

Firm Sustainable Performance Through Top Management Team Leadership and Innovation: A Proposed Framework and Innovation

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Abstract: Attaining sustainable performance is the main objective of every organization. However, massive competition has caused organizations to grasp for novel approach in order to survive. Likewise, Top Management Team (TMT) has been initiated to be the focal ground of firm sustainable performance through their strategic decisions such as innovation. While being innovative requires vast and varies resources, therefore, it is important to understand the influence of TMT in achieving sustainable firm performance through their strategic decisions on innovation. A conceptual framework is being proposed to inspect the relation and influence of these variables on sustainable firm performance. The contribution is mainly beneficial for corporations by shed lights to firms that want to find solution towards attaining sustainable firm performance through their TMT influence on the firm's strategic decision. Besides, the result obtained will give an overall benefit to firms and industries to understand the impact of TMT in strategic decision making particularly firm innovativeness and innovation types in attaining sustainable firm performance.

Key words: Firm performance, Top Management Team (TMT), diversity, networking, innovativeness, innovation

INTRODUCTION

In today's highly competitive environment, organizations are forced to grasp for innovative practices in order to survive in the market. Correspondingly, Top Management Team (TMT) can be posited as prospective contributing factor of firm strategic decision for sustainable performance. In addition, innovativeness has also been observed as one of the utmost substantial factors that ensure the development, survival and competitiveness of a firm. According to Gelard and Emamisaleh in 2014, firms that are endowed with resources to advance their innovativeness may anticipate a more substantial enhancement of performance. Likewise, it is argued that for long-term sustainability of a firm, innovativeness is one of the vastly effective methods for firms to be competitive and TMT members are the significant contributors to the development of firm sustainable performance that implements the triple bottom line approach of performance "economic, social and environmental" simultaneously. Therefore, researchers as well as practitioners are concerned about, how TMT retain innovativeness while advances sustainable firm performance and how innovativeness relates to firm

performance. To apprehend this phenomenon further understanding through observation and examination on these related notions has to be performed.

Comprehending the significance of TMT and innovativeness as conferred above, TMT characteristics has been renowned as impact factor of firm strategic judgements and thus firm performance (Carson *et al.*, 2004). Innovation conversely has been extensively considered as "the lifeblood of corporate survival and growth" (Zahra and Covin, 1994) and "it represents the core renewal process in any organisation" (Bessant *et al.*, 2005). While the importance of innovation and TMT through their strategic decisions on firm performance has been emphasized by the researchers, organizations and stakeholders, consequently it is contended that sustainable firm performance is unattainable merely through monetarily. This is because sustainable firm performance not only embraces financial performance but also firm non-financial traits, for instance environmental and social concerns (Fischer and Sawczyn, 2013). Nonetheless, firm performance is mostly dignified in financial terms (Berman *et al.*, 1999; Hull and Rothenberg, 2008; Takahashi *et al.*, 2016). In this regard, further observation is needed in attaining better

understanding of sustainable firm performance and growth since it should not be measured merely through financial performance but also through the non-financial performance.

Sustainable firm performance: The term firm performance has been prolonged to firm sustainability. Researchers (Cacioppe *et al.*, 2008; Eweje, 2011) as well as government agencies have stressed on the importance of firm sustainability which consists of social and environmental concerns in addition to financial aspect for firm's competitive advantage. The enclosure of these two more scopes in the firm performance stipulates that a firm is responsible for not only to generate economic value (profit) but correspondingly to protect people (society) and the planet (environment). These three criteria are frequently called as the three Ps (Profit, people and planet) of Triple Bottom Line (TBL), a term invented by Elkington (1994).

Looking at the importance of attaining sustainable firm performance, it has been observed that business has grasped incomparable growth and revolution since globalization has taken place. Such industrial growth has instigated social and environmental concerns that triggered receptions from the public as well as from the administrative authorities in various countries (Fischer and Sawczyn, 2013). Moreover, by growing environmental laws and diminishing the effect level that firms marked on environment will continue to raise apprehension for most of the firms (Henri and Journeault, 2008; Stead and Garner-Stead, 1994). As a result, the upsurge of environmental responsiveness awareness has shifted the importance of performance from financial focus to more comprehensive performance approach which comprises financial and nonfinancial aspects. Accordingly previous scholars (Elkington, 1998; Fauzi *et al.*, 2010; Sayem, 2012) have emphasized on the essential of evaluating firm performance beyond the financial measure where firms must address three measurements of firm performance which are economic (financial), social (people) and environmental (planet) in order to attain sustainable firm performance. Thus, achieving valuable firm performance and long-term sustainability in other words denotes to the firm aptitude to achieve the current needs deprived of compromising the capability to encounter their forthcoming needs (Hart and Milstein, 2003).

Although, the importance of non-financial performance and concerns has been increasingly known but review on previous available literature demonstrates most of the studies examining firm performance primarily in financial aspect of the

performance such as: (Berman *et al.*, 1999; Campbell and Minguez-Vera, 2008; Certo *et al.*, 2006; Talke *et al.*, 2011). Nevertheless, it has been underlined that firm performance should also embrace other aspects of performance in addition to financial performance such as social performance (Fischer and Sawczyn, 2013) and environmental performance (Fauzi *et al.*, 2010). Further, Fauzi *et al.* (2010) proposed that future studies should emphasize on this triple bottom line concept which comprises economic, social and environmental aspects to achieve sustainable firm performance.

MATERIALS AND METHODS

Sustainable firm performance through firm innovativeness: As the importance of sustainable firm performance has been highlighted in previous studies, so does the importance of achieving sustainable firm performance through firm innovativeness. This concern has been underlined not only by researchers but also by the management and stakeholders. Firm innovativeness is defined as firm's willingness, ability and the degree to generate ideas alongside with adopt, imitate or implement new technologies, processes and ideas in addition to commercialize them with the objective to propose novel products/services, process, marketing or organizational innovation for sustainable competitive advantage (Kyrgidou and Spyropoulou, 2013; Pallas *et al.*, 2013; Ruvio *et al.*, 2014; Salomo *et al.*, 2008; Tajeddini *et al.*, 2006). According to Cai *et al.* (2013), the vital motivation for firms to be innovative is the desire to enhance the firm performance and upsurge the competitive edge. Thus, the augmented and fierce competition among companies due to globalization has correspondingly brought to an awareness of the importance of being innovative as substance of corporate performance. This is elucidated as per firm innovativeness has been regarded as a strategic source that conceivably will offer a firm with the ability to strive in the market by proposing their customers a variety of products and services with added value comparative to their competitors (Kim and Park, 2010; Schilke, 2014).

Gibb and Haar (2010) further pointed out the significance of firm innovativeness by emphasizing that firms which demonstrate innovative behaviors (innovativeness) are more likely to enjoy superior performance. Conversely, firms with higher firm innovativeness will hypothetically enjoy greater performance. Nonetheless, innovation is largely perceived as an area of critical importance to organizations, it is also generally dignified as a significant source of competitive advantage (Alvarez and Barney, 2000; Covin and Miles, 1999) through its ability in generating opportunities.

Thus, firm innovativeness is extremely critical for global development in a way if firms could develop or improve the innovation capability then they will potentially create or improve a substance of competitive advantage, in the form of firm innovativeness.

Firm innovativeness and performance through TOP Management Team (TMT): Top Management Team (TMT) diversity: While, the importance of sustainable firm performance has been repeatedly discussed, Hambrick and Mason (1984) highlighted that firm performance is the result of organization strategic decision which is subject to their Top Management Team (TMT). Hambrick and Mason (1984) also stressed that the strategic decisions and choices (innovation) made by TMT are believed as relatively influenced by their characteristics. Furthermore, Teece *et al.* (1997) described that firms' competitive advantage is contained by the TMT and organizational processes and incorporates its competences and capabilities. Thus, the TMT is not only responsible for attaining sustainable firm performance but also in strategic decisions selected.

Looking at previous studies emphasizing on the importance of strategic decision in the form of innovation in attaining competitive advantage as well as the importance of TMT for sustainable firm performance, Ostergaard *et al.* (2009) who studied the relationship between diversity and innovation indicates that firms with higher diversity have a higher likelihood to innovate. While, it is clearly explained that TMT is responsible for firm's strategic decision such as adoption of innovation types, further a diverse TMT is more likely to improve the outcome in the form of innovation. Hence, it conveys to an understanding that firms with more diverse decision makers, who are the TMT members, will result to a higher firm innovativeness. This is reinforced by Talke *et al.* (2010) who discovered the diversity within the TMT has a robust influence on the strategic choice of firms to emphasize on innovation traits. Thus, it is evidently explained that TMT plays a significant role in determining the firm's outcome.

Top Management Team (TMT) network: Despite, the fact that researchers have deliberated the importance of TMT diversity, scholars have also conferred the positive significances of networking. The importance of networking relations in enabling opportunity recognition and exploitation has been extensively renowned (Ardichvili *et al.*, 2003) and it has also been revealed that networking relationships create unique competitive advantage that improves the firm's overall performance (Gathungu *et al.*, 2014). On the hand, sustainable firm

performance has been acknowledged by the firm innovativeness (Cai *et al.*, 2013; Gibb and Haar, 2010) while networking has been identified as one of the constructive source of firm innovativeness (Fitzgerald *et al.*, 2002; Jenssen and Nybakk, 2013). This explains that networking is crucial as a source of firm innovativeness and firm innovativeness is a critical factor for firm sustainable performance. Additionally, TMT networks allow firms to mobilize resources (Batjargal, 2003). Since, networking is important in creative idea formation where a more various networking may be more likely to be exposed to diverse ideas and complementary resources which enrich innovativeness (Ofem, 2014). Thus, attaining sustainable firm performance through firm innovativeness is explained by the TMT network which a firm do have. The importance of network for firm innovativeness is further highlighted by previous studies such as (Whittington *et al.*, 2009; Stam *et al.*, 2014) who have evidently specify the significance of network in value creation and creative ideas for firm innovativeness. Nonetheless, it is challenging and inflated for firms to advance and uphold different aptitudes in today's fast moving environment (Jenssen and Nybakk, 2013). Thus, a varied TMT network can be implicit as critical factor for firm creative idea generation and firm innovativeness, signifying TMT networking to conceivably be the indicator of firm innovativeness which has been established to be critical for firm performance.

Over the above deliberations, it has been demonstrated that diversity in TMT strongly effects the firm's strategic choices especially innovation (Talke *et al.*, 2010). At the same time, for a firm to be innovative as well as to achieve sustainable performance, a wide range of resource sharing is needed as highlighted by Poorkavoos (2013) and such resource sharing can be acquired through networking. As a consequence, having TMT with extensive network is as vital as having a diverse TMT since diversity in TMT generates unique values in strategic decision whereas their network donates in assembling different resources needed. Carson *et al.* (2004) indicated that the 0. choices such as innovation types which are persuaded by the diversity and networks existed within the TMT.

RESULTS AND DISCUSSION

Innovativeness as potential mediator between TMT and firm performance: Though, it is evidently deliberated that TMT diversity and TMT networking are essential for firm performance, the empirical results on a direct association among TMT diversity, TMT networking and firm performance are vague as shown in the meta-analysis prepared by Certo *et al.* (2006) and Stam *et al.* (2014). In

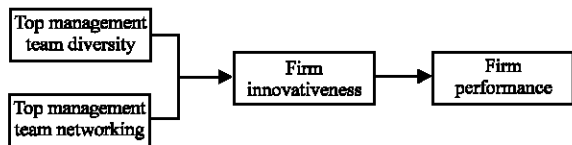


Fig. 1: Mediating effect of firm innovativeness on TMT diversity, networking and Firm performance

this regard, Stam *et al.* (2014) suggested future studies should capture potential mediating variables in the relationship of networking with firm performance. Besides, it has been argued that intervening influence on the association between TMT diversity and firm performance should be explored to recognize the significant relationship (Cannella *et al.*, 2008; Carson *et al.*, 2004).

Mediating variable is particularly interesting in such relationship as scholars found indirect effect of TMT diversity (Hambrick, 2007) and TMT network (Stam *et al.*, 2014) on firm performance. At the same time, scholars (Barsade *et al.*, 2000; Carpenter, 2002; Talke *et al.*, 2010) have also argued that there are gaps for more studies to investigate the mediating relationship particularly in innovation aspects. As per previously discussed, it is clearly explained that TMT diversity and TMT networking indirectly influence the firm performance. At the same time, TMT diversity and TMT networking is crucial for firm strategic decision in a form of firm innovativeness where firm innovativeness critically explains for a sustainable firm performance. Results obtained and recommendation received from previous researchers elucidated that diversity and networking of the TMT is vital in shaping firm performance through their capability and strategic decisions. Consequently, as described graphically in Fig. 1, it is proposed.

Proposition 1: Firm innovativeness mediates the relationship between TMT diversity and firm performance.

Proposition 2: Firm innovativeness mediates the relationship between TMT networking and firm performance.

Innovation as potential moderator between firm innovativeness and firm performance: Based on formerly conferred, it has been demonstrated that firm performance is explained by the firm innovativeness (Crossan and Apaydin, 2010; Diederer *et al.*, 2002; Fischer and Sawczyn, 2013; Kyrgidou and Spyropoulou, 2013; McWilliams and Siegel, 2011; Mone *et al.*, 1998; Sappasert and Clausen, 2012). Besides, firms with greater innovativeness are more inclined to implement or adopt more innovations (Ruvio *et al.*, 2014) and literature

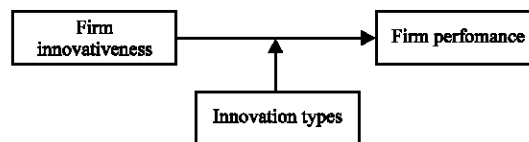


Fig. 2: Moderating effect of innovation types on firm innovativeness and Firm performance

on innovation advocates that innovation undertaken can be characterized into several types (Bessant *et al.*, 2005; Tidd *et al.*, 1997). Referring OECD (2005) classification of innovation, categories of innovation categorized conferring to product, process, organizational and marketing. This classification has brought to depiction by Isogawa *et al.* (2015) who have emphasized that different innovation has demonstrated to behave differently within the organization. For that reason, one may argue that not every innovation will result to an equivalent level of firm performance and different types of innovation may influence differently which brings to dissimilar effect on firm performance. Thus, as visually described in Fig. 2, it is proposed.

Proposition 3: Innovation types moderate the relationship between firm innovativeness and firm performance; underpinning theory; upper echelon theory known by Hambrick and Mason (1984) has been frequently embraced to ascribe leaders' characteristics and behaviors with organizational results. Likewise, it correspondingly anticipated that leaders' actions are a function of their personalities, values and experiences. Upper echelon theory moreover explains that decision makers are capable of shaping the firm's strategic actions and to some degree impact the firm performance (Hambrick and Mason, 1984).

As Upper echelon theory centered on describing the supremacy of leaders in shaping the firm's outcomes, Crossan and Apaydin (2010) have underlined two groups of leaders within a firm; CEOs at "individual" and TMT at "group" level. In addition, the upper echelon theory designates that firm innovation strategy is the results of their TMT characteristics (Hambrick, 2007; Hambrick and Mason, 1984; Talke *et al.*, 2010). Thus, the theory explicitly explains the organization's TMT is the key decision makers of their strategic decisions as innovation in shaping the firm performance. This is reinforced by the Olson *et al.* (2006) findings which presented that TMT influence firm performance through its strategic choices.

Proposed framework: Although, extensive studies have been carried out to understand the influence of TMT diversity on firm performance (Marimuthu and

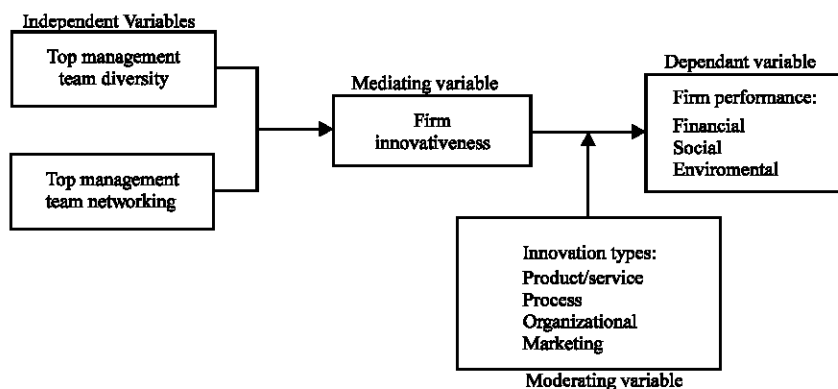


Fig. 3: Conceptual framework of firm sustainable performance through firm innovativeness and tmt diversity and networking

Kolandaisamy, 2009; Boone and Hendriks, 2009) and earlier studies have revealed the importance of networking for firm performance (Gathungu *et al.*, 2014; Hult *et al.*, 2004; Nybakk, 2012; Ofem, 2014; Stam *et al.*, 2014; Street and Cameron, 2007; Stuart, 2000). However, these associations possibly are subject to mediating variable such firm innovativeness (Talke *et al.*, 2010). Likewise, there has been further exploration on the influence of TMT diversity and TMT networking on firm performance; nonetheless, empirical research is limited on the outcome of firm innovativeness as the intervening variable between TMT diversity and TMT networking with the firm sustainable performance.

Moreover, these studies mostly engrossed on firm's financial performance while it has been argued that sustainable firm performance is critically important where it should be deliberated in the aspect of financial performance together with non-financial performance, for example; social and environmental performance. This designates the essential of understanding the influence of TMT diversity and TMT networking on comprehensive firm sustainable performance through firm innovativeness.

Accordingly, the impact of firm innovativeness on firm performance could be moderated by the different types of innovation. Moreover, Zahra *et al.* (2000) argued that little attention has been given in literature on the different types of innovation such as; process, organizational and marketing besides product innovation. Therefore, there is a gap which has to be filled by bringing significant impact of the different types of innovation as moderating variable on the relationship between firm innovativeness and firm performance. The need for further investigation on these related essential aspects is expressed in Fig. 3.

Referring to the earlier clarification and discussion, the above figure demonstrates the need for further examination related to the TMT theme especially on the relationship among TMT diversity and TMT networking

with firm performance. Further, it is important to embrace firm innovativeness as mediating mechanism to observe the relationship between TMT diversity and TMT networking with firm performance. Additionally, while previous studies mainly observed financial aspect of firm performance, the TBL approach embracing financial, social and environmental performance should be further analysed in order to understand the notion of firm sustainable performance. Hence, it is clearly explained that it is essential to investigate the relationship of TMT diversity and TMT networking with firm performance through mediating effect of firm innovativeness. At the same time to further understand the effect of different types of innovation which may moderate the relationship.

CONCLUSION

From the extensive review of the literatures, this study intends to explore the influence of TMT diversity and networking along with firm innovativeness on firm sustainable performance to achieve the sustainable competitive advantage. It is recommended that the organization which has a diverse TMT and network will have higher firm innovativeness which then enhances the sustainable firm performance. Additionally, sustainable firm performance obtained as the result of firm innovativeness is moderated by innovation types. Therefore, this proposed framework is needed to be examined for further understanding.

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