

The impact of a new CEO

The influence of a new CEO on the strategy and control of an organization

By Manon Abbo (s4337441)

Corporate Finance & Control

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Supervisor: drs. R.H.R.M. Aernoudts

Radboud University

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Summary

In this master thesis, the influence of the succession of the Chief Executive Officer (CEO) on strategy and control is researched. Even though the relationship between strategy and control is a highly debated relationship, previous research gave no attention to the influence of a shock on this relationship (Erhart et al., 2017). This master thesis contributes to the scientific discussion by focussing on such a shock: The change that a new CEO brings to an organization. Expectations about the influence of different aspects of this shock are formulated according to previous theories. Based on this literature review, six relevant circumstantial factors are found and corresponding hypotheses are formulated. These factors concern whether or not the previous CEO is the founder of the organization, the organization is a family business, the successor comes from outside the organization, the organization was prepared for the succession, there is an investor involved in the organization and whether or not there is a formal social atmosphere. To test the effects of these different factors, a survey is distributed among CEOs and managers who are the new CEO or who experienced a succession in their organization. There are 31 respondents and 30 complete answers (one respondent did not complete the survey).

The results show that when the previous CEO is the founder of the organization, both strategy and control are not formalized. When the organization is a family business and the new CEO comes from outside the family, then the control of the organization will be formalized. Strategy is likely to stay the same in this case. Another aspect is if the organization is prepared for the succession. If so, then the CEO succession leads to a more formalized strategy. In the following two circumstances, strategy and control are not influenced: The state of the formality of the social atmosphere and whether or not there is an investor involved with the company. Next to that, it is unsure if in- or outside succession makes a difference in the formalization of strategy and control. This research provides an interesting insight in the influence of a CEO succession on the strategy and control of an organization.

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1. Introduction

1.1 Introduction

For an organization to survive it is important to have a qualified leader (Drucker, 2012). If an organization does not have a suitable successor for its Chief Executive Officer (CEO) at the time the CEO needs to be replaced, an organization is likely to fail in achieving its objectives. The CEO is an important actor in each organization, because the CEO sets the general strategy for that organization (Child, 1972) and therefore has a major influence on the success and the survival of the organization (Oliver, 2001). It is thus important to perform scientific research on the topic of the succession of CEOs and the influence a succession may have on the future performance of an organization.

The accounting literature discusses various ways with regard to how strategy and control are related to one another. Most authors describe the relationship as being cyclical (Aernoudts, 2008). Strategy is argued to determine control and in turn control leads to certain results, which subsequently can lead to a new strategy (Chenhall, 2003). When perceiving the relationship between strategy and control as such, control is also able to lead to a new strategy.

A recent study by Erhart, Reimer, Schaffer, and Mahlendorf (2017) has shown that when measuring the relationship between control and strategy using different time intervals, controllers had an influence on the strategy and strategists had an influence on the control mechanisms. In a different study by Jørgensen and Messner (2010), the relationship between control and strategy was discussed with regard to the circumstances of new product development. That study shows that control is especially relevant with regard to the control of the financials and that for other aspects (such as setting objectives) the strategy side is considered to be more important.

There is thus some research about different elements that may have an effect on how strategy and control are related as discussed in the article by Jørgensen and Messner (2010). However, the study does not focus on the relationship between strategy, control and external shocks, such as the replacement of a CEO. Shocks are sudden or surprising (external) events that may influence the existing situation. Therefore, an interesting aspect is what the influence of a shock is for changes in strategy and control. The succession of a CEO can be an influential shock, because the new CEO can change the strategy and the way in which control is organized within an organization. Due to the fact that the CEO sets the strategy of the organization, this can be an important factor for the relationship between strategy and control. Because a shock as CEO succession is not considered in past research,

there is a gap in the current literature. To contribute to the ongoing discussion about strategy and control, the influence of a new CEO for changes in strategy and control is researched. The following research question is therefore answered:

Does the succession of a CEO lead to a change in strategy and control?

1.2 Research method

Through a literature review, different theories and perspectives on the relationship between strategy and control are discussed. This aids in establishing a theoretical framework and certain expectations, which are then compared to different cases where organizations have replaced their CEO in the Netherlands to investigate what the influence of CEO succession is on strategy and control. Data is acquired through a survey which is distributed among CEOs who have experienced such a succession in their organization. The focus of this research is on small and medium size enterprises. A small enterprise is considered an organization with less than 50 employees and a maximum revenue of 10 million euros, a medium enterprise is an organization with less than 250 employees and a revenue of a maximum of 50 million euros (MKB servicedesk, 2018). In the Netherlands, 99% of the organizations are small or medium size enterprises. The number of companies in this segment makes it possible and interesting to gain more knowledge with regard to the influence of CEO succession. Many studies that examine the relationship between strategy and control are performed within large organizations (mainly listed companies) (Aernoudts, 2008), therefore this study contributes to the knowledge in this area by examining smaller organizations in the Netherlands. In smaller organizations, it is assumed that a new CEO has many opportunities and possibilities to change the strategy and control of an organization, which may aid in examining this topic. In large organizations, many practices and guidelines are already set and it is therefore expected to be more difficult for a CEO to have an immediate impact in terms of changes in strategy and control. In a small organization, there are more possibilities due to the fact that the CEO has a closer relationship with the employees and other actors involved. Therefore the influence of CEO succession on strategy and control can be expected to be more prominent in small or medium size organizations.

1.3 Contribution of the thesis

Many authors already researched the relationship between strategy and control. This leads to a perspective of a cyclical relationship between those two variables. However, in previous research shocks or changes were not taken into account. Therefore, it is unknown whether or not the cyclical relationship changes after a shock. Thus, the focus of this research is the influence of CEO succession

on the strategy and control. Erhart et al. (2017) even mentioned that the cyclical relationship between strategy and control can be interrupted due to external events and that in such cases strategy and control can change in a short amount of time. However, this was not the main focus of the research of Erhart et al. (2017) and is therefore mentioned as a topic where future scientific research is needed. A CEO succession is a shock which can change the strategy and control and therefore this research fits in the research gap as is mentioned by Erhart et al. (2017) in their conclusion.

The knowledge about the influence of CEO succession on strategy and control will help CEOs, investors and other stakeholders to improve their decisions when deciding to replace a CEO or to leave the organization. With knowledge about the impact of a new CEO, investors can improve their decision on whether or not to replace the CEO. Next to that, CEOs can better indicate when it is more profitable for them to find a successor and to, for example, sell the organization. Considering the average age of CEOs in the Netherlands, it is natural that many CEOs are thinking about retiring and are considering when to start looking for a successor. Currently around 60% of the CEOs in the small and medium enterprises in the Netherlands are 45 years or older (De Staat van het MKB, 2017). In 2015 there were around 1 million CEOs age 45 and up (Centraal Bureau voor de Statistiek, 2017). All these entrepreneurs are looking for successor in the upcoming 20 years. This especially concerns the group that is already 65 years or older, as these were around 170.000 in 2015 (Centraal Bureau voor de Statistiek, 2017). Therefore, the aspect of succession becomes even more relevant for small and medium size organizations in the Netherlands and is it important to gain insights which can be applied to the upcoming successions.

1.4 Structure

First, the current literature is discussed in the chapter 'Theoretical framework'. In that chapter, the hypotheses for this research are also formulated. Following this chapter, the methodology is discussed. In this chapter, the method of research is provided and argued for in more detail. In the methodology chapter, the survey questions and the way in which the survey is are also discussed. Following the methodology, the analysis and results are provided. After the results the conclusion on the findings is given.

2. Theoretical framework

2.1 Introduction

In this chapter, the relevant theories necessary to answer the research question are discussed. First, strategy and control are both defined and the formation of both is provided in more detail. Second, the relevant theories about the relationship between control and strategy are discussed. Recent studies show that there is a cyclical relationship between strategy and control. This relationship and previous studies about the relationship between strategy and control are then explained in more detail.

Third, the relevant theories about CEO succession are discussed. CEO succession is considered to be of major impact to the strategy and control of an organization (Oliver, 2001). A new CEO can set a different course for the organization and therefore the relationship between control and strategy may change as well. Due to the fact that CEO succession has such a large impact on an organization, the general aspects of CEO succession are discussed in order to give an overview of the important aspects. After this discussion, the theories about the relationship between strategy and control and the theories about CEO succession are combined. This discussion results in different hypotheses regarding the influence of CEO succession on strategy and control.

2.2 The relationship between control and strategy

At first, it is necessary to clarify what is meant by strategy and control. After doing so, attention goes to the process of the formation of strategy and control. After discussing these definitions, there is a clear understanding of both concepts. Lastly, state-of-the-art research about the relationship between strategy and control is discussed.

2.2.1 The definition of control

In the scientific literature, there are multiple concepts used to describe control. Examples are management accounting (MA), management accounting systems (MAS), management control systems (MCS) and organizational controls (OC). These different concepts are often used interchangeably (Chenhall, 2003). Originally, MA is used for the collection of practices of control and MAS is the use of MA to achieve goals. MCS is a broader term than MAS and includes more controls such as personal controls. OC is the implementation of control and is used for control built into activities and processes. In this master thesis, the word control is used as a broad and general term because it covers all different aspects and mechanisms of the phenomenon at hand. Since the definition of control varies among researchers, it is important to clarify how the term is used in this

master thesis. One of the first broad definitions of control was the definition of Anthony (1965). Anthony (1965) described control as a process by which managers ensure that resources are obtained and used effectively and efficiently to achieve the organizations' objectives. However, Chenhall (2003) and Boedker and Chua (2013) have noted that this definition is outdated. Control is seen recently as a system to control the behaviour of employees (Merchant & Van der Stede, 2007) and to match the objectives and strategies of the organization with those of the employees (Malmi & Brown, 2008).

In this thesis, a combination of the definition of Merchant and Van der Stede (2007) and Malmi and Brown (2008) is used: Control is the system of different actions used to align the behaviour of the employees with the interest of the organization. By using this definition, managers are left out because the focus of this research is on small and medium size organizations. These organizations often have a more informal structure and no large management basis (Jänkälä, 2007). The CEO, in such a situation, therefore has a direct influence on the employees and can set the control mechanisms by himself.

2.2.2 The formation of control

In practice, however, there are many different control systems. The system used depends on the control style of the CEO. In this sense, the CEO has a large influence on the control system of the organization. Malmi and Brown (2008) classify control into five systems: planning, cybernetic, reward, administrative and culture.

Planning control is described by Malmi and Brown (2008) as ex-ante control. First, the goals for the organization, which provides standards to be achieved, are set. These goals make the expectations regarding effort and behaviour clear. By aligning these goals across the functional areas of the organization, the behaviour of the employees can be controlled. Cybernetic control is the use of standards of performance or targets that have to be achieved (Malmi & Brown, 2008). Regarding the standards of performance or the targets, there is a feedback process to compare the results of the activities to these standards or targets. Based on these results, the behaviour or underlying activities are improved. Reward control is based on motivating and increasing the performance by attaching direct rewards to the results of employees. Administrative control is formed through organizational design, policies and procedures and the governance of the organization (Malmi & Brown, 2008). For example, processes are specified in different tasks which need to be performed. Cultural control takes shape by establishing values, beliefs and social norms in the organization which influence the behaviour of employees (Malmi & Brown, 2008).

Due to the fact that the CEO sets the style of control in the organization, the level of control is highly dependent on the preference of the CEO. When the CEO believes in the values of the organization, there are for example less rules in contrast to when the CEO focusses more on the procedures as a control mechanism. In that case the CEO makes more rules in order to interline the behaviour of the employees with the objectives of the organization.

2.2.3 The definition of strategy

In previous research, scientists often referred to 'strategizing'. This puts the focus more on how strategy is used in the day to day operations of an organization (Jarzabkowski, Balogun, & Seidl, 2007; Whittington, 2006). In this master thesis, the interest is in the strategy set by the CEO and therefore the focus is on the long term strategy of the organization. Therefore, 'strategizing' is not used in this master thesis. Strategy is defined as a coherent model for all business units and that ensures that all those involved in the organization are following common and pre-set goals (Chenhall & Langfield-Smith, 2003; Porter, 1997).

2.2.4 The formation of strategy

There are two different views in the literature regarding the formation of strategy. The first perspective, the deliberate view, describes strategy as a forward-looking plan. The deliberate view anticipates change and calls for actions to take advantage of opportunities that are integrated into the concept or mission of the organization (Newman & Logan, 1971). This perspective describes strategy as an analytic process in which the future plans of an organization are systematically developed and formed (Dent, 1990; Mintzberg & Waters, 1985). The second perspective, the emergent view, describes strategy as something that arises from actions that are not always intended (Mintzberg & Waters, 1985). In this view, there is no analysis or research to formulate the strategy of the organization. Strategy is spontaneous and intuitively developed over time (Miller, 1987). There is currently no view preferred over the other. The CEO sets the general tone for which perspective is followed and therefore has a major influence on the formation of strategy. The perspective that is ultimately chosen has a large influence on the final strategy, because it determines the goals, analysis and level of detail to develop the strategy. So the CEO has a major influence on the working method of the strategists. Strategists are seen as the (group of) employee(s) that work out the analysis or other methods which the CEO prefers for determining the strategy.

The research by Cadez and Guilding (2008) suggests that the process of formulating strategy has an influence on the involvement of controllers on the formulation of strategy. Cadez and Guilding (2008)

argued that a deliberate approach to strategy formation results in more involvement of controllers in strategic decision making processes. However, Hall (2010) argues that controllers have an impact on strategy through talk rather than through reports and analysis. Therefore, even with a more emergent approach, controllers can have an influence on strategy. With a deliberate view, the moment of influence for controllers is when their reports and information are used. With an emergent view, the moment of influence depends on when interaction between the controllers and strategists takes place. So in both cases controllers can influence strategy, even though in both views the use of information and the moment of influence are different.

2.2.5 Cyclical relationship

The relationship between strategy and control is a highly debated relationship. This relationship is determined in different ways. Some scholars argue that strategy determines control and others argue that control determines strategy (Aernoudts, 2008). In recent years, more studies have shown that there is a bidirectional relationship between strategy and control. Thus, in other words, the relationship between strategy and control works in both directions (Erhart et al., 2017).

In this recent study, Erhart et al. (2017) show that the relationship between strategy and control has bidirectional effects. This was not the first study which argued for such a relationship to exist, as also Chenhall (2003) and Ittner and Larcker (1997) suggested a bidirectional relationship between strategy and control. Both Chenhall (2003) and Ittner and Larcker (1997) argue that the relationship between strategy and control is a cyclical relationship. Chenhall (2003) mentions that there has been limited attention to bidirectional relationships in past studies, due to the fact that the factor time was not taken into account. Chenhall (2003) argues that most studies show just one stage of the cycle by focusing only on one moment in time. For example, a survey-based research would measure an influence from the controllers on strategy and the influence from the strategists on control was not measured. According to Chenhall (2003) this can be explained due to the fact that in that stage or time frame there was no effect from strategy to control. Therefore, the study by Erhart et al. (2017) which used a difference in time between the different surveys, is an important step made in the research on the relationship between strategy and control. The data used by Erhart et al. (2017) was gathered from a survey in 2008 and a similar survey from 2012. The decision for instituting a time gap of four years was based on the fact that strategic planning happens annually and that controllers need several attempts before their influence is noticeable. George and Jones (2000) mention that it is necessary to participate in the decision making process several times before any influences can be

seen. Therefore, with an annual decision making cycle, a time gap of four years gives the controllers more opportunities and time to influence the strategic decision making process.

This extra dimension of time showed that not only strategists had an influence on the controller, but also that the controllers play an active role in the formation of the strategy. Strategy influences how much control mechanisms are necessary (Govindarajan & Fisher, 1990) and how much management accounting information needs to be provided (Davila, 2000). Looking at the same phenomenon from the other direction, we see that control systems can be important resources for formulating and implementing the strategy of the organization (Chenhall & Langfield-Smith, 2003; Simons, 1994). Erhart et al. (2017) found that controllers do not only provide the relevant information, but that controllers can actively contribute to the formation of strategy. Controllers can provide informal advice and data for the analysis necessary to determine the strategy. Depending on a more deliberate or emergent view of formulating strategy, additional data is necessary. On a more deliberate view, the formation of strategy is based on an analytic process and therefore more data is necessary. Brandau & Hoffjan (2010) argue that controllers participate in the process of formulating strategy by processing information. Bhimani and Keshtvarz (1999) add that controllers also coordinate different organizational functions, which could have an influence on strategy. Therefore, Erhart et al. (2017) argue that the relationship between strategy and control is more complex than previous authors suggested. Their new research has shown that the control side plays a much more active role than was assumed by previous studies.

The possibilities for controllers to influence strategy is not only dependent on time, but is also related to the process by which strategy is formed (Cadez & Guilding, 2008). In the deliberate view controllers are included more into this process (Cadez & Guilding, 2008). On the emergent view, the formation of strategy is an analytic process and therefore information from the control side of the organization plays a crucial role (Dent, 1990; Mintzberg & Waters, 1985). When strategy is formed based on the emergent view, information from controllers plays a less important role and therefore it is harder for controllers to influence the strategy.

The influence of the control style on the relationship between strategy and control works the same way. With a cultural style of control, the control system is stable over time (Malmi & Brown, 2008). In that case, the control system is less dependent on changes in the strategy than when there is a planning based control style. In such a case rules or targets are formulated based on the goals set in the strategy of the organization (Malmi & Brown, 2008).

Next to the cyclical relationship discussed above, Ittner and Larcker (1997) researched the relationship between strategy and control per country. This research was done on organizations in different countries that operate in the same industry, namely the automotive and computer industry. Ittner and Larcker (1997) used survey data from Canada, Germany, Japan and the United States. This research shows that there was no relationship between strategy and control in Japan, even though in other countries there was such a relationship. In Japan, organizations always have a large set of control mechanisms, regardless of the organizations' strategic plan. This shows that the relationship between strategy and control can differ between countries and therefore this makes it more interesting to look into data from the Netherlands to research the relationship between strategy and control. The Netherlands is especially an interesting case, because previous research was mainly done in larger countries, such as United States, Australia, United Kingdom and Germany. Chenhall (2003) also mentions that the link between culture and the control systems has been studied. However, there have been mixed results about the influence of culture on the relationship between strategy and control. Ekanayake (2004) mentions that differences are mostly found in non-Western countries. Due to the fact that this research focusses on the Netherlands, these cultural differences are less relevant.

Next to the difference per country, Ittner and Larcker (1997) also mention there could be a difference per industry. They argue that this could be the case because the performance consequences of strategic control practices vary by industry. Therefore, they suggest that control systems should be adapted to the organization's environment.

Besides the factors of country and industry there are also other factors that influence the relationship between strategy and control. Zoni and Merchant (2007) mention that the influence of controllers on strategy depends on the formalization of the formation of strategy. In small and medium size organizations the management structure is often less formal (Verbeek & Piersma, 2018). Firms with a more formal and financially oriented management structure have a larger influence from controllers on the strategic decision making process (Sathe, 1983; Simon, 1992; Zoni & Merchant, 2007). Therefore, the bidirectional relationship between strategy and control could be less strong in small and medium size organizations.

Due to the possible influence of industry and the organizational size on the change of strategy and control, these variables are included as control variables. This is discussed in more detail in the methodology chapter.

2.3 Shock: CEO succession

As discussed in the introduction, the shock researched is the succession of the CEO. With a new CEO, many aspects of the organization can change. To look further into the process of succession, different aspects of succession are discussed. First, the general characteristics of the replaced CEO are provided and then attention goes to the moment of CEO succession, the process of CEO succession and the consequences of CEO succession.

2.3.1 CEO characteristics

For an organization to survive it is important to have a qualified leader (Drucker, 2012). If an organization does not have a suitable successor for its Chief Executive Officer (CEO) at the time the CEO needs to be replaced, an organization is likely to fail in achieving its objectives. The CEO is an important actor in each organization, because the CEO sets the general strategy for the organization (Child, 1972) and therefore has a major influence on the success and the survival of the organization (Oliver, 2001). This makes the succession of a CEO a critical event for every organization.

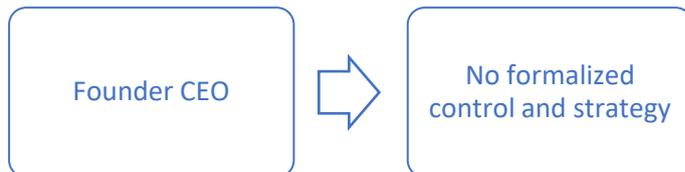
When considering CEO succession, there are different aspects that have to be taken into account. Characteristics that can influence the process of succession are, for example, whether or not the current CEO is the founder CEO, or whether or not an organization is a family owned business. When an organization is family owned, the CEO is in most cases a family member. Both characteristics are discussed in more detail.

The difference between a founder CEO and a non-founder CEO are straightforward. Wasserman (2003) mentions that founder CEOs are more attached to an organization; they often have a larger equity share in the organization and many founder CEOs stay involved in the organization after the succession. Next to that, the successor of a founder CEO more often is an outside successor. Before the research of Wasserman (2003), most research was focused on large listed companies and therefore Wasserman's focus on small organizations is relevant for this research. Besides the differences in CEO attachment to the organization, founder CEOs also have different individual characteristics. Founder CEOs are often younger, have less work experience and are often paid less than non-founder CEOs (Wasserman, 2001). Next to that founder CEOs are often developers and therefore they lack the commercial skills that are necessary to expand the business (Wasserman, 2003). Because the founder CEO is more attached to the organization and has a larger share of equity, it is more likely that changes in strategy and control take place when the founder CEO leaves. A non-founder CEO is for example more likely to formalize the organization and implement more control systems because he is less familiar with the employees (Wasserman, 2003). Therefore, the

following hypotheses regarding founder (hypothesis 1) and non-founder CEOs (hypothesis 2) can be formulated:

Hypothesis 1: If the CEO is the founder of the organization, then the control and strategy of the organization are not formalized.

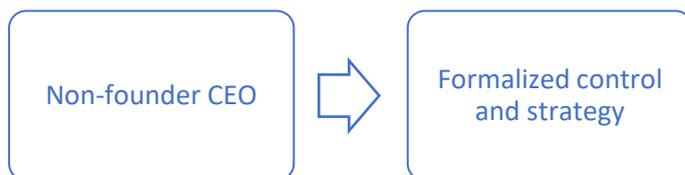
This results in the following model:



The founder has the technical knowledge and the expertise about the product, but often lacks the commercial skills and expertise necessary for leading a growing organization. In the case that the founder CEO of the organization is succeeded or leaves the organization, the following hypothesis applies:

Hypothesis 2: If the CEO is not the founder of the organization, then the control and strategy of the organization are formalized.

This results in the following model:



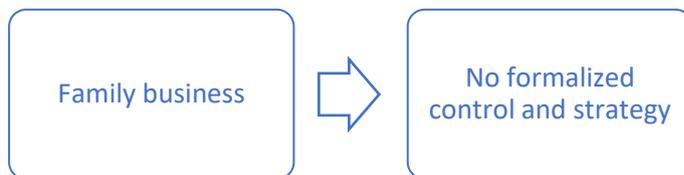
A non-founder is often less familiar with the employees of the organization and therefore implements more control mechanisms. Next to that a non-founder is less focused on the product of the organization, because it is not his own idea and development, as it is for the founder of the organization. Therefore a non-founder is expected to have a formal control system and strategy for the organization.

The difference between a family and a non-family CEO is that family CEOs often have a broader perspective than non-family CEOs (Jaskiewicz, Block, Combs, & Miller, 2017). Besides the financial and growth goals, family CEOs also have socioemotional goals. For example, one of these goals could

be family member employment (Jaskiewicz et al., 2017). These different goals have an influence on the performance of the organization. In family organizations, employees perform better overall (Block, 2010), while the focus on financial performance in non-family organizations is better for the shareholders (Miller, Breton-Miller, & Lester, 2011). Therefore, when a non-family CEO takes over from a family CEO, the goals of the CEO change and therefore the expectation is that the control and strategy of the organization will be formalized. This results in the following hypotheses regarding family businesses (hypothesis 3) and non-family businesses (hypothesis 4):

Hypothesis 3: If the organization is a family business, then the control and strategy of the organization are not formalized.

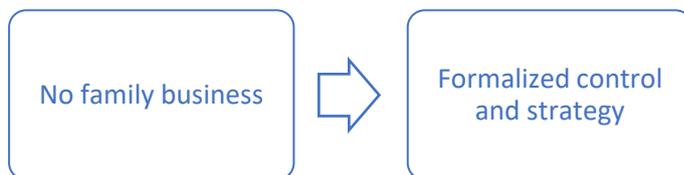
This results in the following model:



Due to the different goals and ties present in family business, there is no formalized control system and strategy. When the organization is not a family business, the expectation is that there is a formalized control system and strategy. This expectation leads to the following hypothesis:

Hypothesis 4: If the organization is not a family business, then the control and strategy of the organization are formalized.

This results in the following model:



In a non-family business the focus is more on the financial results than in family businesses. Therefore CEOs develop a formalized control system and strategy for the organization.

2.3.2 Moment of CEO succession

When CEO succession takes place depends on the circumstances and challenges organizations face. In large organizations it is often seen that CEOs have to leave the organization after large failures and reputation loss (Dalton & Dalton, 2007). In small and medium size organizations there are no publicly traded stocks and therefore there is less information about the circumstances in which CEOs leave. There are almost no large scandals for small and medium size organizations that appear in the media and CEOs often cannot be forced to leave because they (or their family) are major shareholders of the organization. Therefore, there is quite a difference between the circumstances of CEO successions in large organizations and in small or medium size organizations.

By looking into the moment of succession, the focus is on the determinants of CEO succession in the small and medium size organizations. Because the focus is on the small and medium size organizations, characteristics such as founder hood and familyhood play a more important role. In these small and medium size organizations there is a higher chance that the founder CEO is in place and in an early stadium of a firm, the family is more likely to be involved (as shareholders) (Boeker & Karichalil, 2002).

The succession of CEOs in small and medium size organizations has been researched by Boeker and Karichalil (2002) and by Wasserman (2003). It was found that in small organizations a CEO is most likely to be replaced after a period of rapid growth (Boeker & Karichalil, 2002) or after completing critical milestones (Wasserman, 2003). Wasserman (2003) mentions as examples of critical milestones the achievement of a new product or receiving new outside funding.

A strategic succession often goes along with the involvement of an investment fund. Investment funds demand a lot of changes to make the organization ready for a period of rapid growth. One strategy through which to implement these changes is by replacing the CEO (Lee & Alexander, 1998). The new CEO can not only bring a new strategy, but can also be used as an internal and external signal of more upcoming changes (Pfeffer, 1981). However, such a replacement can also work the other way around. The replacement of a CEO can also result in negative outcomes. For example, when the employees do not agree with the new long term plan or when the distribution of the product depended heavily on the network of the old CEO. This makes the decision of a possible replacement for an investment fund a critical decision. When the acquired organization has more power, due to the size or to successful performance in the past, the acquired organization has more leverage to stop the investment fund from replacing the CEO. Besides these strategic moments when a CEO can be replaced, a CEO can also leave due to retirement or other personal circumstances (sickness, wanting to spend more time with family etc.).

Successful CEO succession is also linked to the characteristics of the CEO that have just been discussed. A founder CEO is more likely to be replaced when the organization receives funding from investors when compared to organizations that do not receive funding from outside equity investors (Hellmann & Puri, 2002). These differences follow from the fact that venture capitalists and other equity investors want to professionalize the organization to increase the shareholder value. Equity investors choose companies for their portfolio that show the opportunity of rapid growth; therefore this fits with the findings of Boeker and Karichalil (2002). Boeker and Karichalil (2002) found that after a period of rapid growth, a CEO succession took place. Venture capitals invest specifically in companies that have these rapid growth potentials and therefore these two things often go hand in hand. So, the CEO succession in these companies often takes place because of the rapid growth, not due to the fact that there is an investor on board. An investor only makes it possible to achieve this rapid growth. This phenomenon of succession is seen especially in cases where the founder CEO leaves the organization. Founder CEOs are often developers and therefore they lack the commercial skills that are necessary to expand the business (Wasserman, 2003). A new CEO can thus better facilitate the required growth. The same logic is applicable with family CEOs; explicitly hiring family members is not always in the best interest of the organization (Jaskiewicz et al., 2017). An investor requires a focus on the financial performance, growth and product development and therefore often prefers to replace a family CEO with a non-family CEO (Boeker & Karichalil, 2002).

2.3.3 Process of CEO succession

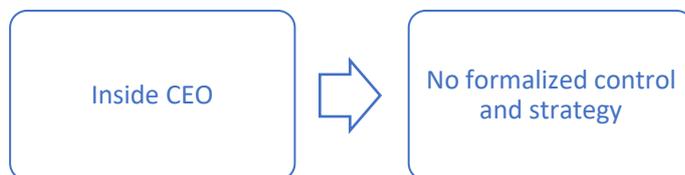
With the succession of a CEO it is important to find the right person. There are several aspects that are necessary to take into account when finding a new CEO. One of these aspects is if the organization wants to attract a CEO from inside or outside the organization (Georgakakis & Ruigrok, 2017). Another aspect to make the process of succession successful is whether or not there has been preparation and planning beforehand (Charan, 2005). The advantages of preparation and to what extent firms prepare for the succession of the CEO are therefore discussed. With the succession of the CEO the discussion arises whether it is necessary or not to replace other managers at the same time. Kesner and Dalton (1994) describe two opposing views with regard to the replacement of the managers at the top. With the focus of this master thesis on small and medium size organizations, there is a limited amount of managers to consider. In small and medium size organizations, the organizational structure is much smaller and therefore the CEO can have a direct influence on the lower levels of the companies. This makes the discussion of the replacement of top managers less relevant for this research. To change the strategy and control in a small and medium size

organizations, it is often unnecessary to change the whole management and the change can be accomplished entirely by the CEO himself.

To address the process of succession, the differences, advantages and disadvantages of attracting an outsider or insider CEO are discussed. Georgakakis and Ruigrok (2017) describe two different views, namely the organizational adaptation view and the organizational disruption view. The organizational adaptation view is in favour of an outside CEO. Supporters of this view see an outside CEO as a possibility to bring external knowledge and resources to the organization (Helmich & Brown, 1972). Supporters of the organizational disruption view argue that the selection of an outside CEO is a disruption which leads to extra costs for the organization due to the fact that the new CEO has no familiarity with the organization (Vancil, 1987). Even though there is discussion about the impact of an outside CEO on the performance on the organizations, we can expect that an outside CEO leads to a formal strategy and control. Therefore the following hypothesis is formulated regarding inside succession (hypothesis 5) and outside succession (hypothesis 6):

Hypothesis 5: If the CEO from inside the organization, then the control and strategy of the organization are not formalized.

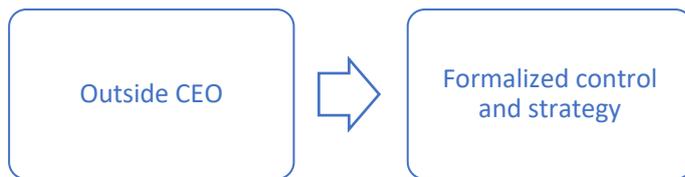
This results in the following model:



A new CEO from inside the organization is used to the way things were done by the last CEO and is therefore more likely to follow the same strategy and control style as the last CEO and will therefore not formalize the organization. The other way around, if the CEO comes from outside the organization, it is expected that strategy and control is formalized. This results in the following hypothesis:

Hypothesis 6: If the CEO is from outside the organization, then the control and strategy of the organization are formalized.

This results in the following model:



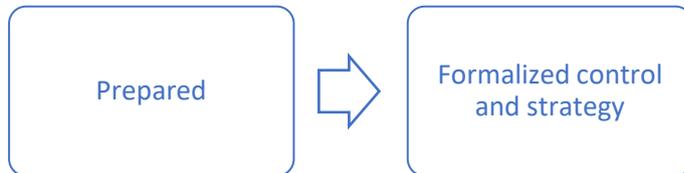
An outsider is expected to come with a new view to the organization and therefore has less trust in the employees and working methods. Outside CEOs will therefore make sure there is a formalized control system and strategy.

Another aspect of CEO succession that needs to be taken into account is the fact that most organizations do not have a succession plan (Charan, 2005). In such a case, there is no clearly structured process and this results into the fact that the new CEO often fails to make the necessary changes in strategy and control. This was investigated by Charan (2005) in North America. However, this is not only the case in North America. In the Netherlands, and especially for the small and medium size organizations, there are also worries about the preparations made by organizations before CEO succession takes place (PwC, 2014a). Most CEOs in small and medium size organizations do not think about their succession and these subjects are only discussed when the CEO becomes for example sick or reaches the age of retirement (PwC, 2014b). Due to more pressing issues, most CEOs do not prepare for their succession (Hays, 2018). Especially now that 60% of CEOs in small and medium size organizations in the Netherlands are 45 years or older, it is important to consider this issue (De Staat van het MKB, 2017). All these CEOs will be looking for a successor in the upcoming 20 years. Around 170.000 CEOs of small and medium size organizations are already 65 years or older (Centraal Bureau voor de Statistiek, 2017). Therefore it becomes even more important to think about successions for CEOs in the small and medium size organizations in the Netherlands.

It is thus concluded that the process of CEO succession is often unstructured and inadequately planned. For most firms, CEO succession becomes at some point in time an urgent problem and then the necessary steps are made to find a new CEO. However, with more planning beforehand, this process could be improved and most likely this will result in a more effective successor. A more effective successor will institute strategy and control that is more thought through and will make it possible for the organization to grow further. A suitable successor is not only good for the future of the organization, but it is also more much enjoyable to leave the organization in good hands and to see the organization grow further. Therefore, the expectation is that when the organization is prepared for CEO succession, the new CEO can start in a more structured and planned manner. This increases the performance of the new CEO and leads to a more formalized strategy and control. Therefore the following hypothesis is formulated:

Hypothesis 7: When the organization is prepared for CEO succession, then the control and strategy of the organization after the CEO succession are formalized.

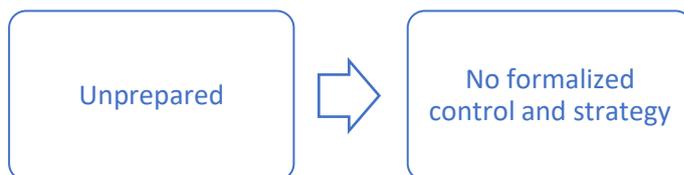
This results in the following model:



When an organization is prepared, the new CEO can immediately focus on the long term perspective. If the previous CEO already made himself replaceable, by for example teaching employees the necessary skills to take over his tasks, the new CEO does not have to worry about the fact that the previous CEO leaves with a lot of knowledge about the organization. The new CEO can then focus on other aspects, such as the strategy and control of the organization. However, when an organization is unprepared, the expectation becomes the following:

Hypothesis 8: When the organization is unprepared for CEO succession, then the control and strategy of the organization after the CEO succession are not formalized.

This hypothesis results in the following model:



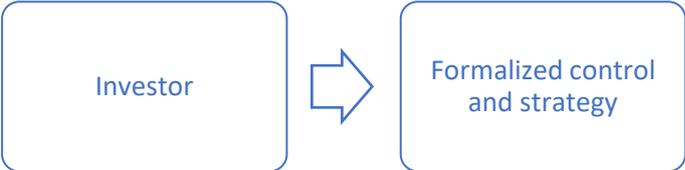
2.3.4 Consequences of CEO succession

Chen and Thompson (2015) studied the consequences of the replacement of founder CEOs in Danish start-ups. The consequences of founder CEO replacement differ among the circumstances. The empirical analysis by Chen and Thompson (2015) show that the replacement of a founder CEO is only valuable when the founder CEO lacks the necessary skills for the next steps in the organizational strategy. When the founder CEO did not have the necessary skills for the next steps, the performance of the organization increased significantly with the new CEO. However, these new CEOs (the so-called professionals) do not perform better than the founder CEOs in an already well-performing

organization (Chen & Thompson, 2015). In organizations with a lacking performance, the professionals do have a positive influence on the performance of the organization. So the skills of the founder CEO are a critical aspect for the decision of the investors when thinking to replace a CEO in order to achieve rapid growth. An investor needs to make an adequate decision whether or not the CEO has the skills to make this growth possible. Therefore, when an investor is involved in an organization, the expectation is that there is a formalized control system and strategy. This is expected, because the investor gets involved to change the organization to achieve growth. This involves setting a new growth strategy and adequate control systems to encourage the employees to increase their output. This expectation results in the following hypothesis:

Hypothesis 9: When there is an investor involved in the organization, then the control and strategy of the organization are formalized.

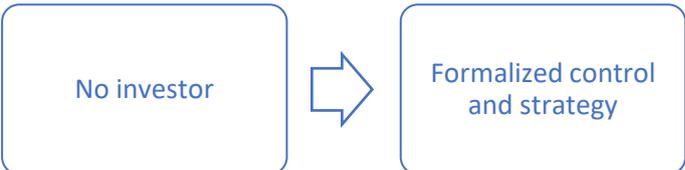
This results in the following model:



When there is an investor involved in the organization, the investor requires a formalized strategy and control to establish the goals of growth. Thus, with an investor involved there is an extra actor involved which actively encourages the formalization of strategy and control. When there is no investor involved in the organization, there is a smaller incentive to formalize strategy and control. This leads to the following hypothesis:

Hypothesis 10: When there is no investor involved in the organization, then the control and strategy of the organization are not formalized.

This hypothesis results in the following model:



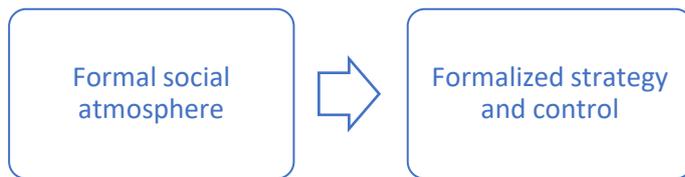
Important to take into account before an investor replaces a CEO, is to look into the effect a new CEO can have on the performance of the organization. Dimopoulos and Wagner (2016) show in their research that the replacement of a CEO can lead to a turnaround in the performance of underperforming organizations. In their research, organizations from different countries were compared. However, there were no differences in results between those countries. The market structure, capital market or industry does not influence the turnaround in the performance of a new CEO (Dimopoulos & Wagner, 2016). Therefore, this research shows that the CEO is a fundamental part of the organization. This confirms that new CEOs often attempt to change the strategy of the organization (Greiner & Bhambri, 1989).

So the consequences of replacing a CEO seem, under these circumstances, are quite positive. However there are studies that show that CEO succession does not work without paying a price. Research has shown that in the year of succession there is often a downward in revenue and in the year thereafter there is an upward tenure (Godfrey, Mather, & Ramsay, 2003). These results are the strongest in the sample of resignation or replacement rather than retirement. Therefore, this is linked to the preparation of the organization; when the CEO retires there is time to prepare and therefore the negative effect of the shock decreases. This results in that the replacement of the CEO can be a strategic choice to increase the performance of the organization. However, there is a time delay of one year. Thus, CEO succession should be adequately planned and structured in order to limit this delay of increasing performance. Therefore, as described in hypothesis 4, the preparation for the succession is expected to give the organization more time to adjust, which results in a more effective and successful succession.

Next to that, the CEO has a large influence on the social atmosphere in the organization. In an organization with a more formal atmosphere and financial orientation, the controllers have a larger influence on the strategic decision making (as discussed) (Sathe, 1983; Simon, 1992; Zoni & Merchant, 2007). Therefore, with a new CEO, the social atmosphere can become more informal (or formal) and the focus can be directed less (or more) towards the financial situation. For example, with a new CEO, the social atmosphere could become more formal and the focus can be directed more towards the financial situation of the organization. With a more formal social atmosphere there are more control mechanisms in place and a structured strategy. This results in the following hypothesis:

Hypothesis 11: When there is a formal social atmosphere in the organization, then the control and strategy of the organization are formalized.

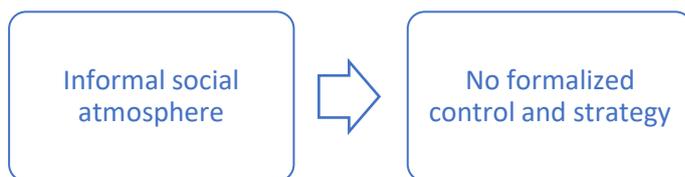
This results in the following model:



In an organization with a more formal atmosphere, there is a larger focus on the financial orientation. This results in a more formalized strategy and control. With a more informal social atmosphere the expectation is reversed:

Hypothesis 12: When there is an informal social atmosphere in the organization, then the control and strategy of the organization are not formalized.

This hypothesis results in the following model:



2.4 CEO succession and the change in control and strategy

As discussed, there is scientific proof of a cyclical and bidirectional relationship between strategy and control. In the article by Erhart et al. (2017) it is mentioned that the cyclical relationship between strategy and control can be disrupted by external events. As examples, Erhart et al. (2017) mention an acquisition or a rapid change in strategy. One of the respondents of the interviews of Erhart et al. (2017) mentioned that due to an acquisition, the strategy had to be changed to the strategy of the new parent company. This shows that a new leader, in the form of a new parent company or a new CEO, can disrupt the cyclical relationship between strategy and control. However, Erhart et al. (2017) do not go into detail about this subject, but suggest this aspect for further research.

Jørgensen and Messner (2010) researched the relationship between accounting and strategy in uncertain circumstances with pluralistic demands. Their situation could be comparable to the situation of a new CEO, due to the fact that such a period is also characterized by high uncertainty. The research of Jørgensen and Messner (2010) shows that the situation in which the strategy is formed determines the importance of accounting numbers. Jørgensen and Messner (2010) argue

that the content of the strategy plays a less important role in an uncertain situation than in the formation of strategy. This shows that it is important to take the circumstances of the development of strategy and control into account when researching the relationship between strategy and control instead of making comparisons only between countries and cultures.

CEO succession is expected to have a major influence on the relationship between control and strategy, due to the fact that the CEO sets the strategy and the control systems for the organization (Child, 1972). The CEO decides the main framework of the strategy which is then worked out in more detail by the employees. The controllers provide information during this process. The information that can be provided by the controllers is dependent on the control style of the CEO and on the control mechanisms that are formulated. For example, it could be the case that the focus is on employee turnover, profit or revenue per employee. Depending on which information is available, the strategists can devise a strategy and set the goals of the organization. Depending on the level of information, these goals can be more or less detailed. Next to this direct influence of the CEO, there are also more indirect influences. When an organization is currently a family business and the new CEO is coming from outside the family, socioemotional goals will disappear more to the background (Jaskiewicz et al., 2017).

3. Methodology

3.1 Introduction

In this chapter the research method is discussed. As was explained in the introduction, the data for this research is retrieved by using surveys. First, the operationalization of the different variables (strategy, control and the different factors of CEO succession) is explained. Second, the data selection is discussed. Third, attention goes to the control variables and the model. Last, attention goes to the validity and reliability of the research method. All of the survey questions can be found in appendix 1 (English) and appendix 2 (Dutch). Appendix 2 contains the survey which was distributed, because the research was done in the Netherlands for reasons explained earlier.

3.2 Operationalization of strategy

The variable 'strategy' is measured by determining to what extent strategy is formulated in an emergent or deliberate approach. The same operationalization is used by Erhart et al. (2017) and multiple other studies (Covin, Green, & Slevin, 2006; Gibbons & O'Connor, 2005) and was originally designed by Slevin and Covin (1997). The measurement technique used is a scale to which respondents indicate to what extent statements apply to their organization, both before and after the CEO succession took place. The statements that were used can be found in appendix 1 (English) or 2 (Dutch). To evaluate these statements, there is a scale from 1 to 7, where 1 means that the statement is not applicable and 7 means that the statement is applicable to the situation of the respondent. To use these results in the analysis, the answers are transformed into one variable, where 1 indicates an emergent style and 7 indicates a deliberate style.

3.3 Operationalization of control

The variable 'control' is operationalized according to the different systems of control described by Malmi and Brown (2008). Malmi and Brown (2008) also discuss the components of the different systems of control. These can be used to measure which specific control system CEOs implement in their organization. In table 1, the components of the different systems are shown. These components are used as proxies for the relevant control system. This means that if a respondent indicates that he makes use of action planning and long range planning, then he makes use of the planning control system. In the survey, the respondents are asked to what extent their organization made use of these different components before and after the CEO succession.

Table 1: Operationalization of control (Malmi & Brown, 2008).

Control system	Proxies
Planning	<ul style="list-style-type: none"> ➤ Action planning ➤ Long-range planning
Cybernetic	<ul style="list-style-type: none"> ➤ Budgeting ➤ Financial measures ➤ Non-financial measures ➤ Hybrids
Reward	<ul style="list-style-type: none"> ➤ Attaching rewards/compensation to the achievement of goals
Administrative	<ul style="list-style-type: none"> ➤ Organizational design and structure ➤ Governance structures ➤ Procedures and policies
Culture	<ul style="list-style-type: none"> ➤ Value-based controls ➤ Clan controls ➤ Symbols

All these proxies are discussed in more details in order to make clear what the different components describe. In the survey a short explanation was also included. Action planning describes the goals and actions which are set for the immediate future (a period of about 12 months). Long-range planning describes the goals and actions which are set for the medium and long run (longer than a period of about 12 months). So action planning and long range planning are the two proxies that will be used to measure if an organization uses planning as their control system. For cybernetic control budgets, the following proxies are used: budgets, financial measures, non-financial measures and hybrids. Budgeting is used by most organizations and is a comprehensive plan that integrates resources and actions by comparing performance to the budgets. Financial measures are used to hold employees accountable for specific financial results. For example, this can be used to set certain targets. Non-financial measures work the same as financial measures, though they only focus on the non-financial part of the job, such as for example the quality of the work of the employee. Hybrid measurements work the same, with the caveat that these measurements contain both financial and non-financial measurements. This is, for example, the frequently used balanced scorecard which integrates financial and non-financial measures in one measurement system.

To measure the reward control system, the respondents will be asked if their organization attaches rewards or compensation to the achievement of goals by the employees.

The next control system is administrative. The three proxies used are organizational design and structure, governance structures and procedures and policies. Organizational design and structure stand for using the design of the organization to control the organization by using a particular structural type which encourages for example certain relationships or one which reduces the variability of behaviour. Governance structure is controlling the organization by the structure or for example the board and project teams. This includes controlling the firm by the formal lines of authority and accountability. More concretely, governance structures can control the behaviour of employees by setting deadlines and providing meeting schedules to coordinate the behaviour of different employees. The last proxy for administrative control is procedures and policies. This includes setting bureaucratic controls to process the behaviour of the employees. This is done by creating standard operating procedures and practices.

The last control system is cultural controls. This control system is measured by value-based controls, clan controls and symbols. Value based controls are explicit sets of organizational definitions that are communicated formally and reinforced systematically to provide basic values, purpose and direction for the organization (Simons, 1995). For example, these are the vision statements and mission statements which convey the values of the organization. The second proxy used is clan control. Clan controls are formed by a process of socialization that creates a set of skills and values. These processes often relate to groups and this is for example a profession or a division in an organization. The last proxy for cultural control is symbols. Symbols are spoken of when companies create visible expressions, for example a dress code to develop a professional culture or an open office space to encourage a culture of communication and collaboration.

3.4 Operationalization of CEO succession

CEO succession is operationalized by adding questions to the survey that help to indicate all the interlining variables. All the respondents have experienced a CEO succession, as this is the subject of the research and otherwise they would not have received the survey. To get some more knowledge about these successions, some general questions are included in the survey. These concern the year in which the succession took place and what the reason was for succession. These questions can also be found in appendix 1 (English) and 2 (Dutch).

Second, the variables 'family', 'founder', 'investor', 'insider', 'prepared' and 'social atmosphere' are operationalized. The variable 'family' is measured by asking whether the organization is a family organization and if the succession took place within the family. The variable 'founder' is measured by asking if the founder CEO of the organization was succeeded. The variable 'investor' is

operationalized by asking if there is an investor involved in the organization. If this is the case, then there are two follow-up question about the year in which the investor joined the organization and to what extent the investor was actively involved in the succession. The variable 'insider' is measured by the question if the new CEO came from inside or outside the organization. The variable 'prepared' is measured by asking whether or not the succession was prepared. The variable 'social atmosphere' is measured on a scale which measures to what extent there is an informal or formal atmosphere in the organization. The social atmosphere is asked both before and after the succession took place.

3.5 Data

Surveys are sent to organizations which experienced CEO succession. The survey questions are included in appendix 1 (English) and 2 (Dutch). All the questions regarding strategy, control and succession are already discussed in the previous paragraphs where the variables were operationalized. At the beginning of the survey there are some general questions in order to gain some knowledge about who the respondent is. These are general questions asking about things such as the name of the respondent, the name of the organization, the function of the respondent, the sector in which the organization is active and how many employees the organization has. This last question is also included to determine if the respondent is indeed from a small or medium size organization. To encourage respondents to answer the survey, there is also an option to answer the survey anonymously.

The respondents are selected by using the network of Dutch Dream Group. Dutch Dream Group is an organization that advises CEOs in the small and medium segment by buying, selling or financing their organization. Due to their advisory services, they know many organizations which have had to deal with CEO succession. Next to the network of Dutch Dream Group, the survey is distributed to organizations which were in the news or organizations that can be found on websites of other advisory companies regarding mergers and acquisitions. The selection criteria for the survey are organizations that have experienced a CEO succession and that are a small or medium size organization. A small organization is considered an organization with less than 50 employees and a maximum revenue of 10 million euros, a medium organization is an organization with less than 250 employees and a revenue of maximum 50 million euros (MKB servicedesk, 2018). In the Netherlands 99% of the organizations are small or medium size organizations.

3.6 Control variables

The firm size is included as a control question in the survey. Firms are already selected based on their size, but to make sure all the data is from small and medium size enterprises, the data is checked before the analysis is done.

Another characteristic of the organization that can have an influence on the changes of control and strategy is the industry in which the organization operates. Ittner and Larcker (1997) argue that the performance consequences of strategic control practices vary by industry. Therefore, industry is also included as a control question. In the next chapter both the size and industry of the respondents are evaluated before the analysis is done.

3.7 Model

To test the influence of CEO succession on the change in control and strategy, different models will be used. The variables 'family', 'founder', 'investor', 'insider' and 'prepared' are all operationalized as dummy variables. These will be categorized as 1 = yes and 0 = no.

To test the different hypotheses OLS regressions are done for all the different expected relationships. Before the assumptions are tested and the analysis is done in the next chapter the different models are discussed. All the hypothesis are tested separately, so therefore there are 12 different models. Every variable has 2 models, namely one model to test the influence on control and one model to test the influence on strategy. In most cases the variables strategy and control include both before and after the succession. Then the variable 'control' or 'strategy' is used. However, in model 7 and 8 only control and strategy after the succession is used, this is further explained when the corresponding models are discussed. In all the other models control and strategy both before and after the succession is used.

The relationship between founder CEO and strategy and control is tested in the following models:

$$\text{Model 1: Control} = \beta_0 + \beta_1 * \text{founder} + \varepsilon$$

$$\text{Model 2: Strategy} = \beta_0 + \beta_1 * \text{founder} + \varepsilon$$

Because the variables 'control' and 'strategy' include both before and after the succession, the variable founders gets for all the values of strategy and control after the succession the value 0. This is the case because after the succession all founders have left the organization.

The same models are made for all the other factors. The models for the variable 'family' are the following:

$$\text{Model 3: Control} = \beta_0 + \beta_1 * \text{family} + \varepsilon$$

$$\text{Model 4: Strategy} = \beta_0 + \beta_1 * \text{family} + \varepsilon$$

Then the models for the variable insider are provided:

$$\text{Model 5: Control} = \beta_0 + \beta_1 * \text{insider} + \varepsilon$$

$$\text{Model 6: Strategy} = \beta_0 + \beta_1 * \text{insider} + \varepsilon$$

For the variable 'prepared' only the control and strategy after the succession is taken into account. It is namely the expectation that due to the preparations of the organization before the succession that the new CEO can implement more changes and therefore formalize the control and strategy of the organization. This means that the variable prepared only has an influence on the control and strategy after succession and there is no influence on the control and strategy before the succession. This results in the following models:

$$\text{Model 7: Control after succession} = \beta_0 + \beta_1 * \text{prepared} + \varepsilon$$

$$\text{Model 8: Strategy after succession} = \beta_0 + \beta_1 * \text{prepared} + \varepsilon$$

The respondents which did not know if they succeeded an organization that was prepared for the succession are left out of this specific model.

The models for the variable 'investor' are the following :

$$\text{Model 9: Control} = \beta_0 + \beta_1 * \text{investor} + \varepsilon$$

$$\text{Model 10: Strategy} = \beta_0 + \beta_1 * \text{investor} + \varepsilon$$

Then the last models for the variable 'social atmosphere':

$$\text{Model 11: Control} = \beta_0 + \beta_1 * \text{social atmosphere} + \varepsilon$$

*Model 12: Strategy = $\beta_0 + \beta_1 * \text{social atmosphere} + \epsilon$*

3.8 Validity and reliability

In order to arrive at useful results, it is important to pay attention to the validity and reliability of the research method. Regarding the validity the construct, internal and external validity are discussed. Construct validity is gained when the proxy of the variable actually measures what the variable means. The proxies of the variables strategy and control are based on previous research (Erhart and others, 2017; Covin, Green & Slevin, 2006; Gibbons & O'Connor, 2005; Slevin & Covin, 1997 and Malmi & Brown, 2008). These authors have shown that the construct validity of these measures was high and therefore these measures can be used in new research (Malmi & Brown, 2008; Slevin & Covin, 1997). The variables 'family', 'founder', 'investor', 'insider', 'prepared' and 'social atmosphere' all have quite straightforward questions in which they can be measured. With most it is just a yes-or-no question. Therefore, the step from construct to proxy is easily made with these variables. This guarantees a high construct validity.

The survey is mostly answered by new CEOs, which makes the variable 'prepared' and 'social atmosphere' difficult to measure. The respondent could be an outsider at the time of the succession and therefore have no knowledge about the preparation of the firm or the social atmosphere for the succession. When considering the social atmosphere, the new CEO also does not have the knowledge about the atmosphere for the past few years. However, the social atmosphere cannot change in a few days and therefore the new CEO will have enough knowledge to answer this question. Regarding the variable 'prepared' the respondent is given the option to fill that he does not know whether the organization was prepared or not.

Internal validity is about having the correct measuring instrument. When there is a low systematic error, the internal validity of a research is high. A low systematic error means that the measurement method is correct. Systematic errors are reproducible inaccuracies that consistently point in the same direction, often due to the fact that there is a mistake or bias in the measurement method (Libby, Bloomfield, & Nelson, 2002). With this survey, there is a low systematic error, because the respondents are mostly CEOs and they are the people who set the strategy and control. Therefore there is no intermediary which can disturb the results. This contributes to a high internal validity.

External validity is about being able to validly generalize the results. With a survey, the generalization possibilities highly depend on the number of respondents. To test whether or not non respondents is an issue in the research, the means of variables of early and late respondents will be compared (Erhart et al., 2017; Maas & Matejka, 2009). This is done by performing a t-test of the first-versus-last 25% of the respondents. If there are then any significant differences, then there could be a non-

response bias. The results of this tests can be seen in appendix 3 and there are no significant differences, therefore non respondent is not an issue.

The reliability of the research is high, because the variables 'strategy' and 'control' are measured by previous tested statements (Erhart and others, 2017; Covin, Green & Slevin, 2006; Gibbons & O'Connor, 2005; Slevin & Covin, 1997 and Malmi & Brown, 2008). This makes the answers of the respondents more reliable, because these statements are adequate measurements for strategy and control and can therefore be used to measure the level of formalization of control and strategy. Therefore if the research is redone, the same statements for control and strategy will probably be used. Therefore the same results will probably be retained.

4. Results

4.1 Introduction

In this chapter, first of all the data is described. Second, the different models used to test the hypothesis are discussed. To see if these models can be tested using OLS, the assumptions are reviewed. When all the assumptions are met or when the necessary modifications are made, the analyses are performed. Lastly, the results are discussed and the hypotheses are reviewed. Besides OLS regression the cluster graphs of the different models are provided and discussed to give a better view of the influences of the variables.

4.2 Descriptive statistics

Data was retrieved by setting out a survey. This survey was distributed among companies who experienced a CEO succession. The number of respondents is 32. However, one respondent was employed by an organization with more than 250 employees. This means that this respondent does not work at a small or medium sized enterprise. Therefore this response is not taken into account for the analysis. All the other respondents do indeed work for small or medium size enterprises and have experienced a succession.

The variables 'year of succession' and 'number of employees' are not included in the analysis. These questions were only included in the survey to find out if the respondent fits the requirements for the research. As just discussed, just one respondent did not fulfil one of these requirements and was therefore deleted. Next to that, the most recent succession occurred in 2016, so for all the successions it is possible for the new CEOs to have achieved some changes (Godfrey et al., 2003). As Godfrey, Mather and Ramsay (2003) showed in their research that in the year of succession there is often a downward in revenue and in the year thereafter there is an upward tenure. If the succession was at the end of 2017, then there would have been a small amount of time for the new CEO to implement changes. This could have given the wrong impression that the CEO did not change that much in the strategy and control of the organization, even though the CEO has not been given enough time to make a difference. Therefore a minimum requirement of a succession in 2016 (or earlier) is used.

To first give an indication of the content of the variables, the descriptive statistics are shown in table 2. To measure the control system and strategy style, different proxies were used. These were described in chapter 3. In order to formulate these variables, the scores of their proxies were added so the level of control and strategy is calculated.

Table 2: Descriptive statistics.

Variable name	Number of observants	Mean	Standard deviation	Minimum	Maximum
Control before succession	31	2.50	1.29	1	6.1
Control after succession	31	4.51	1.10	2.37	6.27
Strategy before succession	30	3.29	1.33	1.92	7
Strategy after succession	30	4.58	1.12	1.92	7
Control	62	3.51	1.56	1	6.27
Strategy	60	3.94	1.38	1	7
Founder	60	0.32	0.47	0	1
Investor	60	0.37	0.49	0	1
Insider	60	0.03	0.18	0	1
Prepared	28	0.36	0.49	0	1
Family	60	0.35	0.48	0	1
Social atmosphere	60	2.55	1.76	1	7

The first two variables shown in table 2 (Control before and after succession) have 31 observants, while strategy before and after the succession have 30 observants. This is the case because one respondent did not finish the survey and therefore the first questions have one extra respondent. The other exception is the variable 'prepared,' as this variable only has 28 observants. This is due to the fact that two respondents indicated they did not know whether or not the organization they work for was prepared beforehand.

By looking at the mean of control before and after succession and strategy before and after succession, it can be seen that the mean of each aspect increases after the succession. This could indicate that a succession of the CEO indeed leads to more control and a more deliberately formed strategy.

The variables control and strategy include both before and after the succession. Therefore these variables have 62 and 60 respondents, because all respondents had 2 measuring times for control and strategy.

Another variable concerns the involvement of an investor in the organization. A follow up question was asked in which year the investor joined the organization. In all the cases this occurred before or during the year of succession. Another question was how active the investor was involved in the succession, all respondents with an investor involved indicated that the investor was indeed actively involved in the succession plans. Therefore the investor was always involved in the procedure for hiring a new CEO.

Again looking at the descriptive statistics, it can be seen that there are almost no respondents which experienced a succession with an insider, the mean of the variable insider is namely 0.03 (value 0 is insider, 1 is outsider). This is probably the case because information about insider successions are less in the news and generally less known. Therefore, it is harder to find the companies that have experienced such a succession when looking for respondents. Another reason for the low amount of insider successions is because most respondents come from the database of Dutch Dream Group. Dutch Dream Group advises management buy-in candidates and therefore most respondents that were asked to fill in the survey were in an organization with a CEO coming from outside of the organization. This means that there already is a selection bias in favour of outsider succession. The total amount of insider succession in the database is only 2 and therefore there are not enough respondents who experienced inside succession to compare these effects with outside succession.

Another aspect that was included in the survey was the sector of the organization. Ittner and Larcker (1997) argued that the performance consequences of strategic control practices vary by industry. In table 3, there is an overview given of the different sectors in which the organizations of the respondents were active. It can be seen that a broad range of sectors are represented and therefore no additional controls are added for the industry of the organization.

Table 3: Overview of the sectors of the respondents

Sector	Number of respondents in this sector
Building	3
Retail	2
Chemical	2
Consumer goods	4
Electrical engineering	2
ICT	5
Plastic production	2
Leisure	1
Logistics	2
Machine building-/trading	4
Maritime	1
Medical and pharmaceutical industry	4
Metal	2
Food and beverages	7
Business services	6
Different	8

4.3 Assumptions

Before the analysis is done, the models are tested for the different assumptions of OLS regression. In order to successfully perform an OLS regression, there are seven assumptions that have to be met.

The assumptions are discussed one by one.

The first assumption is that all variables must be measured at interval and without error. Some variables are nominal variables and thus are added as dummy variables. These are the variables 'founder,' 'family,' 'insider,' 'investor' and 'prepared.' All of these questions are measured by asking whether or not this characteristic applies to the organization for which the respondent works.

Therefore, there are only two options, namely yes or no.

The second assumption is that the mean value of the error term is zero for each independent variable. If this is not the case, then the relationship between the variables is not linear and cannot be tested by means of an OLS. To test this assumption, a scatterplot of the dependent and

independent variables is made. This is done for all of the different models. These scatterplots can be found in appendix 4. In these scatterplots, it can be seen that, due to the dummy variables, the data is clustered around 0 and 1. Only the variable 'social atmosphere' has data points which are more spread out in the graph. Due to the fact that most models are clustered, cluster graphs are made at the end of the chapter and discussed.

The third assumption is that the residuals are homoscedastic. This means that the variance for each independent variable should be the same. This is tested by both the Cameron & Trivedi's decomposition of IM-test and the Cook-Weisberg test. An overview of the results can be seen in appendix 5. All of these tests show a probability larger than 0.05, which means that the residuals are not heteroskedastic and the third assumption is met.

The fourth assumption is that there is no autocorrelation. In other words, this means that the residuals are not correlated. However, because the data covers only one moment in time, autocorrelation is not possible. Autocorrelation can only be a problem when looking at time series data or at panel data. Therefore, this assumption cannot be violated in this research.

The fifth assumption is that the independent variables do not correlate with the error term. This is tested by running the regressions of all the models and then testing the correlation of the residuals with the independent variable. An overview of these correlations are shown in appendix 6. There are no correlations above 0.6, which means that there are no correlations that violate this assumption.

The sixth assumption is that no independent variable is perfectly (nor approximately) linearly related to one or more of the other independent variables in the model. Because all of the models are tested separately, all models have only one independent variable. This means that this assumption cannot be violated.

The seventh and last assumption is that the residuals are normally distributed. This can be seen by making a histogram of the residuals. In appendix 7, the histograms of all of the models are shown. There, it can be seen that the histograms are close to normal distributed and therefore also this last assumption is met.

4.4 Overview results

In table 4, the results of the regression of the variable ‘control’ are shown. Later on in this paragraph table 5 can be found, which shows the results of the analysis of the variable ‘strategy.’

Table 4: Overview of the regression of the independent variable (founder, family, insider, prepared, investor or social atmosphere) on the dependent variable (control or control after succession (only for prepared))

	Model 1	Model 3	Model 5	Model 7	Model 9	Model 11
Intercept	4.21*** (0.21)	3.91*** (0.24)	3.52*** (0.21)	4.21*** (0.24)	3.60*** (0.26)	3.06*** (0.35)
Founder	-0.85* (0.37)					
Family		-1.05* (0.40)				
Insider			0.59 (1.13)			
Prepared				0.69 (0.41)		
Investor					-0.15 (0.42)	
Social atmosphere						0.19 (0.11)
R ²	0.08	0.10	0.01	0.09	0.00	0.05
N	60	60	60	28	60	60

*A significant effect is shown by: *p < 0.05, **p < 0.01, ***p < 0.001. The first number shown is the coefficient; in parentheses the standard deviation is presented.*

In table 4, it can be seen that there are a few significant results. From the analysis of model 1 it can be seen that the variable ‘founder’ is significant. This variable has a coefficient of -0.85. This means that if the founder is the CEO of the organization before the succession occurs, then the control of the organization decreases by 0.85. Therefore, when a founder is succeeded, the control of the organization will be more formalized. This means that there is proof for both hypothesis 1 and

hypothesis 2. The R^2 of this model is 0.08, which means that this model explains 8% of the variation of the dependent variable control. Due to the fact that the model only consists of one dependent variable, it could have been expected that R^2 is low.

Model 3 shows a significant relationship. The variable 'family' is significant with a coefficient of -1.05. This means that when the organization is a family business, the control decreases by 1.05. If the CEO gets succeeded and the business is no longer a family business, then the control system will be formalized. This is the case because the variable family has a negative influence on the control variable. In this model, R^2 is 0.10, which means that the variable 'family' explains 10% of the variation of the dependent variable. This means that there is proof for both hypothesis 3 and hypothesis 4.

The analysis of model 5 shows that there is no significant relationship. However, due to the fact that the variable 'insider' has only 2 respondents who experienced insider succession, it is no surprise that this analysis does not show a significant relationship. With only 2 insiders and 58 outsiders there can be no useful results. Therefore, hypotheses 3 and 4 cannot be adequately tested. To test these hypotheses it is necessary to obtain more respondents from organizations which experienced insider succession. Due to the number of observants, R^2 is just 0.01, so this model explains 1% of the variation of the dependent variable. Due to the low R^2 and the fact that there is no significant relationship, there is no proof for hypothesis 5 and 6. Due to the low amount of respondents who experienced insider succession, it is not possible to conclude what the effects of insider or outsider succession are.

In the next model, model 7, there are no significant results. In this model, the dependent variable is the control after succession. Due to the fact that only the control after the succession is used, the number of observants is just 28. This means that there is no influence of this variable on the level of control based on the fact of whether the organization was prepared for the CEO succession or not. Therefore, there is no proof found for hypotheses 7 and 8.

In model 9, it stands out that R^2 is 0.00, which means that this model explains no part of the variation of the dependent variable. There is also no significant relationship between the variable 'investor' and the dependent variable. Therefore, there is no proof that confirms the relationships stated in hypotheses 9 and 10.

The last model, model 11, shows no significant relationship. R^2 is in this model 0.05, which means the model only explains 5% of the variation of the dependent variable. Thus, with a low R^2 and no significant relationship, hypotheses 11 and 12 cannot be rejected.

Next, the results of the analysis of strategy are discussed. The results of these regressions are shown in table 5.

Table 5: Overview of the regression of the independent variable (founder, family, insider, prepared, investor or social atmosphere) on the dependent variable (strategy or strategy after succession (only for the variable prepared))

	Model 2	Model 4	Model 6	Model 8	Model 10	Model 12
Intercept	4.20*** (0.21)	2.71*** (0.18)	3.93*** (0.18)	4.19*** (0.24)	4.01*** (0.23)	3.54*** (0.31)
Founder	-1.46*** (0.37)					
Family		0.32 (0.30)				
Insider			0.02 (1.00)			
Prepared				0.89* (0.40)		
Investor					-0.21 (0.37)	
Social atmosphere						0.16 (0.10)
R ²	0.19	0.02	0.00	0.16	0.01	0.04
N	60	60	60	28	60	60

*A significant effect is shown by: *p < 0.05, **p < 0.01, ***p < 0.001. The first number shown is the coefficient; in parentheses the standard deviation is presented.*

In model 2, it can be seen that the variable ‘founder’ is significant with a coefficient of -1.46. This means that when the founder of the organization used to be the CEO and no succession has taken place, the variable ‘strategy’ decreases with -1.46. This means that the founder often has no formalized strategy and therefore the strategy of a founder is closer to the emergent view. The significant relation of the variable ‘founder’ is very strong, as it is the only variable below the limit of a p value of 0.001. Also, it stands out that R² is 0.19. This means that the variable ‘founder’ explains 19% of the variation of the dependent variable. With such a strong significant relation and a high R², the results are in line with hypotheses 1 and 2.

In model 4, there are no significant results and R^2 is 0.02. This means that the variable 'family' has no significant influence on the strategy of the firm. This is different from the results shown in table 4. The variable 'family' had a negative significant effect on the variable 'control.' However, the formation of strategy does not change depending on whether or not an organization is a family business. Therefore, the results of the regression with 'strategy' as dependent variable are not in line with hypotheses 3 and 4.

In model 6, there is no significant relationship and R^2 is 0.00. This is comparable to the results with the variable 'insider' in table 4. This is due to the case there were only 2 respondents who experienced insider succession. Therefore to test this relationship there are more respondents necessary. Thus, in this analysis, there is no proof for hypotheses 5 and 6 again.

In model 8, the relationship between the variables 'prepared' and 'strategy after succession' is significant. The variable 'prepared' has a coefficient of 0.89. This means that when the organization is prepared for CEO succession, the variable 'strategy after succession' increases with 0.89. This means that when the organization is prepared, the new CEO creates a more formalized strategy and therefore moves to a more deliberate view qua strategy. This means there is proof for hypotheses 7 and 8. Utilizing 'control' as the dependent variable, there was no significant relationship found, which means there is mixed evidence for both hypotheses.

Model 10 shows no significant relationship between the variable 'investor' and 'strategy'. The R^2 is 0.01, which means that the variation of the dependent variable is only explained for 1% by the variable 'investor.' Therefore, there is no proof for hypotheses 9 and 10. This is in line with the results in table 4. In both cases there was no significant relationship found and there was no proof found for both hypotheses mentioned.

The last model, model 12, has no significant result. Therefore, the social atmosphere seems to have no influence on the strategy of the organization. This means there is no proof for hypothesis 11 and hypothesis 12. This is in line with the results where the variable 'control' was used as the dependent variable.

4.5 Cluster analysis

To look further into the influence of the different variables, cluster graphs are made. The cluster graphs can be found in appendix 8. In image 1, it can be seen that the data points of the

characteristic 'founder' are mostly in the bottom left of the graph, while the 'no founder' data points are mostly centred around the top right corner, even though they are more spread out there. This shows that the characteristic 'founder' means that there is often less control and a less formalized strategy in the organization. The datapoints of organization with the founder as the CEO before the succession cluster around the values of a less formalized strategy and control. This fits with the results of the regression analysis, as in both regression models there was a significant influence of the variable 'founder.' This means that there is proof for both hypothesis 1 and hypothesis 2. There is no formalized strategy and control when the founder of the organization used to be the CEO. When the founder is succeeded, the strategy and control of the organization is more formalized.

In image 2, the cluster graph of the variable 'family' can be found. It can be seen that the characteristic 'family' has no clear influence on strategy and control. There is no clustering in the graph, both 'no family businesses' and 'family businesses' are spread throughout the graph. In the regression models with 'control' as dependent variable, there is a significant result found with a negative influence of the variable 'family.' In the cluster graph, this relationship cannot be seen. Therefore, there are mixed results regarding hypotheses 3 and 4 and these hypotheses thus can only be accepted in part.

Image 3 shows the cluster graph of the variable 'insider.' However, there were only 2 respondents who experienced insider succession. This explains why no cluster is found in the graph. The same problem arises as the one which was found during the regression analysis. To research the influence of an in- or outside succession, it is necessary to have more respondents who have experienced inside succession. In this research it is therefore not possible to determine the relationship in question. Therefore hypotheses 5 and 6 cannot be scrutinized for the time being.

In image 4, a cluster graph of the variable 'prepared' is provided. In this scatter plot, it can be seen that the data points with the characteristic 'prepared' are shown in the right upper corner. This means that organizations that were prepared for a CEO succession have a more formalized strategy and control after the succession. Organizations that were unprepared seem to have a more unformalized strategy and control. The results of the regression with 'strategy after succession' as dependent variable showed similar results. However, in the regression with 'control after succession' as dependent variable no significant relationship was found. Thus, this could be an interesting aspect to research further. For now, there is no clear evidence for hypotheses 7 and 8. The relationship between the strategy and the variable 'prepared' seem to exist. Also, in the cluster graph there seems to be a influence of the variable 'prepared' as was described in hypothesis 7 and 8. Therefore

some evidence for both hypotheses is found, but there is still missing information about the influence of the variable 'prepared' on control after succession.

Image 5 shows the cluster graph of the variable 'investor.' In the regression models there was no clear evidence found of an influence of the involvement of an investor. In the cluster graph, the same result can be seen. The data points of 'no investor' and 'investor' are spread throughout the graph, without a clear pattern or cluster. Therefore, there is no clear evidence found for hypotheses 9 and 10 and thus both hypotheses cannot be accepted for the time being.

The last cluster graph in appendix 8 is image 6. The variable 'social atmosphere' had a 7 point scale instead of the 'yes' or 'no' results of the other variable. To create a clear cluster graph, the variable is transformed into 3 categories. The first category is 'informal atmosphere' these are the datapoints 1 to 3 from the 7 point scale. The second category is 'no position', which contains point 4 of the 7 point scale. The last category is 'formal atmosphere,' which contains points 5 to 7 of the 7 point scale. In the resulting cluster graph, no clear cluster or pattern found. The datapoints of both informal and formal atmosphere are spread throughout the graph. Therefore, in both the regression models and the cluster graph there is no evidence found for hypotheses 11 and 12 and both cannot be accepted for the time being.

5. Conclusion

In this last chapter the research question is discussed and answered. By discussing the results, attention is given to the way in which these results apply to current theories and their implications for further research. Next to that, the limitations of this research are discussed together with important adjustments necessary to improve further research.

The research question, which was provided and explained in chapter 1, was the following:

Does the succession of a CEO lead to a change in strategy and control?

To answer this question, attention was given to the important theories in the scientific field that covers strategy and control. First, the highly debated relationship between strategy and control was discussed. Recent research has shown that this relationship is cyclical. However, in previous research, there was no attention given to the influence of a shock on this relationship (Erhart et al., 2017). This lacuna in the scientific literature was taken up for this thesis. Several different characteristics of CEOs and organizations were taken into account when researching this relationship. These characteristics all have been investigated by previous research. An interesting characteristic that plays a role in the formation of strategy and control is whether or not the current CEO is the founder of the organization. If the CEO is the founder of the organization, then the strategy and control of the organization are often not formalized (Wasserman, 2003). This is due to the fact that the founder is often just the developer of the product and thus often lacks the commercial skills and expertise to run the organization. Therefore, it is expected that if the CEO is not the founder of the organization, then the strategy and control of the organization are formalized.

The second characteristic taken into account is whether or not the organization is a family business. It is expected that if the organization is a family business, then the strategy and control of the organization are not formalized (Jaskiewicz, Block, Combs & Miller, 2017). Due to the different goals and ties present in family business, there is often no formalized system of strategy and control. When the organization is not a family business, then it is expected that there is a formalized system of strategy and control.

The third characteristic that was measured is if the new CEO comes from in- or outside the organization. It is expected that if the CEO comes from inside the organization, then the strategy and control of the organization are not formalized (Georgakakis & Ruigrok, 2007). A new CEO from inside the organization is used to the way things were done by the last CEO and is therefore more likely to follow the same strategy and control style as the last CEO. Thus, the new CEO does not often

formalize the organization's system of strategy and control. Vice versa, if the CEO comes from outside the organization, then it is expected that strategy and control is formalized.

Another aspect that was taken into account is whether or not the organization was prepared for a CEO succession. When an organization is prepared for such a succession, the new CEO can immediately focus on the long term perspective. Therefore, it is expected that if the organization is prepared for CEO succession, then the strategy and control of the organization after the succession are formalized (Charan, 2005). However, when an organization is unprepared for CEO succession, the expectation is that the strategy and control after the succession are not formalized.

The fifth characteristic concerns the involvement of an investor in the organization. The expectation is that if there is an investor involved in the organization, then the strategy and control of the organization are not formalized (Chen & Thompson, 2015). When there is no investor involved in the organization, then there is a smaller incentive to formalize strategy and control.

The last characteristic is the social atmosphere in the organization. It is expected that with a more formal social atmosphere, the strategy and control of the organization are formalized (Zoni & Merchant, 2007). In a more formal atmosphere, the focus is centered more around the financial orientation of the firm, which results in a more formalized system of strategy and control. In the other case, when there is a more informal social atmosphere, it is expected that there is no formalized strategy and control.

To collect data, a survey was distributed among companies that have experienced a CEO succession. There were 31 relevant respondents (30 complete). This response was analysed and some of the stated hypotheses were indeed confirmed by the results. The data has shown that a founder CEO does not formalize the strategy and control of the organization. This means that, if the founder is succeeded, then the new CEO starts to formalize the strategy and control in a more structured system. The same results were found for the control system in a family business. In a family business, there is less attention for a formalized control system, due to the fact that there is less focus on the financial goals than in a non-family business. However, the formalization of the strategy in family businesses does not differ from non-family businesses. Therefore, the data leads to mixed results regarding the influence of the typical family business.

In this research, the characteristic 'insider' could not adequately researched. There were only 2 respondents who had experienced insider succession. All the other respondents had a successor that came from outside the organization. Therefore, it is not possible to conclude whether or not there is a change in strategy and control based on an inside or outside succession of the CEO.

Another aspect which was researched was whether or not the organization was prepared for the succession. In organizations that were prepared, the results show that there was a more formalized

strategy. However, there is no influence on the formalization of control. Therefore, this is an interesting aspect which needs to be researched in further detail.

Both the involvement of an investor or the organization having a formal social atmosphere did not correlate with an formalized strategy and control. Therefore, the presence of an investor does not make a difference for the formalization of strategy and control of an organization. The same holds true in the case of social atmosphere. A more formal social atmosphere does not seem to lead to a more formal system of strategy and control.

The analysis concluded in different results regarding the different hypotheses that were under investigation. For the characteristic 'founder,' all of the results pointed in the same direction: The founder of an organization does not formalize strategy and control. However, regarding the characteristic 'family' and whether or not the organization is prepared for the succession, the results differ. In the case of the family business, control is less formalized, but strategy is the same when compared to non-family businesses. This relationship is reversed when we look at whether or not an organization is prepared for the succession of their CEO, as its strategy does change if the organization is prepared, but its system of control does not.

To answer the research question: Yes, it can be said that a new CEO leads to a change in strategy and control in certain circumstances. When the previous CEO is the founder of the organization, strategy and control both will change. If the organization is a family business and if the new CEO comes from outside the family, then the control of the organization will change. The strategy of the organization is likely to stay the same in that case. Another aspect is whether or not the organization is prepared for the succession. If the organization was prepared for the succession, then the CEO succession will lead to a more formalized strategy. Next to that, it is unsure whether or not in- or outside succession makes a difference as there were too few respondents that experienced a succession with a CEO coming from inside the organization. In the other circumstances that were examined, strategy and control did not change. Whether or not there is an investor involved, strategy and control remain the same. Also, it was found that the social atmosphere does not influence strategy and control.

It is an unexpected result that an investor does not influence the formalization of strategy and control. This difference could be explained by the fact that all the organizations that were researched are small and medium size enterprises. Therefore, the size of the investors could also be smaller and therefore the investors might be less focussed on strategy and control. Previous research was done on large listed companies and in that case it is logical that the influence of investors are also larger

than in the smaller companies. For further research, it could be interesting to look into the role of investors in small and medium size enterprises.

Another aspect that was not taken into account is whether or not the change of strategy and control succeeded in the first place. If a founder CEO leaves the organization and strategy and control was formalized, then it could be possible that the new system does not fit with the organization and will be unsuccessful. In this research, the only measurement that was done concerned what changes in strategy and control due to certain characteristics, but this does not necessarily mean this change was successful. It is not measured whether or not the performance of the organizations improved due to these changes. Therefore, an interesting aspect for further research is to focus on the characteristics that change strategy and control together with whether or not this leads to improved performances.

To conclude, it can be said that there are multiple different avenues that can be researched in the future. This thesis therefore provides an interesting first insight in the influence of CEO succession on the strategy and control of an organization. The CEO, together with strategy and control, form the core of an organization: If future research takes up the suggestions of this thesis, then more important and fascinating insights may be discovered about this core.

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Appendix

Appendix 1: Survey

Question 1: What is your name? (If you prefer anonymity in this survey, you can leave this empty)

Question 2: For which company do you work? (If you prefer anonymity in this survey, you can leave this empty)

Question 3: Which position do you have within the firm?

- Entrepreneur/CEO + shareholder
- Entrepreneur/CEO
- Shareholder
- Manager
- Different, namely _____

Question 4: In which sector is your company active?

- Building
- Retail
- Chemical
- Consumer goods
- Electrical engineering
- ICT
- Plastic production
- Leisure
- Logistics
- Machinebuilding-/trading
- Maritime
- Medical and pharmaceutical industry
- Metal
- Food and beverages

- Business services
- Different, namely _____

Question 5: How many employees does your company have?

- 0-1
- 2-4
- 5-9
- 10-19
- 20-49
- 50-99
- 100-250
- >250

Question 6: Could you indicate or estimate to what extent the following control mechanisms were used before the succession of the CEO/entrepreneur took place?

Scale from 1(=not used) to 7 (=used frequently)

- Action planning: goals and actions for the next 12 months were established and based on these the control takes place
- Long range planning: goals and actions for longer than 12 months were established and based on these the control takes place
- Budgets: Comparison of the performance with the budget.
- Financial measures: Control based on financial performance.
- Non-financial measures: Control based on non-financial performance
- Hybrids: Control based on financial and non-financial performance in one measurement (for example the balanced scorecard).
- Rewards: Attaching rewards/compensation to the achievement of goals.
- Organizational design and structure: Control based on the structure of the organization (for example setting up certain relationships/functions, so certain relationships are promoted and variance in the behaviour of employees is limited).
- Governance structures: Control by the formal lines of authority and accountability (for example by the use of deadlines and meetings).
- Procedures and policies: Procedures and rules to regulate behaviour.
- Value-based controls: Values were explicated and employees behave in accord with them.
- Clan controls: Socialization with the company which leads to common values and skills.

- Symbols: Physical expressions which express the culture of the company (for example the dress code or an open office space to enhance a culture of communication)

Question 7: Could you indicate or estimate to what extent the following control mechanisms were used after the succession of the CEO/entrepreneur took place?

Scale from 1(=not used) to 7 (=used frequently)

- Action planning: goals and actions for the next 12 months are established and based on these the control takes place
- Long range planning: goals and actions for longer than 12 months are established and based on these the control takes place
- Budgets: Comparison of the performance with the budget.
- Financial measures: Control based on financial performance.
- Non-financial measures: Control based on non-financial performance
- Hybrids: Control based on financial and non-financial performance in one measurement (for example the balanced scorecard).
- Rewards: Attaching rewards/compensation to the achievement of goals.
- Organizational design and structure: Control based on the structure of the organization (for example setting up certain relationships/functions, so certain relationships are promoted and variance in the behaviour of employees is limited).
- Governance structures: Control by the formal lines of authority and accountability (for example by the use of deadlines and meetings).
- Procedures and policies: Procedures and rules to regulate behaviour.
- Value-based controls: Values are explicated and employees behave in accord with them.
- Clan controls: Socialization with the company which leads to common values and skills.
- Symbols: Physical expressions which express the culture of the company (for example the dress code or an open office space to enhance a culture of communication)

Question 8: Could you indicate or estimate to what extent the following statements applied to the company before the CEO succession took place?

Scale from 1(= not applicable) to 7 (= applicable)

- We typically didn't know what the content of our business strategy should be until we engaged in some trial and error actions.
- The business unit's strategy was carefully planned and well understood before any significant competitive actions were taken.

- Formal strategic plans served as the basis for our competitive actions.
- My business unit's strategy was typically not planned in advance but, rather, emerged over time as the best means for achieving our objectives became clearer (reverse scored).
- Competitive strategy for my business unit typically resulted from a formal business planning process (i.e., the formal plan precedes the action).

Question 9: Could you indicate or estimate to what extent the following statements apply to the company after the CEO succession took place?

Scale from 1(= not applicable) to 7 (= applicable)

- We typically don't know what the content of our business strategy should be until we engage in some trial and error actions (reverse scored).
- My business unit's strategy is carefully planned and well understood before any significant competitive actions are taken.
- Formal strategic plans serve as the basis for our competitive actions.
- My business unit's strategy is typically not planned in advance but, rather, emerges over time as the best means for achieving our objectives become clearer (reverse scored).
- Competitive strategy for my business unit typically results from a formal business planning process (i.e., the formal plan precedes the action).

Now there follow a few short questions about certain characteristics of the company and the succession that took place.

Question 10: In which year took the succession of the CEO/entrepreneur place?

Question 11: What was the reason for the succession? (multiple answers are possible)

- Retirement previous CEO
- Personal reasons previous CEO
- Previous CEO did not have the expertise for the next phase of the company
- Investor preferred a new CEO
- Other reason, namely _____

Question 12: To what extent is the sphere formal/informal, both before and after the succession took place?

Scale from 1 (=informal) to 7 (formal)

- Before the succession took place
- After the succession took place

Question 13: Was the CEO who was succeeded the founder of the company?

- Yes
- No
- I don't know

Question 14: Was the company before the succession took place a family business?

- Yes, and after the succession it was still a family business
- Yes, but after the succession it was not a family business anymore
- No
- I don't know

Question 15: Did the new CEO come from in- or outside the company?

- Inside
- Outside
- I don't know

Question 16: Is there an investor involved in the company?

- Yes
- No
- I don't know

Question 16a was only showed to respondent who answered 'yes' in question 16.

Question 16a: Which year became the investor involved in the company? (if you don't know the answer, you can leave this question empty)

Question 16b was only showed to respondent who answered 'yes' in question 16.

Question 16b: To what extent had the investor an active role in the CEO succession?

Scale from 1 (=inactive) to 7 (active)

Question 17: Was there before the succession to place a plan to prepare the company?

- Yes
- No
- I don't know

Appendix 2: Survey in Dutch

Vraag 1: Wat is uw naam? (mocht u de enquête liever anoniem willen invullen, dan kunt u dit leeg laten)

Vraag 2: Voor welk bedrijf werkt u? (mocht u de enquête liever anoniem willen invullen, dan kunt u dit leeg laten)

Vraag 3: Welke functie heeft u binnen uw bedrijf?

- Ondernemer/CEO en aandeelhouder
- Ondernemer/CEO
- Aandeelhouder
- Manager
- Anders, namelijk _____

Vraag 4: In welke sector is uw bedrijf actief?

- Toeleverend aan de bouw
- Toeleverend aan retail
- Chemie
- Consumentenartikelen
- Elektrotechniek
- ICT/automatisering
- Kunststof
- Leisure
- Logistiek
- Machinebouw/-handel
- Maritiem
- Medisch/Pharma
- Metaal
- Voeding en drank
- Zakelijke dienstverlening
- Anders, namelijk: _____

Vraag 5: Hoeveel medewerkers heeft uw bedrijf ongeveer?

- 0-1
- 2-4
- 5-9
- 10-19
- 20-49
- 50-99
- 100-250
- >250

Vraag 6: Kunt u aangeven of inschatten in hoeverre er gebruik werd gemaakt van de volgende aansturingsmethoden voor werknemers voordat de opvolging van de CEO/ondernemer plaatsvond:

Schaal van 1 (= niet gebruikt) tot en met 7 (veel gebruikt)

- Kortetermijnplannen: Doelen voor korte termijn (<1 jaar) werden vastgesteld en aan de hand daarvan werd aangestuurd.
- Langetermijnplannen: Doelen de lange termijn (>1 jaar) werden vastgesteld en aan de hand daarvan werd aangestuurd.
- Budgetten: Vergelijking van de prestaties met de budgetten.
- Financiële metingen: Aansturing aan de hand van financiële resultaten.
- Niet-financiële metingen: Aansturing aan de hand van niet-financiële resultaten.
- Tussenvorm: Aansturing aan de hand van financiële en niet-financiële metingen in één meting (bijvoorbeeld de Balance scorecard).
- Beloningen: Beloningen voor het bereiken van doelen.
- Organisatieontwerp en structuur: Aansturing via de opzet van de organisatie (bijvoorbeeld het opzetten van bepaalde relaties/functies, zodat bepaalde relaties werden bevorderd en variabiliteit in gedrag werd verlaagd).
- Bestuursstructuur: Aansturing via de formele lijnen van autoriteit en verantwoordelijkheid (bijvoorbeeld door middel van deadlines en het plannen van meetings).
- Procedures en beleid: Procedures en regels om gedrag te sturen.
- Waardengebaseerde aansturing: Waarden waar elke werknemer zich aan dient te houden.
- Groepsaansturing: Socialisatie binnen het bedrijf dat leidt tot gezamenlijke waarden en vaardigheden.

- Symbolen: Fysieke uitdrukkingen die de cultuur uitdroegen van het bedrijf (bijvoorbeeld via de dress code of een open kantoor om de communicatiecultuur te bevorderen).

Vraag 7: Kunt u aangeven of inschatten in hoeverre er gebruik werd gemaakt van de volgende aansturingmethoden voor werknemers nadat de opvolging van de CEO/ondernemer had plaatsgevonden:

Schaal van 1 (= niet gebruikt) tot en met 7 (veel gebruikt)

- Kortetermijnplannen: Doelen voor korte termijn (
- Langetermijnplannen: Doelen voor lange termijn (>1 jaar) worden vastgesteld en aan de hand daarvan wordt aangestuurd.
- Budgetten: Vergelijking van de prestaties met de budgetten.
- Financiële metingen: Aansturing aan de hand van financiële resultaten.
- Niet-financiële metingen: Aansturing aan de hand van niet-financiële resultaten.
- Tussenvorm: Aansturing aan de hand van financiële en niet-financiële metingen in één meting (bijvoorbeeld de Balance scorecard).
- Beloningen: Beloningen voor het bereiken van bepaalde doelen.
- Organisatieontwerp en structuur: Aansturing via de opzet van de organisatie (bijvoorbeeld het opzetten van bepaalde relaties/functies, zodat bepaalde relaties worden bevorderd en variabiliteit in gedrag word verlaagd).
- Bestuursstructuur: Aansturing via de formele lijnen van autoriteit en verantwoordelijkheid (bijvoorbeeld door middel van deadlines en het plannen van meetings).
- Procedures en beleid: Procedures en regels om het gedrag van werknemers te sturen.
- Waardengebaseerde aansturing: Waarden waar elke werknemer zich aan dient te houden.
- Groepsaansturing: Socialisatie binnen het bedrijf dat leidt tot gezamenlijke waarden en vaardigheden.
- Symbolen: Fysieke uitdrukkingen die de cultuur uitdragen (bijvoorbeeld via de dress code of een open kantoor om de communicatiecultuur te bevorderen).

Vraag 8: Kunt u aangeven of inschatten in hoeverre de volgende stellingen toepasbaar zijn voordat de opvolging van de ondernemer/CEO plaatsvond?

Schaal van 1 (= niet toepasbaar) tot en met 7 (= heel toepasbaar)

- We wisten niet wat de inhoud van onze bedrijfsstrategie was totdat we een proces van trial en error hadden doorlopen.
- De bedrijfsstrategie was voorzichtig gepland en goed uitgedacht voordat belangrijke competitieve handelingen werden uitgevoerd.

- Formele strategieplanning was de basis voor alle competitieve handelingen.
- De bedrijfsstrategie was meestal niet van tevoren gepland.
- De competitieve strategie volgde uit een formeel gepland proces.

Vraag 9: Kunt u aangeven of inschatten in hoeverre de volgende stellingen toepasbaar zijn nadat de opvolging van de ondernemer/CEO had plaatsgevonden?

Schaal van 1 (= niet toepasbaar) tot en met 7 (= heel toepasbaar)

- We weten niet wat de inhoud van onze bedrijfsstrategie is totdat we een proces van trial en error hebben doorlopen.
- De bedrijfsstrategie is voorzichtig gepland en goed uitgedacht voordat belangrijke competitieve handelingen worden uitgevoerd.
- Formele strategieplanning is de basis voor alle competitieve handelingen.
- De bedrijfsstrategie is meestal niet van tevoren gepland.
- De competitieve strategie volgt uit een formeel gepland proces.

Nu volgen er nog enkele korte vragen over bepaalde kenmerken van de onderneming en de opvolging die heeft plaatsgevonden.

Vraag 10: In welk jaar vond de opvolging van de CEO/ondernemer in uw onderneming plaats?

Vraag 11: Wat was de reden tot opvolging? (meerdere antwoorden mogelijk)

- Pensioen vorige ondernemer
- Persoonlijke redenen vorige ondernemer
- Vorige ondernemer had niet de benodigde expertise voor de volgende fase van de onderneming
- Investerder wilde een nieuwe ondernemer
- Andere reden, namelijk: _____

Vraag 12: In hoeverre is de sfeer informeel/formeel, zowel voordat als nadat de opvolging van de ondernemer/CEO plaatsvond?

Schaal van 1 (=informeel) tot en met 7 (=formeel)

- Voordat de opvolging plaatsvond
- Nadat de opvolging plaatsvond

Vraag 13: Was de ondernemer die werd opgevolgd de oprichter van het bedrijf?

- Ja
- Nee
- Weet ik niet

Vraag 14: Was het bedrijf voordat de opvolging plaatsvond een familiebedrijf?

- Ja, en na de opvolging nog steeds
- Ja, maar na de opvolging niet meer
- Nee
- Weet ik niet

Vraag 15: Kwam de nieuwe ondernemer/CEO van binnen of buiten de onderneming?

- Binnen
- Buiten
- Weet ik niet

Vraag 16: Is er een investeerder aanwezig binnen de onderneming?

- Ja
- Nee
- Weet ik niet

Vraag 16a werd alleen weergegeven als op vraag 16 'ja' werd geantwoord.

Vraag 16a: In welk jaar is de investeerder bij de onderneming gekomen? (als u dit niet weet, kunt u deze vraag leeg laten)

Vraag 16b werd alleen weergegeven als op vraag 16 'ja' werd geantwoord.

Vraag 16b: In hoeverre had de investeerder een actieve rol in de opvolging?

Schaal van 1 (=inactief) tot en met 7 (=actief)

Vraag 17: Was er voordat de opvolging plaatsvond een plan om de onderneming voor te bereiden?

- Ja
- Nee

- Weet ik niet

Appendix 3: Non respondent test

Variables	Significance
Control before succession	0.540
Control after succession	0.164
Strategy before succession	0.619
Strategy after succession	0.257

Appendix 4: Scatterplots

Image 1: Scatterplot control and founder

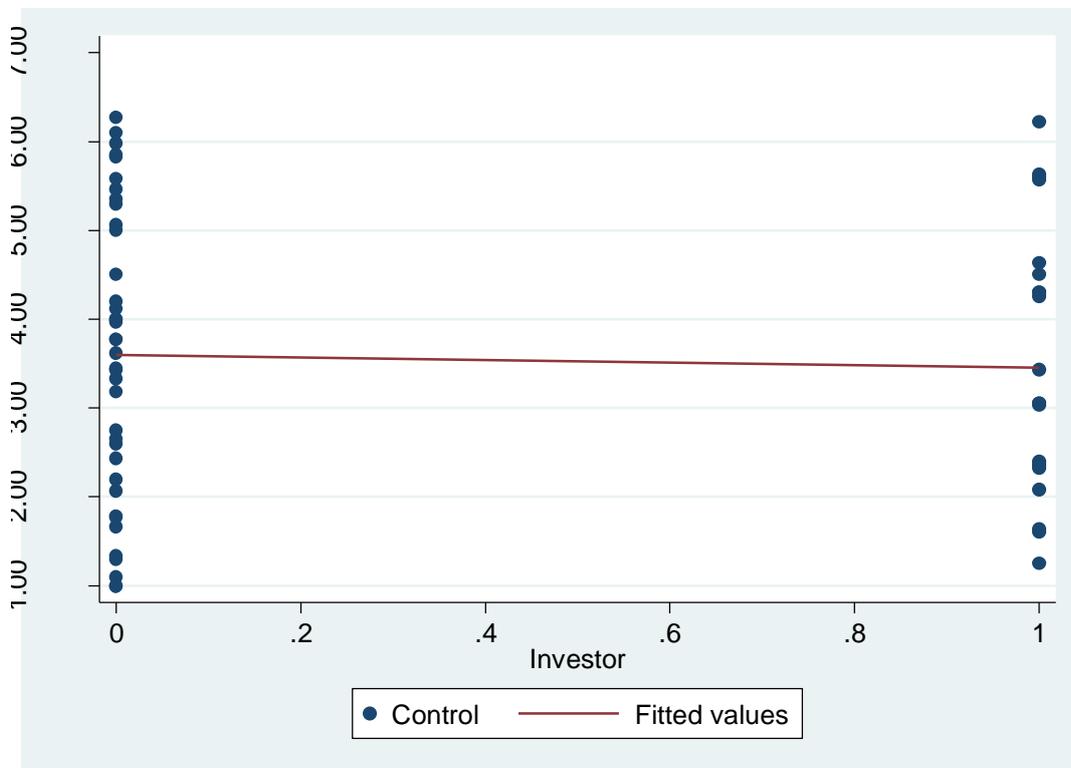


Image 2: Scatterplot strategy and founder

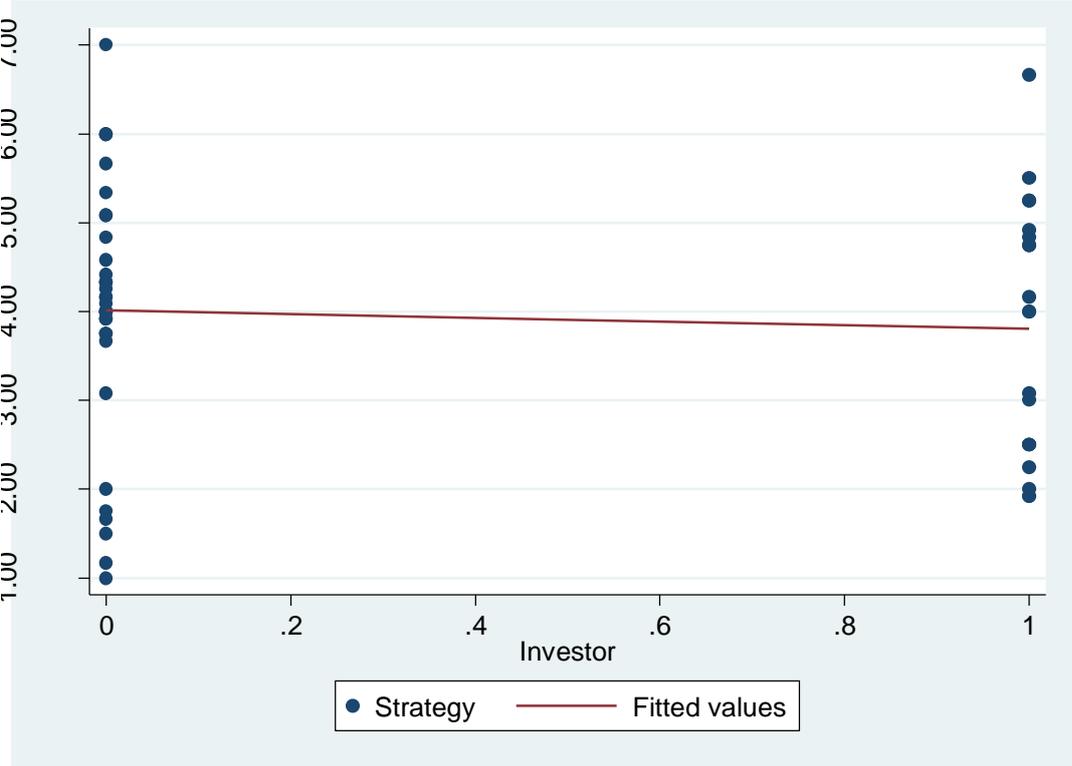


Image 3: Scatterplot control and family

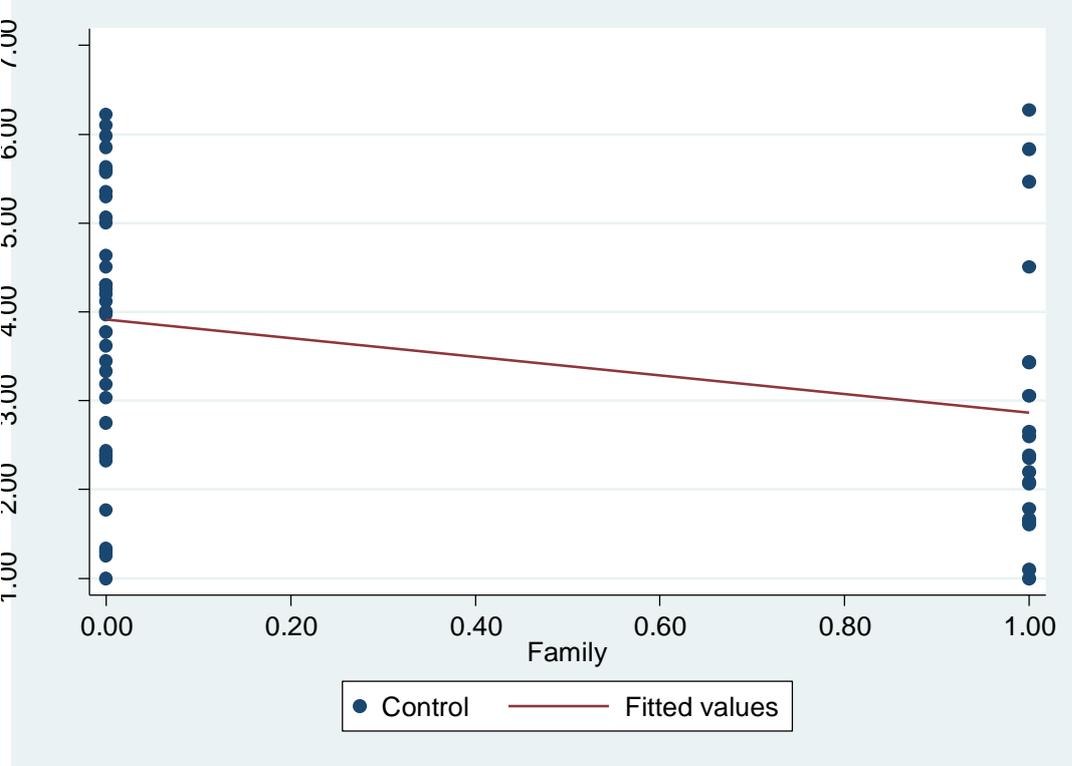


Image 4: Scatterplot strategy and family

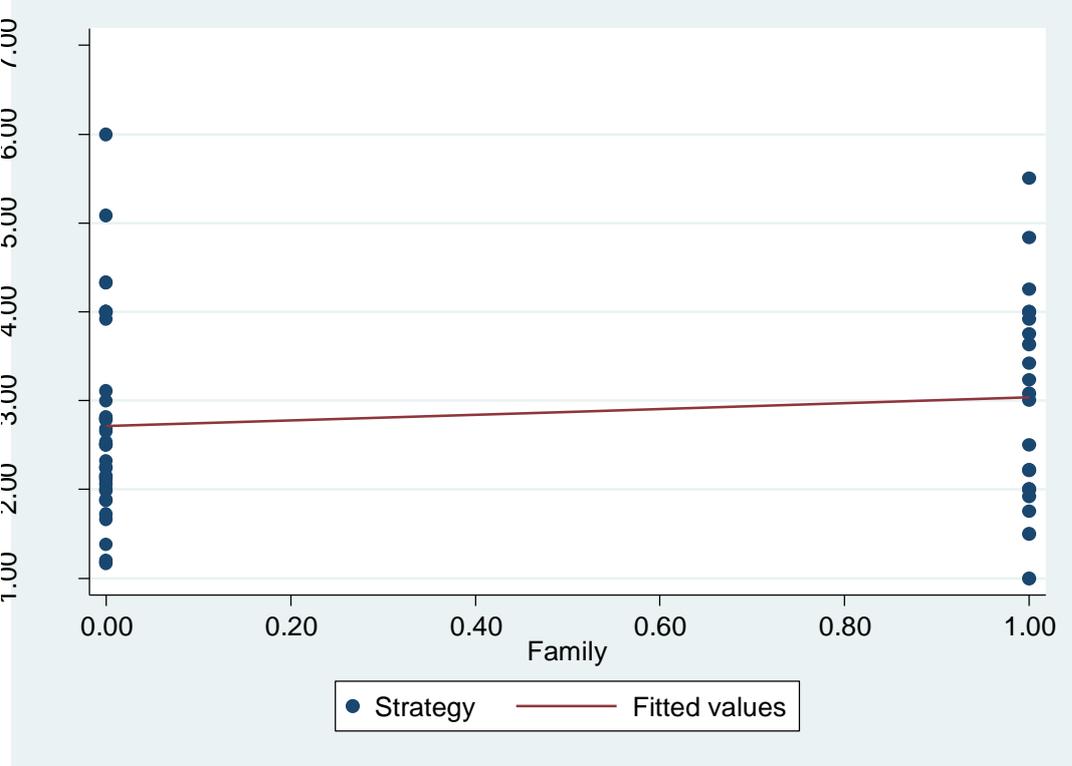


Image 5: Scatterplot control and insider

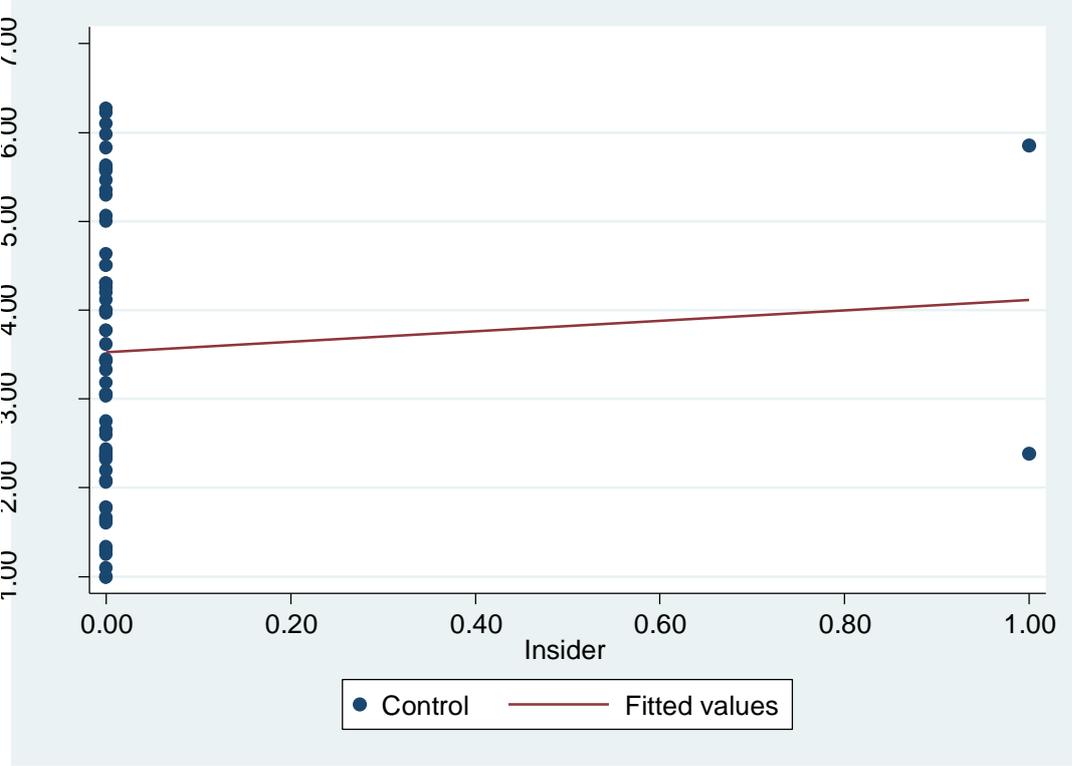


Image 6: Scatterplot strategy and insider

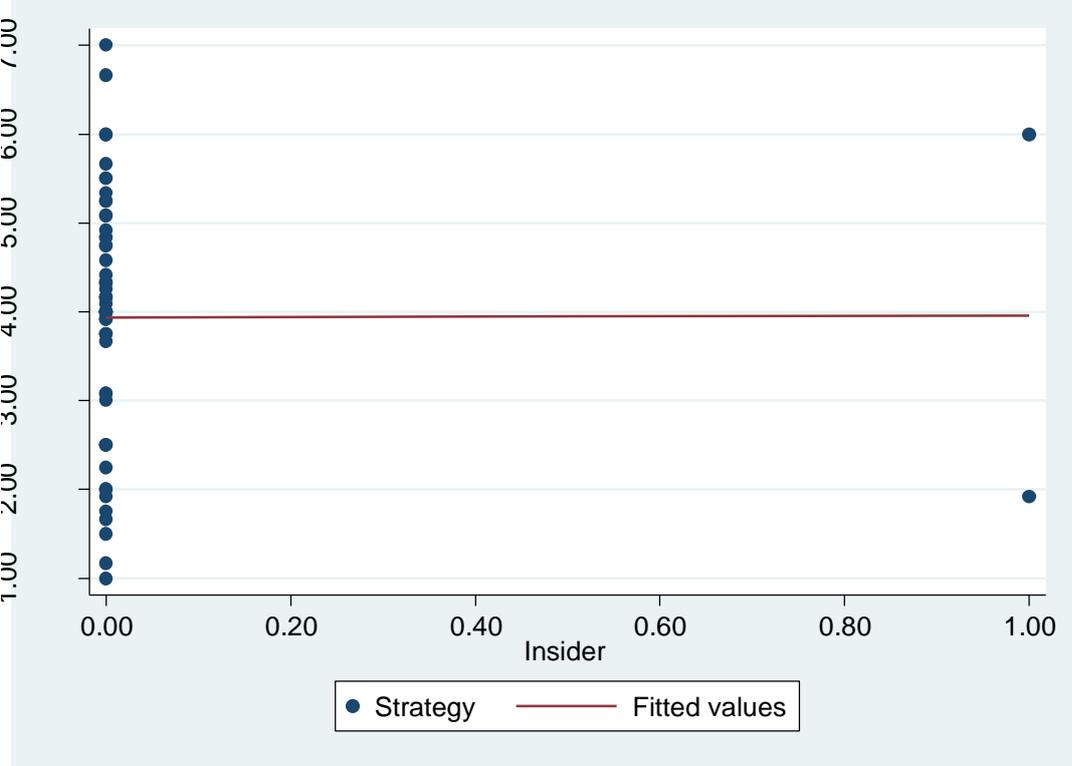


Image 7: Scatterplot control after succession and prepared

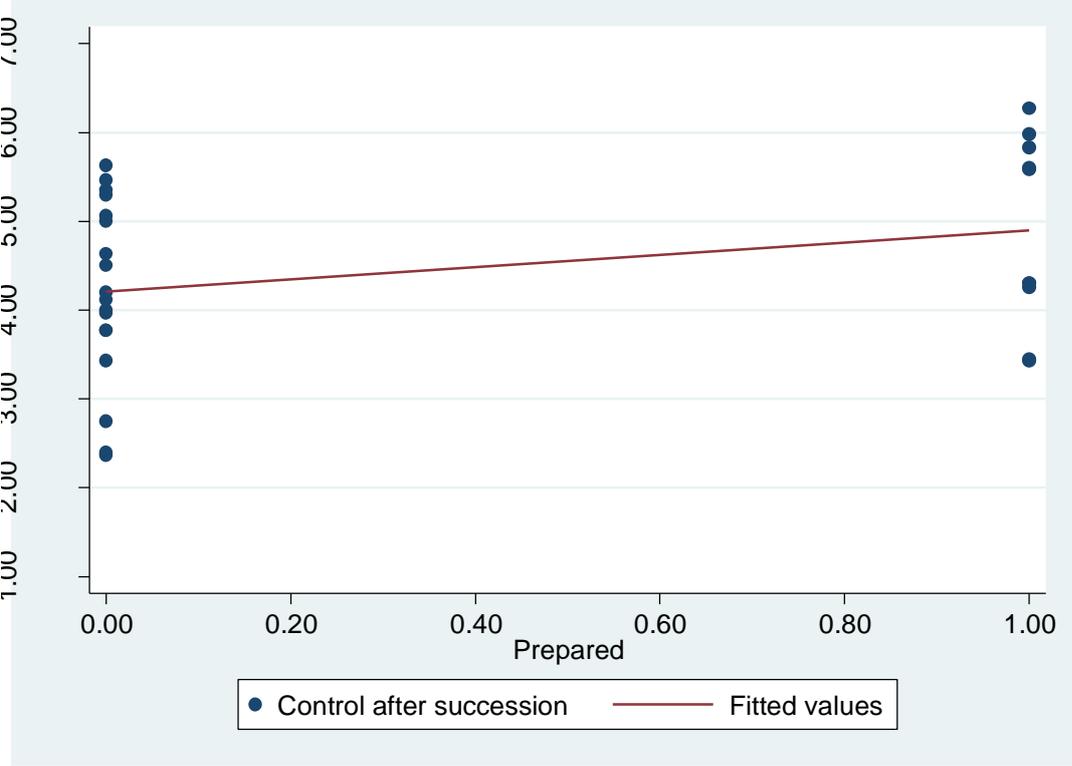


Image 8: Scatterplot strategy after succession and prepared

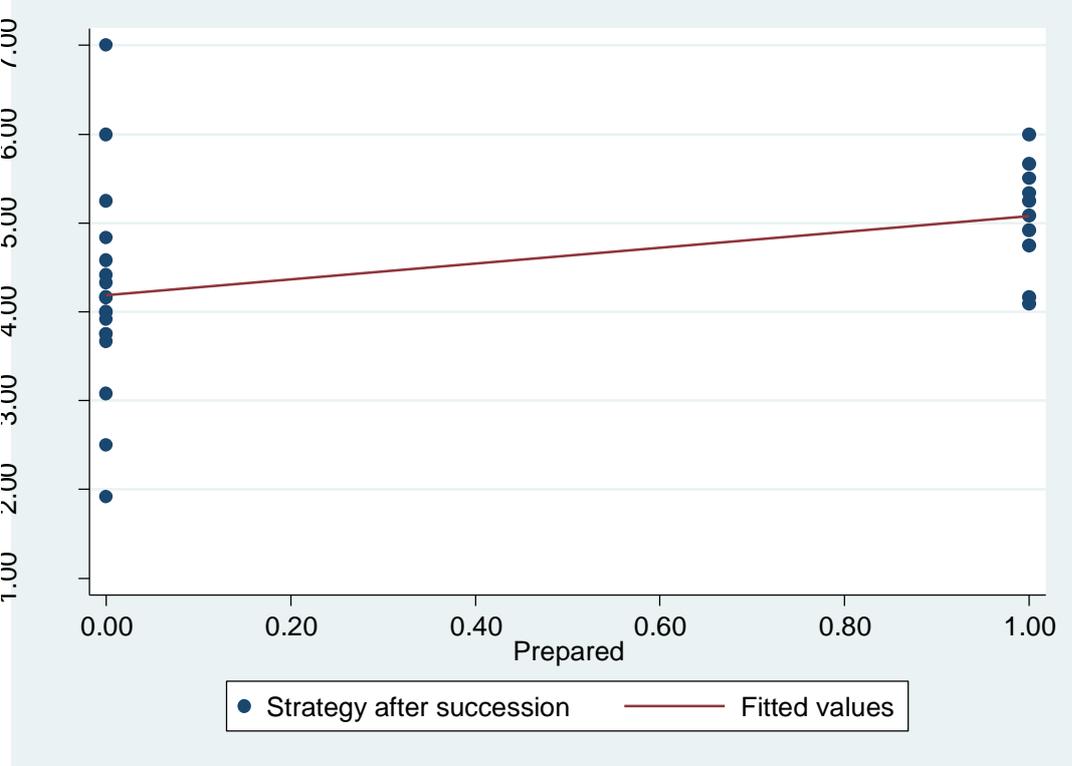


Image 9: Scatterplot control and investor

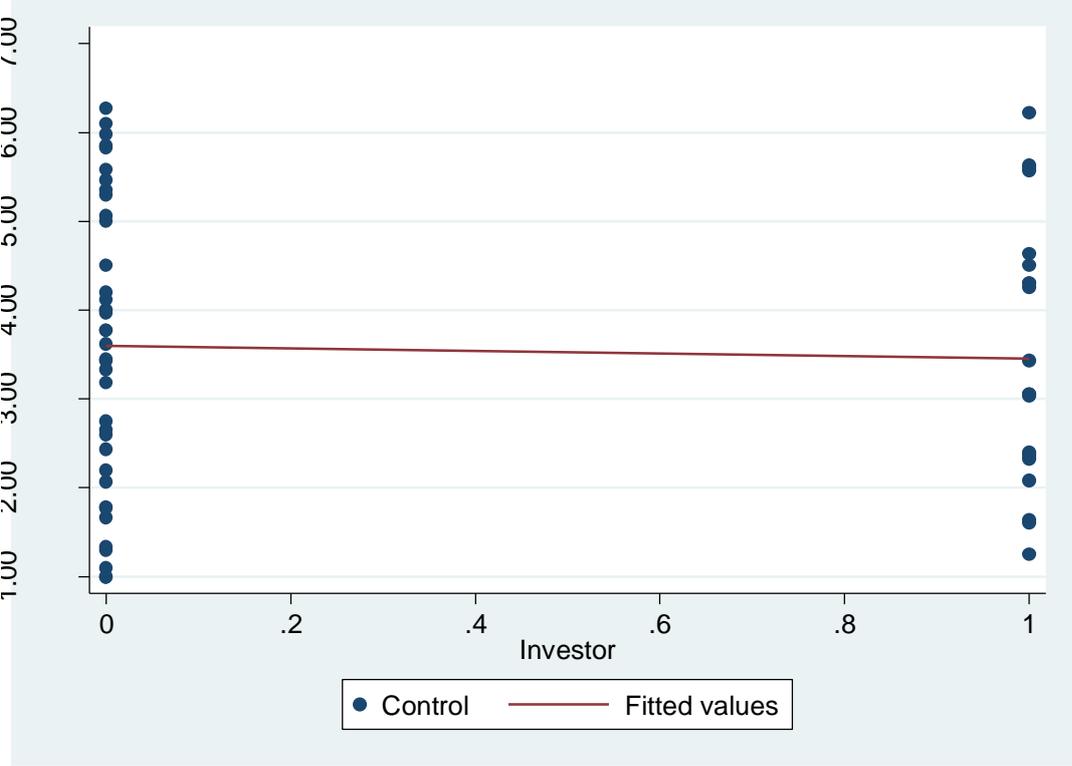


Image 10: Scatterplot strategy and investor

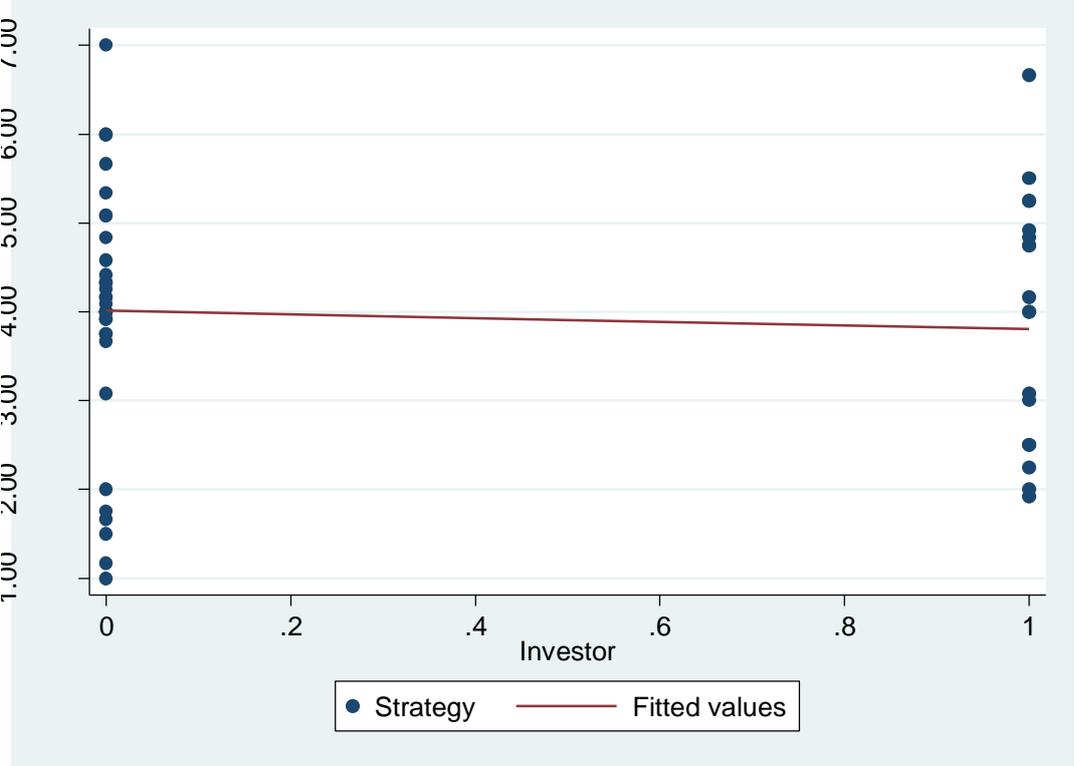


Image 11: Scatterplot control and social atmosphere

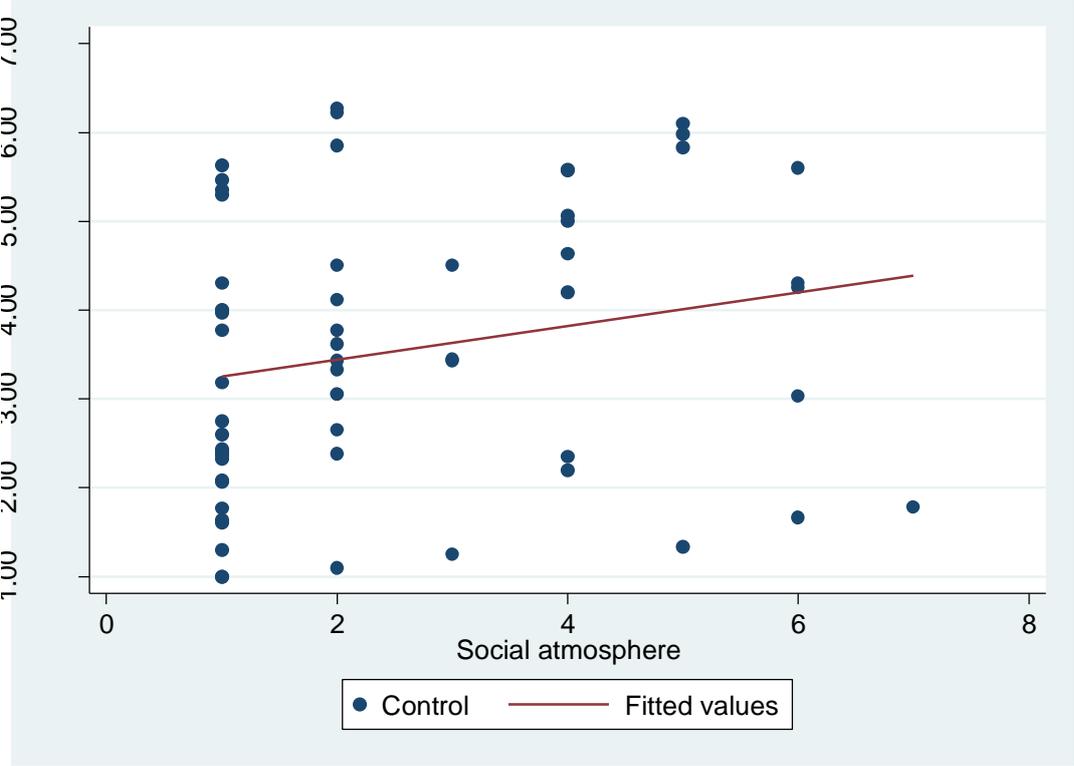
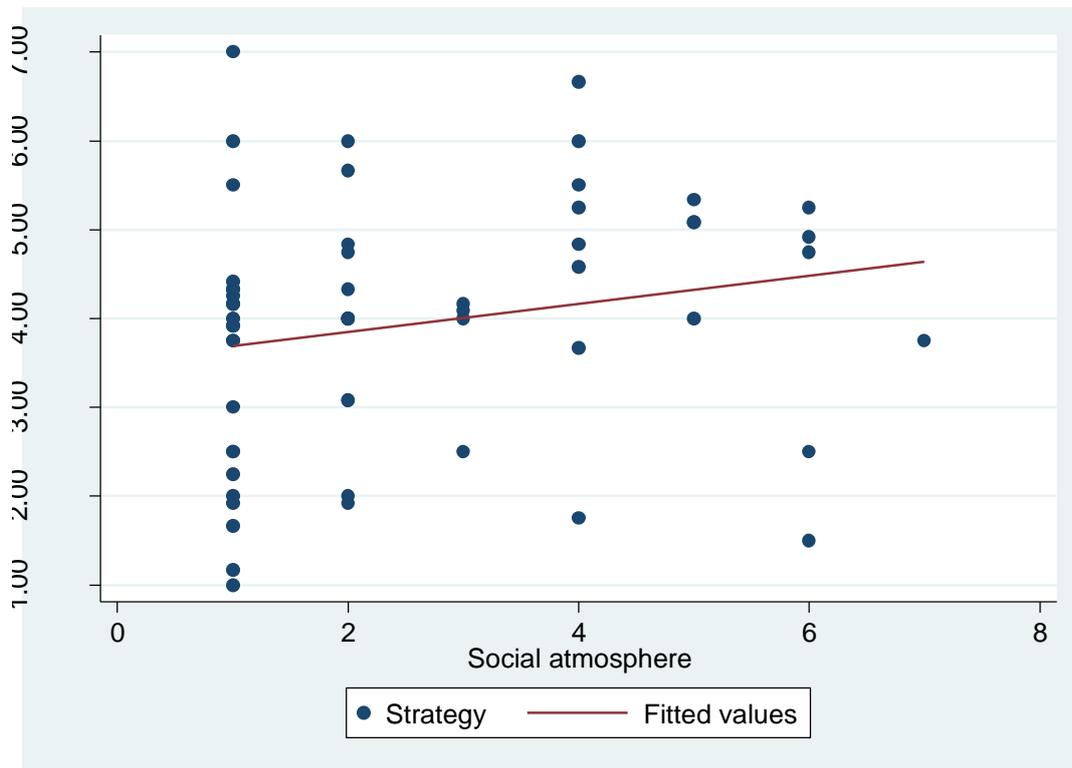


Image 12: Scatterplot strategy and social atmosphere



Appendix 5: Tests for homoscedasticity

	Probability Cameron & Trivedi's decomposition of IM-test	Probability of the Cook-Weisberg test
Model 1: Control & Founder	0.1485	0.2151
Model 2: Strategy & Founder	0.7224	0.7437
Model 3: Control & Family	0.9982	0.9984
Model 4: Strategy & Family	0.7709	0.7637
Model 5: Control & Insider	0.6856	0.7929
Model 6: Strategy & Insider	0.1600	0.2129
Model 7: Control & Prepared	0.9004	0.9323
Model 8: Strategy & Prepared	0.1833	0.0756
Model 9: Control & Investor	0.4214	0.5945
Model 10: Strategy & Investor	0.8030	0.8203
Model 11: Control & Social atmosphere	0.2875	0.3695
Model 12: Strategy & Social atmosphere	0.7287	0.9072

Appendix 6: Correlations independent variable and error term

	Correlation independent variable and error term
Model 1: Control & Founder	-0.00
Model 2: Strategy & Founder	0.00
Model 3: Control & Family	-0.00
Model 4: Strategy & Family	0.00
Model 5: Control & Insider	-0.00
Model 6: Strategy & Insider	0.14
Model 7: Control & Prepared	0.11
Model 8: Strategy & Prepared	-0.00
Model 9: Control & Investor	-0.02
Model 10: Strategy & Investor	0.22
Model 11: Control & Social atmosphere	-0.05
Model 12: Strategy & Social atmosphere	0.01

Appendix 7: Distribution of the residuals

Image 1: model 1 – Control & Founder

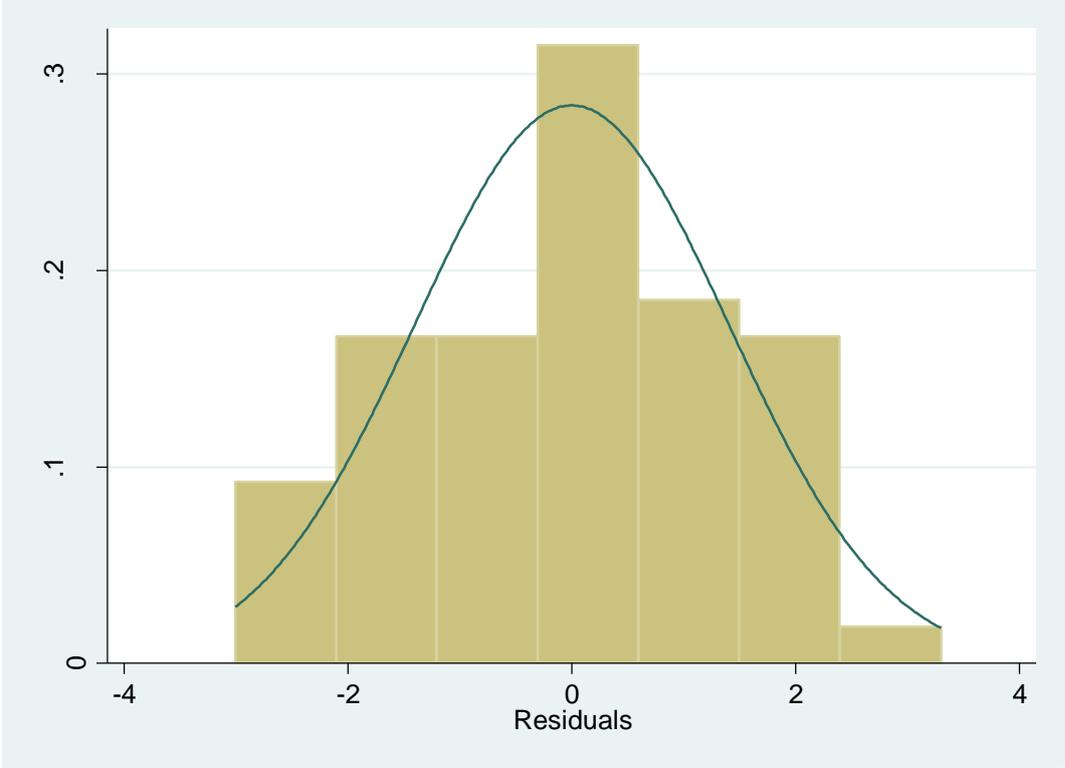


Image 2: Model 2 – Strategy & Founder

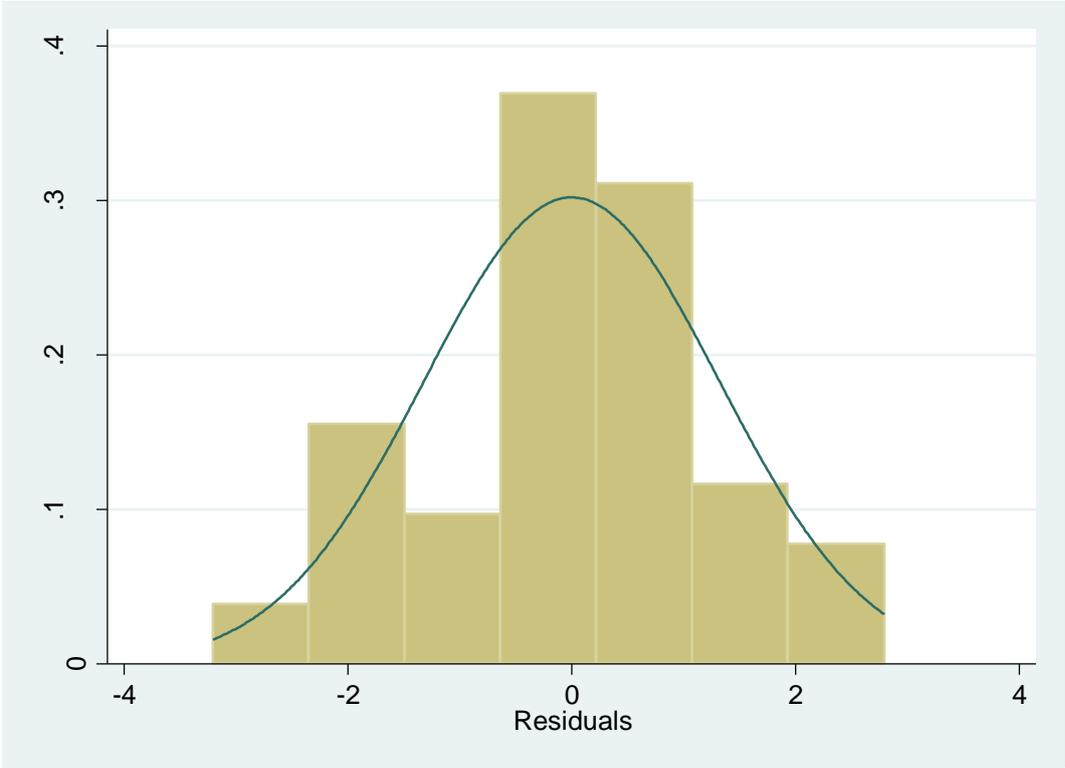


Image 3: Model 3 – Control & Family

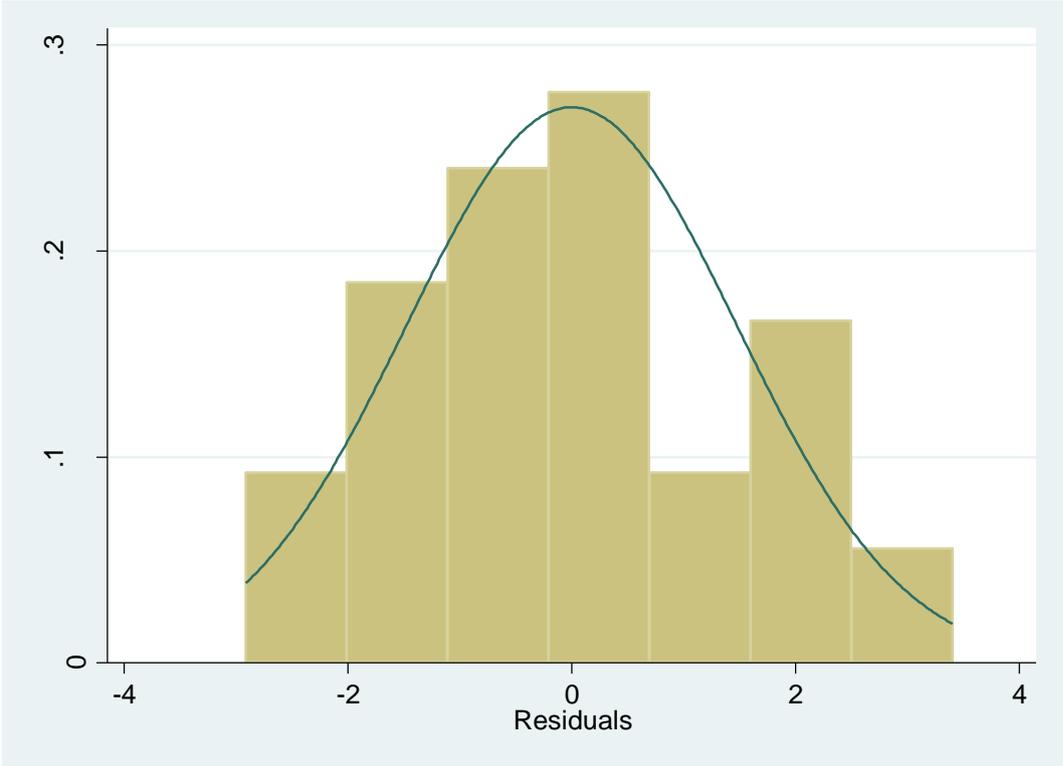


Image 4: Model 4 – Strategy & Family

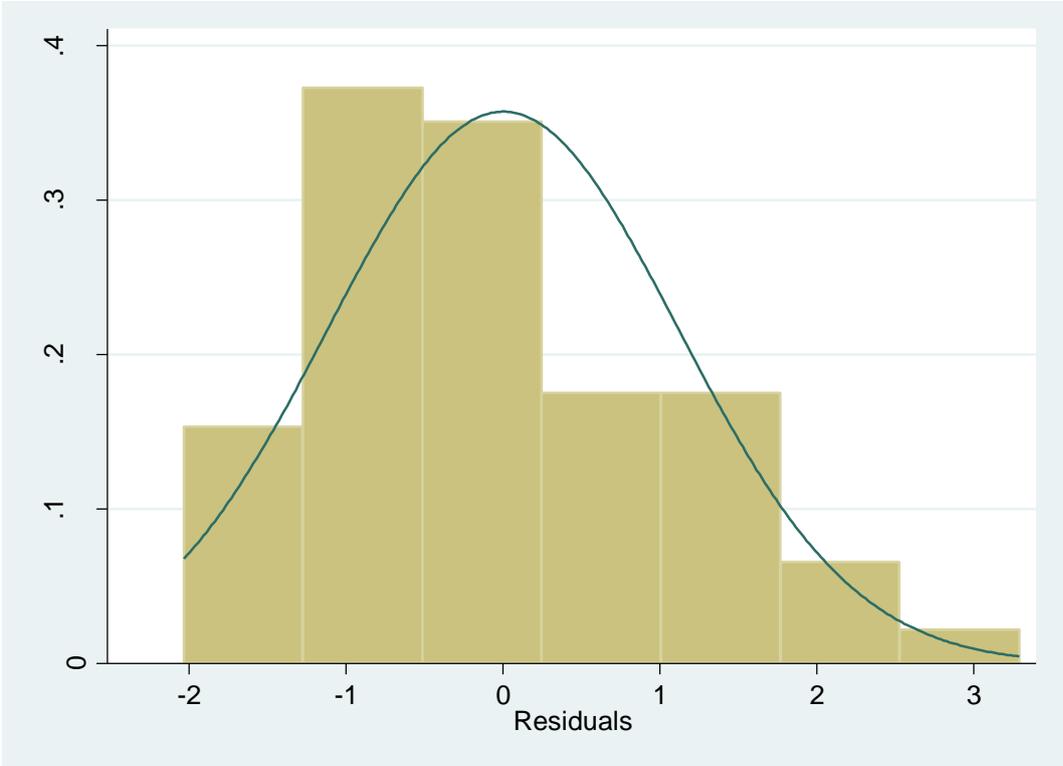


Image 5: model 5 – Control & Insider

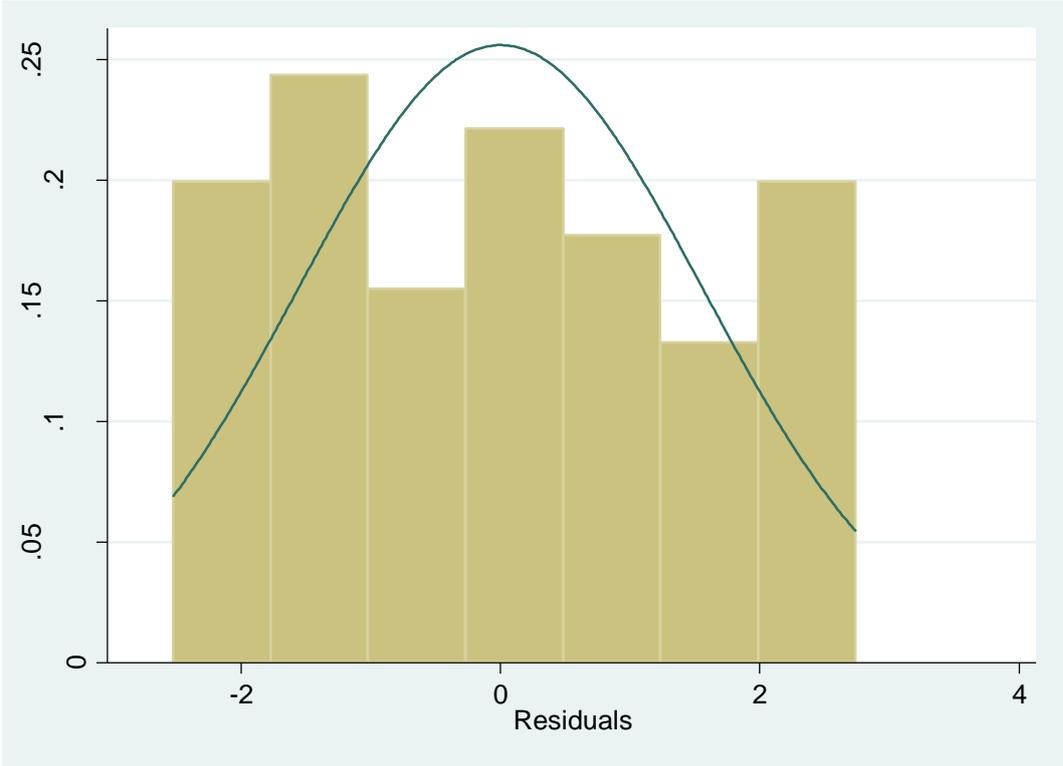


Image 6: Model 6 – Strategy & Insider

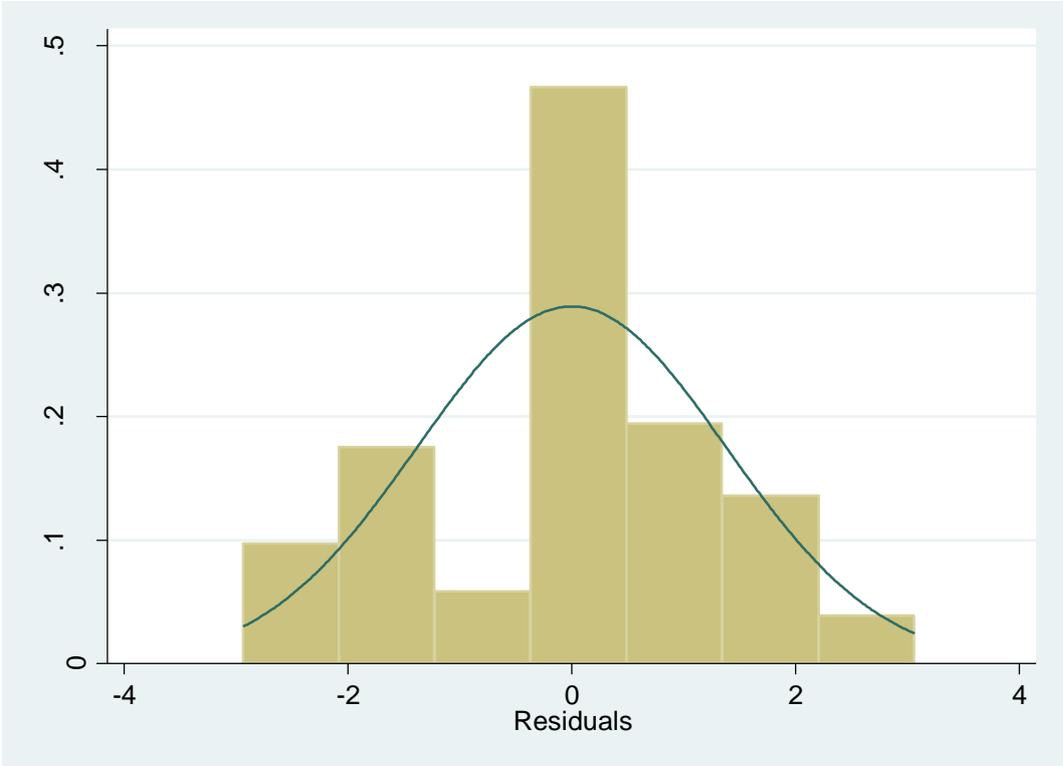


Image 7: Model 7 – Control & Prepared

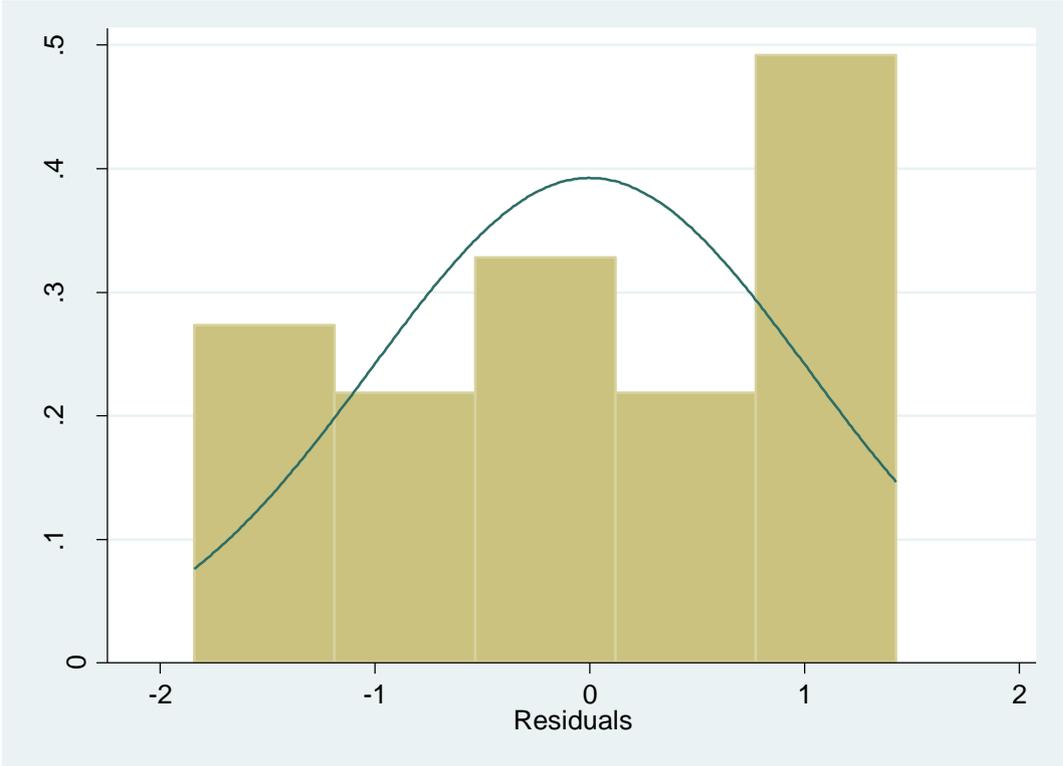


Image 8: Model 8 – Strategy & Prepared

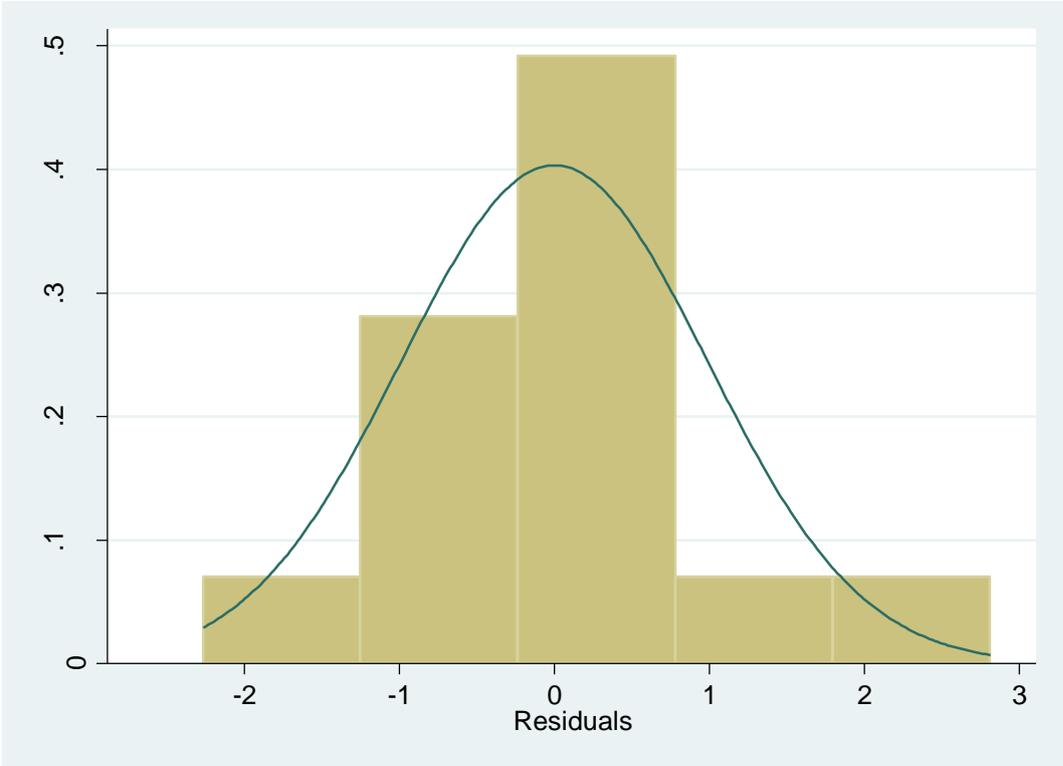


Image 9: Model 9 – Control & Investor

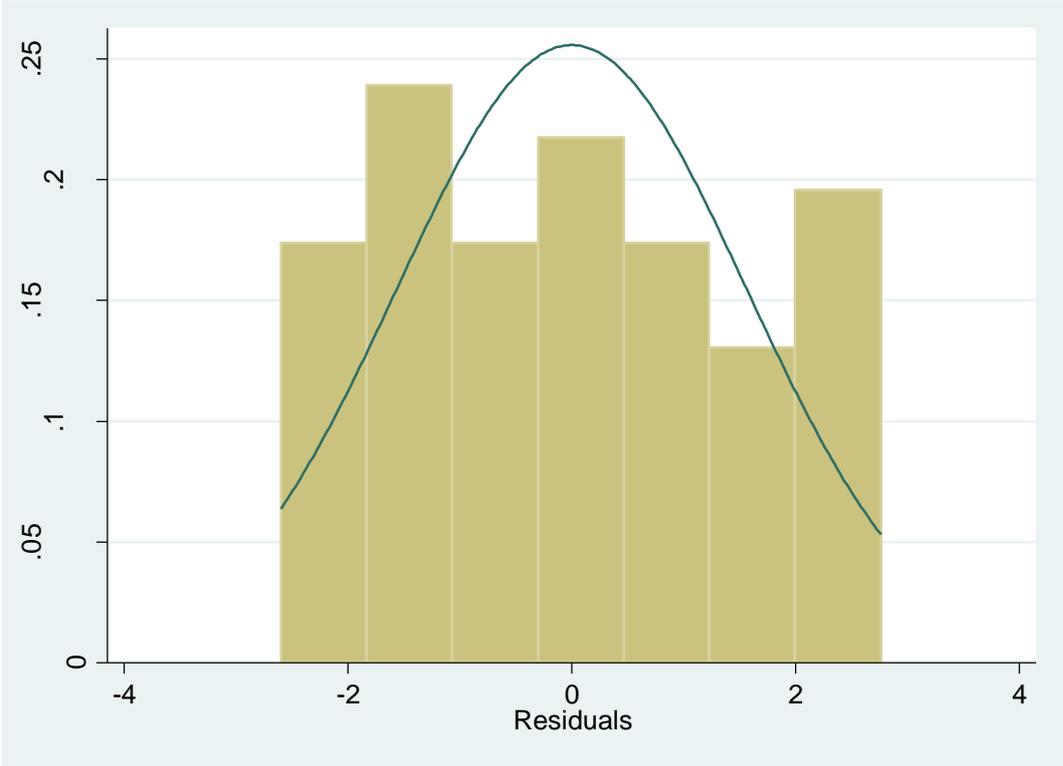


Image 10: Model 10 – Strategy & Investor

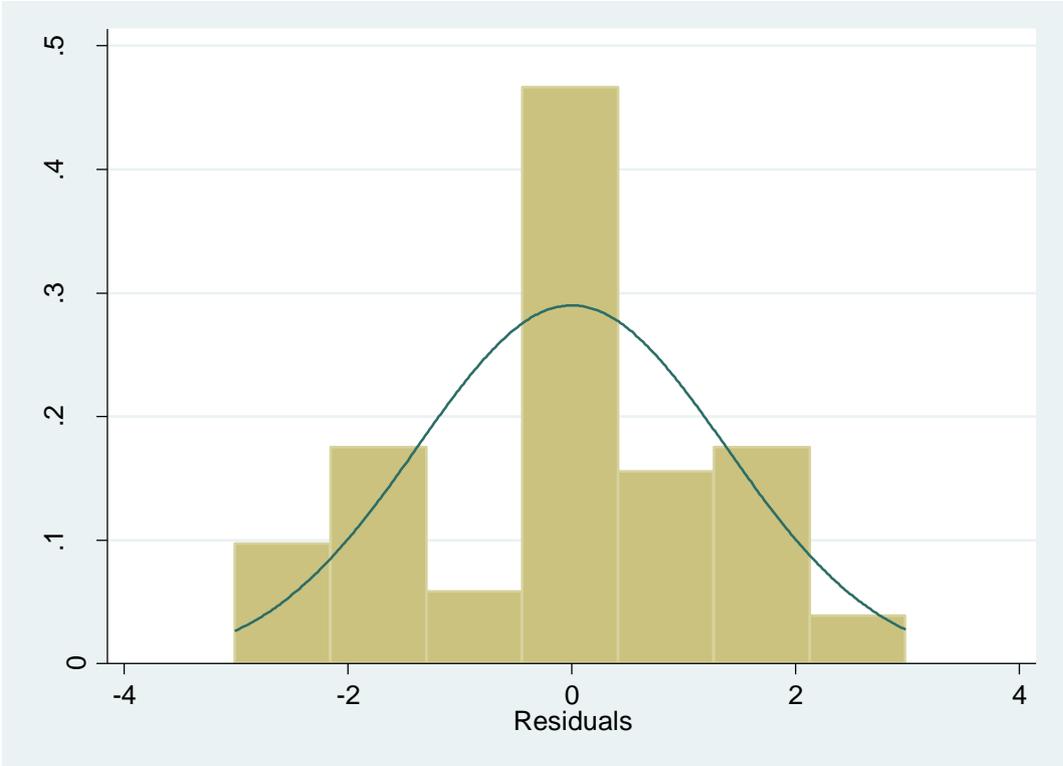


Image 11: Model 11 – Control & Social atmosphere

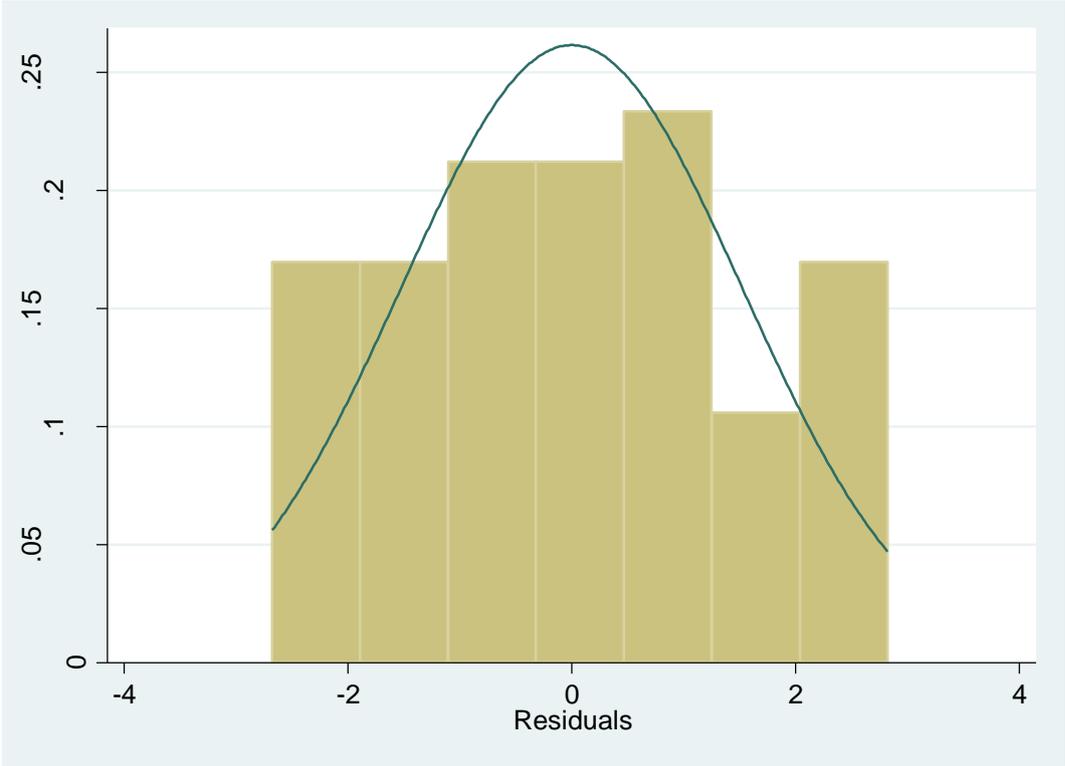


Image 12: Model 12 – Strategy & Social atmosphere

