

Divided We Stand: Top Management Ideological Separation as an Impediment to Strategic Change in Turnaround Situations

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Integrating the diversity-as-separation perspective with the uncertainty-threat principle from the field of political psychology, we introduce the notion of ideological separation in top management teams (TMTs) and examine its effects on strategic change in an uncertainty-threat context that requires executives' adaptive action (i.e. turnaround situations). We argue that, in turnaround situations, differences in values (i.e. political ideology) between executives activate ideological separation in the TMT, which causes decision paralysis in the executive group and lessens its ability to enact strategic change. Our research also considers the contingent role of two external environmental factors that may heighten uncertainty-threat for executives in turnaround situations and strengthen the hypothesized main effect – that is, shareholder unrest (i.e. the degree to which shareholders submit complaints against corporate leadership and proposals for remedy) and industry performance decline (i.e. the degree to which the turnaround firm's industry experiences declining performance). Data from S&P 1500 firms show that TMT ideological separation inhibits strategic change in turnaround situations. They also highlight the dark side of shareholder democracy, by showing that – in turnaround contexts – shareholder unrest intensifies this relationship. Implications for upper echelons, strategic management, TMT diversity, political ideology and turnaround research are discussed.

Introduction

Political ideology is an indicator of deeply held values that shape executives' perceptions about how the firm should respond to its internal and external imperatives (Chin, Hambrick and Trevino, 2013; Swigart *et al.*, 2020). In this regard, studies have shown that several strategic actions are reflections of executives' ideological leanings – ranging from highly liberal to highly conservative (Chandler *et al.*, 2023; Chow, Chan and

Micelotta, 2021; Christensen *et al.*, 2015; Georgakakis *et al.*, 2024). Yet, while research has recognized the importance of political ideology as an indicator of executives' values, we know little about how value-based ideological differences between top management team (TMT) members impact corporate strategic behaviour in conditions where prompt and unified strategic decisions are needed – that is, in crisis settings (cf. Chow *et al.*, 2022; Narayan, Sidhu and Volberda, 2021). This shortcoming is critical because ideological differences define whether influential corporate decision-makers divide (or unite) into values-based categories and may become salient in organizational-crisis conditions that require prompt and adaptive action (Haas, 2016).

The importance of examining the impact of value-based ideological differences in decision-making groups becomes clear when considering Harrison and Klein's

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(2007, p. 1203) notion of diversity-as-separation – defined as the ‘composition of differences in (lateral) position or opinion among unit members, primarily of value, belief, or attitude’. Harrison and Klein (2007) note that under certain conditions, value differences may activate deeply held disintegration processes that may separate the decision-making group based on its members’ externally unobservable perceptions about the best response to a condition facing the firm. This disintegration impedes the group’s ability to promptly make unified decisions in response to critical organizational conditions. Since value differences may activate diversity-as-separation in decision-making groups (Harrison and Klein, 2007), examining its effects under conditions where top managers are required to make prompt and adaptive decisions offers a unique opportunity to advance this area (Bromiley and Rau, 2016; Narayan, Sidhu and Volberda, 2021).

Following a horizontal theory borrowing approach (Whetten, Felin and King, 2009), we integrate Harrison and Klein’s (2007) diversity-as-separation concept with the uncertainty-threat principle from the field of political psychology (Haas, 2016), and examine the activation of ideological separation in TMTs and its effect on strategic change in firms experiencing survival threat (i.e. in turnaround situations). Turnaround situations are an important context to examine the impact of TMT value-based differences because, in such contexts, organizations (and their leaders) face an existential threat due to a sharp decline in financial performance. This requires executives to make critical and meticulous decisions, since a potential failure may cost their continuation in the firm and hurt their subsequent career prospects (Chen and Hambrick, 2012). According to the uncertainty-threat principle (Haas, 2016; Haas and Cunningham, 2014; Hibbing, Smith and Alford, 2014), situations characterized by uncertainty and threat lead to individuals’ stronger reliance on their deeply held ideological values (Haas and Cunningham, 2014) and generate an unwillingness to compromise with ideologically dissimilar others (Haas, 2016; Hibbing, Smith and Alford, 2014). Such unwillingness to compromise with ideological outgroups acts as a basis for the emergence of separation, impeding the ability of the TMTs to unite and make decisions for change that are critical for the turnaround firm.

Building on this logic, we argue that TMT ideological separation will act as an impediment to strategic change in turnaround situations. Further, since uncertainty-threat may emerge from multiple sources simultaneously (Haas, 2016; Huff, Huff and Thomas, 1992), we focus on two contingency factors that may strengthen the negative relationship between TMT ideological separation and strategic change in turnaround contexts: (a) shareholder unrest (Lee, Gupta and Hambrick, 2022) and (b) industry performance decline (Chen and

Hambrick, 2012). First, shareholder unrest, defined as the tendency of shareholders to voice and complain about corporate leadership by submitting proposals (i.e. resolutions) for remedy (Lee, Gupta and Hambrick, 2022), is an important source of uncertainty-threat for executives. When corporate owners (i.e. influential shareholders) complain about corporate leadership practices in parallel with evidence associated with declining performance, executives’ retention in the firm is directly at risk. Second, industry performance decline reflects the firm’s industry environment and denotes the sector’s systemic financial downturn in parallel with the firm’s sharp financial decline.

When paralleled with turnaround conditions, shareholder unrest involves a direct threat for executives as complaints directly touch their ability to adequately lead the organization. At the same time, however, industry performance decline represents an external threat, which may help executives justify why the performance decline is not necessarily their fault but occurs due to the overall decline of the sector. Focusing on these two therefore allows us to consider the role of additive uncertainty-threat by two substantially different factors – one that directly strengthens the threat sensed by executives about their existential security in their roles and another that is externally induced and thus not directly attached to executives’ managerial abilities. We test our framework using a sample of 100 turnaround cases in S&P 1500 firms between 2006 and 2015.

Our study makes several contributions. First, it advances research on strategic leadership groups (Nielsen, 2010) by shedding light on the important yet largely neglected role of a critical form of diversity – that is, separation. According to Harrison and Klein (2007), this form of diversity is crucial in decision-making teams and is at its ‘maximum’ when members differ from each other in terms of deeply held and externally unobservable values. While prior research has acknowledged the distinct nature and impact of this form of diversity, its effects remain unaddressed mainly due to the difficulty of consistently capturing and measuring value differences among team members (Swigart *et al.*, 2020). Focusing on differences in political ideology as a direct indicator of value differences between executives (Georgakakis *et al.*, 2024; Narayan, Sidhu and Volberda, 2021; Swigart *et al.*, 2020), our research suggests that diversity-as-separation can cause inertia in decision-making groups facing sharp financial downturns. At the same time, our results also show that ideological separation remains inactive and has no significant effects in non-turnaround settings. As such, our work gives a behavioural explanation of why some firms respond to survival-threatening contexts with inertia – and thus evidence how the concept of emergent strategy (Mintzberg and Waters, 1985) may stick in inertia when decision-makers’ deeply held val-

ues do not align to form swift and unified strategic choices.

Second, our study contributes to the broader literature on strategic turnarounds (Chen and Hambrick, 2012; Trahms, Ndofor and Sirmon, 2013) by expanding the scholarly focus from the widely examined macro-level factors to the micro-level and hard-to-observe processes that impact TMTs' strategic behaviour in turnaround situations. By underscoring the missing role of deeply held value-based factors that determine executives' behaviours, our work provides a holistic picture of how firms respond to sharp and abrupt financial declines. It also highlights the complexity of the turnaround context – stressing that it is not only the internal decline of the firm but also the conditions surrounding the organization that conjointly determine how TMTs react to survival-threatening financial conditions. Overall, our work suggests that to benefit from ideological diversity in TMTs, turnaround organizations should be aware of the potential ideological polarization that may emerge in such contexts – and find ways to turn ideological differences into information-processing strengths in the face of financial turmoil.

Theory and hypotheses

Political ideology differences and the uncertainty-threat principle

Political ideology influences top managers' perceptions about what is right to do to respond to the firm's strategic imperatives (Chin, Hambrick and Treviño, 2013). As a deeply held indicator of an individual's values, political ideology is arguably less observable than age, gender and other demographic traits. Yet, since influential executives interact among themselves to make critical strategic choices (Georgakakis *et al.*, 2022), they may perceive value-based ideological incongruences in the TMT at the time of decision-making (Busenbark, Bundy and Chin, 2023; Swigart *et al.*, 2020). Research on political ideology highlights several value-based dimensions where liberal and conservative executives differ. In a recent review, Swigart *et al.* (2020) integrated these value differences to generate an overarching and systematic threefold categorization. They mentioned:

Despite a vast array of value differences [between individuals with different ideological leanings], research suggests that there are broad underlying distinctions at the heart of these different beliefs that are interrelated and threefold: the extent to which an individual [aligned with liberalism versus conservatism] (1) advocates for social change versus tradition, (2) advocates for equality versus hierarchy, and (3) emphasizes contextual factors versus personal agency in explaining outcomes and circumstances. (Swigart *et al.*, 2020, p. 1066)

In this regard, research has shown that – in generic conditions – political-ideology differences may help the team avoid groupthink and enhance information-processing and creativity at the group level (i.e. Narayan, Sidhu and Volberda, 2021). While the positive impact of ideological diversity on team-level information-processing and creativity is clear, the uncertainty-threat principle implies that under conditions of uncertainty-threat, polarization may occur among individuals with different ideological beliefs – hampering interpersonal interactions and reducing information exchange and group cohesion across ideological camps in a team (Haas and Cunningham, 2014; Hibbing, Smith and Alford, 2014). This is because, in situations of uncertainty-threat, individuals seek 'existential security' – defined as the need to secure their continuation as members of the social system in which they are embedded (Jost *et al.*, 2007). This drives them to align with others who support their values, while simultaneously opposing views and opinions outside their ideological comfort zone (Haas, 2016; Haas and Cunningham, 2014; Hogg, 2005). That is, as individuals interpret and analyse their surrounding context by drawing on their core ideological beliefs, uncertainty-threat situations drive them to justify ideological in-group values as superior to out-group values (Brewer, 1999; Hibbing, Smith and Alford, 2014), causing ideological separation, opposition to ideologically dissimilar others and thus polarization and lower team cohesion.

Despite its popularity in political psychology, no prior research – to the best of our knowledge – has examined how uncertainty-threat impacts the dynamics of value-based ideological differences in the upper echelons. Examining these differences is important because executives are often exposed to uncertainty and threat in firms that experience financial downturns – and firm survival in such contexts largely depends on their ability to unify and promote requisite change (Cannella and Holcomb, 2005; Chen and Hambrick, 2012; Finkelstein, Hambrick and Cannella, 2009; Hambrick, Finkelstein and Mooney, 2005). In this study, we contribute to this area by focusing on turnaround situations as a unique activating context of TMT ideological separation. We argue that while ideological separation may not activate in generic business-as-usual conditions, in turnaround contexts, it can emerge and lead to decision paralysis in the executive group – hindering the TMT's ability to promptly enact strategic change.

Turnaround firms are established companies that, although previously well-performing, currently face a sharp and survival-threatening financial downturn (Chen and Hambrick, 2012). In turnaround firms, executives 'need to [...] develop clear organizational goals and plans in a short time' (Chen, 2015, p. 1898). Our approach to focus on this uncertainty-threat context is both conceptually and practically relevant because it

enables us to (a) advance knowledge about the activation of diversity as separation in the specific firm-level uncertainty-threat context that directly challenges executives' existential security (and may thus generate self-identification processes) and (b) provide implications about the factors that decision-making groups should consider to adequately respond to turnaround situations while at the same time embracing diverse ideological beliefs in strategic leadership.

TMT ideological separation and strategic change in turnaround situations

According to Simon (1955), individuals' inclination to rely on their core values varies with the context in which they are embedded. In some contexts, people become more open to compromise their views by moving outside their comfort zone. In other contexts, where individuals are sensing existential security and uncertainty, however, they tend to exhibit an unwillingness to compromise their views and values and avoid considering alternative ways of thinking (Hibbing, Smith and Alford, 2014). In this regard, Harrison and Klein (2007) stressed that separation can cause disintegration in contexts where team members are inclined to strongly rely on their own deeply held opinions. Given the difficulty in assessing value differences in decision-making groups, however, the effects of diversity-as-separation and its activation contexts remain understudied. In the uncertainty-threat context of turnaround situations, we argue that ideological separation may lead to decision paralysis within the group and lessen its ability to generate strategic change as a response to the sharp financial decline facing the firm.

First, in the face of sharp and abrupt financial downturns, executives are likely to sense existential security – something that will drive them to strongly rely on their core values in searching for potential solutions to the problem. This will drive liberal executives to evaluate uncertainty-threat through a progressive lens and to be unwilling to explore alternative options that embrace tradition and stability. In contrast, as supporters of tradition and stability, conservative executives are likely to evaluate the same situation by emphasizing efficiency and traditional approaches to corporate leadership (Jost *et al.*, 2007, p. 990), placing aspects such as openness to social change and social responsibility as non-priorities for a firm that faces financial distress (Hibbing, Smith and Alford, 2014). Such divergent attitudes that emerge in the search for solutions in uncertainty-threat conditions will likely activate ideological separation among executives with opposing ideological leanings, causing decision paralysis in the group. Ultimately, this process may lower the TMT's ability to enact strategic change as a response to the turnaround situation.

Second, driven by their inherent preference for hierarchy and social order (Swigart *et al.*, 2020), conservative strategic leaders may perceive establishing hierarchical structures as an approach to reducing uncertainty-threat and controlling the situation. They will be unwilling to compromise with alternative approaches that promote equality and social justice – as they will perceive a strong need for control to deal with financial distress. In contrast, liberals may consider the hierarchical decision-making structures as inappropriate to deal with uncertainty-threat and, instead, prefer more equitable approaches that embrace diverse views and boost innovative solutions to business issues (Jost *et al.*, 2007). These differential attitudes may inhibit the group's ability to identify a common platform of collaboration and information exchange, activating ideological separation and reducing the likelihood of promptly enacting strategic-change response.

Third, the tendency of liberal executives to explain poor performance by emphasizing contingency factors rather than personal agency (Swigart *et al.*, 2020) may drive them to propose strategic changes based on a detailed consideration of the firm's external environment. On the contrary, conservatives will emphasize personal agency and managerial responsibility as the primary explanation for the firm's sharp financial downturn and exhibit an unwillingness to compromise, with views that point to external environmental factors which may have led to the financial decline. These differential opinions about the source of the financial decline will fracture the executive group based on its members' differential views on what matters most to turn the performance of the firm around, causing dysfunctional disagreements on how resources should be reallocated to remedy the situation. This will promote decision paralysis in the group and a lower ability to enact strategic change.

H1: TMT ideological separation has a negative effect on strategic change in turnaround situations.

Contingency factors

Turnaround situations vary widely from one case to another regarding how uncertain and threatening they are for top managers (Chen, 2015; Chen and Hambrick, 2012). In some turnaround firms, executives must deal only with the firm's financial decline, while in others they must simultaneously respond to substantial pressures from the firm's owners (Hambrick, Finkelstein and Mooney, 2005; Lee, Gupta and Hambrick, 2022). In addition, some turnaround firms may be embedded in well-performing industries, while others face declining industry conditions. In this regard, uncertainty-threat may differ regarding how it influences individuals' existential security in the social system: in some cases, the threat directly refers to executives' responsibility for

their inadequate leadership, while in other cases, the threat may relate to external factors beyond managerial control. In the former, executives may sense more direct existential security compared to the latter, given the direct connection of the threat with how they enact their strategic leadership roles (Georgakakis *et al.*, 2022).

To consider these two different types of accumulative uncertainty-threat as boundary conditions, we focus on two factors: (a) shareholder unrest and (b) industry performance decline. Shareholder unrest involves the firm's owners (i.e. its shareholders) complaining about how the firm is governed by raising resolutions (i.e. proposals for change) against the TMT. Because executives shoulder the responsibility to improve the firm's financial condition and are considered accountable for meeting the demands of the shareholders, shareholder unrest in a turnaround situation acts as a source of accumulative uncertainty-threat. It directly threatens executives' existential security by emphasizing their inadequate leadership. On the other hand, industry performance decline reflects a downturn in the overall industry and, therefore, is exogenously determined. This eases executives' responsibility for the firm's poor performance by suggesting that this is (at least in part) a result of the declining industry in which the firm is embedded and thus beyond managerial control. Focusing on these two factors as boundary conditions enables us to advance theory in this area by investigating whether ideological separation in turnaround contexts is further strengthened when uncertainty-threat is paralleled with other executive-centric threats (shareholder unrest) versus threats that are exogenously determined.

The role of shareholder unrest

With the rise of shareholder democracy as a widespread practice in corporate America and other liberal market economies, firm owners have gained the right to actively express their voice and directly affect corporate practices (Goranova and Ryan, 2014), or even threaten executives' survival in the firm (Lee, Gupta and Hambrick, 2022). While this allows shareholders to openly express their voice and protect their rights in a democratic way, scholars and public press have highlighted that, under some conditions, shareholder unrest may have a devastating effect on organizations (Goranova and Ryan, 2014; Sorkin, 2019). A prominent form of shareholders' voice is the shareholder resolution – that is, when corporate owners (i.e. shareholders) express their dissatisfaction about corporate practices by submitting activist proposals for remedy (Barnett, Henriques and Husted, 2020). Recently, Lee, Gupta and Hambrick (2022) conceptualized shareholder unrest as the degree to which top managers experience high job demands owing to

the level and gravity of resolutions raised by shareholders. In this study, we argue that high shareholder unrest in a turnaround situation will likely exacerbate the uncertainty-threat facing executives, strengthening the negative effect of ideological separation on strategic change.

First, when influential shareholders express dissatisfaction with corporate practices, they directly criticize the TMT's ability to run the organization adequately. Based on their ideological values, TMT members will differentially interpret such shareholder complaints. Conservatives may uphold traditional views of shareholders as the highest hierarchical group amongst stakeholders and, therefore, perceive their recommendations as a central mandate for the firm. In contrast, driven by their inherent tendency to oppose hierarchy and social structure, liberal executives will likely perceive shareholder voice as a factor that can boost communication and interaction between managers and corporate owners rather than as a top-down mandate for action. In turnaround situations, such differential attitudes towards shareholder voice between conservative and liberal executives may further complicate decision-making, leading executives from different ideological camps to disunite when setting strategic priorities for the turnaround firm. This is likely to strengthen the negative impact of ideological separation on strategic change in turnaround settings.

Second, given that attributional biases are likely to be driven by managers' inherent need to protect their self-esteem (Boeker, 1992; Finkelstein, Hambrick and Cannella, 2009), members of a given ideology are more likely to attribute shareholder dissatisfaction to ideologically dissimilar others in the face of shareholder pressures and financial turmoil. That is, when shareholder unrest is combined with a financially threatening condition for the firm (i.e. a turnaround situation), TMT members may be even more inclined to ascribe responsibility to the outgroups. The heightened separation will reduce the TMTs' ability to boost strategic change. Differential perceptions about social change versus tradition, personal agency versus contingency explanations for shareholder unrest and performance decline and differential perceptions about equality versus hierarchy and social order will further strengthen in conditions where group members receive pressure from corporate owners in the face of financial distress. In such conditions, disruptive separation in the group will increase, generating a lower ability of the group to promptly enact strategic change as a response to the turnaround situation.

H2: The negative effect of TMT ideological separation on strategic change in turnaround situations strengthens with high shareholder unrest.

The role of industry performance decline

Research in turnaround situations has long distinguished between troubled firms that operate in high-performing versus declining industries (Arogyaswamy, Barker and Yasai-Ardekani, 1995; Castrogiovanni *et al.*, 1992; Chen and Hambrick, 2012; Pearce and Michael, 2006; Trahms, Ndofor and Sirmon, 2013). From a performance feedback perspective (Greve, 1998), one could assume that ideological separation will lower when the turnaround firm operates in a declining industry. This is because, under conditions of declining industry performance, the low performance of the firm will be attributed to the external context rather than to poor corporate leadership – an aspect that may trigger less ‘us-versus-them’ inclinations in ascribing strategic-leadership responsibility for the firm’s poor financial results (Goyal and Goyal, 2022; Goyal and Popli, 2023). Challenging this assumption, we argue that the negative effect of TMT ideological separation on strategic change in turnaround contexts will become pronounced when the firm operates in a declining industry.

First, as Swigart *et al.* (2020) articulated, a main value-based difference between liberals and conservatives is that the former pay attention to contingencies in explaining poor firm performance while the latter attribute performance declines to personal agency and managerial responsibility. Due to their inherent emphasis on contingency explanations of poor performance, liberals are likely to attribute unsatisfactory financial outcomes to the declining sector’s situation – and attempt to reallocate resources to respond to the industry-level conditions surrounding the firm. In contrast, conservatives will see the industry’s decline as a missing opportunity for the firm’s executive group to outperform competitors. From a conservative-leaning viewpoint, the turnaround situation will continue to be firmly attributed to poor managerial ability, regardless of the sector’s performance decline – and a missed opportunity to dominate the industry. Conservative executives will thus search for resource-reallocation actions related to firm governance in turning around the firm – underemphasizing external contingency factors beyond managerial control (Swigart *et al.*, 2020). This differential attention will further separate the team based on its members’ ideologies, resulting in lower TMT ability to establish a common ground of information exchange for strategic change.

Second, the elevated difficulty of performing successful turnarounds in a declining industry will increase the perceived uncertainty-threat facing executives (Barker and Mone, 1998). Since heightened uncertainty-threat perceptions drive individuals to rely on their core values (Hibbing, Smith and Alford, 2014, p. 297), TMT ideological separation is likely to become more salient under such conditions – reducing the executive team’s ability to

enact strategic change response to the context-induced survival-threatening financial situation.

H3: The negative effect of TMT ideological separation on strategic change in turnaround situations strengthens with industry performance decline.

Methods

Sample and data sources

We built our sample on the S&P 1500 firms between 2006 and 2015, excluding (a) financial firms (Standard Industry Classification (SIC) code: 6000–6999) to ensure that all sample firms faced comparable turnaround situations and (b) firms with diversified businesses in different industries (identified if less than 70% of their total revenues are generated from their primary three-digit SIC industry) to ensure meaningful industry-level controls (Chen and Hambrick, 2012, p. 230; Zhang and Rajagopalan, 2004). Following Chen and Hambrick (2012), we identified companies in turnaround situations by observing if their operating returns on equity (before extraordinary items) were higher than their cost of equity for the last 2 years prior to the focal year of observation, followed by operating losses (before extraordinary items) (see also Chen and Hambrick, 2012). Applying this to our initial population of S&P 1500 firms, we identified 109 turnaround cases faced by 106 firms between 2006 and 2015 (three firms had more than one turnaround situation in our sample). Due to missing data, our final sample included 100 turnaround cases in 97 firms.

To examine strategic responses, we observed each firm for 3 years from the start of financial decline (i.e. years t_0 , t_1 and t_2). We examined strategic change in the year after each respective year (i.e. lagged at years t_1 , t_2 and t_3 , respectively) because the changes introduced in these 3 years are considered strategic responses to turnaround situations (Chen, 2015; Chen and Hambrick, 2012; Finkelstein, Hambrick and Cannella, 2009). The above approach resulted in an unbalanced panel dataset of 269 firm-year observations. In defining the TMT, we included all executives reported in the Execucomp database. The Execucomp database provides information on the often five highest-paid (and thus arguably most influential) top managers of each firm per year.^{1,2} We used this database, along with BoardEx,

¹For sample firms reporting more than the top five, we identified the five highest-paid executives for each year based on their compensation and we conducted a supplementary analysis with independent variables and relevant control variables based on the top five. Results (see Appendix 4 in the Online Supplementary Material) provide consistent support for our hypotheses.

²We conducted a supplementary analysis on a subsample of 251 observations with TMT consisting of at least four members. Re-

to obtain information about executives. Data on political donations were gathered from the Federal Election Commission (FEC) website. Firm and industry-level data were obtained from Compustat, and data about shareholder resolutions were obtained from the Institutional Shareholder Services (ISS) database.

Dependent variable

As Finkelstein, Hambrick and Cannella (2009, p. 18) stressed, in the face of challenging managerial conditions, top managers act as ‘resource reallocators’. Strategic change was thus measured as resource reallocation in six key strategic indicators: (a) advertising intensity (advertising expense/sales); (b) R&D intensity (R&D expense/sales); (c) plant and equipment newness (net plant and equipment/gross plant and equipment); (d) non-production overhead (selling, general and administrative expenses/sales); (e) inventory level (inventories/sales); and (f) financial leverage (debt/equity) (Finkelstein and Hambrick, 1990). In line with prior studies, we first calculated the absolute difference from t to $t+1$ for each of the six strategic indicators.³ Then, we z-scored and averaged them to measure the overall strategic change (Crossland *et al.*, 2014; Zhang and Rajagopalan, 2010).

Independent variable

We identified an executive’s political ideology using data on their political donations, provided by the FEC. We included donations for federal or state offices, candidates, campaign finance committees and political action committees (PACs) with the stated aim of supporting one of the two major parties in the United States – Republicans and Democrats (Christensen *et al.*, 2015; Gupta and Wowak, 2017). While supporters of the Republican party lean conservative, supporters of the Democratic party embrace liberal values. We calculated the total amount of donations made by each executive to each party respectively and categorized their political ideology by comparing their donations. In particular, we coded it as 1 for liberal ideology – if they had donated more to the Democratic party, 2 for neutral ideology – if they had donated the same amount to both

parties or had never donated to any, and 3 for conservative ideology – if they had donated more to the Republican party. We decided to treat neutral ideology as a separate category, as these individuals share ‘agnostic’ ideological tendencies (Baldassarri and Goldberg, 2014, p. 45).

It should be noted that we also adopted an alternative measure of political ideology as a ratio, executive conservatism (vs. liberalism), calculated as the total amount of donations each executive made to the Republican party minus the total amount of donations to the Democratic party, divided by the total amount of donations to both parties (Christensen *et al.*, 2015). It ranges from -1 (highly liberal) through 0 (neutral) to $+1$ (highly conservative) for each executive. With this approach, average distance is not only calculated between ideological categories but also takes into consideration within-category differences among individuals. Results of this analysis are presented in Table A3.1 of Appendix 3 in the Online Supplementary Material. Given that our focus is on differences between ideological categories, in our main analysis we use the categorical measurement to calculate ideological separation in the TMT – as this approach aligns more closely with our theorizing.

TMT ideological separation was measured based on the average Euclidean distance of each member’s ideology from all the other TMT members, as suggested by Harrison and Klein (2007). The formula is expressed as

$$\sum \sqrt{[\sum (S_i - S_j)^2 / n] / n}$$

where S_i represents the ideology category of one executive i in a TMT and S_j represents the ideology category of the other executives j in the same TMT of size n . We first calculate the root mean squared distance between executive i and each of the other executives j based on their ideology categories. Then, we take the mean value of all the executives in the same TMT as the overall TMT separation. High scores indicate high ideological separation.

Moderator and control variables

Shareholder unrest was measured using the following four indicators (Lee, Gupta and Hambrick, 2022): (a) the total number of shareholder resolutions facing the firm in years t_0 , t_1 and t_2 , respectively (where t_0 is the year of the decline); (b) the total percentage of votes in favour of all the resolutions that were voted by shareholders in these years; (c) the number of distinct institutional investor sponsors (e.g. banks, insurance companies, pension funds and hedge funds) backing resolutions in these years; and (d) the number of resolutions endorsed by the ISS (i.e. the primary provider

sults (see Appendix 5 in the Online Supplementary Material) provide consistent support for our hypotheses.

³Following Zhang and Rajagopalan (2010) and Crossland *et al.* (2014), we replaced missing values with industry averages. In addition, we conducted supplementary analyses (1) focusing on the four (instead of six – excluding advertising density and R&D density) dimensions that provide largely complete data (Oehmichen, Schrapp and Wolff, 2017) and (2) replacing missing values by 0 (Haynes and Hillman, 2010). Results (see Appendix 10 in the Online Supplementary Material) provide consistent support for our hypotheses.

of shareholder recommendations) in these years. While the first indicator captures the level (amount) of resolutions facing a turnaround company, the other three indicators capture the importance of these resolutions for the firm and its executives. After computing the four indicators, we z-scored and aggregated them to generate a composite variable representing the demands facing the TMT from the firm's shareholders – capturing both the degree and gravity of shareholder unrest (Lee, Gupta and Hambrick, 2022). High scores indicate high shareholder unrest.

To measure industry performance decline, we first calculated the industry average return on assets (ROA) of each turnaround firm based on four-digit SIC (excluding the focal firm) for the 2 years prior to each year of observation ($t - 1$ and $t - 2$). Then, we subtracted the prior 2-year average of industry average ROA from the industry average ROA at the observing year (t). High scores indicate a high industry performance decline (Tuggle *et al.*, 2010).

We used several control variables to account for the potential influence of confounding factors. First, following prior studies (e.g. Oehmichen, Schropp and Wolff, 2017), we controlled for the prior strategic change (between years $t - 1$ and $t - 2$ prior to each observing year) in the firm. This was measured using the same six resource reallocation indicators suggested by Finkelstein, Hambrick and Cannella (2009). We controlled for firm size using the natural logarithm of the firm's market capitalization each year. To account for the absolute performance of the turnaround firm, we also controlled for each firm's ROA for each year. To account for the extent of the firm performance decline, we control for the Altman Z-score of the firm in the year of decline (t_0), which captures the severity of turnaround by predicting firm distress and bankruptcy through the firm's liquidity, profitability, leverage, solvency and activity (Altman, 1968). We further controlled for the firm's turnaround experience, measured as the number of turnaround experiences from 1993 to 2015 before the focal turnaround.

At the CEO level, we controlled for CEO age, measured as the exact age of the CEO at each year of observation, and CEO gender (1 for female CEOs, and 0 otherwise). We controlled for CEO turnover, coded as 1 if there was a new CEO in the observing year, and 0 otherwise. Since the CEO's political ideology may influence corporate strategic decisions disproportionately from other executives (Chin, Hambrick and Treviño, 2013), we controlled for CEO conservatism (vs. liberalism), calculated as the total amount of donations to the Republican party minus the total amount of donations to the Democratic party, divided by the total amount of donations to both parties for the CEO (Christensen *et al.*, 2015). We also controlled for CEO power, measured using the three indicators suggested by Finkelstein

(1992): (a) CEO stock ownership; (b) CEO duality; and (c) CEO tenure (in years). To calculate the overall CEO power, we z-scored each component and averaged them into a composite measure. We further control for CEO–TMT tenure overlap, calculated as the average years of tenure overlap between the CEO and the rest of the TMT (Buyl *et al.*, 2011). At the TMT level, we include TMT diversity regarding pay, gender, age, tenure and education. The first four types of diversity were measured as the coefficient of variation of total pay, gender (male coded as 1, and 0 otherwise), age and tenure as executives in the firm across TMT members (Harrison and Klein, 2007; Wiersema and Bantel, 1992). TMT education diversity was measured as the Blau index based on their educational specialization. We also control for the average TMT tenure, TMT size and board member ratio, measured as the percentage of executives in the TMT who are board members.

We controlled for heavily regulated industries (Hillman, 2005), which is coded 1 if the firm was operating in a heavily regulated industry, identified by SIC codes (in the 4000, 6000 and 2830 categories) suggested by Luoma and Goodstein (1999), and 0 otherwise. To adequately capture industry-level effects, we also controlled for industry complexity, industry munificence and industry dynamism. Industry complexity was measured by creating a sample including every firm in the four-digit SIC industry and regressing its market share in year $t - 1$ against its market share in year $t - 5$ (Keats and Hitt, 1988). Industry munificence was calculated as the regression coefficient of time on the annual total sales of the industry over the past 5 years based on each firm's four-digit SIC industry divided by total sales of this period. Industry dynamism was measured as the standard error of the coefficient capturing munificence (Keats and Hitt, 1988). To account for macroeconomic effects, we controlled for year dummies.

Results

Main analyses

To test our hypotheses, we used a generalized least squares (GLS) regression with random effects because our panel data included time-invariant variables and we are interested in between variation (Greene, 2003). The results from the Hausman test also suggest that random-effect models are consistent (chi-square = 42.54, p-value = 0.12). Table 1 presents descriptive statistics and correlations, and Table 2 provides the results of the GLS regression. To ensure that our coefficient estimates are not affected by multicollinearity, we mean-centred all the continuous independent and control variables in our analyses (Kalnins and Hill, 2023). The variance inflation factor (VIF) of all the mean-centred variables is lower than 10, suggesting that multicollinearity is

Table 1. Descriptive statistics and correlation

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1 Strategic change	-0.04	0.11												
2 Prior strategic change	-0.02	0.13	0.03											
3 Market capitalization (ln)	7.16	1.76	0.05	0.06										
4 ROA	-6.53	16.67	-0.25	-0.03	0.08									
5 Altman Z-score	2.47	2.87	-0.07	-0.08	-0.03	0.05								
6 Turnaround experience	0.25	0.52	0.06	-0.05	0.11	0.07	0.13							
7 CEO age	57.72	7.08	-0.06	-0.01	0.16	0.14	0.18	0.03						
8 CEO gender	0.03	0.18	0.10	-0.01	-0.07	0.00	0.07	-0.09	0.00					
9 CEO turnover	0.13	0.34	0.05	-0.05	-0.04	-0.06	-0.05	0.01	-0.13	0.17				
10 CEO conservatism	0.24	0.71	0.11	0.14	0.34	-0.06	-0.15	0.21	-0.04	0.10	-0.04			
11 CEO power	0.48	0.44	-0.03	-0.05	-0.18	0.05	0.07	0.16	0.29	-0.09	-0.32	0.00		
12 CEO-TMT tenure overlap	3.91	2.72	-0.11	-0.00	0.01	0.15	0.28	0.16	0.41	-0.11	-0.47	0.03	0.53	
13 TMT pay diversity	0.63	0.25	-0.04	-0.10	0.12	-0.07	-0.14	-0.07	0.03	-0.03	0.19	-0.07	-0.03	-0.14
14 TMT gender diversity	0.20	0.30	-0.02	-0.06	0.17	0.06	0.07	-0.01	0.09	0.39	0.07	0.01	-0.01	-0.11
15 TMT age diversity	0.12	0.05	-0.04	0.10	-0.18	0.04	0.07	-0.03	0.33	0.12	0.02	-0.07	0.13	0.12
16 TMT tenure diversity	0.55	0.30	0.00	-0.11	0.18	-0.18	-0.14	-0.04	-0.02	-0.02	0.17	0.07	-0.10	-0.39
17 TMT education diversity	0.60	0.19	0.05	-0.06	0.06	0.02	-0.03	0.10	0.18	0.00	0.08	-0.13	0.04	-0.02
18 TMT tenure	6.02	2.66	-0.11	-0.04	0.17	0.14	0.29	0.20	0.40	-0.07	-0.28	0.11	0.28	0.76
19 TMT size	5.41	1.45	0.01	-0.13	0.06	-0.15	-0.19	0.01	-0.01	-0.07	0.37	-0.04	-0.11	-0.40
20 Board member ratio	0.31	0.17	-0.06	0.13	-0.03	0.16	0.08	0.10	0.24	-0.01	-0.05	0.03	0.14	0.15
21 Heavily regulated industry	0.02	0.15	0.03	0.02	0.08	0.00	-0.07	-0.07	-0.10	-0.03	0.02	-0.15	-0.07	-0.08
22 Industry complexity	0.83	0.29	-0.22	-0.07	-0.12	0.14	0.03	-0.05	-0.04	0.03	0.02	-0.22	0.05	0.03
23 Industry munificence	1.03	0.12	-0.04	-0.06	-0.22	-0.05	0.08	-0.04	-0.01	-0.01	-0.05	-0.02	0.04	0.07
24 Industry dynamism	1.04	0.03	0.02	0.02	0.14	0.08	0.08	0.08	0.07	-0.15	-0.17	0.11	0.02	0.21
25 Shareholder unrest	1.30	3.58	0.12	-0.05	0.44	-0.06	-0.05	-0.04	0.08	0.00	0.02	0.10	-0.07	-0.04
26 Industry performance decline	1.18	15.62	0.18	-0.19	-0.04	-0.40	0.00	0.05	-0.08	-0.02	0.01	0.10	-0.03	-0.08
27 TMT ideological separation	0.84	0.35	-0.16	-0.07	-0.05	-0.09	0.10	-0.12	0.02	0.05	0.06	-0.13	0.14	0.06

		13	14	15	16	17	18	19	20	21	22	23	24	25	26
14 TMT gender diversity	0.16														
15 TMT age diversity	0.06	0.14													
16 TMT tenure diversity	0.17	0.08	-0.12												
17 TMT education diversity	0.05	-0.10	-0.26	0.17											
18 TMT tenure	-0.11	-0.10	-0.01	-0.06	0.12										
19 TMT size	0.34	0.07	0.13	0.48	0.18	-0.32									
20 Board member ratio	-0.13	0.08	0.26	-0.29	-0.16	0.09	-0.31								
21 Heavily regulated industry	-0.01	0.06	0.01	-0.05	0.06	-0.11	-0.03	-0.08							
22 Industry complexity	0.04	0.09	0.00	-0.00	0.07	-0.02	0.00	0.05	-0.01						
23 Industry munificence	-0.11	-0.07	0.15	-0.11	-0.02	-0.03	-0.05	0.13	-0.04	-0.06					
24 Industry dynamism	-0.07	-0.14	-0.11	-0.08	0.02	0.22	-0.12	-0.08	0.05	-0.55	0.02				
25 Shareholder unrest	0.10	0.24	-0.08	0.24	0.03	0.14	0.07	-0.05	0.03	-0.09	-0.14	0.08			
26 Industry performance decline	0.03	0.03	0.04	0.05	0.01	-0.08	0.06	0.02	-0.01	-0.09	0.28	-0.15	0.11		
27 TMT ideological separation	-0.05	0.10	0.02	0.15	-0.10	0.02	0.03	-0.00	0.01	0.13	-0.10	-0.17	0.05	0.00	

Note: N = 269; not mean-centred variables are reported; all values greater than 0.12 are significant at $p < 0.05$.

unlikely to be a concern. In addition, we conducted our analysis excluding all variables with at least one correlation at $R > 0.5$ with another variable in our model (cf. Kalnins and Hill, 2023). The results of this analysis continue to support our hypotheses and are presented in Appendix 11 in the Online Supplementary Material.

H1 predicts a negative relationship between TMT ideological separation and strategic change in turnaround situations. Our results support this hypothesis ($b = -0.05$, $SE = 0.02$, $p = 0.007$). Interestingly, our results show that other types of diversity in the TMT (e.g. gender diversity: $b = -0.03$, $SE = 0.03$, $p = 0.181$; age diversity: $b = 0.08$, $SE = 0.16$, $p = 0.599$; tenure diver-

sity: $b = -0.02$, $SE = 0.03$, $p = 0.527$; education diversity: $b = 0.03$, $SE = 0.04$, $p = 0.434$) exhibit statistically insignificant effects (see Table 2). This is in congruence with Harrison and Klein's (2007) notion that separation and its effects are more likely to activate and be observed when differences among team members are directly related to values and attitudes – which are not necessarily captured by externally observable demographic differences.

H2 suggests that the negative effect of TMT ideological separation on strategic change will become more pronounced for turnaround firms facing high shareholder unrest. Our results support this hypothesis

Table 2. Random-effect GLS regression analysis with strategic change as dependent variable

Variables	Strategic change (t + 1)											
	Model 1			Model 2			Model 3			Model 4		
	b	SE	p-value	b	SE	p-value	b	SE	p-value	b	SE	p-value
Prior strategic change	-0.01	(0.05)	0.855	-0.01	(0.05)	0.887	-0.01	(0.05)	0.845	-0.01	(0.05)	0.878
Market capitalization (ln)	0.00	(0.00)	0.651	0.00	(0.00)	0.941	0.00	(0.00)	0.654	0.00	(0.00)	0.941
ROA	-0.00**	(0.00)	0.012	-0.00***	(0.00)	0.010	-0.00**	(0.00)	0.010	-0.00***	(0.00)	0.009
Altman Z-score	-0.00	(0.00)	0.501	-0.00	(0.00)	0.725	-0.00	(0.00)	0.495	-0.00	(0.00)	0.717
Turnaround experience	0.02	(0.01)	0.154	0.02*	(0.01)	0.094	0.02	(0.01)	0.150	0.02*	(0.01)	0.093
CEO age	-0.00	(0.00)	0.904	0.00	(0.00)	0.878	-0.00	(0.00)	0.939	0.00	(0.00)	0.852
CEO female	0.06	(0.04)	0.157	0.06	(0.04)	0.166	0.06	(0.04)	0.174	0.05	(0.04)	0.181
CEO turnover	0.02	(0.02)	0.330	0.02	(0.02)	0.294	0.02	(0.02)	0.320	0.02	(0.02)	0.287
CEO conservatism	-0.01	(0.01)	0.498	-0.01	(0.01)	0.504	-0.01	(0.01)	0.529	-0.01	(0.01)	0.531
CEO power	0.02	(0.02)	0.219	0.02	(0.02)	0.191	0.02	(0.02)	0.229	0.02	(0.02)	0.199
CEO-TMT tenure overlap	-0.00	(0.01)	0.974	-0.00	(0.01)	0.927	-0.00	(0.01)	0.993	-0.00	(0.01)	0.944
TMT pay diversity	-0.03	(0.03)	0.240	-0.03	(0.03)	0.228	-0.03	(0.03)	0.236	-0.03	(0.03)	0.225
TMT gender diversity	-0.03	(0.03)	0.181	-0.04	(0.03)	0.141	-0.03	(0.03)	0.208	-0.04	(0.03)	0.161
TMT age diversity	0.08	(0.16)	0.599	0.11	(0.16)	0.494	0.08	(0.16)	0.599	0.11	(0.16)	0.495
TMT tenure diversity	-0.02	(0.03)	0.527	-0.02	(0.03)	0.496	-0.02	(0.03)	0.536	-0.02	(0.03)	0.504
TMT education diversity	0.03	(0.04)	0.434	0.04	(0.04)	0.348	0.03	(0.04)	0.444	0.04	(0.04)	0.356
TMT tenure	-0.00	(0.00)	0.272	-0.01	(0.00)	0.146	-0.01	(0.00)	0.259	-0.01	(0.00)	0.141
TMT size	-0.01	(0.01)	0.200	-0.01	(0.01)	0.126	-0.01	(0.01)	0.190	-0.01	(0.01)	0.121
Board member ratio	-0.02	(0.04)	0.722	-0.02	(0.04)	0.614	-0.02	(0.04)	0.688	-0.02	(0.04)	0.589
Heavily regulated industry	-0.01	(0.04)	0.830	0.00	(0.04)	0.957	-0.01	(0.04)	0.827	0.00	(0.04)	0.961
Industry complexity	-0.06*	(0.03)	0.065	-0.05*	(0.03)	0.081	-0.06*	(0.03)	0.070	-0.05*	(0.03)	0.086
Industry munificence	-0.11*	(0.06)	0.055	-0.11*	(0.06)	0.056	-0.11*	(0.06)	0.059	-0.11*	(0.06)	0.060
Industry dynamism	-0.22	(0.28)	0.426	-0.20	(0.27)	0.468	-0.21	(0.28)	0.436	-0.20	(0.27)	0.477
Shareholder unrest	0.00*	(0.00)	0.082	0.01***	(0.00)	0.008	0.00*	(0.00)	0.081	0.01***	(0.00)	0.009
Industry performance decline	0.00	(0.00)	0.230	0.00	(0.00)	0.248	0.00	(0.00)	0.259	0.00	(0.00)	0.274
TMT ideological separation	-0.05***	(0.02)	0.007	-0.05***	(0.02)	0.009	-0.05***	(0.02)	0.007	-0.05***	(0.02)	0.009
TMT ideological separation × Shareholder unrest				-0.01**	(0.01)	0.039				-0.01**	(0.01)	0.041
TMT ideological separation × Industry performance decline				-0.05*	(0.03)	0.051	-0.00	(0.00)	0.617	-0.00	(0.00)	0.673
Constant							-0.05*	(0.03)	0.083	-0.05*	(0.03)	0.057
Wald chi-square			92.92***			98.50***			92.87***			98.32***
R-square (within)			0.15			0.17			0.15			0.17
R-square (between)			0.52			0.51			0.52			0.52
R-square (overall)			0.29			0.30			0.29			0.30

Note: N (observations) = 269; N (groups) = 100; N (groups: time) = 1–3. All the continuous independent and control variables are mean-centred; year dummies are included but not reported.

***, ** p < 0.01, * p < 0.05, p < 0.1; exact p-values are provided; all tests are two tailed.

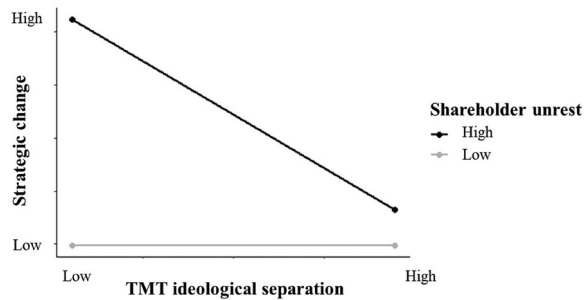


Figure 1. The interaction effect of shareholder unrest
 Note: Levels of shareholder unrest: high = 1 SD above mean; low = 1 SD below mean.

($b = -0.01$, $SE = 0.01$, $p = 0.039$). As Figure 1 depicts, the negative effect of TMT ideological separation on strategic change strengthens under conditions of high shareholder unrest. Further, H3 proposes that the effects of TMT ideological separation on strategic change in turnaround situations strengthen when the turnaround firm operates under conditions of high industry performance decline. Our results show a negative but statistically insignificant effect ($b = -0.00$, $SE = 0.00$, $p = 0.617$) and thus do not provide support for this hypothesis.

We conducted additional tests to examine the potential presence of non-sample-induced and sample-induced endogeneity. The results suggest that endogeneity is unlikely to threaten our main results. Furthermore, we performed an extensive set of supplementary analyses (e.g. using alternative measures of TMT ideological separation) and robustness tests. We present these analyses and their results in the Online Supplementary Appendices.

Discussion

Consolidating the diversity-as-separation perspective with the uncertainty-threat principle from political psychology, we have introduced the notion of ideological separation in top management teams and investigated its effects on strategic change in an uncertainty-threat context that requires executives' adaptive action (i.e. turnaround situations). Following the core assumptions of the uncertainty-threat principle (Haas, 2016; Hibbing, Smith and Alford, 2014), we have reasoned that – in turnaround contexts – ideological separation activates and limits the executive team's ability to unify decision-making in the face of a sharp financial downturn and promptly enact strategic change as a response. Our empirical results substantiate this prediction. We have supported the suitability of turnaround situations as activating uncertainty-threat contexts for TMT ideological separation using data from turnaround firms in the S&P 1500 population, as well as with sup-

plementary analyses including turnaround and non-turnaround firms. Invoking the core assumption of the uncertainty-threat principle (Haas, 2016), our results also show that the inertial impact of TMT ideological separation strengthens when the sharp and abrupt financial decline is paralleled with shareholder unrest. Yet, industry performance decline appears to have a non-significant moderating effect. To this end, our work underscores turnaround situations as a context where ideological separation emerges in TMTs and impedes strategic change. It also demonstrates the potential dark side of shareholder democracy by showing that shareholder unrest may act as a key factor strengthening this effect.

Our work makes several contributions. First, it advances research on TMT diversity and upper echelons by revealing the important yet understudied role of value-based ideological separation in strategic leadership teams. Harrison and Klein (2007) invoked the distinct nature of separation in diverse teams by highlighting that such separation is a result of differences in values among group members. Our study shows that, indeed, separation in values among executives – as indicated by their differences in political ideology – acts as a trigger of strategic inertia in uncertainty-threat (turnaround) settings. While financial downturns call executives to bring about change, ideological separation may emerge in the face of uncertainty-threat and acts as an impediment to change. This is something we do not observe in non-turnaround contexts, where the relationship between TMT ideological separation and strategic change is not significant. After controlling for other forms of diversity in our analyses, we also observe that value-based ideological differences have a distinct negative effect on strategic change in turnaround settings – while other diversity forms based on demographic attributes do not seem to have a significant effect.

Our horizontal theory borrowing approach acts as a nuanced way to advance knowledge in the areas of upper echelons, strategic management, TMT diversity and executives' political ideologies. In reflecting on the advantages of theory borrowing, Whetten *et al.* (2009, p. 539) underscored: 'The process of systematically applying a theory in different settings improves the theory's explanatory power by delineating its boundaries, or scope conditions'. Borrowing insights from the uncertainty-threat principle, which was developed and applied in the field of political psychology, our study shows that only in uncertainty-threat contexts (i.e. turnaround situations) does ideological polarization reduce the executive group's ability to enact strategic change. As such, our horizontal theory borrowing approach allows us to synthesize conceptual insights and advance research in this area by underscoring the key role of the context in determining the impact of diversity as separation in decision-making groups (Harrison and Klein, 2007). It stresses that the challenges

of separation highlighted by Harrison and Klein (2007) may only activate in specific environments where executives are inclined to align strongly with their own values and exhibit an unwillingness to compromise with value-dissimilar others. With this theoretical advancement, our work demonstrates the benefits of moving beyond disciplinary silos to enhance knowledge in management and organizational studies (Benischke *et al.*, 2024).

Relatedly, our work bears implications for faultlines theory and research. Scholars define faultlines as dividing lines that separate the team into distinct factions (subgroups) based on team members' alignment in attributes and characteristics (Carton and Cummings, 2012; Georgakakis, Greve and Ruigrok, 2017; Lau and Murnighan, 1998; Thatcher, Jehn and Zanutto, 2003). In fact, Harrison and Klein (2007) underscored that diversity-as-separation is related to the notion of faultlines, and Carton and Cummings (2012, p. 449) proposed the concept of 'separation-based faultlines' where 'one subset of members shared one set of [...] values and another subset shared a different set of [...] values'. Examining diversity-as-separation in terms of both the generic approach suggested by Harrison and Klein (2007) (i.e. average Euclidean distance) and the notion of faultlines (Meyer and Glenz, 2013), albeit only in a single attribute, our work consistently sounds the cautionary note that ideological differences can cause separation and ramifications to the TMT's ability to promote strategic change in uncertainty-threat situations. To this end, our work advances theory on team diversity by turning scholarly focus from the widely examined externally observable differences (e.g. gender, age and nationality differences) to deeply held and externally unobservable factors that – when activating – can impact decision-making processes in TMTs (Georgakakis *et al.*, 2022; Nielsen, 2010).

Viewed in tandem, our work expands knowledge regarding the impact of diversity in decision-making groups, stressing that deeply held differences may have significant effects in the process of making critical decisions for group and organizational outcomes. In addition, it advances upper echelons research by showing that the value-based ideological incongruence is a key reason why some TMTs are less adaptive than others in conditions requiring swift action for change. More attention to this aspect can further unveil the impact of diversity-as-separation in upper echelons, underscore its importance and thus advance extant theorizing on the role of interpersonal differences in decision-making groups (Georgakakis *et al.*, 2022; Hambrick, 2007).

Second, our work contributes to the burgeoning research on executives' political ideology. Strategic leadership studies have mainly focused on the average TMT ideological leanings – or the ideology of a single actor (e.g. the CEO) (Swigart *et al.*, 2020). Yet, recent

studies have started to highlight the key role of ideological incongruence (Busenbark, Bundy and Chin, 2023), stressing that ideological differences in the executive group can significantly impact strategic leadership actions (Narayan, Sidhu and Volberda, 2021). Our horizontal theory borrowing approach allows us to contribute to this area by bringing the concept of uncertainty-threat to shed light on how managers' task environments may impact the effects of ideological separation on strategic change.

Relatedly, our work highlights the notion of multisource uncertainty-threat – that is, the parallel existence of multiple sources of uncertainty-threat in the firm's environment (Haas, 2016; Haas and Cunningham, 2014). We show that when the firm's sharp financial decline is paralleled with accumulated uncertainty-threat from the voice of firms' owners against strategic leadership, the negative impact of ideological separation on strategic change strengthens (see Figure 1). At the same time, industry performance decline has no significant effects on the relationship between TMT ideological separation and strategic change. The different effects of these two moderators can be attributed to the differential nature of uncertainty-threat they generate for executives. On the one hand, shareholder unrest is a factor that directly refers to corporate leaders' inability to run the organization adequately (and thus shareholders complain about corporate leadership practices). In parallel with a turnaround situation, this source of uncertainty-threat places executives' survival in the firm at a significantly higher risk – thus directly challenging their 'existential security' in the organization (Lee, Gupta and Hambrick, 2022). On the other hand, industry performance decline is more externally determined and less attached to corporate leadership failures. In parallel with a turnaround situation, an industry performance decline can even act as a way for executives to justify why the declining performance of the organization is not their fault but part of the overall declining trend facing the sector. Hence, we do not observe significant effects for the moderating role of industry performance decline. Overall, our work informs research on uncertainty-threat. It stresses that different combinations of uncertainty-threat may have differential effects in decision-making groups composed of ideologically dissimilar members.

Practical implications, limitations and future research directions

In embracing diverse ideological beliefs at upper echelons, decision-makers should pay attention to the disruptive challenges that may occur in situations of uncertainty-threat – and take steps to boost integration and information-processing between members of different values and ideologies to realize informational advan-

tages. Overall, our findings imply that turnarounds are complex situations where executives' micro-level processes play a key role in determining corporate responses. When the turnaround situation is coupled with high levels of shareholder unrest, ideological splits are more likely to strengthen and impede the group's ability to bring about change. Future research should consider these and other contingency effects of uncertainty-threat to provide managerial implications on how firms can utilize the advantages of ideological diversity in TMTs while mitigating separation and political polarization challenges that may occur.

Our study has limitations. One of them is that, with the use of archival data, we are unable to directly observe the exact processes through which ideological separation activates in the TMT in uncertainty-threat contexts. Future research can employ other research designs, such as field experiments, that allow us to unveil the exact mechanisms that drive the observed relationships. In addition, our study employs turnaround situations as a key context of uncertainty-threat for executives. Future studies can examine whether the ideological separation effects observed in this study may generalize to other uncertainty-threat contexts – such as natural disasters, an unexpected CEO death, an abrupt CEO dismissal or conditions of exacerbated geopolitical risk. Further, a potential conceptual extension of our study is the interface between threat-rigidity and prospect theory. The threat-rigidity perspective posits that, in the face of threats, individuals rely on their internal hypotheses to process information. As such, they tend to adopt rigid responses to threats based on their internal hypotheses (Staw, Sandelands and Dutton, 1981). Prospect theory, on the other hand, argues that individuals tend to evaluate potential gains over potential losses when facing threats, and make decisions based on their deeply held values and beliefs (Levy, 1992). As such, these two theories provide alternative explanations about the deep-level micro-mechanisms that may lead TMTs with strong ideological subgroups towards inertia. Future research can use other research designs to unveil the micro-foundational processes through which the observed relationships unfold.

In addition, our study defines TMTs as the best-paid (often five) and thus most influential top managers. We use this definition as it provides a context where power differences are relatively minimal among executives. We should acknowledge, however, that power differences will also exist among executives even with this parsimonious TMT definition. Future studies can thus adopt a strategic leadership interfaces perspective (Georgakakis *et al.*, 2022, 2023; Van Doorn *et al.*, 2022) to shed light on the distinct role of power differences among executives and their impact on the activation of ideological separation in TMTs. In addition, future studies can also look at other dimensions of shared or differentiated

values among individual TMT members (see e.g. Wan, Zhang and Wei, 2023). For example, the case of family values (Minichilli, Zattoni and Zona, 2009): one could assume that TMT members from the same family (e.g. siblings) have grown together in the same environment, and thus their values align with each other. When a firm is owned by more than one family, then TMT members from different families are expected to differ in terms of values and beliefs. In uncertainty-threat contexts, they may therefore also face value-based separation and challenges in altering the organization. Examining other dimensions of individuals' values can help us appreciate whether what we have observed by focusing on political ideology as an indicator of values is generalizable to other types of value differences beyond political leanings.

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