

GUEST EDITORS' INTRODUCTION

TOP MANAGEMENT TEAMS: A NEGLECTED TOPIC IN STRATEGIC HUMAN RESOURCE MANAGEMENT

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Abstract

The IBAR special issue on Top Management Teams (TMTs) is presented to disseminate current theoretical and empirical advances in TMT research, increase understanding of the problems and opportunities of TMT research, and to stimulate future research on TMTs. Our focus in this forum is to explore issues concerning TMT composition, process, leadership, incentives and structure as they relate to organisational performance.

In our introduction we argue that the TMT should be a focal point of study for Strategic Human Resource Management (SHRM) researchers interested in the determinants of organisational performance. The resource based view of the firm is suggested as a paradigm to introduce the TMT to the SHRM-performance debate. We then present a framework to integrate research on TMTs with SHRM and introduce the papers which constitute the special issue.

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Research on strategic human resource management (SHRM) has increasingly focused on issues surrounding organisational performance. Ever since Devanna, Fombrun and Tichy (1984) argued that human resource management has strategic implications, researchers have sought out empirical support for the links between HRM and organisational performance. Almost simultaneously, the term 'top management team' (TMT) became pervasive in the organisational behaviour and strategy literature (Hambrick, 1994). In view of the fact that both the SHRM and the strategy research domains share a common interest in the contribution of human resources to securing competitive advantage one would expect that the top management team would feature prominently in the SHRM research agenda on the determinants of organisational performance.

This has not been the case. Although top management teams have become a focus for research in strategic management (c.f., Hambrick, 1989), TMTs have largely been bypassed in the strategic human resource management debate concerning the link between SHRM and the performance of the firm. This is partly due to the preoccupation of SHRM researchers with the impact of personnel policies and practices upon the commitment and productivity of lower echelon employees. While these policies and practices are enacted and activated by top management teams, the SHRM research tradition largely ignores the TMT as a strategic human resource in itself. Additionally SHRM typically takes strategy as a 'given' and is relatively unconcerned with the determinants of strategy itself.

Implicit in the SHRM perspective is the argument that the tangible and intangible skills and abilities of employees and their motivations are central to the firm's sustainable competitive advantage (Flood and Olian, 1995:7-18). As personnel policies and practices encourage skill formation and utilisation it behoves SHRM researchers to examine and establish the link between these policies and practices and organisational performance. While this focus has driven a rich stream of research focusing on the organisational arrangements of work systems, reward systems, manpower flow systems and 'voice' mechanisms (Fernie and Metcalf 1994; Guest, 1995; Huselid, 1995) and their links to various indicators of organisational performance, the top management team has not been considered a separately identifiable strategic human resource, resulting in a dearth of research on HR practices at the TMT level.

Yet, the top management team is the group of 'employees' within the organisation best placed to have an impact upon the fate of the firm. Irrespective of industry, senior managers deliberate upon strategic issues concerning product portfolios, pricing,

marketing, financing and production, all of which are central to both the short and long run economic performance of the enterprise. The perceptual biases, values and behaviours of the TMT will undoubtedly influence the decisions made, which in turn, affect the fate of the enterprise. As TMT behaviour and ultimately decision outcomes are shaped at least in part by those personnel policies and practices that pertain to the executive level, the time is ripe for SHRM researchers to extend their focus to the TMT.

There appear to be three primary reasons why SHRM researchers interested in linking human resource management arrangements to organisational performance have neglected TMTs:

- (i) The relative ignorance of many HRM scholars of the literature on strategic management
- (ii) The difficulty in obtaining access to Top Management Teams, and the reluctance of many HRM researchers to use secondary data sources; and
- (iii) The lack of a paradigm attractive to HRM scholars that identifies top management teams as human resources in and of themselves.

Boundaries between strategy and human resource management

The first reason may be due to the relative compartmentalisation of the strategy and HRM traditions, particularly in the European literature. In Ireland and the UK for example, most HRM scholars have industrial relations and organisational behaviour roots. These scholars are primarily concerned with the study of linkages between human resource systems and individual level outcomes such as employee job satisfaction and commitment rather than organisational level outcomes. In the US, this is becoming less prevalent as HRM researchers are increasingly being trained in schools of business, particularly management departments where they are exposed to literatures emphasising the link between organizational strategy and performance early in their educational programmes. Additionally, more US HRM researchers are interested in issues surrounding top management. The latter preoccupation derives, in part, from the 'heroic' tradition underpinning much of the US leadership literature. In the UK, while there is a growing interest in the economic performance implications of human resource strategies of firms, this interest is primarily within the domain of labour economics (the leading centre in the UK carrying out research of this nature is the Centre for Economic Performance at the London School of Economics and Political Science).

TMTs are difficult to research

As for the second problem, TMTs *are* difficult to research and senior level executives are particularly difficult to access. This is one of the reasons why much TMT-performance research is based on establishing links between executive biodata and performance indicators. Industry almanacs frequently list age, education and the industry experience of TMT members. Additionally, performance indicators are also published in secondary database sources, and TMT strategy researchers often rely on this data for their analyses. Given the survey and interview methods generally employed by HRM researchers, they may be uncomfortable relying on the secondary data sources used by many TMT researchers.

Let us point out that (without reducing the height of the barriers presented by these two problems) the above reasons why SHRM has neglected TMT research are becoming less relevant even as this special issue is being published. First, research and collaboration is taking place whereby strategy scholars are being exposed to the interests, questions and perspectives of HRM researchers using different research traditions. This special issue is partly driven by a desire to further that trend. Secondly, TMT strategy researchers are increasingly delving inside the black box of the TMT, and moving beyond the focus on biodata and secondary data sources.

SHRM lacks a paradigm identifying TMTs as human resources

The third reason why SHRM scholars may have neglected TMTs in their examination of the linkages between human resources and organizational performance is that SHRM lacks a theoretical model that identifies TMTs as human resources in and of themselves. The study of HRM has grown largely from the field of organisational behaviour, industrial relations, personnel administration and labour economics. Each of these traditions (with perhaps the exception of organisational behaviour) has emphasised the different interests existing between organised labour and management. Traditionally, HRM scholars have viewed labour relations as their primary research domain, while the study of top managers has been the realm of students of 'executive leadership' (Hambrick, 1989). This has created a false dichotomy in our thinking, the result of which has been that top management has come to be viewed as part of the organization within which human resources are managed, rather than as critical human resources that themselves contribute to overall organizational performance.

However, the resource based view (RBV) of the firm (Barney, 1991; Flood and

Olian, 1995:6-11) has emerged in the 1990s as one of the most influential and *integrative* perspectives in the field of strategic management. We believe that the RBV is a valuable paradigm which serves to introduce the TMT into the SHRM performance debate.

Top Management Teams in the Resource Based View

The RBV perspective on competitive advantage highlights the links between the internal resources of the firm, its strategy, and financial performance. These resources have been defined by Barney (1991:101) as 'all assets, capabilities, organisational processes, firm attributes, information, knowledge, and so on controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness.' The extent to which these firm resources (variously embracing physical, organisational and human resources) fulfil four separate conditions provides the linking mechanism between these internal resources of the firm, its strategy and financial performance.

To constitute a source of sustainable competitive advantage, the RBV argues that the relevant resources under scrutiny must be (1) valuable, (2) unique or rare among competitors, (3) imperfectly imitable and (4) non substitutable. In the context of our argument we must ask therefore whether the TMT fulfils these four conditions?

Wright et al (1994) argue that if the demand and supply for labour is homogenous, that is, all employees including senior managers are perfectly substitutable and equal in their productive capacity, then there is no possibility that the firm's human resources- including its executives- add value to the firm. In practice this is unlikely as the firm's labour market strategy in terms of pay, conditions and career opportunities is likely to result in the attraction and retention of employees varying widely in their ability and profile disposition. This is also true in terms of the executive labour market where competition for the brightest and most capable is considerable. Castanias and Helfat (1991) categorise managerial skills into generic, industry-specific, and firm-specific skills. Generic skills include analysis, communication, negotiation, motivation and so on, skills which are relatively easily transferred across businesses, industries and firms. Although the possession of generic skills by its executives are valuable to a firm these skills are not rare. Industry specific skills, such as an intimate knowledge of an industry, are more likely to be rare and to constitute a source of sustained competitive advantage. Firm specific skills which relate to the process of adding value

within a particular firm are also much more likely to be rare than generic skills. Castanias and Helfat (1991) offer the example of Roy Vangelos' scientific experience of drug development gained while senior vice president of research at Merck as an example of firm specific skills which benefited Merck's strategy enormously when he became CEO. Thus there is both theoretical argument and anecdotal evidence to suggest that high quality top management is both valuable and relatively rare.

What attributes of TMTs are imperfectly imitable and non substitutable? It is our view that high interpersonal synergy amongst the members of the TMT is the most likely source of inimitability and non-substitutability. This notion of interpersonal synergy is neatly summarised in the concept of behavioural integration. Behavioural integration has been defined by Hambrick (1994:189) as the degree to which the group engages in mutual and collective interaction. In the context of the top management group it has three major elements (1) quantity and quality (richness, timeliness, accuracy) of information exchange, (2) collaborative behaviour, and (3) joint decision making. High levels of behavioural integration within the TMT are comparatively rare and where present can be considered to constitute a rare and valuable organisational resource. It is also a characteristic which is likely to have important performance implications. Although the members of a TMT individually may be functionally expert and adroit, they may as a group be incapable of the mutual adjustment necessary to create effective collaboration and coordination across their functional domains of responsibility. While the importance of behavioural integration within the TMT in the context of effective strategy execution is related to the levels of organisational slack and environmental munificence, the more organisations face conditions of diminishing slack the more important behavioural integration becomes. As Hambrick (1994:188) points out 'what has not yet been considered [by organisational and strategy researchers] is the possibility that organizational inertia and maladaptation are sometimes due to the failure of top management groups to operate as coherent, collaborative information processing and decision making units.'

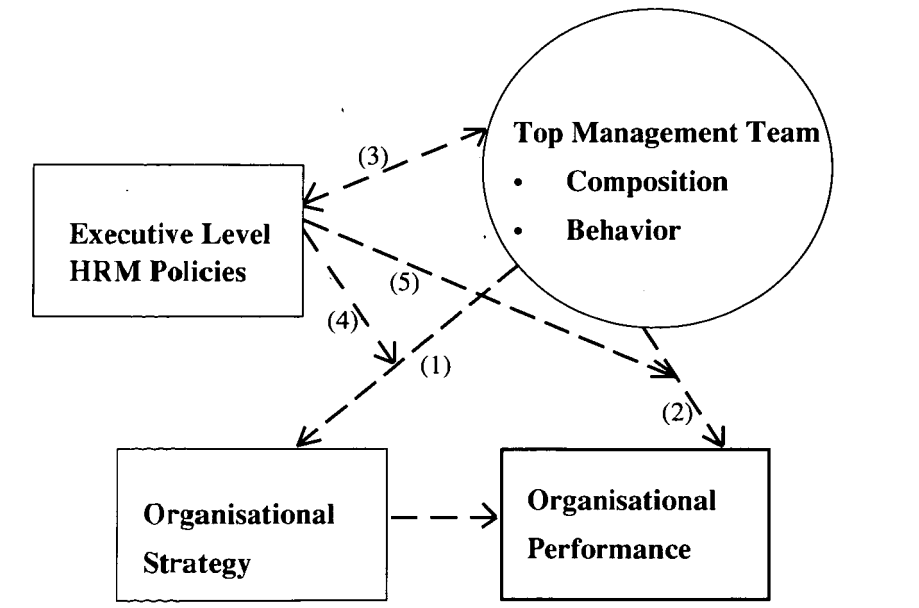
Thus, the extent to which the TMT possesses expert knowledge, skill and experience repertoires within its boundaries coupled with the extent to which it enjoys the support of both lower levels of management and employees is indeed a rare and valuable resource. It is likely also that the level of behavioural integration within the TMT will be mirrored at lower levels of the organisation. In this sense the roots of systemwide dysfunctional organisational behaviour may well originate within the TMT.

Top Management Teams and Strategic Human Resource Management

Earlier we argued that much of the recent European literature linking human resource management to organisational performance utilised a lower echelons perspective in the sense that the primary focus of these research endeavours was to establish linkages between organisation wide human resource management policies which apply to employee subordinate levels rather than to the executive level. As Olian et al (1995:3) point out ‘for the most part, HR research has not given specific attention to TMT issues, instead favouring an assumption of universality in HR practices and procedures across all organisational levels and areas.’ It is our view that, given the large number of empirical studies which demonstrate the impact of the TMT on organisational performance, those executive level human resource management policies and practices which relate to the TMT should be a focal point for SHRM research.

How then, does SHRM relate to the literature on top management teams? Figure 1 draws several linkages between executive level HR policies, top management teams, strategy, and performance.

Figure 1: Linkages between HRM policies and the Top Management Team



In this simplified framework, the composition and behaviour of the TMT has a central influence on the crafting of strategy and subsequent organizational performance. We view executive level HRM policies as having both direct and indirect impact on performance through their influence on the TMT. Five major relationships are depicted in Figure 1. The first two are reflective of current research on the influence of TMTs. The last three suggest areas of inquiry into the relationships between SHRM and TMTs. In the following pages we provide a summary description of each of these relationships and provide examples from existing literature.

Before discussing the model, however, it is important to elaborate on the TMT as the unit of analysis. Research into the importance of top management has a long history. Initial studies of executive leadership focused on the impact of individual CEOs or general managers (c.f., Day & Lord, 1988; Gupta & Govindarajan, 1984; Lieberson & O'Connor, 1972). More recent studies, driven by the theoretical constructs of the 'dominant coalition' (Cyert & March, 1963) and the 'upper echelon' (Hambrick & Mason, 1984), have expanded their focus to the top management team. Several dimensions of the TMT have begun to emerge as important in this research. These include both the composition and behaviors (or functioning) of the team. The former pertains to such dimensions as the size of the team, the individual characteristics of its members, and succession patterns. The latter relates to the processes and behaviors of the team and includes such dimensions as CEO leadership, behaviors toward the rest of the team, behavioural or social integration, and team decision making style. In our discussion, we take a wholistic perspective on the TMT and recognize the importance of both composition and behaviour. It is important to note, however, that our treatment here is at best representative of the richness to be found in this literature.

(1) TMTs influence organizational strategy

A rich stream of literature has developed along this dimension. Closely aligned with the 'upper echelons' perspective (Hambrick & Mason, 1984), research on this relationship has found significant relationships between the demographic composition of the TMT and organisational strategy. These findings lend support to the argument that the values and cognitions of members of the TMT influence strategy through strategic choice. More recently, work has been begun that examines the impact of the dynamics and behaviors of the team. This research has suggested that how the team functions is also a predictor of organizational strategy.

Examples:

1. Biographical characteristics - such as average level of education and functional background diversity - affect choices of strategy (Bantel & Jackson, 1989)
2. Further, TMT demographic composition also influences the propensity of a firm to change its strategy (Finkelstein & Hambrick, 1990; Wiersema & Bantel, 1992)
3. Finally, TMT behaviors - as well as biographical characteristics - affect a firm's choice of strategy (K.A. Smith et al, 1993)

(2) TMTs influence organizational performance

Also grounded in the 'upper echelons' perspective, a great deal of research has demonstrated linkages between TMT characteristics and organisational performance. Importantly, these findings suggest that matching TMT composition and behaviours to strategies and contexts are important considerations when seeking optimal organisational performance

Examples:

1. The composition of the TMT - measured by biographical characteristics - affects overall organizational performance as measured by profitability (Murray, 1989; Norburn & Birley 1988)
2. The size of the TMT and the breadth of background experiences represented within the team affect performance as measured by firm growth (Eisenhardt & Schoonhoven, 1990)
3. Beyond measures of composition, social integration and communication patterns within the TMT also affect organisational performance (K.G. Smith et al, 1994)
4. Finally, how the CEO relates to the rest of the team affects the dynamics of the team and subsequent organisational performance (Eisenhardt & Bourgeois, 1988)

It is important to note that although a great deal of research now exists linking TMTs to organisational strategy and performance, this research has raised almost as many questions as it has answered and there are many lines of inquiry yet to be fully explored. These include the further explication of many of the observed relationships,

refinement of the ‘team’ construct and examination of the ‘teamness’ of the TMT (Hambrick, 1994), and investigation of the actual roles and behaviors engaged in by the TMT (Ancona & Nadler, 1989). These and other topics continue to hold great promise for furthering our understanding of how TMTs relate to strategy and performance.

(3) HRM policies influence, and are influenced by, TMTs

It is our premise that TMTs are strategic human resources. As such, high performing organisations will recognize this fact and develop HRM policies and practices designed for the TMT. Importantly, such policies and practices are not developed in a vacuum. Rather, we would expect two-way causality between executive level HRM policies and the TMT. That is, TMTs have responsibility for establishing the very policies they operate within. In turn the HRM policies and practices they enact which pertain to the executive level will influence the composition and behaviour of the top management team. The upper echelon’s perspective suggests that HRM policies and practices directed at the TMT establish the tone for management processes throughout the organisation

Examples:

1. HRM practices at the top levels of an organisation are different from those at lower organisational levels (Schuler & Jackson, 1987).
2. Recruitment method and number of sources affect the composition of the team (Koch, 1991)
3. Agency theory prescribes that it is the function of executive HRM policies to align TMT decisions and behaviours with shareholder goals and objectives (Eisenhardt, 1989)
4. Executive level HR Policies on compensation including share options will influence the pioneering behaviour of the top management team. In turn the recruitment and compensation strategy of pioneering firms will be designed to attract executives with entrepreneurial dispositions (Fong et al, 1995)

(4) HRM policies influence the TMT-strategy relationship

A number of authors have suggested that HR strategies are powerful tools to create alignment between managerial behaviours, business strategies, and environmental

contexts, thereby addressing the best interests of shareholders. Indeed, empirical research has supported relationships between HR practices and business strategy

Examples:

1. Appropriate HR strategies applied to the TMT vary by type of competitive strategy (Miles & Snow, 1984; Schuler, 1987)
2. The implementation of different strategies requires that different roles be played by managers. Thus, as organisations change strategies, they tend to change their HRM policies to maintain alignment (Schuler & Jackson, 1987)
3. Organisational contextual factors, including organisational strategy, influences the selection of general managers (Guthrie & Olian, 1991)

(5) HRM policies influence the TMT-performance relationship

It is logical to assume that HRM policies specifically directed at members of the TMT are more likely to demonstrate a relationship with the firm's financial performance than HR policies at lower echelons of the organisation because of the disproportionate impact that the behaviours and decisions of the dominant coalition have on financial outcomes. Importantly, a great deal of research supports this link

Examples:

1. By focusing on enlarging the pool of qualified applicants, executive recruiting practices affect organizational performance (Koch, 1991; Olian et al, 1995).
2. HRM policies that match managers to strategies can improve the effectiveness of strategy implementation and subsequent organisational performance (Govindarajan & Gupta, 1985; Gupta & Govindarajan, 1984).
3. Executive compensation programs that base pay on performance can affect overall organisational performance (Gerhart & Milkovich, 1990).

As can be seen from this brief overview, the potentialities for research focused on top management teams as strategic human resources are vast. We believe that much is to be gained through the cross fertilization of the strategy and strategic human

resource management literatures. By drawing on the extant research on top management teams, scholars of SHRM can broaden their understanding of the performance impact of HRM policies and practices. By incorporating the fine-grained perspective of SHRM researchers, strategy scholars can better begin to unlock the demographical ‘black box’ that lies at the centre of much of upper echelons research.

Papers included in the Special Issue

All six of the articles included in this forum can be related to the framework outlined in Figure 1. The first, “Top Management Team Human Resource Management Practices, Business Strategies and Firm Performance: A Test of Strategy Implementation Theory” by Kathryn Martell, Anil Gupta and Stephen J. Carroll is an investigation of the link between TMT level human resource management practices and organisational performance (linkage 5 in Figure 1). In a departure from studies of HRM and performance which focus solely on just one type of HRM-performance linkage such as the contingency model, Martell and her colleagues examine the impact of sixteen different TMT level HRM practices according to their apparent impact on strategic business unit (SBU) performance. The four models of the HRM-performance linkage which they advance include (1) the “strictly universalistic” relationship (2) the “strictly contingent relationship” (3) a simultaneous universalistic/contingency relationship and (4) an “irrelevant” or absent relationship where HRM has no apparent impact on performance. Their results indicate that universal relationships exist between half of their executive level HRM practices and SBU performance. A further two HRM practices demonstrated a contingent performance linkage while just one practice had a simultaneous/contingency relationship. The remaining HRM practices demonstrated no relationship with SBU performance. Based on this study the authors argue that one of the main propositions of SHRM theory has validity, namely that HRM policies and practices have an impact on performance. These findings concerning the universal impact of SHRM resonate well with the recent findings of Huselid (1995) on high performance work systems.

The second paper, “Top Management Team Demography and Process: The Role of Social Integration and Communication” (reprinted with the kind permission of Administrative Science Quarterly) is an investigation of the link between TMTs and organisational performance (linkage 2 in Figure 1). Specifically, this paper investigates the impact of top management team demography and process on performance. Arguing that company leaders impact organisational outcomes, especially in high-

discretion industries, K.G. Smith et al investigate the direct and indirect effects of team demography characteristics such as heterogeneity, tenure and size, and team process behaviours such as communication and social integration. Using data from 53 high-technology firms, they offer an empirically derived extended path model which is more complex than previous research suggests. The HRM implications of this paper- although not alluded to specifically in the paper- are considerable and include ensuring compatible fit between TMT members through the judicious use of a mixture of sophisticated selection procedures and organisational socialisation techniques to ensure high levels of social integration exist within the TMT while being mindful of the dangers of groupthink developing.

The third article, "Tough Times Makes Tough Bosses: A Meso Analysis of CEO Leader Behaviour" (reprinted by kind permission of Leadership Quarterly) by Judith A. Scully et al. is a further example of the way in which CEOs as members of the TMT influence the behaviour of other TMT members in order to improve organisational performance (linkage 2 in Figure 1). The study was inspired by previous micro level research which found that leaders respond to poorly performing subordinates with greater use of directive behaviours and punishment. Scully et al. argue that CEO behaviour towards members of the top management team is dependent upon the financial performance of the relevant business unit. The authors hypothesise that the CEOs of poor performing firms will "get tough" on their TMT subordinates by issuing more specific instructions and commands and noncontingent reprimands in an effort to improve financial performance. Generally the results support their hypothesis. By adopting such leadership strategies CEOs are, in essence, attempting to increase strategic effectiveness by becoming more directly involved with the work of their top management teams. This paper raises many interesting HRM issues. In particular it suggests that a "see-saw" effect can develop where leadership behaviour becomes contingent upon short term operating profits. This can create considerable difficulties in creating a tightly knit top management team with a potential spillover effect onto lower echelon employees.

The fourth paper by Beni Lauterbach and Jacob Weisberg, "Top Management successions: the choice between internal and external sources" (reprinted by kind permission of the International Journal of Human Resource Management) is an example of how HRM recruitment policies influence the composition of the TMT (linkage 3 in Figure 1). These authors found that two main factors help to predict whether the firm will choose between internal or external sources in filling CEO level

succession vacancies. These two factors are firm size and power. Larger firms tended to appoint more from their internal sources, probably due to their informal commitment to their reservoir of internal talent. The authors found that the more power the firm is willing to delegate to the successor CEO the more likely are external successions. Their analysis suggests that likely CEO successors weigh up the possibilities to be successful that they will have in their new role in deciding whether to engage in the succession tournament. Clearly this feeds into any recruitment campaign that the organisation wishes to mount to attract likely successors. In particular the level of power and independence which the organisation is willing to delegate to the CEO is likely to affect the willingness of power oriented senior managers to offer their candidacy for the position of CEO.

The fifth paper, “Top Management Teams and Sales Growth Performance in International Divisions of US Multinationals” by Michael Morley, Sarah Moore and Phillip O’Regan reinforces the findings of Smith et al (1994) on the important influence of both demographic variables and TMT processes in explaining sales growth performance of the multinational enterprise (MNE). However the reduced importance in their findings of the role of social integration suggest that within the MNE subsidiary this factor may not be as important in determining sales growth. However as the authors acknowledge their findings are tentative due to the relatively small sample size used.

Finally, the sixth paper, by Ken A. Smith and Elizabeth A. Kofron, answers the question, “What’s next in research on top management teams and strategic effectiveness?” Specifically, they focus on the relationship between top management teams and strategy implementation, suggesting that strategy implementation has been a missing link between strategy and performance. Importantly, as the domain of SHRM is to recruit, train, and motivate employees to work toward organisational objectives, the focus on strategy implementation opens the door to linking HRM with strategy research.

Acknowledgements

In conclusion, we wish to thank the many individuals and organisations who contributed to this project. The sponsorship of the University of Limerick Foundation allowed the convening of a special research forum in May 1994 at the University of Limerick where many of the papers included in this special issue were discussed with a wider executive

audience. The purpose of that forum was to report the preliminary findings of an international collaborative research project on top management teams conducted by a team of faculty drawn from the College of Business, University of Limerick and the University of Maryland at College Park¹. We wish to acknowledge in particular the support of Dean Noel Whelan, College of Business, University of Limerick for this venture. The College of Business and Management at the University of Maryland - College Park, the Centre for International Business and Educational Research (CIBER) and the Michael D. Dingman Centre for Entrepreneurship at the University of Maryland, and Washington Technology provided considerable support for the research underpinning several of the US papers included herein. For this we thank Dean William Mayer, Dean Rudy Lamone (retired), Lee Preston and Doreen Bass, Centre for International Business and Educational Research, University of Maryland and John Sanders, Editor of Washington Technology. We also thank the editors of Administrative Science Quarterly, Leadership Quarterly and the International Journal of Human Resource Management for their permission to reprint their previously published works. We thank the anonymous referees for their helpful comments on the original articles appearing in the special issue. The Centre for Organisational Research at London Business School provided a supportive environment for the final editing work on the special issue. Finally, we thank all the authors of the papers included herein for their contributions. In conclusion we hope that this special issue will encourage further research on the important topic of establishing linkages between the top management team, strategic human resource management and organisational performance.

Notes

1 This research team included, Patrick C. Flood, Sarah Moore, Michael Morley and Philip O'Regan, University of Limerick and Ken G. Smith, Judy D. Olian and Henry P. Sims, University of Maryland.

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