HOW FIRMS SHAPE MANAGERS: THE INFLUENCE OF STRATEGY ON TOP MANAGERS’ TURNOVER

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Abstract

An increasing body of literature suggests that the personal characteristics of top managers influence the strategic development of the firms they head. In this paper, we wish to add a new perspective to this literature, and argue that the development path of a firm will also have formative implications for a manager. Involvement in strategic activities geared towards the internal development of a firm makes managers build up commitment and emotional investment in the organization. In contrast, managers who spend a lot of time buying and selling off businesses will build up little social capital within their firm. We apply this perspective to examine the influence of firm development activity on top managers’ turnover, using event history analysis on the tenure of 437 top managers. The results show that internal reorganizations, as well as organic expansion decrease the likelihood that top managers will exit, irrespective of the firm’s performance. Engaging in divestitures, as well as engaging in acquisitions increases the probability that a top manager will leave the firm. In turn, these outcomes determine the subsequent development of the firm. Overall, the results help paint a more complete picture of the relationship between top management and firm strategy.
A key assumption of much strategy research is that top executives matter, and that they are central to shaping the strategies of their firms. Prior research has shown, for instance, that the managers’ background, personality, and experiences influence the companies’ identification of strategic opportunities (Sutcliffe, 1994; Tyler and Steensma, 1998), investment decisions (Barker and Mueller, 2002; Young, Charns, and Shortell, 2001), tendency to innovate and diversify (Bantel and Jackson, 1989; Wiersema and Bantel, 1992), organization structure (Lewin and Stephens, 1994; Miller and Droge, 1986) and, ultimately, financial performance (Daily, Certo, and Dalton, 2000; Norburn and Birley, 1988). Moreover, various studies have shown that the same manager may make different strategic choices over time, for instance, strategic choices change with the tenure of executives and their life and career stage (Boeker, 1997a; Finkelstein and Hambrick, 1990; Hambrick and Fukutomi, 1991; Miller and Shamsie, 2001). Hence, there is considerable evidence that managers shape organizations and their strategies.

However, do strategies shape executives as well? Prior research suggests that strategic experience may change executives in fundamental ways (Kets de Vries and Miller, 1984). Managers are formed through the events and processes that they go through with their companies, which in turn influences their future decision-making (Hambrick and Mason, 1984; Kets de Vries and Miller, 1986). Our study developed the idea that strategic actions and the implied experiences shape executives in terms of the relationships they build, the social capital that resides in those relationships, and their attachment to the company. Research in social psychology on organizational commitment has indicated that people who have built up social capital in their organization are less likely to leave (Allan and Meyer, 1990; Matthieu and Zajac, 1990; Meyer and Allan, 1984; 1991). Therefore, we predict that the strategic experiences that managers go through will ultimately influence the likelihood of their departure. Prior research using this dependent variable (i.e., executive
turnover) has typically been anchored in the financial economics literature exploring the idea that executive turnover increases with bad financial performance (e.g., Jensen and Murphy, 1990; Weisbach, 1995; Smith, 1994). We developed the complementary idea that executives are shaped by the type of their strategic experiences, which influences the commitment to the company they work for and, ultimately, their turnover (irrespective of financial performance).

More specifically, we distinguished between two broad types of strategic actions and experiences: *internally oriented* strategic actions (i.e., setting up greenfields, internal reorganizations) and *externally oriented* strategic actions (acquisitions and divestitures). Internal actions lead to stronger internal networks, bonding with employees, and social capital accumulated within the company, which increases executives’ commitment to the company they work for and decreases the likelihood that they will leave. In contrast, external strategic actions shift the executives’ networks, affective emotions, and social capital in an outward direction, which decreases their commitment to the company and increases the likelihood of turnover. Furthermore, we examine the consequences of management turnover, in terms of a firm’s propensity to engage in internally versus externally oriented strategic actions, thus making the analysis truly dynamic, by conceptualizing executives’ membership of their company both as an antecedent and as a consequence of their strategic actions.

Hypotheses were tested using event history analysis, capturing the likelihood of turnover in a particular year, and a longitudinal database on 437 executives over a period of three decades (1966-1999). The results strongly corroborate the idea that strategic experiences shape managers, their commitment to the company they work for and, ultimately, their turnover. Additional empirical analysis showed that, vice versa, executives mold the strategies of their firms as well, shedding more light on a key issue in strategic
management: the (dynamics of the) strategic role that executives play in their companies over time.

THEORY

Social Relations and Commitment

As a by-product of day-to-day operations, over time, in the context of their actions, individuals interact and build social relationships. Research on social capital (for a review, see Adler and Kwon, 2002) focuses, among others, on the content of these relationships and builds on the idea that individuals, while interacting over time, exchange “gifts,” favors, and so on (Homans, 1950; Blau, 1964), which promotes friendship, trust, and interpersonal liking (Granovetter, 1972; McAllister, 1995). Hence, social relationships imply generalized credits (Bourdieu, 1986) or obligations (Coleman, 1990) that accrue from being part of a social network. Moreover, dependent on with whom they interact and the intensity of those contacts, networks will vary in size, in terms of the number of people the individual knows and the people they know, but also in terms of their shape, for instance to what extent the individual’s ties will be formed outside or inside the company (e.g., Adler and Kwon, 1999; Burt, 1992, 1997). Social capital thus comprises both the network and the benefits and ‘favors’ that may be mobilized through that network (Bourdieu, 1986; Burt, 1992; Nahapiet and Ghoshal, 1998).

Once social relationships have been formed, they will influence an individual’s attention, actions, and behavior, possibly beyond the contacts’ original purposes (Coleman, 1988). For instance, social relations will influence what information flows to and from the individual (Burt, 1992; Coleman, 1988; Granovetter, 1973), they will determine to what extent influence and power can be exercised over others (Adler and Kwon, 2002), and they will influence what type of resources can mobilized through the network (Bourdieu, 1986;
Nahapiet and Ghoshal, 1998). Thus, the type of social relationships an individual has built up over time will shape a person's subsequent actions, and possibly even constrain them, in the sense that it may lock people into a certain course of action and type of behavior (Hansen and Lovas, 2004). For instance, social relations in a certain domain may enable a person to operate more effectively in that specific domain, while he or she is less able or inclined to operate in an area where such contacts do not exist (e.g., Adler and Kwon, 2002). In general, through the formation of social relations, people's past actions and experiences are likely to influence their subsequent choices and behavior.

Research on commitment theory has suggested that the extent to which individuals build up social relations in their organizations influences how likely it is that they will leave their firm (Allen and Meyer, 1990; Mathieu and Zajac, 1990; Meyer and Allen, 1984). Commitment, in this literature, is understood as "an individual's inclination to retain membership of an organization" (Meyer and Allan, 1991). Through interaction with people in their organization, individuals build up commitment in various ways. One way, known as continuance commitment, is that the relationships that someone has built up over time, and the networks, firm-specific knowledge, 'outstanding favors', goodwill, and so on, embedded in them, represent accumulated interests, which one would lose upon leaving the company. Therefore, continuance commitment represents the costs someone associates with leaving their organization, having to rebuild similar relationships and social capital at a possible new employer. A second way in which individuals build up commitment is known as affective commitment. It is less calculative but concerns an individual's emotional attachment to, identification with, and involvement in the firm. It implies that individuals enjoy membership of the organization (Allan and Meyer, 1990; McFarlane Shore and Wayne, 1993) and are committed to pursuing its goals. Finally, through interaction, people may develop a feeling of obligation towards others, to stay with the organization and continue the work they have
jointly set out to undertake. This is known as normative commitment. These various ways in which people build up commitment were validated in later empirical research (Allen and Meyer, 1996; Hackett, Bycio, and Hausdorf, 1994; Herscovitch and Meyer, 2002), while a strong relationships between psychological measures of organizational commitment and actual turnover was observed in various other studies (for a review, see Mathieu and Zajac, 1990). Thus, the formation of social relations determines the likelihood that people will remain at their organizations.

**Internally- and externally-oriented strategic experiences**

In this paper we propose that top managers are formed through similar mechanisms, and that different strategic experiences may create different levels and types of commitment to their organizations. Their experiences in their firms will determine the type and extent of social relationships they build up over time and thus, in conformity with commitment theory, will drive the likelihood that they will retain membership of their organization (Bolino, Turnley, and Bloodgood, 2002; Dickter, Roznowski, and Harrison, 1996; Porter, Steers, Mowday, Boulian, 1974; Steel, 2002). In this study we distinguish between two broad classes of managerial experiences, *internally-oriented* experiences, represented by internal actions such as setting up greenfield operations and internal reorganizations of the company, and *externally-oriented* experiences, which are associated with buying and selling businesses, i.e., acquisitions and divestitures. Jointly, these strategies capture a major portion of the strategic actions of top executives.

Executives who spend much of their time on the *internal* organization of the company, for instance setting up and developing new businesses or by leading and participating in internal reorganizations, will build personal networks with other managers and employees in their company. Social interaction may also promote feelings of
interpersonal liking, trust, and related affective feelings towards the members of the network and the organization. Executives may start to identify with the organization (Bolino, Turnley, and Bloodgood, 2002; Nahapiet and Ghoshal, 1988), and develop feelings of solidarity (Adler and Kwon, 2002). Moreover, through social relationships, individuals develop shared norms and values, trust, feelings of cooperation and bonding to the group (Bourdieu, 1986; Putnam, 1993), a willingness to define joint goals that are then enacted collectively (Leana and Van Buren, 1999), and a joint commitment and obligation to undertake actions towards the future of the organization, and to jointly develop that future (Coleman, 1988, 1990; Nahapiet and Ghoshal, 1998). This may also create feelings of obligation and normative commitment. In contrast, managers who have not spent much time in the organization are more likely to lack feelings of obligation and identification. Moreover, when they leave their company they do not lose a sizable internal network and the accumulated social capital associated with it. In sum, top managers who have spent much time inside their organizations are more likely to have built up commitment towards their company.

Top managers who spend much time on restructuring the corporate portfolio — through acquisitions or divestitures — will frequently interact with banks, outside consultants, and other external parties (see also Haunschild, 1993). This will lead to a very different set of experiences, with less firm-specific knowledge and personal investments. Not only do they spend less time on social interactions within their companies, they also spend more time on building networks with the external environment, shifting their actions and attention, implied social interactions, networks, and social capital outwards. This will result in networks of an entirely different shape, with many of the manager’s ties outside the company, with the accompanying exchange of information and favors and the social capital embedded in it (Hansen and Lovas, 2004). External social capital will not only not tie the manager to the company; prior research has shown that external networks will actually facilitate moving to a
new position (Granovetter, 1974; Lin and Dumin, 1986; Montgomery, 1992; Wegener, 1991). Managers who have spent considerable time on external strategic actions will have build up contacts that will inform them of new job opportunities. Likewise, those contacts will expose them to companies looking for new managers. Hence, prior engagement in many external strategic actions will likely increase the probability that managers will leave.

HYPOTHESES

Research on organizational life cycles (Greiner, 1972; Quinn and Cameron, 1983) and corporate development paths (Noda and Collis, 2001; Vermeulen and Barkema, 2001) suggests that companies go through different stages during their existence. Some periods are characterized by internal development and growth, while other periods demand restructuring and reorganization (Tushman and Romanelli, 1985). Moreover, organizations may expand in different ways, for instance, by acquiring other companies, or through the internal development of greenfield ventures. While earlier research suggested that companies predominantly focus on either of these modes, more recent research suggests that firms may combine them, or even alternate between them over time (Vermeulen and Barkema, 2001).

The influence of experiences on management turnover

Greenfields. Top management is typically closely involved in the decision to launch and develop new ventures, including the decision of who will lead the venture. In the context of social exchange (Blau, 1964; Homans, 1950), selecting or hand picking someone to be promoted to lead a new venture is one of the biggest “gifts” that top management can give to its employees. The ensuing direct social interaction when setting up and nurturing the new operations may further enhance the social ties of top management with the greenfield’s
managers and employees, strengthen their networks and patterns of friendship, and thus increase top management’s social capital as part of day-to-day operations. Thus, as a result of setting up greenfields, managers may build up social networks and reciprocity in the relationship with people in their company (Cook and Whitmeyer, 1992; Kollok, 1994). Jointly, these effects (associated with the top managers’ personal network and social capital) may enhance their emotional involvement, and hence affective commitment, as well as their continuance commitment, since most or all of their social capital residing in these networks will be lost if they leave the company.

Moreover, new ventures signal what top managers want to achieve with their company, and reflect their strategic intentions. Greenfields mark the beginning of something new, which needs to be nourished and grown into a profitable operation, reflecting a focus on the future (McGrath, 1988, Zaheer, Albert, and Zaheer, 1999). Although decisions to set up new ventures are taken at distinct points in time, they may create a more continuous and forward-looking perception regarding the company, and a willingness to invest together with the company’s employees in its future (in terms of time, effort, building social ties, networks, and so on). It is consistent with a willingness to define joint goals that are enacted collectively with other members of the company (Leana and Van Buren, 1999), which leads to a shared commitment and obligation to undertake actions to jointly develop the firm and shape its future (Coleman, 1988, 1990; Nahapiet and Ghoshal, 1998). This will stimulate managers to identify with the company and its employees (Bolino, Turnley, and Bloodgood, 2002) and create feelings of solidarity with other members of the firm (Adler and Kwon, 2002). These effects may be particularly strong if there is a pattern of setting up multiple new greenfields, consistently sending the signal of a joint commitment to the future. These various effects stimulate the executives’ affective commitment (e.g., identification with the company and its future), continuance commitment (social capital, reciprocity, and other firm-
specific assets) and normative commitment (if leaving the company is understood as defecting from the ranks, particularly, perhaps, if joining a competitor). All of this negatively affects the likelihood that executives will leave their company. In sum, we hypothesize that:

Hypothesis 1: Greenfield ventures are negatively related to the probability of top manager’s exit.

**Internal reorganizations.** Firms change and develop over time. Periods of development and growth often alternate with periods of reorganization and restructuring (Miller and Friesen, 1980; Tushman and Romanelli, 1985). These periods of reorganization are often intense and sometimes difficult periods for the employees involved since they may require fundamental changes in responsibilities, organizational structures, and work processes. Therefore, effective reorganizations require the close involvement and commitment of top management (Kotter, 1995; Rodgers, Hunter, and Rogers, 1993; Wetlaufer, 1999). In some ways similar to greenfields, they require the picking and selecting of managers who will lead (or remain) after the reorganization, assigning new tasks and responsibilities (Hambrick, Nadler, and Tushman, 1998; Nahavandi and Malekzadeh, 1993). This implies intensive interaction as part of day-to-day operations, which will strengthen social ties of top management with managers selected or hand-picked to lead after the reorganization (Ibarra, 1993), the exchange of information and favors with these managers, and perhaps interpersonal liking. All this will increase the amount of social capital of top executives that resides in these personal, internal networks.

As a result, we expect that the executives’ affective attachment increases as stronger social ties develop with those chosen by them to remain or manage after the reorganization (particularly after multiple reorganizations, with increasing proportions of remaining managers reflecting the preferences, trust, etc. of top management and stronger ties
developed through several rounds of interaction). Moreover, the strong internal networks of top managers with these (middle) managers, who were selected to stay and lead after the reorganization, and the accumulated social capital, trust, and expectations of reciprocity embedded in it (e.g. Cook and Whitmeyer, 1992; Lawler and Yoon, 1996), represent a valuable asset for top management towards the future – and something he or she would lose when leaving the organization. Furthermore, intense participation in reorganization programs will endow a top manager with considerable knowledge of the business, which represents another valuable asset towards the future. Therefore, we expect the commitment of top executives to their organizations to increase as a result of participation in reorganizations, since leaving the organization would imply leaving these valuable resources behind.

In addition, reorganizations may create a sense of obligation (i.e., normative commitment) towards the organization and its employees. Top management will have spent considerable time and effort to convince employees of the purpose and necessity of change and propagate the benefits of the renewed organization. This may reflect and strengthen a sense of obligation and joint commitment to the future of the company, and create a forward-looking perspective in the relationship of managers with their company (McGrath, 1988). In fact, top managers may lose general credibility if they leave shortly after a fundamental re-design. Reorganizations, like greenfields, may be seen as a starting point in time rather than as an endpoint (Ancona, Okhuyzen, and Perlow, 2001). We expect that this increased commitment by top executives to their company and its employees, strengthened by internal reorganizations, reduces the likelihood of their exit.

Hypothesis 2. Internal reorganizations are negatively related to the probability of a top manager’s exit.
**Acquisitions.** Another important task of top managers of large corporations is to manage the composition of the company’s portfolio of businesses. This task implies buying and selling businesses to alter, extend, or eliminate the company’s involvement in specific lines of activities reflecting a (change in the) company’s overall strategy. This restructuring of the company’s portfolio of businesses may reflect its development stage (Greiner, 1972), need for revitalization (Vermeulen and Barkema, 2001), or the individual preferences of its top managers (Kets de Vries and Miller, 1984; Miller and Shamsie, 2001). It may take the form of buying, i.e., acquisitions, or selling businesses, i.e., divestitures. We will first discuss the implications of acquisitions.

Effective deal-making in the form of acquisitions is time-consuming and requires much attention and effort of top managers (Hitt, Hoskisson, and Ireland, 1990; Hitt, Hoskisson, Ireland, and Harrison, 1991). Much of this time is spent on making the deal happen: on screening and selecting acquisition targets, negotiations, the due diligence process, and so on. This will require day-to-day interactions with representatives from banks, outside consultants, and other external parties, which leads to social ties, social exchange, and perhaps interpersonal liking with these outside people and institutions. Thus, the manager creates networks and social capital that largely resides with parties external to the company (Adler and Kwon, 1999). At the same time, since their time is limited, executives will spend less time and attention on developing internal networks. The result is an outward push on the personal, direct networks that executives develop, their patterns of friendship, and the social capital that resides in external networks rather than in internal networks.

In fact, the acquired parts of the company have existing relationships in place, and existing management and employees, not selected by top management. They do not share a common history that would create bonding and identification with one another (Schein,
1985) and there is no history of reciprocal social exchange (Kollock, 1994; Lawler and Yoon, 1996). As a result, the pattern of affective commitment of top management is less exclusively tied to managers and other employees who make up their internal networks in the company. The executives’ networks, social capital, and business knowledge are less exclusively tied to the internal organization as well, implying a lower level of continuance commitment to the company. Part or all of the externally built social capital may, in fact, remain intact if the executive moves to another company, which further lowers the costs of leaving the firm. Moreover, the external network and implied exchange of information, favors, etc. may help to spread news of upcoming vacancies while providing the networks and influence to acquire the vacant position (Granovetter, 1974; Lin and Dumin, 1986; Montgomery, 1992; Wegener, 1991).

Moreover, acquisitions often create a different attitude in top managers than internal development (Hayward and Hambrick, 1997; Jemison and Sitkin, 1986). Acquisitions don’t necessarily involve a joint commitment with other (existing) members of the organization towards a collective future, in comparison to for instance greenfields with handpicked managers from the existing company (which need to be nurtured over time to become a profitable operation). Deal-making is much more an activity that exclusively involves top management, rather than a joint effort of members of the organization. Moreover, top managers may look upon the completion of a deal as an end-point, rather than as a starting point in time (McGrath, 1988, Zaheer, Albert, and Zaheer, 1999), which to them may mark a distinct point at which it is appropriate to leave, lowering their commitment to a prolonged stay at the company.

Furthermore, it is well-known that acquisitions may cause substantial tensions in organizations, due to integration problems (e.g. Jemison and Sitkin, 1986), and perhaps because part of the envisioned gains derive from “synergy” i.e., lay-offs of workers in both
the acquired and acquiring company. Employees of the acquiring company suddenly find themselves competing with people of the acquired firm, employment contracts and promotion practices may need to be altered to reflect the realities of the joined company, and so on, which may be interpreted as a breach of implicit norms and values, which decreases levels of trust and of identification with the company, and solidarity. All this may cause a decrease in the level of social capital of the top manager in the firm, which may further reduce the commitment of the executives that were involved in the deal. Moreover, while tensions may also have positive long-term effects in the form of infusing the company with new ideas, people, and so on (Vermeulen and Barkema, 2001), top managers (formerly pre-occupied with deal-making) may also simply be inclined to leave such a delicate and painful task to a successor. Therefore, we predict that the completion of acquisitions increases the likelihood that an executive will leave.

_Hypothesis 3: Acquisitions are positively related to the probability of a top manager’s exit._

**Divestitures.** Firms may engage in divestitures for reasons of poor performance, as a reaction to over-diversification or another change in the company’s strategy, due to institutional pressures, and so on (Johnson, 1996; Markides, 1992). Like acquisitions, divestitures imply restructuring the corporate portfolio by changing the mix of businesses the firm is active in. This requires executives to spend time interacting with parties external to the company as part of the day-to-day operations, negotiating the price of the business and other terms of the sale. This, consequently, also shifts the pattern of their social ties, personal networks, and social capital in an outward direction. Prolonged engagement in divestitures will cause executives to build up ties with investment bankers, top management of other, acquiring companies, etc., but not as much within the firm. In fact, continued
desinvestments of proportions of the business may lower the social capital that top managers enjoy within the company, as it may signal to other parts and people in the firm that there is less solidarity and less joint commitment towards the future than perhaps previously assumed and that implicit contracts and trust do not apply as much as they might have thought. In any case, managers’ social capital within the company is likely to not increase or even subside as a result of repeated divestitures.

Although executives may interact with the units up for sale – for instance to agree the terms of their sale, preparing it for the transition, etc. – they may abstain from building up emotional attachment to it, since they are aware that there likely is no joint future. They may want to avoid possible escalation of commitment, which could hamper its divestment (Ross and Staw, 1986; Whyte, 1986). From a more calculative perspective, the lack of a shared future may also lead to lower investments in building up social ties, networks, and social capital with managers of potential sell-offs. And to the extent that they do emerge as a by-product of day-to-day operations, while preparing the unit for sale, they will be lost after the sale and no longer imply affective or continuance commitment of the executive to their present company. In fact, divestures may give an executive a sense of completion, marking an endpoint in time (Ancona, Okhuysen, and Perlow, 2001; Zaheer, Albert, and Zaheer, 1999). If the “mandate” of managers (Hambrick and Fukutomi, 1991) was to “clean up the company’s portfolio,” it will make it even easier for them to terminate the affiliation “after the job is completed”, as they have fulfilled their obligation, reducing their normative commitment to the company. Therefore, we expect that the completion of divestitures will lower the commitment of top managers to their firm, which will result in a positive relationship between the firm’s divestment activity and the probability of exit of top managers.
Hypothesis 4. Divestments are positively related to the probability of a top manager’s exit.

The influence of management turnover on firms’ subsequent strategic actions

So far, we have discussed how strategic experiences shape managers, in terms of the social capital they build up and, with it, their level of commitment to the organization, which determines their inclination to stay or leave the company. Yet, if this is how the different strategies of firms (e.g., internally- versus externally oriented strategies) impact their top executives, through the formation of their networks, social capital, and other assets, it seems likely that these processes will also impact the company’s future strategic actions, because managers have been shown to shape firms’ strategies (e.g. Boeker, 1997a; Wiersema and Bantel, 1992). Therefore, we will now shift our theoretical analysis to the level of the firm, to examine how top managers, shaped by prior strategic experiences, and their turnover influence the future course of their firms.

From various theoretical perspectives, it has been argued that firms are inclined to repeat past behavior, by forming routines, cognitive maps, and competencies that are suited and tied to that specific behavior (e.g. Cyert and March, 1963; Nelson and Winter, 1982; Hannan and Freeman, 1984). Our perspective – of how past experiences lead managers to build certain social relations and preferences – corresponds to these views. Executives who have been actively involved in internal activities (such as setting up new businesses and internal reorganizations) will have formed substantive networks within the company, including the social capital and knowledge that resides in these (cf. Coleman, 1988; 1990). However, in turn, the more internal social capital etc, top managers have, the more likely it becomes that subsequent strategic actions by their firms will also emphasize internal development. Networks, for instance, determine what information reaches managers (Burt,
Extensive internal networks may provide managers with information about additional needs and new opportunities within the company. Moreover, firm-specific knowledge and social capital will help interpret these additional needs for further internal development (Hambrick and Mason, 1984; Sutcliffe, 1994) and mobilize the resources to act upon them (Lovas and Sorensen, 2004). For instance, having participated in setting up greenfields and reorganizations may have endowed top executives with more and more detailed information about new internal investment opportunities, provided them with insight into which managers are particularly fit to lead these new developments, etc. Likewise, the ties that top managers will have built with employees, and firm-specific knowledge about products, work processes, and internal power coalitions (Garguilo, 1993; Ibarra, 1993), gained during the process of internal development, may have alerted them to further needs or opportunities for reorganizations. In sum, having engaged in previous internal ventures and reorganizations makes future internal development more likely.

Similarly, the more external networks, social capital, and knowledge top managers have, as a result of having been engaged in buying and selling companies, the more likely it becomes that subsequent strategic actions by the firm will also emphasize external development. In the process of buying and selling businesses, managers in a firm’s top team will have built up networks, knowledge, social capital, and perhaps even patterns of friendship that are conducive to exchanging information about further deals. These contacts will include investment bankers and, partly through them, potential acquisition candidates and potential buyers (Haunschild, 1993; 1994). A high level of such contacts will better enable the top team to scan the market for take-over candidates, and enable it to identify, pursue, and complete further acquisitions. Likewise, prior experiences in the market for acquisitions, whether as a buying or a selling firm, will lead to external contacts that will
facilitate the process of finding a buyer for a business that the firm would like to divest, and for interested buyers to contact the firm and propose and close a deal. Hence, external networks, social capital, and so on, built up through deal making in the past, will make it easier and more attractive for top teams to engage in further external development.

Thus, in general, the type of networks, social capital, and so on that a top management team has accumulated over time will steer the team’s subsequent initiatives. If the team has built up external contacts in the past, further external development will become increasingly likely and attractive. In contrast, internal networks and social capital of the top team will favor further internal development activities. Hence, a heightened top team’s preference, whether it is for external or for internal development, will have a tendency to persist as time progresses.

*Hypothesis 5a: A firm’s past preference for external versus internal strategic development will be positively related to its current preference for external versus internal strategic development.*

However, a countervailing mechanism is present in the form of top managers’ exit. Social networks, including the social capital embedded in it, are often at least partly tied to individual managers, rather than the organization as a whole (Adler and Kwon, 2002). Likewise, ‘outstanding favors’, that result from prior social exchange (Kollock, 1994; Lawler and Yoon, 1996), will often be tied to a particular person. As a result, if this person leaves the firm, the social capital owned by him or her will disappear as well. If, for example, over the years, a certain firm has built up a relative preference for external development, a manager in this firm’s team will have accumulated a relatively large amount of external social capital, networks, and knowledge. Consequently, if this manager leaves the firm, the loss of external social capital etc. will be larger than the loss of internal social capital. This
will be reflected in the firm’s subsequent preference, shifting it back in the direction of internal development, since the surplus of external social capital in the firm’s top management team has diminished. Likewise, if a manager with an abundance of internal social capital exits a firm, the absolute amount of internal social capital will unevenly diminish, shifting a firm’s resulting preference back towards development through external means. This implies that a firm’s inclination to repeat past behavior (e.g. Amburgey and Miner, 1992) is at least partly tied to its individual managers and thus, that this inclination will be diminished through top management team turnover. Formally:

**Hypothesis 5b:** The positive relationship between a firm’s past preference and its current preference for the external versus internal strategic development will be negatively affected by top management exit, such that the relationship is smaller, or even absent, when there is turnover in the top management team.

**METHODOLOGY**

**Data**

The hypotheses were tested on a sample of 437 top managers. We wanted to collect a longitudinal database tracking top managers throughout their tenure, collecting data on all the reorganizations, greenfields, divestitures, and acquisitions that occurred during their membership of the top management team. In order to achieve this, we selected a sample of 25 Dutch non-financial, multinational companies listed on the Amsterdam Stock Exchange in the year 1999. We selected firms that had been in existence for a considerable period of time because this should enable us to build up a complete picture of the tenure of a large number of top managers. Subsequently we traced back in time the complete membership of their top team to the year 1966 – before which data sources became scarce or non-existent – including all their reorganizations, greenfields, divestitures, and acquisitions. This led to a
total sample size of 3300 manager/year observations, which is the models’ unit of analysis. We are aware that this procedure creates a bias towards surviving firms, but it enabled us to have observations of both the entry and the exit dates of a large number of managers. Indeed we managed to obtain censored data on 342 of the 437 top managers. Moreover, this procedure minimizes distortion in the data on management turnover due to bankruptcies etc. The selection of surviving firms does not create a bias towards any of our hypotheses, although obviously care should be applied when discussing generalizability of our results.

The companies in the database were active in a large variety of businesses: in the manufacture of office equipment, precision machinery, paper and packaging, food products, and pharmaceutical and chemical products and brewing, publishing and printing, retailing, trading, tank storage, and many other industries. The companies are large, but not so large that management of individual divisions are the main driving force behind strategy and development routes, rather than the top management team of the whole company. For instance, the average number of employees over the period 1966-1999 was 11,449. The 25 firms undertook a total of 108 major reorganizations, initiated 401 greenfields, desinvested 724 businesses, and engaged in 1491 acquisitions. An advantage of using Dutch firms is that companies in the Netherlands are all headed by a clearly defined “Raad van Bestuur”, which is considered the firm’s top management team. The average top team consisted of 4.3 members. Average number of years that people stayed on as members of the top management team (excluding censored observations) was 9.3 years, with a standard deviation of 6.2 years.

For each of the 25 firms, and all of their managers, a historical overview was made in terms of membership and turnover in the top team, all internal reorganizations, greenfield ventures, divestments of subsidiaries, acquisitions, and a number of control variables, spanning the period 1966-1999. We used a variety of archival sources, such as annual
reports, management lexicons, who-is-who in the Netherlands, and sometimes archival records provided for by the firms. In addition, all companies were contacted by telephone and fax to verify information. This led to fully time-variant data regarding all the variables in the study.

**Method of analysis and variables used to test hypotheses 1-4**

Hypotheses 1-4 were tested using survival analysis, or event history analysis. We used Cox’s semiparametric proportional hazard model (Kiefer, 1988) because we had no apriori knowledge of how the baseline hazard is distributed across tenure, i.e. how the probability that a manager will exit depends on tenure duration. Cox’s semiparametric hazard model does not require assumptions about this distribution, instead it only uses the time order in which the manager is observed, i.e. $t_0 < t_1 < t_2 < \ldots < t_k$, and not the length between observations (which is why it is called a *semi*-parametric model). Hence, the *dependent variable* is the instantaneous rate that a manager will exit, building on the information whether or not a manager exited and how many intervals had passed. Note that this model is equivalent to a piecewise exponential survival model, with the number of time intervals equal to the number of distinct times that a manager is observed (Vermunt, 1996). Thus, the dependent variable can be interpreted as the probability that a manager will leave the team. All models were estimated using White, heteroscedasticity robust standard errors.

Alternatively, to avoid heteroscedasticity, we also estimated models stratified by company, which allows the baseline hazard function to differ per company. This led to results identical to the ones reported below with all coefficients significant in the same direction.

Furthermore, we estimated models controlling for time using a free time polynomial, that is, a variable indicating calendar time and several of its powers, which also produced results that were virtually identical.
Because we measure time in a discrete way -- that is, we have yearly observations while time in reality is continuous -- we also re-estimated the models shown below through discrete-time analysis using a logistic regression model (Vermunt, 1996). All the results, as shown below, were clearly replicated, with all the variable signs in the same direction, at at least similar levels of statistical significance.

**Reorganizations.** Internal reorganizations are initially coded as a dummy variable in a certain year if the company in their annual report makes notice of a formal reorganization and transformation program within (part of) the company. This can be a company wide program or a reorganization within a division. Reorganizations in service departments were excluded in the models shown below but their inclusion did not change the results. From this variable we subsequently constructed a moving average of the three years preceding the observation, to take into account possible clustering of reorganizations within a certain time period and because experiences that raise the chance of turnover to some extent accumulate over time (Hackett, Bycio, and Hausdorf, 1994). This variable was lagged one year to ensure causality. We also estimated models adding reorganizations over a number of years, with the older years discounted through various rates (cf. Ingram and Baum, 1997), which produced highly similar results.

**Greenfield ventures.** Similarly, we measured greenfield ventures as the moving average of the number of greenfield expansions over three years, lagged one year, preceding the year of observation. Greenfields were newly established companies, reported as separate entities in the company’s annual report.

**Divestitures.** Likewise for divestitures. We counted the number of divestitures over three years, and lagged this measurement with one year. A divestiture could be the outright dissolution or the sell-off of a previously reported subsidiary. Note that, in our theory, concerning the effect on managerial organizational commitment, it does not matter whether
the subsidiary gets sold to a different company or whether it is dissolved altogether. In both cases the venture ceases to exist as part of the manager's organization.

*Acquisitions.* Acquisitions were measured in a similar way; a moving average over three years, lagged one year. Acquisitions concerned the take-over of a different existing company or part of a company.

*Control variables.* We included several control variables on the level of the manager: a dummy variable measuring whether the executive is the CEO of the company, a dummy whether the manager had a technical background, since engineers may be more focused on internal growth, and a dummy for legal background since lawyers may be more focused on deal-making (Barker and Mueller, 2002). On the firm level we controlled for profitability, through return on assets, for instance because managers may be inclined to use financial slack to engage in take-overs (Jensen, 1986). We controlled for profitability growth/decline through the percentage change in return on assets. Unfortunately, we had no direct information whether an exit was voluntary or forced (Pitcher, Chreim, and Kisfalvi, 2000), for instance for reasons of bad performance. However, forced exit can be expected to be quite rare in our sample, since it is notoriously difficult for top managers in the Netherlands to be fired for reasons of poor financial performance. However, together these two variables, return on assets and change in return on assets, should control for the effects of (involuntary) turnover due to performance. Any other reasons, causing forced exit, will simply form part of our error term and hence not bias any of our results.

**Method of analysis and variables used to test hypotheses 5**

To test hypothesis 5, the data were reorganized to represent the firm level, i.e. into a paneldata or pooled time-series format, since the dependent variable for this hypothesis is a firm’s preference for external versus internal development. Loss of observations due to
lagged variables and some missing values in the early years of the sample period led to a sample size of 690 firm-year observations. Below, we display estimates using fixed-effects models, but estimation through random-effects led to identical results.

**Dependent variable.** The dependent variable, a firm’s relative preference for external versus internal development, was measured as follows. For each firm and year we normalized the number of desinvestments and acquisitions by dividing them by their respective sample standard deviations, and subsequently added them to represent the firm’s level of external development. Likewise for internal reorganizations and greenfield ventures to represent internal development. Then, we subtracted the level of internal development from the level of external development to indicate a firm’s relative preference for one strategic mode over the other. Thus, a positive number implies that a firm, in that specific year, was more engaged in external development (acquisitions and divestitures) than in internal development (reorganizations and greenfield ventures).

**Independent variables.** The dependent variable, a firm’s relative preference for external versus internal development, was subsequently regressed on itself, lagged one year. A positive coefficient would indicate that a firm’s preference has the inclination to persist over time. Furthermore, the firm’s preference was regressed on the variable “top management team exits”, which is measured as the number of people to leave a top management in a given year (the average of this variable was .58). The interaction between these two variables tests the hypothesis that strategic persistence – captured through the abovementioned positive relation between a firm’s preference and its lagged preference – is negatively affected by people leaving the top team, i.e. top management team turnover. Finally, in these fixed effects models, we controlled for the potentially concurrent effect of new member entry into the top management team, by including the number of people to join
the top team in a given year, and for firm size and profitability through a firm’s assets and return on assets.

RESULTS

Table 1a displays summary statistics and the correlation matrix of the independent variables used in the event history analyses. There are no exceptionally large correlations between the variables, but it is noteworthy, however, that the correlations between our predictors are not negative. This is an indication that managers do not necessarily focus on either internal development (i.e. internal reorganizations and greenfield expansions) or external activities (i.e. divestments and acquisitions); apparently these activities do not need to be mutually exclusive. Note that our theory does not suggest that managers engage in either internal or external development, but that internal activities increase organizational commitment, while external actions reduces the inclination of top managers to remain at the firm, independent of the correlation between the two. Table 1b displays statistics for the firm paneldata.

----- Please insert Table 1 about here -----

Table 2 displays the results of the event history analyses. Recall that, since we had no apriori knowledge of the shape of the baseline function between tenure duration and the hazard, i.e. the probability of exit, we estimated our models using Cox’s partial likelihood approach, to avoid making assumptions about this relationship. Therefore, we first examined the estimated cumulative baseline hazard (using model 2), which is displayed in Figure 1a, and its logical converse the estimated baseline survival function, which indicates the proportion of managers remaining, displayed in Figure 1b. These graphs show that the hazard is monotonically increasing; the longer the manager is in function, the higher the chance becomes that he or she will leave. This relationship is stronger at higher levels of

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tenure, which makes sense; the chance of departure increases more between, for example, year 15 and 16 than between year 2 and 3. This suggests that if future research would like to estimate parametric hazard models, and hence make assumptions about the form of the baseline hazard, it would be better to opt for, for instance, a Weibull distribution, rather than a loglogistic or lognormal distribution (Allison, 1984; Kiefer, 1988).

----- Please insert Figures 1a and 1b about here -----

----- Please insert Table 2 about here -----

**Test of hypotheses 1-4.** Model 1 in Table 2 concerns the model with estimates of the effect of the control variables only. The first column depicts the coefficients, while the second column displays the size of the so-called multiplier, or the hazard ratio of the variable’s effect. The size of coefficients in an event history model cannot be interpreted directly, since it is a multiplicative rather than an additive model, but they can be transformed into the multiplier (which is simply $e^\beta$). The multiplier shows the influence that one (additional) unit of the variable has on the probability of a manager’s exit. For instance, the model shows that CEO’s have a lower probability of exit; hence the negative coefficient in first column of model 1. The multiplier in the second column shows that the probability that a CEO will exit at a certain point in time is 69% of the probability that a regular member will leave the top team. Furthermore, the model indicates that Dutch top managers are more likely to leave in times of high profitability, rather than when return on assets is low. Previous research has shown managers to leave both in times of poor performance and in times of high performance, supposedly due to favorable labor market effects (Salancik and Pfeffer, 1980; Wagner, Pfeffer, and O'Reilly, 1984). Adding a square term to our variable to capture non-linear effects did not alter the results; the estimate was wholly insignificant. Hence, the probability of turnover of Dutch top managers seems to be influenced by high performance,
rather than low performance. The estimates on the variable change in profitability, however, show that managers are more likely to leave when performance is declining. Taken together, these results indicate that Dutch top managers are most likely to leave their company when its performance trend is just 'over the hill', that is, performance is high but has started to decrease.

Hypothesis 1 predicted that setting up greenfield ventures decreases the probability that top managers will exit. The results in model 2 show that the effect of greenfields is indeed negative and significant. The size of the multiplier indicates that each greenfield decreases the probability that a manager will leave with 41%. Likewise for the effect of reorganizations; this variable too is negative and highly significant, which corroborates hypothesis 2. The size of the effect is comparable; each reorganization decreases the probability of managers’ exit with 39%. Note, however, that greenfield ventures are less rare than internal reorganizations; an average of .53 per year, versus an average of .14. Therefore, in total the influence of greenfields on managers seems more prominent. Together, these results support the notion that activities of internal development increase managers’ commitment to their organization.

Hypothesis 3 and 4 addressed the influence of external development activities; buying and selling businesses. The coefficient on acquisitions is indeed positive and highly significant. In fact, a take-over of another company during a top manager’s tenure increases the chance that he or she will leave the firm with 9%. Desinvestments of existing ventures also significantly increase the probability of top management exit; each divestiture increases the chance of a manager’s departure with 27%. Together, the estimates corroborate the idea that externally-oriented strategic experiences (deal-making) increase the likelihood that managers will subsequently leave their position. On average, desinvestments take place about once a year (i.e. .99), while the average number of acquisitions that the managers in our database experienced on a yearly basis was 1.7. Hence, the effect of divestments on
the probability of managers terminating their tenure is the strongest influence in our model, taking into account how often the different events take place.

We also estimated models with interactions between our four predictors and the control variables indicating performance, return on assets and change in return on assets. One could suspect that the relationship between managerial actions (i.e. reorganizations, divestments, etc.) is moderated by performance; for instance, reorganizations might only lead to sustained management tenure if they result in improved performance, or acquisitions lead to higher turnover if they do not work out, i.e. if firm performance suffers as a result, etc. None of these interactions, however, were significant. Apparently, in support of our theory regarding the effect of the predictors on managerial commitment, the results displayed in Table 1 are not conditional on their influence on firm performance.

Furthermore, one might suspect that our results may be influenced by the age of the top managers in the sample, specifically whether they have reached a pensionable age (usually 62 for Dutch managers), since previous research has suggested that managers may be inclined to do different things when approaching the end of their tenure (e.g. Miller and Shamsie, 2001). Unfortunately, we were only able to find the date of birth for 338 of the people in our sample (i.e., 77%). For those observations we created a dummy variable whether the person had reached the pensionable age and used that as an additional control in the models of Table 2. All results were clearly replicated with highly similar coefficients and levels of significance, with the exception of the variable internal reorganizations, which decreased in significance (although still p<.10) to -.313 (multiplier = .73). Not surprisingly, the dummy itself was highly significant (p<.001) indicating that managers of 62 years and older were 4.3 times as likely to exit.

Test of hypothesis 5. Table 3 displays the results of the fixed effects models, used to test hypothesis 5. In models 1 and 2 the level of external development, as compared to
internal development, is regressed on the same variable lagged one year. The coefficient is positive and significant, indicating that on average a firm’s preference has a tendency to persist, as predicted by hypothesis 5a. Remember that these are fixed effects models; firm specific influences are controlled for, i.e. a firm’s preference for external or internal development has an inclination to persist beyond what is ‘normal’ for the firm. In model 2 the interaction term between the level of external versus internal development and top management team turnover is added to the equation. The interaction is negative and highly significant, indicating that the persistence of a firm’s preference is smaller in case there is turnover in the team, which strongly supports hypothesis 5b.

----- Please insert Table 3 about here -----

These estimated relationships are displayed in Figure 2, for various levels of top management team turnover. As shown, in a year in which there are no exits from the team the relationship is clearly positive, but this relationship dampens for years in which top managers are leaving. If there are two or more people exiting the team the relationship even reverses; if, for example, a firm has a relative preference for internal development in year one, it will display a preference for external development in the year following, and vice versa. Note that, in itself, top management exit leads to a (small) increase in a firm’s level of external development, i.e. the direct effect of management exit is slightly positive – as displayed along the vertical axis of the graph. This is understandable since a departing top manager will always have built up some level of internal social capital, but not necessarily external capital. Hence, top management exit is especially influential if it concerns a manager who has been engaged in a lot of internal development, leading a firm to revert its relative preference for internal development into a preference for external development.

----- Please insert Figure 2 about here -----
An alternative test, that directly gets at the countervailing effect of top management exit, is displayed in model 3. Here, the dependent variable is not the level of external versus internal development, but the increase in a firm's existing preference. If, for example, in a certain year the dependent variable of models 1-2 would increase from 1 to 3 (indicating a preference for external development, which has grown stronger), the dependent variable for model 3 would be set to 2 (i.e. 3 minus 1). If in another year the firm's preference had changed from -1 to -3, the dependent variable for model 3 would also have been set to 2, again indicating an increase in a firm's preference, be it this time for internal development. A decrease from 3 to 1 (i.e. a decrease in preference for external development) would result in a value of -2, since the preference has grown smaller, as would a change from -3 to -1 (i.e. a decrease in a preference for internal development), etc. Model 3 shows that, when this dependent variable was regressed on top management team exit, the estimate was negative and highly significant, indicating that turnover in a firm's top management team pulls a firm's preference for external development back towards internal development, and vice versa. This renders additional support for hypothesis 5b.

**Robustness checks.** Taken in isolation, some of our models’ findings may be open to alternative explanations. One alternative explanation for some of our study’s findings would be reverse causality between organizational commitment and managers’ preferences for external versus internal development (although, as reported, we use lagged effects throughout our models). One could argue that perhaps the managers in our sample did not change due to the particular experiences that they went through with their firms (i.e., internal versus external strategic development) but because those managers who were committed to their organizations had a preference for internal development and the managers who
were less committed to begin with emphasized external organizational development. That is, for example, the people who do a lot of acquisitions were prone to leave early anyway.

Although we think this scenario is relatively unlikely, since we examined top managers in general, rather CEO’s alone, and hence the strategic development of these firms is not influenced by these individual managers only, plus we know that firms go through certain periods of growth and decline independent of managers’ preferences (Greiner, 1972; Vermeulen and Barkema, 2001), we performed a series of analyses to restrict this possibility. Firstly, we ran a number of OLS regression analyses to examine whether firms indeed emphasize either internal or external development activities. Hence, we for instance defined number of reorganizations as the dependent variable and regressed it on greenfields, divestments, and acquisitions, controlling for, among others, firm size and firm specific effects (using firm dummies). Likewise for the other three predictors, which we set as dependent variables. If the above alternative explanation were to hold true, we should see a negative partial correlation between internal activities and external activities. As already suggested by the correlation matrix (Table 1) this was not the case; firms and their managers do not do one or the other: internal and external strategic activities often take place at the same time. A management team may be performing both types of actions concurrently, it is just that one increases commitment while the other one has negative influence on commitment.

Another, direct test of the above alternative explanation would be to control for manager-specific effects in our models, for instance adding 436 (= n-1) manager dummies or, the equivalent, running fixed-effects models on our database. Unfortunately, fixed effects are not possible in log-linear analysis such as event history analysis or logit models. However, to explore within group estimates, we ran fixed-effects, linear probability models (Amemiya, 1981) on our panel data with as a dependent variable a dummy whether or not a
manager left in a certain year. In effect, these models only compare the observed manager with him or herself; for example, they model whether the probability of an average manager’s exit increases due to an acquisition, beyond his or her specific probability of exit before the acquisition. Note that these linear probability models will create unbiased estimates of the coefficients but will produce biased standard deviations, hence the reported significance levels should be interpreted with care. We first ran the models displayed in Table 2 using linear probability estimates, without the fixed effects condition, which led to highly identical results as the ones displayed. Adding the fixed effects produced the same results for all predictors but the coefficient on reorganizations, which was insignificant. The statistical significance for the other three variables was at least p<.001. Again, this is likely to be a very conservative test of our hypotheses and the results should therefore be interpreted with care, but it does lead to further support that at least our findings on the influence of greenfield ventures, divestments, and acquisitions are not due to unobserved manager specific influences, in conformity with our theory. Thus, it leads to further confidence that our models indicate that firm experiences are changing managers, rather than that different managers experience different things.

DISCUSSION

The findings in this study help to further complete the picture of the relationship between top managers and their firms. Over the last decade, a stream of research has emerged that has shown, in various ways, how managers shape firms, in the sense that the strategic development of organizations is influenced by the particular individual characteristics and preferences of their top managers. Our study adds a new perspective to this literature; it shows that managers are also influenced by the strategic experiences that they go through during their tenure.
In particular, we examined the effect on managers’ organizational commitment – or their inclination to remain at or leave the firm – and related that to them having been engaged in internal development activities (setting up new ventures and engaging in internal reorganizations) and external strategic development (acquisitions and divestitures). We argued that the type of strategy managers are executing causes them to build up different networks (e.g. internal or external to the company), different levels and forms of social capital, and other (potentially firm-specific) knowledge and resources. Our results showed that the experience of greenfield ventures and internal reorganizations leads managers to develop increased commitment to their firms, which thus lengthens their tenure. Experiences of firm development through deal-making (buying and selling off businesses) was shown to shorten managers’ tenure.

In turn, we examined how these exits from top management teams influence the firms’ subsequent strategic moves. In conformity with our predictions, we found that firms’ propensity to change through internal or external development was prone to persist over time (cf. Amburgey and Miner, 1992), but that top management team turnover reduces and corrects this propensity, shifting it back to a more balanced development. Thus, in our longitudinal analysis, top management turnover was both a consequence and a cause of firms’ strategic development paths.

Relations to prior literature

Our research contributes to various (related) literatures. First of all, and most obviously, it contributes to the literature examining top management turnover. Prior research has either looked at turnover as a dependent or as an independent variable, seeking to explain what drives turnover or what its consequences are.
The literature that examines what leads to top management exit has predominantly focused on the influence of financial performance (e.g. Salancik and Pfeffer, 1980; Wagner, Pfeffer, and O'Reilly, 1984; Weisbach, 1995), top team composition (e.g. Wagner, Pfeffer, and O'Reilly, 1984, Wiersema and Bantel, 1993), and environmental characteristics (Bloom and Michel, 2002; Wiersema and Bantel, 1993). We add the notion that managers may leave or stay at their company dependent on the strategic experiences they have gone through. Common wisdom suggests that people are influenced by the organizations they are working in. Our research has offered a more structured view of how managers are shaped by their organizations. We suggested that different experiences lead to different levels and forms of commitment, for instance because people build up social relations depending on where work is done (e.g. inside or outside the company). As a result, managers may prolong their stay at a company if they have built up a lot of internal experiences, and they may be quicker to leave if they have been spending a lot of their time and effort outside their organization, for instance being engaged in deal-making.

Our research also adds to the literature that seeks to explain what the consequences are of management turnover. Prior research in both the Finance (e.g. Furtado and Karan, 1990; Weisbach, 1995) and Management literatures (e.g. Boeker, 1997b; Miller, 1993) has explored the impact of top management turnover on the state and performance of firms. This research has for instance shown that turnover triggers strategic change, in terms of diversification, structure, and various organizational processes (e.g. Boeker, 1997b; Miller, 1993b). In addition, we show that it changes a firm’s preference to undertake external or internal development activities. Yet, through our longitudinal analysis, we also provide more insight into how top management turnover influences strategy: exits from a top team lead to change because it breaks a (perhaps otherwise vicious) circle of repeated strategic preferences, in this case internal expansion activities leading to more internal expansion and
external development leading to more external activity. As such, we offer a more fine-grained view of what the influence is of managers’ past experiences on their future decision-making and, consequently, what the impact is of management turnover on the course of the firm. Thus, by examining turnover as both a cause and a consequence of strategy, we offer fresh momentum to the literature that aims to examine the role of managerial exit in the strategic development of firms (e.g. Wiersema and Bantel, 1993).

As such, our study also relates to the literature on competency traps and organizational inertia (e.g. Levinthal and March, 1993; Miller, 1993a; Miller and Chen, 1994). Previous research has suggested that firms are inclined to repeat past behavior in their development paths, which for instance stimulates them to engage in ever more M&A activity (e.g. Amburgey and Miner, 1992). However, other research has shown that firms alternate acquisitive and organic growth (Vermeulen and Barkema, 2001), rather than escalate into one direction. Our study – which incorporates specific past experiences by managers as well as the firms’ equivalent, subsequent strategic actions – corroborates that firms are inclined to repeat past behavior, unless this is ‘corrected’ by top management turnover.

More generally speaking, these results suggest that inert behavior by an organization is at least partly tied to the individuals at its helm, i.e. their top managers. Managers repeat behavior that fits the knowledge and social relationships they have built up in the past. New managers bring new relationships, perspectives, and knowledge and, therefore, may change the strategic direction of the firm.

Finally – be it indirectly – our research contributes to the literature on social capital (e.g. Adler and Kwon, 2002; Nahapiet and Ghoshal, 1998). Literature on organizational commitment (Meyer and Allan, 1984; 1991) suggests that people are inclined to stay longer in a firm if they have built up social capital within that organization. Our study directly models that managers who have gone through many internal experiences (in terms of setting up
new ventures or leading reorganizations) indeed display higher levels of commitment. In contrast, and in conformity with commitment theory, many external experiences (acquisitions and divestments) significantly decreased managers’ commitment to their firm. For social capital research, this suggests that it is important to distinguish between internal and external social relations, for instance because the balance between the two in its team of top managers will effect the future strategic development of a firm. To date, with notable exceptions (e.g. Adler and Kwon, 2002; Lovas and Sorensen, 2004), social capital research has not paid much attention to the distinction between ties within or across firm boundaries.

Study limitations and suggestions for future research

Our study has several limitations. One of them is that we measure managers’ specific experiences (in terms of acquisitions, reorganizations, etc.) and we measure the outcome of the processes we theorize to be taking place, namely whether a manager leaves or stays at a firm, but we don’t directly observe the networks, social capital, firm-specific knowledge etc. that we propose result from the specific experiences, and which in our view drive managers’ organizational commitment. Although many of these mediating variables are notoriously difficult to directly observe, future research that for instance maps top managers’ networks through survey research (e.g. Burt, 1992) would greatly complement our findings. Obviously, survey research is virtually impossible to conduct in a longitudinal study that spans several decades, such as ours, but a careful examination of how managers’ social ties relate to their prior experiences and their firms’ past development paths could provide valuable insight. Likewise, psychometric measures of top managers’ commitment (e.g. Allan and Meyer, 1996) and perceptions (e.g. Sutcliffe, 1994), and how those relate to prior experiences as well future actions would complement our findings.
Another limitation of our study is that we observe whether managers stay or leave their firms but not whether this is voluntary or forced. Anecdotal evidence suggests that departures can be a mixture of the two: people are sometimes not directly forced to leave but depart because they are not entirely happy in their situation, or because a position at another firm provides a better perspective, etc. (see also Pitcher, Chreim, and Kisfalvi, 2000). As explained in the methods section, we don’t think this influences our results, since we control for (bad) firm performance. However, even if that wouldn’t entirely capture forced exit, forced departure as a reason for turnover would simply be part of the model’s error term and hence not bias our findings. However, future research that would be able to directly observe the various motives for a top manager to leave a firm would provide valuable insight in what makes managers stay or go.

Finally, another limitation of our study is formed by the specifics of your sample. All 437 top managers stem from Dutch firms that have been in existence for at least several decades. Hence, the patterns we observed in this study, in terms of top management turnover as well as its subsequent influence on the firms’ strategic development paths, are those of surviving firms. Hence, these are firms that have managed to steer away or break out of competency traps (e.g. Levinthal and March, 1993; Miller, 1993a). Further studies on how these patterns may be different for firms that (ultimately) dissolved would add to our understanding of the relation between top management and firm success.

Conclusion

Previous research has shown that managers shape firms. Different managers do different things (Chaganti and Sambharya, 1987; Hambrick and Mason, 1984), but part of these preferences are shaped by the experiences that they have gone through. Some of these experiences are formed by the actions that they have undertaken at the helm of their
companies. Our study emphasizes how their experiences shape the commitment that they feel towards their organizations. Managers that employ many external activities such as acquiring and selling businesses were found to leave their firms more quickly than managers who invest a lot of time cultivating the internal organization of their firms through reorganizations and setting up and fostering internal ventures.

A conclusion of these findings is that the life cycle of top executives is not fixed (Miller and Shamsie, 2001), but dependent on what they do during this cycle. In that sense, we do not reject the view that managers shape their firms, but argue that this is a reciprocal relationship; different managers do different things, brought about by different institutional circumstances, different periods in time, different development stages, or because they find themselves in a different phase during their career and tenure. Thus, managers emphasize different actions during their tenure (Miller and Shamsie, 2001), but how long this tenure prolongs is in turn affected by these actions. Previous research has emphasized that organizational change is provoked by management turnover (Furtado and Karan, 1990; Weisbach, 1995). Our study shows that this turnover is not exogenous, but that there is a dynamic interplay between firms and the people that govern them.
Table 1a. Summary statistics and correlation matrix of the manager level data

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<td>4. roa</td>
<td>.54</td>
<td>.71</td>
<td>-.32</td>
<td>1.10</td>
<td>-.01</td>
<td>-.04</td>
<td>.01</td>
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<td>6. reorganizations</td>
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<td>.00</td>
<td>1.00</td>
<td>-.01</td>
<td>.04</td>
<td>.03</td>
<td>.10</td>
<td>.06</td>
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<tr>
<td>7. greenfields</td>
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<td>.76</td>
<td>.00</td>
<td>5.67</td>
<td>-.03</td>
<td>-.06</td>
<td>.06</td>
<td>-.14</td>
<td>-.03</td>
<td>-.01</td>
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<td>8. desinvestment</td>
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<td>.96</td>
<td>.00</td>
<td>4.67</td>
<td>-.00</td>
<td>-.06</td>
<td>-.01</td>
<td>-.14</td>
<td>-.06</td>
<td>.07</td>
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<td>9. acquisitions</td>
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<td>1.68</td>
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<td>-.08</td>
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<td>.15</td>
<td>-.03</td>
<td>.02</td>
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* correlations exceeding .035 are significant at the .05 level

Table 1b. Summary statistics and correlation matrix of the firm level data

<table>
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<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Min</th>
<th>Max</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
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<tr>
<td>1. TMT entries</td>
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<td>.779</td>
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<td>2. assets * 10^3</td>
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<td>.048</td>
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<td>.075</td>
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<td>-.069</td>
<td>.021</td>
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<td>.990</td>
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<td>7</td>
<td>.134</td>
<td>.208</td>
<td>.096</td>
<td>.014</td>
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<td>-.067</td>
<td>.075</td>
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<td>7. increase in preference</td>
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<td>2.16</td>
<td>-11.0</td>
<td>6.81</td>
<td>-.007</td>
<td>.002</td>
<td>-.038</td>
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<td>-.094</td>
<td>.157</td>
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* correlations exceeding .080 are significant at the .05 level
Table 2. Event history analysis on the probability of manager exit

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th>Model 2</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>coefficients</td>
<td>multiplier</td>
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<tr>
<td><strong>Control variables</strong></td>
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<tr>
<td>Chairman</td>
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<td>.69</td>
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<td>Technical background</td>
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<td>.97</td>
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<td>Legal background</td>
<td>.146</td>
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<tr>
<td>Return on assets</td>
<td>2.49***</td>
<td>12.2</td>
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<tr>
<td>Change in ROA</td>
<td>-1.96***</td>
<td>.14</td>
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<tr>
<td><strong>Predictors</strong></td>
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<td></td>
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<tr>
<td>Internal reorganizations</td>
<td>-.502*</td>
<td>.61</td>
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<tr>
<td>Greenfield ventures</td>
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<td>.59</td>
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<td>Desinvestments</td>
<td>.239***</td>
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<td>Acquisitions</td>
<td>.090***</td>
<td>1.09</td>
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<td>Log likelihood</td>
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* p<.05, ** p<.01, *** p<.001
Table 3: Fixed effects regression analyses on the preference for external development (versus internal development) and the persistence of that preference

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1 preference&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 2 preference&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 3 increase in preference&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
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<td>Intercept</td>
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<td>1.75</td>
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<td>Assets</td>
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<td>.127*</td>
<td>.008</td>
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<tr>
<td>Return on assets</td>
<td>2.71*</td>
<td>2.76*</td>
<td>-2.16</td>
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<tr>
<td>Predictors</td>
<td></td>
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<tr>
<td>External development (versus internal)</td>
<td>.082*</td>
<td>.146***</td>
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<tr>
<td>t-1</td>
<td></td>
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<tr>
<td>TMT exits</td>
<td>.095</td>
<td>.146</td>
<td>-.295***</td>
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<tr>
<td>TMT exits * external development t-1</td>
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<td>-.084**</td>
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<tr>
<td>R-squared</td>
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<td>.15</td>
<td>.06</td>
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</tbody>
</table>

<sup>a</sup> dependent variable models 1 and 2: the level of external development (as compared to internal development)

<sup>b</sup> dependent variable model 3: the change in the absolute value of the level of development, i.e. a positive value represents an increase in the firm’s existing preference

* p<.05, ** p<.01, *** p<.001
Figure 1a: Estimated cumulative baseline hazard

Figure 1b: Estimated baseline survival function
Figure 2: Estimated relationship between a firm’s preference for external (versus internal) development and last year’s preference, moderated by top management team turnover.

![Graph showing estimated relationship between a firm's preference for external development and last year's preference, moderated by top management team turnover.](image-url)
References


Vermunt JK. 1996. Log-linear event history analysis: A general approach with missing data, latent variables, and unobserved heterogeneity. Tilburg University Press, the Netherlands.


