

**Top Management Teams and Total Shareholder Returns: The
Association Between Top Management Team Education
Heterogeneity and Total Shareholder Returns In the North American
Insurance Industry**
by
Emmanuel Kintu

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WEBSTER UNIVERSITY

School of Business and Technology

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THE ASSOCIATION BETWEEN TOP MANAGEMENT TEAM EDUCATION
HETEROGENEITY AND TOTAL SHAREHOLDER RETURN IN THE NORTH
AMERICAN INSURANCE INDUSTRY

by

EMMANUEL KINTU

A disquisition presented to
the School of Business and Technology
at Webster University
in partial fulfillment of the requirement for the degree
Doctor of Management

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Saint Louis, Missouri

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ABSTRACT OF THE DISQUISITION

The Association Between Top Management Team Heterogeneity and Total Shareholder Returns in the North American Insurance Industry

by

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Doctor of Management

Webster University in St. Louis, (2000)

Douglas O'Bannon Ph.D., Chair

This study examined the relationship between the education heterogeneity of top management teams and organizational performance measured as long-term total shareholder returns. The subjects were 46 publicly traded North American insurance companies that had been traded for at least five years. I employed two metrics to measure education heterogeneity. One metric assessed the education heterogeneity of top management teams based on the highest education certification and the other metric assessed education heterogeneity of the teams based on *all* education certifications, and therefore the underlying disciplines, represented on the top management teams.

Controlling for team size, I found that individually the education heterogeneity metrics are poor predictors of organizational performance. The metric based on the highest education certification found no support as a predictor of organizational performance while the metric based on *all* education certifications found moderate support. However, in the full model, when used together the two metrics constituted a good predictor of organization performance.

A second finding was that in the publicly traded North American insurance companies, including a combination of actuarial certification and the Master of Business Administration degree on the top management team results in superior organizational performance as measured by long-term total shareholder returns.

The results suggest that all education certifications, not just the highest education certification, each top manager brings to the top team should be considered when assessing the education heterogeneity of a top management team. The results also suggest that before a top management team is assembled, the critical education requirements of the industry should be established and inclusion on the top team ought to be based on how each selected top manager's education certification(s) enables the team to deliver superior long-term performance.

Chapter I

Introduction

The central task of top management teams (TMTs) is the role they play in formulating, articulating, and executing strategic and tactical moves in the corporation. (Eisenhardt, Kahwajy, and Bourgeois, 1998). The ultimate objective of TMTs' efforts is to create a competitive advantage for their corporations and to ensure strong organizational performance. Strategic management research has focused on the relationship between the composition of TMTs and organizational performance. The research has established that TMT demography has a significant impact on organizational performance.

Strategic management researchers have focused on measuring organizational performance using traditional accounting measures such as revenue growth, return on assets, and return on equity. These traditional accounting measures do not necessarily tell us the total value that accrues to the shareholders over the long run. As a consequence, prior research does not examine the relationship between the composition of TMTs and shareholders' value over the long run.

In this study, I examine the relationship between TMT demography and long run total shareholder value. Total shareholder value is defined as a combination of stock dividends and share price appreciation, accumulated over a period of five years. This is distinct from traditional accounting measures of corporate achievement such as revenue growth, return on assets, and return on equity.

Top Management Teams (TMT)

There is clear support for the conclusion that the top team rather than the top person, has the greatest effects on organizational functioning (e.g. Ancona, 1990; Hambrick and D'Aveni, 1992). The ability of the organization to anticipate and respond to changes in the environment rests on the decisions not just of the CEO, but also of the entire executive group (O'Reilly, Snyder, and Boothe, 1993). A firm's top management team—the “dominant coalition” of individuals responsible for setting firm direction (Cyert & March, 1963)—identifies environmental opportunities and problems, interprets relevant information, considers organizational capabilities and constraints, and formulates and implements strategic change (Mintzberg, 1979). The emphasis is on both formulating and implementing strategic change. Thus, as Wiersema and Bantel put it, an examination of what influences how executives assess and direct firm strategy is an important area of investigation (Wiersema & Bantel, 1992).

The soundness of focusing on the TMT rather than individual leaders is well documented. In large complex organizations, managerial responsibilities are unlikely to be the exclusive domain of just one individual (Drucker, 1974). In addition, Hambrick and Mason (1984) established the suitability of examining the relationship between top management teams and the organizational outcomes of strategic choices and performance levels. Finally, Gupta (1988) suggested that a stronger relationship with strategy will be found if TMTs, rather than CEOs are analyzed. In deed subsequent studies found a link between TMTs and such organization-level issues as strategic innovation and performance (Bantel & Jackson, 1989, O'Reilly & Flatt, 1989).

Of all the functions that the TMT serves, three stand out as particularly critical for the success of the firm. They are a) strategic leadership, b) integration, and c) organizational learning.

Strategic leadership. The executive group is centrally responsible for the determining the strategic direction of the organization (cf. Frederickson and Iaquinto, 1989). Issues such as which industry to compete in and what technologies to pursue, and the basic question of how to achieve a sustainable competitive advantage. (Huber & Glick, 1993).

Integration. This function combines boundary spanning and integration across domains. On one hand, TMTs are the focal point linking the organization to the outside constituencies. On the other, they bear the ultimate responsibility for providing the integration across functional domains and ensuring the fit among strategy, structure, and process (Miller, 1991).

Organizational learning. This function combines fostering organizational learning and ensuring that the firm adapts to changing circumstances. As shifts occur in environmental conditions or strategies, new competencies are often required. To survive, teams must recognize when to reorient themselves and shift the required competencies and processes within the team (Tushman and Keck, 1989). Hambrick (1987) addresses the issue of team competence and learning directly, suggesting that “the amounts of open-mindedness, perseverance, communication skills, vision, and other key characteristics that exist within the team clearly set the limits for how well the team-and, in turn, the firm-can operate.” Thus the team itself may be an important determinant of the ability of the organization to adapt (Huber & Glick, 1993).

There is clear evidence that failure by TMTs to provide strategic leadership could lead to corporate failure (Hambrick and D'Aveni, 1992) and failure to perform integration effectively leads to poor corporate performance (Doz, Angelmar, and Prahalad, 1985). Should TMTs fail to perform one or more of these functions effectively, it is highly likely that shareholder value will suffer.

Demography

Researchers have focused attention on understanding the antecedents of successful TMTs. What enables some to capture the advantages of working in teams, while others fall prey to the inherent hazards of political infighting? (O'Bannon, 1997). Most of the research has focused on TMT demography.

Demographic characteristics are indicators of the experience and training that create an individual's cognitive background (Dearborn & Simon, 1958; Hambrick & Mason, 1984). The use of demographic composition as an indicator of the nature and variety of perspectives represented on the top team has been used increasingly in recent years (e.g., Wiersema & Bantel, 1992; Bantel, 1994). In studying team demography, researchers have studied several variables including tenure, age, education level, functional background, and education major.

As noted by Finkelstein and Hambrick (1990), to a considerable extent the position of demography theory in this field is based on the work of the Carnegie School theorists (March and Simon, 1958; Cyert and March, 1963). They argued that bounded rationality, multiple and conflicting goals, ill-defined options, and varying aspiration levels--and, in turn, actions or inaction--are all derived from beliefs, knowledge, assumptions, and values that decision makers bring into the administrative setting (Chattopadhyay et al, 1999). Executive beliefs, knowledge, assumptions and values are influenced by the executive's personal background and individual demographics (e.g., age, education, career-track) (O'Bannon, 1997).

Hambrick and Mason (1984) saw advantages of using demography theory to explain the contribution of TMTs to organizations. Demography theory relies on measures of dispersion to estimate the similarities and differences among group members. Blau (1977) and Pfeffer (1983) suggested that measures of demographic dispersion hold great promise for organizational research. When applied to the upper echelon of the organization, demography is a powerful lens useful in understanding strategy (Michel & Hambrick, 1992), competitive behavior (Cho, Hambrick & Chen, 1994), strategic change (Weirsema & Bantel, 1992) and organizational performance (Norburn & Birley, 1988; Murray, 1989; Schwenk, 1991).

Purpose of the Research

The general purpose of this study is to examine the relationship between the composition of Top Management Teams (TMT) and long-term total returns to shareholders of stock insurance companies that are traded in the United States stock markets. The criterion of interest in the composition of the TMT is education heterogeneity.

TMT education heterogeneity

Education, as used in this study, is defined as the knowledge and development resulting from an educational process. The educational process involves training by formal instruction and supervised practice in a skill, trade, discipline, or profession. It includes developing mentally, morally or aesthetically especially by instruction. The

educational process also includes providing with information and persuading or conditioning to feel, believe, or act in a desired way. This definition is complied from the dictionary definitions of “educate” and “education” (Merriam-Webster, 1993).

Individuals’ abilities, skills, and cognitive bases are largely reflected in their level of education. A more educated person will exhibit broader and more complex cognitive functioning (Bantel, 1994). Such individuals can be expected to discriminate among a variety of stimuli and have a higher capacity for information processing (Schroder, Driver, & Steufert, 1967). This ability is associated with the tendency to engage in higher boundary spanning, show a higher tolerance for ambiguity, and to exhibit the higher integrative complexity (Dollinger, 1984). Further, an individual’s absorptive capacity, defined as the ability to recognize the value of new information, assimilate it, and to apply it to commercial ends, is closely related to prior knowledge and skill (Cohen & Levinthal, 1990). Such knowledge and skills are acquired partly through education (Bantel, 1994).

The core of TMT education heterogeneity is the education major that each executive (as an individual) selected and studied. First, Holland (1973) found that individuals’ selection of an education major reflects their cognitive style, personality, and values. And that the pursuit of the curriculum in those majors further shapes perspectives and outlooks. The education major can therefore be looked at as something that goes beyond a single trait; it can become a proxy for cognitive style, personality, and values. It also serves as a proxy for the executives’ perspectives.

Second, Robert Cooper (1999) found that success in life and work is 4% to 25% based on IQ and academic or technical training. Cooper further argues that 75% to 90% of success in life and work depends on emotional intelligence and other qualities (Cooper, 1999).

Finally, Hitt and Tyler (1991) found that the type of academic degrees that the executives have influence their strategic decision-making. They argued that heterogeneity of education curriculum within a team is likely to broaden perspectives of strategic decisions. These three findings provide strong reasons for focusing on the education heterogeneity of TMT.

Specific research objective

The specific research objective was to examine the association between TMT education heterogeneity and long-term total returns to shareholders (TSR).

The key contribution of this disquisition is that it expands our understanding of the impact of top management team education heterogeneity on organization performance. It moves the research in this area beyond the relationship between TMT composition and organizational performance measured using traditional accounting metrics to the relationship between TMT composition and organization performance measured using long-term shareholder value. Finally, this study provides insurance companies with an additional dimension to consider when designing TMTs that will help them maximize shareholder value.

Chapter II

Literature Review, Theory development, and Hypotheses

O'Bannon's (1997) doctoral dissertation was a key source in this study and it features prominently here in the literature review section. This paper very briefly reviews the homogeneity-heterogeneity paradox and each of the three main categories of models that researchers have presented as possible solutions to the paradox. After the reviews, I propose an alternative resolution to the homogeneity-heterogeneity paradox. To ground the proposal, the study considers the reasonableness of examining the relationship between TMT education heterogeneity and organizational performance, and focuses on the appropriateness of examining TMT education heterogeneity and total shareholder return in the insurance industry.

The Homogeneity-Heterogeneity Paradox

One stream of literature argues that team homogeneity provides positive firm benefits by enhancing the interaction between executives, and thus improving the efficiency of the decision process and the subsequent decision implementation. In contrast, a second stream has argued that team heterogeneity offers greater cognitive resources and a wider range of perspectives from which to draw, and therefore, provides better-informed and higher quality decisions (O'Bannon, 1997).

Simon (1995) observed the contradictory effects of team composition, and concluded that TMT heterogeneity is associated with greater innovativeness and creativity whereas homogeneity provides for better implementation. Pelled establishes that some studies of diversity, social interaction, and cognitive task performance have found a positive relationship between TMT heterogeneity and firm performance (Pelz, 1956; Bantel & Jackson, 1989) while other studies have found a negative relationship (Kent & McGrath, 1969; Murnighan & Conlon, 1991). Still others have found both a positive and a negative relationship (Ancona & Caldwell, 1992; Watson, Kumar & Michaelsen, 1993). In a two-country sample (Knight, Pearce, Smith & Flood, 1995) also found both relationships. They found that the "impact of diversity seems to be fairly balanced, having about as many positive effects ... as negative ones." The contradictory logic and research findings constitute what has been labeled the *homogeneity–heterogeneity paradox* (O'Bannon, 1997).

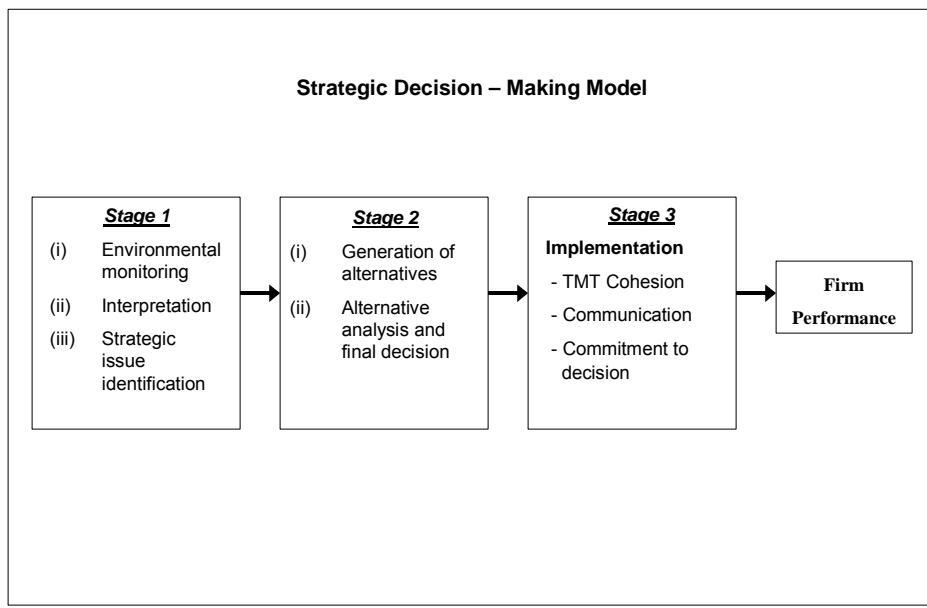
Possible Solutions to the Homogeneity-Heterogeneity Paradox

Employing the Strategic Decision-making model, current research suggests that the solutions to the homogeneity-heterogeneity paradox fall under three major categories: (a) Contingency resolution, (b) Curvilinear/Compromise resolution, and (c) Multi-dimensionality resolution. Next, I present the Strategic Decision-making model, then I review each of the suggested resolutions to the paradox and finally, I propose an alternative approach to addressing the homogeneity-heterogeneity paradox.

The Strategic Decision Making model

Researchers have employed decision-making models to provide the theoretical linkage between TMT demography and firm performance. A reproduction of the Strategic Decision-Making model used in this study is presented in Figure 1. Figure 2 shows the same model and identifies the relevant TMT literature plus the relevant groups of literature.

Figure 1



O'Bannon, (1997)

The fundamental underlying logic of demography theory as applied to organizations is that demographic characteristics influence social dynamics, which in turn impact organizational outcomes (Pfeffer, 1983). In addition to the social element, cognition also plays a critical role, and the cognition of key executives may be understood by examining their underlying demographics (Hambrick & Mason 1984).

Cognition is critical to organizational behavior and performance as it has a direct bearing on how market and competitor information is collected and analyzed by those executives making strategic decisions. Strategic decision-making literature incorporates both cognitive and social elements of group dynamics. It therefore provides a strong theoretical base from which to understand the role of TMT demography, and its impact on firm performance (O'Bannon, 1997).

The primary task of top executives is making strategic decisions that align the firm to its environment (Andrews, 1971; Child, 1972). The three stages presented in the strategic decision-making model (Figure 1) form the common thread that runs through several different strategic decision making models (Fredrickson, 1986; Milliken, 1990; Hitt & Tyler, 1991; Thomas, Clark & Gioia, 1993). The three stages are:

- (1) Environmental monitoring, interpretation of information, and issue identification
- (2) Alternative generation and decision-making
- (3) Decision implementation.

Figure 2

Relevant TMT Literature

<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Outcome</u>
1) Environmental monitoring 2) Interpretation 3) Strategic issue identification	1) Generation of alternatives 2) Alternative analysis and final decision	Implementation 1) Cohesion 2) Communication 3) Commitment to decision	Organization Performance
March & Simon (1958) Cyert & March (1963) Bantel & Jackson (1989) Hambrick & Mason (1984) Keck (1991) Smith et al (1994)	March & Simon (1958) Pfeffer (1983) Hambrick & Mason (1984) Bantel & Jackson (1989) Murray (1989) O'Reilly & Flatt (1989) Keck (1991) Wiersema & Bantel (1992) Elron (1994)	Lott & Lott (1965) Zander (1979) Dess (1987) Ancona (1989) Ancona & Nadler (1989) O'Reilly & Flatt (1989) Michel & Hambrick (1992) Glick, Miller, & Huber (1993) Weirsema & Bird (1993)	

O'Bannon, (1997)

The fundamental premise of the strategic decision-making literature is that the TMT affects firm performance through the choices made by the TMT in formulating and implementing strategy. Assuming that there is a clear demarcation of where one ends and the other begins, Stages 1 and 2 are mostly related to strategy formulation while stage 3 is essentially implementation.

Stage 1, item I - Environmental monitoring.

TMT heterogeneity is likely to enable the team to overcome rational impactedness. TMTs with greater diversity, breadth, and depth of knowledge, are better able to collect a greater volume and scope of information (Hambrick & Mason, 1984). Teams composed of members of different backgrounds are more likely to attend to a wider scope of the environment, collect more comprehensive and varied information, and thereby improve their collective understanding of the marketplace (O'Bannon, 1997).

Stage 1; item II - Interpretation of information.

Information collected from the environment must be interpreted and given meaning. Strategic issues typically involve complex questions that have no clear right or wrong answers (Jackson, 1991). Faced with ambiguity, teams are enhanced by diversity in skills, expertise, perspectives and cognition (Hambrick & Mason, 1984). Such cognitive diversity provides greater team capability dealing with the large volume of complex information found in non-routine and ambiguous decision situations (Bantel & Jackson, 1989). Cognitive diversity enhances the rigorous examination of the information and may improve accuracy in interpreting information from the environment. This, in turn improves the TMTs' ability to identify the strategic issues on which the executives need to focus their attention.

Stage 1; item III – Strategic issue identification.

Correct identification of strategic issues is a key antecedent to creating viable strategies (March & Simon, 1958). Dearborn & Simon, 1958; March & Simon, 1958 and Kiesler & Sproull, 1982; all assert that the individual is rationally bounded and has limited capacity to process incoming stimuli. A team is therefore better equipped to process incoming stimuli than an individual. The heterogeneous TMT may help overcome not only the bounded rationality of the individual CEO, but may also aid the team in successfully identifying strategic problems and opportunities (Thomas, Clark & Gioia, 1993).

Current research suggests that Stage 1 in the decision-making process benefits from TMT heterogeneity.

Stage 2, item I – Generation of alternative solutions.

Researchers of TMTs have found that heterogeneity results in greater creativity (Bantel & Jackson, 1989), greater generation of strategic alternatives (Hurst, Rush, & White, 1989), and encourages greater exploration of those alternatives (Murray, 1989). Although a large number of alternatives may produce disagreement within teams, research shows that when carefully managed, group diversity produces a carefully

considered array of options (Janis, 1972; Schweiger, Sandberg & Ragan, 1986; Schweiger, Sandberg & Rechner, 1989).

Stage 2; item II – Consideration of alternatives and decision-making.

Studies have repeatedly shown that group activities, including decision-making and problem solving, are improved by injecting heterogeneity into the group. One possible explanation for this is that more diverse groups have greater range of abilities, skills, and expertise available during the decision-making process (Ancona & Caldwell, 1992; Smith, 1990), that provide superior cognitive resources for group decisions. Also, there is empirical evidence that supports the notion that heterogeneity is positively related to TMT decision-making skills (Eisenhardt & Schoonhoven, 1990). Researchers have found a positive relationship between team heterogeneity, constructive conflict, and ultimately firm performance (Simons, 1995). Simons (1995) argued that executive teams should engage in constructive debates to improve their decisions. His study found that heterogeneous TMTs, which actively participate in task-centered debate, are positively associated with better company performance.

Current research suggests that Stage 2 in the decision-making process benefits from TMT heterogeneity.

Stage 3, Implementation

The best executive solutions, decisions, or strategies produce no organizational benefits until successfully implemented. Management and organizational literature reveals that decision implementation should benefit from teams that are cohesive, communicate effectively, and are committed to the final decision.

Stage 3, item I – TMT cohesion

Team cohesion is critical in highly dynamic environments (Eisenhardt, 1990). If internal strife significantly impedes decision-making and implementation, critical first-mover or fast-second advantages may be lost to those rivals more adept at teamwork, which ultimately results in inferior firm performance. Regarding executive teams, homogeneity is likely to yield greater team cohesion compared to heterogeneity, and to improve team efficiency during the implementation stage (O'Bannon, 1997).

Stage 3; item II – Team communication

If a group is to function effectively, its members must be able to communicate easily and efficiently (Shaw, 1981). Within group and team literature, many proposed benefits of demographic homogeneity have stemmed from the positive effects of group communication (Katz, 1982; Wanger, Pfeffer & O'Reilly, 1984; Zenger & Lawrence,

1989; O'Reilly & Flatt, 1989; Smith, Smith, Olian, Sims, O'Bannon & Scully, 1994). Research has also found that communication in homogeneous groups occurs more frequently (Lott & Lott, 1961), and is of higher quality (Shaw & Shaw, 1962).

It has been argued that cohesion and communication are critical to resolving conflict in a way that eases implementation (O'Reilly and Flatt, 1989). Others have noted that without demographic homogeneity, communication within the TMT becomes strained (Bantel & Jackson, 1989), and eventually breaks down leading to mutual frustration and declining performance (Glick, Miller, & Huber, 1993). TMT should improve implementation by providing a relatively tight knit executive cadre that shares greater information, and works well together with greater trust, cooperation, and ease (O'Bannon, 1997).

Stage 3; item III – Team commitment.

Beyond communication and cohesion, research indicates that successful implementation also depends on the top management's willingness to commit to getting the job done (Hrebiniak & Joyce, 1984; Milliken & Vollrath, 1991). Given that TMT homogeneity improves trust and communication, members of a cohesive team should be inclined to participate more in the decision process. Participation helps members "buy in" and commit to the final decision. Finally, researchers argue that in cohesive TMTs where all members are encouraged to participate, and where opinions are openly discussed, the individual team member is more likely to support the final team decision even if the decision is not his/her preferred option.

Current research suggests that Stage 3 in the decision-making process benefits from TMT homogeneity.

The **Contingency** approach argues that some conditions favor TMT homogeneity while other conditions favor TMT heterogeneity (Figure 3). A major disadvantage with this approach is that it limits the success of the TMT by disadvantaging one or more stages during strategic decision-making.

The **Curvilinear/Compromise** approach argues that along any relevant demographic variable, there will be a curvilinear relationship between TMT demographic variance and firm performance with firm performance being highest at intermediate levels (Figure 4). A major disadvantage with this model is that it concedes the unavoidable reduction in task effectiveness in all three stages of the decision making model.

The **Multidimensionality** approach argues that heterogeneity of demographics underlying cognition, together with homogeneity of demographics underlying cohesion, is positively associated with long-term firm performance (Figure 5). TMT heterogeneity meets the cognitive needs found in Stages 1 and 2, which may, at times, improve performance. TMT homogeneity provides the necessary social cohesion needed during Stage 3 to enhance and speed implementation. Rapid and conflict-free implementation may also improve firm performance. A major advantage of this model is that it

distinguishes among impacts of different demographic variables. It also satisfies the requirements of the three stages of the strategic decision-making model by having TMT heterogeneity in the first two stages and TMT homogeneity in the third stage.

Figure 3

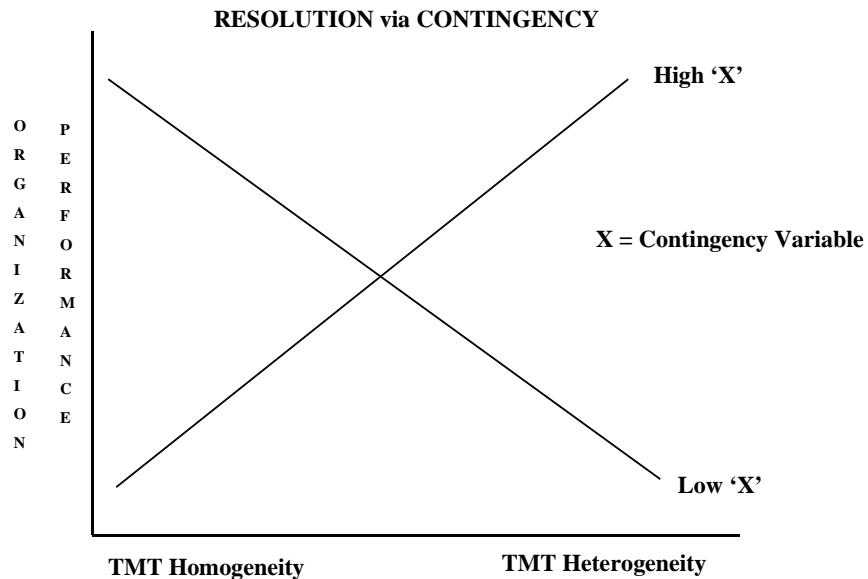
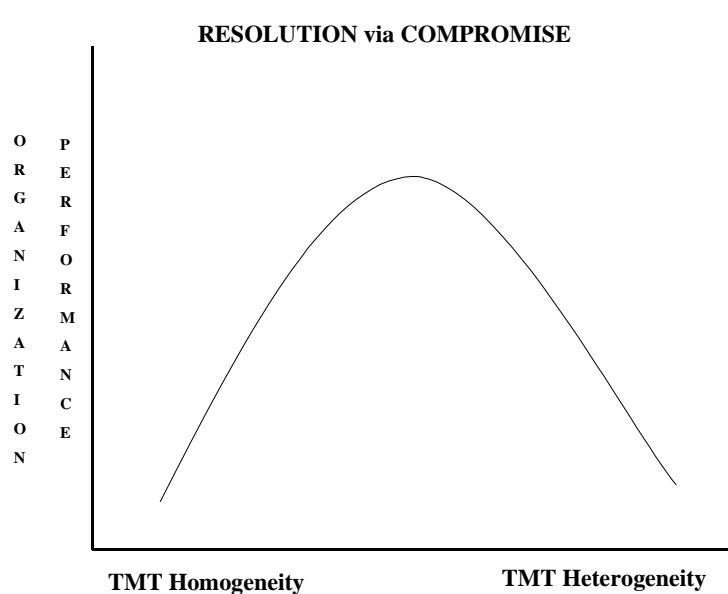


Figure 4



O'Bannon (1997)

Figure 5

RESOLUTION via MULTIDIMENSIONALITY

Cognitive Diversity

(education & functional background)

		Heterogeneous	Homogeneous
		Superior performance	Inferior performance
Social Cohesion (age & tenure)		Homogeneous	Homogeneous
Homogeneous	Heterogeneous	Inferior performance	Inferior performance
Heterogeneous	Homogeneous		

O'Bannon (1997)

A weakness of this model is that while social cohesion is beneficial in the third stage of the decision making model, it might reduce the impact of cognitive heterogeneity in the first two stages. Social cohesion could breed “groupthink”. As Eisenhardt and colleagues (1997) have warned, members of the TMT might come to value the camaraderie of the team to the point where they suppress their own conflicting viewpoints, engaging in self censorship to maintain harmony. Team members might refrain from challenging each other’s ideas, preferences, and positions for fear of harming the social cohesion.

My proposal: TMT Education Heterogeneity is Positively Associated with Organization Performance

I suggest that decision-making at the highest level of the organization is a process. Process as used here means: an organized group of related activities that together create a result of value (Hammer and Stanton, 1999). According to Hammer, “organized” suggests a disciplined design, “group of related activities” suggests multiple functions that need to work together, and “together create a result of value,” suggests teamwork.

In the previous section, I covered the importance of TMT heterogeneity in the first two stages of the strategic decision-making process. Current research suggests that similar benefits are attributable to education heterogeneity in the first two stages of the decision-making process. The open question is how TMT education heterogeneity might influence the **implementation** stage of the strategic decision-making process where **cohesion, communication, and commitment to the decision** are critical success factors.

I argue that in organizations that deliver superior performance, the highest echelon of management understands the strategic decision-making process. They value the clear benefits of education heterogeneity in the first two stages of the decision process so much that they develop capabilities of resolving effectively, the conflicts that might be generated by education heterogeneity in the implementation stage. In organizations that deliver superior performance, TMTs employ what I have called **professional maturity**, **professional cohesion**, **professional communication**, and **professional commitment** to meet the critical success factors of the implementation stage.

First, I will introduce and define three new constructs: **professional maturity**, **professional cohesion**, and **professional commitment**. Next, I will sketch the main elements of the proposed model. Finally, I will develop the arguments supporting the model.

Professional maturity is a way of being. It is the way of being, of a person who is professional, is educated, is emotionally mature, and exhibits emotional intelligence. It is the way of being of a person who does the right thing for themselves, for those with whom they serve, and for the mission(s) of the organizations that they serve even when they might not feel like doing the right thing.

A professional: is a person capable of doing the right thing even when he or she might not initially feel like doing them. It is a mix of self-discipline, inner guidance and emotional drive. Emotional literacy requires us to acknowledge and respect our feelings while having the awareness and discipline not to be blown about by the emotional winds of the moment; instead, we actively direct our emotional energy into doing more of the right thing (Cooper, 1999).

Educated: as defined earlier in this study combines both formal instruction and supervised practice in a skill, trade, discipline or profession.

Emotional maturity is the discipline to manage, harness, and channel our emotions honestly and effectively in an effort to do the right thing(s).

Emotional intelligence, according to Goleman (2000), is the ability to manage our relationships (*and ourselves*) effectively. It consists of four fundamental capabilities: self-awareness, self-management, social awareness, and social skill. Figure 6 shows a reproduction of a primer on Emotional Intelligence.

In keeping with what Peter Senge (1990b) has described as personal mastery, professional maturity requires that people *live* the four components defined above. However a critical requirement of professional maturity is that in, addition to knowing what is important to them, and to having a sense of personal vision or destiny, individuals have to focus on the vision of the organization(s) that they serve, and on the sense of how reality is related to this vision.

Professional cohesion is the team cohesion that is arrived at when the team members go through a process that enables them to: (1) understand the desired goal of the

team, (2) examine the available facts prudently, and (3) select a course of action that, in the team's best collective judgment, will lead their organization to the desired goal(s).

Professional commitment is the genuine commitment to the course of action that has been selected by the team. It is arrived at when the team members go through a process that enables them to: (1) identify the barriers preventing them from committing to the selected course of action, (2) examining the barriers prudently, (3) acknowledging them truthfully, and (4) addressing and removing those barriers in a manner that enables the team to reach the desired goal.

Figure 6

Emotional Intelligence: A Primer			
Self – Awareness	Self – Management	Social Awareness	Social Skill
<ul style="list-style-type: none"><i>Emotional Self-awareness:</i> The ability to read and understand your emotions as well as recognize their impact on work performance, relationships, and the like.<i>Accurate self-assessment:</i> a realistic evaluation of your strengths and limitations.<i>Self-confidence:</i> a strong and positive sense of self-worth.	<ul style="list-style-type: none"><i>Self-control:</i> the ability to keep disruptive emotions and impulses under control.<i>Trustworthiness:</i> a consistent display of honesty and integrity.<i>Conscientiousness:</i> the ability to manage yourself and your responsibilities.<i>Adaptability:</i> skill at adjusting to changing situations and overcoming obstacles.<i>Achievement orientation:</i> the drive to meet an internal standard of excellence.<i>Initiative:</i> a readiness to seize opportunities.	<ul style="list-style-type: none"><i>Empathy:</i> skill at sensing other people's emotions, understanding their perspective, and taking an active interest in their concerns.<i>Organizational awareness:</i> the ability to read the currents of organizational life, build decision networks, and navigate politics.<i>Service orientation:</i> the ability to recognize and meet customers' needs.	<ul style="list-style-type: none"><i>Visionary leadership:</i> the ability to take charge and inspire with a compelling vision.<i>Influence:</i> the ability to wield a range of persuasive tactics.<i>Developing others:</i> the propensity to bolster the abilities of others through feedback and guidance.<i>Communication:</i> skill at listening and at sending clear, convincing, and well-tuned messages.<i>Change catalyst:</i> proficiency in initiating new ideas and leading people in a new direction.<i>Conflict management:</i> the ability to de-escalate disagreements and orchestrate resolutions.<i>Building bonds:</i> proficiency at cultivating and maintaining a web of relationships.<i>Teamwork and collaboration:</i> competence at promoting cooperation and building teams.

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I propose that TMT education heterogeneity, guided by **professional maturity**, yields superior organization performance as measured by long-term total returns to shareholders. I also propose that for the executives at the highest echelon of an organization, and for those tasks that a TMT is the most appropriate decision-making entity, professional maturity encourages **professional cohesion**.

One of the first theorists to argue that social cohesion can affect the performance of a management team was Barnard (1938). He spoke of the need for a tight-knit informal organization and the importance of members of the management team having the “fit”. He argued that the question of “fitness” involves such matters as education, experience, age, sex, personal distinction, prestige, race, and nationality. In this study, I focus on the role of education and education heterogeneity in bringing about professional cohesion.

I acknowledge that TMT education heterogeneity might generate some interpersonal conflict. I also acknowledge that the interpersonal conflict might reduce social cohesion among the TMT. However I argue that the professional cohesion encouraged by professional maturity will be greater than the reduction in social cohesion generated by the interpersonal conflict that accompanies TMT education heterogeneity.

I also argue that with professional maturity as a guide, the cognitive, substantive, and issue-oriented conflict generated by the breadth and depth of knowledge, skills, and abilities will out-weigh the negative impact of interpersonal conflict (and the resultant reduction of social cohesion) that TMT education heterogeneity might generate. Katzenbach and Smith (1993) provide evidence of professional discipline overriding the need for social cohesion. They say that with working in teams, personal chemistry does not matter as much as most people believe. Rather, they suggest that by persistently applying the definition offered here [*“a small group of people (typically fewer than twenty) with complementary skills that are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable”*], most people can significantly enhance team performance. They argue that focusing on performance—not chemistry or togetherness or good communications or good feelings—shapes teams more than anything else¹.

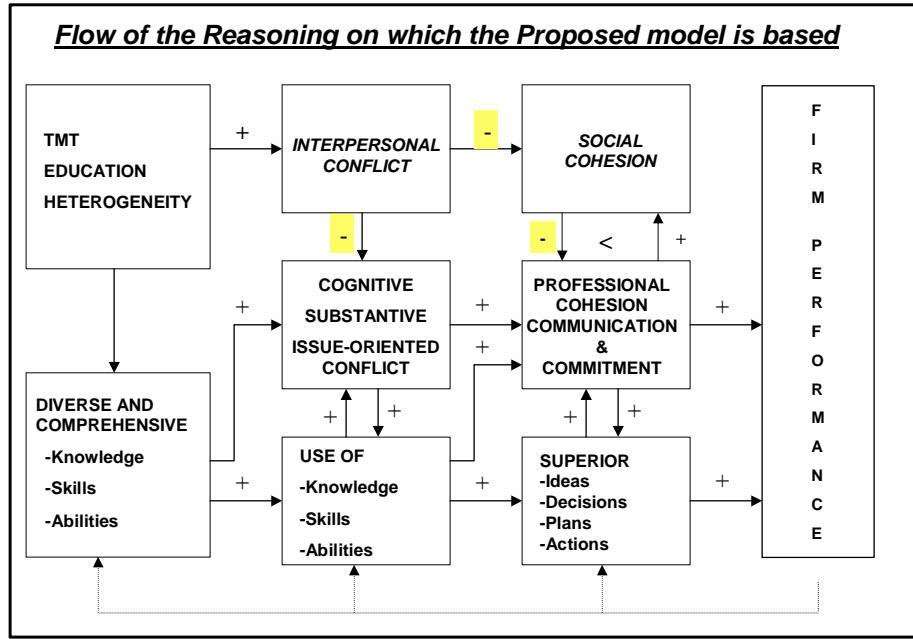
Professional maturity also encourages issue-oriented communication. To ensure that the decision-making process is guided by the merits of ideas and arguments, those ideas and arguments have to be articulated and understood. This is what I am referring to as **professional communication**.

Finally, professional maturity engenders **professional commitment** to the decisions taken by the TMT. The main objective of the TMT is to do the right thing(s). If members of the TMT do their job effectively, the decisions that they take and the course of actions that they choose will be the best possible decisions and courses of action. Members of the TMT will therefore commit to implementing those actions on the merits of those actions.

In this manner, an approach that focuses on TMT education heterogeneity satisfies the task requirements in all three stages of the strategic decision-making model. Figure 7 shows the sketch of the flow of the reasoning on which the proposed model is based. Figure 8 shows the proposed model.

¹ Katenbach, Jon R. and Douglas K Smith, *The Wisdom of Teams*, Harvard Business School Press, Boston, 1993

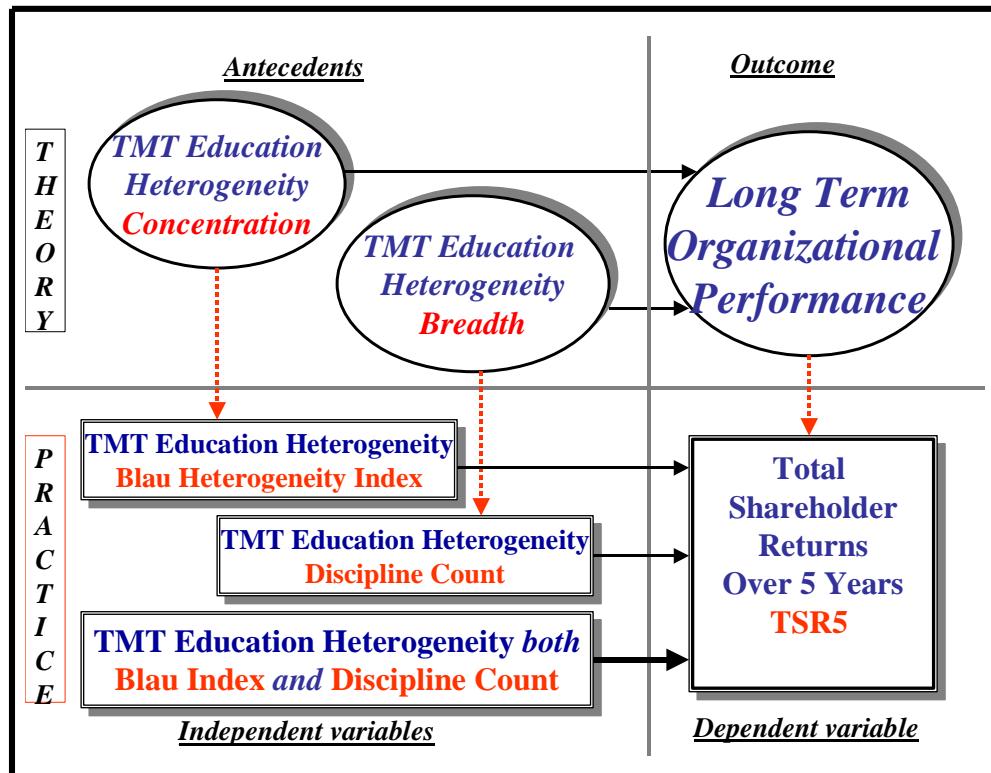
Figure 7



Kintu, (2000)

Figure 8

The Model



Kintu (2000)