

Review of the impact of executive team characteristics on corporate performance

Yuanli Yang

Panyapiwat Institute of Management, Nontaburi, Thailand

E-mail: yangyl80@163.com

Abstracts

As an important issue of enterprise concern, enterprise performance is related to the survival and development of enterprises. How to improve enterprise performance in a highly competitive environment has always been a constant concern of scholars. This paper defines the concept of executive team and enterprise performance, introduces the senior echelon theory, principal agent theory and stakeholders theory, and summarizes the relevant literature of executive team characteristics and enterprise performance research. Literature review shows that in the existing research, many scholars only studied the executive team characteristics, dual innovation, institutional investors, ESG performance influence on enterprise performance, few scholars will study several into the same system, about the executive team characteristics, dual innovation, institutional investors, ESG performance research on the depth and breadth are lacking.

Keywords: The executive Team; The Impact of Executive Team; Characteristics on Corporate Performance

Introduction

With the continuous change of The Times and the continuous development of the society, China's capital market is gradually growing. The capital market has developed for more than 30 years. With the deepening of the registration system reform, profound changes have taken place and it has become a market with world influence. Listed companies are an important force in driving economic growth. Statistics show that by the end of 2021, the number of Chinese A-share listed companies increased from 13 in 1991 to 4682, the total market value of listed companies has reached 96.53 trillion yuan, up 13.96% compared with 2020; the total revenue was 64.97 trillion yuan, up 19.81% year on year; the R & D investment of non-financial listed companies totaled 1.31 trillion yuan, accounting for 47.02% of the R & D investment of national enterprises. China's industrial economic transformation and upgrading has been carried out for many years, and high-quality development is an important path at present. The level of innovation and research and development directly determines the level of the "moat" at the technical level of listed companies. While the listed companies are constantly seeking for the improvement of corporate performance, investors also try to find the target companies with relatively higher investment value in the market.

* Received: April 1, 2023; Revised: April 21, 2023; Accepted: April 22, 2023

In general, investors and entrepreneurs, these stakeholders, are gradually changing their focus to corporate performance. Good corporate performance helps enterprises to obtain more resources and enhance their competitiveness. In order to obtain the development advantages, enterprises have set foot on the road of exploration to maintain the stable growth of enterprise performance.

Therefore, enterprise performance has become the focus and hot issue in the academic discussion. In this paper, Chinese Shanghai and Shenzhen A-share listed companies are taken as A sample, and this paper studies how the characteristics of the executive team affect corporate performance. The characteristics of the executive team may not be simply directly related, but are more likely to be affected by some intermediate variables. Therefore, discussing the role of dual innovation, institutional investor shareholding and ESG performance in the impact of executive team characteristics on the performance of enterprises. In the hope that the research results of this paper can provide reference for enterprises to select senior executive teams and promote the growth of enterprise performance.

Research Objectives

1. Study Purpose

This study aimed to explore the relationship between executive team characteristics and corporate performance. Specifically, this study will start from the following aspects to deeply explore the influence mechanism of executive team characteristics on enterprise performance:

(1) Empirically analyze the impact of senior executive team characteristics on enterprise performance from the two aspects of homogeneity characteristics and heterogeneity characteristics, build the impact model of senior executive team characteristics on enterprise performance, and empirically test their relationship through the data of Chinese Shanghai-Shenzhen A-share listed companies from 2007 to 2020.

(2) Analysis of the intermediary role of dual innovation. The intermediary factor, dual innovation, also varies in the characteristics of executive teams and the relationship between enterprise performance. This paper combines the high-level ladder theory, dual theory, principal-agency theory, human capital theory, stakeholder theory and resource basis theory, etc., to study these influencing factors, to verify the intermediary role of dual innovation.

(3) Introduction, institutional investors' shareholding and ESG performance as regulatory variables. Establish integrated framework model to analyze the connection between the executive team characteristics and enterprise performance, after model analysis will discuss how the executive team characteristics on enterprise performance, and discuss the influence of the degree and direction, and help enterprises to form a more reasonable executive team, hiring talents for the enterprise, and talent management policy to provide certain reference, so as to increase enterprise performance, improve enterprise value, in order to realize the sustainable development of the enterprise, high quality.

The results of this study will provide a scientific basis for the formation, training and management of the senior management team, and can also provide important reference information for investors and other aspects, which is conducive to better play the role of the senior management team in corporate governance and operation, so as to promote the sustainable development of the enterprise.

Study significance

This paper studies the influence of senior executive team characteristics on enterprise performance, and provides reference suggestions for the improvement of enterprise performance. Among all the resources of the enterprise, senior executives undoubtedly occupy a very important position in human resources, which can lead the development direction and daily operation level of the enterprise. This study is based on the age, gender, tenure and education level of the senior management team. Through the study of the relationship between the characteristics of the senior management team and the performance of the enterprise, it strives to help the enterprise to introduce and match talents more scientifically, so as to improve the governance ability of the enterprise, help to improve the performance of the enterprise and increase the value of the enterprise. By deeply exploring the impact of the characteristics of the executive team on enterprise performance from the perspective of dual innovation, the key points to improve the enterprise value can be found, and then relevant improvement methods can be put forward and more reasonable talent policies can be formulated. It is of great significance to provide some ideas and references to enterprise managers, improve enterprise performance and maintain the healthy and stable development of enterprises.

Research Methods

This paper mainly uses the literature analysis method to study the characteristics of senior executive team, dual innovation, institutional investor shareholding, ESG performance and enterprise performance. Literature analysis method is mainly used in the definition of relevant concepts, theoretical basis and literature review, etc. Through literature combing and analysis, the logical relations between relevant variables are deduced and analyzed, and the research hypotheses are put forward.

Definition of relevant concepts

1. Characteristics of the senior executive team

(1) Definition of the senior management team

The earliest concept of the senior management team (Top Management Team, TMT) was the enterprise-owned senior management staff (Hambrick And Mason (1984: 193-206)). Enterprise organization and leadership, executive team plays a vital role, executive team in the enterprise as the top managers, has a lot of control and management decision, responsible for enterprise strategic decision and coordination between departments, decisions will directly affect the enterprise performance and future development direction, has an irreplaceable role in the enterprise.

Referring to the existing research results of scholars, combined with the definition of senior executives in the newly revised Company Law of the People's Republic of China in 2018. This paper defines the senior executive team as: the group of senior managers with the decision-making power and control of the overall operation management of the enterprise, responsible for formulating and executing the major strategies of the enterprise, and organizing and coordinating strategic decisions, and the team composed of the board of directors, the board of supervisors and all senior management personnel disclosed in the annual report of the listed company.

(2) Defining of the characteristics of the senior executive team

The connotation of the executive team homogeneity is the overall average level of all the characteristics of the executive team. The current research on the homogeneity characteristics of the senior management team is mainly conducted from several aspects of age, gender, tenure, education level and professional experience. Hambrick And Mason (1984: 193-206) defined the overall homogeneity characteristics of the senior management team from the aspects of age, education level, professional gender, financial status, background, etc. The overall homogeneity characteristic dimension of the senior management team is defined in terms of age, tenure, and educational background (Wiersema & Bantel, 1992:91-121). Chinese scholar Lin Runhui et al. (2019: 88-104) measured the overall homogeneity characteristics of senior management teams from the aspects of team role, production background, international experience level and other aspects.

Through combing the existing studies, it is found that in the current research results, the factors involved in the overall characteristics of the senior management team mainly focus on age, education background, gender, working time and career background. These indicators have been frequently evaluated in the existing literature, and a large number of theoretical results have been obtained, with certain reliability.

2. Enterprise performance

Enterprise performance is often used to measure the effect of enterprise management, which is a multi-dimensional and complex concept. It refers to the operating results achieved by an enterprise after certain production activities, which is mainly divided into two kinds: (1) narrow enterprise performance refers to enterprise financial indicators, including operating profit, operating cash flow, return on investment and market share; (2) broad enterprise performance refers to the non-financial indicators of an enterprise, including enterprise learning, enterprise reputation and market competitiveness (Bernardin, 1988).

Related theoretical basis

1. High-level echelon theory

Hambrick And Mason (1984: 193-206) put forward the high-level echelon theory (Upper Echelons Theory) in "High Level: Reflections of Organizations as Senior Management Personnel" published in *Academy of Management Review*. This theory shows that under the influence of internal and external environment, the characteristics of senior managers will affect the strategic choice of enterprises. High-level echelon theory believes that the demographic characteristic variables of senior executive teams are related to their psychological structures such as cognition, values and perceptual ability, which will affect corporate performance. Carpenter (2004: 749-778) on the study of executive team theory is summarized, with the principal-agent theory integration adjustment variables, to make up for the defects of the basic theory, the research object is the executive team preference and personality influence on the enterprise strategy and performance, contact the interests of executives and shareholders, to better understand the relationship between executive team and enterprise performance.

To sum up, since the top echelon theory, the theory has strong applicability, make the demographic characteristics of executives easy to become the research, scholars research mainly focused on age, term, education level, gender, professional background executive team characteristics of enterprise performance, strategic change and enterprise innovation, etc. As the cornerstone of the senior management team, the senior echelon theory is one of the core theories of this paper. This paper selects four characteristics of senior executives: age, gender, tenure and education level to explore their relationship with corporate performance.

2. Principal-agent theory

Berle and Means (1932) analyzed the disadvantages of the enterprise owner and proposed that with the continuous growth of the enterprise scale and the increasing number of shareholders, different subjects had the ownership and control of the enterprise, thus forming the principal-agent relationship (Principal-agent Theory). The principal-agent theory points out that the relationship between the owner and the manager is the principal-agent (Jensen & Meckling, 1976: 305-360). To some extent, the characteristics of the senior management team can also be referred to by investors, so as to judge whether their own investment decisions meet the principle of profit maximization. Therefore, the principal-agent theory is also an important theoretical basis for studying the characteristics of senior executive team and the influence of enterprise performance.

3. Stakeholder theory

The concept of stakeholder (stakeholders) was first proposed by the Stanford University Research Institute in 1963, arguing that organizations cannot survive without the support of stakeholders like consumers, employees, and product suppliers related to the business. Since then, many scholars from different angles began to focus on stakeholders research, Freeman (1984:1) that the traditional theory of shareholders ignored other groups related to the enterprise, more fully put forward the concept of stakeholders, including the government, suppliers, owners, customers, employees, etc., the development of the enterprise cannot leave all stakeholders participation and input, is not only the pursuit of shareholder interests maximization, but should be the pursuit of overall benefit maximization.

Stakeholder theory constantly improves and expands, distinguishing between major stakeholders and secondary stakeholders, focusing on limited and non-defined stakeholder strategies, balancing the orientation of all stakeholders, and evaluating enterprise performance from the perspective of different stakeholders (Donaldson & Preston, 1995: 65-91). Therefore, the stakeholder theory is also the theoretical basis for the characteristics of the senior executive team and the enterprise performance.

Review of relevant literature (the relationship between senior management team characteristics and enterprise performance)

Hambrick The high-level echelon theory proposed by Mason (1984: 193-206) first introduced the analytical perspective of demographic statistics into the research of senior management teams, and believed that demographic characteristics can reflect the psychological characteristics of an individual, which will affect the behavior of managers and then affect the performance of enterprises. Wiersema And Bird (1993:91-121) believe that the differences between eastern and Western cultures will affect the role of the executive team on corporate performance. As the organization and implementer of enterprise operation and management, the executives' behavior decisions directly affect the performance, and the characteristics of the executive team have an impact on the performance (Li Yinxiang et al., 2022: 53-58). The following will integrate the scholars' perspectives from the perspectives of executive team age, gender, tenure and education level.

(1) The relationship between the age of the senior executive team and the corporate performance

Weinzimmer et al. (2003: 133 -159) found that the older the average age of the executive team, have a broader and clear understanding of the situation of the enterprise, and more foresight when making decisions, which is conducive to improving the performance of the enterprise. Yao Zhenhua and Sun Haifa (2011: 126-130) studied the influence on enterprise performance through the relationship between various characteristics and communication frequency, and finally reached the conclusion that the higher the average age of the executive team, the higher the communication frequency, and the better the impact on enterprise performance. Yue Shangzhi et al. (2017:21-25) believe that the role of the age characteristics of senior management team is very wide, and the age characteristics of senior management team will play a significant role in corporate performance through mergers and acquisitions.

However, some others hold the opposite results. Bantel And Jackson (1989: 107-124) studied senior U. S. banking executives, showing that most of the conservative strategies come from older executive groups, thus limiting the growth of companies.

In contrast, some scholars have pointed out that the age heterogeneity of senior executive teams has a negative impact on corporate performance. Tajfel (1982: : 1-39.) believes that teams with low age heterogeneity are willing and able to conduct smooth team communication, so as to create a harmonious team atmosphere, which is beneficial to the improvement of team cohesion. Zenger The study with Lawrence (1989: 353-376) pointed out that age heterogeneity is not conducive to the smooth communication of the R & D team, reduces the completion of team tasks, and negatively corthe relationship with enterprise performance. Liu Xihua et al. (2015: 80-86.) took listed companies in Shandong Province as a sample, and the results showed that the negative effect of age heterogeneity on enterprises is very obvious, and the inhibitory effect on performance cannot be ignored.

(2) Relationship between gender of senior executive team and corporate performance

With the rise of the women's liberation movement in the 1970s, women began to appear in the jobs in all walks of life. After a long-term effort, some women with excellent abilities began to enter the senior management of enterprises. Many scholars believe that the higher the proportion of women in the senior management team, it has a positive impact on corporate performance. Catalyst (2004) analyzed the data of the public sample companies in the United States between 1996 and 2000, and found that companies with a high proportion of female executives could get higher return on assets and equity returns. Compared with men, women think more carefully, can pay more attention to details, and predict risks more comprehensively, which can avoid risks for enterprises and improve enterprise performance (Byrnes, 1999; Adams, 2009:136-150). Compared with men, female executives have more unique management advantages, which can make full use of their own affinity and exquisite characteristics to stabilize the cohesion of the team and improve the corporate performance level (Cristian & Dav id, 2012:1072-1089). Some scholars believe that the higher the proportion of women in the executive team, a negative impact on corporate performance. Female executives who are too conservative will reduce their investment in innovation activities and have a negative impact on improving business performance (Croson & Gneezy, 2009: 448 - 474; Khan & Vieitio, 2013: 55-66). The study found that the disadvantages of female executives are greater than the advantages, and too many female executives participating in management decisions will inhibit the growth of corporate performance (Lian Bing, Xu Xiaoli, 2015: 54 + 33). Some other scholars believe that the gender characteristics of senior management teams have little impact on the performance of enterprises. Lin Jianbin, (2014: :54-59) Through the data study of Shanghai and Shenzhen listed companies from 1992 to 2013, he found that the gender characteristics of senior management teams had little impact on corporate performance.

There are relatively few studies on the impact of gender heterogeneity among executive teams on corporate performance. Gu Jie and Wang Yuqin (2015:54-56+70) conducted an empirical study on the data of high-tech listed companies in 2012, and the results showed that the gender heterogeneity of the senior management team was positively correlated with corporate performance. Zhang Ligang and Chen Liyu (2020) conducted an empirical study on the relationship between the heterogeneity of the executive team and the company's performance by selecting the relevant data of the main board listed companies from 2014 to 2018 as research samples. The results showed that the gender heterogeneity of the executive team was positively correlated with the company's performance.

(3) The relationship between the tenure of the senior executive team and the enterprise performance

Many scholars believe that the longer the term of the senior management team will have a positive impact on corporate performance. Eisenhardt (1990: 504-529) and other studies found that the longer the tenure of the executive team members in the listed company, the more tacit understanding, the executives and the enterprise can be more familiar with each other after a certain period of time. In the senior executive team, the CEO has a long term, and establishes long-term communication and stable relationship to reduce the friction of future communication. In the CEO has a short term, efficient communication channels have not been established in time, and the strategic decision-making efficiency of the senior executive group is low (Hambrick & Daveni, 1996 : 659-684).

Some scholars also believe that the longer the term of the senior management team will have a negative impact on corporate performance. Miller (1991:34-53) Research found that the tenure of senior executives is too long, the tendency to maintain the status quo will become more and more prominent, and gradually lose the motivation to change the strategy and investment, thus reducing the research and development investment of enterprises.

Some scholars believe that the greater the term heterogeneity of senior management team, the negative the impact on corporate performance. Pfeffer (1983: 299-357) Study the impact of tenure heterogeneity on the interaction mode of team members. For teams with large tenure heterogeneity, the sense of distance between members is not conducive to the interaction of team members, which will lead to the decline of disharmony between team members and team efficiency. Boeker (1997:152-170) believes that if the senior management team members are not adjusted for a long time, it will form a solidified operation, which will have a bad impact on the performance of the enterprise.

(4) The relationship between the education level of the senior management team and the enterprise performance

Senior management teams with higher average education level are able to better analyze and process complex information, and are more inclined to make strategic decisions that are beneficial to enterprises in the development of enterprises (Bantel & Jackson, 1989: 107-124). Through the study, the study shows that the higher the average education of the executive team members, the more likely they are to develop strategies conducive to the development of the enterprise, which is conducive to the diversification and internationalization of the enterprise (Tihanyi et al., 2000:1157-1177.). Some scholars believe that the greater the heterogeneity of the education level of senior management team, the positive the impact on enterprise performance. S mith The study with Tushman (2005:522-536.) suggests that heterogeneity in education level provides a diverse source of information for executive teams to improve corporate performance.

Some scholars believe that the greater the heterogeneity of the education level of senior management team, the negative the impact on the performance of enterprises. Knight (1999) Research found that the greater the difference in the education level of the executive team members, the greater the cultural and cognitive differences in the executive team, and the greater the difference in the strategic decision of the enterprise.

A summary of the research status

To sum up, many scholars have studied corporate performance, and many scholars have discussed the impact of senior executive team characteristics, dual innovation, institutional investor shareholding, and ESG performance on corporate performance respectively. In recent years, new progress has been made in the research on enterprise performance, and many new methods and new models have emerged to evaluate enterprise performance. However, few achievements have been made in the research of the characteristics of senior management team on dual innovation, institutional investor shareholding, ESG performance and enterprise performance, and they are basically still in the original research stage. At present, the study on Chinese enterprise performance in the research method and model and the study has made some progress, scholars from different angles, put forward with different indicators to evaluate enterprise performance method, but they are imperfect, so in measuring enterprise performance should be comprehensive consideration, according to the specific needs, choose the appropriate indicators to evaluate.

In terms of the research on the impact of senior executive team characteristics on corporate performance, scholars have conducted a more detailed research based on China's economic environment and the current situation of listed companies.

Overall, in the existing research, many scholars only studied the executive team characteristics, dual innovation, institutional investors, ESG performance influence on enterprise performance, few scholars will be included in the same system, about the executive team characteristics, dual innovation, institutional investors, ESG performance research on the depth and breadth are lacking.

Reference

- Adams R, Almeida H., & Ferreira D.(2009).Understanding the relationship between founder–CEOs and firmperformance .*Journal of Empirical Finance*. 16 (1), 136-150.
- Bantel,K.A.,&Jackson,S.E.(1989).Top Management and Innovation in Banking: Does the Composition of the Top Team Make a Difference. *Strategic Management Journal* .10,107-124
- Boeker,W.(1997).Strategic change: The influence of managerial characteristics and organizational growth. *Academy of Management Journal* , 40 (1), 152-170.
- Carpenter, M.A., Geletkanycz, M.A., & Sanders, W.G.(2004).Upper echelons research revisited: Antecedents, elements, and consequences of top management team composition. *Journal of management*. 30 (6), 749-778.
- Cristian ,L.D.,&David,G.R.(2012).Does female representation in top management improve firm performance?A panel data investigation. *Strategic Management Journal* . 33 (9), 1072-1089.
- Crosen,R.&Gneezy,U.(2009).“Gender Differences in Preferences.”*Journal of Economic Literature*. 47,448 - 474.
- Donaldson,T.&Preston,L.(1995).The stakeholder theory of the corporation: Concepts, evidence,and implications. *Academy of Management Review*. 20, 65-91.
- Eisenhardt,K.M, & Schoonhoven,C.B. (1990). Organizational growth: Linking founding team, strategy, environment, and growth among US semiconductor ventures, 1978-1988. *Administrative science quarterly* , 504-529.
- Freeman,R.E. (1984). *Strategic management:A stakeholder approach*. Boston: Pitman.
- Gu Jie, & Wang Yuqin. (2015). *Research on the heterogeneity of human capital and corporate performance of senior management teams — Based on the data of high-tech listed companies*. Accounting Communications, No.677(21):54-56+70. DOI: 10. 16144/j.cnki.issn1002-8072.2015.21.014.
- 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.,Cho,T.S.,&Chen,M.J. (1996). The Influence of Top Management Team Heterogeneity on Firms' Competitive Moves. *Administrative Science Quarterly*. 41 (4), 659-684.
- Jensen, M.C., & Meckling ,W.H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*. 3 (4), 305-360.

- Khan, W.A., & Vieito, J.P.. (2013). CEO Gender and Firm Performance. *Journal of Economics and Business*. (67), 55-66.
- Li Yinxiang, Shen Kangjie & Zhu Zhe. (2022). Executive characteristics and corporate performance: an overview and outlook. *Friends of the Accounting*. (07), 53-58.
- Lian Bing, & Xu Xiaoli.(2015). Research on the relationship between the age and gender of senior executives of listed companies and corporate performance. *Shang*, (23), 54 + 33.
- Lin Jianbin. (2014). *Empirical study on the gender of senior executives and the financial performance of listed companies*. developmental research, No. 337 (09), 54-59.
- Lin Runhui, Li Fei, Gui Yuan, Li Ya & Li Na. (2019). Enterprise senior management team influence cross-border merger and acquisition model selection study —— feature drive or role. *Science and Science and Technology Management*. (07), 88-104.
- Liu Xihua, Wang Han & Zheng Lei.(2015). Research on the relationship between the background characteristics of senior executives and enterprise performance of listed companies in Shandong Province. *Journal of Qingdao University (Natural Science Edition)*. 28 (04), 80-86.
- Miller, D.(1991).“Stale in the Saddle: CEO Tenure and The Match Between Organization and Environment”, *Management Science*. 78 (1),34-53.
- Pfeffer, J. (1983). Organizational demography. *Research in Organizational Behavior*. (5), 299-357.
- Smith, W.K., & Tushman, M.L. (2005). Managing Strategic Contradictions: A Top Management Model for Managing Innovation Streams .*Organization Science*. 16 (5), 522-536.
- Tajfel, H. (1982). Social psychology of intergroup relations. *Annual review of psychology*. 33 (1), 1-39.
- Tihanyi, L., Ellstrand, A.E, & Daily, C.M. (2000). Composition of the top management team and firm international diversification. *Journal of Management*. 26 (6), 1157-1177.
- Weinzimmer, L.G., Iii, E.U., & Nystrom, M.B. (2003). Relating marketing expertise on the top management team and strategic market aggressiveness to financial performance and shareholder value, *Journal of Strategic Marketing*. 11 (2), 133 -159.
- Wiersema, M.F. & Bantel, K.A.(1992). Top Management Team Demography and Corporate Strategic Change. *Academy of Management Journal*. 35 (1), 91-121.
- Yao Zhenhua, & Sun Haifa. (2011). Demographic characteristics and organizational performance of senior executive teams: an empirical study based on small and medium-sized private enterprises. *Scientific and technological management research*. (12), 126-130.

- Yue Shangzhi, Yan Peng, & Ren Qiuzhen. (2017). *Analysis of the impact of corporate executive background characteristics on the performance of corporate mergers and acquisitions — Empirical study based on Shanghai and Shenzhen A-shares*. Accounting Communications, No.762(34):21-25. DOI: 10.16144/j.cnki.issn1002-8072.2017.34.006.
- Zenger, T.R., Lawrence, B.S.(1989).Organizational demography: The differential effects of age and tenure distributions on technical communication. *Academy of Management journal*. 32 (2), 353-376.