Investigating the Association between Succession, CEOs' Characteristics and Corporate Diversification

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ABSTRACT

Executive succession as a strategic change mechanism occupies a central place in management research. In this paper, we examine whether two CEO succession contingencies, planning and frequency, are associated with changes in strategic scope, that is, with changes in a firms' corporate diversification strategy. Drawing upon upper echelons and institutional theoretical arguments, we propose that succession planning will be associated with post-succession strategic continuity and alignment, albeit non-planned successions will be associated with strategic change towards decreased scope and alignment. We also propose there is an inverse relationship between succession frequency and corporate strategic scope. Furthermore, we reflect on the role of CEOs' characteristics as moderators of the previous "planning-scope" association: We expect outside corporate origin to be associated with post-succession strategic change towards a decreased scope and strategic alignment; output or throughput past functional experience and elite educational background with post-succession non-increase in strategic scope and strategic alignment. On the contrary, inside corporate origin, peripheral past functional experience and non-elite educational background are expected to be associated with post-succession strategic change towards increased scope and strategic divergence. Moreover, we propose there is a positive relationship between the number of a CEOs board memberships and the firms' strategic alignment (that means, increasing CEOs mutual board memberships should lead to a higher degree of strategic isomorphism among firms). In addition, we argue that, within a defined institutional field, socio-demographic similarity among CEOs (based on the criteria of corporate origin, past functional experience, educational background) and CEOs board memberships accurately assess the degree of social homogeneity among firms and that that the varying density of firms' connexions, due to different degrees of participation of CEOs to other firms' boards, should create clusters of firms within which strategic resemblance should be higher than the fields' average. In this paper, change is defined as the percentage of annual variation in a firms' diversification strategy over a given period. Divergence is defined as the absolute difference between a firms' score and, first, the average score for all population firms, second, the average score of every observed cluster of firms, at every year for the same given period. Strategic change and divergence are operationalized with the entropy measure of diversification.

Keywords:
Diversification; succession; CEOs characteristics

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1. INTRODUCTION

CEOs' succession is considered as a key event in corporate life and remained over the last several decades an important research topic in management. Based on the assumption that executives and especially CEOs have a distinctive role and impact on corporate outcomes (Prahalad & Doz, 1997; Hambrick & Mason, 1984; Child, 1972; Selznick, 1957), research on executive succession produced a plethora of works, which, besides its often inconclusive results (Pitcher, Chreim & Kisfalvi, 2000), agree that it is a main strategic change and adaptation mechanism (Datta & Rajagopalan, 1998; Worrell, Nemec & Davidson, 1997; Tichy, 1996; Tushman & Rosenkopf, 1996; Miller, 1993; Wiersema, 1992; Friedman & Singh, 1989).

In the present paper, we investigate the association between two CEO succession contingencies, planning and frequency, and corporate diversification. Biggs (2004: 105) underscores the importance of succession planning as one of the most important issues boards have to deal with. Even if succession planning and frequency have been a research object since the 1970s (Kesner & Sebora, 1994), their potential impact on a firms' diversification strategy needs to be investigated.

The issue of succession reveals the importance of the boards' role in the CEO replacement process (Mace, 1977; Zald, 1969) and, subsequently, the one of the board-CEO relations. Research in management, mainly focused in these relations from an agency theoretical angle: According to the agency theory (Jensen, 1998; Fama & Jensen, 1983; Fama, 1980; Jensen & Meckling, 1976), corporate governance should be based on the separation of management and control. The reason is that modern corporations face complex issues, hence require expertise knowledge that managers can provide. However, the delegation of management decisions to top managers causes an agency problem: As every manager has her/his own preferences, there is no perfect agent, which implies a divergence and a conflict of interests between managers (agents) and boards, who are expected to represent shareholders' interests (principals). That means that agents' decisions may not conform to the principals' expectations.

In the present work, however, we argue that there is an intra-corporate convergence between the two corporate elites' sub-groups, namely boards, as representatives of shareholders' interests and CEOs. According to Granovetter (1985), the development of "concrete personal relations and structures (or "networks") of such relations" which generate trust and discourage malfeasance, prevents agents' opportunism. Social relations are "mainly responsible for the production of trust in economic life" (Granovetter, 1985: 490-491), thus, at an intra-corporate level, for tempering the schematical opposition between principals and agents. These social structures or networks, within which behaviors' are embedded, delineate the borders of the thinkable and the legitimate. Within the context of institutional theory, the importance of interiorized through socialization norms, values, expectations, at an intra-corporate level (Selznick, 1957), and the growing significance of taken-for-granted assumptions or of preconscious understandings at an inter-corporate one (Powell & DiMaggio, 1991), shared by top managers, seriously influence managerial behavior, by modifying the content of their interest: They moderate self-interest seeking behavior and make cynical opportunism to be perceived as "out of the script". Legitimacy reduces uncertainty and increases survival chances (Deephouse, 1996; DiMaggio, 1988).

Based on the previous arguments, at an intra-corporate level, we believe that principals-agents relationships are highly moderated by a sort of social "sameness" favoring convergence between corporate elites' sub-groups. This interests' convergence expressed through concrete social relations between boards and CEOs should indicate that corporate diversification decisions should be the outcome of an interaction and negotiation process between boards and CEOs: The board can exercise a significant influence as far as strategic orientation is concerned (Westphal & Fredrickson, 2001) and the CEO can influence boards (Westphal (1998). Also boards and CEOs are conscious of their previously mentioned social sameness, at both intra- and inter-corporate level, and can sanction directors who through their actions may endanger top managers' interests (Westphal & Khanna, 2003). Consequently, the social homogeneity of an ensemble of corporations reflects upon the common corporate elites' class consciousness, where directors and top managers are perceived as members of the same corporate elite social class (Palmer & Barber, 2001. Palmer, 1983. Useem, 1982).

In order to capture social sameness, within the context of the CEO succession contingencies and strategic scope association, CEOs socio-demographic characteristics are perceived as accurate proxies of CEOs cognitive orientation and as indicators of the content of their decisional propensity (Finkelstein & Hambrick, 1996; Hambrick & Mason, 1984). In the present paper, we argue that corporate origin, past functional experience, educational background, CEOs board memberships, moderate the succession planning and strategic scope relationship. Hence, they shed more light to the interaction "game" between boards and CEOs, especially around succession periods, as far as strategic decisions are concerned. In our work, however, we tend to draw upon institutional fields' or social ties' explanations (Geletkanycz & Hambrick, 1997) as far as the socio-demographic characteristics' proposed influence is concerned. That is, we assume that specific cognitive pre-dispositions do not only function individually, but form the background upon which more collective tendencies are built.

Socio-demographic characteristics were early recognized as of a great importance in influencing the association between CEO succession and corporate outcomes (Kesner & Sebora, 1994). Several important works underscore the impact of CEOs characteristics on corporate strategic change (Fondas & Wiersema, 1997; Boeker, 1997; Wiersema, 1992). Social ties' arguments further reinforce the accuracy of using socio-demographic proxies: As McPherson, Smith-Lovin & Cook (2001) state, "similarity breeds connexion".

Consequently, the aim of the current study is to investigate whether (and how) two succession contingencies, planning and frequency, influence significantly corporate diversification and to examine whether CEOs socio-demographic characteristics moderate the previous association.

2. THEORY

2.1. Succession planning

According to Zajac (1990), "firms whose CEOs have a specific successor in mind tend to be significantly more profitable than firms whose CEOs do not have a specific successor in mind" (1990: 227). Consequently, "unanticipated and poorly managed successions have a negative impact on shareholder wealth". Thus, succession planning is a "top priority" (Biggs, 2004; Shen & Cannella, 2003: 191; Harris & Helfat, 1998). Conger & Nadler (2004), also, highlight the importance of succession planning for successful corporate outcomes. Moreover, succession planning sheds light to the board-new (or groomed to become) CEO relations. These relations are seen as fundamental ones for defining corporate strategy (Westphal & Fredrickson, 2001; Westphal, 1998; Zajac & Westphal, 1996). Drawing upon Zald (1969), Mace (1977) and Zajac & Westphal (1996), the time period surrounding CEO succession reflects the one where the board of directors maximizes its power and influence in the corporation, which is reflected in the new CEO selection. Hence, boards are likely to choose a "board-compatible" new CEO, with similar demographic characteristics, in order to assure continuity in corporate vision and strategy (1996: 83). However, Westphal (1998) indicates that CEOs have the possibility to exercise personal influence to the board, through ingratiation and persuasion, in order to increase their discretion and to serve their interests by exercizing "an independent influence on the directions of firms through their decisions regarding strategy" (Boeker, 1997). Thus, by extending the previous findings, we believe that succession planning, imply an anticipation and interaction "game" between boards and future

CEOs that could reflect, either the future CEOs strive for increased discretion and command, through means of influence, network ties or reputation building, or the future CEOs willingness to conform to boards' driven choices, which may be already established according to the existing institutionalized "dominant logics" (Prahalad & Bettis, 1986).

According to Carroll (1984), as well as Haveman (1993), executive succession "disrupts internal operations and external relations" (1993: 877) and increases organizational death rate. Thus, succession planning should signal to the firms' environment and shareholders, that it is a process aiming to make transitions at the top smooth and to avoid crises. For Beatty & Zajac (1987), if CEOs' succession is anticipated – we assume succession planning existence to permit the relative information diffusion – there is an increase in stock price even before the actual succession event. Thus, succession planning leads to a firms' market value increase. According to Worrell, Davidson & Glascock (1993), permanent replacement announcements – we assume that CEO succession planning means that a new CEOs' arrival announcement will not be of a temporary nature – are associated with positive stockholders' reactions. Harris & Helfat (1998) further strengthen this view: For these authors, a lack of succession planning has a negative effect on stock market returns, thus reflecting an agency problem. For Worrell, Nemec & Davidson (2001. 1997), succession planning (the presence of a heir apparent) can prevent negative shareholders' reactions. Furthermore, based on Allen, Panian & Lotz (1979) – these authors suggest "between seasons" succession is better that an "on season" succession for post-succession performance – we believe that "between seasons" succession is equivalent to a succession planning, in the sense that allows the relative information diffusion about succession in time. Building upon these results, we argue that succession planning provides critical information, enabling to send a signal that the firm can successfully adapt to its environment and the resulting requirements; to assess the new CEOs characteristics, thus reducing the agency problem and fostering convergence at a governance level; to "adapt" to shareholders reactions and consequently to prevent negative stock market reactions. As a result, succession planning should lead to a new CEOs' arrival in a controlled by the board context, which should in turn further strengthen the legitimacy of the already established strategic choices, thus leading to post-succession strategic continuity, and in accordance to what is considered as legitimate at a field level.

Brown (1982) and Gamson & Scotch (1964) provide us an interesting insight: Succession has no causal impact on corporate performance. It is seen as a "ritual scapegoating" mechanism. Within this logic, succession planning announces a future event that has no impact on performance. However, the succession announcement itself could have an impact, functioning as a signal to shareholders, thus leading to subsequent expectations and reactions (we assume the policy expectations to have an impact on future strategic choices under the new CEO). As Puffer & Weintrop's (1991) state, boards' performance expectations can be an evaluation factor of CEOs' performance and show there is an impact of these expectations on CEO turnover. In other words, there is a relationship between performance expectations, observed performance and CEO turnover, the latter occurring when observed performance falls short of expectations. Consequently, a pre-announced new CEO would try to match pre-tenure (succession planning period) boards' expectations, as far as strategic choices are concerned, thus to conform to the boards' expectations and assure continuity.

Based on the previous developments, we argue that succession planning as a process signaling a taking into account of pressures and requirements from the firms' institutional environment will decrease probabilities for strategically divergent choices. In addition, it should reflect institutionalized board power (translated in new CEO selection and control), which should reduce the CEOs negotiation and persuasion potential within the context of the firms' strategic decision-making process. Consequently, succession planning should favor continuity and alignment, at least for the post-succession period, that is, the first "season" (Hambrick & Fukutomi, 1991) of the CEOs tenure.

Proposition 1a. *CEO succession planning will be associated with post-succession (a) strategic continuity and (b) alignment.*

Shen & Cannella (2003) highlight the interactive effects between succession planning and past performance. In conformity with the previously detailed literature, the non-existence of succession planning signals uncertainty and triggers agency problems, which in turn increases the probability for further worsening corporate performance. A non-planned succession should mean that non-ordinary conditions led to the CEOs replacement. Besides the case of sudden voluntary resignation or death of the CEO, CEOs replacement should be the result of dismissal (Shen & Cannella, 2002). The latter in turn should be the result either of poor performance or of major disagreement between the board and the CEO, as far as important strategic issues are concerned. Thus, we believe that a sudden board-initiated CEOs departure should reflect the boards will for major changes. Moreover, this will for change should be motivated from a will to achieve a better fit between the organization and the environment, thus an alignment to environmental requirements. Given the boards' motivations for changes towards a better fit with the environment, a sudden CEO replacement should be followed from decisions towards strategic refocusing, as a signal to the environment of the corporations' coherent articulation between capabilities, identity and corporate strategy (Detrie & Ramanantsoa, 1986), thus its will to assure a legitimate image (Zuckerman, 2000).

Proposition 1b. *A non-planned CEO succession will be associated with post-succession (a) strategic change towards decreased scope and (b) alignment.*

2.2. Succession frequency

The increased importance of the boards' role during critical periods, where changes and actions may "overcome managerial opportunism and persistence" (Goodstein & Boeker, 1991: 312) and the maximization of boards' power during critical periods such as executive succession ones (Mace, 1977; Zald, 1969) are of considerable importance when coupled with Miller's (1991) propositions, that as a CEOs tenure increase, the CEOs desire and ability to resist to external pressures for change becomes greater. Hence, successive short-tenured CEOs, which reflects high succession frequency for a given period, should indicate, first, CEOs with weak power bases and, thus low abilities to impose their own views; second, "turbulence at the top", which leads to an increased power and importance of the board. As the board assures a role of institutionalization and legitimization (Harrison, Torres & Kukalis, 1988) and also takes decisions that overcome opportunism, we should expect changes in a specific direction. The knowledge provided by research works on corporate diversification under the agency lights shows that persisting high diversification levels reflect top managers' will for employment risk reduction, financial gain, status and power, thus opportunism (Denis, Denis & Sarin, 1997; Hill & Hansen, 1991; Shleifer & Vishny, 1991; Morck, Shleifer & Vishny, 1990; Amihud & Lev, 1981). In other words, when CEOs have high decisional discretion, thus solid power bases and abilities to pursue their own views and interests, we expect high diversification levels. Under the opposite conditions, thus under conditions of high succession frequency, we should expect corporate refocusing.

Furthermore, high succession frequency should transmit an instability and uncertainty corporate image and hence should reflect a crisis condition. High succession frequency is often regarded as the consequence of political processes within an organization (Kesner & Sebora, 1994: 340). Poor performance or excessive development of internal politics lie behind the instability at the top corporate spot. In fact, for Eisenhardt & Bourgeois (1988), poor performance and internal politics are related. For Virany, Tushman & Romannelli (1992), high performing firms exhibit a relative stability at the top. Moreover, for Boeker (1997), poor performance is an important indication of misalignment between an organizations' strategy and its environment. Consequently, high succession frequency should reveal a situation of mutual reinforcement of poor performance, internal politics and external doubts as far as the adaptation capacity and survival of the firm is concerned. Within this context, at a corporate strategy level, boards should take decisions aiming to decrease perceptions of instability and uncertainty, by assuring a coherent corporate image and projected identity (Moingeon & Soenen, 2002), as a means to achieve legitimacy (Zuckerman, 2000) and to serve corporate interest. As a result, strategic decisions should aim to a corporate refocusing, that is to a decreased strategic scope.

Proposition 2. *There is an inverse relationship between CEO succession frequency and corporate strategic scope.*

2.3. CEOs corporate origin

Cannella & Lubatkin (1993) underscore the importance of corporate origin. Zhang & Rajagopalan (2003) explain the links between CEOs corporate origin and strategic change. Datta & Guthrie (1994) and Wiersema (1992) also underline the importance of the CEOs' origin for studying corporate strategy. For Hambrick & Mason (1984) and Wiersema (1992) inside CEOs have a cognitive propensity for core business focusing, triggered by internal socio-political factors, as well as by an attachment to established routines. They are "less likely to generate as much uncertainty and instability" (Helmich & Brown, 1972: 378-379). Helmich (1974) further strengthens the previous arguments, by stating that two successive insiders will be associated with the more conservative plans of development (less diversification in technology by product range), which indicates a lack of the corporations' will or ability to coopt its environment (1974: 773-774). On the contrary, outsiders are more inclined to initiate substantial strategic change (Tushman & Rosenkopf, 1996; Kesner & Dalton, 1994; Friedman & Saul, 1991; Grusky, 1964; 1963) and possibly divergent strategies. They bring new beliefs and views, but they are also seen as "strangers", "unacquainted with the social realities of the particular setting" (Carlson, 1961: 227), hence less committed to the intra-organizational status quo, from a socio-political as well as from a cognitive point of view. According to Wiersema (1992) "externally recruited presidents experienced a 21.7% decline in their specialization ratio while firms with internal succession experienced only a 7.2% decline" (1992: 89). Equally, for Datta & Guthrie (1994), the selection of an outsider is also associated with post-succession higher growth rates than the one of an insider (1994:

575-576). Thus, planning leading to an outsider new CEO, contrary to an insider, should signal the boards' will for substantial strategic change (Westphal & Fredrickson, 2001).

A motive for insider CEO selection is that insiders are better known than outsiders, hence they reduce the agency problem. The issue of agency and of the generated uncertainty leads us to show concern to the signals a CEO selection sends at an inter-organizational field level. That means, the previous literature focuses on agency-based internal-oriented information and predictability considerations, for the choice of the new CEO. In other words, internal mechanisms (such as socio-political factors and commitment to previously established choices), which are likely to impact on post-succession strategic choices, were of first concern for investigating the choice of a new CEO based on the corporate origin criterion and its consequences at a strategic level. We argue that the previous internal-oriented considerations can be complemented by external-oriented ones, as far as information and predictability are concerned.

Within this perspective, the selection of an outsider is seen as an openness of the corporation to its environment, which is likely to trigger positive investors' reactions (Lubatkin, Chung, Rogers & Owers, 1989). That is, as a taking into account of environmental requirements, thus as an ability and will to adapt to external legitimacy patterns. Drawing upon social network ties arguments (Geletkanycz & Sloan Black, 2001; Geletkanycz & Hambrick, 1997), as outsiders have an assumed more direct contact with the environment (they arrive to the top managerial spot through external job market processes and not internal to the company ones), they should further trigger alignment and change towards alignment. Managerial convergence arguments further reinforce the previous position: According to DiMaggio & Powell (1983), "executives (…) are all sufficiently like-minded (…) normative influences foster the development of a cadre of essentially interchangeable professionals who need not operate in the same firm, merely in the same environment". Consequently, outsiders should be under much greater influence from "outside" ideas than insiders, hence more inclined to implement high external legitimacy choices.

However: First, large firms are seen as being of a "relative complexity" and of a difficulty "to turn around" (Dalton & Kesner, 1983: 741). Second, institutionalization arguments (Ocasio, 1999; Pfeffer, 1981) – already institutionalized logics and strategic choices benefiting from high intra-firm legitimacy cannot easily put into question by a new CEO – highlight the difficulty for substantial change in large firms. Third, large firms have a "distinctive edge in executive development" and "potential for executive mobility" (Dalton & Kesner, 1983: 741). Based on the previous points, we argue that there are much higher probabilities for a large company to select an insider rather than an outsider. Large firms, under “normal” conditions – when succession should be a planned process – should have a preference for insiders, which, in contrast to outsider CEOs (when newly recruited), have better knowledge of the company and already have established internal networks (Chung, Lubatkin, Rogers & Owers, 1987). In conjunction with the previous point on the outsiders’ selection as a signal of adaptability and legitimacy, we argue that large firms by preferring insiders, they demonstrate a capacity to “filter” environmental pressures and influences. In other words, large firms, by exhibiting a preference towards insiders, they demonstrate autonomy and a lesser need to provide adaptation and legitimacy signals to the environment. Several important works theorize on the capacities of large firms to exercise influence to the field (Davis & Greve, 1997; Haveman, 1993) by signaling behaviors and hence even influencing what is defined as legitimate. This in turn should allow large firms to implement more easily divergent strategies. Thus, the selection of an insider from the board of directors should mean an ability to manage environmental influences and a capacity to pursue strategies in a relative autonomy from what is considered as legitimate at a field level. The subsequent decreased importance of external legitimacy considerations should influence managerial behavior. That means, legitimacy considerations would be less influential on top managers’ strategic choices. On the contrary, corporate and managerial interests should appear as powerful decisional triggers.

Conclusively, the selection of an outsider new CEO should be associated with the firms’ will to realign to the environment and to conform to external legitimacy patterns. As the choice of an outsider signals adaptation and legitimacy, this reflects a need for change towards re-alignment and legitimacy. The selection of insider CEOs means there is an increased corporate autonomy from external legitimacy pressures and an ability to pursue divergent strategies. Even if, however, succession planning was proposed to lead to continuity and alignment, the consideration of the CEOs corporate origin and its implications leads us to consider that corporate origin moderates and alters the previously proposed relationship between succession planning and strategic scope.

Proposition 3a. *Insider CEOs will be associate with post-succession (a) corporate strategic change towards an increased scope and (b) divergence. Outsider CEOs will be associated with post-succession (a) corporate strategic change towards a decreased scope and (b) alignment.*

Proposition 3b. *Succession planning leading to insider CEOs will increase probabilities for increased scope and strategic divergence. Succession planning leading to outsider CEOs will increase probabilities for decreased scope and strategic alignment.*

2.4. CEOs past functional experience

Pfeffer & Davis-Blake (1986) highlight the importance of experience. For Hambrick & Mason (1984), functional background is one of the key demographic characteristics for assessing the top managers impact on firms. They distinguish three types of functional background: Peripheral (finance, law), output (marketing, sales) and throughput (R&D, production). In general, a peripheral functional background will be "positively related to the degree of unrelated diversification in the firm" (Hambrick & Mason, 1984). Hayes & Abernathy (1980), then Hambrick & Mason (1984: 199) for which "firms are increasingly dominated by executives whose backgrounds are in areas such as law and finance", highlight that short-term managerial focus and preference for quick financial benefits, rather that long-term development and innovation, are simultaneously observed with the increasing importance of top executives with financial and/or legal background in orienting a corporations' focus much more on acquisitions and mergers (1980: 75). This point is also recently confirmed by Jensen & Zajac (2004). Davis & Stout (1992) observe that finance conception of corporate control is dominant (which means to treat the firm as a portfolio of assets and promoting the strategy of growth through diversification. 1992: 617). As a consequence, based on Fligstein (1990), Davis & Stout (1992) argue that CEOs with financial background are seen as more "attuned to share price, treating the product lines that the firm produces as a portfolio of profit centers that can be bought and sold readily if it will increase shareholder equity". They, too, suggest that finance CEOs "historically" pursued unrelated diversification strategies at "the apparent expense of shareholder interests" (1992: 617). Consequently:

Proposition 4a. *CEOs with peripheral past functional experience will be associated with post-succession (a) strategic change towards increased scope and (b) divergence.*

For Hambrick & Mason (1984), an output functional experience will be "positively associated with growth". According to Datta & Rajagopalan (1998), an output functional background is associated with high product differentiation and growth industries (1998: 847). However, Norburn & Birley (1988) argue that "TMTs which demonstrate a preponderance of output functional experience (…) will outperform those which do not, whether this be upon criterion of inter- or intra- industry productivity" (1988: 236). Thus, among firms which exhibit the greater success, we should expect to converge as far as CEOs past functional experience is concerned. This demographic profile convergence among companies, it should lead in turn to convergence of strategic choices, thus to significant strategic divergence avoidance. In other words, if the thing the most successful companies have in common is similarities among top executives, as far as past functional experience is concerned, they should present similar strategic choices. In addition, we tend to believe that due to the content of the output functions (marketing, sales), CEOs with output experience should be more sensible to communicate a coherent corporate image and identity (Moingeon & Soenen, 2002), thus to assure a legitimate corporate image (Zuckerman, 2000).

Consequently, CEOs with output functional background should be associated with non-increase in strategic scope and with strategic alignment. On the contrary, throughput functional experiences should indicate a weaker tendency towards environmental match considerations (such as assuring a legitimate corporate image through an externally perceived as adequate strategic scope) and a stronger one towards "technical" considerations. However, the latter element should lead to a greater commitment to already established product choices, which in turn should lead to a excessive diversification aversion. As Song (1982) empirically demonstrates, past functional experience influences corporate diversification: A production background (which is a throughput one) leads to internal diversification. On the contrary, a finance or law background (peripheral ones) leads to external diversification (1982: 379). In other words, throughput experience should be associated to a stronger attachment to activities associated with the firms' history.

Proposition 4b. *CEOs with output past functional experience will be associated with post-succession (a) non-increase in strategic scope and (b) alignment.*

Proposition 4c. *CEOs with throughput past functional experience will be associated with post-succession (a) non-increase in strategic scope and (b) alignment.*

Proposition 4d. *Succession planning leading to CEOs with peripheral past functional experience will increase probabilities for increased scope and strategic divergence. Succession planning leading to CEOs with output or throughput past functional experience will increase probabilities for a non-increase in strategic scope and strategic alignment.*

2.5. CEOs educational background

According to Hambrick & Mason (1984), educational background is one of the fundamental socio-demographic characteristics that influence executive elites' choices. It influences significantly executive selection decisions (Renwick & Tosi, 1978). Common references to specific educational backgrounds could reflect, not only a cognitive similarity, but also provide the basis for networks' formation. Within this context, education-based networks appear to be of a high importance, as they reflect common social and experiential references. Based on Bauer & Bertin-Mourot (1999; 1987), corporate elites are structured in networks. More importantly, the entrance to these networks is assured even before entering in professional life, which indicates that the common reference of these networks is "studentship" in specific graduate schools (or to specific specialized graduate programs reserved for the best among the students of these elite schools). The reference to a common elite educational background reveals a powerful social tissue, which bonds its members with a strong identity-oriented sense of sameness, and also functions as filter for controlling the access to the top corporate spots. For the authors, this type of educational background can even replace hands-on experience. Consequently, CEOs and board members should have increased chances of participating to the same alumni networks, thus rendering stronger their strategic decisions' intra- and inter-firm social embeddedness.

McPherson, Smith-Lovin & Cook (2001) further justify the importance of distinguishing educational backgrounds, according to level-based criteria: Drawing upon Lazarsfeld & Merton (1954), they argue that as far as status homophily is concerned, "all educational groups show inbreeding tendencies (…) people are both more likely to confide in others who share their same educational *level* [emphasis added] and less likely to form such a tie as their difference from others' achievement increases" (2001: 427). Moreover, similar educational background triggers ties' reinforcement, under conditions of turbulent, problematic times (Galaskiewicz & Shatin, 1981).

Based on the previously mentioned arguments and findings, we believe that the reference to a common elite educational background should: First, have stronger effect than the cognitive differentiation due to a different education content (that is, the level-based distinction should overshadow the content-based one). Second, to weaken the monitoring and controlling nature of the board-CEO relations and, on the contrary, further reinforce convergence, not only between boards and CEOs, but also between firms, due to a perceived sameness in terms of habitus (Bourdieu & Wacquant, 1992) or of class identity (Palmer & Barber, 2001; Palmer, 1983; Useem, 1982). This convergence or alignment effect should further reinforce a fields' implicit rules, thus external legitimacy requirements for a firm to assure a legitimate corporate image and strategic scope.

On the contrary, we argue that CEOs with non-elite educational background should be less acquainted and take less as "for granted" what is considered as legitimate within a field and hence should be more challenging as far as strategic decisions are concerned. Drawing upon Bourdieu & Wacquant (1992), not sharing the same habitus and not being socialized within the same field, should lead to different cognitive formations and preconscious understandings. Thus, it should lead to a different perception of interest (managerial and corporate) and a different formation of beliefs and values. Moreover, CEOs not socialized within elite educational circles may seek to achieve higher status, power and prestige, through divergent strategies – namely excessive diversification.

Proposition 5a. *CEOs with elite educational background will be associated with post-succession (a) non-increase in strategic scope and (b) alignment. CEOs with non-elite educational background will be associated with post-succession (a) strategic change towards increased scope and (b) divergence.*

Proposition 5b. *Succession planning leading to CEOs with elite educational background will increase probabilities for a non-increase in strategic scope and alignment. Succession planning leading to CEOs with non-elite educational background will increase probabilities for an increase in strategic scope and divergence.*

2.6. CEOs board memberships

For Mizruchi (1996), "interlocks have become the primary indicator of interfirm network ties" (1996: 271). The author underscores the importance of studying interlocks, which are associated with a wide range of corporate strategies and behavior (1996: 286, 288). From the reasons he states ("facilitate" communication and political unity, "provide" information and influence, and "pacify" the resource providers' management. 1996: 280), an image of flows across ties emerge, thus leads us to visualize interlocks as an explanatory background of strategic decisions. We identify two main theoretical approaches: The inter-organizational ties' approach and the intra-class ties' one.

Several key research works underscore the inter-organizational ties' importance of interlocks. Within this approach, imitation appears as a fundamental phenomenon. Mizruchi (1989) provides evidence on that interlocked firms should exhibit increased behavioral similarity compared to non-interlocked ones. Similarly, for Haunschild (1993), interlocks as an imitation means reinforce similarity of strategic behavior among firms from different industries (1993: 586). Haunschild (1993) and Westphal, Seidel & Stewart (2001) stress that board interlocks can channel second-order imitation processes, that is imitation characterized by “an underlying process mechanism that can explain multiple discrete first-order effects” (2001: 717). The authors’ bottom line is that inter-organizational imitation exists as a second-order process “in which firms adopt the underlying propensity for their interlock partners to imitate other firms, rather than merely imitating the content of individual strategic policies” (2001: 741). The fact that “most interlocks (…) are actually between noncompeting firms” (Zajac, 1988: 436), reinforce the second-order imitation logic. Finally, for both Haunschild (1993) and Westphal, Seidel & Stewart (2001), interlocks increase the normative aspect of observed and “mimetized” practices, which is also underscored by Davis & Greve (1997). However, only high legitimacy practices spread quickly through a board-to-board process.

Mizruchi (1996) mentions that interlocks’ patterns may “actually reflect *a deeper set of social relations among members of the corporate elite* [emphasis added]”. Palmer’s (1983) empirical findings suggest there is “an impressive shadow of doubt over some of the conclusions (…) done with an interorganizational approach”, hence confirming the intra-class social ties’ approach, for which “interlocks facilitate direct interaction and the communication of techniques, values and beliefs between directors (…) generate a common business elite or capitalist class culture that guides managerial behavior, socializes new directors into this culture and socially controls deviant managerial behavior” (1983: 42). For Useem (1982) too, interlocks obey to a classwide rationality, which suggests “membership in the corporate elite is primarily determined by position in a set of interrelated networks transecting virtually all large corporations” (1982: 202). According to the author, “the classwide principle of organization is the product of inclusive and diffusely structured networks of intercorporate ownership and directorship linking ever concentrating units of capital” (1982: 222). Thus, interlocking directorates form “a national transcorporate network overarching all sectors of business” (1982: 211).

Within the present paper, we argue that interlocks and more specifically CEOs board memberships, contribute to a field differentiation, due to different degrees of corporate connections through CEOs board memberships. In other words, based on the previous literature on the importance of interlocks, we argue that varying degrees of interlocks will lead to varying degrees of relations and interactions among companies. Hence, dense interactions and relations should structure clusters within a field, where firms should exhibit higher ties' density, through CEOs board memberships, and thus a higher degree of strategic similarity. Consequently, we follow Mizruchi (1996. 1989) in that interlocks reflect *both* inter-organizational and intra-class ties (1996: 280). Davis & Greve (1997) further support the within clusters higher degree of similarity and isomorphism, as similarity is a function of firms' centrality, which is defined by the number of interlocks ("centrality shows a strong effect on contagiousness". 1997: 28). For the authors, interlocks is a prominent type of boards of directors' social embeddedness.

Based on the previously detailed scientific production, we argue that the more a firm is connected to other firms through its CEOs participation to other firms' boards, the more the chances to be acquainted and/or conform to external legitimacy considerations (that is, avoid excessive diversification) and to align to inter-firm strategic tendencies. Moreover, we argue that the varying density of firm connections due to the different degree of participations of CEOs to other firms' boards should create clusters of firms, within which strategic resemblance should be higher than the fields' average. Hence, high density of CEOs board memberships should lead to strategic isomorphism. Consequently, we formulate the following propositions:

Proposition 6a. *There is a positive association between the number of the new CEOs external board memberships and the firms' strategic scope towards (a) non-increase and (b) alignment.*

Proposition 6b. *The higher the density of CEOs board memberships among firms, the higher their strategic scope similarity.*

Proposition 6c. *Succession planning leading to a CEO who presents post-succession increased number of external board memberships will increase probabilities for a (a) non-increase in strategic scope and (b) strategic alignment.*

3. FUTURE EMPIRICAL SETTING

The aim of the present paper is to present a theoretical framework leading to testable propositions. The further steps of this research includes the collection and statistical analysis of data, based on the previously formulated propositions.

The population we focus is 49 French publicly traded and private companies, consistently part of the 100 largest French companies from 1993 to 2005 included. The criterion of choice is the companies' annual turnover. We excluded state-owned companies and the financial sector ones (banks and insurance companies). We consider this population of corporations, first, because of the crucial "weight" of this type of large companies in a specific institutional context – a given economy and society. Second, because of their very important role in signaling behaviors to the rest of the firms: Haveman's (1993) findings on mimetic isomorphism, where firms follow strategic choices of leading firms (the biggest and the more profitable), as well as Davis & Greve's (1997: 15) suggestions – "firm size can be seen as a measure of importance, power and success and so large firms may strongly legitimate the practices they adopt", justify our criterion. In addition, business and economic press focuses on several occasions (rankings, etc.) on the 100 largest companies in different countries, thus further adding important symbolic value and legitimacy in these firms. Finally, the temporal period we choose to investigate largely corresponds to the 90s' and early 00s', which is seen as a period of important changes: The accelerated globalization rhythm of the 90s', the increasing importance of foreign institutional investors, as well as other globalization effects such as increasing economic and social interdependence, signal a wider restructuring of the global economic system, thus making the chosen period of a great interest.

The data collection and statistical analysis concerns, first, the firms' strategic scope. This will be the dependent variable in the empirical development of this work. We define strategic scope as the evolution through time of a firms' corporate diversification strategy. That means (1) its continuity or change at every year tJ compared to the year tJ-1 of the firms' diversification strategy and (2) its alignment or divergence compared to the mean populations' strategic scope at every year tJ. We follow Rumelt (1982; 1974) in that corporate diversification reflects the variety and relative distribution of a firms' lines of business.

Change is measured as the percentage of annual variation in diversification strategy over the period 1993-2005, and it is based on the number and the content of the firms' business segments at a 4-digit level, according to the Standard Industrial Classification (SIC). Information is extracted from COMPUSTAT and ORBIS databases, as well as from the firms' annual reports when necessary. Diversification change results from corporate elites' decisions to "alter a firms' diversification strategy by adding new business activities, dropping or divesting existing business activities, or pursuing corporate growth through expansion in its existing lines of business" (Wiersema & Bantel, 1992: 105). For measuring diversification change, we use the entropy measure of diversification: Jacquemin & Berry (1979), then

Palepu (1985), conceptualized this measure. The latter is not only based on the taking into account of the number of product segments in which a firm operates, and on the distribution of the firms' total sales across the product segments: According to Palepu (1985: 244), the ability to consider the degree of relatedness among the various product segments, distinguishes the entropy measure from other diversification indices.

Divergence is measured, following Finkelstein & Hambrick (1990: 492), as the absolute difference between a firms' score and the average score for all population firms, at every year for the 1993-2005. In order to investigate further isomorphic (alignment) effects among firms, which present identity in CEOs socio-demographic characteristics and/or high density of mutual CEOs board memberships, we will apply the same measure for every observed cluster of firms.

We also collect data on two succession characteristics – which will be the independent variables in the empirical development of the present work: Succession planning and succession frequency.

As far as succession planning is concerned, and for the companies that experienced CEO succession events between 1993 and 2005, we consider CEO successions as either planned or non-planned. We follow Shen & Cannella (2002) approach on CEO dismissal. We consider succession planning as a process reflecting decisional predictability. Consequently, succession planning means there is no sudden CEO dismissal, thus no involuntary departure, but on the contrary, a smooth replacement process aiming to avoid disruptive effects. In order to identify succession planning cases, we investigate: First, news reports for CEO succession announcements: There is planned succession when CEO change is announced as planned. Second, we draw upon Shen & Cannella (2002: 1198) for identifying the no succession planning cases. That is, when it is reported that, first, a CEO is fired or forced out; second, when a CEO resigns "unexpectedly or immediately, owing to poor performance, undisclosed personal reasons or a desire to pursue other interests"; third, when a CEO takes early retirement under conditions of poor performance. Third, we follow the second approach of Shen & Cannella (2002), who use "both CEO age and continuity as a board member at the time of turnover to identify CEO dismissals". That is, "a CEOs departure from a corporation was classified as a dismissal when the incumbent terminated his or her service as both CEO and board member before the age of 64 for reasons other that death or health, taking a similar position at another firm, or a merger or acquisition" (2002: 1199). From the second and, if necessary, the third approach we aim to identify the non-planned successions, thus, to be able to discover the succession planning cases.

As far as succession frequency is concerned, the number of CEO succession events that a company experienced during the 1993-2005 period define and operationalize this variable.
In addition, our data collection concerns the following variables: new CEOs corporate origin, new CEOs past functional experience, new CEOs educational background, new CEOs board memberships. We proposed that these four variables have a moderating role. Following the conceptual distinction between moderating and mediating variables (Baron & Kenny, 1986), a moderator is a qualitative variable, which affects the direction of the relationship between an independent or predictor variable and a dependent one (1986: 1174).
As far as new CEOs corporate origin is concerned: We follow the largely accepted distinction (as demonstrated in the relevant theoretical part of the present work) between insiders and outsiders. For the new CEOs past functional experience, we follow Hambrick & Mason (1984) in distinguishing between peripheral (finance, law), output (marketing, sales) and throughput (R&D, production, logistics) functions. For the new CEOs educational background, we follow Bigley & Wiersema (2002: 716) and we make a distinction between elite and non-elite education. Elite educational background is defined as a degree from an educational institution considered as an elite one. As far as CEOs board memberships is concerned: We define this variable as the number of board memberships of a CEO, in other firms than the one he/she is the CEO and for the time period he/she is CEO of a specific firm.
Within the context of the future empirical development of the present work, we aim to control for a number of factors, which may have an impact on the prediction of our model. These control variables should include corporate performance (Finkelstein & Hambrick, 1990: 493), corporate size (Westphal & Khanna, 2003: 383), TMT and board of directors' size, following Wiersema & Bantel (1992), ownership structure (see Goodstein & Becker, 1991), board interlocks (other than CEO mutual board memberships), prior diversification level (see Jensen & Zajac, 2004), Chairman/CEO duality or non-duality (see Nemec, Worrell & Davidson, 2001; 1997; Harris & Helfat, 1998).

4. EXPECTED CONTRIBUTIONS

In the present paper, we investigate the association between two CEO succession contingencies, planning and frequency, and four socio-demographic constructs with a firms' corporate strategic scope. Although the issue of the association between CEO succession, CEOs characteristics and corporate outcomes is of a central concern for several decades, we extend our analysis to rather unexplored aspects of this issue.

Compared to previous research, the expected academic contributions are the following: First, we extend the analysis of "traditional" upper echelons variables (corporate origin, past functional experience, educational background) to inter-organizational ones (CEOs board memberships). Second, we shift our attention from exclusively organization-triggered cognitive explanations to mainly institutional fields' -triggered ones. Even if we do not consider them as necessarily antithetical, an empirical confirmation of our propositions may alter the evaluation of CEO successions' and of CEOs socio-demographic characteristics' potential impact on corporate strategy. Finally, we extend our investigation from a firm-centered corporate strategic change level of analysis to include institutional fields' considerations. In other words, we examine corporate strategic choices under the lights of their perceived legitimacy within a defined institutional field and the corporate elites' potential to "filter" fields' influences by taking decisions, which may diverge from what is considered as legitimate, or even to manage fields' constraints and exercise influence at a field level. Thus, we would like to contribute to the understanding of the action and structure interplay, a fundamental issue in management and social sciences.

The expected managerial contributions are the following: For boards of directors, we aim to contribute to a further refinement of executive selection issues and shed more light to governance relations in order to increase predictability, thus to reduce agency costs and increase corporate upper echelons coherence. For CEOs, we intend to contribute to a better career management based on the knowledge concerning the role of cognition, as well as the one of intra- and especially inter-firm ties, in their choices. Moreover, to enable a better assessment of environmental conditions and influences within which decisions are taken.

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