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## Strategic or status quo-preserving business exit: (how) do CEO turnover and succession matter?

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# Strategic Or Status Quo-Preserving Business Exit: (How) Do CEO Turnover And Succession Matter?

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School of Business & Economics

Discussion Paper

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# **STRATEGIC OR STATUS QUO-PRESERVING BUSINESS EXIT: (HOW) DO CEO TURNOVER AND SUCCESSION MATTER?**

## **ABSTRACT**

Business exit has implications for a firm's corporate strategy. Two types of exit events are distinguished: those that involve strategic change and those that are status quo-preserving. This study investigates the impact of CEO turnover and succession on strategic versus status quo-preserving business exits. Based on a sample of CEO turnover and succession events and subsequent business exits of German corporations from different industries, our results suggest that neither voluntary nor involuntary CEO turnover is relevant to business exit. In contrast, outsider succession significantly affects the likelihood of strategic business exit, while a corporation's performance does not moderate this relationship.

## INTRODUCTION

Business exit results in a reduction in size of a divesting parent firm and has implications for corporate strategy. Typically, it aims at contracting firm boundaries, whereas acquisitions, alliances, or internal developments are used for expansion (Bowman & Singh, 1993; Hurry, 1993; Schendel, 1993; Singh, 1993; Villalonga & McGahan, 2005). A business exit is not necessarily associated with a firm's failure to pursue a superior strategy. On the contrary, business exits may be a sign of a firm's strategic viability. Consider, for example, Burgelman's (1994, 1996) findings on Intel's exit from the dynamic random access memory (DRAM) business in the mid-1980s and this firm's simultaneous transformation into a microcomputer company. Burgelman's seminal studies and more recent evidence by Brauer (2009) suggest that business exit bears the potential for strategic change and thus may contribute to a firm's organizational viability in the long run.

The vast majority of studies on business exit focus on antecedent performance problems (Brauer, 2006; Johnson, 1996; Singh, 1993). Fewer studies have examined the role of top executives in promoting exit decisions and simultaneously nurturing strategic change (e.g., Brauer, 2009; Fondas & Wiersema, 1997; Wiersema, 1992). Incumbent executives can be trapped in the pursuit of a certain strategic path due to their strong commitment to a previously chosen strategic direction (Hannan & Freeman, 1989; Staw & Ross, 1987; Zajac & Bazerman, 1991). They may be reluctant to divest an entity and change their firm's strategic direction (e.g., Gordon, Smith, Sweo, & Luker, 2000; Porter, 1976; Shimizu & Hitt, 2005; Wiersema, 1992, 1995). In such a situation, the turnover of the incumbent CEO can be an appropriate mechanism to motivate business exit (Hayward & Shimizu, 2006), and especially an exit that involves strategic change (Brauer, 2009). These effects can be expected because new CEOs tend to be more open to strategic reorientation, must prove to the firm's stakeholders that their strategic approach is distinct from their predecessors, and

because they can more easily convince employees to support a new course of action, especially if they come as outsiders to the firm (Datta, Rajagopalan, & Zhang, 2003; Isabella, 1990). Although divestiture research can be traced back to seminal studies from the 1970s and the 1980s (e.g., Gilmour 1973; Boddewyn, 1979; Porter 1976; Duhaime & Grant 1984; Montgomery & Thomas, 1988; Nees, 1981), it neither pays much attention to different types of business exit nor to the nature of CEO turnover and succession as antecedents of different exit types. Therefore, in this paper, we ask: *How do CEO turnover and succession events affect the likelihood of business exit both in general and in terms of business exit types?*

With this study, we contribute to business exit research in two ways. First, we extend research on the motives for and outcomes of business exit by introducing different exit types. Specifically, we differentiate between two types: The abandonment of a business unit that involves strategic reorientation is denoted as a *strategic business exit*, while the divestiture of a business unit that does not change a parent firm's strategic trajectory is considered a *status quo-preserving business exit*. Second, we extend previous research by investigating the impact of firms' executive succession events on the likelihood of a particular business exit type. Our research is based on a sample of 122 CEO turnover and succession events in 98 divesting and non-divesting German corporations from different industries during the period of 1998-2004.

The remainder of this article is structured as follows. First, we review prior studies on business exit and the literature on executive turnover and succession. Thereby, we consider both routine versus non-routine turnover and insider versus outsider succession. Drawing on the upper echelons perspective (Hambrick & Mason, 1984; Hambrick, 2007), we develop a conceptual framework that predicts the impact of CEO turnover and succession on business exit (e.g., Carpenter, Geletkanycz, & Sanders, 2004). Our framework aims at identifying the direct effect of CEO turnover and CEO succession on the likelihood of business exit. Since

firm performance is generally viewed as the most important predictor of business exit (e.g., Cho & Cohen, 1997; Ravenscraft & Scherer, 1991; Robbins & Pearce, 1992), our framework also considers the moderating effect of performance. Second, based on the hypotheses that we specify within this framework, we elaborate on our research methods, including sample selection, data sources, measures, and analytical procedures. Third, we present our empirical results. We calculate logistic regression models that, on the one hand, illustrate the likelihood of business exit in general and, on the other hand, show the effects of the pre-specified antecedents on the likelihood of strategic versus status quo-preserving business exit. Finally, we discuss the contributions and limitations of our findings and trace promising avenues for future research.

## **CONCEPTUAL FRAMEWORK AND HYPOTHESES**

### ***Business Exit***

Prior studies on business exit primarily focus on the question of whether and why a business unit needs to be divested. The specified antecedents most often refer to financial performance, corporate diversification, executive turnover and institutional pressures (Brauer, 2006; Johnson, 1996). Poor performance is a particularly strong predictor of business exit. Both underperformance at the firm and at the business unit level are important antecedents (Chang, 1996; Duhaime & Grant, 1984; Montgomery & Thomas, 1988; Singh, 1993). An exit will be especially likely, if a declining business unit's poor performance persists and the whole corporation's performance suffers accordingly (e.g., Brauer, 2009; Cho and Cohen, 1997; Montgomery and Thomas, 1988). In addition, businesses are likely to be divested when the competences that are unified in a single corporation have become too dissimilar (e.g., Byerly, Lamont, & Keasler, 2003; John & Ofek, 1995; Johnson, 1996; Markides, 1992a, 1992b; Steiner, 1997). The arrival of a new CEO also increases the likelihood of divestiture

(e.g., Matthyssens & Pauwels, 2000; Ravenscraft & Scherer, 1991; Shimizu and Hitt, 2005). Moreover, firms often must prove their investment legitimacy to powerful institutional investors, e.g., banks, insurance companies or financial holdings (e.g., Ward, Brown, & Graffin, 2009). Institutional investors aim at controlling corporate managers so as to circumvent strategies that may have a negative impact on firm performance, for example, because they contradict a firm's dominant logic (Prahalad & Bettis, 1986). Thus, investors are at least partly responsible for business exit decisions (Bethel and Liebeskind, 1993; Zuckerman, 2000).

Many studies focus on business exits with positive financial results (e.g., Chang, 1996; John & Ofek, 1995; Mulherin & Boone, 2000; Steiner, 1997). A smaller number of studies show that a business exit also can be a vehicle for the elimination of a misconceived strategy that puts a firm's existence at risk (e.g., Burgelman, 1994, 1996; Kaiser & Stouraitis, 2001; Markides, 1995). Byerly et al. (2003) differentiate between refocusing and repositioning with regard to business exit. *Refocusing* means that, by divesting a business unit, a firm eliminates non-core activities, and the firm's strategic focus is narrowed (Zuckerman, 2000). Consider, e.g., Sears Roebuck that refocused its retailing business by withdrawing from the financial services and insurance industries. By *repositioning* a firm eliminates its former core business and simultaneously establishes a new one (Byerly et al., 2003). Eckes, the German producer of spirits and juices is a case in point. As a result of a steadily decreasing per capita consumption of spirits in Germany and strong legislative pressures, Eckes sold its traditional domestic hard liquor business and transformed itself into a company producing high-quality juices (Brück, 2006). Business exit can thus be an opportunity for strategic change (Hoskisson & Johnson, 1992).

Exits involving refocusing or repositioning are risky and comprehensive strategic choices. Thus, not surprisingly, many if not most business exits do not involve a major change. An



exit that is not associated with strategic change but merely results in a reduction of firm size can be viewed as defensive (Finkelstein, Hambrick, & Cannella, 2009; Morrow, Johnson, & Busenitz, 2004). In this study, a *strategic business exit* is a divestiture of a business unit involving strategic change in terms of refocusing or repositioning. Divestitures that do not imply a change in a corporation's strategic direction are termed *status quo-preserving business exits*.<sup>1</sup>

### ***The Chief Executive Officer's (CEO) Functions***

Top executives are responsible for major strategic decisions and corporate performance (Gordon et al., 2000; Parrino, 1997; Tushman & Rosenkopf, 1996; Wiersema, 1992, 1995). Their responsibilities encompass substantive decisions that affect a firm's competitive positioning and its resource allocation, and they include symbolic activities that convey meaning beyond the substance inherent in their decisions (Finkelstein et al., 2009; Guthrie & Datta, 1997; Hambrick & Finkelstein, 1987). Although the CEO is embedded in a team of top managers, due to his/her leading position s/he is especially powerful, in particular with regard to decisions that pertain to strategic change or acquisition and divestiture processes (Hayward & Shimizu, 2006). Due to the dependence of firms on their leading persons' actions the question "Why do organizations act as they do?" (Hambrick & Mason, 1984: 193) implies the question "Why do top managers act as they do?" The upper echelons perspective assumes that managers' career paths, professional positions and personal backgrounds determine their cognitive perspectives which influence their strategic choices (Bigley & Wiersema, 2002; Zajac & Westphal, 1996).<sup>2</sup> While the turnover of a CEO can be expected to contribute to the

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<sup>1</sup> We are aware that refocusing may imply a less radical strategic shift than repositioning. However, since refocusing is a major step towards de-diversification that helps clarify a firm's strategic direction (Zuckerman, 2000), it is considered a strategic business exit.

<sup>2</sup> This view of the CEO's role has not remained uncriticized. However, prior evidence corroborates that CEOs exert a particularly strong influence on a firm's fate and that environmental and competitive conditions alone do not determine a firm's strategic direction (Finkelstein et al., 2009; Fondas & Wiersema, 1997; Hambrick, 2007; Hambrick & Finkelstein, 1987; Kesner & Sebor, 1994).

likelihood of strategic change, changes in the rest of the top management team (without the CEO) can even discourage change. The latter can be expected because newly appointed executives have not yet had the time to establish group dynamics, trust, and communication structures in their organizations that facilitate shifts in corporate strategy (Gordon et al., 2000; Wiersema & Bantel, 1992; Wiersema, 1995). As Kesner and Sebra (1994: 328) put it, “the CEO is the agent who is ultimately responsible and accountable for action on and reaction to an organization’s strategy, design, performance and environment.” Thus, consistent with Hambrick’s (2007) suggestion to concentrate on those executives who substantially matter in a decision domain under study, we focus on the CEO’s impact on the likelihood and type of business exit.

### ***CEO Turnover***

Due to the CEO’s primary role and the far-reaching nature of the event, turnover has been attracting numerous management researchers’ attention for many years (Kesner & Sebra, 1994; Shen & Cho, 2005). CEO turnover can occur in different ways (Comte & Mihal, 1990; Denis & Denis, 1995; Grusky, 1960): A manager can retire or step down from his position to pursue other career options, or s/he may be dismissed. Thus, routine (voluntary) and non-routine (involuntary) turnover is commonly distinguished. Regardless, “Turnover, whether voluntary or involuntary, represents a major event for the firm and can determine its subsequent performance and direction” (Furtado & Karan, 1990: 60).

All turnover events can be viewed as a step towards a better fit between the leading person and the firm’s requirements. CEO turnover can help eliminate a misalignment between a top executive’s actions and firm needs with regard to remaining profitable or otherwise successful (Furtado & Karan, 1990). It frequently coincides with corporate restructuring activities such as business exit (e.g., Matthyssens & Pauwels, 2000; Ravenscraft & Scherer, 1991) because “the need for corporate restructuring to better align the firm with its

environment may not be apparent to the current top management team” (Wiersema, 1995: 199). Particularly, CEO tenure can act as an effective barrier to business exit, because a longer tenure fosters a higher reluctance to change (Bigley & Wiersema 2002). Therefore, CEO turnover can help overcome dysfunctional inertia that results from incumbent executives’ commitment to the current strategy. Furthermore, if corporate decisions can be determined by the choice of executives (Wiersema, 1992: 74), the question of whether a turnover occurs voluntarily or involuntarily may predict the likelihood of business exit. In general, we assume that non-routine CEO turnover is more likely to be positively associated with the occurrence of business exit than routine turnover, because such an event is more incisive and better suited to overcome dysfunctional commitment to a current course of strategic action. What follows is:

Hypothesis 1: If a firm experiences a non-routine turnover event, the likelihood of business exit will increase.

The type of CEO turnover may also determine the type of business exit chosen. Non-routine executive turnover events promote the simultaneous pursuit of business exit and strategic change. Firms that dismiss their CEOs have been shown to experience significant declines in their dependence on their former core business, whereas firms with greater top management team stability face less strategic change (Wiersema, 1995). In addition, new CEOs must prove their distinctiveness from their predecessors to shareholders, customers and employees. Their backgrounds, skills, and experiences may differ from their dismissed predecessors and might enable a new understanding of a firm’s problems and thus facilitate major strategic shifts (Kraatz & Moore, 2002) such as strategic business exits. Conversely, routine CEO turnover is more likely to be associated with the new leader’s pursuit of continuity and stability and hence the adoption and maintenance of the predecessor’s strategic course of action. A routine turnover following, for example, the incumbent CEO’s retirement, is likely to be a smooth and often carefully orchestrated transition. The heir-apparent successor is

known to the departing CEO, the firm's other top managers, and the board of directors. There will be no need to initiate strategic change, as long as the parent firm does not face severe financial distress (Friedman & Singh, 1989). In addition, incumbent CEOs frequently tend to believe that their successors need to be similar to them to guarantee continuity of the chosen strategic direction. In case of voluntary turnover, they can exert a certain influence on the choice of the new CEO and determine the successor's extent of similarity (Hambrick, Geletkanycz, & Fredrickson, 1993; Nielsen, 2009; Zajac & Westphal, 1996). With this strong emphasis on continuing the current strategic direction business exits, to the extent that they do occur, are likely to be status quo-preserving. Thus:

Hypothesis 2a: If a business exit is preceded by a non-routine CEO turnover event, the likelihood of strategic business exit will increase.

Hypothesis 2b: If a business exit is preceded by a routine CEO turnover event, the likelihood of status quo-preserving business exit will increase.

### ***CEO Succession***

Conceptually, succession can be separated from turnover. Although succession cannot occur without turnover, routine and non-routine turnover do not necessarily involve a particular succession type. Both routine and non-routine turnover can lead to either insider or outsider succession. Hence, they are not interdependent and can be investigated as related but different phenomena. Executive succession has been motivating management scholars' research efforts for more than four decades (e.g., Friedman & Singh, 1989; Grusky, 1960, 1961, 1963; Helmich & Brown, 1972; Virany, Tushman, & Romanelli, 1992; Zajac & Westphal, 1996). CEO succession challenges a firm's internal stability and has implications for organizational effectiveness, since the whole organization needs to get used to the new leading person (Datta & Guthrie, 1994; Grusky, 1960). The question of why some successions promote strategic change while others do not has mainly been answered based on the origin of a new CEO, i.e., his/her insider or outsider status. Insiders are top managers who

are promoted from within the firm, while outsiders are executives who come from other organizations from the same or another industry (Fondas & Wiersema, 1997; Friedman & Singh, 1989; Guthrie & Datta, 1997; Pitcher, Chreim, & Kisfalvi, 2000; Shen & Cannella, 2002; Zhang & Rajagopalan, 2003; Zajac & Westphal, 1996). The intrafirm labor market for the choice of a new CEO bears considerable advantages. For instance, the recruitment of an insider enhances loyalty and morale among the workforce, because an insider is better able to attract and retain employees than an outsider, and s/he signals continuity and stability to all stakeholders. Moreover, the new CEO is already known in the organization. Management and staff know his/her leadership style, skills and qualifications. At the same time, the new top executive is familiar with the firm's structure, practices, corporate culture, and product offerings, and s/he is a part of internal networks and communities. These set of conditions make it likely that an executive is selected who is similar to the rest of the top management team in terms of personality, attitudes and endeavors (Datta & Guthrie, 1994; Nielsen, 2009; Zhang & Rajagopalan, 2003). However, if the firm needs new perspectives or new knowledge, an insider will not be the appropriate candidate, because his/her selection fosters continuity and the tendency to continue with the chosen course of action (Hambrick & Mason, 1984). Therefore, to encourage change, many companies decide to hire an outsider, e.g., an executive from another firm in the same industry in order to learn from the actions of peer industry firms. Other firms even choose a manager from a different industry to benefit from completely new ideas and perspectives or close an apparent knowledge gap (Guthrie & Datta, 1997; Nielsen, 2009; Zhang & Rajagopalan, 2003). As the likelihood of business exit will increase if a firm hires a CEO from outside the organization, what follows is:

Hypothesis 3: If the newly appointed CEO is an outsider, the likelihood of business exit will increase.

The experience that is gained during a long tenure promotes an internal successor's greater commitment to a prevailing strategic direction and rather defensive strategic choices

(Finkelstein et al., 2009). Strategic change is most likely, if the incumbent CEO is replaced by a manager who comes from the outside. Outsiders are less inclined to adhere to the status quo but are more likely to act as change agents (Kraatz & Moore, 2002; Wiersema, 1992). Change is likely to be promoted by managers who come from completely different institutions or from those organizations that are experienced with practices that are lacking in the organization in question. The higher the new CEO's dissimilarity from his predecessor, the greater are the changes that s/he is likely to introduce (Finkelstein et al., 2009). If managers come from outside the firm, they are not trapped in a prevailing cognitive framework and thus more keen to experiment with new ways to deal with the challenges they face (Hambrick & Mason, 1984). Pressures to maintain the status quo are mitigated because "newly appointed managers were not the architects of the prior strategy and so they have a lower level of psychological investment in the strategy" (Lant, Milliken, & Batra, 1992: 591). The recruitment of an outsider is also a powerful signal to external stakeholders that a firm seriously pursues a new strategic direction (Datta & Guthrie, 1994; Friedman & Singh, 1989). Thus, the appointment of an outsider CEO will not only foster the likelihood of business exit in general but also that of strategic business exit (Gilmour, 1973; Hayward & Shimizu, 2006; Nielsen, 2009). Conversely, an insider signals stability and continuity to the firm's stakeholders (Zhang & Rajagopalan, 2003). Due to the fact that the new CEO has been affiliated with the parent firm for many years, s/he will be less inclined to promote strategic business exits and prefer a strategic option that promises stability of a firm's strategic direction such as status quo-preserving business exits. Strategic change that implies innovation and a new way of thinking is less likely under these conditions (Finkelstein et al., 2009; Wiersema & Bantel, 1992). Therefore, we suggest:

Hypothesis 4a: If the newly appointed CEO is an outsider, the likelihood of strategic business exit will increase.

Hypothesis 4b: If the newly appointed CEO is an insider, the likelihood of status quo-preserving business exit will increase.

### *The Moderating Effect of Firm Performance*

The turnover-exit relationship is likely to be different for firms that are solvent and those that suffer from financial distress. Prior to non-routine turnover, firms often experience a significant decline in performance (Bresser & Valle Thiele, 2008; Westphal & Fredrickson, 2005; Zajac & Westphal, 1996). The forced resignation of a CEO and his replacement is focused on rapid and sustained performance improvements during the periods following the turnover and succession events. Measures undertaken by a new CEO to improve performance can be expected to be more rigorous for firms with forced CEO resignations than for those with routine management turnovers (Denis & Denis, 1995). Hence, we suggest that after a non-routine turnover and in the presence of declining performance, the general likelihood of business exit may increase.

In financially distressed firms forced turnover events are frequently initiated by board members or bank lenders. For instance, during the process of private debt restructuring in order to avoid bankruptcy it is common to replace a CEO (Farrell & Whidbee, 2003; Gilson, 1989, 1990; Gilson & Vetsuypens, 1993). Nowadays increasingly strong performance pressures are exerted on CEOs (Kaplan, 2008). These pressures have become much higher since the end of the 1990s compared to studies that have examined CEO turnover in prior time periods (e.g., Comte & Mihal, 1990; Huson, Parrino, & Starks, 2001). Extended periods of low performance often prompt investors to exert influence on a lowly performing firm's board to dismiss the CEO. The board may react with the replacement of the CEO to placate the investment community and, typically, it looks for an executive who holds promise to alter the firm's strategic direction (Farrell & Whidbee, 2003; Ward et al., 2009). Thus, under conditions of declining firm performance, a non-routine CEO turnover is likely to be

associated with both the likelihood of business exit in general and that of strategic business exit in particular:

Hypothesis 5a: Non-routine turnover increases the likelihood of business exit under conditions of declining firm performance.

Hypothesis 5b: Non-routine turnover increases the likelihood of strategic business exit under conditions of declining firm performance.

If declining firm performance is not attributed to a firm's management by the investment community, for example, during periods of general economic downturns, forced turnover is less likely. In these situations, turnover events are likely to be of a routine type, and the measures taken by the new CEO are not likely to deviate from the firm's overall strategic direction. It follows that:

Hypothesis 5c: Routine turnover increases the likelihood of status quo-preserving business exit under conditions of declining firm performance.

In the presence of dissatisfactory firm performance the likelihood of the recruitment of an outsider is also increased, since new perspectives on and attitudes toward a firm's current situation are likely to be preferred to firm-specific skills and experiences (Datta & Guthrie, 1994; Schuler & Jackson, 1987; Schwartz & Menon, 1985). Internal succession is more likely in the presence of superior performance (Guthrie & Datta, 1997), because satisfactory performance nurtures the selection of a new CEO who does not differ significantly from the predecessor (Finkelstein et al., 2009). Since boards are more likely to appoint an outsider in financially difficult situations, we expect that under conditions of dissatisfactory performance, outsider succession is positively related to the likelihood of business exit in general, since managers who have been hired from outside the firm are better able to deviate from the organization's prior growth trajectories.

According to Boeker (1997), weak financial performance and CEO succession complement and reinforce each other. In the presence of a sustained performance decline, CEO succession is more likely to be associated with strategic change than under conditions of satisfactory



financial performance. Thus, a newly appointed CEO who comes from the outside after a firm has experienced a pronounced performance decline is a strong signal for the necessity of a new beginning (Cho & Cohen, 1997; Farrell & Whidbee, 2003) and enhances the likelihood of strategic business exits. Conversely, if the new CEO is an insider, a status quo-preserving business exit will be preferred even in the presence of a performance decline, because the insider is a member of the group of persons who have formulated and implemented the current strategy (Lant et al., 1992). As Schuler and Jackson (1987: 207) put it, “insiders are slow to recognize the onset of decline and tend to persevere in strategies that are no longer effective”. Therefore, and consistent with the assertion that executive job demands act as a moderator of upper echelons predictions (Hambrick, 2007: 335), we suggest that the relationship between business exit type and succession type is moderated by a divesting firm’s performance. Weak performance is a challenging job demand to a CEO (Hambrick, Finkelstein, & Mooney, 2005) and in combination with outsider succession it fosters the likelihood of strategic business exit, while the simultaneous occurrence of financial problems and insider succession promote the likelihood of status quo-preserving business exit. What follows are:

- Hypothesis 6a: Outsider succession increases the likelihood of business exit under conditions of declining firm performance.
- Hypothesis 6b: Outsider succession increases the likelihood of strategic business exit under conditions of declining firm performance.
- Hypothesis 6c: Insider succession increases the likelihood of status quo-preserving business exit under conditions of declining firm performance.

Figure 1 summarizes the hypotheses outlined above.

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Insert Figure 1 about here  
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## METHODS

### Sample and Data Sources

The sample for the study consists of CEO turnover and succession events in publicly traded, divesting and non-divesting firms that took place during 1998 and 2004. All firms had to be listed in the German HDAX so that comparable data on performance and strategy could be obtained from public sources (Datta et al., 2003). The HDAX comprises the shares of all 110 companies that are listed in the selection indices DAX, MDAX and TecDAX that are included in the so called Prime Standard.<sup>3</sup> As compared to the DAX, the HDAX represents a broader index that covers all sectors and the shares of the largest companies from the Prime Standard (Deutsche Börse Group, 2009). In order to test our hypotheses we used secondary data from several databases. The *LexisNexis* database helped identify those firms among the companies that were listed in the HDAX that reported one or even more CEO turnovers in the selected time period. In doing so, we aimed at comparing divesting with non-divesting firms. The *Mergers & Acquisitions Database* provided information on the likelihood of business exit in these firms during that period. *Bloomberg*, *Compustat Global*, *Datastream*, *Worldscope*, and the *Hoppenstedt Database* and manuals provided the additionally required data, such as financial ratios, ownership stakes, or date of company foundation. The final sample consists of 122 CEO turnover and succession events in 98 divesting and non-divesting firms from different industries, e.g., telecommunications, food products, construction, chemicals, or financial services. The number of business exits for that sample is 187. As was the case in prior studies (e.g., Schipper & Smith, 1986), the number of firms is lower than the number of turnovers and business exits because of multiple turnovers and exits by the same parent firms in the observed time period.

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<sup>3</sup> The Prime Standard is a EU-regulated segment for companies that aim at positioning themselves vis-à-vis international investors. In addition to the requirements of the General Standard, which represent the statutory minimum requirements of the Regulated Market, companies in the Prime Standard are obliged to adhere to high international transparency standards and regulations.

## **Variables and Measures**

**Dependent variables.** The first dependent variable is *exit*, i.e., a dummy indicating whether or not a firm has undertaken at least one business exit within a given year. The second dependent variable denotes the *exit type*, with 0 = “no exit”, 1 = “status quo-preserving business exit” and 2 = “strategic business exit”. Thereby, the numbers and types of segments in different NACE codes reported by a focal firm are analyzed over the time period in order to measure reductions or changes in corporate diversification which indicate *refocusing* and/or *repositioning* (Villalonga & McGahan, 2005) Based upon the NACE classification, which is the German equivalent to the SIC in the U.S., the absolute difference in the diversification level between the years  $t$  (= year of business exit) and  $t+1$  (= one year after exit) is calculated and represents the kind of change in corporate strategy. Refocusing means a reduction in the number of NACE codes that a firm reports, while repositioning is revealed by a change in a firm’s main classification code. If a business exit does not involve strategic reorientation, there will be no visible change in a firm’s NACE.

**Independent variables.** The independent variables in this study focus on the change and replacement of the CEO. The variable *turnover* measures whether a turnover is voluntary or involuntary (with 0 = “routine”, 1 = “non-routine”). In order to codify the 122 CEO turnover events in this study, we used a rigorous procedure (Bresser & Valle Thiele, 2008) and content analyzed newspaper articles and corporate press releases. For each turnover event, we analyzed all available articles from *LexisNexis* that we identified according to the search words predecessor (name), successor (name) and company (name). Two researchers independently codified the items and classified them as either routine or non-routine. A turnover was considered as a routine turnover, when the incumbent CEO left the firm in order to seize other career opportunities, for personal or age reasons, or when the CEO had died. It was codified as non-routine, when there were clear indications of disagreements between the

departing CEO and the board. We achieved a high inter-coder reliability of 93.6 % which is also reflected by a satisfactory Kappa coefficient of 0.859 ( $p < 0.001$ ) (Bresser & Valle Thiele, 2008).

The variable *succession*, measures whether a new CEO has come from outside into the firm and has not been member of the top management team before (with 0 = “internal succession” and 1 = “external succession”) (Shimizu & Hitt, 2005). *Tenure* is a further indicator of a newly appointed CEO’s status as either an insider or an outsider (Chaganti & Sambharya, 1987). Therefore, it is considered in this study as an alternative indicator for the type of CEO succession. It is the difference between the date of a manager’s assignment to the CEO position and the date of his/her entry into a firm (Datta & Guthrie, 1994). The categorization of succession types and the managers’ tenures could be derived unambiguously from corporate press releases and articles published in the daily business press and collected in *LexisNexis*.

Since performance decline at the firm level is a strong predictor of business exit (Cho & Cohen, 1997), three performance variables are included in the models: the accounting-based measure of operational performance *EBIT*, the customer-focused and growth-oriented indicator *sales growth (SG)*, and the market-based measure *return to shareholders (RTS)*, all measured one year prior to a business exit (Brealey, Myers, and Allen, 2008; Bresser & Valle Thiele, 2008; Farrell & Whidbee, 2003). Due to data constraints, we cannot include performance measures at the business unit level. Therefore, we concentrate on overall performance indicators that attract the investors’ attention due to their high visibility and importance for investment decisions.

***Control variables.*** Since a firm’s debt may cause divestitures (Bergh, 1998; Gilson, 1989, 1990, Kaiser & Stouraitis, 2001), we incorporate *debt-to-market value (DM)* one year prior to an exit as a control variable. We control for a firm’s strategic direction with *focus*, i.e., the

number of businesses with distinct NACE codes at the five-digit level that a firm is engaged in. The higher this number, the more dissipated is a firm's strategic focus (John & Ofek, 1995; Steiner, 1997). In addition, firms need to prove to be a worthy investment to their owners (e.g., Zuckerman, 2000). A group of owners who is dominant due to its relative size and power is able to strongly determine a firm's strategic direction (Gillan & Starks, 2003; Pedersen & Thomsen, 2003; Thomsen & Pedersen, 2000). Even if we observe that new outsider CEOs are likely to pursue strategic business exit, this decision may not be due to their openness to change but to their endeavor to meet relevant and powerful stakeholders' expectations (Hambrick, 2007: 338). Especially public firms like those listed in the HDAX are increasingly dependent on institutional investors, such as banks, insurances, and financial holdings that provide access to capital (Bethel & Liebeskind, 1993; Ward et al., 2009; Zuckerman, 2000). Hence, the dummy variable *institutionally dominated (owner)*, indicating whether or not financial investors are the main stockholders of a divesting firm, is included. We control for *firm age* (logarithm of the number of years in the year of exit) and *firm size* which is measured as the logarithm of the number of employees (Morrow, Sirmon, Hitt, & Holcomb, 2007). Prior studies show that firm age predicts a CEO's insider or outsider status and indicates his experience and propensity to take risks or initiate change, and firm size and succession type seem to be interdependent (e.g., Dalton & Kesner, 1983; Datta & Guthrie, 1994; Guthrie & Datta, 1997; Schwartz & Menon, 1985). We also test the influence of *industry* on business exit with a dummy variable with 1 = "manufacturing" and 0 = "services industries" (Mellewigt, Madhok, & Weibel, 2007), since the environment exerts a certain influence on organizational governance structures and hence CEO turnover and succession events (Hambrick & Mason, 1984; Nielsen, 2009).

## Analytic Procedures

As Table 1 shows, we find significant correlations among some variables. Therefore, variance inflation factors (VIF) and tolerance measures are calculated. A tolerance measure of 0.20 or less is still acceptable, whereas a value of 0.10 or even less is an indicator of multicollinearity. A VIF should not exceed 5 (Hutcheson & Sofroniou, 1999). In this study the highest VIF is 1.362 for *firm size* and the lowest tolerance measure is 0.734 for the same variable, indicating that there is no problem of multicollinearity among the variables.

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Insert Table 1 about here  
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Referring to our hypotheses, we first examine the impact of CEO turnover and succession and other antecedents on the likelihood of business exit in general (H1, H3). The dependent variable in these models and in those for testing H5a and H6a is the likelihood of business exit in general. Binomial logistic regressions are used, as they are beneficial in examining binary choices (Bergh, Johnson, & Dewitt, 2008; Wooldridge, 2006). Second, we calculate multinomial logistic regressions for the hypotheses 2a-b, 4a-b, 5b-c, and 6b-c. We use a limited range variable with the three pre-specified exit options, whereby “no exit” is our reference group (omitted variable) against which we compare status quo-preserving and strategic business exit (Eisenmann, 2002). Third, in addition to the analysis of main effects, we enter multiplicative terms between the dummy variables turnover type and succession type and the three performance indicators into the regressions (Wooldridge, 2006). As we estimate nonlinear models, the effect of an interaction is a function of the coefficients for each interacted variable and the values of all the variables requiring the inspection of marginal effects (Hoetker, 2007). Therefore, “one must compute the cross derivative of the expected value of the dependent variable. To test for the statistical significance of the

interaction effect must be based on the estimated cross-partial derivative, not on the coefficient of the interaction term” (Norton, Wang, & Ai, 2004: 156).<sup>4</sup> Although our regressions including interactions with dummy variables for succession are sufficient to test Hypothesis 6, we additionally use interactions with tenure. Specifically, we calculate a series of three interaction terms by multiplying tenure with each of the three performance indicators (Zajac, Kraatz, & Bresser, 2000) and test their effects on the likelihood of business exit and different exit types.

## RESULTS

Table 2 reports the results of the logistic regression analyses for the effects of turnover type, succession type, and tenure on the likelihood of business exit. Hypothesis 1 suggests that non-routine turnover enhances the likelihood of business exit. However, our results do not support this hypothesis. Hypothesis 3 asserts that outsider succession promotes business exit. Our results do not corroborate this idea. Neither the coefficient for succession type nor tenure reveals significant effects.

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Insert Tables 2 and 3 about here  
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Referring to the distinction between different business exit types, Model 2 in Table 3 shows that, in contrast to the hypotheses 2a and 2b, neither routine nor non-routine CEO turnover nurtures the likelihood of a special business exit type. However, in line with Hypothesis 4a, outsider succession enhances the likelihood of strategic business exit, as Model 3 in Table 3

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<sup>4</sup> We use Stata 9 for the estimation of our models. For the binary logistic regressions we use the logit and inteff commands, for the multinomial logistic regressions we apply the mlogit and mfx commands.

shows ( $p < .05$ ). If we measure succession type in terms of tenure, the results in Model 4 illustrate that longer tenure fosters the likelihood of status quo-preserving business exit.

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Insert Table 4 about here  
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Our hypotheses 5a-c and 6a-c suggest that business exit and particular exit types that follow CEO turnover and succession events are especially likely under certain circumstances that pertain to a divesting parent firm's performance. However, the results that are reported in Table 4 do not support the hypotheses 5a and 6a. Under conditions of declining firm performance, neither non-routine turnover nor outsider succession nor tenure increases the likelihood of business exit. The estimation of the marginal effects with regard to the interaction effects in these models and the respective graphs illustrate that the interaction effects are not significant. Marginal effects represent how a one-unit change in an explanatory variable affects the probability of pursuing a business exit.<sup>5</sup> Furthermore, none of the models that are reported in Table 4 is significant.

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Insert Table 5 about here  
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According to Hypothesis 5b, the interplay between non-routine turnover and decreasing performance enhances the likelihood of strategic business exit, while Hypothesis 5c predicts that the interaction between routine turnover and declining performance promotes the likelihood of status quo-preserving business exit. Referring to the hypotheses 5b and 5c, the results presented in Table 5 do not provide any support. An inspection of the marginal effect

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<sup>5</sup> Due to space constraints, we do not report the marginal effects. Effect sizes and graphs are available upon request from the authors.



shows that the interactions are, in fact, not significant. With regard to the hypotheses 6b and 6c, the results also refute our hypotheses. Model 5 in Table 5 suggests that outsider succession in combination with an increasing return to shareholders exerts a significant influence on the likelihood of status quo-preserving business exit. The significant marginal effect for this interaction corroborates the relationship. We have calculated additional regressions with tenure as an indicator for a CEO's status as either an insider or an outsider. However, interacting tenure with our performance indicators also does not provide support for our hypothesis 6b, as an inspection of Models 7 through 9 reveals.

Overall, the results illustrate that the impact of a firm's upper echelons on business exit is weaker than expected. Other factors seem to exert a stronger influence. In most models concerning the likelihood of business exit types, a dissipated strategic focus positively affects the likelihood of strategic business exit. Firm size exerts a weak but positive influence on the likelihood of status quo-preserving business exit, suggesting that inertial forces can successfully prevent that divestitures are used to change a firm's strategic direction.

## **DISCUSSION AND IMPLICATIONS**

Following the basic premise of the upper echelons perspective, this study argues that firms' strategic actions are influenced by the main characteristics of their leading actors (Hambrick, 2007; Hambrick & Mason, 1984). More precisely, it focuses on the idea that different types of CEO turnover and succession affect the way firms divest business units and thus shape their strategic directions. In addition, it examines how performance challenges moderate the relationship between routine versus non-routine CEO turnover and insider versus outsider succession and the likelihood of business exit in general and different business exit types (Hambrick et al., 2005). Contrary to our expectations, non-routine turnover and outsider succession do not increase the likelihood of business exit in general in our sample. One

important (non-) finding of our study is that turnover type does not seem to affect business exit. Non-routine turnover does not promote strategic business exit, and routine turnover does not enhance the likelihood of status quo-preserving business exit, even in the presence of declining performance. Referring to succession types, we gain partial support for our hypotheses. Outsider succession actually fosters the likelihood of strategic business exit in our sample, while an insider CEO in terms of a longer tenure nurtures status quo-preserving business exit. These results suggest that future studies should continue to explore the effects of succession events on business exit. In contrast, the pursuit of research relating turnover events to business exit seems to hold little promise.

The interaction between succession type and performance even shows that the interplay between outsider status and return to shareholders nurtures status quo-preserving business exits, suggesting that under conditions of satisfactory market performance the necessity to change a divesting firm's strategic direction may decrease. Other antecedents seem to exert a stronger influence on business exit than the firms' leading actors. Especially, a divesting firm's size and degree of diversification affect the likelihood of certain business exit types. For example, firm size tends to nurture status quo-preserving business exit. Interestingly, institutional ownership does not exert a significant influence on business exit. Prior empirical evidence reveals that different types of owners and especially owners that are important suppliers of financial resources have important implications for corporate strategy and firm performance (e.g., Thomsen & Pedersen, 2000). However, in the German context, other owner types may exert a stronger influence on a firm's strategic choices than institutional owners, for example, family ownership. Future studies on business exit should take national differences and ownership structures into account and also consider contingency factors such as firm size and diversification strategy.

This study has several limitations that provide opportunities for future research. First, by assessing the influence of CEOs, we mainly focus on turnover and succession types as well as tenure. It could well be that other demographic characteristics resulting from prior experience or socio-political factors can also help explain strategic choices (e.g., Zajac & Westphal, 1996). The consideration of additional characteristics may also permit more sophisticated methods that investigate the impact of certain factors at different levels of analysis (e.g., Nielsen, 2009). Second, although this study aims at explaining strategic change as triggered by different types of divestitures, it relies on cross-sectional data and analyses. As opposed to the chosen approach, panel data are beneficial in explaining changes in organizational structure and strategy over a selected time period and showing how different contingency factors affect the likelihood of certain strategic choices over time (e.g., Zajac et al., 2000). Third, although it is well understood that a CEO exerts the main influence on substantive strategic decisions such as business exit (Hayward & Shimizu, 2006, Lambert, Larcker, & Weigelt, 1991) while changes in the rest of the top management team do not seem to be as important as CEO turnover and succession (Gordon et al., 2000), future studies should take this issue into account, since there might be differences for samples from different institutional contexts.

Despite these limitations, our study contributes to management research in several ways: First, in contrast to prior studies that differentiate between exit modes in terms of, e.g., sell-off or spin-off (e.g., Bergh et al., 2008), we distinguish between business exit types according to their strategic consequences. Thereby, we summarize both aggressive and defensive strategic choices (Finkelstein et al., 2009) in terms of refocusing and repositioning (Byerly et al., 2003) under the notion of strategic business exit. We compare this type of divestiture with status quo-preserving business exit that implies a reduction of assets and activities without involving a change of the corporation's strategic direction (Morrow, Sirmon, Hitt, &

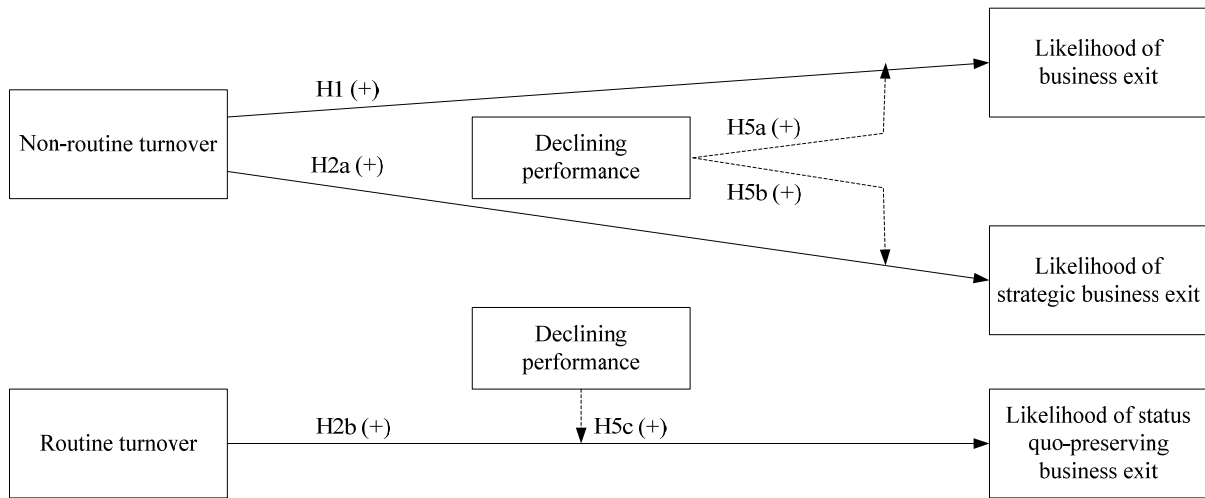
Holcomb, 2007). Although business exit is mainly undertaken for the purpose of performance enhancement, strategic change as an implication of business exit has largely been ignored by prior research. Studies by Burgelman (1994, 1996) and Byerly et al. (2003) are rare exceptions. Accordingly, a perspective emphasizing the negative connotation of business exit, i.e., failure, predominates the literature, although it can also be viewed as a new beginning for a firm and a sign of strategic vitality. Second, in this study the role of the upper echelons in promoting business exit and business exit types takes center stage. Thereby, we do not only test whether the occurrence of a change of the CEO enhances the likelihood of business exit (types). We additionally differentiate between turnover and succession that are interdependent but different events, by distinguishing between routine (voluntary) and non-routine (involuntary) turnover as well as insider and outsider succession. To our knowledge, this is the first study in the field of strategic management that relates different types of turnover and succession to different types of business exit. Prior studies have also examined the role of top executives in divestitures (e.g., Brauer, 2009; Kaiser & Stouraitis, 2001; Shimizu & Hitt, 2005; Wiersema, 1992, 1995), but they have not further differentiated between turnover and succession types. Our results show that outsider succession nurtures strategic business exit, while a longer tenure tends to promote status quo-preserving business exit. Finally, as firm performance has proved to be the most important predictor of business exit (e.g., Brauer, 2006; Cho & Cohen, 1997), we study the effects of performance variables. On the one hand, we use these indicators as additional factors in order to test to what extent performance affects the likelihood of business exit and business exit types; on the other hand, we use these performance measures as moderating variables that are expected to strengthen the impact of different turnover and succession events on business exit. We show that outsider succession in combination with increasing return to shareholders enhances the likelihood of status quo-preserving business exit, while outsider succession in isolation

promotes strategic business exit. These findings suggest that an increase in a performance indicator that is important to investors can decrease the propensity to alter a firm's strategic direction, irrespective of the new CEO's status as an outsider. The propensity to take risks associated with strategic change seems to decrease. The CEO's responsiveness to relevant stakeholders' expectations may outweigh the effect of succession type that can be observed without the interaction with performance. Future studies may investigate more thoroughly the extent to which a new CEO has discretion to act independently from the interests represented by specific performance indicators.

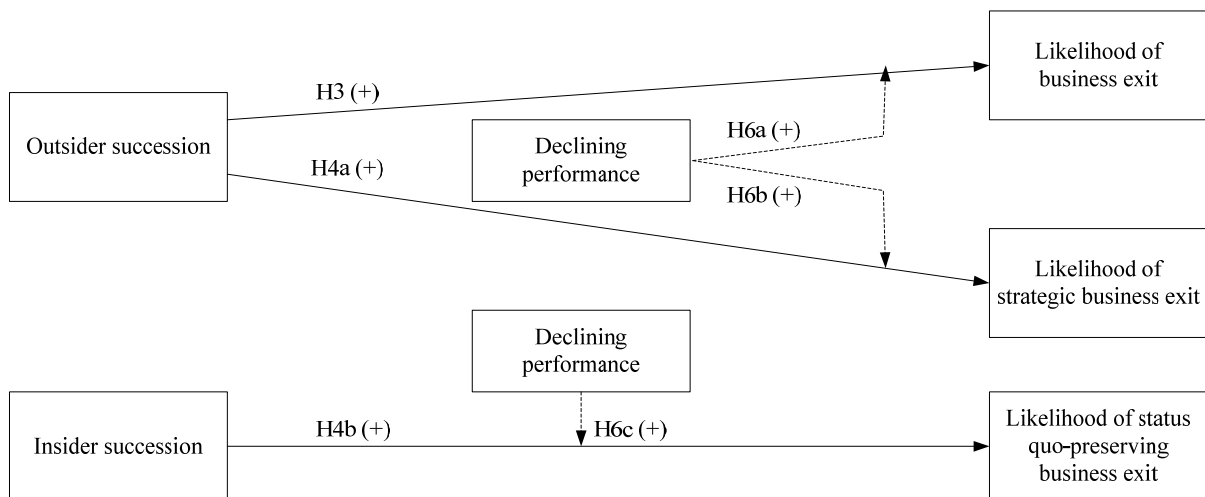
# FIGURES AND TABLES

**FIGURE 1.**  
**HYPOTHESES**

**(a) Turnover Effects:**



**(b) Succession Effects:**



**TABLE 1.**  
**MEANS, STANDARD DEVIATIONS AND CORRELATIONS**

<b>Variables</b>	<b>Means</b>	<b>SD</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>
<b>1</b> exit	0.328	0.471	1.000												
<b>2</b> turnover	0.325	0.470	0.050	1.000											
<b>3</b> succession	0.344	0.477	0.229*	0.100	1.000										
<b>4</b> tenure	8.973	10.978	0.139	-0.166	-0.177	1.000									
<b>5</b> EBIT	762055.033	2967951.329	0.012	0.041	-0.186*	0.052	1.000								
<b>6</b> RTS	0.004	0.341	-0.085	-0.129	-0.139	0.090	0.072	1.000							
<b>7</b> SG	12.325	24.357	0.056	0.089	-0.124	-0.044	-0.083	0.104	1.000	0.035					
<b>8</b> DM	2.584	4.829	0.235**	0.096	0.140	-0.066	0.036	-0.178*	0.035	1.000					
<b>9</b> focus	3.311	2.330	0.096	0.094	0.111	0.039	-0.090	-0.215*	-0.241*	-0.181	1.000				
<b>10</b> owner	0.263	0.442	0.083	-0.024	0.101	-0.027	-0.024	0.074	-0.103	-0.009	0.050	1.000			
<b>11</b> firm size	4.020	0.725	0.203*	-0.153	0.062	0.057	0.159	-0.184	-0.177	-0.033	0.236*	-0.054	1.000		
<b>12</b> firm age	1.734	0.512	0.079	-0.021	-0.044	0.053	0.149	0.011	-0.234*	0.030	-0.074	0.186*	0.099	1.000	
<b>13</b> industry dummy	0.462	0.501	0.161	-0.065	0.002	-0.069	0.113	0.024	0.141	0.230*	-0.048	0.168	-0.151	-0.059	1.000

N = 122. Significance levels: \*\* p < 0.01; \* p < 0.05.

**TABLE 2.**  
**THE EFFECTS OF TURNOVER TYPE AND SUCCESSION TYPE ON THE**  
**LIKELIHOOD OF BUSINESS EXIT IN GENERAL**

Variables	Model 1		Model 2		Model 3		Model 4	
	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)
constant	-4.271**	(1.986)	-4.596**	(2.099)	-4.228**	(2.011)	-4.033**	(2.030)
firm size	0.334	(0.366)	0.393	(0.386)	0.301	(0.370)	0.276	(0.377)
firm age	0.667	(0.620)	0.682	(0.618)	0.552	(0.633)	0.465	(0.614)
industry	0.288	(0.569)	0.402	(0.583)	0.235	(0.577)	0.504	(0.592)
EBIT	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)
RTS	-0.015	(0.754)	0.083	(0.755)	0.216	(0.772)	-0.015	(0.797)
SG	0.010	(0.014)	0.009	(0.014)	0.011	(0.014)	0.011	(0.014)
DM	0.119	(0.083)	0.109	(0.085)	0.126	(0.084)	0.109	(0.083)
focus	0.157	(0.114)	0.137	(0.116)	0.155	(0.116)	0.147	(0.118)
owner	-0.149	(0.602)	-0.189	(0.604)	-0.227	(0.618)	-0.196	(0.632)
turnover			0.395	(0.593)				
succession					0.858	(0.583)		
tenure							0.037	(0.025)
Nagelkerke R square	0.120		0.128		0.157		0.150	
-2 Log Likelihood	87.185		85.992		85.009		80.420	
Chi square	6.643		6.990		8.819		7.878	
df	9		10		10		10	

N = 122. Significance levels: \* p < 0.10; \*\* p < 0.05; \*\*\* p < 0.01.



**TABLE 3.**

**THE EFFECTS OF TURNOVER TYPE AND SUCCESSION TYPE ON THE LIKELIHOOD OF STRATEGIC OR STATUS QUO-PRESERVING BUSINESS EXIT**

Variables	Model 1				Model 2				Model 3				Model 4			
	status quo		strategic		status quo		strategic		status quo		strategic		status quo		strategic	
	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)
constant	-7.259***	(2.707)	-3.188	(3.778)	-7.347***	(2.821)	-4.176	(3.815)	-7.413***	(2.754)	-2.571	(4.010)	-6.775**	(2.748)	-2.310	(3.732)
firm size	1.021*	(0.541)	-0.867	(0.789)	1.023*	(0.560)	-0.893	(0.867)	1.018*	(0.549)	-1.450	(1.026)	0.863	(0.546)	-1.027	(0.824)
firm age	0.780	(0.737)	0.920	(1.008)	0.812	(0.740)	0.919	(1.023)	0.755	(0.753)	0.418	(1.119)	0.544	(0.744)	0.917	(1.017)
industry	-0.429	(0.705)	1.593	(1.283)	-0.352	(0.713)	1.900	(1.368)	-0.507	(0.725)	2.272	(1.545)	-0.222	(0.735)	1.351	(1.280)
EBIT	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)
RTS	-1.415	(1.225)	1.358	(1.172)	-1.416	(1.248)	2.062	(1.480)	-1.302	(1.252)	2.499*	(1.503)	-1.232	(1.260)	1.999	(1.480)
SG	0.023	(0.016)	0.002	(0.027)	0.024	(0.017)	-0.001	(0.025)	0.025	(0.017)	0.011	(0.029)	0.025	(0.017)	0.002	(0.026)
DM	0.130	(0.100)	-0.207	(0.230)	0.127	(0.103)	-0.240	(0.245)	0.132	(0.100)	-0.327	(0.288)	0.144	(0.100)	-0.244	(0.242)
focus	0.000	(0.145)	0.469**	(0.215)	-0.003	(0.147)	0.48*	(0.247)	-0.007	(0.147)	0.635**	(0.298)	-0.021	(0.152)	0.497**	(0.237)
owner	-0.057	(0.730)	0.471	(1.043)	-0.090	(0.733)	0.729	(1.049)	-0.084	(0.741)	0.523	(1.142)	-0.067	(0.770)	0.734	(1.161)
turnover					0.078	(0.724)	1.607	(1.159)								
succession									0.656	(0.677)	2.594**	(1.300)				
tenure													0.058*	(0.030)	-0.040	(0.059)
Nagelkerke R square		0.350				0.374				0.413				0.391		
-2 Log Likelihood		100.437				97.865				94.950				92.365		
Chi square		24.734				26.461				30.222*				26.485		
df		18				20				20				20		

N = 122. Significance levels: \* p < 0.10; \*\* p < 0.05; \*\*\* p < 0.01.

**TABLE 4.**

**THE MODERATING EFFECT OF PERFORMANCE ON THE LIKELIHOOD OF BUSINESS EXIT IN GENERAL**

Variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6		Model 7		Model 8		Model 9	
	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)	beta	(s.e.)
constant	-1.038***	(0.343)	-0.946***	(0.446)	-0.925**	(0.357)	-1.286***	(0.390)	-1.247***	(0.381)	-1.324***	(0.413)	-1.448***	(0.415)	-1.308***	(0.397)	-1.547***	(0.424)
firm size	-0.104	(0.041)	-0.099**	(0.041)	-0.097**	(0.045)	-0.101**	(0.040)	-0.098**	(0.039)	-0.106***	(0.040)	-0.121***	(0.045)	-0.118***	(0.043)	-0.128***	(0.045)
firm age	-0.340**	(0.170)	-0.362**	(0.153)	-0.341**	(0.157)	-0.349**	(0.163)	-0.381	(0.165)	-0.349**	(0.176)	-0.387***	(0.143)	-0.380***	(0.141)	-0.362***	(0.139)
industry	0.626***	(0.223)	0.593***	(0.210)	0.535**	(0.208)	0.612***	(0.221)	0.642***	(0.216)	0.590***	(0.224)	0.666***	(0.215)	0.640***	(0.211)	0.612***	(0.204)
DM							0.142**	(0.061)	0.164**	(0.068)	0.156***	(0.065)	0.167**	(0.066)	0.159**	(0.063)	0.162**	(0.065)
focus	0.181***	(0.057)	0.183***	(0.054)	0.190***	(0.056)	0.178***	(0.054)	0.185***	(0.058)	0.183***	(0.057)	0.202***	(0.062)	0.194***	(0.055)	0.194***	(0.062)
owner	0.023	(0.135)	0.09	(0.108)	0.050	(0.109)	0.092	(0.126)	0.078	(0.121)	0.088	(0.125)	0.082	(0.105)	0.082	(0.098)	0.085	(0.099)
EBIT	0.000	(0.000)					0.000	(0.000)					0.000	(0.000)				
RTS			-0.472	(0.936)					-0.224	(0.962)					0.533	(1.442)		
SG					-0.006	(0.014)					0.006	(0.008)					0.013	(0.009)
turnover	0.321	(0.505)	0.161	(0.463)	-0.246	(0.513)												
nonroutine X EBIT	0.000	(0.000)																
nonroutine X RTS			1.2445	(1.243)														
nonroutine X SG					0.024	(0.019)												
succession							0.852*	(0.487)	0.841*	(0.444)								
outsider X EBIT							0.000	(0.000)										
outsider X RTS									-0.224	(0.962)								
outsider X SG											0.008	(0.017)						
tenure													0.060**	(0.028)	0.045*	(0.025)	0.057**	(0.027)
tenure X EBIT													0.000	(0.000)				
tenure X RTS															0.533	(1.442)		
tenure X SG																	-0.001	(0.001)
Pseudo R square	0.220		0.218		0.224		0.243		0.243		0.243		0.254		0.252		0.259	
Log Pseudolikelihood	-59042		-59.165		-58.695		-58.41		-58.47		-58.41		-54.008		-54.161		-53.647	
Wald Chi square	29.99		29.43		31.68		33.70		30.76		33.70		30.31		31.61		31.03	
Prob > Chi square	0.0004		0.0005		0.0002		0.0001		0.0003		0.0001		0.0004		0.0002		0.0003	
df	9		9		9		9		9		9		9		9		9	

N = 122. Significance levels: \* p < 0.10; \*\* p < 0.05; \*\*\* p < 0.01.

**TABLE 5.**

**THE MODERATING EFFECT OF PERFORMANCE ON THE RELATIONSHIP BETWEEN TURNOVER TYPE AND  
SUCCESSION TYPE ON THE LIKELIHOOD OF BUSINESS EXIT TYPE**

Variables	Model 1						Model 2						Model 3					
	status quo			strategic			status quo			strategic			status quo			strategic		
	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx
constant	-1.304***	(0.391)		-6.355***	(1.973)		-1.158***	(0.375)		-8.006***	(3.044)		-1.174***	(0.402)		-6.175***	(1.932)	
firm size	-0.114**	(0.046)	-0.019**	-0.011	(0.064)	0.000	-0.108**	(0.047)	-0.019**	-0.022	(0.069)	0.000	-0.110**	(0.050)	-0.019**	0.019	(0.059)	0.000
firm age	-0.301	(0.046)	-0.052	0.759	(0.951)	0.005	-0.345**	(0.173)	-0.060**	1.259	(1.330)	0.002	-0.313*	(0.174)	-0.056*	0.861	(0.856)	0.006
industry	0.593**	(0.258)	0.097**	2.375**	(1.002)	0.014	0.544**	(0.229)	0.093**	2.793**	(1.100)	0.005	0.468**	(0.222)	0.078**	2.489**	(0.986)	0.015
DM	0.201***	(0.062)	0.034***	-0.076	(0.298)	-0.001	0.161**	(0.069)	0.028**	-0.200	(0.313)	-0.001	0.175**	(0.070)	0.031**	-0.093	(0.326)	-0.001
focus	0.147***	(0.056)	0.024***	0.399***	(0.120)	0.002	0.151***	(0.051)	0.026***	0.531***	(0.154)	0.001	0.160***	(0.055)	0.027***	0.358***	(0.101)	0.002
owner	-0.056	(0.151)	-0.010	0.263	(0.272)	0.002	0.067	(0.116)		0.218	(0.224)	0.000	0.019	(0.113)		0.178	(0.228)	0.001
EBIT	0.000	(0.000)	0.000	0.000	(0.000)	0.000												
RTS							-1.011	(0.975)	-0.176	1.836	(1.582)	0.004						
SG													-0.002	(0.013)	0.000	-0.025	(0.043)	0.000
turnover	0.280	(0.560)	0.048	0.530	(0.812)	0.003	0.031	(0.529)	0.005	0.781	(0.814)	0.002	-0.491	(0.590)	-0.082	0.003	(0.006)	0.003
nonroutine X EBIT	0.000**	(0.000)	0.000	0.000	(0.000)	0.000												
nonroutine X RTS							1.653	(1.401)	0.288	-0.296	(1.892)	-0.001						
nonroutine X SG													0.015	(0.019)	0.004	0.030	(0.044)	0.000
succession																		
outsider X EBIT																		
outsider X RTS																		
outsider X SG																		
tenure																		
tenure X EBIT																		
tenure X RTS																		
tenure X SG																		
Pseudo R square			0.249						0.256						0.246			
Log Pseudolikelihood			-72.701						-72.006						-72.979			
Wald Chi square			55.43						94.17						56.20			
Prob > Chi square			0.0000						0.0000						0.0000			
df			18						18						18			

N = 122. Significance levels: \* p < 0.10; \*\* p < 0.05; \*\*\* p < 0.01. Omitted category: no exit. dy/dx are the marginal effects.

**TABLE 5 (continued)**

Variables	Model 4						Model 5						Model 6					
	status quo			strategic			status quo			strategic			status quo			strategic		
	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx
constant	-1.540***	(0.427)		-6.561***	(2.020)		-1.603***	(0.434)		-8.157**	(3.501)		-1.684***	(0.471)		-6.436***	(2.010)	
firm size	-0.110**	(0.044)	-0.019**	-0.016	(0.060)	0.000	-0.099**	(0.043)	-0.000**	-0.039	(0.054)	0.000	-0.114**	(0.045)	-0.020**	-0.005	(0.056)	0.000
firm age	-0.326*	(0.174)	-0.058**	0.776	(1.074)	0.004	-0.405**	(0.185)	0.003**	1.458	(1.632)	0.003	-0.329*	(0.198)	-0.058*	0.965	(0.901)	0.006
industry	0.572**	(0.238)	0.097**	2.626***	(0.948)	0.011	0.625**	(0.251)	0.102***	2.286**	(1.017)	0.004	0.557**	(0.251)	0.093**	2.399**	(0.996)	0.013
DM	0.156**	(0.062)	**0.027	-0.114	(0.346)	-0.001	0.197**	(0.080)	0.032**	-0.269	(0.355)	-0.001	0.170**	(0.067)	0.030**	-0.066	(0.286)	-0.001
focus	0.143***	(0.054)	***0.024	0.460***	(0.114)	0.002	0.151***	(0.052)	0.245***	0.527***	(0.136)	0.001	0.148**	(0.057)	0.025***	0.386***	(0.115)	0.002
owner	0.068	(0.129)	0.012	0.215	(0.230)	0.001	0.041	(0.126)	0.007	0.124	(0.224)	0.000	0.058	(0.125)	0.010	0.212	(0.232)	0.001
EBIT	0.000	(0.000)	0.000	0.000	(0.000)	0.000												
RTS							-1.848	(1.140)	-0.304	2.645*	(1.518)	0.005						
SG													0.011	(0.008)	0.002	-0.025	(0.046)	0.000
turnover																		
nonroutine X EBIT																		
nonroutine X RTS																		
nonroutine X SG																		
succession	0.840*	(0.502)	0.156	0.291	(1.099)	0.000	0.962**	(0.479)	0.170**	0.758	(0.920)	0.001	0.834	(0.540)	0.154	0.209	(1.010)	0.000
outsider X EBIT	0.000	(0.000)	0.000	0.000	(0.000)	0.000												
outsider X RTS							3.778**	(1.837)	0.621**	-3.365	(3.292)	-0.007						
outsider X SG													0.003	(0.017)	0.001	0.037	(0.053)	0.000
tenure																		
tenure X EBIT																		
tenure X RTS																		
tenure X SG																		
Pseudo R square			0.259						0.304						0.260			
Log Pseudolikelihood			-73.025						-68.535						-72.891			
Wald Chi square			60.59						57.98						59.20			
Prob > Chi square			0.0000						0.0000						0.0000			
df			18						18						18			

N = 122. Significance levels: \* p < 0.10; \*\* p < 0.05; \*\*\* p < 0.01. Omitted category: no exit. dy/dx are the marginal effects.

**TABLE 5 (continued)**

Variables	Model 7						Model 8						Model 9					
	status quo			strategic			status quo			strategic			status quo			strategic		
	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx	beta	(s.e.)	dy/dx
constant	-1.866***	(0.491)		-7.608***	(1.753)		-1.714***	(0.475)		-8.295***	(3.183)		-2.107***	(0.538)		-6.280***	(2.092)	
firm size	-0.142***	(0.050)	-0.025***	-0.006	(0.065)	0.000	-0.127***	(0.047)	-0.022***	-0.022	(0.066)	0.000	-0.153***	(0.053)	-0.026***	-0.004	(0.059)	0.000
firm age	-0.345**	(0.142)	-0.061**	1.037	(0.813)	0.003	-0.392**	(0.161)	-0.070**	1.731	(1.500)	0.002	-0.341**	(0.141)	-0.061***	0.903	(0.925)	0.007
industry	0.579***	(0.203)	0.100***	2.837**	(1.141)	0.008	0.601***	(0.216)	0.105***	2.443**	(1.015)	0.003	0.530***	(0.193)	0.088**	2.377**	(1.020)	0.017
DM	0.188***	(0.067)	0.033***	-0.16	(0.345)	-0.001	0.185*	(0.077)	0.033**	-0.288	(0.229)	0.000	0.186**	(0.072)	0.032**	-0.060	(0.272)	-0.001
focus	0.169***	(0.059)	0.029***	0.504***	(0.126)	0.001	0.169***	(0.051)	0.030***	0.550***	(0.153)	0.001	0.171***	(0.061)	0.029***	0.373***	(0.125)	0.002
owner	0.032	(0.105)	0.005	0.258	(0.435)	0.001	0.056	(0.098)	0.010	0.140	(0.322)	0.000	0.051	(0.098)	0.009	0.188	(0.243)	0.001
EBIT	0.000	(0.000)	0.000	0.000**	(0.000)	0.000												
RTS							0.782	(1.525)	0.138	-0.401	(2.354)	-0.001						
SG													0.018*	(0.010)	0.003*	-0.001	(0.023)	0.000
turnover																		
nonroutine X EBIT																		
nonroutine X RTS																		
nonroutine X SG																		
succession																		
outsider X EBIT																		
outsider X RTS																		
outsider X SG																		
tenure	0.069**	(0.032)	0.012**	0.063	(0.048)	0.000	0.054*	(0.029)	0.010*	-0.023	(0.052)	0.000	0.073**	(0.031)	0.013**	0.018	(0.045)	0.000
tenure X EBIT	0.000	(0.000)	0.000**	0.000***	(0.000)	0.000												
tenure X RTS							-0.103	(0.122)	-0.018	0.237	(0.186)	0.000						
tenure X SG													-0.001	(0.001)	0.000	-0.001	(0.002)	0.000
Pseudo R square			0.293						0.316						0.283			
Log Pseudolikelihood			-66.044						-63.884						-67.013			
Wald Chi square			65.75						50.76						48.40			
Prob > Chi square			0.0000						0.0001						0.0001			
df			18						18						18			

N = 122. Significance levels: \* p < 0.10; \*\* p < 0.05; \*\*\* p < 0.01. Omitted category: no exit. dy/dx are the marginal effects.

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Der Einfluss der Besteuerung auf die Rechtsformwahl  
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FACTS

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*Strategic Management*