CEO Succession And Strategic Change And Orientation In Small And Medium-Sized Firms: New Perspectives From France

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Abstract

This paper explores the connection between CEO transmission and strategic considerations in small and medium-sized firms. Specifically, it examines whether external transmission differs from internal transmission in its strategic change, and whether the firm's strategic patterns can be explained by the CEO's perception of the business environment.

Introduction

Although corporate CEO succession has been discussed for more than 40 years, there is no consensus as to the kind of successor that a firm should choose when the situation arises. Furthermore, despite the fact that the number of small and medium-sized firms exceeds that of large firms, CEO succession in smaller firms is largely ignored. This paper explores the connection between CEO succession and strategic considerations in small and medium-sized firms. Specifically, it examines whether succession is a source of strategic orientation[1], whether external succession differs from internal succession in its strategic orientation, and whether the firm's strategic orientations can be explained by the CEO's perception of the business environment.

French Context

As in the U.S., small and medium-sized firms in France outnumber large firms and employ a large proportion of people. According to official data (INSEE 1994), out of a population of 2,900,000 French firms, 60,000 change their CEO every year. Also, 90% of small and medium sized-firms are held directly or indirectly by an owner-manager (Valette, 1994), thus the conclusion that the strategy of a given firm is synonymous with that of its respective CEO. Moreover, a number of studies indicate that more than one-third of all of the CEOs of small and medium-sized French firms will be replaced within the next ten years due to the CEOs' increasing age (Table I).

It is therefore reasonable to assume that this situation applies in other countries. If a CEO's age is a characteristic of business inertia (Hambrick and Mason, 1984), economic consequences at two levels are likely occurring. First, the number of CEOs that will be replaced within the next 10 years will certainly affect the macro economy. Secondly, the replacement of CEOs may influence the decision-making process within a given firm, thus resulting in an orienta-

tion that will have an affect at the individual level.

Table I
Classification of CEOs
in small and medium-sized firms by age

Age of CEO	% of CEOs this age
less than 40 years old	24%
40-49 years	44%
50-60 years	26%
more than 60 years	6%

Source: P.M.E. 1994

Theoretical Background

If the choice of CEO influences decision making within an organization, then the type of executive succession may have important consequences for the outcome of that organization (Pfeffer, 1981). Such an assumption, however, has often been debated. The literature on succession presents three different possibilities as to the effect of succession on organizational outcomes. The first possibility suggests that CEO succession creates a crisis within an organization that negatively affects the firm's performance. The second one suggests that CEO succession improves the performance of the firm. Finally, the third possibility indicates no relation between CEO succession and a firm's economic performance.

Unfortunately, despite these streams of possibility, a consensus is still missing (Wiersema and Bantel, 1992). As indicated by Lieberson and O'Connor (1972), considering the number of factors that influence firm performance, the exact nature of the relation between succession and firm performance may be obscured. Also, with no fundamental standard of organizational performance, it is difficult to compare research results. For example, Guest (1962) studies conflicts within an organization as a result of CEO succession; Helmich (1972), studies personnel turnover and positional shifts; Haven (1993), analyzes organizational mortality; and finally, Virany, Tushman, Romanelli (1992), look at the impact on financial returns.

However, these studies are limited due to their use of performance as a dependent variable, even though this variable has been shown to have a cause-and-effect relationship with the turnover of a firm's management team (Gamson and Scotch, 1964). To overcome this measurement shortcoming, recent studies have used external performance measures, such as the stock market, where the future income expectations as a result of the new executive can be isolated. The results of these studies, however, are inconsistent. For example, Reinganun (1985) found that the effects of executive succession as measured by the stock market are dependent on three variables: the size of the firm, the type of CEO succession, and the personal disposition of the predecessor. Nevertheless, other studies have found CEO succession to have a negative impact on an organization's performance (Beatty and Zajac, 1987).

Looking at the business unit level, the replacement of a firm's CEO represents a major event that brings about organizational change. Hamermesh (1977) found that managerial change is needed to respond efficiently to a divisional profit decline. Additionally, Hofer (1980) and Hambrick (1983) found that a condition of success in company turnarounds is the replacement of the CEO team, and that the selection of a turnaround strategy should depend on the firm's financial situation, in particular with regard to the firm's proximity to break-even status. According to Hofer (1980), if a business is far below break-even, a strategy oriented toward the reduction of assets is appropriate. If a business is slightly below break-even, a strategy oriented toward revenue generation is necessary. And if the business is close to break-even, a strategy oriented toward cost cutting is appropriate.

Examining the linkage between top management and organizational strategy, several studies have focused on the nature of upper echelon characteristics in order to explain the strategic choices of CEO succession (Friedman and Singh, 1989; Datta and Guthrie, 1994). They argue that successor origin, which is a highly

recognized variable of a new CEO, may not be the best proxy for successor. For example, Dalton and Kesner (1985) and Friedman and Singh (1989) report that poorly performing organizations are no more likely to select an outside successor than are highly performing organizations. They found that, in many cases, firms experiencing difficulties need an external leader to trigger organizational change. Troubled firms, however, may not attract new leadership. The new leader may not be able to turn the firm around once confronted by a firm's poor condition, and his reputation may suffer as a result.

Moreover, longitudinal research has shown that when firms change their CEO in response to a particular business environment, the selection of the new CEO is a crucial choice to the future of the company, even in the absence of declining performance or a change in the overall business environment (Tushman and Romanelli, 1985; Romanelli and Tushman, 1994). They thus argued that a change of a firm's CEO is always a condition leading to major change within the organization. Miller (1991), however, is more cautious about this assumption in considering that CEO succession can harm the firm when only an adaptive strategy is needed. Consequently, an awareness of the firm's subsequent evolution is important in order to determine whether or not a succession will in fact solve the firm's problems.

As Miller (1993) noted, much research has focused on the relationship between performance and succession rather than on the overall effect of new leaders. More research is needed to analyze organizations and determine just when and how a new CEO changes structure, process and strategy (Miller, 1993). At this point, while the influence of CEO succession has been studied initially from an organizational performance aspect, it is clear that the influence of CEO succession on performance through strategic change is an important issue. Therefore, it makes sense to study these relationships since there is enough evidence to suppose that managers impact organizational outcomes differentially (Wiersema et al., 1992). Consistent with this thinking, Hambrick (1983) suggests that the identification of strategy allows a more complete and accurate image of overall strategic action.

Hypotheses

The ability of a firm to respond to economic opportunities or the pressure of economic change is one of the prominent ways in which its survival is determined (Wiersema et al., 1992). Researchers have studied a variety of factors that make an organization increasingly resistant to fundamental transformation (Katz and Allen, 1985). Organizations struggle to preserve knowledge, behavior, norms and values (Daft and Weick, 1984), which are all mechanisms that help formalize a firm's goals and standardize its orientations of activity, thus reducing the autonomy of the firm's executive. The degree of executive autonomy can be reduced even further by the existing social system. Indeed, a link exists between the executive and the organization whereby he is inherently linked to the status quo. In fact, he is embedded in the existing social cohesion, or lack thereof, and consequently does not have the latitude to introduce real change (Pfeffer et al., 1978).

During this convergence period, the role of the CEO is to implement minor changes in order to shape the existing strategy and to legitimize this strategy (Tushman et al., 1985). The structure in which the organization evolves in order to provide coherence for the firm can, however, make it difficult for the firm to change when necessary (Pfeffer, 1981). Since a firm's CEO is at the borderline between the organization and the outside business environment, only he can initiate and implement the organizational change that is necessary to fit that environment (Keck and Tushman, 1993). During radical change, executives introduce important decisions that break up the inertia of an organization. This reorientation is based on the creation of new routines and new cognitive frames that formalize new goals and new standardized orientations of activity (Keck and Tushman, 1993). Therefore, executive succession represents a major event

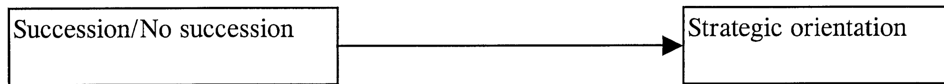
that dramatically affects organizational inertia (Tushman and Romanelli, 1985; Hambrick and Fukutomi, 1991). For example, Romanelli and Tushman (1994) argued that a change of a firm's CEO is always a condition leading to major change within the organization even in the absence of declining performance or a change in the overall business environment.

Hypothesis 1: An organization with succession will differ in its strategic orientation than an organization with no succession (fig. 1).

an insider will be selected when performance is good, since an insider is likely to be less disruptive to the ongoing organizational processes.

In trying to understand the reasons that stimulate executives to adopt more change versus less, Kiesler and Sproull (1982) suggest that people react to situations based on their past experience, while Walsh (1988) thinks that people follow the values and beliefs of the organization. As a result, a link will be created between the insider and the organization, whereby the inside successor prefers the status quo to a more independent outsider with no attachment to or investment in the organization's previous strategic vision (Hambrick and Mason, 1984). Also, Miller (1991) and Boeker et al., (1993) consider that an external successor is not as likely to be involved with a firm's ongoing strategies as an insider is since the outsider was not involved in the choice of those strategies. In fact, outsiders can more objectively assess the firm's ongoing strategies and therefore implement the optimum adaptation.

Fig 1: Hypothesis 1

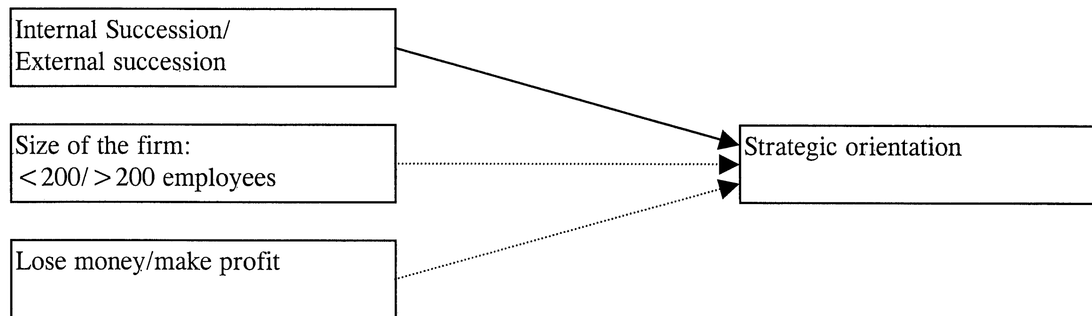


The environment in which organizations evolve is subject to rapid and radical change that often seems threatening from the point of view of the firm (Haveman, 1993). If an organization wants to survive, it must respond to environmental change. As presented by Tushman et al. (1985), the fitting of the organization's configuration to its environment obliges the organization to adopt an incremental business strategy that foresees continuous disruption. During its convergence period with the business environment, the firm's adaptation is realized via incremental change; whereas in the relatively compact period of reorientation, the firm needs a transformation that provides new strategies as well as a reconfiguration. This transformation, along with the resulting new strategies, must occur while having no relation to the prior context in which the firm was situated. Firms selecting external succession experience significantly more strategic change than do those that opt for internal succession. Internal succession usually maintains continuity, while external succession uses change (Puffer and Weintrop, 1991). Moreover, Carroll and Delacroix (1984), as well as Miller (1993), predict that an outsider will be selected when performance is declining because a requirement for a disruptive change in strategy is needed, while

Hypothesis 2: An organization with a new outside successor will differ in its strategic orientation from that of an inside successor (fig 2).

The strategic choice perspective of organizational adaptation (Child, 1972) is a determiner of strategic management. Therefore, this perspective considers that choices made by top management impact organizational design outcomes and firm performance. Our hypothesis brings several contributions to the CEO succession debate. First, the use of a strategic orientation rather than performance outcomes helps to explain what new CEOs do. Indeed, many different strategies may produce the same outcome,

Fig. 2: Hypothesis 2



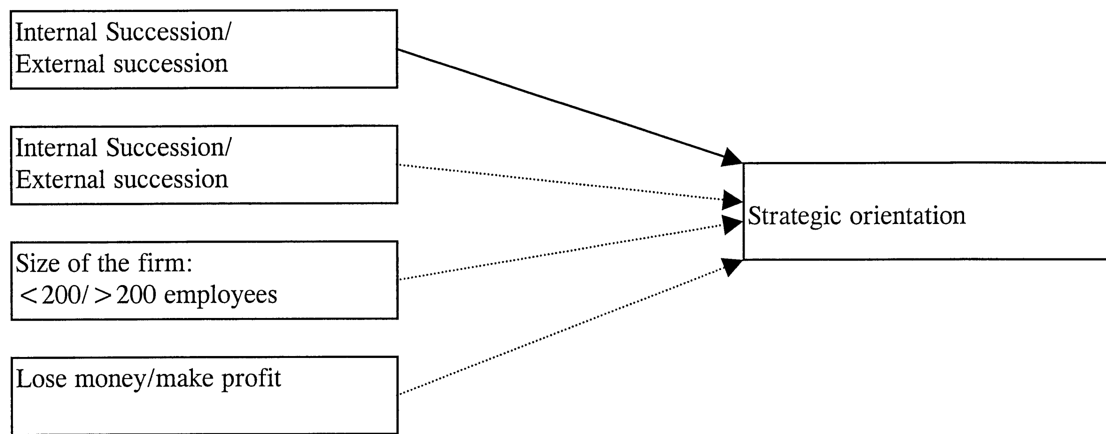
Note: The dotted line represents the control variables. The full line represents the hypothesis

while obscuring the exact nature of the relationship between the succession event and firm's performance. Second, using strategic orientations rather than performance outcome complicates the relation between the nature of succession and the strategic outcome, and shows that the relationship between the CEO succession and the organizational performance cannot be seen as being purely causal.

Business strategy is the means by which a firm competes and tries to achieve its aims within an industry (Schendel and Hofer, 1978). Strategy involves choices along a number of critical dimensions. It includes the overall collection of individual business-related decisions concerning the prices of products, the quality of services and products, the number of products produced, and the degree of activities created by the strategy. Along these lines, Galbraith and Schendel (1983) considered that the elements of strategy of individual business-related decisions are independent and interactive. Strategy can therefore be seized and measured as a orientation of strategic variables. Additionally, Hambrick (1984) noted that the identification of strategic orientations allows a more complete and accurate description of the firm's strategic orientation.

Just as there may be differences in strategic change between insider and outsider successions, there may be differences in the specific orientations of input and output strategy developed by firms after succession. We have introduced the environmental dimension, since the managerial literature shows that firms face several types of environment. The environment was viewed as a multidimensional construct (Dess and Beard, 1984; Miller and Friezen, 1978), and plays a role in the strategic orientation of an organization as well as the firm's performance (Venkatraman and Prescott, 1990). The relationship among the firm, the strategy and performance is based on the assumption that an organization must maintain a proper alignment with its environment. Therefore, when the environment changes, firms must adapt their strategy. Firms that change their strategy outperform those that do not (Venkatraman and Prescott, 1990). Moreover, as noted by Weick (1969), the environment is analyzed as perceptually determined and enacted, although the perceived environment is not an objective one. As indicated by Tsay and Macmillan (1991), perception of the environment is important since it is the basis for managerial actions. As such, the perceived environmental characteristics are essential to the development of the firm's strategic orientation.

Fig. 3: Hypothesis 3



Hypothesis 3: The strategic orientations of firms will differ from how CEOs perceive the environment (fig. 3).

Methods

Sample and data

Our study took place in France, where there is no official record of successions. The cases mentioned in newspapers are very rare and mostly concern large companies. We constructed the sample by contacting the regional chambers of commerce located in France, asking them for information concerning local CEO successions. Almost all of them answered either positively or negatively (17 out of 20 chambers of commerce responded). Those that answered negatively (6 chambers of commerce) told us that they had not heard of any local succession in their region, or that they keep such information confidential, while those that answered positively (11 chambers of commerce) shared information with us.

The data were collected during the summer and fall of 1990. The effects of strategic change introduced by a new leader take several years to become noticeable. This requires a longitudinal framework. We chose a post-succession period of two years to detect any post-succession strategic change. The new successor was asked to fill out a questionnaire designed to investigate numerous strategic issues compared to his predecessor. With an initial sample of 157 firms, we held telephone interviews with each firm to determine appropriateness criteria (a post-succession period of two years for firms with less than 500 employees, which is a characteristic for small and medium-sized firms in France). No succession appears to have a post succession superior to 5 years.

Because at least one of the two appropriateness criteria was not met by 40 firms, a personal questionnaire was sent to the remaining 117 firms. From this new sample, 95 firms were identified as having undergone executive succession (22 were dropped). Even though a control variable regarding the 500-employees constraint size had been established before sending the questionnaires (some firms did not meet the 500-employee criteria), 12 firms were withdrawn from the final sample. Firms with CEO succession were further categorized depending on whether the succession was from inside the firm (n = 30) or outside the firm (n = 53). None of the firms in this sample had overseas subsidiar-

ies, although some did engage in exporting their products. All firms studied were from the private sector. Before the succession took place, the firm's stock was held directly or indirectly by the owner-manager. However, this characteristic becomes less relevant after the CEO succession, since in the redistribution of capital, the new leader no longer holds most or all of the company's stock. On the other hand, we also know that outsiders at least know the industry, since they themselves have been working in it. As for CEOs coming from within the organization, all have been working for the company for at least 2 years. None of the firms was quoted on the stock market. They ranged in employee size from 6 to 490, with an average of 129 employees and a standard deviation of 121. Firms in the succession sample were drawn from a variety of industries. From the total sample (83 firms), 53 were engaged in manufacturing activities (64%); 19 in service activities (23%); 9 firms were in the construction field (11%); and 2 in transportation (2%).

Twenty-three firms were used as a non-succession control group. For the control group, the CEO was asked to fill out a questionnaire designed to investigate numerous strategic issues covering at least two years. They range in employee size from 5 to 250 with an average of 33 employees and a standard deviation of 65. From the total sample (23 firms), 14 firms were engaged in manufacturing activities (61%); 7 firms in service activities (30%); and 2 firm in transportation (9%).

Selection of variables

The chosen variables were selected because of their theoretical relevance as well as for data availability. Other variables might have been used; however, a lack of availability of relevant data eliminated them. In order to differentiate between the input and the output of a firm's strategy, we decided to separate the variables. We identified two levels of variables. The first one is the determination of variables where CEOs have discretion (the input of strategy), while the second level is the output of strategy, which is the result of the input of strategy, as developed by Woo and Cooper (1981), Woo (1987), and others that used the PIMS data. Moreover, we measured the strategic orientations by looking at the economic consequences.

Given that the PIMS literature shows the relationship among product quality, service quality, degree of activity, number of products, prices, and performance, these relationships should also exist in the context of CEO succession. Nevertheless, there are limitations concerning the extent to which the PIMS results may be applied to this research. Controversial issues concerning measurement and data collection methods, for example, have arisen (Anderson and Paine, 1978; Ramanujam and Venkatraman, 1984). Also, the generalizability of PIMS findings has been discussed. Indeed, research has found that no unique relation exists between strategic variables and performance in a specific industry (Hatten and Schendel, 1977), and that a linear relationship is a poor representation of the data (Schwalbach, 1991). Furthermore, the multi-colinearity of the variables used to analyze the business strategy presents a problem. Indeed, using independent variables that are multi-colinear by nature may confuse the estimation procedure and may hide or distort the real relationship variables, since they are not sufficiently precise to distinguish the separate effect on the dependent variables as compared to the effect on the independent variables (Galbraith and Schendel, 1983).

Measuring the business performance of small and-medium sized firms presents a significant challenge for researchers. Organizational effectiveness studies have focused mainly on identifying the most appropriate performance measures for large firms and privately held firms. As reported by Schendel and Hofer (1978), sales growth provides one measure of economic performance that reflects how well an organization relates to its business environment. In fact, empirical studies have shown that management behavior can be better described by growth as-

sumption than by profit assumption (Grabowski and Mueller, 1972). Although the objective measure is better, Dess and Robinsson (1984) suggest using a subjective measure of performance when accurate objective measures are unavailable and when the alternative is to remove the consideration of business performance from the research method.

Because we are dealing with small and medium-sized firms, the position of the firms in their respective markets seems difficult to measure. Considering this situation, we used other criteria to measure this performance, specifically, the number of customers and the growth in sales realized from previous customers.

Measure of variables

All variables (strategic variables) were rated along 3-point scales in which a value of 1 indicated that, after the succession, a firm rated lower or lesser compared to the pre-succession period; a value of 2 indicated the same or identical level; and a value of 3 indicated a higher or better level. More precisely, the firm was asked to compare the average level of each strategic variable (product quality, service quality, degree of activity, number of products, prices, sales growth, number of customers, growth in sales realized from previous customers) relative to the 3 years prior the succession. Whether for statistical purposes, three-point scales are considered to have interval properties is debatable (Smith, 1978). The statistical analysis used in this research followed the practice of researchers who think that multivariate parametric statistical and nonparametric techniques can be developed with ordinal-level measures (Labovitz, 1978). However, the limit of this scale, the limitation of a three-point scale and the lack of information contained in this scale is compensated for by open-ended questions, which increase the accuracy of the responses.

Open-ended Questions

We also asked each successor to justify the orientation that he had taken for each of the variables described above. Their answers gave us a rich amount of information, as well as a more complete understanding of their competitive positioning and the business environment in which they are located. As noted by Jick (1979), "it is here that qualitative methods, in particular, can play an especially prominent role by eliciting data and suggesting conclusions to which other methods may be blind (p. 603)."

Therefore it is important to ask open-ended questions to understand how executives justify their strategy. As noted by Weick (1969), the business environment is analyzed as being perceptually determined and enacted. Others have analyzed the business environment as an exogenous variable that is independent of a firm (Aldrich, 1979). This polemical issue has been a source of controversy. To overcome this controversy, Bourgeois (1980) has argued that the central point is not to know if the measure is either perceptual or objective, but rather that both measures are real and are relevant to an organization's strategy. Recognizing that the business environment is a perception (secondary strategy making) rather than a domain definition, this research determines the strategic orientation, as directed by the CEO, that involves navigating a domain constrained by its environment. Consequently, the open-ended questions are important in controlling the external contingency factor in which firms are posited, and since the succession happens, whether or not the environment changes (in terms of perception) and, if so, in which direction.

Dummy Variables

Previous research indicates that strategic orientation is, in fact, affected by contingency variables (Miller, 1991). Research concerning the strategic orientation taken after the succession must examine any internal contingency variables. Thus, we used two internal contingency variables as a control: firm size (measured dichotomously, with 0 = under 200 employees, 1 = over 200 employees) and financial structure (measured

dichotomously, with 0 = firms with losses prior to the succession, 1 = firms making profits before the succession).

Type of Succession

Successor origin, which is measured in each firm every time a succession occurs, was coded as 1 if the successor was from outside the firm and 0 if the successor was from inside the firm. To distinguish between insider and outsider successions, we used Boeker and Goodstein's (1993) definitions: An inside successor is defined as a manager or an employee promoted from within a firm, and an outside successor is any other individual. We obtained this information from the questionnaire (the CEO was asked to indicate his origin).

Analysis

Several statistical techniques were applied to the data. A multivariate analysis (MANOVA), followed by univariate ANOVA, was undertaken for the first hypothesis. The second hypothesis, which suggests that organizations with new inside successors will be differentiated in their strategic change from organizations with new outside successors, was verified by a multivariate analysis (MANOVA), followed by univariate ANOVA. For the third hypothesis, the strategic orientations of firms will differ from how CEOs perceive the business environment; this was accomplished through Ward's method of hierarchical cluster analysis. The clustering variables used in this study were the eight strategic variables, with five of them representing the input of the strategy and the other three representing the output of the strategy. Just one cluster analysis was run for the entire sample. As indicated by Hambrick (1984), there is no objective method to determine the number of clusters. To ensure objectivity in the choice of the number of clusters, an analysis of variance (ANOVA) on cluster means was used. Moreover, a chi-square analysis was run in order to control if the origin of the succession, the size of the firms, and the financial situation before the succession occur randomly throughout the clusters.

Results

Table II presents the descriptive statistics, including means, standard deviations, and coefficients of correlation.

Table II
Means, Standard Deviations, and Spearman Correlation Coefficient

Variables	V1	V2	V3	V4	V5	V6	V7	V8	Means	SD
sales growth	1.00								2.75	0.56
degree of activity	.03	1.00							2.52	0.67
sales to customers	-.16	.23*	1.00						2.57	0.63
number of customers	-.08	.16	.45***	1.00					2.08	0.39
number of products	.40***	.00	.03	-.13	1.00				2.49	0.63
quality of products	.29**	.34***	.16	.39***	.14	1.00			2.49	0.50
quality of service	.03	.17	.36***	.04	.020**	.13	1.00		2.47	0.50
price	.26*	.13	-.22*	-.21	.31**	-.18	.01	1.00	1.94	0.59

N=83, $*p<0.05$, $**P<0.01$, $***p<0.001$

Hypothesis 1

Multivariate test with regard to succession/no succession revealed significance difference (Wilk's F=2.36) for the first hypothesis. The univariate tests (Table III), revealed three sources (one at $p<0.01$; two at $p<0.05$) of this overall difference: sale growth, number of customers, and growth in sales realized from previous customers.

Table III
A comparison of the strategic variables of firms that have not experienced CEO succession and firms that have experienced CEO succession

Variables	Succession/ No succession F-value
Degree of activity	.00
Number of products	2.54
Quality of products	1.54
Quality of service	3.01+
Price	3.88+
Sales growth	4.04*
Sales to customers	6.49*
Number of customers	9.12**

+p<0.10 *p<0.05 **P<0.01

Hypothesis 2

Statistical analysis of hypothesis (Wilk's F=1.36, ns) failed to reveal any significant findings. Univariate tests also failed to produce significant differences (table IV).

Multivariate analysis with regard to size (Wilk's F=1.12, ns) failed to produce any significant differences. Univariate tests also failed to reveal that statistically significant differences existed between firms with less than 200 employees and firms with more than 200 employees, except for the price (Table IV). Multivariate analysis with regard to the financial situation before succession (Wilk's F=1.17, ns) failed to reveal any significant findings. Univariate tests also failed to reveal that statistically significant differences existed between firms losing money before the succession and firms making money before the succession, except for the quality of products (Table IV).

Hypothesis 3

An examination of change in the squared Euclidean distance between various cluster solutions brought a fifth-cluster solution that best fits our data. The cluster scores (means) on the eight strategic variables are shown in Table V. In all variables, the F statistic was significant at $\alpha=0.05$, confirming that each cluster is different. Furthermore, the results of a one-way multivariate analysis of variance (Manova) showed that the five clusters solution was significant (Wilk's F=17.17, p<0.001). Moreover, from the open-ended questions, it seems that the strategic orientations that firms have taken are determined by the different perceptions of the environment (Table V). Therefore, our results indicate (Table V) that the perception of the environment will likely be an important determinant of the strategic orientation, confirming the hy-

Table IV
Distribution of the type of succession, size, and financial situation

Variables	Internal succession/ External succession F-Value	Size<200/Size>200 F-Value	Profit before succession/ lose before succession F-Value
Sales growth	.057	.07	.29
Sales to customers	.02	.72	.04
Number of customers	2.13	.04	1.53
Degree of activity	.74	.72	.17
Number of products	.47	.34	.03
Quality of products	.13	.02	3.85+
Quality of service	2.00	.03	.052
Price	.48	4.34*	2.66

+p<0.10 *p<0.05

Table V
Cluster analysis of the strategic variables

Variables	Cluster I n=27	Cluster II n=21	Cluster III n=20	Cluster IV n=10	Cluster V n=5	ANOVA F-Value
Sales growth	3	2.28	3	3	1.8	18.77***
Sales to customers	1.88	3	2.9	3	1.4	54.58***
Number of customers	2.48	2.95	2.85	2	1.4	16.70***
Degree of activity	2	2.14	2.3	2	1.60	4.77***
Number of products	2.70	2	2.95	2.8	1.60	17.16***
Quality of products	2.48	2.47	2.9	2	2	9.86***
Quality of service	2.11	2.38	2.95	2.70	2.40	14.47***
Price	2.03	1.52	2.2	1.9	2.2	4.72***
Perception of the environment	Intensive competition, with no possibility to compete in the present market like we did before.	Strong competition, unstable, and with a will to stay in the present market.	Intensive competition, with a will to stay in the same market, but also a will to develop other products.	Favorable environment and a will to satisfy present customers.	Due to lack of resources, we must focus on profitable activities and resolve to do business differently.	

***p<0.001

pothesis.

Table VI shows that the distribution of internal successions and external successions occur randomly throughout the clusters, thus indicating that the strategic orientations of firms cannot be differentiated on the basis of the origin of succession.

Table VII shows that the distribution of firms under 200 employees and firms over 200 employees occur randomly throughout the clusters, indicating that the strategic orientations of firms cannot be differentiated on the basis of the size of the firm.

Table VIII shows that the distribution of firms making money before the succession and those losing money before the succession occur randomly throughout the clusters, indicating that the strategic orientations of firms cannot be differentiated from the financial situation before the succession.

Table VI
Distribution of internal and external succession

Type of succession	Overall sample n=83	Cluster I n=27	Cluster II n=21	Cluster III n=20	Cluster IV n=10	Cluster V n=5
Internal successions	53	18	11	15	6	3
External successions	30	9	10	5	4	2

Chi square=2.46 (df=4, ns)

Table VII
Distribution of financial situation

Type of succession	Overall sample n=83	Cluster I n=27	Cluster II n=21	Cluster III n=20	Cluster IV n=10	Cluster V n=5
Internal successions	53	25	20	18	8	5
External successions	30	2	1	2	2	0

Chi square=2.65 (df=4, ns)

Table VIII
Distribution of size

Type of succession	Overall sample n=83	Cluster I n=27	Cluster II n=21	Cluster III n=20	Cluster IV n=10	Cluster V n=5
<200	53	15	11	16	7	5
>200	30	12	10	4	3	0

Chi square=7.31 (df=4, ns)

Based upon the presentation of Table V, the five clusters can be described as follows:

Cluster 1: Active strategy oriented toward a new position

The first orientation is represented by those firms oriented towards an active strategy in order to change the positioning of the previous leader. Despite the fact that the rate of sales growth is greater, this strategy is characterized by a tendency to increase the number of new customers. This strategy is driven by a greater number of products, a higher quality of products and a smaller price of products.

According to responses to the open-ended questions, the strategy is likely to increase the scope of the market by providing more customers and more products. This situation is apparently the result of intense competition where new firms were attacking their respective market, which forced firms to react actively and forcefully by extending their product lines and by improving product quality.

Cluster 2: Strategy oriented toward development

The second orientation is a strategy in which firms increase their sales to previous customers and increase the number of new customers. This orientation offers better quality of services and products as well as reduced prices. Based on responses to the open-ended questions, we can say that the business environment is described in terms of strong competition, while seeming to be intense and unstable, thereby forcing firms to react by improving product quality and by reducing prices to remain competitive.

Cluster 3: Active strategy to extend the firm's development

The third strategy is an active one that is characterized by sales growth, which is achieved through increasing sales to previous customers and increasing the customer base. This strategy

is driven by a greater number of products, degree of activity, and improved quality of products and services. Questionnaire responses indicate that the situation results from intense competition in the present market. Even though this market is potentially good, the CEO seeks to develop new products.

Cluster 4: Strategy for internal development

The fourth orientation is characterized by firms oriented toward internal development. More precisely, this strategy is determined by increasing sales to previous customers as well as overall sales. This strategy is driven by improved service quality and by new product development.

Based on open-ended questions, firms that use this strategy made no major changes to attract other customers, and they were positioned in a favorable environment. As long as they respond to what their customers want, they do not fear the competition. Their priority is to satisfy existing customers rather than to seek new customers. Additionally, they have developed good relationships with their customers and they are attentive to the needs of their customers.

Cluster 5: Retrenchment Strategy

The fifth orientation successors take is characterized by smaller sales growth, a smaller number of customers, and smaller sales to previous customers. To conduct this strategy, firms relied on a smaller number of products, on a smaller degree of activity, and on a higher quality of services.

Returning to the questionnaire, we found two types of justification for this strategy. For the group of firms with profits before the succession, new leaders adopted a new strategy oriented towards profit. For example, they sought to sell fewer products but at a higher price and with improved quality. New CEOs justify this decision by explaining that the old leader emphasized volume rather than profit. They decided to change the way of doing business because it is more profitable, recognizing that even though the old strategy is still working in their respective market sector, it corresponds to an outdated system. For the group of firms with losses before the succession, new leaders adopted this strategy because the firms could not adopt another strategy; it was necessary to revitalize the firm toward products that were profitable and in which they had a distinctive strength. Consequently, we can say that both firms losing and making money adopted the same strategy but for different reasons. Firms losing money reacted to strong external constraints and perceived that they had no other choice, while firms making money chose the profitability dimension rather than the growth dimension.

Discussion

The results show that firms undergoing CEO succession are more likely to introduce strategic orientation than firms not undergoing succession. The results of this research are consistent with the results produced by Tushman and Romanelli (1985), along with Miller (1993), which show that CEO succession seems to trigger strategic orientation within a firm.

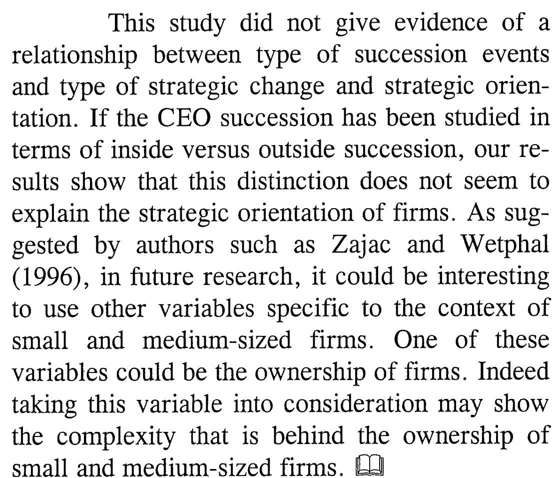
However, this study did not provide evidence of a relationship between type of succession events and type of strategic change. If the CEO succession has been studied in terms of inside versus outside succession, our results show that this distinction is not a good predictor of the strategic orientation developed by firms. As suggested by Zajac and Wetphal (1996), as well as Dalton and Kesner (1985), this distinction seems to be incorrect and too simplistic. In future research, it could be worthwhile to use other variables specific to the context of small and medium-sized firms in order to determine whether or not they are good predictors of strategic change and strategic orientation as developed by firms that undergo CEO succession.

The results do show, however, that five strategic orientations exist among the firms studied, thereby suggesting the existence of distinctly

different strategies that corroborate the fact that strategic orientations following a succession event are highly diverse. Also, the link between the strategic orientations and the environment improves our understanding of contingency relations among the environment, the strategic input and the output of strategy. As indicated by Weick (1969), the environment is analyzed as perceptually determined and enacted. Consequently, a change in CEO may provide an opportunity for the firms to be perceptually determined and enacted via the perception of the new CEO, without necessarily having a factual transformation in the environment. More precisely, the probability of change in strategic orientation increases not only as a result of the occurrence of environmental change, but also because the new CEO perceives that the environment is changing. Thus, as noted by Meyer (1982), perception of the environment is crucial since it is the basis of managerial actions. Meyer (1982) also emphasized the fact that transformations are more related to social realities than to the factual realities imposed by environment shocks. This idea is quite different from the one developed by researchers, where the environment is considered to be factual and is related to technological discontinuities (Keck et al., 1993), as well as to legal, social, and competition changes (Romanelli et al., 1985), before being perceived.

Implications For Future Research

This study did not give evidence of a relationship between type of succession events and type of strategic change and strategic orientation. If the CEO succession has been studied in terms of inside versus outside succession, our results show that this distinction does not seem to explain the strategic orientation of firms. As suggested by authors such as Zajac and Wetphal (1996), in future research, it could be interesting to use other variables specific to the context of small and medium-sized firms. One of these variables could be the ownership of firms. Indeed taking this variable into consideration may show the complexity that is behind the ownership of small and medium-sized firms.



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Endnotes

1. Succesion has been defined as being the cause of strategic orientations.

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