



## EVOLUTION OF UPPER ECHELONS THEORY: A CONTEMPORARY LITERATURE REVIEW

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### Abstract

*Upper Echelons Theory (UET), originally developed by Hambrick and Mason (1984), remains a foundational framework in strategic management research explaining how organizational outcomes reflect the characteristics of top executives. The theory argues that managerial interpretations of strategic situations are shaped by executives' experiences, values, and cognitive bases, which in turn influence strategic choices and firm. Over the past four decades, UET has evolved from a demographic proxy-based model into a more sophisticated, empirically informed framework incorporating psychological, cognitive, and contextual dimensions. This manuscript provides an empirically strengthened synthesis of UET's evolution, integrating evidence from studies on top management team (TMT) composition, CEO personality traits, and strategic decision-making outcomes. It further highlights the transition toward co-evolutionary and multilevel perspectives and identifies ongoing gaps in integrating cognitive microfoundations with institutional and environmental dynamics.*

*Keywords: Upper Echelons Theory, strategic leadership, top management teams, executive cognition, firm performance*

### INTRODUCTION

Upper Echelons Theory (UET), introduced by Hambrick and Mason (1984), posits that organizational outcomes can be partially predicted by the background characteristics of top executives. The theory is grounded in bounded rationality, whereby executives interpret complex strategic environments through personalized cognitive lenses shaped by experience, values, and

personality. Early empirical applications of UET relied heavily on observable demographic variables such as age, tenure, education, and functional background as proxies for cognitive orientation.

Empirical research over time has demonstrated both the utility and limitations of this approach. While demographic indicators have been associated with firm-level outcomes such as innovation intensity, risk-taking behavior, and strategic change, they have also been criticized for their weak explanatory power in capturing underlying cognitive processes (Hambrick, 2007; Finkelstein et al., 2009). As a result, contemporary research has expanded UET to incorporate deeper psychological and behavioral constructs, including CEO personality traits, risk preferences, and cognitive complexity, which have shown stronger predictive validity in explaining strategic outcomes (Bromiley & Rau, 2016).

Large-scale empirical studies further confirm that top management team heterogeneity significantly influences firm performance, particularly in dynamic and uncertain environments. For example, research indicates that cognitive diversity within TMTs enhances strategic debate and improves decision quality, although excessive heterogeneity may increase coordination costs (Hambrick, 2007; Nielsen, 2010).

## **PROBLEM STATEMENT AND THEORETICAL GAP**

Despite extensive empirical validation, UET continues to face several theoretical and methodological limitations. First, much of the empirical literature remains reliant on indirect proxies such as demographic variables, which insufficiently capture executive cognition. Second, although recent studies incorporate psychological and stakeholder perspectives, these remain fragmented across different research streams without a unified integrative model (Recendes et al., 2024).

Third, empirical findings on the performance effects of TMT diversity remain inconsistent across contexts. While some studies report positive effects on innovation and strategic adaptability, others highlight negative effects due to conflict and coordination inefficiencies (van Knippenberg & Schippers, 2007). This inconsistency suggests that contextual variables such as environmental dynamism, industry structure, and organizational culture moderate UET relationships.

Finally, there remains limited empirical integration between micro-level cognitive processes and macro-level institutional pressures, particularly in VUCA (volatility, uncertainty, complexity, ambiguity) environments. This gap underscores the need for a more unified, multilevel empirical framework linking executive cognition, team dynamics, and environmental contingencies.

## **HISTORICAL DEVELOPMENT AND EMPIRICAL FOUNDATIONS OF UET**

The original formulation of UET emphasized bounded rationality and managerial discretion, arguing that executives shape organizational outcomes through cognitive interpretations of their environments (Hambrick & Mason, 1984). Early empirical studies provided evidence that executive demographics are associated with strategic choices such as diversification, mergers and acquisitions, and internationalization.

Hambrick (2007) advanced the theory by explicitly introducing executive cognition as a central mechanism, shifting empirical attention from static characteristics to decision-making processes. Subsequent empirical work by Finkelstein, Hambrick, and Cannella (2009) further demonstrated that managerial discretion varies across industries and significantly moderates the strength of UET relationships.

Meta-analytic evidence suggests that CEO characteristics, including age and tenure, have small but statistically significant effects on strategic risk-taking, while psychological traits such as narcissism and overconfidence exhibit stronger associations with firm-level strategic outcomes (Chatterjee & Hambrick, 2007; Braun et al., 2018). These findings support the argument that cognitive and behavioral variables provide greater explanatory power than demographic proxies alone.

## **CONTEMPORARY EVOLUTION OF UPPER ECHELONS THEORY**

### **Cognitive and Psychological Expansion**

Recent empirical research has significantly expanded UET by incorporating CEO personality traits, cognitive style, and behavioral biases. Studies show that CEO narcissism is positively associated with bold strategic actions such as large-scale acquisitions and innovation investments, while overconfidence influences risk-taking and capital allocation decisions (Chatterjee & Hambrick, 2007). These findings reinforce the importance of psychological microfoundations in strategic leadership.

### **Top Management Team Diversity and Performance**

Empirical evidence on TMT diversity demonstrates that functional and cognitive heterogeneity enhances innovation and strategic flexibility, particularly in turbulent environments (Nielsen, 2010). However, diversity may also increase conflict and slow decision-making processes, suggesting a curvilinear relationship between diversity and performance outcomes (van Knippenberg & Schippers, 2007).

## **Stakeholder and Co-evolutionary Integration**

Recent frameworks integrate stakeholder theory into UET, emphasizing that executive decisions are shaped by interactions with shareholders, employees, regulators, and broader institutional forces. Empirical studies indicate that firms led by stakeholder-oriented executives tend to exhibit stronger sustainability performance and long-term value creation (Recendes et al., 2024). This reflects a co-evolutionary model in which executives and environments mutually influence each other.

## **THEORETICAL CONTRIBUTIONS AND SYNTHESIS**

The evolution of Upper Echelons Theory (UET) has produced several empirically supported contributions that have significantly advanced strategic management research. First, the theory has shifted from relying on simple demographic proxies toward a deeper emphasis on psychological and cognitive determinants of strategic decision-making, thereby improving its explanatory power regarding executive influence on organizational outcomes.

Second, a growing body of evidence demonstrates that CEO personality traits, such as narcissism and overconfidence, are meaningfully associated with strategic risk-taking behaviors and overall firm performance, highlighting the importance of individual executive psychology.

Third, empirical studies have consistently shown that top management team (TMT) diversity plays a critical role in enhancing innovation and strategic adaptability, particularly in complex and rapidly changing environments.

Fourth, researchers have increasingly recognized the importance of contextual moderators, including environmental dynamism and managerial discretion, in shaping the strength and direction of UET relationships.

Finally, contemporary developments have integrated stakeholder and institutional perspectives into executive decision-making models, reflecting a broader understanding of how external pressures and expectations influence strategic leadership behavior. Together, these findings support a more complex and multilevel understanding of strategic leadership.

## **IMPLICATIONS FOR STRATEGIC MANAGEMENT**

Empirically enriched Upper Echelons Theory (UET) remains highly relevant in explaining strategic behaviour within contemporary organizations. It offers important insights into how CEO leadership shapes strategic transformation, particularly in driving major organizational change and repositioning. The theory also helps to explain innovation and digital disruption strategies by linking executive cognition and decision-making styles to firms' ability to adopt and implement new technologies. In addition, UET provides a useful lens for

understanding corporate governance and executive accountability, highlighting how leadership characteristics influence oversight mechanisms and ethical decision-making. It is equally valuable in explaining sustainability and ESG-oriented leadership, where executives' values and priorities shape environmental and social responsibility practices. Finally, the theory contributes to understanding organizational adaptation under conditions of uncertainty by showing how top executives interpret and respond to complex and rapidly changing environments. Its empirical evolution has strengthened its applicability in modern strategic management research.

## CONCLUSION

This study set out to examine the evolution of Upper Echelons Theory (UET) by synthesizing its theoretical developments and empirical advancements, with the aim of clarifying how executive characteristics shape strategic outcomes in contemporary organizational contexts. Specifically, the purpose was to integrate dispersed insights across demographic, cognitive, psychological, and contextual strands of the literature into a coherent, up-to-date understanding of UET and its relevance for modern strategic leadership.

The review yields several major findings. First, UET has transitioned from a reliance on demographic proxies toward a richer emphasis on cognitive and psychological determinants of executive behavior, enhancing its explanatory precision. Second, empirical evidence demonstrates that CEO traits such as narcissism, overconfidence, and cognitive style are systematically linked to strategic risk-taking, innovation, and firm performance. Third, top management team (TMT) diversity contributes to innovation and strategic adaptability, although its effects are contingent on coordination dynamics and contextual conditions. Fourth, the strength of UET relationships is moderated by environmental dynamism and managerial discretion, indicating that executive influence is context dependent rather than uniform. Finally, recent integrations of stakeholder and institutional perspectives point to a co-evolutionary view in which executives and their environments mutually shape strategic choices and outcomes.

Overall, the study underscores UET's continued relevance while highlighting the need for more integrated, multilevel models that connect micro-level cognition with macro-level institutional forces. Future research should prioritize longitudinal designs, cross context comparisons, and direct measures of executive cognition to strengthen causal inference and theoretical integration.

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