EXECUTIVE SUCCESSION,
TOP MANAGEMENT TEAM CONSOLIDATION,
AND CORPORATE STRATEGIC REDIRECTION

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EXECUTIVE SUCCESSION, TOP MANAGEMENT TEAM
CONSOLIDATION, AND CORPORATE STRATEGIC REDIRECTION

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The role of top management on the strategic choice of an organization is the focus of this research. Within the succession literature, many researchers have focused on the effect of leadership on organizational performance without examining shifts in strategy. On the other hand, business policy researchers have focused on strategic shifts without concurrently examining leadership changes. This research explores the effect of leadership as measured by executive succession, managerial origin, and top management team consolidation on corporate strategic redirection within a random sample of 189 firms drawn from the Fortune 1000. A measure was developed to capture the concept of strategic redirection in terms of portfolio realignments within the firm. The empirical results imply that executives hired from outside the organization as well as top management team consolidation have a significant effect on the magnitude of strategic redirection within a firm's business portfolio.
ROLE OF MANAGEMENT IN STRATEGIC CHOICE

Current literature has focused on the strategy formulation process as well as on the determinants of a firm's strategy. Strategy has been viewed both as being environmentally determined (Pfeffer and Salancik, 1978) as well as being primarily influenced by techno-economic factors especially at the business level (Hatten, Schendel, and Cooper 1978; Porter, 1980; Harrigan, 1980, 1981). In addition, the strategic process has been examined from an organizational decision-making perspective (March and Simon, 1958); a political process (Carter, 1971); as well as a "muddling-through" process (Lindblom, 1959; Allison, 1971) that appears to lack any overall grand design or orchestration. The symbolic role of top management (Pfeffer, 1981) perceives top management as primarily influencing attitudes, values, and perceptions within the organization rather than directly influencing substantive issues such as resource allocations within the firm. Despite the environmental, political, or organization perspectives on strategic decision making, the importance of leadership within an organization is still a popular view. Anecdotal evidence abounds describing the influence of chief executives on corporate strategy. Despite General Electric's already diversified portfolio of businesses, Jack Welch has brought about a dramatic strategic redirection within that company (by the acquisition of Kidder Peabody and RCA and the divestment of Utah International). At General Motors, Roger Smith has changed directions moving into electronics (EDS) and defense (Hughes Aircraft) while at the same time pursuing the
most dramatic strategic and organizational changes within GM's automotive division since the tenure of Alfred Sloan.

The romanticized conception of leadership perceives leadership as the premier force in the scheme of organizational events and occurrences. According to this view (Meindl, Ehrlich, Dukerich, 1986), "if leadership can make a difference, then it may be important for organizations to have leaders who operate with the assumption that they do make a difference and that they are in control."

Within the policy field, many authors (Barnard, 1938; Selznick, 1957; Drucker, 1974; Chandler, 1977; Andrews, 1980; Ansoff, 1965) have argued that the locus for strategy development is within the dominant coalition or top management of the firm. In other words, the future of an organization as reflected in its strategic course is in the hands of its key decision makers rather than a function of environmental factors alone. Whether the change in strategy is orchestrated from the top (Andrews, 1980; Ansoff, 1965; Vancil, 1979; Levinson and Rosenthal, 1984) or designed through the administration of organizational context or process (Bower, 1970; Quinn, 1980), it is the CEO who ultimately influences the strategic outcome of the organization.

In addition, the perspective of "strategic choice" (Child, 1972) within the sociology literature recognizes that management may play a part in the firm's adaptation to its environment. Leadership, whether interpersonal (Katz and Kahn, 1966), or power- and influence-based (Zaleznik and DeVries, 1975) can result in organizational transformations.
Is there then a relationship between the top management constellation and the strategic direction pursued by the firm? Within the succession literature, most researchers have focused on the linkage between succession and organizational performance in light of environmental and organizational factors. In examining this linkage, researchers have found there is little (Brown, 1982) or no (Smith et al, 1984) succession effect on organizational performance. According to Eitzen and Yetman (1972), once previous levels of performance were controlled for, managerial changes made no differences. Succession has also been viewed as "ritual scapegoating" (Gamson and Scotch, 1964). In addition, environmental and organizational factors were shown to be more explanatory of organizational performance than managerial succession (Lieberson and O'Connor, 1972; Pfeffer and Salancik, 1977). As Pfeffer and Blake (1986) have argued, one must control for organizational context to sort out the effect of succession.

On the other hand, there are researchers that argue that managers do matter. According to Weiner and Mahony (1981) within large, highly diverse organizations, environmental variables have relatively little influence on organizational profits and stock prices while leadership variables may prove more important. While Hall (1977) conceptually argues that leadership is important during times of organizational crisis, the linkage between strategic choice or shifts in strategy and succession has thus far not been systematically examined.

Within the strategy literature, on the other hand, many researchers have examined the environmental - strategy linkage
while ignoring the leadership effect. Specifically, the diversification literature examines diversification strategy in light of market and industry structure variables. As Hambrick and Mason (1984) have argued, more research is needed to explore the linkage between the executive constellation and strategic choice. The succession literature with its focus on the leadership effect, has missed examining concurrent shifts in business mix and succession. Meanwhile the diversification literature has focused on the nature of portfolio changes and strategic linkages while not specifically looking at leadership. The purpose of this study is to examine the linkage between leadership as measured by executive succession, composition, and top management team consolidation and strategic redirection as measured by portfolio realignments within the firm.

RESEARCH ISSUES

Corporate Strategic Redirection

To the extent that top managers matter, strategy and top management should be related. Previous studies on executive succession in the fields of organizational behavior and sociology, have primarily focused on the relationship between executive succession and organizational performance. However, the firm's economic, competitive, technological, and regulatory environment can directly influence economic performance, thereby confounding the linkage between succession and organizational performance. In addition, the internal systems and the structure of the firm as well as its strategic market position in its businesses may serve to constrain any immediate changes in firm
performance. Once other factors influencing organizational performance are accounted for, executive succession may have little impact (Pfeffer and Davis-Blake, 1986). Lieberson and O'Connor (1972) found that year, industry, and company characteristics accounted for 90 percent of total variation in firms' sales and earnings, while leadership accounted for about 6 percent of the variation. In a similar study on city mayors, Salancik and Pfeffer (1977) concluded that organization and environmental factors were more important determinants of organizational performance than leadership. In addition, Reinganum (1985) found that "the effects of succession as measured by abnormal stock market performance, are dependent on the size of the firm; origin of the successor; and the disposition of the predecessor."

In light of the interaction of economic, competitive, and organizational factors on organizational performance, accounting and financial measures cannot isolate the effect of the top management on the firm. A more managerially responsive measure might address these shortcomings.

According to Vancil (1979), a corporate manager has a variety of means at his disposal through which to influence the corporate environment: "He or she can choose to influence the organization by adopting a different managerial philosophy; setting a new leadership style; or by changing the organizational climate." Levinson and Rosenthal (1984), in their case studies of new CEOs, did indeed find that the CEO used a variety of modes of control to introduce changes within the organization. Jack
Hanley at Monsanto used a new organizational structure to help bring about a change within the organization. He also used management selection to help instill his vision of the new Monsanto. Within a very short time, 100 percent of the general managers, 96 percent of the corporate staff directors, and all but one of the outside board members were replaced by Hanley with people whom he identified as "sympathetic to his management style."

Large scale studies conducted at the business level of strategy indicate top management has an important role to play when dramatic strategic redirection within a business is necessitated. Hammermesh (1977) found that in order to effectively respond to a divisional profit crisis within a multi-business firm, it may be necessary to break commitments through personnel changes. Existing top management can stand in the way because of prior commitments to individuals, structural relationships, and divisional strategic plans. The notion that managerial changes play an important role in turning around a profit crisis is also substantiated by Charles Hofer (1980) in his work on turnaround strategies. According to Hofer, "a precondition for almost all successful turnarounds is the replacement of the current top management of the business in question."

Stuart Gilmour (1973) came to similar conclusions on the role of top management in divestiture situations. Divestment decisions are organizationally and personally painful decisions to make. According to Gilmour, the "crucial block was that
recognition of the divestment solution as a viable and acceptable option required some admission of failure or placing of blame on the part of the key decision maker." Gilmour, in his study on divestiture, found that the actual divestment decision-makers were all new to the companies and situations they faced. Gilmour suggests that top management's psychological distance or detachment from divestment candidates may be a necessary precondition for firms to be willing to divest. Duhaime (1981), in her study on divestment, found that frequently these decisions were related to the arrival of a new CEO and to the desire of those persons to "clean house."

At the corporate level, top management can influence the composition of the portfolio mix as well as the competitive position of a business. Strategic redirection at the corporate level is a multi-faceted phenomenon that can best be characterized as dramatic change within the organization. According to Tushman, Virany, and Romanelli (1985), reorientations are systemic, organization-wide change defined by simultaneous changes in strategy, power, and structure and controls. To operationalize the concept of strategic redirection would require a multi-dimensional measure. Due to the exploratory nature of this study as well as the lack of previous available measures, this study will focus on a measure of strategic redirection in terms of portfolio realignments. Corporate level strategy has often been defined as addressing the question of "What set of businesses should the firm compete in?" (Hofer and Schendel, 1979) or as filling the gap between the
performance potential of current SBUs and the desired performance level by adding new SBUs and/or divesting one or more current SBUs (Guth, 1986). Corporate strategic redirection then involves changing the pattern of resource allocation within the firm through such means as mergers, divestments, disposals, write-offs, acquisitions, or internal investments. In this manner, investment decisions impacting strategy are reflected through changes in the business portfolio of the firm. The use of the business portfolio as a means to depict corporate strategy has been heavily relied on by strategic planners for multi-business firms (see Hedley, 1977; Haspeslagh, 1982).

To operationalize strategic redirection, shifts in the mix and emphasis of businesses within the portfolio were measured using the extent of change in the relative size of the core business to the firm. The use of a measure that focuses on the core business of a firm is both managerially meaningful and supported by the previous research stream on diversification. The development of the diversification typology (Wrigley, 1970; Rumelt, 1974) relied on the delineation of what constituted the core business for the firm, its relative importance to the firm, and the nature of the linkages between the core business and the other activities of the firm. Shifts in the importance of the core business and its relation to the newly entered domains of the firm were used as a basis for identifying diversification strategies.

Defining or delineating firm strategy in terms of what happens to the core business incorporates the significance of the
relationship between managing the firm and its core business. Changes within the corporate portfolio, whether adding new businesses, divesting old businesses, or developing existing businesses will be reflected in changes in the relative importance of the core business within the overall portfolio. A measure which reflects top level strategic decisions should be more responsive to capturing the top management effect on an organization rather than traditional financial and accounting performance measures. Since top management can within a very short period of time change the portfolio of the firms they manage, a measure that captures these strategic shifts will better serve our research purpose. As can be seen in Figure 1, change in the importance of the core business can capture a firm's pattern of resource allocation decisions.

Insert Figure 1 about here

Top Management Team Consolidation

Historically, most firms grew from an entrepreneurial "one-man" style of management to professionally run companies with a plethora of managers. The principle of shared authority within the executive rank became a commonly accepted practice. According to Drucker (1973), "top management work is work for a team rather than for one man." The division of top management duties and responsibilities was almost universally accepted as the appropriate top management structure within large business enterprises. According to Vance (1983),
Early in the 1950s the office of the president (or chairman or chief executive) was a sharing of chief executive authority and responsibility by two or more key executives.

This type of top management team guaranteed the sharing of responsibilities yet each individual dealt with specific duties. It ensured that there was a certain dispersion of power within the organization. A top management team with a delineation between the office of the CEO and the office of the president was a commonly used management structure within large businesses during the 1960s.

The dispersion of executive authority within a top management team is one way of delineating what has been perceived as two distinct, but very essential, top management roles. The strategic role of developing and managing, i.e. allocating resources within a mix of businesses has been traditionally delegated as the CEO domain, while the actual management or operational success of the businesses was considered the COO domain. Within single business firms intent on remaining strategically focused, the CEO/COO role may sometimes seem to blur. In diversified firms, Leontiades (1986), among others, has argued that the need for the division of responsibilities clearly exists.

While the dual executive office was commonplace, many firms faced with ever-increasing diversity were experimenting with new ways in which to further share executive authority. The group executive office wherein three to five senior executives are responsible for the overall management of the firm has been used at such firms as Alcoa, General Foods, and IBM. The success of
this top management configuration has not always been universal. According to Levinson (1984) this is often a device to postpone or avoid formal designations of powers.

Top management committees have also been used to disperse responsibility at the top. IBM used central committees prior to 1979 to coordinate policy making while still managing its operations on a decentralized basis. At GE, committees served to allocate resources among businesses. The increasing complexity of the top management function has resulted in the use of these various managerial devices.

Yet, despite these means by which to share executive authority, in times of strategic instability group thinking and decision making may not be the most effective style of top management. If a major departure in corporate strategy is called for, the dispersion of executive power and responsibility within a group of managers may serve to inhibit strategic redirection. The homogeneity of strategic thought or consensus-building (Quinn, 1980) within the top management team, a precursor to major departures in strategic direction, is much easier to arrive at with fewer individuals at the top. In addition, leadership studies confirm the notion that organizational effectiveness is enhanced were only one person leads (Bass, 1981).

While the CEO position is traditionally concerned with the strategic domain of the firm, i.e. what set of businesses do we want to be in, it is the COO who must coordinate and manage the portfolio. Thus decisions affecting the composition of the business portfolio have a direct impact on the COO's realm of
operation. When strategic redirection is the desired path, the CEO faces the difficulty of convincing the operations side of the firm the need for this strategic choice. When the redirection in strategy involves restructuring the business activities of the firm by way of divestitures or shutdowns of current business units, resistance from within will undoubtedly occur. Turnaround and divestment literature indicate that shifts in a firm's strategic direction require decisions that break with past strategic thought.

When the CEO comes to power with a significantly different strategic vision of the firm than his predecessor's, the process of consensus building may prove to be burdensome and time consuming. In order to restructure the firm's portfolio as well as direct the firm to this new strategy, consolidation within the executive ranks may prove to expedite matters considerably. Firms which focus executive power and responsibility in one manager who acts as both CEO and President may exhibit greater freedom to enact redirections in corporate strategy.

To examine whether centralization of executive authority lends itself more readily to strategic redirection than to power dispersion will be one of the objectives of this study. It is hypothesized that management team consolidation permits the new CEO to implement his strategic vision more readily without internal executive resistance. As a result, this study will test the following hypothesis.

Hypothesis I: Top management team consolidation will be associated with strategic redirection.
Executive Succession

Much of the previous research addressing the impact of executive succession has focused on the relationship between managerial succession and organizational performance. Grusky (1963) found that "rates of administrative succession and degree of organizational effectiveness are negatively correlated." In other words, teams experiencing high rates of turnover are apt to exhibit poorer win-loss records than teams subjected to less instability in the ranks. Eitzen and Yetman (1972) found that "turnover and team performance are inversely related but that this relationship depends upon the team's performance prior to the change." In addition, Allen, Panian, and Lotz (1979) found that "there is a negative relationship between past team performance and the frequency of managerial succession." In other words, poor team performance led to increased turnover.

Other studies have found that changes in leadership have little bearing on organizational performance (Gamson and Scotch 1964). Brown (1982) also found evidence to confirm that the replacement of a leader in a poorly performing organization is often a kind of "ritual scapegoating" and has little to do with improving organizational performance, while Allen, Panian, and Lotz (1979) note that "the frequency of succession explains only a very small proportion of the total variance in team performance."

Much of the research on executive succession explores the premise that leaders, by their decisions and actions, should be able to influence organizational performance. It can be argued that a succession effect will only occur when new managers differ
from previous managers. This change in perspective may be unlikely to occur since according to March and March (1977) the "filtering process in organizations leads to selection from a fairly homogeneous group." This filtering process ensures that new managers are similar to old ones and as a result, little effect is realized. In many companies, managers are groomed from within and carefully observed prior to being chosen to join the ranks of top management.

In addition to the selection process, organizations can also constrain managerial autonomy. Executives are embedded in a social system which constrains behavior (Pfeffer, 1977). As a result, organizational expectations may reinforce previous modes of operation. To understand the effect of executive succession on the strategy of an organization, one needs to examine the exact nature of the transition within the top management team. While managers can be identified by a wide variety of differentiating characteristics, research on executive succession has come to focus on managerial origin in terms of the organization from which that individual came. Grusky (1960), in his studies of administrative succession has defined insider/outsider roles as follows:

insider: individual who emerged from among the membership of the executive's staff.

outsider: an individual transferred into the organization from another organization.

This typology is similar to Carlson's (1961) studies which identified managers as "place-bound" versus "career-bound."

Similar terms are used to describe executives as
"institutionally-oriented" or "maintenance-oriented." The underlying difference is whether the manager's career was within or outside of the organization.

Based on differences in the origin of the successor, one might predict rather different organizational outcomes. According to Carlson (1962), insider school superintendents would be more inclined to maintain the organizational status quo than to bring about dramatic change. On the other hand, outsiders are brought in to promote change and creativity. Thus, insider succession should be less disruptive than outsider succession. Helmich and Brown (1972) found confirming evidence in their study of 208 corporations that "organizations experiencing inside succession in the office of the president exhibit less organizational change than firms undergoing outside succession."

In studies relating managerial origin to organizational performance, both Gouldner (1954) and Grusky (1964) found that team performance deteriorates when outsiders became managers. In a more recent study utilizing stock prices as a performance measure, Reinganum (1985) found that external successors yielded a positive effect on performance. According to Reinganum, the election of outsiders as executives sent a positive signal to the financial community.

From these previous studies on executive succession, we would expect that turnover in and of itself will not be significantly associated with strategic redirection. However, executive origin that is, insider versus outsider, should result in differences in the extent of strategic redirection between
firms. It is hypothesized that outsiders perceive the firm differently than managers promoted from within and would therefore more likely pursue a redirection in corporate strategy. Given the theoretical and empirical background of the succession research and policy literature the following hypotheses will be tested.

Hypothesis II: Top management team turnover will not be associated with strategic redirection.

Hypothesis III: Top management team origin will be associated with strategic redirection.

METHOD

Sample

The population of firms chosen for this study was the 1000 largest manufacturing firms as listed by Fortune magazine in 1982. Of these firms, a random sample of 200 firms was chosen. Ten firms were eliminated due to data problems, leaving a sample of 190 firms. Because the 200 firms were drawn randomly from the Fortune 1000, they represent a cross section of the economy. A variety of industries are represented - from energy to electronics, forest products to food processors, metal to motor vehicles. The firms range in size from General Motors Corporation, with sales of $63 billion in 1981, to Instrumentation Laboratory, with sales of $123 million in 1981.

Succession Measures

Data were collected on top management changes for the period 1973 to 1981. The top management team examined included the chairman, chief executive officer, president, and chief operating
officer. These four positions comprised the top management team in most business organizations. Data on the composition and background of these executives were gathered from Dun and Bradstreet Reference Book of Top Management (1983) as well as financial reports and 10Ks filed annually by the firms for the period 1970-1982. Executive succession and composition in these four positions were tracked for the entire period. The measures are as follows:

Top Management Team Consolidation:

No Management Consolidation: separate individuals hold the offices of CEO and President within the firm

Management Consolidation: one individual serves as both CEO and President for the firm

Current Management Consolidation: One individual serves as both CEO and President, but this consolidation occurred with the current CEO. The President and CEO offices were held separately prior to the current CEO.

Executive Succession:

No Turnover: same individual presiding as the Chairman, CEO, President, or COO for the 1973-1981 period.

Turnover: a single replacement occurring within the specified office.

Multiple Turnover: two or more replacements occurring within the specified office.

Executive Origin:

Insider: specified executive was promoted from within the organization. Insiders have a previous career record within the organization.

Outsider: specified executive was hired into his post from outside the organization. Outsiders have a previous career record outside the organization.
Means, ranges, and correlates for each of these measures are shown as follows.

Insert Table 1 about here

Insert Table 2 about here

Strategic Redirection Measure

Realignments within a firm's corporate portfolio was used as a surrogate for strategic redirection. The shifts in business mix were measured using the extent of change in the relative size of the core business. This variable was calculated by examining the difference in the relative contribution of the core business to the firm's total revenues between 1973 and 1981, as an absolute percentage of its relative size in 1973. Data on line of business were collected from annual reports as well as 10Ks. In addition, the identity of the core business in 1973 was ascertained from company documents verified with the core business identity given in Moody's Industrial Handbook in 1973.

RESULTS

Executive Succession

From the analysis of the data in Table 3 we can see that the absence or presence of executive turnover in and of itself is not associated with a significantly different degree of strategic redirection. The results indicate that succession within the
office of Chairman, CEO, President, or COO has no significant effect on the relative change in the importance of the core business. In addition, firms with two or more turnovers in the executive rank did not differ in terms of the extent of strategic redirection from firms with a single turnover or firm with no turnover.

The data indicate that succession does not have a significant impact on whether or not a firm has experienced a redirection in corporate strategy. Executive succession can be viewed as a normal organizational process which will occur within most firms if viewed during a long enough time period. Within the sample, at the level of chairman 43 percent of the firms experienced turnover, while at the level of president 63 percent experienced turnover during the 1973-1981 time period.

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Insert Table 3 about here

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Executive Origin

To examine the impact of executive origin, one-way ANOVA was conducted with strategic redirection as the dependent variable. The results in Table 4 indicate statistically significant differences in the degree of strategic redirection between firms that have insider managers and firms with outsider managers. In other words, executive origin, insider vs. outsider, has a significant impact on the degree of portfolio realignment within the firm. Inspection of the cell means reveal that, on average,
firms managed by Chairmen, CEOs, Presidents, and COOs hired from outside their respective organization exhibited twice the extent of change in the size of their core businesses than firms managed by insider executives. These findings confirm Carlson's (1962) findings that insiders would be more inclined to maintain the organizational status quo than to bring about dramatic change. In addition this evidence confirms Helmich and Brown's (1972) study on corporations that "organizations experiencing inside succession in the office of the president exhibit less organizational change than firms undergoing outside succession."

Insert Table 4 about here

Executive Origin, Top Management Team Consolidation, and Strategic Redirection

To examine the dual impact of executive origin and top management team consolidation on the magnitude of strategic redirection within the firm, two-way analysis of variance was conducted. First the consolidation within the top management team was analyzed for its effect on strategic redirection. Table 5 presents the results of this analysis, and Table 6 reports inter-cell means.

Insert Table 5 about here
The results indicate, as previously noted, that CEO organizational origin had a significant effect on the degree of strategic redirection within the firm. Top management team consolidation, however, did not have a significant effect on the level of strategic redirection.

Why didn't differences in top management structure, in terms of the dispersion of power within the group, lead to differences in the amount of strategic redirection experienced by the firm? When we examine the nature of the executive group within the sample, we must note that over 50 percent (95/189) of the firms have already consolidated the offices of the CEO and President. Thus the two-man executive office is no longer the predominant management structure. Instead most firms have opted to consolidate the responsibilities and power of these two positions. This may in part explain why top management team consolidation, which is the norm for the sample and can be extrapolated to the population of F1000 firms, would not indicate differences in the extent of strategic redirection.

However, when we examine the timing of the consolidation within the top management team, a different pattern emerges. While most firms have only one executive acting as both CEO and President, for many of these firms this management structure is not a recent occurrence. The consolidation of the top management group seems to have been the norm for two or more executive
successions. This implies that there has been no dramatic shift in executive power with the current CEO but that the prevailing structure has been carried over from the previous administration. As a result, we would not expect firms with a history of previous management consolidation to experience any major redirections in corporate strategy.

For this study, we will focus on firms where top management consolidation is a recent phenomenon. It is hypothesized that if the CEO is trying to accomplish major strategic redirection, he will find it to his advantage to consolidate the executive team so that power resides only within himself. Firms wherein the current CEO has consolidated the top management team so that executive power is more concentrated than before have been classified as current consolidators.

To examine the impact of CEO origin and the timing of top management team consolidation on the degree of strategic redirection within the firm, two-way analysis of variance was conducted. Top management team consolidation was broken down into firms were no changes occurred with regard to the concentration of power under the current CEO and firms where consolidation occurred under the current CEO. Table 7 shows the results of this analysis, and Table 8 shows cell means.

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Insert Table 7 about here
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Insert Table 8 about here
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These results indicate that both CEO origin and current top management team consolidation have a significant effect on the extent of strategic redirection within the firm. Table 8 shows that firms where top management team consolidation occurred with the current CEO experienced almost twice the amount of strategic redirection than firms where consolidation had occurred with previous managers or did not exist at all. In addition, the researcher found no interaction between CEO origin and current consolidation.

IMPLICATIONS

This research provides evidence that top management team consolidation and executive origin are significantly associated with the extent of strategic redirection as measured by realignments within the firm's portfolio. Firms with executives hired from outside the organization exhibited twice the amount of strategic redirection than firms with executive promoted from within the organization. Furthermore, firms where both the CEO and COO are outsiders exhibited the greatest extent of corporate redirection. These findings corroborate the earlier findings from Carlson (1962) and Helmich and Brown (1972) that outsiders were more disruptive to the organizations they managed than insiders. Further analysis examining the lead/lag of executive placement and strategic redirection provided evidence that insiders replaced by outsiders are precursors to changes in the firm's business portfolio.
The greater propensity for strategic redirection when executives are hired from outside the firm provides support for the belief that a change in managerial perspective is often needed before major departures in corporate strategy will occur. Top management's belief system provides a framework with which to consider the complexity and uncertainty facing the firm and to shape the patterns of decisions that are labeled corporate strategy (Donaldson and Lorsch, 1984). According to Donaldson and Lorsch, "the perspective of top management is influenced by psychological constraints of the managers themselves, coalitions within the firm, past decision making, and commitments within the organization." Only when management lacks this "excess baggage" is strategic redirection likely to occur.

In selecting an insider as a successor, the belief system and strategic vision of the candidate should be somewhat more familiar to those making the placement decision. On the other hand, because an outsider managerial candidate represents the unknown a departure from the existing belief system can be expected, especially if the candidate comes from a different industry. Since managers are emotionally committed to their beliefs, they are very unlikely to change their belief system radically. One of the fastest ways to re-structure the managerial belief system is to bring in new leadership for the organization. This research demonstrates that the introduction of a new managerial belief system by the recruitment of executives from outside the firm resulted in the greatest degree of redirection within corporate strategy.
This research also examined the phenomenon of consolidation within the top management team where both CEO and presidential duties are managed by one individual, a management structure which is now seen in the majority of the Fortune 1000. Furthermore, when the consolidation phenomenon was examined in conjunction with top management background, it was found that those firms where top management team consolidation occurred with the current CEO, who had been recruited from outside the organization, experienced the greatest extent of strategic redirection. Firms with insider management where the CEO and president functions are still managed separately exhibited the least degree of strategic redirection. These findings confirm the notion of executive power (Zalesnick and DeVries, 1975). According to Levinson and Rosenthal (1984), the CEO must have freedom to act in order to instill his sense of strategic change in the organization. Through the consolidation of the executive constellation, the CEO can assimilate his power and thereby achieve strategic redirection for the firm.

Centralizing power can eliminate dissent while facilitating a corporate redirection in strategy for the organization. A new CEO hired from outside the organization may face tremendous internal resistance in implementing his strategic vision for the firm. As an outsider, he may lack personal support for his ideas among the management rank. His presence may actually generate hostility from managers who were also vying for the post of chief executive. By consolidating power at the top, he thereby reduces any dissonance and at the same time allows for a more autocratic
style with which to implement the desired changes. This consolidation of power becomes crucial for such major investment decisions as changes within the business portfolio of the firm. By collapsing the CEO and President offices, unpopular and difficult decisions such as divestitures and shutdowns may be more readily accomplished. The research presented here provides support for Levinson and Rosenthal's conclusion (1984) that a consolidation of power was a precursor to major strategic redirection. The selection of outsiders as top management appears to be a clear mandate from the board of directors that strategic changes are called for within the firm. Similarly the consolidation of top management is a signal from the top that strategic changes are likely to occur. Both of these actions serve as visible displays of power re-alignments and in turn lead to major redirections in strategy. This may explain Reinganum's results (1985) that outsider management selections yielded a positive effect on stock prices.

Based on these findings, executive succession and its impact on strategy may prove to be a rich new avenue of research. From this exploratory research it appears that outsider succession and top management consolidation with the current CEO are strategically disruptive to the organization. Given these results, we would expect firms with these managerial characteristics to undergo a significantly greater extent of redirection in their business portfolio than firms managed by insiders and firms where the executive constellation has not changed.
The use of strategic redirection as the dependent variable in this study provides new insights into the relationship between executive succession and strategic choice. The pattern of resource allocation decisions impacting the core business is but one dimension of strategic redirection, but served as a meaningful and convenient surrogate. Portfolio realignments captures the externally measurable result of redirections in corporate strategy. The ability to measure portfolio realignments, allowed this researcher to examine the link between top management composition and strategic choice.

To the extent that managerial background impacts strategy, perhaps other characteristics such as organizational background, functional specialty, or education might further explain strategic differences. What leads managers to different strategic perspectives of an organization? Is the CEO, who has spent his career within the firm, shackled by strategic commitments and biases that a candidate from the outside lacks? Perhaps differences in functional or industrial backgrounds lead to different strategic perspectives. And if such differences in background lead to strategic differences, then what of the issue of executive selection? Based on this study's results, the selection of the top management team has important ramifications for the future direction of the organization. Managers do matter especially under conditions that warrant radical strategic redirection. The strategic implication of executive succession is clearly one of the most vital issues facing the board of directors of a firm. Further research addressing such areas
would greatly expand our current knowledge on the role of the CEO constellation on strategic choice within the firm.
FIGURE 1
Portfolio Realignment as Measured by Change in the Importance of the Core Business

CHANGE IN CORE BUSINESS

CORE INCREASED
Expansion of Core
Divestment of Noncore Businesses

NO CHANGE IN CORE
Status Quo

CORE DECREASED
Divestment of Core
Selective Investments in Non-Core Businesses
Addition of New Bus.
TABLE 1
Descriptive Statistics of the Variables
(n=189)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Range</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRATEGIC REDIRECTION</td>
<td>25.183</td>
<td>1 - 100</td>
<td>27.546</td>
</tr>
</tbody>
</table>

where S.R. = % change in size of core business.

EXECUTIVE SUCCESSION

<table>
<thead>
<tr>
<th>Role</th>
<th>Mean</th>
<th>Range</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>1.5263</td>
<td>1 - 3</td>
<td>.6561</td>
</tr>
<tr>
<td>CEO</td>
<td>1.5579</td>
<td>1 - 3</td>
<td>.7010</td>
</tr>
<tr>
<td>President</td>
<td>1.9158</td>
<td>1 - 3</td>
<td>.8056</td>
</tr>
<tr>
<td>COO</td>
<td>1.9421</td>
<td>1 - 3</td>
<td>.8046</td>
</tr>
</tbody>
</table>

where 1= no turnover
2= 1 turnover
3= 2 or more turnovers

EXECUTIVE ORIGIN

<table>
<thead>
<tr>
<th>Role</th>
<th>Mean</th>
<th>Range</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>1.2474</td>
<td>1 - 2</td>
<td>.43262</td>
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<tr>
<td>CEO</td>
<td>1.2684</td>
<td>1 - 2</td>
<td>.44431</td>
</tr>
<tr>
<td>President</td>
<td>1.3158</td>
<td>1 - 2</td>
<td>.46606</td>
</tr>
<tr>
<td>COO</td>
<td>1.3263</td>
<td>1 - 2</td>
<td>.47010</td>
</tr>
</tbody>
</table>

where 1 = Insider
2 = Outsider

TOP MANAGEMENT TEAM CONSOLIDATION

<table>
<thead>
<tr>
<th>Role</th>
<th>Mean</th>
<th>Range</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Consolidation</td>
<td>1.5000</td>
<td>1 - 2</td>
<td>.50132</td>
</tr>
</tbody>
</table>

where 1= No Consol.
2=Consol. of CEO/Pres.

<table>
<thead>
<tr>
<th>Role</th>
<th>Mean</th>
<th>Range</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Management Consolidation</td>
<td>1.1217</td>
<td>1 - 2</td>
<td>.32780</td>
</tr>
</tbody>
</table>

where 1= No Consol. or Previous COE/Pres. Consol.
2= Consol. with Current CEO.
### TABLE 2
Correlations Among the Variables
(N=189)

<table>
<thead>
<tr>
<th>Variable 1</th>
<th>Variable 2</th>
<th>Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRATEGIC</td>
<td>REDIRECTION</td>
<td>1.00</td>
</tr>
<tr>
<td>TURNOVER CHAIRMAN</td>
<td>.109</td>
<td>1.00</td>
</tr>
<tr>
<td>TURNOVER CEO</td>
<td>.124</td>
<td>.909</td>
</tr>
<tr>
<td>TURNOVER PRESIDENT</td>
<td>.089</td>
<td>.567</td>
</tr>
<tr>
<td>TURNOVER COO</td>
<td>.117</td>
<td>.531</td>
</tr>
<tr>
<td>ORIGIN CHAIRMAN</td>
<td>.296</td>
<td>.368</td>
</tr>
<tr>
<td>ORIGIN CEO</td>
<td>.319</td>
<td>.338</td>
</tr>
<tr>
<td>ORIGIN PRESIDENT</td>
<td>.315</td>
<td>.221</td>
</tr>
<tr>
<td>ORIGIN COO</td>
<td>.364</td>
<td>.202</td>
</tr>
<tr>
<td>CONSOL.</td>
<td>.123</td>
<td>.123</td>
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<tr>
<td>CURRENT CONSOL.</td>
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<td>.229</td>
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</table>

Correlations greater than .143 are significant at $p < .05$.  

S.R. CHM CEO PRES COO CHM CEO PRES COO CONSOL CCON EXECUTIVE SUCCESSION EXECUTIVE ORIGIN MGMT. TEAM
TABLE 3
Executive Succession and Strategic Redirection

ANALYSIS OF VARIANCE

<table>
<thead>
<tr>
<th>Executive Position</th>
<th>No Turnover</th>
<th>Cell Means</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>Turnover</td>
<td>single</td>
<td>multiple</td>
<td>F-test</td>
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<tr>
<td>Chairman</td>
<td>22.250</td>
<td>29.291</td>
<td>27.848</td>
<td>1.4219</td>
<td>.2439</td>
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<td>n=16</td>
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<td></td>
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<tr>
<td>CEO</td>
<td>21.660</td>
<td>30.471</td>
<td>27.892</td>
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<td>President</td>
<td>23.290</td>
<td>23.909</td>
<td>29.269</td>
<td>.8174</td>
<td>.4432</td>
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<td>COO</td>
<td>21.175</td>
<td>26.262</td>
<td>28.750</td>
<td>1.2245</td>
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TABLE 4
Executive Origin and Strategic Redirection

ANALYSIS OF VARIANCE

<table>
<thead>
<tr>
<th>Executive Position</th>
<th>Cell Means</th>
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<th>F-test</th>
<th>p-value</th>
<th>$\omega^2$</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Insider</td>
<td>Outsider</td>
<td></td>
<td></td>
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<tr>
<td>Chairman</td>
<td>20.653</td>
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<td>16.735</td>
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<td>.082</td>
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<td>19.913</td>
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<tr>
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<td>n=138</td>
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<td>19.525</td>
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<td>39.174</td>
<td>27.111</td>
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</table>
TABLE 5
CEO Origin, Top Management Team Consolidation, and Strategic Redirection

<table>
<thead>
<tr>
<th></th>
<th>Degrees of Freedom</th>
<th>Mean Squares</th>
<th>F-Test</th>
<th>Signif.</th>
<th>$w^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO Origin</td>
<td>1</td>
<td>12984.8</td>
<td>18.879</td>
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<td>.09</td>
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<tr>
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<td>1201.6</td>
<td>1.747</td>
<td>.188</td>
<td>.01</td>
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<tr>
<td>Interaction</td>
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<td>38.3</td>
<td>.056</td>
<td>.814</td>
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<td>Error</td>
<td>185</td>
<td>687.8</td>
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</table>
TABLE 6
Cell Differences for Strategic Redirection

<table>
<thead>
<tr>
<th>Top Management Team Consol.</th>
<th>CEO Origin</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Insider</td>
<td>Outsider</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No Top Management Team Consolidation</td>
<td>16.97</td>
<td>36.82</td>
<td>21.62</td>
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<td>n=22</td>
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<tr>
<td>Top Management Team Consolidation</td>
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<td>40.38</td>
<td>28.01</td>
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<td>n=66</td>
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<td>n=95</td>
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<td></td>
</tr>
<tr>
<td>Mean</td>
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<td></td>
</tr>
<tr>
<td>n=138</td>
<td>n=51</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
### TABLE 7

CEO Origin, Current Top Management Team Consolidation, and Strategic Redirection

<table>
<thead>
<tr>
<th></th>
<th>Degrees of Freedom</th>
<th>Mean Squares</th>
<th>F-Value</th>
<th>Signif.</th>
<th>$w^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO Origin</td>
<td>1</td>
<td>10270.3</td>
<td>15.165</td>
<td>0.000</td>
<td>.07</td>
</tr>
<tr>
<td>Current Top Mgmt.</td>
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<td>2291.4</td>
<td>3.383</td>
<td>0.067</td>
<td>.02</td>
</tr>
<tr>
<td>Team Consolidation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interaction</td>
<td>1</td>
<td>412.3</td>
<td>0.609</td>
<td>0.436</td>
<td>.00</td>
</tr>
<tr>
<td>Error</td>
<td>184</td>
<td>677.2</td>
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</tbody>
</table>
TABLE 8

Cell Differences for Strategic Redirection

<table>
<thead>
<tr>
<th>Top Management Team Consolidation</th>
<th>CEO Origin</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Insider</td>
<td>Outsider</td>
<td>Mean</td>
<td></td>
</tr>
<tr>
<td>No Consolidation or</td>
<td>18.59</td>
<td>37.61</td>
<td>22.74</td>
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</tr>
<tr>
<td>Consolidation w/ Previous CEO</td>
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<td>n=36</td>
<td>n=165</td>
<td></td>
</tr>
<tr>
<td>Consolidation w/ Current CEO</td>
<td>34.89</td>
<td>44.43</td>
<td>40.70</td>
<td></td>
</tr>
<tr>
<td>Mean</td>
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<td>39.52</td>
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<td></td>
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<tr>
<td></td>
<td>n=138</td>
<td>n=50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
REFERENCES


Duhaime, I. M. Influences on the Divestment Decisions of Large Diversified Firms. Ann Arbor, Mi.: University Microfilms, 1981.


