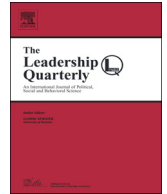




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Top management team faultlines and firm performance: Examining the CEO-TMT interface

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ABSTRACT

Prior research indicates that the relationship between top management team (TMT) faultlines and firm performance is equivocal. We shed new light on this topic by highlighting the moderating role of the CEO-TMT interface. Analyzing data from large international firms over the period 2005–2009 (347 firm-year combinations), we find that the performance effect of knowledge-based TMT faultlines is significantly altered when the leader of the TMT (i.e., the CEO): (a) socio-demographically resembles incumbent executives, (b) possesses a diverse career background, and (c) shares common socialization experience with other TMT members. Overall, our research reveals that different dimensions of the CEO-TMT interface play a pivotal role in determining the performance effects of knowledge-based TMT subgroups. Implications for upper echelons theory, team diversity, and strategic leadership research are discussed.

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Introduction

As strategic leadership research accumulates, scholars increasingly recognize the importance of understanding how and under what conditions different forms of top management team (TMT) diversity impact organizations (Finkelstein et al., 2009). A key form of diversity relevant to TMT functioning and performance is the presence of knowledge-based faultlines – defined as the alignment of team members' experiential characteristics that splits the team into homogeneous subgroups of knowledge and expertise (Bezrukova et al., 2009; Crawford and LePine, 2013). This type of subgroup formation is relevant for TMTs, as it represents the informational clusters that “form according to specialized knowledge” of team members (Carton and Cummings, 2012: 447), and influences how top managers make strategic decisions to impact firm outcomes (Hutzschenreuter and Horstkotte, 2013; Ndofo et al., 2014).

While the importance of knowledge-based faultlines has been widely recognized, their performance implications are not clearly established in the literature. On the one hand, some studies argue that the presence of knowledge-based subgroups increases the information processing capacity of the team, and promotes innovation (Xie et al., 2015), learning (Gibson and Vermeulen, 2003), and high performance (Hutzschenreuter and Horstkotte, 2013; Ndofo et al., 2014). In direct contrast, another stream of research posits that the impact of knowledge-based faultlines is predominantly negative (Bezrukova et al., 2012), as the resulting

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factions between team members generate knowledge fragmentation that impairs team functioning, and results in low performance (Li and Hambrick, 2005). In their theory of subgroups, Carton and Cummings (2012) acknowledge this duality of insights, and suggest that the presence of knowledge-related factions in a team can simultaneously trigger beneficial as well as detrimental effects. They also stress that in order to reduce the costs and realize the potential benefits of knowledge-based faultlines, firms need to attain a balance “between having alternative sources of knowledge available and finding a common ground in order to synthesize that knowledge” on a shared platform (Carton and Cummings, 2012: 447).

In the context of TMTs, we argue that such a shared platform of knowledge-integration can be established at the interface between the CEO, who is the leader and “integrator” of the executive group (Buyl et al., 2011: 170; see also: Carmeli et al., 2011; Ling et al., 2008), and the other TMT members. Traditionally, upper echelons research has focused on the effects of the TMT as a single unit – implicitly treating the CEO as equally powerful and influential as other top managers (Hambrick and Mason, 1984). However, a growing body of strategic leadership research has criticized this approach by stressing that the different roles and impact of the CEO and the rest of the TMT should be taken into consideration (e.g., Cannella and Holcomb, 2005; Cao et al., 2010; Friedman et al., 2016; Hambrick, 1994; Peterson et al., 2003). The key theoretical premise of this stream of research is that power is not equally distributed among members of the dominant coalition (Cannella and Holcomb, 2005), and that the CEO – as the most powerful executive leader – has a disproportionate influence on the TMT’s functioning, output, and performance (Carmeli et al., 2012; Klimoski and Koles, 2001). This logic has led scholars to argue that research on the CEO-TMT interface can help to resolve debates and shortcomings in the extant strategic leadership literature about the direct effects of TMT composition on firm outcomes (Cannella and Holcomb, 2005; Simsek et al., 2015).

In this study, we draw on extant research on the CEO-TMT interface to argue that the performance effects of knowledge-based TMT subgroups depend on the CEO-TMT interactional context. According to the notion of crosscutting diversity, individuals who can act as effective integrators in teams with subgroups are those who: (a) have a powerful leadership position in the group (Crawford and LePine, 2013), and (b) share common attributes with different intra-team subgroups and can therefore establish cross-subgroup identification (Mäs et al., 2013). Based on this notion, we theorize that the relationship between knowledge-based TMT subgroups and firm performance is influenced by three forms of the CEO-TMT interface: the relational interface (CEO-TMT social similarity), the informational interface (CEO experience variety), and the socialization interface (CEO-TMT shared experience). As we argue, CEOs with crosscutting attributes can act as bridge-builders who can unify the diverse knowledge of TMT subgroups, and translate this knowledge into desirable performance consequences. We test our framework using data from large international firms over the period 2005 to 2009.

Our study makes several contributions. First, it takes a step toward the resolution of the theoretical debate over whether knowledge-based subgroup formation in strategic leadership teams is beneficial, or detrimental for organizations (Ndofor et al., 2014). We theoretically argue and empirically demonstrate that the trade-off between the benefits and costs of knowledge-based faultlines significantly vary with the ability of the leader to develop a common platform of knowledge integration between subgroups. In this regard, our work responds to calls for linking the team diversity and leadership fields, by examining how the impact of knowledge-based faultlines is influenced by the attributes and background of the group’s leader (Gratton et al., 2007; Meyer et al., 2015).

Second, the study contributes to our understanding of the relationship between TMT composition and firm performance within the upper echelons research tradition. It confirms that focusing on the CEO-TMT interface is an essential step to accurately gauge the effects of TMT configuration on organizational outcomes (Cannella and Holcomb, 2005; Klimoski and Koles, 2001). Our findings imply that the relational (CEO-TMT similarity), informational (CEO experience variety), and socialization (CEO-TMT shared experience) interface between the CEO and other TMT members plays a key role in affecting the performance implications of knowledge-based TMT subgroups. Thus, our research corroborates the notion that modeling the different dimensions of the CEO-TMT interface helps to enhance the explanatory power of upper echelons theory (Buyl et al., 2011; Hambrick, 1994). It also responds to the calls for conceptualizing strategic leadership as a “shared activity” (Hmieleski et al., 2012: 1489), by examining how the collective interactions between the CEO and the rest of the TMT are ultimately reflected in firm-level outcomes (Hambrick, 2007: 334).

Third, by focusing on the effects of faultlines, our work highlights the importance of diversity as separation (Harrison and Klein, 2007), and its effects on team functioning and firm outcomes (Cooper et al., 2014). According to Harrison and Klein (2007), teams with strong subgroups often experience separation among team members that, in turn, promotes behavioral disintegration (Li and Hambrick, 2005) and low performance (Lau and Murnighan, 1998). In such teams, an integrative force is required to minimize fragmentation processes between knowledge subgroups (Carton and Cummings, 2012). Conceptualizing diversity as faultlines therefore allows us to examine the integrative role of the leader in teams that experience integration challenges owing to the presence of informational subgroups (Harrison and Klein, 2007; Meyer and Glenz, 2013; Thatcher and Patel, 2012). In this regard, our work highlights the importance of understanding how different forms of diverse TMT composition impact team- and firm-level outcomes (van Knippenberg et al., 2011).

Finally, our study offers practical implications about the leader-team compositional factors that influence the relationship between TMT faultlines and firm performance. Based on our empirical findings, we identify a set of parameters that firms should consider in order to attain a CEO-TMT ‘fit’ and generate underlying leadership processes of knowledge integration in TMTs with informational subgroups. The paper concludes with suggestions on how future research should move forward to shed light on the micro-level CEO-TMT leadership processes (e.g., shared leadership, leader-member information exchange), and thus move “toward a more realistic view” of how strategic leaders interdependently – and interactively – impact organizations (Cannella and Monroe, 1997: 213).

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