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A Literature Review on Upper Echelons Theory

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ABSTRACT
In this paper, it reviews research on the upper echelons theory. To be specific, I concentrate on the factors that might influence managers' corporate decisions, which are the formal education degree, major degree, socioeconomic backgrounds, gender, individual experiences, age and tenures. Previous literatures reveal that formal education degree, advantaged backgrounds have positive association with corporate decisions, while negative relationships were shown between age and tenure and corporate decisions. Individual experiences will be separated as divisional managers and specialist CEOs to explains the linkage with corporate decisions. I hope this article may provide some implications to researchers, corporate managers, capital market investors, regulators, and so on.

Keywords: *upper echelons theory, managers' backgrounds, managers' characteristics, corporate decisions.*

1. INTRODUCTION

With the development of society, there is a continuing increasing trend in setting up firms and starting people's own business. Management has been highly investigated focusing on the information and decision-making, instead of shifting onto the emphasis of importance of managers themselves [1- 4]. The idea of investigating the top managers' backgrounds, characteristics and experiences on corporate decisions and results was first introduced by Hambrick and Mason, which is known as the upper echelons theory [5]. Although Hambrick and Mason's theory focused on the psychology, sociology, economics, and strategy perspectives, there were growing number of literatures are published successively based on the theory but go more deeply and specialize on personalities [6], cognitions [7] and others.

In this essay, I will focus on summarising the different factors that might influence the top managers to make firms' decisions in three sections, and in each section, I will compare and discuss the different arguments in order to provide some implications for investors, analysts, regulators, etc. In the first section, this essay will discuss managers educational backgrounds from two parts, namely the formal education degree and the major degree. The second section pays attention to managers' individual backgrounds with corporate decisions, such as socioeconomic backgrounds and gender. Last but not least, the third one centres on the experiences of managers with discussing the individual experiences, age and tenure.

2. MANAGERS' EDUCATION BACKGROUND AND CORPORATE DECISIONS

Education has always been considered as an influential factor for corporate decisions. Dissimilar educational levels can lead to different personal value, meaning that the formal educational degrees influence managers' decisions. According to Hambrick and Mason [5], the formal educational background provides a wealth of useful but complicated information and reflects a person's knowledge and skill sets. In addition, many researchers' have found that there are differences between managers even under the same formal educational level, which means the majors they took should also be taken into considerations. Therefore, the following two parts will focus on whether managers' formal educational degree and major degree affect the corporate decisions respectively.

2.1 Formal education degree

To start with, there is a constant conclusion from the previous researchers that managers' degree of education is positively associated with the receptivity and innovation [8,9,10], causing the different creativities and opinions from managers which could later lead to the distinctiveness in making company's decisions. Moreover, businesses with managers who have minimal formal management education will deviate more from industry performance norms than firms with managers who are highly trained in management [5]. In studies of two distinct samples of chief executives in the United Kingdom, researchers have found that nearly half of the samples had received their education at Oxford or Cambridge [11,12], reflecting that better schools are likely to train managers with proper managemental characteristics, such as communication skills, creativity and foresight, to the greatest extend.

Although such phenomenon cannot be applied to all counties because of dissimilar backgrounds and cultures, there are still similarities among countries. For instance, Channon has mentioned that it is unlikely to appear a strong linkage between education and business success in the United Sates, but there might still be areas where education or even certain institutions is considered vital to corporate success [11]. Nevertheless, different schools at the same educational level may still teach their students with distinct traits and characteristics. Hambrick and Mason have determined that not only the managers' educational degree influences their corporate decisions, but also the chosen university at the same educational level matters [5] For example, probably the Harvard Business School students are distinct from those who take courses in University of Chicago Business School, as each schools contains heterogeneous studied goals which result in different creativities on corporate decisions.

2.2 Major degree

Since distinctive schools at the same educational level would bring students with different attributes, it seems not difficult to come up with the hypothesis that different majors will influence managers' decisions even more. For example, a person with a background in engineering is unlikely to have a same cognitive foundation than students with a background in history or law [5]. Unexpectedly, the result discovered by researchers is on the contrary of what we thought theoretically. The study has investigated whether the administration and non-administration degrees are associated with managers' new approaches to business, and unfortunately researchers have found that there is no relationship between these two categories of major degree and the innovations to firms [9]. Furthermore, a counter-argument denied that the major degree would bring long-term impacts on either the bearer or the organisation of companies, which can solely as a function for matching up person to occupations [13].

To conclude whether the managers' education background have impact on the corporate decisions, firstly, the formal educational degree is positively related to receptivity and innovation, leading to the dissimilarity in managers' decisions. Yet there are slight differences among countries because of unsimilar cultural backgrounds. Secondly, although from the thematic perspective, distinct major degrees may reveal a different personal attitudes and values, the major degree tends to have no impact on corporate decisions in the long run.

3. MANAGERS' INDIVIDUAL BACKGROUNDS AND CORPORATE DECISIONS

An interesting and evidential notion outlined by Collins is that the education entails belonging to a specific socioeconomic group [14], meaning that whether the managers can enter a high ranked university or not are likely to depend on their parental income and occupations. Hence, besides from the managers' education background which this paper mentioned in the previous section, the socioeconomic backgrounds of managers are meaningful to consider as well. The gender inequality issues also need to be taken into account as one essential concern of managers' individual backgrounds.

3.1 Socioeconomic backgrounds

First of all, different firm types may contain different socioeconomic backgrounds. Based on previous organizational literatures, essentially no one has been strived on examining the connections between the socioeconomic backgrounds and corporate decisions. This is due to the high degree of similarity in the samples of managers' socioeconomic backgrounds [5]. Researchers attempt to focus on the growth strategies that the managers, who contain different socioeconomic backgrounds, choose to apply.

Channon discovered some links between leaders' socioeconomic backgrounds and the growth strategies of their businesses in the United Kingdom [11]. In Channon's study, he mentioned that companies controlled by entrepreneurs can be divided into three categories, namely the entrepreneur-run, family-run, and professionally managed. To discuss respectively, first, the entrepreneurs were more likely came from low-income families with only a secondary school education if the company is entrepreneur-run. Second, professional managed and the family-run types of firms are more likely origin from the upper-class English backgrounds.

However, it is hard to bring to a conclusion that whether the managers make decisions are based on their socioeconomic backgrounds or the personality, and the type of ownership or the modest origins of the entrepreneurs were directly connected to the company's growth strategies [5]. In Collins and Moore's findings, they stated that managers from lower socioeconomic backgrounds attempt to choose acquisition and unrelated diversification methods in order to adopt aggressive, often flamboyant techniques, probably in order to gain attention and regard; but managers from upper socioeconomic backgrounds are more likely to have stronger growth and earnings variability [15].

Therefore, on the one hand, if the person has multiple roles of both owning entrepreneurs-run and managing the corporation, that person may has a greater possibility of containing the origin of a low-income family. On the other hand, if the managers are hired by a company with a professional managed or take over their family-run business, they are more likely belonging to the upper socioeconomic class. Also, there are differences between disadvantaged background and advantaged background managers on the aims of managing the corporations.

3.2 Gender

Gender differences have been considered in so many situations, and the gender inequality issues appear in examining the managers' corporate decisions. Women are less likely to start their own business, and even when they take an essential role in a company, they are much more likely to face differentiation of treatments than men. Based on Lee and James's investigation, they indicated that the announcements of female CEO appointments elicit a negative reaction from shareholders more than announcements of male CEO appointments [16]. The study has also shown that the successor's demographic features may influence investor opinions and business value. In addition, they use a unique method arguing that the announcements of female CEOs draw more attention on gender-related problems than that of male CEOs, causing a substantially more unfavourable response from shareholders [16].

Literatures of sociology have been assessed in the upper echelons theory as well. Legitimation, one of the sociology concepts, in describing that when the presence of an organisational structure is assumed to be valid [17]. Because of the low proportion of female managers in the firm, gender may be an extremely important factor impacting referential beliefs, leading to an association of males with high-status positions in organisational hierarchy and women with lower or middle management [16, 18], meaning that female managers need to put in extra effort to gain trust. Regardless of how the issues that female managers are facing in the past and at the present, the growing trend of existence of women top managers or CEOs will be more and more legitimate. While a firm selects a female manager, the success may be interpreted as an indirect, but emblematic to the firm to have positive reactions in the market [19].

In addition, there are many advantages to have female managers, such as women incorporates better innovations for firms. According to empirical research, women have greater skills than males in fostering the interchange of ideas and information, settling disagreements, reacting to change, and empowering and encouraging others, all of which are critical to creativity [20, 21]. In consequences, female managers may find it more challenging to gain legitimacy when they choose to be a manager, and need to face more unfavourable reactions from the market. But such gender inequality issues will be receded or even eliminated in the future with the increasing trend in the numbers of female managers.

4. MANAGERS' EXPERIENCES AND CORPORATE DECISIONS

In the business fields, there is always a savvy describing that more working experiences would bring people more insights in management and better corporate decisions. Yet same length of work experiences could be divided into two types of CEOs or top managers, namely the managerial expertise and specialist CEOs. This section will mainly emphasise on Huang's research of the 'managerial expertise, corporate decisions and firm value' [22]. Furthermore, apart from the individual experiences, top managers' age and tenures are necessary to concern, too.

4.1 Individual experiences

This part will focus on whether the expertise and the specialisation of managers' individual experiences have impacts on corporate decisions. To be specific, in Huang's study, one the one hand, he contended that a CEO specialises in a certain division if the CEO has prior managerial expertise in that division or its industry if the CEO has had middle-level or higher-level management roles in a specific industry. Such divisional manager is more significant in moulding the CEO's unique ability than wide working experience in less senior jobs with no managing duties. On the other hand, he categorised CEOs as specialist CEOs if they specialise in managing a subset of the firm's divisions rather than all of them. These CEOs often rise through the ranks from one or more divisions inside the company or have management expertise in a subset of the sectors in which the company works. As the result, Huang had found that the CEOs are more likely to divest with the assets that they have less experience managing and pay attention to properties that are better matched to them. He also discovered that the CEOs of diverse corporations are more prone to liquidate subsidiaries in businesses where they lack knowledge, while the CEOs of multinational are more inclined to liquidate divisions in businesses where they lack knowledge [22].

In spite that it is commonly understood in theories that different individual experiences influence CEOs to manage company, there are few empirical research have looked at the linkage between managerial competence and corporate choices. The challenges that researchers are facing is the difficulties on measuring CEOs' management skills, and there are some unknown factors which can have impacts on examining the managerial competence [22]. On top of that, there are still drawbacks for firms if the managers applied their experiences into the corporate managements and decisions. In common, it is believed that managers with prior business ownership or failed firms may have gained the insight and locate a better opportunity [23]. However, path dependency on managers' prior experience can lead to biases, as the managers may be too confidence with their own experiences to make decisions and judgements and based on the limited facts [24].

4.2 Age and Tenure

Those top managers who designated as broadly experienced usually contains a lengthy career, which can be considered tenure and age factors. To start with, the fundamental concept is that the ability that each CEO contains is limited, and such paradigm would bring a solid management mode [25, 26]. Moreover, when the directors seek a new manager, they try to find a manager with the characteristics that matches the firm's current and anticipated future conditions [27], instead of just finding someone who has more working experiences. As for how the age of managers corresponding to the corporate decisions, the relationship between senior executives' ages and organisational features has not been the topic of much research, but the ones that have been conducted give startlingly similar findings: managerial youth appear to be connected with corporate success [28, 29].

There are two reasons that can be explained. First, Managerial age has been found to be adversely linked with the capacity to integrate information in decision making and with decision confidence, but it appears to be positively connected with dispositions to seek more information, analyse information properly, and make judgments more slowly [30]. This means that the older managers might have worsen both physical and mental health endurances [28], or been less capable of grasping new concepts and learning new habits [31]. Secondly, senior leaders may be at a stage in their lives where financial and professional stability are critical. Their social networks, spending habits, and retirement income projections are all entrenched, so that any dangerous actions that may jeopardise these are normally kept away [32].

5. CONCLUSION

In conclusion, prior research has found that the formal educational level and upper-class socioeconomic backgrounds have a favourable link with corporate decisions, whereas age and tenure have shown to have a negative relationship with corporate decisions. Studies of how to improve the female's positions in top management team is considered to be investigated further.

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