Literature Review on the Impact of Top Management Team Characteristics on Corporate Governance

Jing Wang*

School of Finance, Shenzhen University, Shenzhen, 518060, China

*Corresponding author: 2021020279@email.szu.edu.cn

Abstract. This paper examines the impact of senior management team characteristics on corporate governance effectiveness. Corporate governance involves internal and external mechanisms that allocate rights and responsibilities among shareholders, the board of directors, and senior management, with the goal of improving decision-making, balancing interests, and reducing agency costs. The senior management team plays a crucial role in shaping corporate strategies, managing risks, fostering technological innovation, and driving corporate social responsibility (ESG) efforts. This study investigates three key research objectives: first, how demographic factors influence governance effectiveness; second, how the functional history, psychological traits, and external social networks of senior managers affect governance; and third, how case studies illustrate the real-world impact of management team characteristics on governance practices. By combining theoretical insights with practical case studies, this research aims to offer both academic contributions and practical guidance for improving corporate governance, particularly in the context of modern challenges such as globalization and increasing economic complexity. The findings provide a deeper understanding of how executive team characteristics contribute to sustainable business performance and governance success.

Keywords: Corporate governance; senior management; executive team characteristics.

1. Introduction

Corporate governance refers to the way in which the operation of an enterprise is directed and controlled through internal and external mechanisms and procedures of a system. It involves the allocation of rights, responsibilities and obligations among shareholders, the board of directors and senior managers within the company, as well as the mutual checks and balances. The core role of corporate governance includes coordinating interests, balancing mechanisms, reducing agency costs, and improving the quality of decision-making.

As the core of the company's decision-making and operation management, the senior management team has an influence on the operation and management of the enterprise. First of all, a stable senior management team is conducive to increasing enterprise R&D investment and promoting enterprise technology innovation. Second, the senior management team has a strong leadership in the implementation of corporate ESG responsibilities, and when the senior management team expects to profit from the value growth, it will be more motivated to promote the fulfillment of corporate ESG responsibilities [1]. Finally, the senior management team plays an important role in the risk management of the enterprise, and a good senior management team can help the enterprise avoid the impact of risks and reduce the probability of systemic risks within the enterprise.

Corporate governance plays a vital role in modern business management. With the acceleration of globalization and the increasing complexity of the economic environment, the uncertainty faced by today's businesses has increased, and the importance of corporate governance has become more prominent [2]. As the core of the corporate governance framework, the executive team plays a pivotal role in the strategic planning and implementation of the company, and the quality of their decision-making not only directly correlates with the short-term performance of the company, but also has a profound impact on the long-term sustainability of the company.

In recent years, research on the characteristics of senior management teams has continued to heat up. These studies explain that the diversity of senior management teams, professional standards, and psychological behavior patterns have the potential to have a greater impact on corporate governance.

The core purpose of this dissertation is to analyze the specific impact of executive team characteristics on corporate governance. There are three specific research objectives. The first is to explore how the demographics that encompass the executive team affect governance effectiveness. The second is to analyze the functional history, psychological and behavioral characteristics of the senior management team, and how external social networks can promote the improvement of governance effectiveness. The third is to use case studies to analyze the actual operation of the characteristics of the senior management team in different corporate governance scenarios and the enlightenment it brings. This study aims to provide a comprehensive review for academic research and practical reference guidance for enterprise practice through the combination of theoretical discussion and case study.

2. Theoretical Framework

2.1. Agency Theory

At the heart of business decision-making, the executive team plays a vital role in dealing with principal-agent issues. Factors such as the education level, diversity of backgrounds, and salary composition of team members have a significant impact on alleviating information asymmetry and reconciling conflicts of interest [3]. First, the heterogeneity of the executive team can bring diverse perspectives and knowledge to the enterprise, and provide diverse ways of thinking and solutions when solving problems and making decisions, which can help reduce information asymmetry. Secondly, the compensation structure of the executive team is one of the keys to solving the principal-agent problem. Large executive team pay gaps can exacerbate principal-agent issues, which in turn can undermine business performance. Finally, executive stock ownership, as an effective incentive mechanism, can closely combine the interests of executives with the interests of shareholders, thereby reducing the occurrence of agency problems. When members of the executive team own a stake in the company, they are often more active in pursuing the long-term development of the company, as it is directly related to their own interests.

2.2. Resource Dependence Theory

2.2.1 Key resources required for governance

In the context of corporate governance, resource dependency theory focuses on the need for businesses to exchange resources with the environment to maintain operations, and that it is difficult for any organization to achieve complete self-sufficiency. Corporate governance relies on a variety of key resources, including capital resources, information resources, human resources, material resources, technical resources, social capital, government resources, and reputation resources. In view of this, the first task of corporate governance is to efficiently access these key resources and ensure their adequacy[4]. At the same time, it is also necessary to rationally allocate and effectively manage resources to maximize the utilization of resources. In addition, it is also critical to protect these resources from loss or erosion, which can help reduce the organization’s dependence on the external environment, which in turn increases the autonomy and stability of the organization.

2.2.2 Resource integration and strategic contributions of top management team (TMT)

The executive team helps the organization gain access to critical resources, maintain operations, and achieve strategic goals by integrating resources inside and outside the organization. Among them, the background, experience and skills of the senior management team members are the key factors for resource integration, helping to form the overall advantage of the team [5]. In terms of strategic contribution, the senior management team will be better through resources, can reduce dependence on the external environment, enhance autonomy, and thus love to gain an advantage in the highly competitive market. At the same time, through effective resource integration, the senior management team can better respond to changes in the external environment and formulate and implement response strategies to achieve the long-term sound development of the organization.

2.3. Stakeholder Theory

2.3.1 Balancing diverse stakeholder objectives

Stakeholder theory advocates that enterprises should not focus solely on maximizing shareholder interests, but should comprehensively consider the rights and interests of various stakeholders, and advocate a broader balance of interests [6]. The theory is that companies should aim to maximize shareholder value while ensuring that the interests of stakeholders are balanced, balancing innovation and long-term development, and taking social responsibility to promote a sustainable future.

2.3.2 Role of TMT in aligning governance with stakeholder demands

First, gain insight into the needs of the stakeholders. The executive team needs to communicate with various stakeholders to understand their needs. Second, develop a clear vision and values, which can help guide the development and decision-making of the business in line with the long-term interests of the business. Thirdly, seeking a win-win solution may mean slipping the slippers in some ways, but by seeking a win-win situation, it helps to build a stronger relationship and is conducive to the long-term development of the company [7]. Finally, the executive team needs to clarify the priorities of different stakeholders and manage them according to different situations and needs, sometimes making partial trade-offs and making adjustments to strategy and decision-making.

3. Key TMT Characteristics and Their Impact on Governance

3.1. Demographic Characteristics

3.1.1 Age

A study on Chinese listed companies confirms that intergenerational differences significantly affect governance flexibility, especially in technological innovation. As managers get older, their experience, practical wisdom, and ability to respond to risks change significantly. In general, managers with shorter tenures and younger years tend to be more open and flexible in their management style. They are generally receptive to new things and change, and are more inclined to use new, non-traditional management tools to move things forward. In terms of technology adoption, such managers tend to be more receptive and adaptable to new technologies and digital transformation. Since they themselves are in close contact with modern technology, they are able to quickly adapt to the constant changes and developments of technology. When it comes to risk-taking, these younger managers tend to be more adventurous, more willing to try riskier strategies that can deliver big rewards, and are always open and welcoming to innovation and change. When it comes to innovation and change, these managers are often uneasy about the status quo and actively seek new solutions and ways to improve. In terms of interpersonal communication and interaction, they are more likely to use social media and digital communication tools, and demonstrate excellent cross-cultural and cross-generational communication skills. When it comes to leadership and team management, they may place more emphasis on empowering and motivating team members, as well as building a diversity and inclusion atmosphere in their teams.

Often, seasoned, long-term managers tend to rely on their past practical experience when making decisions. Their management style is often traditional and experience-oriented, and they are accustomed to using historical data as an important reference for current decision-making [8]. For the acceptance of new technologies, such managers usually take a long time to adapt, maintain a relatively conservative attitude towards technological innovation, and are more inclined to use their own familiar technical means. In terms of risk-taking, they prefer to adopt a prudent business approach, pay special attention to risk control, and tend to avoid unnecessary risks. In the face of innovation and change, these experienced managers tend to maintain the status quo and take a cautious assessment of change, focusing on maintaining the stability of the environment and predictability of results. In terms of interpersonal communication and interaction, these managers often prefer face-to-face communication and traditional information transmission channels, and have accumulated considerable experience and expertise in building and maintaining interpersonal relationships. As for the leadership and team management level, they may prefer to adopt a standardized and supervised management approach, with a particular emphasis on the consistency of team members' behavior and the efficiency of task execution.

3.1.2 Gender

Danone enhanced its ESG ratings and social impact by increasing female executive representation. Research demonstrates a strong positive correlation between gender diversity in executive teams and corporate governance outcomes. In terms of personality traits, there are significant differences between men and women. In the field of team management in particular, women, due to their emotionally delicate and articulate nature, are able to create a collaborative atmosphere within the executive team, which is essential for enabling positive strategic decisions. In terms of ethical governance, research data shows that female executives tend to place greater emphasis on democratic principles, communication, and teamwork, highlighting their unique value and positive role in preventing and correcting corporate misconduct. Female executives hold themselves to higher ethical standards, and their role in ethical governance is significantly influenced by the power structure of the organization: when the level of corporate centralization is high, female executives are particularly effective in deterring non-compliance [9]. In addition, the personal character of female executives also plays a role in inhibiting bad behavior, and they show a stronger sense of morality and altruism than male executives. In terms of risk aversion strategies, there are obvious differences between female and male executives in their attitudes towards risk and uncertainty.

Female executives tend to be more risk-averse and less overconfident, which allows them to reduce risk more effectively and remain cautious and prudent in the decision-making process. This personality trait leads female executives to tend to be more cautious in making business decisions, especially in times of economic downturn or when the company is in a sensitive industry, which can help the company avoid unnecessary losses and improve the stability of the company's performance. When it comes to teamwork, female executives bring a better perspective on business decisions with their empathy and unique personal experiences, especially in markets where the target customers and end consumers are predominantly female. Their presence not only demonstrates the diversity of the company's gender composition, but also meets society's expectations for gender equality, thereby enhancing the company's sense of social identity and legitimacy. In addition, female executives have a better understanding of the needs of female consumers and employees, which helps to stimulate the creativity and vitality of the team, avoid "group blindness", and drive more informed decision-making.

3.1.3 Educational Background

Firms led by executives with international education backgrounds outperform others in cross-border operations. As an indicator to measure the knowledge level of managers, academic qualifications can reflect their cognitive ability and ability to search and process complex information to a certain extent. Previous studies have shown that senior management team members with higher educational qualifications tend to show greater acceptance of change and risk-taking, and are more inclined to adopt innovative ideas [10]. Some scholars also suggested that highly educated managers can take a more comprehensive look at the external environment in which the enterprise is located when making decisions, and show excellent environmental adaptability. In general, highly educated managers are usually open to new ideas and are adept at thinking creatively about complex problems.

The contribution of a high degree of education to the strategic innovation capability can be discussed from three aspects. First, ease financing constraints and promote technological innovation. Studies have shown that the higher the education level of senior executives, the more they can alleviate the financing constraints of enterprises, which will lead to the suppression of tax aggressiveness. Second, enhance the innovation ability of enterprises. A highly educated senior management team can not only enhance the company's innovation ability from the perspective of theoretical cognition, but also promote the enterprise to make breakthroughs in technological innovation through its rich knowledge and experience. Finally, reduce inefficient investments.

Studies have shown that executives with academic experience can reduce the degree of corporate non-efficiency investment, and the larger the number and proportion, the more obvious the reduction effect on corporate non-efficiency investment.

At the same time, the international educational background promotes the globalization of cultural adaptation and governance to a certain extent. First, provide a diversity of perspectives. The diversity of the senior team's overseas backgrounds can provide a diverse perspective and framework for enterprises to look at problems, which can help companies better understand the needs and challenges of different markets in the context of globalization, so as to develop more effective strategies. Second, stimulate the sense of innovation. The diversity of overseas backgrounds of senior executives can help stimulate the innovation awareness of employees and other senior managers, strengthen the investment in enterprise technological innovation, and promote the innovation and adaptation of enterprises in the global market through the international experience and vision of senior executives. Finally, increase the risk tolerance. Heterogeneity of overseas backgrounds can help companies improve their risk-taking capacity to make more aggressive decisions, and help them make more active innovation and expansion decisions in the face of uncertainty in the international market.

3.2. Functional Background

3.2.1 Professional expertise

Studies link technical expertise in top executives with higher innovation outputs. Both technical and non-technical executives play an important role in corporate governance, but their impact is differentiated. Techno-executives have a more direct impact on corporate governance in terms of technological innovation and risk-taking, while non-tech-savvy executives play a role in resource management and leadership.

The main impact of technology executives on corporate governance is threefold. First, technological innovation and business performance. Generally speaking, technical executives have a deeper technical foundation and have made significant contributions to the company's technological development and innovation. Research shows a significant positive correlation between the power of technical executives and firm performance, that is, firms with tech executives perform better than average firms. Second, risk-taking and performance. The research shows that the hump relationship between the rights of the technical executive structure and the ownership rights on firm performance is significant, and the risk-taking plays a partial mediating role. This means that technical executives may show greater courage and ability, which can contribute to the improvement of business performance to a certain extent. Finally, expertise and investment in innovation. Generally speaking, executives with R&D backgrounds can provide effective guidance and advice for the company's innovation management decisions, and explore more innovation opportunities.

Non-technical executives may not have technical expertise, but their skills in financial management, human resource management, and more can enable organizations to make better use of resources to improve performance. At the same time, non-technical executives may demonstrate better leadership and business management skills that can help the organization better manage people, resources, and money.

3.2.2 Cross-functional experience

Teams with diverse functional backgrounds exhibit improved adaptability in dynamic markets. The cross-career experience of the executive team has a positive impact on corporate governance, and cross-functional team collaboration plays a key role in improving the company's strategic agility. The impact of senior management team's cross-professional experience on corporate governance is threefold. First of all, diverse backgrounds and experiences can help the executive team look at problems from different perspectives and come up with innovative solutions to enhance the company's competitiveness. Second, senior management team members with cross-professional experience usually have more social resources and extraordinary courage, which helps them better identify and manage risks in corporate governance to make more informed decisions. Ultimately, the cross-industry experience of the senior management team is conducive to the effective allocation of resources, ensuring the successful implementation of the project, and improving the overall operational efficiency of the enterprise. In addition, cross-functional team collaboration can enhance strategic flexibility, speed up decision-making, optimize project execution efficiency, stimulate innovative thinking, and strengthen team cohesion and cooperation. As a result, companies can respond more quickly to market changes and ensure that they thrive in a highly competitive market.

3.3. Psychological and Behavioral Traits

3.3.1 Leadership style

Leaders employing this style significantly improve organizational performance during market disruptions. Authoritarian leadership is characterized by the concentration of authority by the leader, the exercise of orders to subordinates, and the restriction of employee participation in all decisions. This leadership style may improve productivity and execution in the short term, but in the long run, it may inhibit employee innovation and may lead to lower employee satisfaction, which in turn can affect employee retention.

Democratic leadership is characterized by emphasizing equality in the relationship between leaders and employees and encouraging employees to participate in the decision-making process. This leadership style increases employee job satisfaction and helps build trust and teamwork. In general, this style tends to make better decisions because it takes into account multiple points of view, which makes decisions more comprehensive and complete.

Transformational leadership is characterized by an emphasis on leaders who strive to achieve organizational goals by encouraging employees and guiding them beyond their personal interests. This leadership style drives organizational change and innovation, motivates employees to improve work performance. In general, this style makes the organization more adaptable and flexible.

3.3.2 Risk tolerance

The study points out that executives' risk appetite, as a key factor in characterizing the psychological characteristics of decision-makers, has a significant impact on corporate innovation activities. Specifically, executives with a higher risk appetite are more likely to drive innovation and M&A activities. In addition, other studies have revealed that the age of executives is one of the important factors in shaping their risk propensity. In general, older executives tend to show a low willingness to change, tend to be conservative and less willing to take risks. This risk-averse attitude will further affect the company's investment and financing decisions, leading the company to adopt a more prudent and prudent strategic approach.

3.4. Social and Network Factors

High social capital among executives increases collaborative opportunities for firms. On the one hand, the senior management team can obtain diversified solutions to problems by building network connections with the outside world. These external sources of information help the executive team to break the groupthink stereotype when making decisions, thereby improving the effectiveness and quality of decision-making. At the same time, diversified information input prompts the senior management team to reduce its reliance on traditional conventions and experience, effectively reducing the path lock-in effect. On the other hand, the external social network of the executive team has an important impact on the choice of the company's competitive strategy. The extensive network of business contacts established by business managers not only helps to eliminate mistrust, but also promotes harmonious coexistence between producers and consumers, which in turn reduces transaction costs and improves economic efficiency. In addition, by conveying a positive signal of healthy operation to the outside world, companies can enhance investors' confidence in the company's development prospects. This gradual accumulation of good reputation not only enhances the risk resistance of enterprises, but also alleviates the problem of information asymmetry between the supply and demand of funds to a certain extent, and effectively alleviates the financing constraints faced by enterprises.

4. Case Analysis: TMT Characteristics in Practice

4.1. Case 1: Danone Group – Gender Diversity and ESG Governance

Danone is a global food and beverage company with a wide range of business footprints in more than 120 international markets. Danone has shown significant success in promoting gender diversity, particularly in increasing the proportion of women in senior management. As of 2023, 54% of Danone's management team in Greater China is women. This significant shift not only demonstrates Danone's strong commitment to advancing gender equality, but also reflects its efforts to build a diverse and inclusive corporate culture.

Danone's remarkable progress in environmental and social responsibility is due in large part to its efforts to actively promote gender diversity. The extensive participation of women at the decision-making level brings a wealth of diverse perspectives and valuable experience to the company, which significantly improves the comprehensiveness and quality of the board's decision-making. In addition, female directors tend to guide companies to focus more on environmental, social and governance (ESG) issues such as environmental protection and gender equality in the workplace, so as to improve and optimize their ESG management systems. In particular, in 2020, Danone became the first listed company to adopt the "Entreprise à Mission" governance model, a groundbreaking initiative that is expected to achieve even more significant results with the active contribution and promotion of female executives.

Gender diversity plays a crucial role in balancing stakeholder goals.) The inclusion of female leaders can lead to a more thoughtful decision-making process that takes into account the differentiated needs of a wide range of groups. In addition, gender diversity not only contributes to the company's ethical standards and transparency, but also stimulates long-term value generation. In general, the inclusion of female leaders can help companies better understand and meet consumer needs, which in turn drives innovation and development. In addition, Danone's example demonstrates how gender diversity and social responsibility can go hand in hand with business success. By increasing the proportion of female leaders, the company not only enhances its social responsibility image, but also further strengthens its competitive advantage in the market.

4.2. Case 2: Starbucks – International TMT and Global Governance Contributions

Starbucks' senior management team has a wealth of education and international experience, which is critical to its global expansion strategy. Starbucks' headquarters is professionally empowered, and the cross-regional management mechanism led by the region plays a key role in its market expansion. This mechanism not only ensures a globally uniform operating standard and brand concept, but also allows each region to adapt and innovate appropriately according to the characteristics of the local market. Through a localized approach, the executive team drives the diverse integration of global business growth and governance.

Starbucks' executive team has played a key role in globalization. Not only did they lead Starbucks' market expansion, but they also helped the brand localize more smoothly. This implies a deep understanding and respect for the cultural differences of each market, and they develop adaptive strategies to bridge the cultural divide. Taking Starbucks' digital transformation in the Chinese market as an example, they have further strengthened the strong connection between Starbucks and local consumers by launching innovative services and products, such as the "Star Delivery" service.

Starbucks' success underscores the centrality of its international executive team to its global operations. Not only do they have to have a broad global perspective, but they also need to demonstrate a deep respect for different cultural differences. On the basis of maintaining the global consistency of the brand, they have skillfully implemented the localization strategy of each country, and flexibly responded to the unique needs of each market. In addition, the diversity of the top management team needs to be closely integrated with the company’s overall strategy and culture. Starbucks is committed to building a diverse and inclusive work environment where every executive can make the most of their talents and grow together. With this strategy, Starbucks has not only achieved remarkable success in the global marketplace, but has also become an outstanding example of diversity and inclusion practices.

5. Conclusion

The senior management team occupies a pivotal position within the corporate governance framework, and its demographic composition, functional backgrounds, psychological traits, and social networks profoundly influence corporate governance outcomes. This study, through a synthesis of theoretical discourse and case analysis, elucidates the specific mechanisms through which executive team characteristics impact corporate governance effectiveness.

Foremost, the diversity and professionalism of the executive team not only foster inclusivity and innovation in decision-making but also markedly enhance strategy execution efficiency and precision. Secondly, the psychological characteristics of the senior management team are intimately linked to corporate governance effectiveness and strategy implementation success, especially in markets characterized by heightened uncertainty. Teams exhibiting high flexibility and robust adaptability demonstrate superior advantages in such environments. Furthermore, through case studies of companies like Danone and Starbucks, the positive influence of gender diversity and international perspectives in corporate governance is further corroborated.

Optimizing the composition of the senior management team is the core strategy to improve corporate governance and promote long-term sustainable development. This study aims to provide valuable insights for the business and academic circles, and to encourage more in-depth exploration and research in related fields, in order to provide more solid theoretical support for the practice of corporate governance.

References

[1] Ding, Y. (2022). Executive cognitive differences, ownership concentration, and corporate technological innovation: A study based on fixed-effect models and moderation effects. Advances in Applied Mathematics, 11(4), 1530–1540.

[2] Zhang, D., Hu, W., & Mao, X. (2021). The power of executives with a research and development background and corporate innovation. China Industrial Economics, (4), 156–174.

[3] Wang, G. (2020). The impact of technical executives' power on the performance of high-tech enterprises [Doctoral dissertation, Hunan University].

[4] Chen, Y., & Liu, L. (2022). Executive risk preferences and corporate innovation: An analysis based on the China Securities Regulatory Commission's questionnaire survey. Modern Management, 12(12), 1684–1693.

[5] Liu, Z. (2019). A study on the relationship between corporate environmental information disclosure, media reporting, and financing constraints [Doctoral dissertation, Northwestern University].

[6] Rink, F., Veltrop, D. B., Stoker, J. I., et al. (2022). Managing C-suite conflict: The unique impact of internal and external governance interfaces on top management team reflexivity. Long Range Planning, 55(3), 102121.

[7] Arslan, H. M., Ye, C., Komal, B., et al. (2023). Nexus between environmental disclosures and top management team characteristics: A systematic review. Environmental Science and Pollution Research, 30(4), 9763–9781.

[8] Schumann, F., Thun, T. W., Dauth, T., et al. (2023). Does top management team diversity affect accounting quality? Empirical evidence from Germany. Journal of Management & Governance, 28(1), 137–175.

[9] Hashmi, H. B. A., Voinea, C. L., Caniëls, M. C. J., et al. (2023). Do top management team diversity and chief sustainability officers make firms greener? Moderating role of top management team behavioral integration. Sustainable Development, 31(4), 2536–2547.

[10] Tang, J. (2020). Hamstrung CEOs: The perils and boundary conditions. Long Range Planning, 53(3), 101924.