



## Benefiting from CEO's empowerment of TMTs: Does CEO–TMT dissimilarity matter?

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### ABSTRACT

This study examines empowering leadership from an upper echelons perspective by focusing on top management teams (TMTs) and considering the demographic dissimilarities between the CEO and other TMT members. Data from a multisource survey of 129 Chinese firms demonstrate the importance of the fit between the backgrounds of the leader and the TMT members. Although empowerment of TMTs by CEOs predicts superior organizational performance in general, the findings show that this practice is most beneficial when the CEO and the TMT members differ in their informational demographics but have a longer tenure overlap. If either dissimilarity in informational demographics or tenure overlap is lacking, the CEO's empowerment of the TMT has a less positive effect on firm performance. Essentially, a three-way interaction is demonstrated. Introducing boundary conditions for the empowerment of TMTs by CEOs and testing their interactive influence broadens our understanding of how CEO leadership style can affect organizational performance, and refines the guidance for practitioners on TMT management.

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### Introduction

Although empowering leadership, a useful and increasingly prevalent management practice, has typically been studied in lower level non-managerial teams (e.g., Chen, Sharma, Edinger, Shapiro, & Farh, 2011; Kirkman & Rosen, 1999), researchers have recently expanded this domain to the area of top management (e.g., Carmeli, Schaubroeck, & Tishler, 2011; Hmieleski & Ensley, 2007; Srivastava, Bartol, & Locke, 2006). This expansion is vital because top management teams (TMTs) play a crucial role in firms. The behavior of the team leader (i.e., the CEO) not only influences the team itself but is also ultimately reflected in firm-level outcomes (Finkelstein & Hambrick, 1996). A key finding from these efforts is that empowerment of TMTs by CEOs contributes to performance at the business unit or firm level, and this influence is mediated by TMT processes and emergent states (Carmeli et al., 2011; Srivastava et al., 2006).

Despite the insights generated to date through this expansion, additional steps are still required for a more thorough understanding of the effect of CEO empowering leadership. Empowerment researchers (e.g., Maynard, Gilson, & Mathieu, 2012; Sharma & Kirkman, 2015; Spreitzer, 2008) have explicitly stressed that empowerment may not have equal effects in all circumstances, and thus urge scholars to consider a more nuanced, contextual approach that helps predict *when* empowering leadership is (or is not)

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the best “fit” for a team's work setting or based on the followers' qualities. By the same reasoning, researchers in the upper echelons field (e.g., Arendt, Priem, & Ndofor, 2005; Jensen & Zajac, 2004; Olie, Van Iterson, & Simsek, 2013) have warned that examining the association between CEO behavior (including leadership behavior) and firm outcomes alone may lead to an “atomized, undersocialized conception of human action” (Granovetter, 1985: 483) that neglects the CEO's interpersonal context. More specifically, they urge a more precise understanding of how CEOs wield influence in combination with the other TMT members who form their immediate context.

The organizational demography view about work groups suggests that the mix of personal characteristics is an important element of interpersonal context and has a strong influence on leaders' and subordinates' behaviors (Pfeffer, 1983). This has been highlighted in the stream of studies that use demographic characteristics to represent interpersonal context within a team and examine how the context matters to team dynamics such as informal communication between the supervisor and subordinates (e.g., Jackson et al., 1991; Nathan, Mohrman, & Milliman, 1991). Based on this kind of reasoning, a few studies have explored TMT demographics as moderators of the effectiveness of CEO's leadership styles or strategic choices (e.g., Elenkov, Judge, & Wright, 2005; Mihalache, Jansen, Van Den Bosch, & Volberda, 2012). However, these studies primarily examined demographic diversity within the entire TMT, yet ignored the special position of the CEO as team leader and underemphasized the interplay between CEO and the rest of TMT (Cao, Simsek, & Zhang, 2010). The current study intends to augment previous efforts by focusing on the differences between the CEO and other TMT members and evaluating their effects. As such, the particular research question we address is: *Is empowering leadership more (or less) effective when provided by a CEO who is demographically different from the other TMT members?* In doing so, we hope to not only enrich the contextual understanding of empowering leadership but also fill a void in the general research on the upper echelons.

We selected two aspects of CEO–TMT demographic dissimilarity as the focus of this study (i.e., informational demographics and tenure overlap) because these are expected to have distinct but supplementary effects on the nature of the interaction between the CEO and other top executives as they engage in strategic decision-making. While informational dissimilarity introduces a divergent force into the relationship that helps with information flow, it may potentially cause difficulties with mutual identification. In contrast, a longer shared tenure facilitates a convergent force, which promotes interpersonal trust but may also lead to group think. Our core argument is that while empowerment of TMTs by CEOs contributes to firm performance, these two aspects of CEO–TMT dissimilarity interact to strengthen or attenuate this positive influence. A three-way interaction is thus expected. By considering how CEO–TMT dissimilarity may act as a boundary condition for empowering leadership by CEOs, we aim to contribute to the development of upper echelons research and improve understanding among CEOs of how to exploit their interpersonal context more effectively, particularly the fit between their own background and that of their team members, to reinforce the influence they seek to wield through empowerment. We used data from a multisource survey of TMTs in 129 Chinese organizations to test our hypotheses.

## Theory and hypotheses

### *CEO's empowerment of the TMT and organizational performance*

In general, an empowering leadership style encompasses the encouraging of self-leadership, participative goal-setting, and opportunity thinking by followers (Pearce et al., 2003). Through providing positive support and encouragement, empowering leaders help to increase the motivation and confidence of followers regarding the accomplishment of individual and collective goals (Conger, 1989; Hmieleski & Ensley, 2007). Compared with individual employees, empowering leadership in team situations is directed more toward the team as a whole, through which its members are more motivated to self-manage the team and apply their abilities to accomplishing team goals (Chen et al., 2011; Maynard et al., 2012). Leading by example, being open to new ideas, encouraging participative decision-making, coaching, informing, and showing concern for team members are typical forms of empowering behavior in a team leadership situation (Arnold, Arad, Rhoades, & Drasgow, 2000; Spreitzer, 2008; Srivastava et al., 2006).

TMTs present a unique setting for team empowerment. TMTs are special in that their members tend to undertake more complex tasks and have relatively little role interdependence in some respects (Beckman & Burton, 2011). In practice, TMT members (e.g., CFOs, CIOs, COOs) are considered leaders in their own right, and company incentive structures are typically set up to reinforce such expectations. In other words, unlike at lower levels, TMT members already enjoy relative individual autonomy, which causes some leadership scholars to wonder whether empowerment of the TMT by the CEO actually affects TMT performance, and by extension, organizational performance (Stewart, Courtright, & Manz, 2011). Based on the upper echelons literature, this study argues that CEO empowerment efforts directed at the entire TMT are essential. While TMT members have operational responsibilities as individual senior executives, they also need to work interdependently as members of the firm's top decision-making team (Finkelstein & Hambrick, 1996). It is thus important for a CEO to shape the TMT into a coordinated unit within which these semi-autonomous executives will collaborate effectively and pool their wisdom and efforts. By guiding and supporting the TMT as a whole, an empowering CEO has the opportunity to address these needs. More specifically, through empowering behavior such as encouraging and coaching team members to solve problems together, providing insightful information to the team, and gathering collective feedback from team members, an empowering CEO can help to “scale up” the expertise and efforts of individual TMT members, and in so doing create a whole with greater efficacy than the sum of its parts.

There is evidence to support this view. The studies of both Srivastava et al. (2006) and Carmeli et al. (2011) show that leaders' efforts to empower senior teams do indeed promote the financial performance of the business units or firms they operate. More importantly, both studies demonstrate that the effect of empowering leadership on performance is mediated through team processes that facilitate coordination, such as knowledge sharing and behavioral integration, and through emergent states that are characterized by high levels of perceived team potency.

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