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Upper Echelon Theory: Role of Community and Strategy

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In this paper I argue that community plays an important role in shaping the values and characteristics of top management teams. It builds on upper echelon theory to posit that community level characteristics are instrumental in framing the cognitions of CEOs and top executives. Strategic decisions made by managers in organizations represent the significant impact community has on top management teams. Examining the influence community has on top management teams provides additional implications about why certain firms perform better than others.

Keywords: upper echelon theory, strategic management, top management, corporate governance

JEL Classification: M16, M14

1. Introduction

A central theme in management is determining how strategic decision-making allows one organization to perform better than another. Separating the strategies an organization pursues from those individuals that make strategic decisions can be a critical mistake. The top management of an organization exists to a large extent to make decisions regarding the path of the organization. A great deal of literature has focused its attention on both the CEO and top management teams (TMTs), and the role they play in an organization. Upper echelon theory (Hambrick and Mason, 1984) puts forward the idea that strategic decisions are connected to the background characteristics of an organization's management. A TMT is a formulation of top-level managers and directors within a firm (Finkelstein and Hambrick, 1996) possessing specific expertise in areas that will enable an organization to make informed decisions. This expertise encapsulates the tangible and intangible knowledge and characteristics an individual possesses. According to Hambrick and Mason, individual characteristics and cognitions are developed by past experience, education, and personal values. Cognitions shaped by these, influence the way top managers analyze and respond to situations, and the strategy chosen for the organization (Kaplan, 2005).

While the personal characteristics that are generally perceived to influence the decisions of executives are experience, education, and personal values; further studies have examined additional demographics and characteristics such as CEO tenure, international experience, functional background, and age (Hermann and Datta, 2002). This paper intends to examine community's effects on the personal

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characteristics of a TMT, and the impacts strategic decision making has on and eventually the performance of the firm. Though community can be defined in a number of ways, in this paper community means the physical location which played the most instrumental role in shaping the cognitions of each member of the TMT. Thus, community can be the current location where the TMT lives, the original community in which each member grew up, or a community in which a member spent a portion of time. Individuals will often end up as managers in a new community that may or may not be similar to the community which has had the most influence on their cognitions. At that time, the individual will be faced with the decision to choose either to be flexible and allow to be shaped by the new community, or to employ previous characteristics shaped by the original community. This paper will show the direct impact a TMT's community and physical location has on decision making, as well as point out how an organization can overcome these boundaries and adapt to pressures to grow both domestically and internationally.

2. Literature Review: Theories and Propositions

One fundamental issue in strategy is explaining why firms differ in the strategies they pursue and why some firms are more successful than others. Upper echelon theory (UET) was built upon strategic leadership and suggests that individual characteristics influence differing strategic decisions by top management teams (Pfeffer and Davis-Blake, 1986). UET has received much attention and has provided the area of strategic management with good empirical data on the strategic decisions made by firms. It also explains how the performance of a firm is strongly influenced by the decisions made by top-level executives, and how the firm in Hambrick and Mason's view becomes a reflection of top management (Hambrick and Mason, 1984; Pfeffer and Davis-Blake, 1986; Smith, Carson and Alexander, 1984).

Examining how different characteristics and demographics influence top management's decisions is an important tool in explaining and predicting an organization's performance, and numerous studies have attempted to discover what some of these demographical influences are (Bantel and Jackson, 1989; Finkelstein and Hambrick, 1990; Grimm and Smith, 1991; O'Reilly and Flatt, 1989; Wiersema and Bantel, 1992). Wiersema and Bantel (1992) found that age, tenure, and education level all influence the degree to which individuals are receptive to change, willing to take risk, and creative or innovative. These characteristics will influence the strategic decisions made by top managers regarding change, risk and innovation. Other research has shown that an individual's functional background, socioeconomic roots, and financial position are linked to job involvement, job preferences, and beliefs about manager's role (Buchholz, 1977, 1978; Ritchie and Beardsley, 1978; Sekaran and Mowday, 1981). However, no research has investigated the role that community can play in influencing executive cognitions.

2.1. Community Influence

Communities influence the decisions individuals in them make, and it is difficult to imagine making a decision that is completely independent of the immediate environment in which the individual lives. For example, one may decide not to purchase a vehicle if living in a community that values the importance of and has engineered a good public transportation system. The child of a farmer may choose not to pursue higher education, because the farming community values hard work and commitment to continuing a family farm more than going to college.

At this time, it is important to make clear the concept of community as used in this paper. Community does not mean social pressures that are administered by environmental forces. Corporate social responsibility (CSR) (Engle 2006; Welford and Frost, 2006) argues that organizational leaders sometimes make decisions for environmental reasons, which may be regulated by law or encouraged by social pressure. The distinction made between CSR and how community influences the cognitions of top managers is that there is an implication of some pressure associated with the former. Instead of resulting from external pressure, community factors that influence top management's cognitions involve the integration of certain values or characteristics, present in the community, into the individual members of the TMT. Another distinction of community influence should be made from a similar theory to CSR, that of corporate social action.

Though research on corporate social action can provide support for this paper, it is also important to differentiate this idea from my argument of community influence. Corporate social action takes the perspective that corporations make strategic decisions that have social benefits for those outside the firm (Marquis, Glynn and Davis, 2007). In this context, organizational actions are intended to assist with some social problems that are present in an environment. These activities often take the form of some philanthropic purpose, and are focused on giving to or acting in a way to benefit a community (Marquis et

al., 2007). While some of the factors that encourage corporate social action may also influence the characteristics of TMTs, my focus is not on actions by an organization that are directed exclusively at benefiting the community. Each of these theories revolves around some level of external forces, which are conscious activities in response to some outside the firm pressure. I contend the influence community has on TMT cognitions, works as an antecedent to corporate social actions and corporate social responsibility practices by organizations.

UET describes how an individual's experiences and education frame cognitions and make up the values that consciously and unconsciously shape who a manager becomes (Finkelstein and Hambrick, 1990). In this paper I contend that that community shapes the cognitions of top management follows this same process, and how this becomes integrated into the values and cognitions that influence decisions made by TMTs.

Examples of community factors that can impact TMT's cognitions include geographic characteristics, technology, religious views, natural resources, local values and ideals, local preferences, communication style, proximity to large cities and industry composition. These community factors can exist in a section of a city, an entire city, a state or region, and between countries. For example, it is possible to observe these factors play out in top manager's cognitions by contrasting the characteristics of an individual living in a rural Midwest City to someone living in an urban area on the west coast. Another example would be comparing how a manager of an organization in a community where religion is very important and ideals are conservative, differs from one living in a more liberal community where values are more diverse (Fenton, 1962; Miller and Besser, 2000; Saxenian, 1994).

Work by Bourdieu (1986) and Granovetter (1973) focused on the importance of the different networks of organizations, and networking done by top managers. They found that these networks greatly enable organizations through the expansion of information and opportunities. These relationships can also establish an organization's role in the community, such as top executives holding community positions on different councils and boards (Johnson, Daily and Ellstrand 1996). This involvement in and with an individual's community would undoubtedly create an internalization of the values and characteristics held by that community. Research also shows how association between top managers and the community develops relationships of trust between community and the organization (DiMaggio and Powell, 1985). Such trust would create loyalty by the people of the community for the organization, which would have positive implications for the performance of a firm. Organizations would benefit from this loyalty by members of the community preferring their products and services over those of other firms.

To study the influence community has on the cognitions of TMTs, it is important to look at the decisions an organization makes and how these decisions can vary by community. Marquis et al., (2007) describe how the community in which an organization exists influences how it spends money. They suggest that communities such as Minneapolis encourage philanthropic giving more so than the Silicon Valley area. It has also been found that an overwhelming majority of organizational spending takes place in the city of the headquarters of a firm (Guthrie, 2003).

Additionally, Saxenian (1994) describes the influence community has on an organization's decisions. She gives a number of examples of different managerial decision-making patterns across a wide range of locations. Much of her focus is on how living in Silicon Valley influences decisions differently than many other areas around the country.

One example of community focus can be seen at John Deere, which was founded and is headquartered in the United States on the border of Iowa and Illinois. John Deere has spent a lot of money in that region, building museums and community centers, and sponsoring a number of community events such as the John Deere Open golf tournament (<http://www.deere.com>). This example provides strong support for the influence community has on the decisions and priorities of an organization. It is important to point out that the act of giving back or spending money in a community is not necessary for how the community influences cognitions of TMTs, but often shows what values a community possesses that become conjoined with the values of top executives of an organization. Notice how corporate social action fits into the model not as a directly necessary component, but as an alternative outcome in the framework.

Community can also be explained as a group in which an individual lives. Individuals have a psychological need for relatedness, and seek relationships that create emotional bonds. These relationships are important and are often formed by the desire to associate with those who are "like us." Research on social identity theory has found that people associate with certain social groups and as a result identify with that group (Foley et al., 2002; Hogg and Terry, 2000). This finding is consistent with how TMTs would associate themselves with a particular community and identify more with that group. Forming this kind of identity has a strong influence on the values and characteristics that shape an individual's cognitions. This

influence fits the framework of upper echelon theory, and how the decisions made by top executives are influenced by social identity with a community. These distinct community effects can be seen between cities, states, regions, and countries.

Previous research has shown that community has a large impact on family firms (Anderson and Reeb 2003), but not much work has focused on community's influence on public firms. Arguments could be raised that community is irrelevant in large public companies that might already exist in a number of regions and countries and have numerous headquarters. However, I would argue that this cannot be generalized, since many companies do have one primary physical location where the decisions makers reside. Research also indicates that 35% of large public firms, from a broad range of industries in the United States are family owned, and that community plays a major factor on how these organizations operate (Anderson and Reeb, 2004; Lester and Cannella 2006; Shultz et al., 2003). This and other research has examined the relationship between family-owned corporations and firm performance.

I would argue that there is a high correlation between the cognitions of family-owned firms and the values of public firms whose TMTs are shaped by one community. Lester and Cannella (2006) draw this comparison, and show how community-level effects, on groups of people and organizations, provide a frame of reference for the actions of the organization. They demonstrate how networks between family-owned firms and community result in what they refer to as community-level social capital. The idea of community-level social capital is driven by the connection with a community through shared values, trust, social norms, and support of the community. The benefit of such networks on family-owned firms can also be realized by public firms that establish the same type of relationships. By exhibiting the same connections with the community, a public corporation will also garner the support of the community.

Another recent area of study, which points to the correlation of community level characteristics and organizational decision making, refers to local knowledge spillover (LKS). Knowledge spillover takes the form of intellectual development through direct or indirect exchange of information that has greater value to the acquirer than the amount for which it was paid (Feldman and Florida, 1994). In this sense, just by being in a certain geographic area, managers can gain knowledge that is free to them as long as they are capable of incorporating it into the firm's strategy.

The knowledge gained from LKS is widely understood to impact innovation, learning and growth capabilities of organizations. Research on LKS has been combined to advocate that knowledge spillovers are bound to a particular location (Kesidou and Romijn, 2008). This discovery implies that knowledge spillovers being produced and acquired is a result of characteristics found within a community. Knowledge spillover can take the shape of intellectual resources, values, ideals, and preferences of a location that become engrained in the cognitions and values of those individuals that interact in the community. These all provide further evidence that community factors influence the cognitive characteristics of TMTs in that location.

Proposition 1: A TMT's community plays an instrumental role in shaping their cognitions and values, which directly influence strategic decision making.

2.2. Organizational Expansion

The main objective of a TMT is to create value for the organization by increasing firm performance. One strategy often used to increase the value of a firm is to grow the business beyond its current position. Though research contributes conflicting results on the positive impact of organizational growth, there is often still pressure on a company to expand, which leads to growth as a common business strategy. When this strategy is pursued, it is not uncommon for a company to expand to another city, state, region or country. TMTs face many challenges when moving into different areas and sometimes must make adaptations to coincide with the new location. Decisions made resulting from cognitions influenced by a particular community may not be a strategy that creates positive performance in another community or area. It makes sense then to infer that an organization's TMT will not face as difficult a challenge if the firm expands into a community that is similar to the community in which the headquarter exists.

Attributes of a particular community have a tremendous impact on individuals and organizations within that community. Since it is clear that these attributes such as religion, local ideals, social norms, and communication styles are not shared by every area, it is recognized that differences in them can create tension or some sense of distance between communities (Ghemawat, 2001). This is often observed as cultural differences, which can be described not only as uniqueness between countries, but also as societal diversity at the community level. These distinctions can impact the effectiveness of certain managerial practices when they are practiced in a community other than the current community of a TMT. This suggests that the success of managerial practices depends on how the cognitions and values of a TMT fit within another community (Hofstede, 1993; Kirkman and Shapiro, 1997; Mendonca and Kanungo, 1994; Schneider,

1988). The need for a fit between the values of an organization's top management and the values of a community suggests that a TMT would be more successful at managing firms in a similar community. In fact, Davis and Greve (1997) found that of the top executives hired by large firms, 32% of those came from organizations with the same area code and 39% came from organizations in the same state. This is a product of successful decision making in one area and the correlation between a TMT's cognitions and the community. Though their study represents the fit of top executives within a community in the same state or area code, physical location is not the only necessary factor moderating the relationship. This fit can be experienced in communities that do not share a geographical closeness, but instead share the community-level characteristics expressed in the values of a TMT.

There are a number of factors that influence how an organization will perform when it expands into a new region. The people that make up the community play an immense role in the connection of a TMT and the community. When top management shares the same values, perceptions, preferences, behaviors and goals of the community in which it operates, there will be a level of integration between the organization and the environment (Triandis, 1994). When organizational strategic actions, within the UET framework, influenced by the cognitions and values of TMTs, fit within the cultural norms and values of a community, that community will begin to associate with the organization (Hofstede, 1980; Schwartz, 1994; Triandis, 1995). Trust has been proven to greatly influence the relationship between an organization and the community.

DiMaggio and Powell (1985) point out that when trust exists between a community and the members of an organization, they will connect with the organization which will promote successful performance. Trust can be gained informally through shared values and norms, which we know can develop into formal networks and social structures through which TMTs can connect with a community. These networks can encourage a relationship between a community's preferences and its habits as a consumer. When an organization connects with a community, the citizens will often develop preferences for that firm's products and services as well as begin to identify with the organization (Ghemawat, 2001). These preferences and associations with an organization can exist not only as a result of a physical connection, but by the sharing of values and norms. So if the values and cognitions of a TMT allow it to gain a connection with one community, I suggest that they will also help build connections with other communities that share those same values and norms.

Proposition 2: TMTs will be more successful when expanding to communities that are similar to the headquarters community.

The previous section focused on the benefits resulting from expanding to a community that is similar to top management's current community. This section will turn our attention to the costs associated with expanding to a community that is dissimilar. The challenges a TMT faces when a firm has more than one physical location or is going to expand into another region can be very difficult to manage, especially if that other location is in a community that does not share the characteristics of the headquarters' community. Top management must possess the ability to connect with the local culture and fit within a community. Many of the values and characteristics of TMTs that allow an organization to conform to a particular community may be in direct conflict with the values and characteristics possessed by another community.

This can lead to choices made by top management that result in practices that are detrimental to the performance of the organization. Ghemawat (1997) provides an example of a television programming company that moved into another region confident that it would realize financial success. Instead of financial gains, the company experienced great financial loss because of the difficulty of operating in a different area. The TMT failed to base its decisions off the cultural characteristics of the new market. By focusing primarily on the opportunities that a new location might present, many organizational leaders fail to be attentive to community level characteristics that often have more influence on the performance of a firm than perceived.

Galaskiewicz (1997) explains that the TMT of a firm in Silicon Valley would possibly make decisions that would appear stingy to the people of Minneapolis, because of the value Minneapolis places on giving. A management team may not even realize that a decision they choose may have adverse consequences when they are used to managing firms in a community that has a different value structure. In addition to cultural differences that may create barriers for a TMT to effectively manage in another community, administrative and governmental aspects may pose a different type of challenge. This does not just mean the regulatory implications that arise through performing business in different regions. Different communities, districts, and certainly countries might have tacit rules that organizations inherently follow. These rules are informal policies that top management in those areas knows because it is associated with the values of the community.

If a TMT expands into a community, and does not know to follow these unspoken rules, they may make decisions that will hinder relations with the people in the community. In addition, just because a certain community or area appears to be an attractive market, does not mean that a community will be welcoming to an outside TMT. Ghemawat (2001) found that governments will often take actions to prevent outside organizations from controlling their market. People in certain locations will also take a stand against outside firms expanding into their community. We commonly see this resistance with Wal-Mart and other mega-retailers trying to move into many communities where the residents do not believe the organization shares their values (Bronn, 2006). This resistance can also be seen in articles on websites such as walmartwatch.com and reclaimdemocracy.org/walmart/. These examples point out the challenges many TMTs will face when they attempt to move into different areas, particularly when the community is different from the one that has shaped them.

Proposition 3: A TMT will be less effective at managing the firm if they choose to expand into a community that is dissimilar to the headquarters' community.

2.3. Overcoming Boundaries

When a TMT is influenced by a community, there will be challenges to overcome in order to make successful strategic decisions in different communities. Though expansion to a new area will increase the challenges, there are several ways in which an organization can overcome these challenges by lowering and raising the boundaries of community shaped cognitions. One measure a firm can take is in regards to top management team diversity. Organizations in today's business environment often have top management teams that are comprised of a diverse conglomerate of individuals. When the cognitions of numerous top managers have been shaped by different community level factors, the decisions made by that TMT would be different than if they were all shaped by the same community. A TMT with a diverse community background may be able to perform better than a TMT with a homogeneous community background if the company expands into a dissimilar community to the headquarters. There has been a stream of research that focuses on the effects of organizational diversity on firm performance. Studies have also attempted to measure the effects of diverse TMTs on the performance of a business.

Research by Lyon and Ferrier (2002) looked at demographic characteristics and found a positive relationship between TMT heterogeneity and performance. They found that the strategic decisions of a TMT with diverse demographic characteristics lead to creativity and increased innovation. Other studies however have found that TMT heterogeneity can also negatively affect an organization by increasing the possibility of conflicts (Chatman and Flynn, 2001). To examine whether a TMT that has been shaped by the values of multiple communities would perform better in a specific community, it would help to know the culture of the community to which a firm wishes to expand. To test the impact of demographic diversity on TMTs in other cultures, Wei et al. (2005) conducted research on organizations in China. They set up interviews in a number of organizations to find the demographic backgrounds and team diversity of top management. Consistent with other research examining this relationship, they found mixed results of TMT heterogeneity and firm performance. Occupational experience of the TMTs was found to have a positive effect on firm performance. Variable occupational experiences would be influenced by community level factors, so TMTs with backgrounds from multiple communities would manage more effectively when operating in a different community.

There is another benefit that a TMT with multiple community characteristics can achieve for an organization. This benefit would take the form of social capital resulting from networking, which forms community level relationships. The development of these relationships with members of a community does not happen through one individual, but instead through the interaction of different individuals of an organization with different groups within a community (Bourdieu, 1983). Any given community will also exhibit multiple sets of values and cognitions that are not always congruent among all community members. So it may benefit an organization to have top managers with different sets of community influenced cognitions, in order to match the different sets of values present in the new community especially if it is dissimilar to the current one. It is helpful to draw a comparison between this relationship and the benefits seen with interlocks among boards of directors. Interlocks have been found to provide a connection with some environmental factor that the firm would not otherwise possess (Pfeffer, 1972).

Interlocks can often help a firm to co-opt to form a bridge by which information and knowledge can be acquired by an organization. The number of interlocks a firm has within its directors often aids TMTs to manage more effectively. When the values of top executives create a connection with a community, it will allow the managers to co-opt with certain social networks that may provide information and knowledge that will aid in decision-making. Upper echelons with a broad range of values and cognitions will be able to

connect with different groups within an area, which will increase the avenues through which the organization as a whole can acquire resources through social capital. Having top managers that have been influenced by a diversity of communities will thus increase the TMT's effectiveness of decision-making in a dissimilar community.

Proposition 4a: A TMT that has been influenced by a diverse range of communities will perform better if the organization expands to a location that is dissimilar to the headquarters community.

Another logical thing upper echelons can do to overcome the boundaries of cognitions being framed by community is to move into communities that are similar to the current location. One-reason firms fail or at least fall short of expectations when entering new markets is because the organizational culture does not align with that of the new area. When this lack of fit exists between the values and cognitions of community and the TMT, an organization will consequently experience negative implications (Robert et al., 2000). In order to increase the likelihood of benefiting from expanding, a TMT can look for symmetries with different communities. Organizations also need to realize that networks that encourage fit often extend beyond the current boundaries of the community (Lester and Cannella, 2006). By looking for communities that share the values and characteristics of the current community, an organization can employ a growth strategy into other communities, while still matching the cognitions of management with the new community.

Proposition 4b: A TMT will benefit by looking for communities that share the same values and characteristics of the headquarters community.

Another thing executives must be aware of is the social norms and values of the community to which a firm is expanding. A TMT cannot assume that another community will share the cognitions and values they have developed by residing in a particular community. Even when the geographic distance is minimal, differences in social norms, which should not be overlooked, may still exist (Deans and Larson, 2008). Ghemawat (2001) indicates that it is important for TMTs to be aware of administrative and political factors such as laws, regulations, and historical attributes that will impact a firm's decision to locate to another community. Acting in accordance should decrease the resistance not only by the members of the community, but also by the administrative and governmental entities of the area. These characteristics can be accounted for by the entry mode chosen by an organization. Herrmann and Datta (2002) studied the impact of CEO background characteristics on CEO succession and the choice of entry into a new market, such as wholly-owned subsidiaries, joint ventures, and contractual entry modes. TMTs can consider these findings when deciding to expand into a new community. When the values and cognitions of a TMT do not align with those of the community in which they want to expand, it might be wise to consider different modes to entry. Knowing the social norms and values of the new community will allow the firm to make effective decisions.

Proposition 4c: A TMT will be more effective at lowering the boundaries of community shaped cognitions when it knows the social norms and values of the new community.

A TMT can also overcome the boundary of community influenced values and cognitions by looking for opportunities where current social networks or bonds with a community either already extend to other areas or offer avenues through which networks can be extended. Executives can also utilize a growth strategy based off the practices of another entity. In a study of law firms that expand internationally, Pinto (2008) found that some law firms base the decision to enter a new area on where other businesses enter. Law firms that represent an organization that enters into a new area found success when they expanded to the same location. This creates a relationship that assists the organization to quickly achieve effective performance, and also allows an organization to avoid some of the boundaries that would exist without a preexisting relationship. This strategy would not work for organizations in any industry, but could definitely benefit one with business customers that expand to new communities.

Proposition 4d: TMT's will be more effective by expanding to communities where social networks already extend or by following others with whom a relationship exists.

3. Discussion and Conclusion

This paper focuses on what upper echelon theory says about the cognitions and characteristics that influence the strategic decisions of top management teams. While previous studies of TMTs have focused on how experience, education, and personal values structure cognitions and characteristics of upper management, there has not been any research that examined the impact the TMT's community has on these cognitions. I have provided an explanation that shows a relationship between the values possessed by a

community and how that frames the cognitions of an organization's top management. The impact of community on TMT cognitions was also examined as a contributing factor of firm performance in multiple communities. I argued that when one community has shaped a TMT's cognitions, they would be more successful at managing an expansion of the firm into a community with similar values. Further, that a TMT may be less effective at managing an organization if it expands into a community that has values and characteristics that are dissimilar from those of the headquarters' community. Another implication of community influence on top executives considered the makeup of the TMT. I showed that a TMT comprised of individuals that have been shaped by multiple diverse communities, will likely have a unique set of cognitions that influence decisions. A TMT that has diverse values and cognitions influenced by multiple community level factors will likely be better suited for managing an organization when it expands into a community that is dissimilar to the current community. The cognitions and values of one community that influence a TMT can place boundaries on an organization that can affect firm performance. I explained some ways in which TMTs can overcome these boundaries and adapt in order to be successful in various communities and areas.

Though effects of TMT's relationships with community as a key to building social capital to benefit the firm are mentioned, the impact community has on the directors of an organization is not mentioned. Many companies use directors as interlocks to co-opt with environments outside the firm. Directors are used to attain access to particular resources or knowledge to which the firm would not otherwise have access. Further studies could look at the impact community has on the governance structure of an organization to benefit the growth strategy of a firm.

I also compared and contrasted corporate social responsibility and corporate social action with communities influence on the cognitions and characteristics of TMTs. Those theories revolve around the organization doing something for the community, but do not necessarily encompass the influence community has on values and cognitions possessed by TMTs. It would be interesting to see how decisions made by top executives with values shaped by a community, would result in practicing corporate social responsibility and taking corporate social actions. This could be one way to measure the way community shapes the cognitions of top executives, by looking at the corporate social actions an organization take. I also suggest that communities would differ regarding the strength with which it influences top executive's cognitions. Some communities would greatly affect values and cognitions, while others would have a more moderate impact. Future work could examine the role different types of communities have and the implications of that on the cognitions of top management in those communities.

Upper echelon theory was introduced to explain the central issue in strategy of why firms differ. It focuses on the impact top management teams have on this difference, and how it affects firm performance. Recognizing how community influences the cognitions and values of TMTs will help to explain differences in the decisions among a variety of firms. It also provides evidence for why one firm may perform better than another in a given location. Knowing how community influences impact the cognitions of TMTs will also help an organization that wants to expand into a new community. Understanding how community influences the cognitions and strategic decisions of a TMT will affect the future direction of a firm and explain how it impacts a firm's performance.

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