



CEO–TMT exchange, TMT personality composition, and decision quality: The mediating role of TMT psychological empowerment[☆]

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ABSTRACT

This research draws on the upper-echelons perspective to examine the effects of CEO–top management team (TMT) exchange quality and TMT personality composition on decision quality through the mediation of TMT psychological empowerment. Using survey data from more than 700 executives in 210 firms in a Middle Eastern country and adopting a split-data approach, we find that CEO–TMT exchange quality can advance TMT psychological empowerment. We also find that TMT neuroticism has a negative effect on TMT psychological empowerment, while TMT conscientiousness, extraversion, agreeableness, and openness have positive effects. Moreover, TMT psychological empowerment plays a mediating role in linking CEO–TMT exchange quality and TMT personality composition with decision quality. Our research contributes to the upper-echelons, leader–member exchange (LMX), and decision-making literature by drawing attention to the social dynamics between CEO and TMT members, as well as the psychological characteristics and psychological states of TMT members, and their implications for strategic decisions.

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The upper-echelons perspective proposes that an organization is a reflection of its strategic leaders (Hambrick & Mason, 1984), and many studies have revealed the significant impact that top management team (TMT) characteristics have on a firm's strategic choices (see Carpenter, Geletkanycz, & Sanders, 2004 for a comprehensive review). However, prior research tends to treat TMT as a whole, and the interface between a CEO and his/her executive peers has received limited attention in the literature (Carmeli, Schaubroeck, & Tishler, 2011), even though the CEO holds a key role in shaping a TMT's socio-psychometric processes and various firm outcomes (Eisenhardt & Bourgeois, 1988). An examination of the CEO–TMT interplay could more completely capture the dynamics among top executives (Stoker, Grutterink, & Kolk, 2012) and elucidate how a firm's decisions are determined by its dominant coalition (Cyert & March, 1963).

Equally, the existing literature mainly examines surface-level demographic compositions as proxies of TMTs' psychological characteristics, without devoting sufficient efforts to probe into their deep-level compositions, such as personality traits (Hambrick, 2007), despite the fact that a firm's strategic decisions can be predicted by both the surface- and deep-level attributes of its TMT (Bell, 2007). The investigation of TMT personality characteristics carried out in the current work also responds to the call for a more rigorous test that directly identifies TMTs' underlying traits and their social and cognitive implications (Hambrick, 2007).

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Prior research also has little to say with regard to the mechanisms that can convert executive characteristics into constructive decision outcomes (Carmeli, Tishler, & Edmondson, 2012). Identifying the critical mediators through which CEO–TMT interplay and TMT deep-level composition can generate quality decisions could help to achieve a deeper understanding of the decision-making process in a firm (Peterson, Smith, Martorana, & Owens, 2003).

To address the aforementioned research questions, this study examines how the CEO–TMT interplay and TMT personality composition affect decision quality through the mediation of TMT psychological empowerment, which reflects executive members' collective beliefs in their "autonomy and capability to perform meaningful work that can impact their organization" (Chen, Kirkman, Kanfer, Allen, & Rosen, 2007: 332). TMT psychological empowerment has the shared unit properties and describes the motivational state of a TMT. An examination of psychological empowerment at the TMT level is important, as it is a widely-used concept in team leadership literature (Chen, Lam, & Zhong, 2007) and holds a key place in bridging team profiles and team performance (Seibert, Wang, & Courtright, 2011).

To examine the CEO–TMT interplay, we employ the leader–member exchange (LMX) theory and explore the issue of CEO–TMT exchange quality, which refers to the mean level of each TMT member's perception of the quality of his/her relationship with the CEO (Boies & Howell, 2006). In so doing, we identify CEOs from our definition of TMTs in this study and endeavor to investigate the dynamics between leaders and their followers at the upper-echelons level. CEO–TMT exchange quality constitutes the configural unit properties and underscores the contribution of every dyadic relationship between a CEO and his/her executive peers to the overall exchange quality within a TMT (Kozlowski & Klein, 2000). We highlight CEO–TMT exchange quality, as LMX has been found to be a key driver of employee empowerment at the dyadic level (Gómez & Rosen, 2001). At the team level, LMX also can increase team potency, a key dimension of psychological empowerment (Boies & Howell, 2006).

As with TMT personality composition, it refers to the mean level of a TMT with regard to a particular personality trait, and thus constitutes the configural unit properties. Because personalities "emerge in the same way and are functionally equivalent across levels" (Bell, 2007: 601) and show isomorphic behavioral routines and regularities at various levels (Hogan, 1991), we therefore apply the mean approach to conceptualize the TMT personality composition. Moreover, we apply the Five-Factor Model (FFM; i.e. Conscientiousness, Openness to Experience, Extraversion, Neuroticism, and Agreeableness) to assess personality traits, because it has been shown to be both generalizable and stable (Costa & McCrae, 1992), as well as effective in predicting team outcomes (Barry & Stewart, 1997).

With regard to decision quality, it pertains to whether decisions are made based on valid assumptions and the best available information, and whether the solutions that are generated fit the organization's strategies and contribute to its overall effectiveness (Carmeli & Schaubroeck, 2006). Decision quality captures the global unit property, which is relatively objective and refers directly to team-level decisions (Kozlowski & Klein, 2000). As compared with decision process concerns, such as comprehensiveness or agreement, decision quality is a more adjacent factor for predicting various firm-level outcomes (Amason, 1996; Carmeli & Schaubroeck, 2006).

Based on a large-scale sample collected from Jordan, our empirical findings are largely consistent with the expectations, which reveal the key role of psychological empowerment in bridging CEO–TMT exchange quality and TMT personality composition with decision quality. This study thus makes several contributions to the strategic leadership literature. The investigation of TMT empowerment presented in this work elucidates the psychological links between executive characteristics and strategic decisions, and also represents a critical first step in the literature of psychological empowerment (Seibert et al., 2011). The simultaneous examination of CEO–TMT interplay and TMT composition also serves to support the cornerstone of the upper-echelons theory, since both the CEO and TMT are the information-processing centers of an organization (Eisenhardt & Bourgeois, 1988). Examining CEO–TMT exchange quality can expand the theoretical implications of LMX theory, so that it encompasses the full range from lower- to top-echelon contexts as well (Liao, Liu, & Loi, 2010). Finally, by extending the study of executive dynamics to Jordanian companies, our study advances the generalizability of the upper-echelons theory and responds to a recent call for more research in the Arab Middle East (Zahra, 2011).

Theoretical background and hypotheses

TMT psychological empowerment

The idea of team empowerment has been conceptualized from two perspectives: structural and psychological. Structural empowerment concerns the policies and practices of delegation and decentralization, while psychological empowerment is a constellation of psychological states, which results from team members' interactions and emerges from their collective or socially-constructed cognitions (Kirkman, Rosen, Tesluk, & Gibson, 2004).

Psychological empowerment can be conceptualized at either the individual or team level (Kirkman et al., 2004). Our study focuses on team, or specifically TMT, psychological empowerment, which is a multidimensional construct composed of (a) *meaningfulness* (i.e., intrinsic caring about tasks), (b) *potency* (i.e., perceived competence to perform tasks), (c) *autonomy* (i.e., perceived self-determination at work), and (d) *impact* (i.e., perceived contributions of their tasks to the firm) (Kirkman & Rosen, 1999). The four dimensions of psychological empowerment are important in the TMT context because TMT members' positive assessments of their roles, competences, and tasks are crucial for making strategic decisions, which often involve significant uncertainties and thus are likely to elevate dysfunctional conflicts (Chen, Lin, & Michel, 2010), making the synchronization of psychological and cognitive resources necessary (Hambrick, 2007).

Team psychological empowerment characterizes the dynamic properties of a team that vary as a function of team context, inputs, and outputs (Marks, Mathieu, & Zaccaro, 2001). A meta-analytic review has revealed the effects of team leadership and team composition on team empowerment, which in turn affects various outcomes (Seibert et al., 2011). As a result, we expect that CEO–TMT exchange quality and TMT characteristics will impact TMT psychological empowerment, because both the CEO and TMT play

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