

## SESSION 1: BOARD OF DIRECTORS' PRACTICES

# AN EMPIRICAL STUDY ON THE RELATIONSHIP BETWEEN EXECUTIVE TEAM HETEROGENEITY AND CORPORATE INNOVATION

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## Abstract

Innovation is the inexhaustible driving force for the development and progress of an enterprise, and as a strategy maker and decision maker, the executive team plays a pivotal role in the development of an enterprise. A series of processes, such as information collection,

strategy formulation, strategy implementation, and evaluation of strategy, ultimately affect the innovation investment of enterprises (Cannella et al., 2008). Executives with different background characteristics have differences in cognitive structure, values, knowledge base and technical ability, and their information collection channels and observation perspectives are quite different, so they will make different strategic decisions.

Therefore, it is very important to explore how the top management team's (TMT) heterogeneity will affect the enterprise's innovation so that the enterprise can build a more reasonable TMT structure and make more effective strategic decisions.

Several theories including upper echelons theory, information decision theory, and similarity attraction theory provide the reasoning for how the TMT heterogeneity can affect the innovation behaviour of companies. These differences in the characteristics of the TMT members allow for different information acquisition channels, information interpretation methods, and perspectives. Furthermore, heterogeneity is linked to higher levels of comprehensiveness in problem thinking and increased open disagreements between the TMT members. On the contrary, TMT heterogeneity will increase the cost of communication, weaken the cohesion of the enterprise, and affect the enthusiasm and effectiveness of decision-making. In terms of innovation, the existence of heterogeneity can stimulate the TMT's innovative thinking, so this study focuses on the impact of heterogeneity on enterprise innovation. Building upon previous research and using the dimensions of the age, gender, and educational background of the TMT, this research studies the impact of the heterogeneity of the TMT on enterprise innovation in the current economic environment.

Using the data of listed companies in China from 2016 to 2020 as a sample, this study finds that the executive team's age, gender, and educational background heterogeneity are positively correlated with corporate innovation. Then, according to the characteristics of Dickinson's (2011) cash flow portfolio, the company's life cycle stages are divided. The research results are as follows:

1. The start-up companies of the sample are listed companies; thus, they have already reached the requirements for listing. In the case of these companies, the age heterogeneity contributes negatively to the corporate innovation.

2. During a bull market, there is a negative correlation between age heterogeneity and corporate innovation in a sample with companies in the growth stage, while gender and educational background heterogeneity have no impact on corporate innovation.

3. The age, gender, the heterogeneity of educational background can effectively promote enterprise innovation.

4. In the sample in a recession period, the heterogeneity of age and educational background can effectively promote enterprise innovation.

In different growth stages, the heterogeneity of the background characteristics of the executive team has different influences on enterprise innovation, which proves the stage characteristics of the enterprise growth process.

These findings provide a platform for re-evaluation of the promoting and hiring practices of listing companies.

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