

# Top Management Team Characteristics and Managerial Discretion on Sustainable Competitive Advantage: An Empirical Investigation

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**Abstract:** *The main purpose of this paper was to assess the influence of top management characteristics and managerial discretion on sustainable competitive advantage of Chinese Multinational Corporations in Kenya. The paper used top management team characteristics as the independent variables, managerial discretion as the intervening variable and sustainable competitive advantage as the dependent variable. A null conceptual hypotheses for the research have been established which managerial discretion does not have significant intervening effect of TMT characteristics on SCA of Multinational corporations. The research employed a cross-sectional survey to gather information from the 72 Chinese Multinational Corporations in Kenya. The Chief Executive Officers, General Managers and other top management team members were interviewed from the various Chinese Multinational Corporations in Kenya. The formulated hypothesis was analyzed by the use of Chi-square. From the study findings, it emerged that the tested managerial discretion significantly intervened on TMT characteristics and SCA of CMCs since the p-value was less than 0.05. The study results are in agreement with various previous studies thus opens avenue for further studies. The findings of the research contain an implication in the respective organizations where the indicators in regard to sustainable competitive advantage should not only be used to measure constructs of customer satisfaction, differentiation and return on investment.*

**Keywords:** *Top Management Team Characteristic, Managerial Discretion, Chinese Multinational Corporations, Sustainable Competitive Advantage*

## 1. Introduction

Top management team characteristics refer to the features which the members of senior management contain and they entail Chief Executive Officer (CEOs), chief operations officer, chief financial officer, general manager and their deputies among others. This category of individuals play a very vital role in an organization in decision formulation for the smooth running of the business (Rubio-Bañón & Aragón-Sánchez, 2009). These team of executives are the most considered asset of an organization, conversely, its inability result to the failure of firms both in the short-term and long run of an organization (Lerner & Almor, 2002). Penrose (1959) was the first scholar to realize that lack of management capability or talent can bring limitations to the growth of the organization. She stressed that the management services are distinct components in every organisation to grow contingent to their availability and usage. Therefore, TMT features are important for the organization hence a critical examination of its interactions with managerial discretion as the intervening variable and sustainable competitive advantage as the dependent variable.

The origin of managerial discretion concept was from Berle and Means (1932) who believed that the goals of management differed from the firm's aim of profit maximization, hence the term managerial discretion is perhaps negatively related with sustainable competitive advantage. This concept is describe by Hambrick and Finkelstein (1987) to refer to the degree in which senior executives develop the firm's decisions on various operations and at the same time provide the scope of the CEO's decision formulation powers. It entail of a range of strategic avenues which are available to management in pursuing of goals which are stipulated by the stakeholders of the organisation.

This concept vary from the choice or the action of management but it emphasize on the freedom and action undertaken by the respective management. This means that whatever is the alternative available for respective individual and its effect is grounded on the choice which is as a result of managerial

discretion but not the portion of the respective discretion (Caza, 2012). Managerial discretion regulate the actions of individuals using three forces of managerial features, task environment and internal organizational factors. Elements of external environment are such as structure of the industry, political barriers, growth in the industry and number of competitors. On the factors which affect organizational features include culture, resources availability, firm size, age of the industry and patterns of relationship among the workers of the firm (Hambrick & Finkelstein, 1987). Further, on the managerial characteristics they include interpersonal skills, aspirational levels, commitment and strategic outcomes, levels of confidence, and tolerance to ambiguity. In the context of discretion, flexibility of behaving in a specific manner depend on each individual despite of the rank, the function and position in a certain organization. Hence, the quantity of discretion and domain vary in various individuals.

A critical examination conducted by Wangrow et al.,(2014) confirm that managerial discretion play a very critical function in the attainment of organizational results which include compensation of the CEOs, sustainable competitive advantage, organizational performance, and commitment to a predetermined activities. Various researches and empirical investigations which are in relation to competitive advantage reveal that senior executives play a vital role in the smooth functioning of the organisation as they ensure that the designed strategies are effectively implemented. Senior executives who fail to be provided with discretion are restricted with the ability in strategy implementation thus limiting them from execution the stipulated strategies. The studies on managerial discretion and SCA they still remain limited and their govern discretion on management (Schepker, & Barker, 2014; Li & Tang, 2010). The connection of managerial discretion on sustainable competitive advantage contain a cost effects and returns simultaneously and its effect of SCA is determined by the category of the competition and nature of owners so on and so forth (Hitt, Ireland & Hoskisson, 2014). The indirect measurement of managerial discretion is standardized position power, ownership dispersion and salary power (Feng, 2013).

### ***1.1 Research objective***

The current paper was endeavored to investigate the influence of top management team characteristics and managerial discretion on sustainable competitive advantage of Chinese Multinational Corporations in Kenya

### ***1.2 Conceptual hypothesis***

The conceptual hypothesis generated for this paper is indicated below:

**H<sub>1</sub>:** Managerial discretion does not have significant intervening effect of TMT characteristics on SCA of Multinational corporations

### ***1.3 Methodology***

The present research applied a cross-sectional research design to investigate the influence of top management team characteristics and managerial discretion on sustainable competitive advantage of Chinese Multinational Corporations in Kenya. The paper deemed a census approach as the suitable as only 72 Chinese Multinational Corporations were targeted. This is confirmed by KCETA(2019) on this corporations. For data collection, the paper embraced both primary and secondary sources of information where a survey was adopted as the research instrument. The research targeted all the CEOs of the Multinational Corporations to collect primary sources of data. Company documents, journals and articles were used to gather secondary sources of information. The Cronbach Alpha was used where the threshold of .7 was applied to conform with Nunnally(1978) who argued that a coefficient of .7 indicate a better and strong gauge of instrument reliability. On the validity, both content and criterion methods were used to test the questionnaire used. The paper adopted both descriptive and inferential statistics to analyze the collected data. The study applied coefficients, percentages, mean and standard deviation. The inferential statistics employed linear regression, multiple regression and coefficient determination in data analysis. Chi-Square statistics was adopted for testing the formulated hypothesis where null hypothesis was used to indicate that there was no relationship between independent and dependent variables investigated. The study applied a statistical packages for social sciences version 23.0 for analyzing the collected data. Further, the study adopted 95 confidence level to test for Chi-Square where the P-values which were less than 0.05 resulted to the rejection of the formulated null hypothesis and the p-values greater than 0.05 led to the acceptance of the null hypothesis.

## 2. Results and discussions

The goal of this paper was to establish the influence of top management team characteristics and managerial discretion on sustainable competitive advantage of Chinese Multinational Corporations in Kenya. The Tables below shows the study results:

### 2.1 Reliability Test Results

Cronbach Alpha technique was used to establish the reliability of the research instrument as shown in the Table 1 below

Table 1 Reliability Test Results

Variable	Cronbach's Alpha	N of Items
Top Management Team Characteristics	0.902	16
Managerial discretion	0.842	14

Source: Researcher, 2020

Table 1 indicates the reliability of the instrument where Cronbach's Alpha internal consistency of top management team characteristics and managerial discretion were above 0.7. This internal consistence was 0.902 and 0.842 respectively indicating that the data collected was very reliable to establish the influence of top management team characteristics and managerial discretion on sustainable competitive advantage of Chinese Multinational Corporations in Kenya.

### 2.2 Descriptive Statistics for Top Management Team Characteristics

The analysis of the findings shows the descriptive analysis of top management team features in terms of mean, standard deviation and frequency distribution. The response was indicated in a likert scale questions which was coded as follows: 1-not at all; 2-less extent; 3-moderate extent; 4-large extent and 5-very large extent. Table 2 shows the frequency distribution, mean and standard deviation.

Table 2 Top Management Team Characteristics

Demographic Characteristics	Frequency Distribution					Mean	Std. Deviation
	1	2	3	4	5		
Age of members is considered as an important attribute in top management team in my organization	13	9	66	29	6	3.05	0.97
When recruiting top management team in the organization the gender rule has been adhered to in my organization	12	36	35	32	8	2.90	1.10
The organization has stipulated the education level of top managers and the minimum academic qualification	2	11	20	56	34	3.89	0.97
The organization considered by past experience in the recruitment process	3	1	15	59	45	4.15	0.85
Length of service of the managers in my organization is well taken for in the recruitment process	1	8	30	61	23	3.79	0.85
Expertise from top level of management is positively connected to efficiency and organizational effectiveness	2	3	17	47	54	4.20	0.89
Psychological Characteristics							
My level of self-esteem in my organization is high	3	0	10	73	37	4.15	0.76
I am confident in my internal assignments and place of work	2	0	8	67	46	4.26	0.72
I am confident in contacting suppliers and customers outside the company	2	0	11	66	44	4.22	0.74
I can grip as many things as possible at a time at this work.	2	1	6	68	46	4.26	0.73
I am optimism in attaining organizational objectives	2		14	63	44	4.20	0.76
I am always hopeful of things regarding my job	2	1	8	65	47	4.25	0.75
I don't interfere my work with other emotional attachments	1	4	27	62	29	3.93	0.81
In situations where things are not clear in regard to my job, I always expect best	1	2	22	59	39	4.08	0.80
I am able to cope with most of my problems.	2	1	9	73	38	4.17	0.73
Golden mean in Confucianism helps me in Kenya.	7	19	54	38	5	3.12	0.92

According to 2 above with regard to demographic characteristics, it was revealed that most participants stipulated that to a large extent that the expertise of top team members was positively related to team efficiency and effectiveness (mean=4.20, standard deviation=0.89). The paper considered the following qualities during the recruitment exercise of top managers: previous experience of the top managers (mean=4.15, standard deviation=0.85), the level of education (mean=3.89, standard deviation=0.97), the length of service in the industry of the managers in my organization has been considered during the recruitment exercise of top managers (mean=3.79, standard deviation=0.85). The respondents indicated that the age of members was to a moderate extent moderately considered as an important attribute in TMT in my organization (mean=3.05, standard deviation=0.97); and the gender rule was to a moderate extent adhered to when recruiting TMT in the organizations (mean=2.90, standard deviation=1.10).

The overall standard deviations used were less than 1 except for the statement that when recruiting top management team in the organization the gender rule has been adhered to in my organization (standard deviation=1.10). The standard deviations indicate that the deviation from the mean was small. Therefore, the responses were not widely dispersed from the mean. The small deviations from the mean enabled the study to confidently conclude that mean scores indicated in Table 2 represented the views of the majority of the respondents. The examination of Awino (2013) posit that the quality decisions consider all important decisions and rely on thoroughness. On the same breadth, the upper echelon theory confirm a linkage of top management team on the influence of financial position of the firm. Therefore, it is upto to the directors and leaders of an organisation to steer their firms/corporations to the right direction through vibrant strategic management. Darmadi (2013) found out that CEOs with degrees acquired from prestigious domestic universities recorded better performance significantly while compared to their counterparts without such qualifications. Nyamongo and Temesgen (2013) assert that irrespective of the position held each manager of the top management, they influence the strategic decisions of a firm and thus the performance. However, there is a difference in the positions with some seeming more important. For example, CEO has a responsibility of overseeing all activities of an organization.

### ***2.3 Descriptive statistics for Managerial Discretion***

The main objective of this study was to investigate the influence of top management team characteristics and managerial discretion on sustainable competitive advantage of Chinese Multinational Corporations in Kenya. The descriptive analysis adopted frequency distribution, means and standard deviations. The study embraced a five-point coded as follows where 1=not all; 2=less extent; 3=moderate extent; 4=large extent and 5=very great extent. The analysis of the findings of the study tabulated the results as in Table 3 below.

Table 3 shows the analysis of managerial discretion and sustainable competitive advantage. from the analysis of the findings, most of the participants indicated that to a great extent, their personal goals were in line with the firm (mean=3.94, standard deviation=0.94); managerial discretion was influenced by culture and patterns of relation among employees in the companies (mean=3.39, standard deviation=0.97); the technical, staffing and support from mother company helped them to cope with dynamic environment (mean=3.57, standard deviation=0.98); agile companies could strategize in dynamic way as guided by managerial discretion (mean=3.70, standard deviation=0.83); and the respondents salaries, including welfare were among the highest in the company in Kenya (mean=3.27, standard deviation=1.13). Moreover, the analysis of the findings revealed that the participants moderately indicated that managerial discretion provided by the mother firms to them and TMT features met the requirements of dynamic business environment in Kenya (mean=3.34, standard deviation=0.91); that managerial discretion was influenced by the perception on flexibility of and individual (mean=3.06, standard deviation=0.89); and that managerial discretion was related with higher agency costs for the firm (mean=3.04, standard deviation=0.91). Nonetheless, most respondents stipulated to a small extent that managerial discretion permitted the management to serve their own interests rather than firm's set objectives (mean=2.20, standard deviation=1.00).

The findings of the study demonstrated that all the standard deviations were less than one except for the statements that the managerial discretion permit the management to cater their own interests rather than catering the interests of the firms' goals and objectives (standard deviation=1.00) and that the management failure to be given discretion will restrict the capacity in implementing strategies without asking for approval and limiting the speed of implementing strategies. (standard deviation=1.01). The standard deviations indicate that the deviation from the mean were small and the responses were not widely dispersed from the mean. The small deviations from the mean enabled the study to conclude that mean scores represented the views of the majority of the respondents.

Table 3 Managerial Discretion Descriptive Statistics

Statement	Frequency Distribution					Mean	Standard Deviation
	1	2	3	4	5		
Managerial discretion given by your mother company to me/my TMT characteristics meets the dynamic environment in Kenya.	5	13	49	47	9	3.34	0.91
My personal goal is in line with the company goal of maximizing the profit.	2	8	22	54	37	3.94	0.94
Managerial discretion allows managers to serve their own interests rather than company's objective.	37	37	34	14	0	2.20	1.00
Managerial discretion is affected by perception of flexibility on the individual or the perceived discretion.	3	30	52	31	6	3.06	0.89
Managers who fail to be given managerial discretion restrain their capacity in execution of strategies without seeking for approval and restricting speed of strategy implementation.	7	15	44	44	13	3.33	1.01
Managerial discretion is influence by culture and patterns of relation among employees.	6	14	39	53	10	3.39	0.97
The technical, staffing and support from mother company help to cope with dynamic environment.	4	14	30	58	17	3.57	0.98
Managerial discretion is associated with higher agency costs	7	23	55	34	4	3.04	0.91
Agile companies could strategize in dynamic way as guided by managerial discretion	1	9	32	62	17	3.70	0.83
My salary is among the highest in the company in Kenya.	13	13	39	44	14	3.27	1.13

Source: Researcher (2020)

#### 2.4 Sustainable competitive advantage

The research sought to establish the degree in which the statements with regard to creating sustainable competitive advantage in the covered Chinese Multinational Corporations in Kenya. The findings of the study is indicated in Table 4 below

Table 4 Sustainable Competitive Advantage Descriptive Statistics

Statement	Frequency Distribution					Mean	Standard Deviation
	1	2	3	4	5		
The return on investment for my company has increased over the last 3 years.	10	18	53	29	13	3.14	1.06
We provide superior customer service where other players cannot provide.	0	0	20	53	50	4.24	0.72
Our product is unique in the market	3	16	41	42	20	3.49	1.00
My company engages regular customer survey to get customer feedback.	2	8	24	56	32	3.89	0.93
Customer loyalty, when customer recommends friend or family member, increased during the past 3 years.	3	14	33	51	19	3.58	0.98
The intension to repurchase our company product has been increased overtime.	8	21	41	36	17	3.27	1.10
My company has responded well to globalization by formulating a global strategic plan to attract customer and retain.	3	6	26	59	29	3.85	0.92

Table 4 indicated that Chinese Multinational Corporations provided superior customer service as to compared to other Kenyan players in the sector (mean=4.24, standard deviation=0.72); the product of CMCs was unique in the market (mean=3.4918, standard deviation=0.9979); the companies engaged in regular customer survey to get customer feedback (mean=3.89, standard deviation=0.93); customer

loyalty increased during the past three years (mean=3.58, standard deviation=0.978); and the companies responded well to globalization by formulating a global strategic plan to attract customer and retain (mean=3.85, standard deviation=0.92). The results further showed that to a moderate extent, the intension to repurchase the products of CMCs increased overtime (mean=3.2683, standard deviation=1.10); and the return on investment for CMCs increased over the last three years (mean=3.12, standard deviation=1.06). The participants of this study were also requested to indicate other ways in which TMT features influenced sustainable competitive advantage of CMCs in Kenya. The paper established that all the standard deviations were less than one except for the statements that the return on investment increased over the last three years (standard deviation=1.06); the products were unique in the market (standard deviation=1.00); and the intension to repurchase the companies' product increased overtime (standard deviation=1.10). The standard deviations indicate that the deviation from the mean were small and the responses were not widely dispersed from the mean. The small deviations from the mean enabled the study to conclude that mean scores indicated in Table 4 above represented the views of the majority of the respondents participated in the study.

### 2.5 Regression of Top Management Team Characteristics and Managerial Discretion Against Sustainable Competitive Advantage

The paper regressed sustainable competitive advantage on TMT features and managerial discretion in-order to determine the significance of the intervening variable (managerial discretion). This take effect when the controlling of the effect of intervening variable on the dependent variable, the effect of independent variable become insignificant.

Table 5 Regression of Top Management Team Characteristics and Managerial Discretion against Sustainable Competitive Advantage

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.837 <sup>a</sup>	.701	.696	.39838		
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	44.63	2	22.32	140.61	.00 <sup>b</sup>
	Residual	19.05	120	.16		
	Total	63.68	122			
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.48	.23		2.09	.034
	TMT Characteristics	.47	.06	.50	7.95	.00
	MD	.43	.06	.44	6.98	.00

Dependent Variable: Sustainable Competitive Advantage

Source: Researcher (2020)

Table 5 indicate the linear regression model for sustainable competitive advantage against top management team features and managerial discretion contained greater power of 70.1 percent, that is 70.1 percent of the changes in SCA was described by TMT features, and managerial discretion and only 29.9 percent of the deviation of sustainable competitive advantage was due to other variables not considered in this study. On the testing of the null hypothesis ( $H_3$ ) that managerial discretion does not have significant intervening effect on TMT features was rejected since the p-value was less than 0.05. The TMT features and managerial discretion, as well as, the constant were significant as their p-values were less than 0.05. The predictive linear regression model, therefore, was  $SCA = 0.48 + 0.47TMT + 0.43MD$  meaning that if TMT features and managerial discretion were increased by one unit, SCA would, on average go up by 0.47, and 0.43 units, respectively. Furthermore, TMT characteristics had the highest impact as indicated by 0.50.

### 2.6 Managerial discretion does not have significant intervening effect of TMT characteristics on SCA of Multinational corporations

The null hypothesis of the study was as follows:

**H<sub>3</sub>:** Managerial discretion does not have significant intervening effect of TMT characteristics on SCA

of Multinational corporations

The paper revealed that managerial discretion had significant intervening effect on the association between TMT features and sustainable competitive advantage of Chinese Multinational Corporations. The major component of managerial discretion that facilitated the attainment of sustainable competitive advantage through TMT features was the capability of the management to align their personal goals to the gains of the multinational corporations. From the findings of the study, it was established that TMT features had a better influence of sustainable competitive advantage when the management do not serve their personal interest at the expense of the interests of the firm. The management who embrace discretion ensure that the long term sustainability of a company is acquired. Managerial discretion play a very critical role in the outcome of the firm, for instance, the diversity of performance, compensation and reward of senior executives and commitment to the predetermined activities. This study results is in line with Wilsa, et al. (2017) who argued that top managers who fail to exercise discretion at work hampers achievement of performance objectives. Further, a critical examination of Wangrow et al. (2014) reveal that managerial discretion has a critical role in organisational outcomes, which include competitive advantage, performance of the organisation, commitment to a predetermined activities, and the compensation of CEOs.

### 3. Discussion and conclusion

The main purpose of this study was to establish the influence of top management team characteristics and managerial discretion on sustainable competitive advantage of Chinese Multinational Corporations in Kenya. To attain this objective null hypothesis was formulated as: Managerial discretion does not have significant intervening effect of TMT characteristics on SCA of Multinational corporations. The findings of the study indicated that managerial discretion had significant intervening effect on the association between TMT features and sustainable competitive advantage of Chinese Multinational Corporations. The findings of the study concur with Wangrow et al.,(2014) who confirmed that managerial discretion played a critical role in the attainment of organizational results which included compensation of the CEOs, sustainable competitive advantage, organizational performance, and commitment to a predetermined activities.

### 4. Implication of the Study

The set goal of the present study has been accomplished. Therefore, it is suggested that a replica study to be conducted in order to establish other indicators of sustainable competitive advantage other than differentiation, customer satisfaction, return on investment and before a conclusion is made on managerial discretion and sustainable competitive advantage. Also there exist a gap in knowledge on usage of firm performance and as the dependent variables. Therefore an investigation should be conducted to include firm performance as the independent variable using both financial and non-financial indicators.

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