Examining the Impact of Dissimilarity in Organizational Values between Members of Top Management Teams and CEOs

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Executive Summary

The purpose of this study was to examine the effects of value differences between a TMT member and his/her CEO and differences between a TMT member and other members of the TMT on group conflict, job-related attitudes, and evaluations of CEO leadership effectiveness. The study sample was 31 CEOs and 133 top management team members. Results indicated perceived differences mattered more than actual dissimilarity. Perceived dissimilarity in organizational values from the CEO had the most significant effects on outcomes. This dissimilarity was associated with increased task and emotional conflict, decreased satisfaction with the TMT and organizational commitment, and lower ratings of CEO’s leadership effectiveness. Practical guidelines are offered to help TMTs alleviate the negative consequences of dissimilarity in organizational values.
Examining the Impact of Dissimilarity in Organizational Values between Members of Top Management Teams and CEOs

According to Hambrick and Mason’s (1984) upper-echelon theory, upper level managers make decisions that are consistent with their cognitive base, which is a function of their values and experiences. This cognitive base influences how individuals attend to ambiguous stimuli, how they select and interpret information, and their preferences for choices in strategic decision-making. The majority of research on top management teams (TMTs) has focused on composition and demography theory, which suggests the composition of the TMT with regard to various demographic characteristics (e.g., age, tenure, function, education) can explain TMT behavior and outcomes. The underlying premise in these studies is that managerial demographic characteristics are reasonable proxies for underlying differences in values, cognitions, and perceptions (Carpenter, Geletkanycz, & Sanders, 2004). However, very little research on TMTs has examined values, cognitions, and perceptions.

The purpose of this study was to examine organizational values of TMT members. More specifically, the effects of four types of dissimilarity in values were investigated: (1) perceived differences between a TMT member and his/her CEO; (2) actual differences between a TMT member and his/her CEO; (3) perceived differences between a TMT member and other members of the TMT; and (4) actual differences between a TMT member and other members of the TMT. The impact of these four types of dissimilarity in organizational values on group conflict, individual job-related attitudes, and evaluations of the CEO’s leadership was explored with a sample of 31 CEOs and 133 TMT members.
Brief Review of Demographic Dissimilarity in TMTs

Studies on TMT composition have examined differences in demographic characteristics of members to infer differences in personal experiences, motivation, cognitive style, and values. There are two perspectives about the implications of differences present in a TMT. One perspective suggests that executives that share similar background characteristics are likely to operate from similar cognitive bases and values that increase the likelihood of agreement on goals critical to organizational success. Higher agreement among top managers regarding organizational roles and key characteristics of the firm increases greater predictability of behaviors and reduces ambiguity. Shared perceptions among TMT members facilitates communication and coordination and results in more effective and efficient decision-making (Iaquinto & Fredrickson, 1997).

Generally, researchers have argued that team heterogeneity is negatively related to social integration, which reflects attraction to the group, satisfaction with other group members, and social interaction among group members. Variation in experience, education, tenure and functional background will lead to difficulties in communication and diminish team integration (Smith et al., 1994). A second perspective on differences within a TMT suggests that diversity can also lead to enhanced creativity and innovation by generating a wider variety of options in decision-making. TMT heterogeneity may improve decision quality through the application of divergent perspectives to complex problems (Amason & Sapienza, 1997). These two perspectives appear to suggest a paradox regarding the implications of diversity for TMTs.

Research on conflict in TMTs, however, has found that heterogeneity increases the likelihood of two types of conflict that have differential effects on teams. Task conflict is characterized by substantive, issue-related differences in opinion while emotional conflict is
characterized by disagreements over personalized, individually-oriented matters (Amason, Thompson, Hochwater, & Harrison, 1995). Task conflict is considered functional for teams as different job-related perspectives can bring about higher quality solutions. On the other hand, emotional conflict appears to be dysfunctional for TMTs as it provokes hostility, distrust, apathy and cynicism. Amason (1996) found support for differential effects of these two types of conflict in a study of 48 top management teams from small and midsized food-processing firms across the United States. Task conflict related positively to decision quality while emotional conflict related negatively to decision quality. In addition, task conflict had opposite effects on affective acceptance of a strategic decision with task conflict positively associated and emotional conflict negatively associated.

**Dissimilarity in Organizational Values**

Management scholars have suggested that the effects of diversity on social integration for groups may depend on the type of diversity. Researchers have differentiated between surface-level diversity (differences in demographic characteristics) and deep-level diversity (differences in characteristics not readily apparent such as attitude, values, interests, personality) and suggest that in relatively long-lived groups such as TMTs, deep-level diversity is likely to have greater influences on social integration (Priem, Lyon, & Dess, 1999). In addition, researchers have recognized that the majority of studies on TMT characteristics have used demographic predictors as proxies for deep-level characteristics and that research is needed on the real drivers of strategic processes and choices – values, cognitions, and perceptions (Carpenter et al., 2004; Priem et al., 1999).

Research on TMTs has not directly explored the effects of differences in organizational values. Organizational values are beliefs held by an individual or group regarding desired
objectives in the running of a business enterprise (Enz, 1988). Although executives on TMTs may strive to achieve common goals for their organizations, in reality they represent powerful subunits with distinct group identities that may enhance the possibility for goal conflict and self-interest behaviors (Edmondson, Roberto, & Watkins, 2003). Differences among members of TMTs in the importance of organizational values may have negative ramifications. In this study, two sources of organizational value dissimilarity are considered: (1) dissimilarity from the CEO; and (2) dissimilarity from the other members of the TMT (excluding CEO). A recent study found that a CEO’s dispositions can have a significant effect on the functioning of the TMT and that the top leader may have a disproportionate influence on the team’s outputs (Peterson, Smith, Martorana, & Owens, 2003). Accordingly, this study wanted to distinguish between differences in organizational values from the CEO and differences from the rest of the TMT to see which source of dissimilarity has greater consequences.

Several outcomes were chosen for investigation: (1) group conflict; (2) attitudinal reactions; and (3) evaluations of CEO leadership. Group conflict was selected based on previous research reviewed above that suggested that demographic dissimilarity had negative effects on social integration. Attitudinal reactions were selected for inclusion in the study based on research in the person-organization fit literature that found significant effects of perceived value congruity between individuals and organizations on job attitudes of employees (Verquer, Beehr, & Wagner, 2003). Lastly, due to the current level of scrutiny of the behavior of CEOs and the increased attention on evaluations of CEO performance, perceptions of CEO leadership effectiveness were included as an outcome variable. In addition, this study assesses perceived dissimilarity and actual dissimilarity in organizational values by collecting data from CEOs and TMT members. This study wanted to address several important unanswered questions in the
literature on TMTs: (1) Does organizational value dissimilarity negatively impact TMT group
conflict, TMT member attitudes, and evaluations of the CEO? (2) Is dissimilarity from the CEO
or the rest of the TMT more important in terms of effects on outcomes? and (3) Is it perceived
dissimilarity or actual dissimilarity that explains effects?

METHOD

Sample

The sample was drawn from a larger study of CEOs that participated in two CEO
conferences held at an East Coast University. Invitees to the first conference were CEOs from
the Fortune 500 industrials, the largest 100 privately held companies in the U.S., leading service
companies, leading not-for-profit organizations including government agencies, and a small
number of emerging growth companies. Invitees to the second conference were CEOs from the
largest 250 companies listed on the NASDAQ Stock Exchange. A total of 92 CEOs registered
and attended the conferences. These CEOs were sent a questionnaire prior to the conference.
Out of the questionnaires mailed, 62 useable responses were received (response rate of 67%). As
part of the questionnaire, the CEOs were asked to identify the members of their TMTs and
permission was requested to send these managers a questionnaire as well. To be included in the
final sample for this study, the CEO and at least three top managers had to complete information
on the variables of interest. The sample for this study consisted of the CEOs of 31 US
companies and non-profit organizations, and 133 members of their TMTs. The number of
managers on the TMTs for this sample of 31 companies ranged between 3 and 11 with an
average TMT size of 5.68. The response rate for the questionnaires sent to members of the TMTs
was 75.6%.
Both the CEO and TMT questionnaire included a section on demographic items where participants reported age, gender, education level, number of years employed in the organization, and number of years as CEO or member of the TMT. The sample of CEOs was predominantly male (96.8%) with a mean age of 54.32 years. Twenty-three of the CEOs (74.2%) reported having a college degree. On average, the CEOs had worked for their organization for 10.35 years and had served as CEO for 5.44 years. Approximately 68% of TMT members reported that they were male, 8% reported that they were female, and 24% did not report their gender. Approximately 47% of TMT members had college degrees and 4% held graduate degrees. On average, these high-ranking managers had an organizational tenure of 11.6 years and had served on the TMT for 5.9 years. The mean age for the TMT sample was 47.63 years.

**Measures**

*Organizational Values.* Sixteen organizational values were presented to CEOs and they were asked to indicate their level of agreement with the following statement “I personally believe that the following organizational values should be of great importance to a business firm”. The 16 values listed were: industry leadership, employee welfare, service to the general public, stability of the organization, organizational growth, innovation, integrity, customer service, the reputation of the firm, tolerance for diversity, value to the community, budget stability, profit maximization, honesty, product quality, and protecting the environment. The response scale for each value ranged from 1 “Strongly Disagree” to 7 “Strongly Agree”.

In the TMT questionnaire, participants were presented with the same 16 organizational values and they were asked to rate the values in three different ways. First, they indicated their level of agreement with the importance of the values for them personally. Next, they indicated their level of agreement with the importance of the values for the firm. Last, they rated their level
of agreement with the importance of the values to the CEO. The same response scale described above was utilized for these items in the TMT questionnaire.

Four types of dissimilarity measures were calculated from the scores of the CEOs and TMT members. Perceived value dissimilarity between a TMT member and his/her CEO was created by summing the absolute difference scores between the TMT respondent’s personal rating for each value and his/her score for the CEO on that value. Actual value dissimilarity between a TMT member and his/her CEO was created by summing the absolute difference scores between the TMT respondent’s personal rating for each value and the CEO’s actual rating for that value. Perceived value dissimilarity from the TMT was created by summing the absolute difference scores between the TMT respondent’s personal rating for each value and his/her perception of the importance of the value for the firm. Finally, actual value dissimilarity from the TMT was created by summing the absolute difference scores between the TMT respondent’s personal rating for each value and each remaining TMT (within company) respondent’s actual rating for that value. The CEO was not included in that computation. Since this calculation involved differences across multiple relationships, this number was divided by the number of TMT members that were utilized in the comparison.

Outcome Variables. There were six different outcome variables of interest in this study. Two outcomes focused on the amount of group conflict in the TMT, two outcomes focused on individual attitudinal reactions, and two outcomes examined TMT perceptions about the CEO’s leadership. All measures utilized in the study met acceptable psychometric standards for reliability.

Group Conflict. Task and relationship conflict were measured with items from Jehn’s (1995) group conflict scale. Task conflict was measured by three items that asked about
differences of opinions in the top management team, team disagreement about work being done, and general degree of task conflict in the top management team. Emotional conflict was measured by four items that asked about personality clashes, degree of anger, degree of friction, and the general amount of emotional conflict in the top management team.

Attitudes. Satisfaction with the TMT was measured by three items that asked TMT respondents to rate their level of satisfaction with the overall performance of the TMT, the way they are treated by other members of the TMT, and the interpersonal relations between TMT members. Organizational commitment was assessed by six items that asked about respondents’ attachment to the organization and identification with organizational values.

Evaluations of CEO Leadership. TMT members’ perceptions of leadership were assessed by two measures. Personal leadership was measured with a six-item scale that asked about the extent to which the CEO demonstrated individualized consideration behaviors toward the respondent such as special recognition, positive feedback, and encouragement. CEO leadership effectiveness was measured with a six-item scale that addressed the extent to which the CEO had been successful in his/her role as chief executive officer in terms of achieving goals and implementing strategy.

RESULTS

Correlations were calculated to examine the degree of convergence between perceived and actual organizational value dissimilarity scores. The correlation between perceived and actual dissimilarity in organizational values from the CEO was .36\(^1\) (statistical significance < .01) and the correlation between perceived and actual dissimilarity in organizational values from the firm was .37 (statistical significance < .01). While these correlations are significant, the

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\(^1\) Correlations range from -1.0 (a perfect inverse relationship) to +1.0 (a perfect positive relationship). A significance level < .01 means the result would have only occurred by random chance alone less than 1 time in 100.
degree of correspondence between perceived and actual differences in organizational values is not very high. This data suggests only moderate alignment between TMT members’ beliefs and reality in terms of the actual importance CEOs and other TMT members place on organizational values.

**TMT Conflict.** The results of hierarchical regression analyses revealed that managers who perceived that they differed from their CEO in importance placed on organizational values reported greater task conflict in their top management team. In addition, higher perceived gaps in organizational values from the CEO and the rest of the TMT were associated with higher levels of emotional conflict in the TMT. Actual differences did not affect the amount of group conflict reported in the TMT. The negative effects found for value dissimilarity on group conflict are consistent with studies on demographic characteristics that suggested heterogeneity serves to increase both task and emotional conflict.

**TMT Member Attitudes.** Results also showed that the greater the perceived differences in values from CEO and other members of the team, the less satisfied managers were with the performance and interactions of the team. Top managers who reported greater differences in their values and the perceived values of their CEOs also reported lower organizational commitment. Actual differences from their CEOs also negatively impacted organizational commitment.

**Leadership Evaluations of CEO.** Members of the TMT who reported greater perceived value differences from their CEOs rated their CEOs as less supportive and considerate of their welfare. Greater value dissimilarity from CEOs was also associated with less favorable evaluations of CEOs’ effectiveness in accomplishing management objectives and implementing strategy in their organizations.
Summary. Overall, perceptions matter more than reality. TMT members’ perceived dissimilarity in organizational values from their CEOs had broader negative consequences than TMT members’ perceived value dissimilarity from other TMT members and actual levels of dissimilarity. Group conflict, individual attitudes, and evaluations of leadership were significantly affected by the perceived gap between the TMT respondent and his/her CEO in importance level of key organizational values. Because of the significant role of this type of value dissimilarity, a more in-depth examination of the effects of differences for each of the 16 organizational values was conducted and is presented in Table 1. Average differences (absolute scores) between TMT respondents and their perceptions of their CEOs were calculated separately for each organizational value. The organizational values are presented from highest perceived difference to lowest perceived difference. TMT members perceived the greatest dissimilarity from their CEOs in importance level placed on protecting the environment and the least dissimilarity (or strongest similarity) with their CEOs on the importance of customer service.

Correlations between dissimilarity scores for each organizational value and the outcome variables are also presented. This pattern of results highlights service to the general public and profit maximization as two key organizational values where dissimilarity seems to have wide-ranging ramifications. Perceived differences from the CEO on these two values had the strongest relationships with group conflict, attitudes, and evaluations of the CEO’s leadership. In addition, the results in Table 1 also indicate that there are two organizational values where differences do
not matter. Perceived dissimilarity from CEO in importance of budget stability and tolerance of diversity did not significantly correlate with any of the outcomes.

**MANAGERIAL IMPLICATIONS**

This study found that organizational value dissimilarity among TMT members was associated with greater group conflict. Prior research on these types of conflict suggests that this may not be all bad news. The task conflict that results from differences from the CEO can prevent staleness and homogeneous paradigms that limit movement toward strategic change (Hambrick, 1995). However, this implies that the CEO is open to debate and discussion about differences in strategic preferences. The results though indicate that perceived differences from the CEO are also associated with emotional conflict and perceived differences within the team also contribute to this type of dysfunctional conflict. Team members that develop strong negative sentiments toward one another or the TMT in general are less likely to participate in the decision-making process, and subsequently, less likely to be accepting of and committed to the decisions (Amason, 1996).

This study also found that perceived and actual dissimilarities in organizational values from the CEO negatively affect TMT member attitudes as do perceived differences within the TMT. If TMT members perceive that their values are not congruent and to some extent, these differences are valid, this can result in disengaged executives. This may have serious repercussions for employees in the organization as top management is viewed as the dominant coalition in the organization and employees look for consistency in word and actions from management. If consensus is lacking in the TMT, there may be mixed signals or ambiguous messages about the priorities across subunits within the organization. This ambiguity can negatively affect climate, cooperativeness, and employee trust (Williams, 2002).
The results of this study also provide evidence for the negative effects of perceived organizational value dissimilarity from the CEO on TMT members’ evaluations of leadership style and effectiveness. Some scholars suggest that the major task of a top leader is to create a sense of shared purpose and understanding of organizational values among members of the organization (Enz, 1988; Williams, 2002). When TMT members perceive a discrepancy between their individual beliefs and those of the CEO, they may be likely to view the CEO as a less effective leader. Formal review processes for evaluating CEO performance are gaining popularity and can include TMT members’ perceptions of CEO effectiveness. Hence, these perceptions could possibly affect governance boards’ decisions about compensation and retention of the CEO.

**Practical Guidelines**

There are several practical suggestions provided in the TMT literature that are applicable to managing TMT dissimilarity in organizational values:

1) *Conduct an audit of organizational values at the TMT level* – CEOs should not assume that clarity exists on the importance of key organizational values. In this study, perceived differences had the most significant impact on outcomes and were only moderately correlated with actual differences. Hence, perception represents reality for individuals. An assessment of values will uncover where differences actually exist.

2) *Create an environment of psychological safety for TMT members* – Prior research found that teams with social interaction processes fostering debate were better able to leverage advantages associated with heterogeneity than TMTs that limit debate (Simons, Pelled, & Smith, 1999). The CEO can play a pivotal role in creating an
environment where members feel safe to be honest and open about their own interests and objectives and engage in candid discussion of others’ viewpoints. Members need to believe that the group will not marginalize or penalize them for speaking up or for challenging prevailing positions (Edmondson et al., 2003).

3) Create more opportunities for TMT interaction – Frequent interaction creates familiarity so that executives may feel more relaxed about voicing dissenting points of view. Greater communication can help increase members’ understanding of key information and preferences (Eisenhardt, Kahwajy, & Bourgeois, 1997). Hambrick (1995) suggested that CEOs engage in efforts to crate a more “team-like” atmosphere with the use of off-site retreats and projects that require members to interact collectively. Over time, interaction should move TMT members’ perceptions of value differences closer to a shared understanding of actual differences, which this study has demonstrated has far less negative repercussions than perceptions of differences.

Conclusion

There is ample research documenting that top management teams matter. The strategic success of organizations depends on the ability of TMT members to work collectively and interdependently to respond to the environment. Organizational values cause executives to prefer certain behaviors and outcomes over others and affect the way executives search and filter data in decision-making. This study has shown that differences in organizational values at the TMT level can negatively affect social integration, commitment, team satisfaction, and evaluations of CEO leadership. This study represented an initial step in increasing our understanding of the underlying processes of TMTs.
REFERENCES


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<th>Task Conflict</th>
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<th>Satisfaction w/ TMT</th>
<th>Org. Commitment</th>
<th>CEO Personal Leadership Style</th>
<th>CEO's Leadership Effectiveness</th>
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<td>1.06</td>
<td>.19*</td>
<td>.10</td>
<td>-.18*</td>
<td>-.13</td>
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<td>-.29**</td>
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<td>2. Industry Leadership</td>
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<td>.29**</td>
<td>-.31**</td>
<td>-.38**</td>
<td>-.46**</td>
<td>-.32**</td>
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<td>3. Reputation of the Firm</td>
<td>0.65</td>
<td>.23**</td>
<td>.26**</td>
<td>-.29**</td>
<td>-.30**</td>
<td>-.18*</td>
<td>-.23**</td>
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<td>4. Budget Stability</td>
<td>0.55</td>
<td>.01</td>
<td>.05</td>
<td>-.09</td>
<td>-.15</td>
<td>-.20</td>
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<td>5. Tolerance for Diversity</td>
<td>0.53</td>
<td>.10</td>
<td>.16</td>
<td>-.14</td>
<td>-.09</td>
<td>-.11</td>
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<td>0.53</td>
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<td>.37**</td>
<td>-.43**</td>
<td>-.52**</td>
<td>-.33**</td>
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<td>7. Employee Welfare</td>
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<td>.11</td>
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<td>-.14</td>
<td>-.11</td>
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<td>-.21*</td>
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<td>-.31**</td>
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Note: ** statistical significance < .01; * statistical significance < .05