

## RESEARCH ARTICLE

# Seeking distinctiveness through divestments: CEO succession and the effect of demographic similarity on the divestment of predecessor's investments

Thomas Hutzschenreuter<sup>1</sup>  | Ingo Kleindienst<sup>2</sup> | Claas Greger<sup>3</sup>

<sup>1</sup>Technical University of Munich, Munich, Germany

<sup>2</sup>Aarhus University, Aarhus, Denmark

<sup>3</sup>BASF SE, Ludwigshafen, Germany

## Correspondence

Thomas Hutzschenreuter, Technical University of Munich, Arcisstrasse 21, 80333 Munich, Germany.

Email: th.sim@tum.de

Why do successor CEOs divest those organizational units that they divest shortly after taking office? In order to contribute to this question, we take a behavioral perspective and develop a theoretical framework that draws on pioneering work in social psychology, in particular, research on individuals' need for distinctiveness and argue that demographic similarity to their CEO predecessors may evoke negative affect as it threatens CEO successors' need for distinctiveness. Assuming that CEOs are high need for distinctiveness individuals, we argue that negative emotions associated with similarity to their CEO predecessors are likely to force CEO successors to engage in behavioral coping strategies aimed at restoring a sense of distinctiveness. In particular, we predict and empirically observe that demographic similarity increases the likelihood that in their pursuit of distinctiveness, CEO successors deliberately divest specific organizational units, namely, those that their CEO predecessors had invested in.

## 1 | INTRODUCTION

Why do successor CEOs divest those organizational units that they divest? Traditionally, behavioral research on divestitures in the area of strategic management has proposed that the answer to this question is to be found in the interpersonal dissimilarities—for example, age, functional, or industry background—between predecessor CEOs and successor CEOs (Shimizu & Hitt, 2005). Typically grounded in Hambrick and Mason's (1984) upper echelons theory, this research has taken an information-processing perspective. Accordingly, successor CEOs bring with them different experiences that ultimately yield differences in cognitive perspectives (Kiesler & Sproull, 1982), which in turn affect all aspects of the strategic decision-making process (Datta, Rajagopalan, & Zhang, 2003; M. F. Wiersema, 1992; Zhang & Rajagopalan, 2010). Thus, the interpersonal dissimilarities between predecessor CEOs and successor CEOs yield a change in the extant dominant logic (Bigley & Wiersema, 2002), leading successor CEOs to divest organizational units that fall outside the new, that is, their dominant logic.

Interestingly, however, the business press provides substantial anecdotal evidence of successor CEOs who surprisingly divest organizational units after taking office. Surprisingly, because given their interpersonal similarity to their predecessor CEOs, the divestment of these specific organizational units cannot easily be explained through the aforementioned information-processing perspective. Just

what is it then that drives successor CEOs to divest these specific organizational units despite their interpersonal similarity to their predecessor CEOs?

Insights from social psychology, in particular distinctiveness research (Brewer, 1991; Snyder & Fromkin, 1980), lend support for a counterintuitive explanation: Successor CEOs may engage in the divestment of specific organizational units *because of* rather than *despite* their interpersonal similarity to their predecessor CEOs. At the core, distinctiveness research posits that among the most central, fundamental needs of individuals is the one to be distinctive and special (Vignoles, 2009). Therefore, a perceived loss of distinctiveness is likely to evoke negative affect, driving individuals to take actions at reestablishing a sense of distinctiveness.

Typically, successor CEOs have not been CEO before (Favaro, Karlsson, & Neilson, 2012). As a result, their appointment to the top job is associated with a substantial increase in income, authority, and status. This is likely to make successor CEOs experience a sense of specialness leading to an increase in their need for distinctiveness (Snyder & Fromkin, 1980). Successor CEOs, however, inevitably face comparisons with their predecessors (Gilmore & Ronchi, 1995). Together, the inevitable comparison and the increased need for distinctiveness of successor CEOs is likely to motivate them to take actions in order to differentiate themselves from other individuals, most notably their predecessors—an aspect that has not yet received attention in explaining the divestments of CEO successors.

Therefore, this study sought to develop a framework rooted in pioneering work in social psychology that explicitly addresses CEO successors' behavioral reactions as a consequence of their interpersonal similarity to CEO predecessors. Specifically, we build on Snyder and Fromkin's (1980: 3) insight that "the need to see oneself as unique is a potent and continuous force in our society" and propose that interpersonal similarity to their CEO predecessors may frustrate or even threaten CEO successors' need for distinctiveness. Hence, CEO successors' demographic similarity to their CEO predecessors is likely to evoke negative affect. As a result, the negative emotions associated with interpersonal similarity are likely to force CEO successors to engage in behavioral coping strategies aimed at restoring a sense of distinctiveness—the divestment of specific organizational units.

We develop a new conceptual framework based on insights from distinctiveness research and propose that interpersonal demographic similarity between CEO predecessors and CEO successors motivates CEO successors to take actions directed at reestablishing a sense of distinctiveness. In particular, we suggest that in their pursuit of distinctiveness, CEO successors deliberately divest specific organizational units, namely, those that their CEO predecessors had invested in. We test our hypotheses on a sample of 177 CEO succession events occurring in German firms listed in the HDAX segment of the German stock exchange over the years 1985–2007 and find strong empirical support for our hypotheses.

## 2 | THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Research in social psychology suggests that individuals strive for distinctiveness.<sup>1</sup> Vignoles, Chrysochoou, and Breakwell (2000: 337), for example, highlighted studies that illustrate the importance of distinctiveness, noting that (a) information is better memorized if it distinguishes the self from others (Leyens, Yzerbyt, & Rogier, 1997); (b) groups are often rated as more heterogeneous if the rater is a group member (Brewer, 1993; Park & Rothbart, 1982); (c) feelings of extreme similarity to others are associated with negative affect (Fromkin, 1972); (d) scarce experiences are evaluated positively (Fromkin, 1970); (e) identification is greater with distinctive groups (Brewer & Pickett, 1999); and (f) individuals generally describe themselves as less similar to others than others are to themselves (Codol, 1987).

Individuals' quest for distinctiveness has generally been associated with the motivation for enhanced self-esteem (Abrams & Hogg, 1988; Shepherd & Haynie, 2009). However, as Vignoles et al. (2000) have shown in their extensive review of the distinctiveness principle, theories of distinctiveness motivation have portrayed distinctiveness as a social value, an aspect of self-enhancement, a fundamental human need, and a basic property of self-definition. Thus, theoretical research and the associated empirical results (for an overview, see Vignoles et al., 2000) suggest that the motive for distinctiveness is not just limited to enhanced self-esteem but rather is a *universal human motive* (Brewer & Pickett, 1999; Vignoles, 2009). As such, distinctiveness provides a basis for comparative appraisal and self-definition (Brewer, 1991), which in turn is important in the creation and maintenance of one's identity (Brewer, 1991; Snyder & Fromkin, 1980).

Given that distinctiveness is a forceful and universal human motive, it is evident that an individual's quest for distinctiveness has implications for cognition and behavior (Brewer, 1991; Snyder & Fromkin, 1980; Vignoles et al., 2000). On a cognitive level, individuals may disregard similarity-enhancing information, focusing instead on distinctiveness-verifying information. Moreover, the individual is likely to perceive as more central to identity those attributes that provide a sense of distinctiveness. On a behavioral level, individuals will act in ways that show their distinctiveness to others. Hence, whenever an individual's distinctiveness needs are threatened, the individual becomes highly sensitive to reestablish distinctiveness and engages in corresponding cognitive and/or behavioral coping strategies (Snyder & Fromkin, 1980; Vignoles et al., 2000).

Although distinctiveness is a universal human motive, theories of distinctiveness motivation have acknowledged that the need to be distinctive is not equally strong for all individuals (Brewer & Pickett, 1999; Snyder & Fromkin, 1980; Vignoles, 2009). For example, Snyder and Fromkin (1980) have argued that the stronger an individual's need for distinctiveness, the more sensitive he or she is to similarity. However, the more sensitive an individual is to similarity, the more pronounced the negative emotions associated with similarity and, as a result, the more pronounced the cognitive and behavioral coping strategies the individual employs in order to restore distinctiveness (Snyder, 1992). Accordingly, it is likely that the behavior of individuals characterized by a strong motivation for distinctiveness is typically directed at accentuating differences (Snyder & Fromkin, 1980).

### 2.1 | CEOs as high need for distinctiveness individuals

Research has found a particularly high need for distinctiveness among individuals whose personal circumstances are likely to make them experience a sense of specialness (Lynn & Snyder, 2002; Snyder & Fromkin, 1980). CEO-related research, in turn, has shown that individuals operating at the strategic apex of a firm are likely to exhibit characteristics that distinguish them from the general population (Hiller & Hambrick, 2005), inducing a sense of specialness.

Typically, top managers, in particular CEOs, have a long history of significant and sustainable accomplishments. From the outset of their careers, they have been measured against the best, making the elite their group of reference. They are the winners of a long-lasting rally for the top job, during which their qualities and competencies have been approved and recognized. They are driven by strong internal forces, making them ambitious, power- and achievement-oriented, and striving for autonomy and high discretion in their job (Hambrick, 1994; Miller & Toulouse, 1986).

Many CEOs draw strength and satisfaction from being a member of the elite circle of managers and long for recognition by their peers and the public. It is the affirmation, applause, and adulation that motivates them and keeps them going (Chatterjee & Hambrick, 2007; Wallace & Baumeister, 2002). Although it may be a mistake to conclude that CEOs are subjects to uniformly high levels of narcissism, CEOs have been argued to show above average levels of narcissism and hubris, which can lead them to take bold actions to gain recognition by their peers (Chatterjee & Hambrick, 2007, 2011; Hayward &

Hambrick, 1997; Hiller & Hambrick, 2005; Resick, Weingarden, Whitman, & Hiller, 2009).

CEOs are said to be special, and their long history of success and sustainable approval makes them believe they are. Accordingly, they tend to be confident of their abilities and have a positive self-image, which they very much want others to have of them, too. Hence, CEOs tend to be sensitive to how they are perceived by their firms' internal and external stakeholders; not only because this image determines their value on the job market (Sliwka, 2007), their direct compensation (Hayward, Rindova, & Pollock, 2004), or how long they remain in the top job (M. Wiersema & Zhang, 2011; Zhang & Wiersema, 2009) but also because they draw satisfaction from meeting standards of excellence, accomplishing difficult tasks, and achieving their goals (Miller & Dröge, 1986).

From the above arguments, we conclude that CEOs exhibit a high need for distinctiveness. As a result, we expect CEOs to be very sensitive to similarity and experience expressly negative emotions in response to their similarity to relevant others, in particular, their predecessors. Thus, it is reasonable to assume that as a reaction to the similarity to their CEO predecessors, CEO successors may feel their need for distinctiveness threatened. Accordingly, it is likely that CEO successors take actions directed towards distinguishing themselves from their CEO predecessors and reestablish distinctiveness.

## 2.2 | Divesting CEO predecessors' investments to reestablish distinctiveness

The substantive and symbolic importance of the CEO position and the disruptive nature of changes in the top job make CEO succession events crucial not only for firms but also for CEO successors (Giambattista, Rowe, & Riaz, 2005; Kesner & Sebor, 1994). Generally lacking experience, resources, political support, and favorable reputation, newly appointed CEO successors are under enormous pressure to adjust to the demands of the top job quickly (Shen & Cannella, 2002; Vancil, 1987). At the same time, succession events are typically highly visible to both CEO successors and the public in more general (Graffin, Carpenter, & Boivie, 2011). However, high visibility of CEO succession events coupled with extensive media coverage inevitably and continuously brings to CEO successors' awareness their degree of distinctiveness to the respective CEO predecessors. Thus, despite being preoccupied with the challenges imposed by the new job, CEO successors just cannot avoid obtaining information on the degree of interpersonal distinctiveness to their CEO predecessors. As Gilmore and Ronchi (1995: 11) put it: "New leaders inevitably face comparisons with predecessors." This, however, is likely to evoke certain emotions: CEO successors will perceive a high degree of distinctiveness from their CEO predecessors favorable as it contributes to their self-identity. After all, as Erikson (1959: 45) has reasoned, being distinct is an essential "basis of a sense of I." Accordingly, given the positive emotions that are associated with a high degree of distinctiveness, there is in such a case no need for CEO successors to engage in cognitive or behavioral strategies to reestablish a sense of distinctiveness. However, a different picture emerges when CEO successors perceive a low degree of distinctiveness from their CEO predecessors. Low degrees of distinctiveness lead to the experience of negative affect (Fromkin,

1972; Snyder & Fromkin, 1980). CEO successors fear a loss of distinctiveness and identity and, as a result, seek to reestablish distinctiveness.

In principle, CEO successors may try to reestablish their distinctiveness through a multitude of cognitive and behavioral means. However, Snyder and Fromkin (1980) have reasoned that individuals prefer socially acceptable ways of being distinct over socially risky ones. Accordingly, it is likely that CEO successors take measures which lead to a form of distinctiveness that does not result in social disapproval. Moreover, given that typically CEOs strive for public affirmation, applause, and adulation (Chatterjee & Hambrick, 2007; Wallace & Baumeister, 2002), it is reasonable to assume that CEO successors prefer behavioral coping strategies that are highly visible—reestablishing their distinctiveness for themselves and their environment.

Considering different behavioral coping strategies in their pursuit of distinctiveness, CEO successors may find the divestment of organizational units that their CEO predecessors had invested in a particularly appealing one. First, and perhaps most importantly, divestments of such organizational units constitute an immediate and direct reversal of CEO predecessors' decisions. Accordingly, such divestments establish a clear-cut distinction between CEO predecessors and CEO successors, directly reestablishing CEO successors' sense of distinctiveness (Snyder & Fromkin, 1980; Vignoles et al., 2000). Second, divestments of organizational units and strategic change in general are common after CEO succession events (M. F. Wiersema, 1995). As such, divestments in the context of CEO succession events are likely to be socially acceptable and are unlikely to result in social disapproval. Third, conversely to investments whose successes are easily observable, divestments are hard to evaluate later in a CEO's tenure. It is impossible to estimate the hypothetical outcome if a divestment had not taken place. Hence, divestments of organizational units that CEO predecessors had invested in provide CEO successors with the benefit of reestablishing distinctiveness while at the same time preserving CEO successors from any unwanted consequences of taking such distinctiveness-seeking measures. Fourth, firms' divestments are typically covered by the media, making them visible to stakeholders within and outside the firm. Hence, such actions taken by CEO successors reestablish a sense of uniqueness not only for CEO successors themselves but also for CEO successors' broader social environment. In short then, it seems that divesting organizational units that CEO predecessors had invested in is an effective means to reestablish distinctiveness. Thus,

**Hypothesis 1.** *The higher the similarity between CEO successor and CEO predecessor, the more likely will the CEO successor divest organizational units his or her CEO predecessor had invested in.*

We have emphasized that the need for distinctiveness is a universal human need and that dispositional differences among individuals with regard to their distinctiveness motivation exist. Thus, it is logical to next consider that the need for distinctiveness is affected by situational factors. Namely, it is likely that both the nature of the CEO succession event and CEO predecessors' retention as board chair affect CEO successors' coping strategy.

### 2.3 | Effects of CEO succession reason: Forced versus routine

The literature on CEO succession events typically distinguishes between the routine and the forced exit of CEO predecessors (Fredrickson, Hambrick, & Baumrin, 1988). Routine CEO successions represent a preference for continuity in managerial philosophy and are likely to minimize any potentially disruptive effect of the CEO succession event (S. D. Friedman & Singh, 1989; Helfat & Bailey, 2005). As Friedman and Singh (1989: 724) have argued, in routine CEO successions, “the event is passive, instigated for no other reason than the passage of time.” Conversely, however, a forced CEO succession is an event of great symbolic meaning. Given that the process of ousting a CEO predecessor is politically contentious and may even entail great costs for the board, it is not a measure that boards undertake lightly (Helfat & Bailey, 2005; Ward, Bishop, & Sonnenfeld, 1999). Thus, when boards take the extreme measure and dismiss the CEO, this signals the need and the board's willingness to break with the past (S. Friedman & Saul, 1991). Hence, almost by definition, a forced CEO succession signals that the future will be distinct from the past. As a consequence, taking office after a forced succession is likely to positively contribute to CEO successors' identity. Being the one chosen to realize the break with the past, CEO successors may feel a certain degree of distinctiveness to their ousted CEO predecessors. Moreover, forced successions typically are also very public events. Thus, the symbolic meaning of forced successions and the inherent distinctiveness of CEO successors following their ousted CEO predecessors is widely visible to those outside the firm, which also adds to CEO successors' identity. From this, however, it follows that any negative affect that CEO successors may experience as a reaction to the similarity to their CEO predecessors is likely to be mitigated.

**Hypothesis 2.** *Following an ousted CEO predecessor will negatively moderate the relationship between the similarity between CEO successors and CEO predecessors and the likelihood that CEO successors divest organizational units their CEO predecessor had invested in.*

### 2.4 | Effect of CEO predecessors' retention as board chair

In many cases, CEO predecessors do not fully depart the scene. Rather, they remain within the firm, functioning as chair of the board (Quigley & Hambrick, 2012). As a Booz & Company survey indicates “more than half of the incoming CEOs in planned successions are assuming office as ‘apprentices’, meaning their predecessor as CEO has stepped up to the chairman role” (Karlsson & Neilson, 2009: 4). The retention as board chair, however, is likely to aggravate CEO successors' negative affect arising from the similarity to their CEO predecessors. Given CEO predecessors' continuing presence within the firm, CEO successors may experience the CEO succession event as a “partial succession” only—or even a nonevent (Quigley & Hambrick, 2012). Retained CEO predecessors are empowered to substantially interfere in how CEO successors manage the firm, and their prolonged presence within the firm indicates that they intend to have a continuing and

important role within the firm. Thus, retained CEO predecessors may indeed become what has been called “shadow emperors” (McGeehan, 2003). As a consequence, the presence of retained CEO predecessors is likely to threaten CEO successors' self-concept and, by that, their identity. Facing retained CEO predecessors, CEO successors' may fear that they cannot mark their territory soon after taking office, which, in turn, would help them regain a sense of distinctiveness despite the similarity to their CEO predecessors (Brown, Lawrence, & Robinson, 2005). Likewise, CEO successors may also fear that the public may ascribe important firm actions to the retained CEO predecessors rather than to themselves and perhaps even worse may consider the CEO successors as the “apprentices” of their retained CEO predecessors. However, given that CEOs long for recognition by their peers and the public, this is likely to increase the negative affect arising from the similarity to their CEO predecessors.

**Hypothesis 3.** *CEO predecessor retention as board chair will positively moderate the relationship between the similarity between CEO successors and CEO predecessors and the likelihood that CEO successors divest organizational units their CEO predecessor had invested in.*

## 3 | METHODOLOGY

### 3.1 | Sample

Our sample consists of CEO successions that occurred in firms listed in the HDAX segment of the German stock exchange over the years 1985–2007.<sup>2</sup> The HDAX index is composed of the firms with the highest market capitalization in Germany. In particular, we gathered two sets of data: (a) data concerning the CEO succession events and (b) data concerning CEO predecessors' investments and CEO successors' divestments.

First, we collected data on firms' CEO predecessors, CEO successors, and the respective succession events. Given that no commercial database of German top executives is available, we collected data from multiple sources such as Hübner's Who is Who, LexisNexis online databases, Sutter's International Red Series Who's Who in Germany, Wer ist Wer? Das Deutsche Who's Who, IBP Who's Who in Germany, Who's Who in European Business and Industry, and the Munzinger online archive. We also searched the archives and databases of well-respected newspapers and magazines, including the Frankfurter Allgemeine Zeitung, Der Spiegel, BusinessWeek's Executive Profile section, and Manager Magazin. We contacted firms directly to close any remaining data gaps and to check the reliability of our data.

Second, we created a database on each firm's portfolio of subsidiaries, encompassing a base portfolio at the beginning of the observation period as well as all investments and divestments made during the period of investigation. We gathered information on firms' portfolios of subsidiaries using annual reports, direct contacts with the firms, and Thomson ONE Banker Deals database. For a HDAX firm to be included in the sample, two specific requirements had to be met: First, given the focus of the present study, only those firms were included that experienced a succession event. Second, complete data on the

firm's portfolio of subsidiaries—including all investments and divestments—had to be available for the CEO predecessor's entire tenure and the first 2 years of the CEO successor's tenure. These specific requirements left us with a sample of 77 firms, from which we had to exclude one firm because there was a considerable time lag between the departure of the CEO predecessor and the CEO successor taking office. Thus, the final sample consisted of 76 firms with a total of 177 CEO succession events.

### 3.2 | Dependent variable

The dependent variable is a binary variable that differentiates between the divestment of subsidiaries that the CEO predecessor had invested in during his or her tenure as CEO and those divestments of subsidiaries that were invested prior to the CEO predecessor's tenure. We assigned "1" for divestments of a subsidiary that the CEO predecessor had invested in and "0" to CEO successors' divestments of subsidiaries that were not invested in by their respective CEO predecessors. The dependent variable includes all divestments initiated by CEO successors within the 2-year period following the succession event.

### 3.3 | Independent variables and controls

The independent variable is the interpersonal similarity between predecessor and successor. To assess interpersonal similarity, we compared the respective functional, industry, and international backgrounds of predecessors and successors, as well as their age. In doing so, we followed Zajac and Westphal (1996: 66) who reasoned that

*given evidence that individuals use salient demographic characteristics as a basis for psychological group categorization (Stangor, Lynch, Duan, & Glass, 1992), demographic dissimilarity along salient dimensions can create the perception of dissimilarity in the eyes of relevant decision makers [...], independent of attitudinal or behavioral dissimilarity between old and new CEOs (for an in-depth discussion regarding the appropriateness to use demographic characteristics as a proxy of distinctiveness, see Zajac & Westphal, 1996).<sup>3</sup>*

Following Zajac and Westphal (1996), we created several dichotomous measures to gauge similarity, that is, the opposite of distinctiveness. Each variable was coded "1" if the predecessor and the successor CEO possessed a similar demographic trait and "0" otherwise. Functional background similarity was measured by comparing the primary functional background of CEO predecessor and CEO successor. The CEOs' primary function is the function that they spend the majority of their career in. We based our classification of functional area on Hambrick and Mason's (1984) categorization. In case the primary function was the same, it was coded as "1," otherwise as "0." Industry background specialization was measured as the industry (first two digits of the industry classification code) where the respective CEOs spent the longest time during their career. International background similarity was measured by comparing whether predecessor and successor CEOs were foreign nationals or not. The variable equals "1" when the CEOs

were either both German or both foreign nationals. The variable equals "0" otherwise. Age similarity was measured as the absolute difference in age between CEO predecessor and CEO successor.

We also included several controls in the models. First, we used a dummy variable to control for the type of succession (M. F. Wiersema, 1995). This variable equals "1" for forced successions and "0" for non-forced successions. Second, we included a dummy variable reflecting the firm insider/outsider distinction (M. F. Wiersema, 1992). This variable equals "1" for firm insiders and "0" for firm outsiders. Third, we also controlled for CEO predecessors' tenure, measured as the number of years spent in the firm's top position (Gabarro, 1987). Fourth, we included the variable to show whether the predecessor CEO was retained as board chair. This variable equals "1" in case the predecessor CEO was retained as board chair and "0" otherwise. Fifth, we used sales as a proxy for firm size as well as change in sales over the 2 years prior to the succession event as a proxy for change in firm size. Sixth, we included return on assets (ROA) as well as change in ROA over the 2 years prior to the succession event as a proxy for company performance and change in company performance, respectively. Seventh, we controlled for company age. Furthermore, we used a Berry-Herfindahl index (Berry, 1971) to control for firms' product diversity. Finally, because the divestment activity may also depend upon the general investment and divestment intensity of the company, we include controls for the investment and divestment rate of the company, calculated as the number of investments (divestments) during the 2-year period after succession divided by the number of subsidiaries in the year of succession.

Table 1 provides the descriptive statistics. Though there is no definite criterion for the level of correlation that may suggest the presence of multicollinearity, a generally accepted rule of thumb is that correlations should not exceed .75 (Tsui, Ashford, St. Clair, & Xin, 1995). None of our correlation coefficients exceeds .75, suggesting that our results are not driven by multicollinearity. Furthermore, we tested for multicollinearity by examining the variance inflation factors. All variance inflation factors of our variables were well below the generally accepted critical value of 10, lending additional support that multicollinearity was not an issue in our analysis (Tan & Tan, 2005).

Because we were only interested in divestments after the CEO succession event, there was a possibility of a selection bias, because not all CEO successors divested subsidiaries during the first 2 years of their tenures. One procedure that allows correcting for this is the Heckman selection model (Heckman, 1979). It is a two-stage estimation procedure that in a first stage estimates the probability of a divestment happening in the 2 years after the succession and then incorporates these estimates of parameters into a second stage:

$$\begin{aligned} \text{Probability of Divestment} = & a + b_1 \Delta \text{Company size} \\ & + b_2 \text{Company size} \\ & + b_3 \text{Company age} + b_4 \Delta \text{ROA} \\ & + b_5 \text{ROA} + b_6 \text{Product diversity} \\ & + e. \end{aligned}$$

On the basis of this estimation, we calculated the inverse Mills ratios and included it in our second stage model. For both estimation stages, we used the probit regression method. This is the econometrical preferred procedure as our dependent variable is not

**TABLE 1** Correlation matrix

	Mean	SD	Min	Max	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	
1. Investment reversal	0.51	0.50	0.00	1.00	1.00																	
2. Functional background similarity	0.44	0.50	0.00	1.00	-0.04	1.00																
3. Industry background similarity	0.36	0.48	0.00	1.00	0.39***	-0.07*	1.00															
4. International background similarity	0.69	0.46	0.00	1.00	0.34***	-0.23***	0.28***	1.00														
5. Age similarity	-7.83	5.71	-29.00	0.00	-0.10***	0.07*	-0.02	-0.34***	1.00													
6. Forced succession	0.23	0.42	0.00	1.00	-0.06 <sup>†</sup>	0.05	-0.23***	0.03	0.26***	1.00												
7. Retention as board chair	0.31	0.46	0.00	1.00	0.19***	-0.32***	0.36***	0.31***	-0.15***	-0.32***	1.00											
8. Inside successor	0.52	0.50	0.00	1.00	0.29***	-0.31***	0.45***	0.46***	-0.21***	-0.06 <sup>†</sup>	0.43***	1.00										
9. Tenure	7.70	4.54	0.00	23.00	0.39***	-0.07*	0.51***	0.26***	-0.04	-0.28***	0.41***	0.31***	1.00									
10. Company age	117.32	48.88	4.00	339.00	0.02	-0.05	0.24***	0.19***	0.10***	0.02	0.20***	0.14***	0.08***	1.00								
11. ΔCompany size	4.74	38.45	-83.59	546.08	0.11***	0.11***	0.09***	0.13***	-0.11***	-0.06 <sup>†</sup>	0.03	0.18***	-0.03	-0.13***	1.00							
12. Company size	19,386.81	18,791.83	63.22	104,875.00	-0.12***	-0.08**	0.19***	-0.31**	0.27***	-0.33***	0.22***	-0.03	0.13**	0.07*	-0.12***	1.00						
13. ROA	0.07	0.05	-0.11	0.28	0.25***	-0.16***	0.49***	0.18***	0.03	-0.31***	0.37***	0.27***	0.40***	0.31***	-0.09**	0.24***	1.00					
14. ΔROA	-4.96	249.37	-1,095.01	2,813.93	0.06 <sup>†</sup>	-0.11***	-0.09***	0.03	-0.21***	-0.13***	-0.09**	-0.10***	-0.14***	-0.23***	0.02	-0.03	-0.11***	1.00				
15. Inverse Mills ratio	0.53	0.13	0.00	0.78	0.01	-0.11***	0.33***	-0.12**	0.17***	-0.30***	0.33***	0.09**	0.33**	0.22	-0.18***	0.63***	0.72***	-0.34***	1.00			
16. Investment rate	0.16	0.18	0.00	1.20	-0.18***	0.37***	-0.06 <sup>†</sup>	-0.28***	0.14***	-0.18***	-0.08**	-0.19***	-0.15***	0.06*	0.09**	0.28***	0.11***	0.01	0.15***	1.00		
17. Divestment rate	0.20	0.16	0.00	1.20	0.09**	-0.21***	0.13***	0.17***	0.30***	0.14***	0.21***	0.08**	0.17***	0.29***	-0.11***	0.03	0.33***	-0.19***	0.27***	0.03	1.00	
18. Product diversity	1.01	6.08	-26.22	39.82	0.04	0.15***	-0.05	-0.10**	0.06*	0.03	-0.02	-0.06*	-0.08*	0.07*	0.06 <sup>†</sup>	-0.16***	0.07*	-0.07*	0.11***	0.00	0.23***	1.00

Note. N = 906. SD = standard deviation; ROA = return on assets. \*\*\*p < .001. \*\*p < .01. \*p < .05. <sup>†</sup>p < .1.

operationalized by a continuous variable but by a limited dependent variable that has only two outcomes, zero or one (Greene, 2008). Due to the intrinsic nonlinearity of our limited dependent variable model, the coefficients of our independent variables cannot be used to detect the true nature of the relationship in our model, but an additional analysis of the value and significance of the explanatory variables' marginal effect is required.

Therefore, following M. Wiersema and Bowen's (2009) recommendation, we additionally report for each model the marginal effects of each variable in Table 2 and provide a graphical depiction of the analysis of demographic similarity's marginal effect in Figure 1. We used STATA's "probit" command and the "margins" post-estimation procedure with the data means option for our calculations. The Huber/White sandwich estimator was used to correct for nonindependence.

## 4 | RESULTS

The models in Table 2 reveal the probability that a subsidiary that is divested during the 2-year period after the CEO succession event had been invested in by the CEO predecessor during his or her tenure. Model 2 shows that functional background similarity has a highly significant positive effect on the divestiture probability of CEO predecessor's investments. Graph (a) in Figure 1 shows the plot of the z-statistic values associated with the marginal effect against the predicted value of the dependent variable, that is, the probability of divesting an investment of the respective CEO predecessor. For each observation, the marginal effects and the z-statistics are plotted. The gray dots represent the marginal effects (scaled on the left y axis), and the black crosses depict the z-statistics (scaled on the right y axis). The marginal effects of functional background similarity take values between 0.021 to  $-0.081$ . Except for 4 z-statistic, the values associated with the marginal effects are above 1.96—the threshold for the 5% significance level. The summary measure in Model 2 computes a value of the marginal effect of 0.113 with a standard error of 0.04 and a z-statistic of 3.08 ( $p < .01$ ). This result suggests that, as we expected, functional background similarity leads CEO successors to take actions in order to reestablish distinctiveness. The higher the degree of similarity is, the greater the probability of divesting the CEO predecessor's investments is.

Model 3 shows the effect of industry background similarity. The associated Graph (b) reveals that the marginal effects range from 0.052 to 0.199. The z-statistics are all greater than 1.96, except for one very high probability. The marginal effect of Model 3 has a value of 0.255, a standard error of 0.037, and a z-statistic of 6.90 ( $p < .001$ ). These results show support for our first hypothesis according to which higher degrees of CEO predecessor–CEO successor similarity will increase the probability of divestment of subsidiaries that the CEO predecessor had invested in.

Model 4 and Graph (c) show the effect of international background similarity. The marginal effects range from 0.035 to 0.136. Again, the z-statistics are all greater than 1.96 except for one very high probability. The marginal effect in Model 4 has a value of 0.151 with a standard error of 0.039 and a z-statistic of 3.81 ( $p < .001$ ). Again, these results strongly support our first hypothesis.

Model 5 and Graph (d) are concerned with the effect of age similarity. The marginal effects range from 0.001 to 0.004. The z-statistics take only values between 1.44 and 1.91, and the summary measure in Model 5 shows a marginal effect of 0.0007, a standard error of 0.003, and a z-statistic of 0.25 ( $p > .1$ ). Hence, the results of Model 5 are insignificant. Finally, Model 6 represents the full model. The effects are consistent to the single models, except for age similarity now being significant on a 10% level ( $p < .1$ ). Overall, the results show that all the similarity measures have a positive effect on the probability of the successor divesting his or her predecessor's investments.

The models in Table 3 show the effects that different moderator variables have on the effect that the different similarity variables have on the divestment probability. Model 7 shows that a forced succession negatively moderates the effects that the different similarity measures have on the probability that a successor CEO divests investments of his or her predecessor. The marginal effect of functional background similarity in Model 7 has a value of  $-0.237$  with a standard error of 0.08 and a z-statistic of  $-2.85$  ( $p < .01$ ). For industry background similarity, the marginal effect has a value of  $-0.235$  with a standard error of 0.119 and a z-value of  $-1.97$  ( $p < .05$ ). The marginal effect of international background similarity has a value of  $-0.229$  with a standard error of 0.094 ( $p < .05$ ) and a z-value of  $-2.34$ . Age similarity has a marginal effect of  $-0.019$  with a 0.006 standard deviation and a z-value of  $-2.86$  ( $p < .01$ ). Hence, Hypothesis 2 is supported by the results. Model 8 shows the moderating effect that the transition of the predecessor to the board of directors after succession has on the effects of the different similarity measures have on the probability of divestments of the predecessor's investments. The marginal effect of industry background similarity in Model 8 has a value of 0.357 with a standard error of 0.096 and a z-value of 3.72 ( $p < .001$ ). The marginal effect of international background similarity is 0.355 with a standard error of 0.122 and a z-value of 2.91 ( $p < .01$ ). The marginal effects of functional background similarity and age similarity are insignificant. These findings provide partial support for our third hypothesis.

The overall model including both moderations is not shown. We refrained from doing so because the moderators "forced succession" and "retention as board chair" are not independent from each other. After all, retention as board chair requires that the incumbent CEO was not forced out of his or her position.

## 5 | DISCUSSION

This study set out to further our understanding of organizational consequences of CEO succession events by introducing individuals' need for distinctiveness from pioneering work in social psychology (Brewer, 1991; Snyder & Fromkin, 1980). The results obtained in our empirical analysis provide support for our hypothesis according to which CEO predecessor–CEO successor similarity is positively associated with the probability of CEO successors' divestment of organizational units that their CEO predecessors had invested in.

We believe that the present study contributes to the literature in several ways. First, focusing on individuals' need for distinctiveness,

**TABLE 2** Results of probit analysis

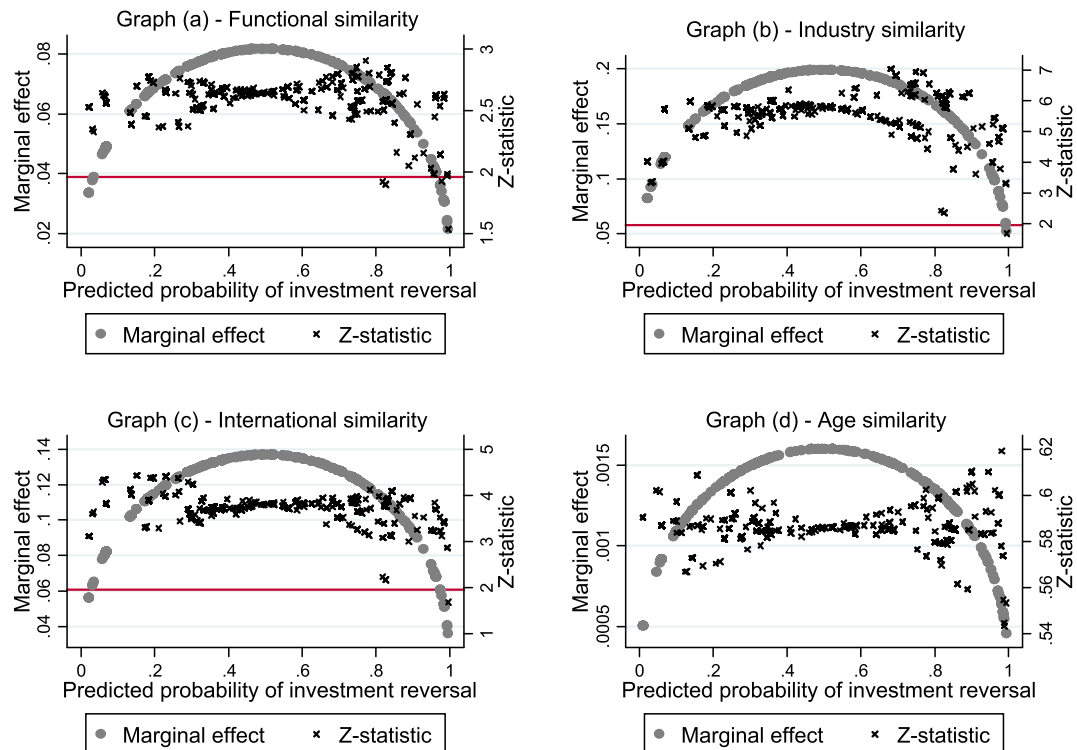
Variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Coefficient	Marginal	Coefficient	Marginal	Coefficient	Marginal	Coefficient	Marginal	Coefficient	Marginal	Coefficient	Marginal
Independent variables												
Functional background similarity		0.113**									0.327**	0.094**
Industry background similarity			0.863***	0.255***							0.796***	0.229***
International background similarity					0.495***	0.151***					0.547***	0.157***
Age similarity <sup>a</sup>							0.252	0.078			0.018 <sup>+</sup>	0.005 <sup>+</sup>
Control variables												
Forced succession	0.174	0.054	0.156	0.048	0.194	0.057	0.144	0.044	0.165	0.051	0.084	0.024
Retention as board chair	-0.081	-0.026	-0.006	-0.001	-0.054	-0.016	-0.169	-0.052	-0.078	-0.024	-0.060	-0.017
Inside successor	0.476***	0.148***	0.565***	0.173***	0.299**	0.088**	0.359***	0.109***	0.482***	0.151***	0.326**	0.094**
Tenure	0.125***	0.039***	0.118***	0.036**	0.094***	0.028**	0.124***	0.038***	0.125***	0.039***	0.086***	0.025***
Company age <sup>b</sup>	-0.070	-0.022	-2.292	-0.704	17.187	5.085	-7.487	-2.292	-2.212	-0.066	-27.036**	-7.777**
ΔCompany size <sup>a</sup>	0.313 <sup>+</sup>	0.098 <sup>+</sup>	0.272	-0.007	0.172	0.051	0.269	0.082	0.312	0.097	0.088	0.025
Company size <sup>b</sup>	-0.143***	-0.044***	-0.132***	-0.041***	-0.152***	-0.045***	-0.112**	-0.034**	-0.146***	-0.045***	-0.127***	-0.036***
ΔROA <sup>b</sup>	0.108***	0.033***	12.442***	3.824***	9.185***	2.718***	9.056***	2.772***	11.009***	3.443***	9.805***	2.820***
Inverse Mills ratio	0.933	0.291	1.026 <sup>+</sup>	0.315 <sup>+</sup>	0.080	0.023	0.913	0.279	0.938	0.292	0.224	0.064
Investment rate	-0.631 <sup>+</sup>	-0.196 <sup>+</sup>	-1.015***	-0.312***	-0.661**	-0.195**	-0.465 <sup>+</sup>	-0.142 <sup>+</sup>	-0.630*	-0.196 <sup>+</sup>	-0.803	-0.231
Divestment rate	0.576	0.179	0.796 <sup>+</sup>	0.244 <sup>+</sup>	0.698 <sup>+</sup>	0.206 <sup>+</sup>	0.291	0.089	0.548	0.171	0.395	0.113
Intercept	-1.432***		-0.753*		-0.753*		-1.608***		-1.403***		-0.969**	
Pseudo log-likelihood	-497.66		-492.27		-474.42		-489.97		-497.63		-463.22	
Chi-square	234.55***		256.85***		296.65***		272.07***		235.37***		335.78***	
Pseudo R-square	0.207		0.216		0.244		0.219		0.242		0.262	

Note. Marginals show marginal effects at variable means. N = 906. ROA = return on assets.

<sup>a</sup>Coefficient and standard error have been multiplied by 100.

<sup>b</sup>Coefficient and standard error have been multiplied by 10,000. \*\*\*p < .001. \*\*p < .01. \*p < .05. <sup>+</sup>p < .1.





**FIGURE 1** Analysis of marginal effects on the probability of investment reversal [Colour figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com)]

we aim at complementing existing research, which to date has consistently focused on the counterpart, namely, individuals' need for similarity (e.g., Nielsen, 2009; Tsui & O'Reilly III, 1989; Westphal & Zajac, 1995; Zajac & Westphal, 1996). While this research has stressed that interpersonal similarity evokes positive affect, our study sheds light on the dark side of interpersonal demographic similarity. Interpersonal demographic similarity may frustrate or even threaten an individual's need for distinctiveness, which provides a basis for comparative appraisal and self-definition (Brewer, 1991), and is important in the creation and maintenance of one's identity (Brewer, 1991; Snyder & Fromkin, 1980). Second, the overwhelming majority of studies addressing organizational consequences of CEO succession events are rooted in Hambrick and Mason's (1984) upper echelon theory (Boeker, 1997a, 1997b; M. F. Wiersema, 1992, 1995). In these studies organizational consequences—in particular CEO successors' behavior—is explained through an information processing perspective, arguing that demographic characteristics determine what information is attended to and what information is ignored. Accordingly, similarity in demographic characteristics leads to the perception of similar or even identical stimuli that ultimately yield similar or even identical actions. In contrast, this study takes a motivational- rather than an information-processing perspective in arguing that similarity may evoke negative affect, which in turn motivates CEO successors to take actions in order to reestablish a sense of distinctiveness. In other words, demographic similarity may eventually yield opposing rather than similar actions. Third, focusing on the affective consequences that originate from CEO predecessor and CEO successor demographic similarity, the study also aims to contribute to the growing body of research dedicated to the impact of affection in behavior and decision making (Baron, 2008; Seo, Barrett, & Bartunek, 2004). Previous research has explored the impact of affect on individual-level issues

such as job satisfaction (Weiss, 2002) or task performance (Staw & Barsade, 1993). The impact of affect in the context of CEO succession, however, has not been the focus of previous research. Fourth, our study also contributes to the literature on corporate divestitures in the context of CEO succession events (Shimizu & Hitt, 2005; Weisbach, 1995). As Shimizu and Hitt (2005) have pointed out, "most of the research on divestiture adopts economic and agency theory perspectives suggesting that the divestiture decision is determined by economic performance and governance effectiveness." In contrast, it is a central premise of the present study that affect, because of its pervasive effect on behavior may indeed contribute to answering why successor CEOs divest those organizational units that they divest.

The insignificant and only marginally significant findings for CEO predecessor–CEO successor similarity in terms of age in the individual and full model, respectively, inevitably raise the question what possible explanation there is for this finding. Snyder and Fromkin (1980) have proposed that individuals' motivation to seek distinctiveness is stronger for attributes that are important to their self-concepts than for attributes that are perceived as being less self-relevant (Lynn & Snyder, 2002). Put differently, the negative affect evoked by similarity in attributes that are important to the self-concept of CEO successors is stronger than for attributes that are of less importance. Accordingly, CEO successors' motivation to take actions directed at reestablishing distinctiveness is stronger for attributes that are important to the self-concept, whereas it is less pronounced for less important attributes. Thus, from this perspective, our findings may be interpreted in a sense that age is not a particularly important aspect of individuals' self-concepts as in the absence of negative affect that CEO successors feel no pressure to reestablish distinctiveness and, as a logical consequence, no need to divest organizational units that their CEO predecessors had invested in.

**TABLE 3** Results of probit analysis (continued)

Variables	Model 7		Model 8	
	Coefficient	Marginal	Coefficient	Marginal
<b>Moderator variables</b>				
Functional background similarity * Forced succession	-0.858**	-0.237**		
Industry background similarity * Forced succession	-0.849*	-0.235*		
International background similarity * Forced succession	-0.828*	-0.229*		
Age similarity * Forced succession	-0.070**	-0.019**		
Functional background similarity * Retention as board chair			0.326	0.090
Industry background similarity * Retention as board chair			1.287***	0.358***
International background similarity * Retention as board chair			1.278**	0.356**
Age similarity * Retention as board chair			0.021	0.005
<b>Independent variables</b>				
Functional background similarity	0.612***	0.169***	0.315*	0.087*
Industry background similarity	0.865***	0.239***	0.465**	0.129**
International background similarity	0.938***	0.259***	0.464**	0.129**
Age similarity	0.043**	0.012**	0.015	0.004
<b>Control variables</b>				
Forced succession	0.667 <sup>+</sup>	0.184 <sup>+</sup>	0.040	0.011
Retention as board chair	-0.179	-0.049	-1.538**	-0.428**
Inside successor	0.227 <sup>+</sup>	0.062 <sup>+</sup>	0.245 <sup>+</sup>	0.068 <sup>+</sup>
Tenure	0.101***	0.028***	0.080***	0.022***
Company age <sup>a</sup>	-0.235*	-0.064*	-0.229*	-0.064*
ΔCompany size <sup>b</sup>	0.304	0.084	6.513	1.812
Company size <sup>b</sup>	-0.092*	-0.025*	-0.133***	-0.037***
ΔROA <sup>a</sup>	0.103***	0.028***	0.070**	0.019**
Inverse Mills ratio	-0.716	-0.198	-0.797	-0.221
Investment rate	-1.022**	-0.283**	-0.887**	-0.247**
Divestment rate	0.945 <sup>+</sup>	0.261 <sup>+</sup>	-0.464	-0.129
Intercept	-0.844*		-0.134	
Pseudo log-likelihood	-447.75		-447.94	
Chi-square	377.72***		341.65***	
Pseudo R-square	0.287		0.286	

Note. Marginals show marginal effects at variable means.  $N = 906$ . ROA = return on assets.

<sup>a</sup>Coefficient and standard error have been multiplied by 100.

<sup>b</sup>Coefficient and standard error have been multiplied by 10,000. \*\*\* $p < .001$ . \*\* $p < .01$ . \* $p < .05$ . <sup>+</sup> $p < .1$ .

## 6 | LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

This study involves a number of limitations that should be acknowledged. First, the sample is made up of publicly owned large German firms. As a result, it might be argued that our findings may not be unconditionally transferable, for example, to small and/or privately held firms. The availability and quality of data needed for this research, however, was an overriding consideration. Accordingly, in order to ensure that we were able to obtain the respective data, we focused on publicly owned large firms as the same data would not have been available for small and/or privately held firms, which often do not disclose information relevant for this study. Second, we argued that CEO predecessor–CEO successor demographic similarity would evoke negative affect leading CEO successors to take actions aimed at reestablishing a sense of distinctiveness. Though we argued that the respective psychological processes would be at work, we did not

directly observe these processes. However, the longitudinal large-sample study design that we used to conduct our research prevented us from directly observing CEO successors' emotions. Third, previous research has argued that often board of directors hire successor CEOs with a clear mandate to initiate strategic change. In such a case, the divestment of organizational units would be the result of the mandate issued by the board, rather than the result of a quest for distinctiveness. The fact that such mandates are confidential and therefore not released did not allow us to directly observe this possibility. However, we incorporated several control variables into our model that control for the aforementioned possibility.

Our study suggests several avenues for future research. Snyder and Fromkin (1980) have argued that the need for distinctiveness may be context dependent. While, for example, Western cultures encourage freedom and reward independence, Eastern cultures are characterized by a subjugation of the individual to the family and group. Accordingly, the need for distinctiveness should be more

pronounced in Western cultures as opposed to Eastern cultures, and research applying the theoretical framework developed in this study should find different results for different cultural contexts. In contrast, some studies have argued and have found that individuals' need for distinctiveness is universal and is not—or only to a small degree—dependent upon the cultural context (Becker et al., 2012; Vignoles et al., 2000). Thus, it may be worth to explore the theoretical framework developed in this study in varying cultural settings.

Miller (1993) has shown that CEO succession is associated with substantial change, regardless of direction, in a variety of organizational dimensions. Thus, the divestment of organizational units is only one out of several potential coping strategies that successor CEOs may take to restore distinctiveness. Other such coping strategies may, for example, refer to changes in firm structure and processes—changes that are not equally transparent for observers outside the firm. Therefore, future research may want to rely on an on-site case-study approach. In doing so, researchers may be able to uncover other important actions that CEO successors take to restore distinctiveness but which remain hidden to observers outside the firm. Moreover, by shadowing (McDonald, 2005; Mintzberg, 1970, 1973), researchers may directly explore CEO successors' emotional reactions to the similarity to their CEO predecessors. As Pettigrew (1990) has noted, usually only a limited number of cases can be studied. Therefore, it makes sense to go for “extreme situations, critical incidents and social drama” (Pettigrew, 1990: 275), in which the subject of interest is “transparently observable.” Given the present research questions, it therefore seems that the theoretical framework developed in this study should be especially relevant in family businesses. Following in one's father's or mother's footsteps as CEO of a firm is likely to evoke a particularly strong motivation to engage in distinctiveness enhancing actions.

To date, most research has explored the link between individuals' information processing and the consequences of succession events. The affective dimension of CEO succession, however, has not been the focus of previous research. Thus, to the best of our knowledge, the present study is the first to take a behavioral perspective incorporating individuals' need for distinctiveness in the context of CEO succession events. Accordingly, we call for more work on the consequences of affect. We believe that by considering both perspectives—information processing and affective—we will eventually obtain a better understanding of individual and, as logical extension, organizational behavior.

## ACKNOWLEDGEMENT

The authors would like to thank MDE Editor-in-Chief Antony W. Dnes for his excellent guidance throughout this article's review process.

## ENDNOTES

<sup>1</sup> The quest for distinctiveness may occur at the individual and the group level, that is, between individuals and between groups. In this paper, we focus on the quest for distinctiveness at the individual level.

<sup>2</sup> The reason for the choice of the time period (1985–2007) is as follows: Given the abundant and detailed information that we needed in order to perform our analyses, we had to make sure that enough information on the firm's portfolio of subsidiaries as well as the CEO predecessor and CEO successor was available. However, such information is not

consistently available prior to 1985. We ended our period of investigation in 2007, to exclude CEO successions that were driven by the worldwide financial crisis. With regard to the 2-year observations window, reasonable objections can be made that divestments in the years 2008 and 2009 are not driven by CEO successors' quest for distinctiveness but by the effects of the financial crisis. To control for this effect, we reran our analyses on a sample that did not include any CEO successions after 2005, thereby ensuring that the end of our observation period was 2007 and with that before the outbreak of the financial crisis. The results that we received for the reduced sample are virtually identical to the ones obtained for the full sample. Therefore, we report here the results of the full sample.

<sup>3</sup> Zajac and Westphal (1996) focus on functional background, age, and educational background (degree type and affiliation). In the present study, we focus on functional background, industry background, international background, and age. Given the peculiarities of the German educational system (e.g., no distinction between different institutions comparable with the classification into Ivy vs. non-Ivy league school and dominance of a single degree type—diploma), we were unable to incorporate degree type and affiliation into our analysis.

## ORCID

Thomas Hutzschenreuter  <http://orcid.org/0000-0002-6492-5091>

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**How to cite this article:** Hutzschenreuter T, Kleindienst I, Greger C. Seeking distinctiveness through divestments: CEO succession and the effect of demographic similarity on the divestment of predecessor's investments. *Manage Decis Econ*. 2018;39:462–474. <https://doi.org/10.1002/mde.2918>