Hambrick and Mason (1984), the top managers' characteristics affect the relationship between decision-making and organizational performance. Upper echelon studies fully emphasize on the entire team's effort and

not an individual, based on the notion that teams are responsible for the continuity of the organization's operations (Hambrick, 1989). Studies on strategy have advanced Hambrick and Mason's (1984) upper echelons view to argue that since demographic attributes can be used as reliable proxies for deep-level attributes, then the relative diversity or heterogeneity of those former attributes among team members may be linked with organization performance (Hambrick & Finkelstein, 1987; West & Schwenk 1996). The theory is founded within the 'dominant coalition' concept suggesting that the social biases, filters and idiosyncratic processes at the top of the organization have substantive impact on the competitive behaviours. Hambrick (1994), observed that these competitive behaviours are expected to affect the performance of an organization. The seminal paper on Upper Echelon Theory by Hambrick and Mason (1984), submitted that TMT characteristics affect the decision making process and thus organization performance. A key Upper Echelon Theory fundamental is that the TMT characteristics have a linkage to the cognitive and psychological components of the administrative orientation, which consequently influence the strategic choices and decisions (Carson et al., 2004).

Strategic leadership theory has evolved from the original Hambrick and Mason's (1984) upper echelons theory incorporating both the instrumental ways in which the dominant coalition affects organizational outcomes and the symbolism and social constructs of top executives (Hambrick & Pettigrew, 2001). The essence of strategic leadership proposed by Hersey-Blanchard entails the capacity to learn, the capacity to managerial wisdom and the capacity to change (Boal & Hooijberg, 2001). Studies by Boal and Hooijberg (2001) examined the effect of strategic leaders on the operations of the organization. They found that strategic leaders look at the variations in the organization environment, examine their vision and make the necessary changes. The speed and magnitude of change faced by contemporary organizations has led to appeals for leadership that is more flexible and highly adaptive, able to work more effectively in this challenging operating environment by easily identifying opportunities and responding appropriately. These leaders lead their subjects to the realization of creative solutions for the highly complex problems they face, at the same time develop them towards handling wider array of leadership responsibilities (Bennis, 2001). Strategic leaders look into the future to establish organization direction and coping with the critical sectors of environment. The general idea is that strategies require a broad pool of managerial knowledge and capabilities that is availed by ensuring TMT diversity within the organization (Hambrick 1989). This theory is therefore relevant to the study as it offers a link between TMT diversity and the functions of strategic leaders (top management team) in change management and maintenance of the right organizational structures, processes and culture as offered in organization strategy while pursuing organization success.

Research on TMT diversity and organization performance relationship remains one of the most widely undertaken in strategic management. Irungu (2007), researched on the effect of TMT diversity on performance of publicly quoted companies in Kenya confirming that TMT diversity affects their performance. In his study, he recommended extending the study to other contexts. Mutuku, (2012) studied top management team diversity and performance of commercial banks in

Kenya and recommended similar research in public institutions. Some of the studies done on the topic indicate that diversity in TMT results in the achievement of organizational goal and profitability (Wooldridge, *et al.*, 2008; Nelson & Nelson, 2012); while other studies express TMT diversity to reduce communication and effectiveness in decision making and other negative outcomes (Eisenhardt & Schoonhoven, 1990; Carson *et al.*, 2004).

Top Management Teams translate policies formulated by board of directors into objectives, goals and strategies intended to offer an organization the direction to realize their present and future success, hence it is sensible to conclude that TMT influence will directly affect the performance of the firm (Oketch & Kilika, 2017). TMT diversity has been confirmed to affect organizational performance. Nielsen and Nielsen (2012) examined the unclear relationship between Nationality of top management team (TMT) diversity and organization performance. Linking upper echelons theory to institutional theory insights, they established new dimensions of TMT diversity. The researchers found national diversity to have positive relationship with organization performance; an effect that was stronger in longer tenured teams, highly internationalized organizations, and munificent environments. However, they failed to capture other intervening factors that are prevalent as related to TMT and also relied on explaining the causality rather than explaining the outcomes.

One of the key roles of the TMT is to set policies for resources acquisition and integration in the organization with the goals of reducing uncertainty, increasing stability, increasing resources, and reducing competition thereby creating favorable public image and opinions of the organization and its products and services and improving the overall organization position in the market. However, since TMTs are highly involved in strategic leadership, they frequently deal with ambiguous, complex and ill-defined as opposed to routine problems (Hambrick, 1989). Harris and Ogbonna (2001) suggest that the relationship between strategic leadership and performance is mediated by the form of organizational culture that is present. They also observed that strategic leadership lacks a direct association to performance but is simply thought to have indirect association. The empirical review presents the idea that top management team and strategic leadership enhances organizational performance. It is important to note that leader's true leadership style cannot be split from the basic qualities which produce the acceptable character. Diversified TMT represent the leadership in an organization and is critical to strategic direction of the organization for improved performance.

Organization effectiveness requires effective and strategic leadership. Rapid change in organizations and their operating environments over the past years has led to formation of new styles of leadership, which is less bureaucratic and more democratic. This change in leadership style is important to ensure organization survival. Strategic leaders strive to understand how the morale of their employees is affected by their action which goes a long way to defining the level of performance (Amos *et al.*, 2004). Mehra *et al.*, (2006) argument is that organizations pursue efficient means of enabling them outperform others, whose longstanding approach has been the keen focus on strategic leadership. Strategic leadership entails creating organization meaning and

purpose through a powerful vision and mission creating the organization's future (Ireland & Hitt, 2005). TMT diversity in the firm ensures the occurrence of transformational and transactional leaders who, in many organizations, formulate and implement organization strategies, (Cogliser, 2002). Strategic maneuvering achievable through the TMT efforts is essential when a firm is confronted with hyper-competitiveness in quality and price, knowledge and timing, markets that are strongly held (dominant organizations in the market), services, and products.

Organizational performance encompasses the actual outputs or results realized by a firm, measured against the intended outputs, mainly considered as objectives and goals or the previous period performance (Hailey, 2006). Views posited by Richard *et al.*, (2009) depicts organizational performance as to comprise of three key areas of organization outcomes that include product market performance, shareholder return and financial performance. Organizational performance is described as a set of financial and non-financial indicators that describe the extent to which the goals and objectives of the organization have been achieved (Lebans & Euske, 2006).

Top Management Teams are expected to exhibit strategic leadership tendencies in discharging their roles. Strategic leadership is seen in all organization levels such as teams, departments, divisions and in all other areas of an organization. Such leaders are inspiring, visionary, thoughtful thinkers and daring, risk-takers (Bass & Avolio, 1994). It highlights the techniques adopted in decision making consisting of best business practices that are vital in sustaining organization competitiveness and relevance. Jansen, *et al.*, (2009) found strategic leaders to be involved in both the transactional and transformational leadership behaviours that influence organizational learning. Transformational behaviours inspire organization members to challenge institutionalized learning and adopt generative thinking. On the other hand, the transactional behaviours, encourage organization members to improve existing knowledge.

The most crucial aspect of strategic leadership is having a clear vision which allows staff to make decisions openly and freely (Amos, *et al.*, 2004). Strategic leadership exists at all levels of the organization: departments, divisions, teams and the organization as a unit. These leaders are inspiring, visionary, daring, thoughtful thinkers and risk-takers (Bass & Avolio, 1994). They provide techniques that help the organizations to gain focus when making the purpose and best business practices decisions which are critical to their continued competitiveness and relevance. In view of these considerations, we proposed that strategic leadership moderates the relationship between TMT diversity and organization performance, which was tested by empirical analysis of specific aspects of that general relationship. This discourse leads to the statement of the study hypothesis as:

Hypothesis (H₁): *Strategic Leadership has a moderating effect on the relationship between Top Management Team Diversity and Organizational Performance of PBOs in Kenya*

3. Methodology

The study focused on 138 Kenyan PBOs operating in 6 key sectors namely agriculture, health, children and youth development, education, training and skills development, and environment &

economic empowerment. The research relied on both primary and secondary data which was in qualitative and quantitative form. Primary data was collected using a semi-structured questionnaire which was then supplemented using secondary data obtained from reports and organizations websites. Though the unit of analysis was an organization, the primary respondent was the Human Resources manager or equivalent since they had access to information on TMT members as well as linkage with other key departments of interest like finance and administration. The questionnaire was dropped at the organization and then picked later. This data collection approach was adopted since the respondent needed to gather information from other departments in completing the questionnaire. Inferential statistical analysis was undertaken including ANOVA and regression models which allowed for the assessment of the hypothesized relationships. Inferential statistics involved the use of regression, correlation and goodness of fit tests. The moderating effect was tested using OLS regression model.

4. Results

The study sought to find out the influence of strategic leadership (SL) on the relationship between TMT Diversity and PBO Performance. A hierarchical linear regression model was adopted to assess this relationship. From the regression analysis, the various outcomes observed were presented in Table 1 which shows the regression model for the moderating effect of Strategic Leadership on the relationship between TMT diversity and PBO performance. Model 1 shows the relationship between TMT Diversity and PBO Performance, Model 2 shows the relationship between Strategic Leadership, TMT Diversity and PBO performance while Model 3 shows the regression model of the relationship between TMT Diversity, Strategic Leadership, and the moderator variable (which is a centred product of TMT Diversity and Strategic Leadership variables; centring is done by finding $(X_1 - \bar{X}_1)(X_2 - \bar{X}_2)$ where X_1 and X_2 are the independent and moderating variables; which creates the moderator variable) and PBO performance.

The regression model summary found that PBO performance has a correlation index of 0.323 when regressed against TMT Diversity, indicating a defined relationship between PBO performance and TMT Diversity. This was further confirmed by a coefficient of determination (R^2) observed as 0.104 when TMT Diversity is regressed against PBO performance indicating that TMT Diversity is able to explain 10.4% of the variability in PBO performance. Model 2 shows the relationship between TMT Diversity, Strategic Leadership and PBO Performance. The model showed a higher correlation ($R = 0.380$) and a high coefficient of determination ($R^2 = 0.144$). This indicates that TMT Diversity coupled with strategic leadership have a better ability to explain the variability in PBO performance as they can both explain 14.4% of the variability in PBO performance unlike when TMT diversity is considered on its own where it is only able to explain 10.4% of the variability. Model 3, which was done to show the moderating effect was found to have a higher correlation coefficient ($R = 0.424$) than the other models (model 1& 2) and a higher coefficient of determination ($R^2 = 0.180$) which indicates higher ability of the model to explain variability in PBO performance (explains 18.0% of the variability in PBO performance) than

Models 1 & 2, an indication that it shows a stronger influence. This is an indication of the presence of a moderating effect of strategic leadership on performance and TMT diversity relationship.

The ANOVA statistics presented in Table 1 indicated that the three models (1, 2 & 3) indicated p - values that were less than 0.05 (model 1 p = 0.001; model 2 p = 0.001; model 3 p = 0.000) as required at 95% confidence level confirming that the three models are statistically significant. In all the models, the regression sum of squares were lower than the residuals sum of squares but regression mean of squares were higher than the residuals mean of squares, leading up to the observed significance levels. Incidentally, model 1 indicated higher residuals values than model 2 and 3 while model 3 indicated higher regression values than model 1 and 2 indicating higher predictive ability in model 3 than in model 2 and 1, which confirms the views posited by the models' R². It was therefore observed that model 3 had the highest predicting power among the three followed by model 2 and then model 1 with the least predictive power. The three regression models realized p-values of the ANOVA F-statistic that were less than 0.05 indicating that for model 1, TMT diversity influence on PBO performance is statistically significant; for model 2, the joint influence of TMT diversity and Strategic Leadership on PBO Performance is statistically significant at 95% confidence level (P<0.05; P=0.001); and for model 3, there is a statistically significant (p = 0.000) moderating effect of strategic leadership on TMT Diversity and PBO Performance relationship, leading to acceptance of the hypothesis stating that "strategic leadership has moderating effect on the relationship between TMT Diversity and PBOs Performance", since the study has confirmed presence of statistically significant effect.

From the regression coefficients section in Table 1, it was observed that TMT Diversity has a statistically significant impact on PBO performance as indicated in Model 1 indicating t-statistics p-values of less than 0.05 (P=0.001) in the independent variable (TMT Diversity) and Constant (P=0.000) confirming that TMT diversity has an impact on PBO performance. A joint effect was realized as presented in Model 2 where TMT Diversity (p= 0.004) and Strategic Leadership (p = 0.037) showed a statistically significant influence on PBO performance. Model 3 regression coefficients on the other hand indicated that strategic leadership has a moderating effect on the relationship between PBO performance and TMT diversity (Accept hypothesis H₁) with the factors indicating coefficients that are statistically significant in all the coefficients of the relationship (constant p= 0.013; TMT diversity p = 0.001; strategic leadership p = 0.016; Moderator variable (TMT diversity' n 'strategic leadership: p=0.044) indicated p-values that were less than 0.05. The models (1, 2 & 3) also shows that all the variables have a positive coefficient hence confirming positive impact on the dependent variable (PBO performance). Therefore, we can conclude that strategic leadership has a positive moderating effect on the relationship between TMT diversity and PBO performance.

Table 1: Strategic leadership, TMT diversity and PBO Performance Regression

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.323 ^a	.104	.095	.577766
2	.380 ^b	.144	.126	.567675
3	.424 ^c	.180	.154	.558541

a. Predictors: (Constant), TMT Diversity

b. Predictors: (Constant), TMT Diversity, Strategic Leadership

c. Predictors: (Constant), TMT Diversity, Strategic Leadership, TMTvsSLModerator

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.764	1	3.764	11.276	.001 ^b
	Residual	32.380	97	.334		
	Total	36.144	98			
2	Regression	5.208	2	2.604	8.080	.001 ^c
	Residual	30.937	96	.322		
	Total	36.144	98			
3	Regression	6.507	3	2.169	6.953	.000 ^d
	Residual	29.637	95	.312		
	Total	36.144	98			

a. Dependent Variable: PBO Performance

b. Predictors: (Constant), TMT Diversity

c. Predictors: (Constant), TMT Diversity, Strategic Leadership

d. Predictors: (Constant), TMT Diversity, Strategic Leadership, TMTvsSLModerator

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
		B	Std. Error			
1	(Constant)	1.105	.290		3.813	.000
	TMT Diversity	2.506	.746	.323	3.358	.001
	(Constant)	.467	.415		2.124	.024
2	TMT Diversity	2.219	.746	.286	2.977	.004
	Strategic Leadership	.200	.095	.203	2.116	.037
	(Constant)	.161	.435		2.369	.013
3	TMT Diversity	2.658	.764	.342	3.477	.001
	Strategic Leadership	.232	.094	.236	2.459	.016
	TMTvsSLModerator	2.310	1.132	.202	2.041	.044

a. Dependent Variable: PBO Performance

From the models realized from the regression analysis, it is clear that Strategic Leadership has a moderating effect on the association between TMT Diversity and PBO Performance indicated by the significant effect in model 3 especially at the moderator factor ((ModTMT(D))(SL) whose coefficient is 2.310, which shows that strategic leadership has a strong moderating effect. Therefore, the study confirms that Strategic Leadership has a positive moderating effect on the influence of TMT diversity on PBO performance. Improvement in TMT diversity within the enhanced strategic leadership atmosphere would cause an improvement in PBO performance.

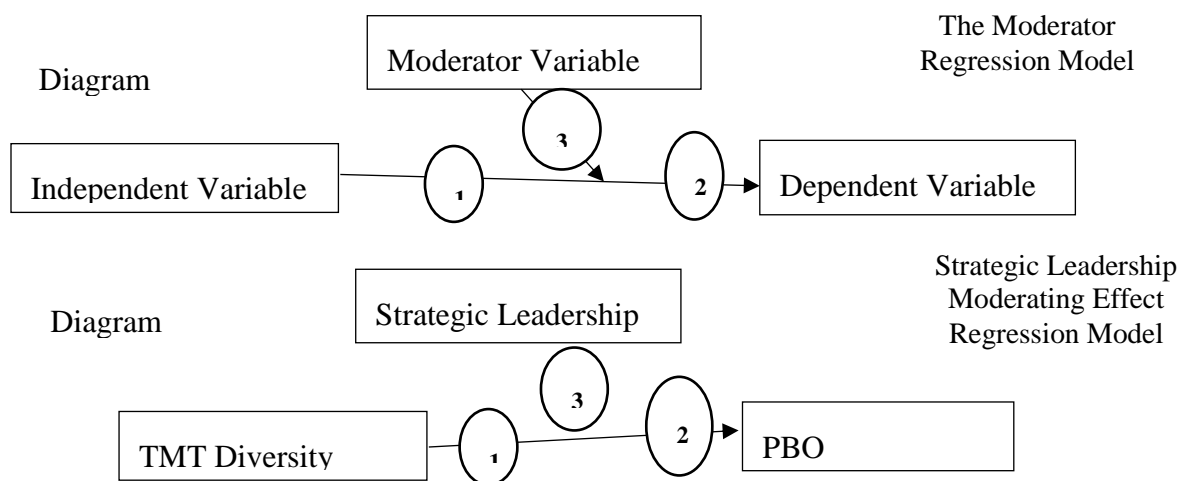


Figure 1: Strategic Leadership Moderating Effect Diagrams

5. Conclusion

It was observed that strategic leadership enhanced the ability of TMT diversity to explain variability in PBO performance from 10.4% (when not present) to 14.4% (when introduced as independent variable) and to 18.0% (when introduced as moderating variable). When strategic leadership was included as an independent variable in the model assessing TMT diversity influence on PBO performance, the model improved its ability to explain to 14.4% of the variability in PBO performance, while when the factor is introduced in the model as a moderating variable, the ability of the model to explain PBO performance variability increases to 18.0%, an indication that strategic leadership has a modifying effect on the model. The study therefore confirmed the strategic leadership modifying effect on the TMT diversity and PBO performance relationship.

Strategic leaders within organization have the ability to drive strategic orientation and are in a position to translate strategy into action; determine effective strategic intervention points; align people and organizations and advance strategic competencies. PBOs studied are such institutions having strategic and complex TMT and leadership structures. The study found that strategic leadership improved the ability of TMT diversity to explain variability in PBO performance from

10.4% to 18.0% confirming the modifying effect of strategic leadership on the relationship between TMT diversity and PBO performance. Similar findings were observed by Jansen, et al., (2009) who posited that TMT diversity in an organization ensures occurrence of transformational and transactional leaders within the organization and strategic leaders engage in transformational and transactional leadership behaviours to affect organizational learning by adopting generative thinking and encouraging organizational members to improve existing knowledge, hence impact significantly the organization performance.

Strategic leaders have a future outlook setting organization direction through goals and strategies formulation. They are also involved in developing organization structures, controls, processes, and core competencies. The top leadership makes decisions on management of multiple constituencies, choosing key executives, mentoring the next generation of executives, offering direction in respect to organizational strategies, upholding an effective organizational culture, supporting an ethical values system, and finally serving and negotiating as representative to government, other organizations and constituencies. Presence of TMT diversity enhances the ability of the strategic leaders to carry out these roles. Having strategic leaders ensures presence of TMT diversity as they seek to optimize their decision making within the organization as evidenced in this study.

A look at the moderating effect of strategic leadership on the association between TMT diversity and PBO performance found that PBOs undertake strategic leadership practices to a moderate extent such as motivation, enthusiasm cultivation, loyalty to leaders and organization, influence, problem solving, rapport creation and creation of good working environment. The study further found that strategic leadership has a positive moderating effect on the relationship between TMT diversity and PBO performance. This is in line with the propositions of the upper echelons theory that posits that organizations' corporate and business strategy is a reflection of their top management team. As the TMTs take important corporate decisions and sets strategic directions, it is thus considered as the key factor influencing the performance of the organization.

6. Implications of the Study

The study makes a significant contribution in offering empirical support to the upper echelons theory by confirming its hypothesis within the PBO sector that TMT diversity influences organization performance, with a moderating variables (strategic leadership) being introduced within the Upper Echelon discourse. Strategic leadership has a moderating effect on the relationship between TMT diversity and organization performance. These findings are in line with the postulations of strategic leadership theory. Therefore, these findings are an empirical evidence and contributions to these theoretical underpinnings.

The research also has policy implications in terms of decision making within the PBO sector in Kenya. The PBOs plays a key role in the Kenyan economy and its performance is an important agenda for economic and social development. This study will assist policy makers to make sound decisions regarding the management of TMT diversity and ways of improving performance of PBOs in Kenya. Managers of PBOs should leverage on strategic leadership to improve the impact

of TMT diversity on the performance of PBOs. The study found that TMT diversity has a low impact on PBO performance that may be improved through the adoption of better management policies. The results suggest that PBOs should consider strategic leadership practices within their TMT diversity policies in order to attain a better impact on performance. Policy makers in the sector should therefore encourage the PBOs to take advantage of TMT diversity and strategic leadership to improve their performance.

The study applied a cross - sectional research design within a positivistic framework. This method augured well with the quantitative and qualitative data collected and ensured the realization of predictive and interpretive outcomes through hypothesis generation and testing. This methodology is therefore appropriate for similar future studies when measuring effect. Hence, the study proposes this methodology in similar assessments and in different contexts. Additionally, the study applied linear regression model to assess the moderating effects within the models. Many researchers dissuade against usage of linear regression models in assessing the moderating influence with most proposing usage of Structural Equation Modelling (SEM) which is complex. This study, upon ensuring that the regression models lack any errors within it, the regression analysis was undertaken ending up with reliable outcomes. This confirms that upon ensuring a regression model has no errors, regression can be used to assess the moderating effects.

7. Acknowledgements

This paper has been made possible through the support and guidance of my supervisors, namely Prof. Z.B Awino (zb.awino@gmail.com; zb.awino@uonbi.ac.ke): who is an associate professor of Strategic Management, procurement and supply chain; School of Business, Department of Business Administration, University of Nairobi. He received his Ph.D. from the University of Nairobi. He conducts research in strategic management, value chain management and general management issues; Prof. X.N Iraki (xniraki@gmail.com; xniraki@uonbi.ac.ke): Is an Associate Professor and a coordinator of publications, research, and extension at the Department of Business Administration, School of Business, University of Nairobi. He holds a PhD degree from Jackson State University, U.S.A, majoring in Economics and a minor in management. He has a wealth of experience in research within the areas of entrepreneurship, economic growth, international trade, innovations, and national competitiveness. Dr. Machuki Vincent (mvincent@yahoo.com; mvincent@uonbi.ac.ke): is a senior lecturer of strategic management in the Department of Business Administration, School of Business, and University of Nairobi. He holds a PhD degree in strategic management from the School of Business at the University of Nairobi. His research interests range from strategic management, organization performance, and management.

References

- Allison, P. (1978). Measures of inequality. *American Sociological Review*, 43, 865-880.
- Amos, T.L., Ristow, A. & Ristow, L. (2004). *Human Resource Management* (2nd Edition). Lansdowne: Juta & Co.
- Aparna J. & Hyuntak R., (2009). The role of context in work team diversity research: a meta-analytic review. *Academy of Management Journal*, 52(3), 599–627.
- Bass, B.M. & Avolio, B.J. (1990). Developing Transformational Leadership. *Journal of European Industrial Training*, 14(5): 21-27.
- Bennis, W. (2001). Leading in Unnerving Times. *MIT Sloan Management Review*, 42, 97–102.
- Blau, P. M. (1977). *Inequality and heterogeneity*. New York: Free Press
- Boal, K. B. & Hooijberg, R. (2001). Strategic leadership: Moving on. *Leadership Quarterly*, 11(4)
- Brown, S.W. (2005). Opportunities and imperatives for improving marketing thought, practice, and infrastructure. *Journal of Marketing*, 69, 1–25.
- Carpenter, M. A., Geletkanycz, M. A., & Sanders, G. W. (2004). Upper Echelons Research Revisited: Antecedents, Elements, and Consequences of Top Management Team Composition. *Journal of Management*, 30(6), 749 – 778.
- Cogliser, CC, (2002). *Rethinking Leadership from a Strategic View*. Paper presented at the annual meeting of the Academy of Management, Denver, CO.
- Costa, L. A., Cool, K., & Dierickx, I. (2013). The competitive implications of the deployment of unique resources. *Strategic Management Journal*, 34, 445-463. doi:10.1002/smj.
- Finkelstein S, Hambrick DC. (1996). Top-management- team tenure and organizational outcomes: the moderating role of managerial discretion. *Administrative Science Quarterly*, 35: 484-503.
- Hailey, J. (2006). *NGO Leadership Development: A Review of Literature*. Praxis Paper
- Hambrick, D. C. & Finkelstein, S. (1987). *Managerial discretion: A bridge between polar views on organizations*. In L. L. Cummings & B. M. Staw (Eds.). *Research in organizational behaviour*, 9: 369-406. Greenwich, CT: JAI Press.
- Hambrick, D.C. & Mason P.A. (1984). Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review*: 9(2): 193-206.
- Hambrick, D.C. (1989). Guest editor's introduction: putting top managers back into the strategy picture. *Strategic Management Journal*; 10, 5-15.
- Harris. L. & Ogbonna. E., (2001). Leadership style and market orientation: an empirical study. *European Journal of Marketing*; 35 (5/6), 744 – 764

- Harrison, D. A., & Klein, K. J. (2007). What's the difference? Diversity constructs as separation, variety, or disparity in organizations. *Academy of Management Review*, 32: 1199–1228.
- Ireland, R. D., & Hitt, M. A. (2005). Achieving and maintaining strategic competitiveness in the 21st century: The role of strategic leadership. *Academy of Management Executive*; 19(4), 63-77.
- Jackson, S. E., Joshi, A., & Erhardt, N. L. (2003). Recent research on team and organizational diversity: SWOT analysis and implications. *Journal of Management*, 29: 801–830.
- Jansen, J., Vera, D., & Crossan, M. (2009). Strategic leadership and exploratory and exploitative innovation. *The Leadership Quarterly*; 20 (1), 5-18.
- Jarzabkowski P. & Rosalind S., (2003). *Top Management Team Strategic Capacity: Diversity, Collectivity & Trust*. Aston Business School Research Institute, Aston University, Birmingham. ISBN No: 1 85449 572 0
- Kaplan, R. S., & Norton, D. P., (1992). The Balanced Scorecard - Measures that Drive Performance. *Harvard Business Review*, 70 (1), 71-79.
- Li, J., & Hambrick, D. C. (2005). Factional groups: A new vantage on demographic faultlines, conflict, and disintegration in work teams. *Academy of Management Journal*, 48: 794–813.
- Mehra, A., Smith, B.R., Dixon, A.L. & Robertson, B. (2006). Distributed leadership in teams: The networks of leadership perceptions & team performance. *The Leadership Quarterly*, 17(3)
- Mutuku, C. K'Obonyo, K. & Awino, Z.B. (2013). Top management team diversity, quality of decisions and performance of commercial banks in Kenya. *Asian Journal of Humanities and Social Sciences (AJHSS)*, 3(14)
- Nielsen, B. and Nielsen, S. (2012). Top management team nationality diversity and firm performance: *Journal of Strategic Management*, 34(3), 373–382
- Priem, R. L., Lyon, D. W., & Dess, G. G. (1999). Inherent limitations of demographic proxies in top management team heterogeneity research. *Journal of Management*, 25, 935–953.
- Richard, O. C., Murthi, B. P. S., & Ismail, K. (2007). The impact of racial diversity on intermediate and long-term performance: The moderating role of environmental context. *Strategic Management Journal*, 28, 1213–1233.
- Rosado, C. (2006). What Do We Mean By “Managing Diversity”? *ICAF AI University*, 3. Sumati Reddy, Hyderabad, India
- Rowe, W. G. (2001). Creating wealth in organizations: The role of strategic leadership. *Academy of Management Executive*, 15, 81–94.
- Rumelt, R. (1984). *Towards a strategic theory of the firm*, In: Lamb, R. (Ed.), *Competitive Strategic Management*, Prentice Hall, Englewood Cliffs, NJ, 556-570.

- Selznick, P. (1984). *Leadership in administration: A sociological interpretation*. Berkeley: University of California Press.
- Simons, T., Pelled, L.H. & Smith, K.A. (1999), Making use of difference: diversity, debate, and decision comprehensiveness in top management teams. *Academy of Management Journal*, 42, 662-73.
- Venkatraman, N., & Ramanujam, V., (1986). Measurement of Business Performance in Strategy Research: A Comparison of Approaches. *Academy of Management Review*, 11(4), 801—814
- West, C.T. Jr. & Schwenk C.R., (1996). Top management team strategic consensus, demographic homogeneity and firm performance. *Strategic Management Journal*, 17(7), 571-576.
- Wiersema M. F., & Bantel, K. A. (1992). Top Management team demography and corporate strategic change. *Academy of Management Journal*, 35, 91-121.
- Wooldridge, B., Schmid, T. & Floyd, S.W. (2008). The Middle Management Perspective on Strategy Process: Contributions, Synthesis, and Future Research. *Journal of Management*, 34(6).