

The CEO as integrator

The chief executive's role is central to reaping the fruits of executive team diversity

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Top management teams composed of executives with diverse professional backgrounds should excel at making balanced and high-quality strategic decisions. New research on the performance of firms operating in highly dynamic markets, however, qualifies this commonly held view: the CEO plays an essential role in realizing the potential benefits of a functionally diverse team.

Functional diversity among members of a senior executive team is widely hailed as a boon to any company. It enables a team to draw on divergent bases of knowledge and perspectives when making strategic decisions. Such advantages should boost a diverse team's ability to make balanced decisions—i.e., decisions based on input from multiple information sources.

So does a direct relationship exist between executive team diversity and decision quality (and thus firm performance)? It is not that simple. Functional diversity entails several issues that can hamper the team. The executives might, for instance, suffer from conflicts and poor intra-team communication—simply because they don't 'speak the same language.' In that case diversity might even become counterproductive.

For a company to benefit, the value of diverse perspectives needs to be consciously recognized and deliberately leveraged.

New research on the executive's team performance of information technology firms unraveled some of these mixed effects. The IT industry was chosen for this research specifically because it is so dynamic and volatile. Creativity and well-timed innovation are of utmost importance in such sectors. The research findings are based on CEO interviews and survey responses of the full top management teams (173 top managers) at thirty-three IT companies in Belgium and the Netherlands deemed to be representative of the sector.

The survey, which used previously validated measurement scales, included questions on personal characteristics (demographics, work-related experience, personality, etc.), the executive team's internal processes (communication, information exchange, collaborative behavior, decision-making, etc.), and the company's strategy and overall performance (effectiveness, degree of customization, company's goals, etc.). Objective indicators, such as the company's reported sales and income/loss figures, were used to assess company performance.

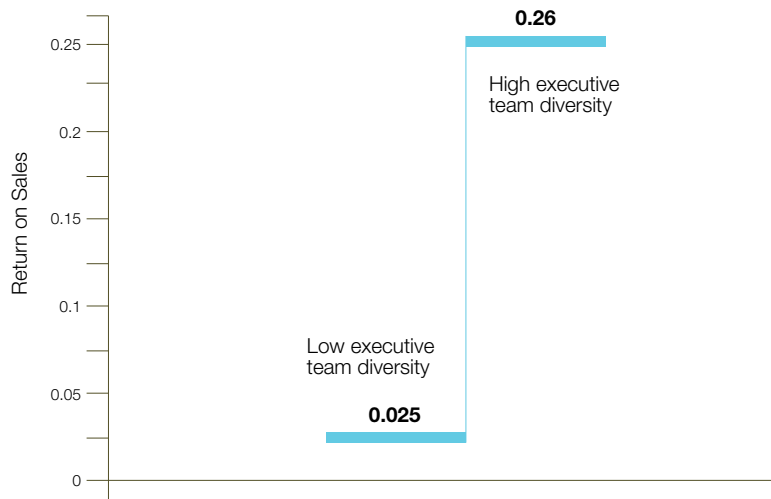
Were some CEOs better at unleashing the potential benefits of executive team diversity than others?

The goal was to find out what type of executive team composition would boost performance in a dynamic and innovation-oriented sector. In particular, were some CEOs better at unleashing the potential benefits of executive team diversity than others?

The researchers tested for the effects of executive team functional diversity against the company's return on sales (ROS). The study's first result is clear: diversity leads to better results overall (see Figure 1). Irrespective of the CEO's background characteristics, companies with diverse executive teams outperformed those with more homogenous teams. Hence, in environments in which creative thinking and innovation is vital, having a functionally diverse executive team seems to pay off.

This research, one should note, specifically focused on the effects of diversity among functional expertise. The findings should not be generalized to other types of diversity—especially to features such as gender or ethnicity, which might not necessarily increase the collective breadth of the executives' knowledge. In fact, prior studies find that when the negative effects of diversity occur—conflicts, stereotyping, poor intra-team communication—it is primarily in cases of diversity regarding non-knowledge-based characteristics, such as executives' demographics or personality.

Figure 1
Executive team functional diversity and firm performance



Marketing CEOs outperform generalists

Another main finding of the study was that the CEO has a leading role in unleashing these benefits. It requires a specific CEO profile to integrate and then exploit the full potential of a diverse executive team.

Some of the findings may seem counterintuitive. For instance, intuition would suggest that CEOs who have developed experience in multiple functions—generalist CEOs—would be able to bridge the team members’ differences and transform their diverse knowledge bases into high-quality decision-making, leading to even better results for their company. That is not the case, however. Generalist CEOs—who combine experience in multiple functional domains—don’t appear to take full advantage of the diversity in their executive teams.

Though the general positive effect of diverse senior teams holds, generalist CEOs are not able to generate even better results. On the contrary, the performance of companies with diverse executive teams and generalist CEOs is slightly lower than that of all companies with diverse executive teams, and much lower than that of those companies that combine a diverse executive team with a marketing specialist as CEO.

Figure 2
CEO background and firm performance

Even with functionally diverse senior teams, company performance still varied based on the background of the CEO. Diverse teams that had worked together with the CEO several years functioned best.



The reason may be that generalist CEOs—with their own broad experience base—don't value the diverse expertise of the other executive team members or consult them on decisions in their area. Alternatively, generalist CEOs might suffer from a 'jack of all trades but master of none' syndrome. CEOs who had been general managers might have broad but shallow knowledge, limiting their ability to fully tap the deep specialized knowledge of their senior team.

A CEO who does seem to optimize executive team diversity, at least in terms of return on sales, is one with a background in marketing. In dynamic and innovative markets, time-to-market, speed of product innovation, and product targeting are of vital importance. In such circumstances, marketing CEOs are more likely to shine. They excel at identifying and bundling the valuable pieces of functional information available within the diverse executive team quickly into purposeful, well-targeted market offerings.

Finally, CEOs reap more rewards from a diverse team over the long haul. Once a CEO has had time to get to know the executive team—and their unique expertise and knowledge—more intimately, results improve. With time to develop interpersonal trust, executive teams also likely feel more confident in expressing any divergent opinions, further improving decision-making.

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Recommendations for CEO and executive recruitment

What do the results of this research mean in practice? There are five vital take-away lessons:

Strive for executive team functional diversity. The overarching finding of the research was clear: functional diversity in an executive team is an asset for companies working in dynamic and innovative environments. It always appears to have a positive effect on company performance, regardless of the CEO. For executive recruitment, this finding implies that functional diversity should be on the top of the list when composing an executive team.

Be mindful of diversity in other executive characteristics. Though the research supports the favorable effects of executive team functional diversity, this finding might not be transferable to other types of diversity. Especially for diversity regarding executives' gender, nationality, or personality type, the negative effects—such as conflicts and a lack of intra-team communication—might surmount the favorable ones. HR professionals should be aware of any such potential trouble spots and take action to overcome them.

Search for a CEO that can leverage diversity. Some CEOs are better at capitalizing on the executive team's diversity than others. In highly volatile and innovation-oriented business environments, where creativity has to be channeled in well-targeted market offerings, firms might do well to select CEOs specialized in marketing, who outperformed firms led by non-marketing CEOs in this study.

Coach generalist CEOs in the integration of diverse executive teams. Although a generalist functional background is usually regarded as an asset for CEOs, that appears not to be the case in highly dynamic environments where innovation, market orientation, and efficiency have to be balanced for success. Generalists can of course be very successful CEOs, but they might suffer from a tendency to ignore or diminish the other executive team members' input. Nevertheless, simple awareness of this issue might prompt generalist CEOs to encourage participation of the entire management team in decision-making. HR professionals can play a substantial role by developing programs to coach generalist CEOs in this integrating role.

Allow CEOs and executive teams a learning period. The benefits of functional diversity are difficult to achieve overnight. CEOs need some time to get to know the executives before they learn to unlock their full potential as a team. Firms should take this learning period into account when selecting and assessing new CEOs. When they cannot afford such a learning period, they might be better off to give the new CEO a mandate to compose a team of executives he or she is familiar with.

About the research

The research featured in this article was part of the dissertation project of Tine Buyl, PhD, (University of Antwerp, Belgium) and was co-financed by the Research Foundation – Flanders. The study was published in the *Journal of Management Studies*.

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