

Subgroup Effects in Executive Leadership Teams

Research soon to be published in the *Strategic Management Journal* shows that executive leadership teams (direct reports to the CEO) can split into subgroups based on both demographic characteristics and functional backgrounds. Further, the reason for the subgroup split can affect the effectiveness of the top management team.

Key Takeaways:

- Executive leadership teams can fracture into subgroups based on employee demographic characteristics (e.g., age).
- Executive leadership teams can fracture into subgroups based on task related characteristics (e.g., functional background).
- Demographic based subgroups hinder cohesion, harming the ability to enact strategic change, whereas task based subgroups facilitate inter-group knowledge sharing, enhancing the ability to enact strategic change.

Researchers collected data occurring between 1998 and 2015 for 1,393 Chinese manufacturing firms, resulting in a total of 7,229 firm-year observations. They found that executive leadership teams can split into subgroup factions based on both demographic characteristics (etc., gender, age) and task related characteristics (e.g., functional background). Further, when executive

leadership teams fall into such subgroups, it can affect the company's ability to affect strategic change (as measured by six components of strategic change: advertising intensity, research and development, plant and equipment upgrades, nonproduction overhead, inventory levels, and financial leverage).

Specifically, the researchers found that when executive leadership teams fall into subgroups based on individual personal characteristics, there can be negative consequences for the group's cohesion and this can adversely impact the ability of the company to enact strategic change. In contrast, when executive leadership teams fall into subgroups based on their functional characteristics, it can promote knowledge sharing, which in turn can improve the company's ability to enact strategic change.

Their analysis statistically controlled for aspects of the board (like board member average tenure and board member average power disparity), the firm (like ROA, firm size, and firm age), and the environment (like year and industry).

Source: Richard, O.C, Wu, J., & Markoczy, L.A. (2019). Top management team demographic-faultline strength and strategic change: What role does environmental dynamism play? *Strategic Management Journal* (40) pp. 987-1009.