



# **The Effect of Top Management Team Performance and Cohesion on Organizational Outcomes**

Aaron J. Kraus, Liberty Mutual Insurance

Jared Z. Ferrell, Shaker

**A White Paper prepared by the Visibility Committee of the Society for Industrial and Organizational Psychology.**

440 E Poe Rd, Suite 101 Bowling Green, OH 43402

## Table of Contents

---

Authors .....	3
Abstract.....	4
Introduction .....	4
Background.....	5
Implications for Practice .....	7
Next Steps .....	9
References .....	10

## Authors



**Aaron Kraus**  
**Liberty Mutual Insurance**

Aaron Kraus is the Senior Program Manager with responsibility for Selection and Assessment at Liberty Mutual Insurance. Areas of applied expertise and responsibility include job analysis, the development, validation and implementation of selection systems, tools, and process, talent analytics, leadership development, as well as organization effectiveness and design. Areas of research include determinants of innovation in organizations, dispelling myths about generational differences, the effect of implicit bias on selection, predictors of innovative work behavior, and the drivers of job search behaviors.



**Jared Ferrell**  
**Shaker**

Jared Ferrell is a Senior Associate and Team Leader for Shaker's Research and Development team. He has conducted research and applied expertise in the areas of simulation scoring, equivalency of computer-based and mobile assessments, candidate experience, and advanced analytical methods. While at SHAKER, Jared has helped clients implement and continuously evaluate computer-based assessments to optimize the efficiency and effectiveness of hiring and promotional processes across a wide range of industries and roles. He also continues to present on innovative assessment practices and advanced analytical processes at annual professional conferences.

## **Abstract**

The current whitepaper examines research on top management team attributes at both the individual (i.e., behavioral flexibility & leadership style) and team level (i.e., top management team cohesion). The direct and indirect mechanisms through which these characteristics impact organizational performance will also be described.

## **Introduction**

Executive leaders and top management teams are critical to organizations' performance. Top leaders formulate a collective purpose, instill values, influence culture, and determine the strategic plan for an organization, so they have significant influence on organizational outcomes. This influence has been quantified in previous studies to show that CEOs alone can account for about 29% of the overall variance in organizational profitability (Mackey, 2008). This is nearly four times larger than the amount for which the corporation accounts (8%) and approximately five times larger than can be accounted for by industry (6%).

Although CEOs are critical to an organization's performance, research on top management teams suggests they have a much greater impact on organizational outcomes than the CEO alone (Mackey, 2008). Based on the strong relationship between top management team functioning and organizational performance, research has examined the characteristics of CEOs and top management teams that are most likely to facilitate organizational success. Specifically, it has found that organizations can increase the likelihood of strong performance by evaluating the behaviors, attributes, and leadership styles of CEOs and top management teams, and linking these behaviors to their effects on organizational outcomes.

The current whitepaper examines research on top management team attributes at both the individual (i.e., behavioral flexibility & leadership style) and team level (i.e., top management team cohesion). The direct and indirect mechanisms through which these characteristics impact organizational performance will also be described. While research has suggested many other top management team factors are related to

organizational performance, behavioral flexibility, leadership styles, and top management team cohesion have a disproportionate impact on organizational performance and can be improved through targeted development and are thus the primary focus here.

## Background

Behavioral flexibility is the ability to change or adapt one's leadership style as necessary to meet current task demands or the needs of the constituency being addressed. Behavioral flexibility is particularly important for top management team members due to their role as strategic leaders (Boal & Hooijberg, 2000) who must constantly work with diverse stakeholders internal and external to the organization. Considering the multifaceted nature of their responsibilities, subordinates, and interactions, strategic leaders must demonstrate behavioral flexibility by adapting their leadership and communication styles to maximize the likelihood of favorable

Strategic leaders  
must demonstrate  
behavioral flexibility  
by adapting their  
leadership and  
communication styles



outcomes across these diverse settings and audiences (Boal & Hooijberg, 2000). Furthermore, the attributes of the top management team often permeate the organization as a whole, so having an adaptive top management team is likely to make the organization more innovative, responsive, and therefore, more effective (Eisenbeiss et al., 2008).

Various leadership styles have also been tied to organizational outcomes. Organizations with top management teams composed of charismatic and transformational leaders tend to perform better than organizations whose leaders do not possess these styles (Waldman, Ramirez, House, & Puranam, 2001). Charismatic and transformational leaders effectively articulate a vision, earn the commitment of employees, and have a plan in the organization's best interests. These types of leaders are ideal to have during times of organizational stress or change and are associated with overall positive organizational outcomes (Waldman et al., 2001). This is because Charismatic leaders effectively provide clarity, generate support for change, and

engage in enterprise resource planning. Similarly, research on privately held companies shows CEOs with transformational leadership styles increased organizational success by improving top management team performance (Ling, Simsek, Lubatkin, & Veiga, 2008). The strength of transformational leaders lies in inspiring creativity and innovation among employees and motivating them to accomplish more than what was thought to be possible. However, transformational leadership is less effective when used to clarify responsibilities and specify expectations, further illustrating the importance of behavioral flexibility and the ability to employ multiple types of leadership skills depending on situational cues.

The process for selecting top management team members requires more than merely looking for someone with behavioral flexibility who demonstrates transformational and charismatic leadership styles. To maximize the likelihood of organizational success, top management team composition also needs to be considered, because team-level factors such as cohesion also significantly affect firm performance. Top management team cohesion is a multidimensional construct that has been defined in a variety of ways, but the majority of the definitions describe team cohesion as a group level variable characterized by an attraction to a work group and the desire to remain part of it (Hogg, 1992). Cohesion is complex because it assesses the interactions of a group and reflects the unique attributes of members and their attraction to the work team.

Research has shown top management team cohesion has a positive influence on organizational performance and income growth (Peterson, Smith, Martorana, & Owens, 2003). Instead of working individually or competitively against team members, cohesive top management team members work together to accomplish goals, which helps maximize firm performance. Furthermore, organizations with unified collective leadership are better able to initiate and follow through with substantive strategic



The process for selecting top management team members requires more than merely looking for someone with behavioral flexibility who demonstrates transformational and charismatic leadership styles.

changes compared with organizations that have factionalized and less cohesive top management teams (Peterson et al., 2003).

Behavioral flexibility, leadership styles, and top management team cohesion have all been shown to positively impact organizational performance. The next section describes how organizations can select for and develop these three factors to optimize these critical attributes in top management teams so they can maximize firm level performance.

## Implications for Practice

Leadership styles can be developed at the individual level, and given the positive impact that charismatic and transformational leadership behaviors have on firm performance, they should be built into management training and development programs. Such training should emphasize charismatic and transformational leadership behaviors that include articulating a vision for the future, fostering group-oriented work, setting high expectations, challenging followers' thinking, supporting followers' individual needs, and acting as a role model.

At the individual level, executive leaders must have the behavioral flexibility to be both task-focused and relationship-focused, depending on the situation. Task-focused executives directly improve firm performance by driving productivity and reducing ambiguity. Relationship-focused executives indirectly enhance organizational performance by improving the attitudes of employees, subsequently driving improved organizational performance. To achieve optimal performance the context of situations should serve as a cue to the top management team as to whether they should be task or relationship-focused.

Based on the importance of both types of focus, top management teams that are trained in both task and relationship oriented leadership skills should be better able to recognize situations where one focus is more appropriate than the other. Such training could develop skills for task-focused leadership (e.g., monitoring behaviors, vision articulation, and risk evaluation) and relationship-focused leadership (e.g., communication, benevolence, authoritativeness).

The context of situations should serve as a cue to the top management team as to whether they should be task or relationship-focused



When looking to select new leaders, candidates with strong behavioral flexibility as well as charismatic and transformational leadership styles should be given preferential consideration. The organization-specific nuances of these key behaviors and capabilities should be identified through a job analysis process so that selection systems, tools, and processes can be optimized to identify the individuals most likely to be successful in these critical roles. Some effective tools to measure these general behaviors and abilities include structured interviews with behaviorally-anchored rating scales measuring how someone has previously handled challenges similar to those that would be faced in the role, situational judgment tests evaluating how a leader would respond to future challenges a leader may face in the role, and psychometric assessments measuring work styles, motivation, and cognitive ability.

Shifting focus to the team-level factor of top management team cohesion, cultivating a cohesive top management team can be a delicate balance considering some factors that promote team cohesion are negatively related to team performance. For example, homogeneity of team members in terms of background, experience, and values promotes cohesion; however, it has been shown to decrease executive leadership performance, particularly when it comes to innovation (Hogg, 1992). This is likely because the benefits of cohesion in homogeneous teams can be offset by a lack of diversity of thought and the increased propensity for groupthink to occur within the team.

Groupthink is a phenomenon where team members blindly accept the ideas of others in their group without thinking critically about them, thus potentially overlooking critical issues with the ideas and can affect highly agreeable teams. This can lead to decisions with harmful and unforeseen consequences that could have been prevented by an assertive and critical team member. Teams that are more heterogeneous in terms of demographics and background are less susceptible to groupthink, as team members are more likely to vigorously debate decisions due to differing opinions on significant topics.

Teams can be diverse, critical, and cohesive as long as the organization has created a climate where leaders are encouraged to express their opinions and feel those opinions will be valued by other members of the team, regardless if they agree or not. If HR policies, practices, and values emphasize the importance of both diversity and psychological safety, top management teams can experience the benefits of cohesion without risking them becoming susceptible to groupthink.

Moreover, cohesion is influenced by many factors including team goals, trust among team members, and prior perceptions of team members during team development. Top management team cohesion has been shown to develop over time and is affected by team interactions and unique historical conditions (Barney, 1986). Using team building exercises and retreats to build trust and cohesion can result in better team and organizational performance. If there is a time where disagreements become unproductive, or team

members do not feel comfortable voicing opinions, it is important for HR leaders to open dialogue and structure a conversation to identify what the barriers are and subsequently address them.

From an individual differences perspective, certain leadership attributes have been shown to precede top management team cohesion. Specifically, leader emotional stability and agreeableness are positively related to team cohesion (Peterson et al., 2003). When selecting and developing a top management team, organizations should consider including the personality traits emotional stability and agreeableness as selection criteria to optimize the likelihood of a cohesive top management team. These traits can be effectively measured by most personality assessments designed to be used in a selection process.

## Next Steps

Top management team performance and cohesion have significant influence on organizational outcomes. The top management team guides the organization and provides an example for all employees to follow, which amplifies the importance of their actions. Leaders who have behavioral flexibility and can employ transformational and charismatic styles improve the performance of their organization. Highly cohesive top management teams also improve organizational performance, so these teams should be selected with consideration to member attributes, including diversity, and be given experiences to build trust and cohesion within the group.

The findings and suggestions discussed here have focused on a small subset of factors that can help improve top management team performance and cohesion with the ultimate goal of maximizing organizational performance. As such, organizations should endeavor to increase behavioral flexibility and transformational leadership among top management team members.

HR practices and team development initiatives can also significantly improve cohesion by creating a cooperative environment where team members work with instead of against each other, ultimately achieving positive organizational outcomes.



## References

- Barney, J. B. (1986). Organizational culture: Can it be a source of sustainable competitive advantage? *Academy of Management Review*, 11, 656-665. doi: 10.2307/258317
- Boal, K. B., & Hooijberg, R. (2000). Strategic leadership research: Moving on. *The Leadership Quarterly*, 11(4), 515-549. doi:10.1016/S1048-9843(00)00057-6
- Eisenbeiss, S., Van Knippenberg, D., & Boerner, S. (2008). Transformational leadership and team innovation: Integrating team climate principles. *Journal of Applied Psychology*, 93, 1438-1446
- Hogg, M. A. (1992). *The social psychology of group cohesiveness: From attraction to social identity*. New York: Harvester Wheatsheaf.
- Ling, Y., Simsek, Z., Lubatkin, M. H., & Veiga, J. F. (2008). Transformational Leadership's Role in Promoting Corporate Entrepreneurship: Examining the CEO-TMT Interface. *Academy Of Management Journal*, 51(3), 557-576. doi:10.5465/AMJ.2008.32626023
- Mackey, A. (2008). The effect of CEOs on firm performance. *Strategic Management Journal*, 29(12), 1357-1367. doi: 10.1002/smj.708
- Peterson, R. S., Smith, D. B., Martorana, P. V., & Owens, P. D. (2003). The impact of chief executive officer personality on top management team dynamics: One mechanism by which leadership affects organizational performance. *Journal of Applied Psychology*, 88(5), 795-808. doi:10.1037/0021-9010.88.5.795
- Waldman, D. A., Ramirez, G. G., House, R. J., & Puranam, P. (2001). Does leadership matter? CEO leadership attributes and profitability under conditions of perceived environmental uncertainty. *Academy of Management Journal*, 44(1), 134-143. doi:10.2307/3069341