

RESEARCH NOTE

# How Much do CEOs and Top Managers Matter in Strategic Decision-Making?

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**This research note explores the influence of both CEO and top-management team (TMT) characteristics on the process of making strategic decisions (SDs). Empirical testing is based on a sample of 70 SDs in industrial enterprises operating in Greece, using a combination of interviews, questionnaires and archival data. The results suggest that (a) the characteristics of both the TMT and the CEO influenced the strategic decision-making process, but the former had more influence, (b) the TMT and CEO influenced different dimensions of the process, and (c) the broader context of SDs is more influential than either the CEO or the TMT. Among the most important factors was the TMT's 'aggressiveness' (commitment to beating the competition, attitude to innovation, willingness to take risks). The results lend support to the 'upper echelons' perspective, but suggest that in studying strategic decision-making processes both CEO and TMT characteristics should be considered, in conjunction with the broader context. Such an approach should provide a more reliable view of strategic processes and their evolving dynamics.**

## Introduction

Two important themes of strategy research over the last 20 years have been (a) the role of top management (Lewin and Stephens, 1994) and (b) the process of making strategic decisions (Rajagopalan, Rasheed and Datta, 1993; Papadakis and Barwise, 1998). Since Hambrick and Mason's (1984) seminal paper on 'upper echelons', much emphasis has been placed on the influence of top management on corporate strategy, innovation, performance, organizational structure and planning formality (e.g. Miller and Toulouse, 1986; Finkelstein and Hambrick, 1990; Bantel and Jackson, 1989; Smith *et al.*, 1994).

However, with few exceptions (e.g. Papadakis, Lioukas and Chambers, 1998), there has been little empirical work on the link between these two themes – top management (TM) characteristics and the process of making strategic decisions (SDs).

In the words of Rajagopalan, Rasheed and Datta (1993, p. 364): 'Research relating organizational factors such as . . . top management team (TMT) characteristics to strategic decision processes is limited.' Others have argued along similar lines (Lewin and Stephens, 1994; Smith *et al.*, 1994).

Moreover, some researchers have always questioned the significance of TM. For example, Lieberman and O'Connor (1972), and Hannan and Freeman (1977) argued that TM characteristics have little influence on SDs. Stein (1980, p. 332) went so far as to conclude that 'leadership does not constitute a meaningful contextual domain influencing strategic procedures'. This is a significant issue in strategy research that needs to be resolved empirically.

This study focuses on the specific question: 'How much do the CEO and the TMT influence the making of SDs, relative to each other and to the general context?'. To answer this question the

study explores selected characteristics of the TMT (competitive aggressiveness, education) and the CEO (risk propensity, need for achievement, education, tenure) as well as SD-process characteristics (comprehensiveness, decentralization, politicization).

The paper is organized as follows. In the first section we review the literature and formulate two broad hypotheses. Next we describe our method. The third section gives our results, the fourth discusses them and the final section explores their implications.

## Background and hypotheses

### *The SDM process*

The process of making specific SDs has been at the centre of strategy-process research for over 30 years. Strategic decision-making (SDM) studies usually describe the process as a sequence of steps or phases (e.g. Fredrickson, 1984; Mintzberg, Raisinghani and Theoret, 1976; Sharfman and Dean, 1998), or as a set of different characteristics/dimensions (e.g. Hickson *et al.*, 1986; Dean and Sharfman, 1993). Among the most frequently used dimensions are comprehensiveness/rationality, politicization, centralization, and formalization (Dean and Sharfman, 1993; Lyles and Mitroff, 1980; Sharfman and Dean, 1998; Rajagopalan, Rasheed and Datta, 1993; Hickson *et al.*, 1986; Stein, 1980).

Three complementary perspectives attempt to explain organizational processes: 'strategic choice', 'environmental determinism', 'firm characteristics and the resource-based view'. What follows is a short description of these perspectives (with particular emphasis on the strategic choice perspective) and a discussion of the empirical evidence on their impact on the SDM process.

### *The strategic choice perspective*

The 'strategic choice' perspective stresses the role and characteristics of top management (TM) and contends that SDM processes reflect the idiosyncrasies of key decision-makers (Child, 1972; Hambrick and Mason, 1984; Miller and Toulouse, 1986).

As noted before, while there is a wealth of empirical research on the relationship between TM and various other organizational variables,

there is little evidence on the influence of TM on the process of making SDs (Rajagopalan, Rasheed and Datta, 1993). However, some research does suggest that various TM characteristics (both personality and demographic characteristics of the CEO and/or the TMT) play an important role in SDM (Lewin and Stephens, 1994; Miller and Toulouse, 1986; Nahavandi and Malekzadeh, 1993).

The most widely used CEO characteristics are: need for achievement (nAch), risk propensity, tenure and education. Miller and Toulouse (1986) argued that CEOs with high nAch exert their desire to dominate their environment by using rational-analytic processes, and systems. In the same vein, Lewin and Stephens (1994) found that high achievers tend to favour formal processes for both decision-making and lateral communication.

Risk propensity was associated with faster decisions (Taylor and Dunnette, 1974). Lewin and Stephens (1994) argue that risk-averse CEOs reduce uncertainty by using centralized organization designs characterized by high control intensity and direct supervision.

Tenure has been argued to foster a reliance on tried and tested decision processes (Katz, 1982). Long-tenured CEOs favour standardized communication patterns (Katz, 1982; Smith *et al.*, 1994; Wiersema and Bantel, 1992). Over time they tend also to form a TMT of their own choosing, thus minimizing internal political debates (Finkelstein and Hambrick, 1990; Halebian and Finkelstein, 1993).

Finally, Hambrick and Mason (1984) argued that the main impact of a well-educated CEO may be indirect, by encouraging the appointment of educated managers in other senior positions.

The characteristics of the TMT itself (e.g. education, risk taking, aggressive behaviour) in addition to the CEO may influence SDM. A well-educated TMT influences the 'administrative complexity and sophistication (thoroughness of formal planning systems, complexity of structures, budgeting detail) of firms' (Hambrick and Mason, 1984, p. 201). Moreover, well-educated managers have been conjectured to show more knowledge and ability to perform better, thus contributing to more rational approaches to decision-making and more creative solutions to complex problems (Bantel and Jackson, 1989). A well-educated TMT may thus be efficient enough to reach an objectively better solution, thus minimizing political