All for one or one for all ? Divestiture decision and performance through TMT functional diversity and orientation.

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Abstract

In this paper, we propose to investigate the impact of TMT functional diversity and orientation on divestiture decisions and performance of the firm. We also explore the effect of the fit between the CEO and the TMT functional orientations on divestiture decision and performance. We test our hypothesis on a sample of 731 French SMEs . The findings contribute to the strategic decision making by expanding our knowledge on additional drivers of divestitures decision and returns.

Key words: divestiture, TMT, Functional orientation, functional diversity, performance.

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1 Introduction

Divestiture, defined as adjustments to a business portfolio, represents major restructuring activities oriented towards correcting inefficient organizational structure, resolving problems of resource misallocation, better adaption to environmental conditions, and improving firm performance (Bergh, 2017; Brauer, 2006; Kolev, 2016; Lee and Madhavan, 2010). Top team management (TMT), as a key strategic decision-making authority in the firm, are charged with monitoring and providing counsel to executive managers undertaking such substantive corporate actions. As part of their role, TMTs are expected to thoroughly review the need to divest, evaluate divestitures' risks and advantages, and authorize management to pursue divestitures (Johnson, 1996; Kolev and McNamara, 2019). Given their prominent role in firm decisions, it is not surprising that research has examined the link between TMTs and divestiture decision with the main focus being on how board characteristics affect divestiture decisions (Erlandsson and Alfat, 2019; Kolev and McNamara, 2019). This literature, based on the premise of the upper echelon theory (Hambrick and Mason, 1984), found that individual characteristics affect voluntary strategic decision and firm performance. Boards of directors are comprised of individual directors and it is the specific values, characteristics and perspectives of directors that determine the interactions, dynamics and decision making (Carpenter et al., 2004; Hambrick and Mason, 1984) and ultimately impact divestitures. Thus, we believe that research examining the diversity of board members on key dimensions would offer insights into understanding the impact of the board on divestiture actions since the mix of board members with different attributes that lead to different values and perspectives is likely to have a significant influence on how the board processes potential strategic actions, such as divestitures.

In this study, we focus on the impact of TMT functional diversity on divestiture decision. We specically chose to study the effect of TMT functional diversity instead of other types (e.g., gender, tenure, age etc.) for the following reasons. First, from a theoretical standpoint, Upper Echelons Theory posits that group functional diversity reflects the different views, perspectives, and experiences of group members and thus affects group dynamics, relationships and functioning (Hambrick and Fukutomi, 1991; Hambrick and Mason, 1984). Consistent with this argument, functional diversity has been shown to have a strong impact on group decision making because it is one of the most salient and readily available features that distinguish executives from each other. Also, compared with other types of diversities, functional diversity is expected to be highly related to strategic orientation (Knight et al., 1999). Indeed, functional background orientation as classified by Miles et al., (1978) and Hambrick & Mason (1984) have different attributes whereby generally, the output function orientation (externally oriented) is associated with risk and uncertainty (Bamber et al., 2010; Gupta and Govindarajan, 1984), whilst throughput function orientation (internally oriented) is associated with managers being much more conservative in terms of the strategies implemented and level of tolerance for uncertainty (Bamber, Jiang, & Wang, 2010). Managers possessing throughput function seems to be more conservative and less likely to restate the firm's finances. Thus, research has shown that CEOs with expertise in

output oriented skills (e.g. marketing or research & development) tend to pursue more proactive strategy and are able to undertake more risks whereas those with expertise in finance, accounting, and law (throughput- or internally oriented function) tend to adopt defensive strategy and prefer to have more internal control (Miles et al., 1978; Song, 1982).

Moreover, despite the accumulated research on TMT functional background, the divestiture literature has not addressed this area. In contrast to other CEO's demographic or psychological variables studied so far in divestiture context -such as tenure and experience (Brauer and Laamanen, 2016; McGrath, 2018), gender (e.g. Kolev and McNamara, 2019) or narcissism (e.g. Erlandsson and Alfat, 2019)- the impact of functional background on divestiture decision remains unknown. This is quite surprising, since the impact of functional backgrounds of executives have spawned considerable research in strategy literature and it has been shown that it impacts strategic choices and performance outcomes (Bermiss and Murmann, 2015; Cannella et al., 2008).

This research aims to build on upper echelon theory and extend the divestiture literature in the following ways. First, the decision to divest imposes a challenge to the company by demanding flexibility and agile actions ranging from information scanning, selection, and processing to interpretation, the need to share and disseminate information across different functional areas increases with the multiple elements needed to implement divestiture like the time and the way to divest and even the decision to divest or not. Thus, the TMT role and interactions are particularly important because the decision to divest can be an expensive measure that alters the firm's scope, and frequently brings significant risk in terms of executive reputation.

Second, literature recognizes that firm performance is determined by the TMT collaboration, cohesiveness, coordination in decision-making process (e.g., Ahn and Park, 2015; Gwak et al., 2016). Therefore, we wonder how the value of enhanced inter-functional coordination and functional orientation (output or throughput orientation) of TMT members influence the decision to divest and corporate performance.

This study aims at examining the influence of the TMT functional diversity and orientation on divestiture decision in French SMEs. We articulate a model that tests the impact of TMT functional diversity and orientation (output-oriented vs. throughput oriented) on divestiture decisions and subsequent performance. In addition, we integrate the interaction effect between the CEO and the TMT functional orientations to investigate whether performance depends on the fit between the functional background orientation of the CEO and his team or not.

Our analyses are based on a sample of 731 French SMEs with a TMT. They show that TMT functional diversity, TMT functional orientation and the match between CEO and team members functional orientation, impact the decision to divest and post divestiture performance.

This paper is organized as follows. In the next section, we articulate literature on TMT functional diversity with the varying levels of inter-functional coordination and with CEO functional orientation and divestiture. Then, we build our hypotheses. In the method section, we describe the sample and the variables. Following this, we present the results of the empirical

study based on a survey of small and medium enterprises. We conclude by discussing the results, the limitations and directions for future research.

2 Theoretical background and hypothesis research

2.1 Functional background diversity and divestiture

Empirical studies on the relationship between TMT functional diversity and corporate performance have not reached a consistent conclusion, which means that the heterogeneity of functional background can both promote and impede organizational performance (Certo et al., 2006). On one hand, scholars support the ideas of the information and decision-making theory and hold that TMTs with high functional diversity are equipped with abundant resources and non-overlapping knowledge and skills (Boone and Hendriks, 2009; Simons et al., 1999), all of which can help improve decision-making effectiveness in the team (Certo et al., 2006). On the other hand, high heterogeneity in a TMT is likely to cause team breakup and team failure as predicted by the social classification theory (Zhang and Rajagopalan, 2010).

These results show that TMT functional diversity has different impacts on corporate short-term and long-term performances. Homogenous TMT with similar working experiences in functional departments usually share similar concepts, while top executives with different functional backgrounds (heterogeneous team) may diverge greatly from each other in their understanding of the same thing. So, it is hard for them to reach a consensus in the short run which is likely to exert negative influence on internal contacts within a team and increasing communication costs (Zhang and Rajagopalan, 2010). Second, heterogeneous team may give rise to non-functional conflicts (relationship conflicts) within a TMT, thus reducing the team's cohesiveness (Tajfel and Forgas, 2000), affecting cooperation among team members (Liu et al., 2011), and undermining the group's information processing capability and bring down decision-making quality (Chen et al., 2010). In a divestiture context, the need of coordination and cohesiveness is very important. Divestiture decision implies important commitments that involve significant resource and a need of reactivity. The decision to divest imposes a challenge to the TMT by demanding flexibility and agile actions ranging from information scanning, selection, and processing to interpretation. Consensus in the way to interpret information and a quick reaction of the company require homogenous TMT to enhance efficient divestiture decision.

This lead as to the following hypothesis:

Hypothesis 1: High TMT functional diversity is negatively related to divestiture decision.

2.2 TMT functional background orientation, divestiture and corporate performance

Even if scholars in strategic management and corporate governance have paid increasing attention to the important role of executives in organization outcomes (Chatterjee and Hambrick, 2007; Wales et al., 2013), especially through upper echelon theory (Hambrick, 2007; Hambrick and Mason, 1984), few research focused on the impact of TMT characteristics on divestiture and even less on the impact of functional background orientation. Among this scarce literature, we can mention the work of (Huang, 2014) who finds that CEO in diversified conglomerates are more likely to divest divisions in industries unrelated to his expertise field. In the same vein, (Guo et al., 2019) analyze the internal mechanism of how CEO's functional background in R&D influences investment decisions. Using a sample of 346 Chinese listed companies in high-tech industries, from 2012 to 2017, they find CEOs with technological background are positively related to R&D expenditure and negatively related to marketing activities. They also find that CEOs with a marketing background divest R&D activities and invest in marketing operations.

These findings are consistent with CEOs divesting divisions in order to refocus on those divisions in which they are specialized.

Relying on the same reasoning, we argue that the decision to divest depends on the way that CEOs and the TMT perceive the issues, prioritize firms' goals in line with their expertise gained from their functional experiences. In other words, according to their functional orientation, executives can be more or less disposed to divest. We consider that there are several possible mechanisms through which CEO functional background might affect patterns of divestiture. Previous literature in strategic decision showed the effects of functional background on managerial cognition. According to the cognitive perspective, functional backgrounds shape the behavior of top executives in several ways (Waller and Huber, 1994).While executives may initially seek out specific functional positions based on their personal preferences, the prolonged exposure to norms and routines connected to a function leads them to become deeply socialized within a particular functional domain. Executive behavior is also affected by functional imprinting, whereby the knowledge learned in their primary functional area affects their perceptions of current and future problems and solutions (Waller and Huber, 1994). Previous work experience shapes the information that executives are more or less likely to attend to, which in turn shapes the nature of problems they perceive in a firm's environment (Beyer et al., 1997).

Functional background as classified by Miles and Snow (1978) and Hambrick and Mason (1984) have different attributes whereby generally, the output function is associated with risk and uncertainty (Cannella et al., 2008; Gupta and Govindarajan, 1984), whilst throughput function is associated with managers being much more conservative in terms of the strategies implemented and level of tolerance for uncertainty (Bamber et al., 2010). Managers possessing throughput function seems to be more conservative and not likely for them to restate the firm finances. This is consistent with prior studies that found divestiture activities are often associated with risk and uncertainty elements (Bergh, 2017; Feldman and McGrath, 2016). Thus, TMT with output

orientation would reflect their risk-taking behavior and highly likely to be involved in divestiture decision.

These arguments lead us to this hypothesis:

Hypothesis2: TMT with output functional orientation are more likely to divest than TMT with throughput functional background.

In parallel, scholars recognize that the fit between the executive functional background and the strategy pursued is more likely to generate positive outcomes for the firm. They suggest that the functional orientation of executives can determine or affect strategy-performance outcomes. Precisely, they propose that a fit or a positive association between executive functional experience and strategy will produce growth and profitability.

For example, Thomas et al. (1991) used the Miles and Snow (1978) typology to examine age, tenure, functional background and education of top managers of various firms in the electronic computing equipment industry. Thomas et al. (1991) found that CEOs of prospectors were younger, had shorter tenures, had higher levels of education, and had backgrounds in output functions. They also found that alignment between strategy and managerial characteristics had a significant impact on performance for prospectors but not for defenders.

Following the same reasoning, we propose that TMT with output functions are more consistent and present a better fit with prospector orientation reflected in divestiture strategy. Consequently, we expect diversifying firms with output function TMT to exhibit higher firm outcomes.

Thus, we hypothesize that TMT with output function backgrounds are more likely to outperform in divestiture than executives with throughput backgrounds.

Hypothesis3: Divestiture undertaken by TMT with output functional background outperform divestiture undertaken by TMT with throughput functional background.

2.3 CEO shared functional experience with other TMT members

CEO shared functional experience with other TMT members will boost information exchange and integration for three reasons (Barkema and Shvyrkov, 2007). First, shared experience will likely help the CEO to localize the distributed functional knowledge within the TMT. Team literature uses the term 'transactive memory' to refer to the combination of the knowledge possessed by each individual and a collective awareness of who knows what (Brandon and Hollingshead, 2004). We assume that shared experience with the other TMT members will allow the CEO to identify and use relevant knowledge more efficiently (Arendt et al., 2005).

Second, shared functional experience will also help the CEO to bridge semantic gaps within the TMT (De Brabander and Thiers, 1984). By the common experience, the CEO has had to develop a thorough insight in the individual TMT members' functional knowledge and their specific concepts of reality. Shared experience thus allows the CEO to build up mutual understanding and to create semantic equivalence.

CEOs with such intimate and thorough knowledge of the TMT members should be more able to enhance the quality and quantity of TMT information sharing (Simsek et al., 2005).

Finally, shared experience does not only increase the CEO's familiarity with the other TMT members, but it also enhances his familiarity with the TMT's communication and processes (Kor, 2003). In other words, the CEO learns how to communicate via the same functional language. When CEO functional orientation match within TMT experience, more cohesiveness is produced and that impacts positively the strategic orientation and corporate performance.

Finally, advocates of Janis's (1972) 'groupthink' literature might argue that high shared experience goes hand in hand with the tendency to strive for unanimity within the TMT. In this way, firm performance might be enhanced if the CEO's shared functional experience with the other TMT members is high (Entrialgo, 2002; Kathuria and Porth, 2003).

Relying on these arguments, we propose:

Hypothesis 4a: A match between CEO and TMT functional orientation impacts positively the decision to divest.

Hypothesis 4b: A match between CEO and TMT functional orientation impacts positively firm performance.

3 Methods

3.1 Sample

The sample is made up of 731 observations collected from SMEs in the Auvergne-Rhône-Alpes Region (France). Our database has been built by merging two existing databases. The first database, called "Plan PME", is the result of a research project "Plan PME" conducted by COACTIS research center and financed by Auvergne-Rhône-Alpes region over the period 2012-2016 . The SMEs' executive was in particular asked about CEO characteristics, their strategic choices and the major events in their firm over the last three years. All information about CEO characteristics and strategic events come from this database. Data from "Plan PME" were then merged with financial and accounting data from Diane database. Diane provides accounting and financial information on all registered companies in France.

Table I presents the means, standard deviations, and bivariate correlations of the key variables in the analysis.

The average composition of TMT is 4 members. Of the 731 SMEs, 88.6 % are diversified and offer several products and services and 18.2 % were exposed to a bankruptcy risk. According to our definition of divestiture (see hereunder), 52 % of the firm report a divestiture in the last 3 years.

Table 1 show that divestiture is positively correlated to output and throughput orientation of CEO and TMT. Post-divestiture firm performance is positively correlated to divestiture and negatively correlated to bankruptcy risk.

Table I : descriptive statistics and correlation

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
	4,73	12.65												
2. Pre-divestiture performance	5.013	11.80	.510**											
3.Firm Size	3.20	.661	.260	.175*										
4.Bankruptcy risk	.18	.387	-159**	.200**	.118*									
5.Firm Age	47.24	8.75	.205	.039	.145**	-.020								
6.TMT size	3.99	.322	-.020	.094	.290**	.008	.123**							
7.TMT modification	.81	.631	.014	.094**	.125**	-.036*	.608**	.221**						
8.TMT OP oriented	.29	.358	.154**	.144**	.113*	.164	-.165	-.012	.004					
9.TMT TP oriented	.17	.454	-.108	.104	.027	.028	-.013	-.86**	-.010	.016				
10. CEO OP oriented	.36	.481	.047	.083**	.184*	.031	-.020	.090	.063	.803*	-.404**			
11. CEO TP oriented	.21	.493	.038	.078*	.059	-.055*	.030	-.015	.669*	-.016	.852*	-.134**		
12. Divestiture	.36	.481	.128*	-.206*	-.129*	.336*	.002	-.082	.311*	.107**	-.058	.159*	-.008	

**P<.01, *P< .05

3.2 Measures of dependent variables

Performance: we measured the post-divestiture firm performance through the ROA (Return On Assets), which is a performance indicator that is commonly used (e.g.; Karaevli, 2007; Zhang, 2008). We used an accounting-based rather than a market-based measure because most SMEs are non-listed, and because operational performance of the firm is the most relevant and commonly used measure of performance for SMEs in the divestiture literature (e.g., Geletkanycz & Boyd, 2011; Zhang, 2008; Zhang & Rajagopalan, 2004) as well as in the top management team literature (e.g., Payne, Benson, & Finegold, 2009; Yoo, Reed, Shin, & Lemak, 2009). In addition, unlike market-based measures, ROA is directly influenced by the management of the firm (Hambrick & Finkelstein, 1995). We computed the average of return on assets (ROA) over the three years following the questionnaire administration . Taking three-year averages eliminates the abnormalities associated with a single year performance (Carpenter & Sanders, 2002).

Divestiture: based on responses of CEO's to 4 questions related to reduction of size or scope of the firm. CEOs were asked if, during the last three years, they suppress a product line, a customer base, or if they reduce some production capacities and proceed to layoffs. Following literature that describes divestiture as adjustment to a firm's portfolio and business structure through the reduction in size of current business and firm workforce (Bergh, 2017; Feldman and McGrath, 2016; Hitt et al., 1990) or through the selling of units that are less related to the core business (Desai, Nixon & Wiggins, 1999), we codded divestiture as a variable took the value 1 if firms have suppressed product lines or targets of clients and reduced human resources or production capacity and value 0 otherwise.

3.3 Independent variables

In this paper, we aim to understand how functional background diversity and orientation influence divestiture decision and performance. Thus, functional background diversity and functional background orientation are the independent variables. We refer to the declared functional backgrounds in the questionnaire.

Functional background orientation is measured through two categorical variables: output oriented or throughput-oriented functions. CEOs and TMTs were asked about their functional specialties and could choose several background specializations among 7 possible types. Following Hambrick and Mason (1984), we considered functions which are externally oriented (sales, marketing and R&D) as output functions. We coded the variable Output orientation as 1 if TMT (CEO) has more output functions than throughput one and zero otherwise. Similarly, we considered functions which are internally oriented (production, accounting or finance, computing and human resources) as throughput functions. We coded the variable Throughput orientation as 1 if TMT (CEO) has more throughput functions than output one and zero otherwise. TMT with cross-functional backgrounds are heterogeneous team without no specific functional orientation.

Functional diversity is reflected by the level of functional background heterogeneity of TMT members. As functional background belongs to grouping variable, scholars unanimously use Herfindal-Hirschm Index (HHF) (also termed as Blau Index) to calculate TMT heterogeneity (Abebe, 2010; Amason et al., 2006).

The calculation formula is as follows:

$$H = 1 - \sum_{i=1}^{n} P_i^2 \tag{1}$$

In this formula, Pi refers to the percentage of functional background i in a TMT and n equals the number of functional backgrounds. The value of H falls between 0 and 1. The greater the H value is, the higher functional heterogeneity a TMT has.

3.4 Control variables

We took two sets of control variables into consideration: CEO and TMT characteristics and organizational characteristics.

TMT modification occurs when there is a CEO succession or a loss of a TMT member. divestiture often involves significant changes to a firm and may represent one of the first actions that a new CEO might take (Johnson, 1996). CEO succession or a loss of TMT member is often perceived as a precursor to corporate restructuring (e.g., Berger and Ofek, 1999; Weisbach, 1995; Wiersema, 1992). The management literature has effectively documented that the introduction of a new CEO leads to various types of organizational changes as divestiture (Chiu et al., 2016; Hambrick and Fukutomi, 1991; Miller, 1991; Sliwka, 2007; Tushman and Rosenkopf, 1996). So, we predict positive relationship between CEO succession and divestiture decisions.

TMT size: represent number of functional managers in TMT. Previous studies have included

TMT size as a control variable in their analyses and it is often correlated to functional diversity (Boone and Hendriks, 2009).

As control variables, we consider also the firms' characteristics:

Size of the enterprise is the natural logarithm of the total annual sales of the organization (Koyuncu et al., 2010; Shen and Cannella, 2002) to the date when questionnaire was administered. We suppose positive relationship between organization size and divestiture because more the firms are bigger, more they divest (Brauer and Laamanen, 2016).

Firm-diversification: it is admitted in literature that many restructuring firms have a medium to high diversification level (Johnson, 1996) and diversified enterprises often undertake refocusing by reducing the scope of activities and reinforce their core business (Chiu and al., 2016). Then, we suppose positive relationship between diversified firms and divestiture decision.

Pre-divestiture firm performance is calculated in the same way as post-divestiture firm performance, by standardized values of the firm's ROA for the three years (average value) before the divestiture. This variable is especially important, because past performance differences that are not caught by other control variables may continue to affect post-succession firm performance (Glebbeek and Bax, 2004). Moreover, inclusion of the pre-divestiture firm performance also serves to control for the potential threat of "regression-to-the-mean" effect (Karaevli, 2007; Shen and Cannella, 2002).

Exposure to the risk of bankruptcy refers to a dichotomous variable that answers to the question: did the company face a bankruptcy risk during the last three years (takes 0 for No and 1 for Yes). We suppose that exposure to the bankruptcy risk is positively related to divestiture decision. Here, the decision to divest is probably a response to restore financial equilibrium.

3.5 Analysis

We test our hypotheses on a sample of 731 SMEs, all including a top management team. Each hypothesis was tested in separated models with different technics due to the nature of the dependent variables. All the models include all the control variables.

First, we run binary logistic regression with divestiture as the dependent variable (binary variable that takes value 0 if the enterprises don't divest or 1 if they divest) to test the influence of functional diversity and orientation of TMT on the decision to divest. Second, we use binary logistic regression (with divestiture a dependent variable) to test the influence of interaction between CEO functional background and TMT functional orientation on divestiture decision. We run linear regression to test the impact of these interactions (CEO/ TMT functional orientation) on corporate performance, with a ROA post divestiture as the dependent variable.

4 Result

Hypothesis 1 states that functional diversity has negative impact on divestiture decision and hypothesis 2 states that TMT with output functional orientation are more likely to divest than TMT with throughput functional background. To test these two hypotheses, we use binomial logistic regression with "divestiture" as a dependent variable (DV). TMT functional diversity (HHF index) and functional orientation (throughput oriented and output oriented) as the independent variables.

Model 4 in Table II highlights that hypothesis 1 is supported: Functional diversity variable has a negative and significant coefficient ($\beta = .285, P < .05$) which means that the functional diversity of the TMT reduce divestiture. In other words, the homogeneity of functional background in TMT favors the decision to divest.

Model 4 in Table II highlights that Hypothesis 2 is also supported: the Tmt output functional orientation variable is significantly linked to divestiture decision ($\beta = .166$, $P < .01$) and the Tmt throughput orientation coefficient is not significant. These results support hypothesis 2 as the coefficient for output function is significant while the coefficient of throughput orientation is not. Thus, TMT with output function orientation divests more likely than TMT with throughput function orientation. Indeed, TMT with output functions orientation (marketing, innovation, sales) is, as mentioned by several research, more willing to take risk and have a prospective orientation. It is easier for executives with output functions to divest than executives with throughput function that are internally oriented (production, accounting or human resources) and are reluctant to divest by reducing physical or human resources.

The results show also that hypothesis 4a is confirmed. Indeed, a match between CEO and TMT functional orientation impact positively the decision to divest. The interaction coefficient of the match between CEO and TMT output orientation is positive and significant ($\beta = .317$, $P < .01$). The coefficient of the match between CEO and TMT throughput orientation is not significant. In contrast, the mismatch between CEO and TMT functional orientation (CeoTmt mismatch) is significant and negative ($\beta = .331$, $P < .05$). This means that the firm is more reluctant to divest when there is a mismatch between CEO and TMT functional orientation.

We also note that the TMT modification (CEO succession or a loss of TMT member) is positively linked to divestiture decision. As showed by scholars, the introduction of a new CEO leads often to divestiture actions.

Consistent with the literature in finance, we also find that bankruptcy risk increases the probability of divestiture.

Finally, hypotheses 3 states that divestiture undertaken by TMT with output functional background outperform divestiture undertaken by TMT with throughput functional background and hypothesis 4b states that the perfect match between CEO and TMT functional orientation has a positive effect on performance.

Table II: TMT functional diversity, TMT functional orientation and functional matching impact on divestiture decision.

DV: divestiture	*Model 1*	*Model 2*	*Model 3*	*Model 4*
Intercept	-.928 (.793)	-.682 (.811)	-.820 (.738)	-.597 (.821)
TMT Functional diversity	-.225 (.581)*	-.276 (.589)*	-.229 (.584)*	-.282 (.590)*
TMT Functional background				
Output orientation	.178 (.117)**	.027 (.253)**	.273 (.270)**	.166 (.369)**
Throughput orientation	.130 (.219)	.062 (.282)	.053 (.220)	.109 (.292)
Diversified business	.084 (.280)	.039 (.281)	.059 (.281)	.037 (.282)
TMT size	.081 (.059)	.084 (.069)	.082 (.059)	.088 (.073)
TMT Modification	.101 (.198)*	.079 (.201)*	.084 (.201)*	.070 (.201)*
Bankruptcy risk	.425 (.245)***	.409 (.247)***	.433 (.246)***	.409 (.247)***
Firm Size	.059 (.087)	.068 (.088)	.062 (.088)	.066 (.088)
Firm Age	.138 (.201)*	.029 (.082)	.031 (.073)	.131 (.072)
Pre-divestiture	-.011 (.017)*	-.212 (.071)	-.012 (.033)	-.012 (.032)
CEO OP oriented		.285 (.276)**		.317 (.495)*
CEO TP oriented		.222 (.394)		.476 (.320)
CeoOP x TmtOp			.172 (.236)**	.317 (.495)**
CeoTp x TmtTp			.211 (.238)	.812 (.516)
CeoTmt mismatch			-.201 (.391)	-.331 (.429)*
Sample	731	731	731	731
Prob > chi2 = 0.0000				
Pseudo R-square	.276	.275	.277	.271
R McFadden	.256	.254	.256	.252

Notes: Values in parentheses are standard errors. N=731, ***P<.001, **P<.01, *P< .05,

To test these two hypotheses, we ran ordinary least squares (OLS) regressions with post-divestiture performance as a dependent variable. Model 5 tests the effect of interaction between TMT functional orientation and the divestiture decision on performance whereas model (6) tests the effect of the matching between CEO and TMT functional orientation on performance. The results are shown in Table III.

Table III: TMT functional diversity , TMT functional orientation and functional matching effect on divestiture performance.

DV: POST divestiture Performance	*Model 5*	*Model 6*
Intercept	3.451 (4.100)	4.010 (4.210)
TMT Functional diversity	5.180 (3.159)**	4.934 (3.184)**
TMT Functional background		
Output orientation	2.212 (1.189)*	3.488 (2.027)*
Throughput orientation	.870 (1.203)	.832 (1.582)
Diversified business	.073 (1.477)	.114 (1.484)
TMT size	.134 (.313)	.137 (.314)
TMT Modification	-2.858 (1.095)	-2.894 (1.099)***
Bankruptcy risk	-5.654 (1.280)***	-5.696 (1.284)
Firm Size	.388 (.439)	.397 (.441)
Firm Age	.021 (.033)	.026 (.034)
Divestiture	.984 (.972)‡	1.108 (.988)‡
Pre-divestiture performance	4.523 (1.123)**	4.236 (.998)**
Divestiture X TmtOP	2.171 (1.286)*	
Divestiture X TmtTP	.895 (1.376)	
CEO OP oriented		2.405 (1.510)*
CEO TP oriented		1.828 (1.751)
CeoOP x TmtOp		2.527 (1.731)*
CeoTp x TmtTp		.208 (2.355)
CeoTmt Mismatch		-2.314 (1.732)*
Sample	731	731
Prob > chi2 = 0.0000		
Pseudo R-square	.298	.296
R McFadden	.287	.287

Notes: Values in parentheses are standard errors. N=731. ,**P<.01, *P< .05, P‡<0.1

Table III shows that hypothesis 3, which states that divestiture undertaken by TMT with output orientation outperform divestiture undertaken by TMT with throughput functional orientation, is supported. The term of interaction (Divestiture X TmtOP) on post-divestiture performance is positive and significant ($\beta = 2.171$, $P < .05$ in Model 5). On the contrary, the second term of interaction (Divestiture X tmtTP) is not significant, which means that it has no impact on firm performance.

As divestiture required specific attention to final performance and alignment to particular external environment, TMT with output function is more relevant to understand both conditions. Moreover, output functions were associated with risk taking and proactivity which are needed for implementing divestiture strategy.

The results of model 6 also support previous theoretical developments: the fit between functional background and the strategy pursued are more likely to induce positive effect on performance. Indeed, when CEO and TMT match in term of functional orientation, especially output functional background, there is positive impact on performance ($\beta = 2.527$, $P < .05$) in Model 6). In the contrast, when the functional orientation of CEO is different from the TMT one, there is a negative impact on firm performance.

5 Conclusion and discussion

The influence of executives' functional background within a divestiture decision remains underexplored despite the broad academic and managerial attention that divestitures have received. In this paper, based on Hambrick and Mason, (1984) and Thomas et al. (1991) theoretical development, we address this gap by highlighting the influence of TMT functional background orientations on divestiture decision and firm's outcomes.

This study investigates the impact of TMT functional diversity and orientation on divestiture decisions and performance of the firm. We integrate also the matching effect between the CEO and the TMT functional orientations.

Using a sample of 731 TMT of SMEs, we first find that TMT functional diversity will have a negative effect on divestiture decision and homogenous TMT are more likely to divest than heterogeneous TMT.

Second, we find that TMT with output functions are more disposed to divest than another TMT. This is attributable to their specific conception of the risk taking and their proactive approaches whereby a firm is often perceived as a bundle of assets to be bought and sold.

Third, we find also that divestiture undertaken by TMT with output functional background outperform divestiture undertaken by TMT with throughput functional background. This result joins previous research whereby the fit or a positive association between executive functional experience and strategy will produce performance.

Finally, we find that the relationship between TMT functional diversity, divestiture decision and firm performance is strengthened when the CEO's functional orientation match with the other TMT members. The shared functional experience of CEO with the other member of team enhance cohesiveness, collaboration and communication between members and impacts positively performance. Our findings provide evidence for the existence of interaction effects of CEO functional orientation and TMT functional experience on the decision to divest and firm performance. Overall, we therefore believe that studies incorporating both CEO and TMT characteristics, and other types of TMT diversity, represent a promising avenue for future research

The paper has implications for practice and theory. It contributes to research on divestitures by examining the role of an understudied but important antecedent to divesting. While prior research has extensively focused on various environmental and firm structural factors (Brauer, 2006; Johnson, 1996), it has overlooked the impact of board demography. Given that directors'

functional background diversity and orientation can affect decision-making processes and strategic choices within the board (Hambrick and Mason, 1984), this paper extends our understanding of additional drivers ofdivestitures, such as functional diversity. It would be warranted for future research to look at the interaction of TMT demography, TMT structure, and environmental conditions and examine what combination of those factors translates into the strongest performance implications of divestitures.

From the managerial viewpoint, these results seem to provide an opportunity to rethink the decision-making involved in the appointment of new TMT or board members.

Finally this paper also presents some limitations or avenue for improvments. It theorized on the underlying mechanisms through which functional diversity and orientation impact divestiture decision and returns, but we did not measure other factor related to TMT diversity and can explain divestiture behavior (e.g. outsider vs insider members, previous education, tenure, previous experience in divestiture). Thus, the study could receive criticism common to diversity research that demographic variables only proxy for directors' experiences, skills, and expertise. Nevertheless, we believe this should be less of a problem with the variables of functional background. Because the latter are very salient and easily observable characteristics, strong arguments have been made in favour of this specific characteristic. Ideally, future research could utilize surveys and interviews of diverse boards to obtain data on board interactions and dynamics which would allow for a direct test of those underlying mechanisms.

Another potential limitation of the study is the reliance on French SMEs. It would be interesting to examine in the future whether functional background diversity exhibit similar effects across different types of firms, such as bigger firms or family one. Given that it is important for future research to examine whether board diversity could overcome such tendencies with regards to divestment decisions. Furthermore, future research could focus on contingencies of the main relationship between other board diversity (tenure, gender) and divestiture returns.

We view also our findings as providing sufficient evidence to recommend the inclusion of functional background effects in future studies especially in divestiture context.

Overall, we therefore believe that studies incorporating both CEO and TMT characteristics, and including other type of TMT diversity, represent a promising future research avenue.

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