CEO Communication with Financial Markets - The Case of Royal Philips NV, 1971-2001

Abe de Jong

Rotterdam School of Management, Erasmus University

Marieke van der Poel

Rotterdam School of Management, Erasmus University

Michiel Wolfswinkel

Rotterdam School of Management, Erasmus University

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Corresponding author: Abe de Jong, RSM Erasmus University, Department of Finance, Room T9-53 P.O. Box 1738, 3000 DR Rotterdam, The Netherlands. Phone: +31 10 408 1022, Fax: +31 10 408 9017, Email: ajong@rsm.nl.

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Abstract

This paper investigates the role of communication between firms and financial markets in the last three decades of the 20^{th} century. In these years financial market regulation, structures and practices have evolved, starting from a setting where public information provision to investors and intermediaries about firm strategy by top executives was limited and stock prices relatively insensitive. Over the decades, financial market participants have become more demanding and pricing has become increasingly sensitive to new information arrival. We study six subsequent chairmen of the management board (CEOs) of Royal Philips NV. Throughout most of the period this public company has been struggling with its positioning in the highly competitive electronics markets. We describe for each CEO his background, major decisions and communication style. Next we measure shareholders' reactions to the announcements of restructuring decisions, such as acquisitions, alliances and sell-offs. We find that CEO and tenure stage specific attributes explain part of the shareholder reactions. Moreover, we conclude that Royal Philips NV has not been capable of convincingly communicating their strategic intentions to financial markets. Particularly towards the end of the 20^{th} century this harms the valuation of the firm.

Keywords: Financial markets; asset restructuring; financial history; corporate governance
JEL: G14; G15; G34; N24; N84

1. Introduction

Since in the medieval times in the Italian city-states transferable securities have been first used by entrepreneurs, many changes in securities markets have taken place. For example, in the Amsterdam market in the 17th century international financial trades have generated a group of skilled and specialized intermediaries inducing innovations in the techniques of trading (Michie, 2006). More recently, in the 20th century financial market development has continued in at least two directions. First, market regulation has led to laws protecting investors by providing transparency about the firms with traded securities (La Porta *et al.*, 1998). Second, the scale of the securities trading has grown tremendously. For example, the market value of U.S. firms in 2003 equals $31.2 trillion, while in 1990 this value equaled $9.4 trillion (Michie, 2006). In the recent developments of financial markets, investors have become increasingly demanding in terms of transparency and financial communication with corporations. In this study, we investigate a Dutch multinational, Royal Philips Electronics, in the period 1971-2001 and describe how this company has dealt with the changing requirements from financial markets.

Mergers and acquisition (M&A) activity has risen on the back of increasing importance of capital markets worldwide. Boutchkova and Megginson (2000) document that the total value (of targets) of announced mergers and acquisitions on U.S. markets alone rose from less than $200 billion in 1990 to $1.7 trillion in 1999. And even though the 1980s are considered to be a very active period for mergers and acquisitions period, the 1990s were by far the most active decade in U.S. history. Total M&A value for the 1990s exceeded $5 trillion. In Europe, the increase in M&A activity during the 1990s was even more dramatic. Coming from less than $50 billion per annum at the end of the 1980s, the total value of acquisitions with a European target increased ten-fold to over $592 billion in 1998, and again doubled to $1.2 trillion in 1999. Next to M&A activity, firms engage in many other strategic decisions, such as joint-ventures and alliances, but also divestitures, sell-offs and lay-offs (Lai and Sudarsanam, 1997). With the evolution and internationalization of financial markets, the demands to company communication to the markets have changed. Financial market participants are informed by the company's top management about such strategic decisions, via press conferences and press releases.

Subsequent securities' trading is a reflection of the financial market's assessment of the value-impact of the decisions (MacKinlay, 1997).

Although a large body of mandatory disclosure requirements for the dissemination of information to the public exists, top managers have significant degrees of freedom with respect to their communication with financial markets. Companies are multifaceted enterprises operating in a competitive environment motivated by their own set of long term plans, their product portfolio, their technological development program and their human resources framework. As such, all of these aspects can potentially impact contemporaneous or future company performance, and hence the value of the company securities. The proper interpretation and communication of such aspects are dealt with largely through the intermediaries such as financial analysts, and by the top management and financial communication professionals, i.e. investor relations officers. In 1968, the National Investor Relations Institute was established in the U.S. and a similar society was formed in London in 1980. During the In the 1980s, the importance of investor relations grew, as the active takeover market demanded that corporate managements be concerned about their share prices and to communicate to the investing public the credibility of their vision and strategy. The threat of gambling shareholder loyalty in a takeover contest was looming (Brennan and Tamarowski, 2000). In the 1990s, booming capital markets induced a shift from loan financing to equity financing, aided by deregulation and government incentives (Marston, 2001). Increasing activism of institutional shareholders and individual shareholders, the latter group often clustering their interests in shareholder rights associations, made the profession of investor relations more important than ever before in corporate history. In Continental Europe, the importance of the investor relations function is generally increasing in the 1990s, and due to the increasingly demanding of the investor relations (IR) practice, with road shows, one-on-one meetings, analyst conference calls and pro-active investor updates, external IR firms specialize in delivering IR services to companies experiencing difficulties with the IR function (Marston, 2001). The Chairman of the (Management) Board or CEO plays a decisive role in the assessment of corporate strategy and the communication of the strategy to the financial markets. Tenure and personal background strongly influence the CEOs' decisions, as well as their communication to capital markets.

We conduct a case study about the effects on capital markets of the announcements of strategic decisions by Royal Philips in 1971-2001. In particular, we investigate how six subsequent CEOs have dealt with changing demands from public capital markets. Having been a family run company for decades, Philips transitions into a firm ran by professional managers in the 1970s. In the same period the firm increasingly experiences international competitive pressures in its traditional output markets. Headquartered in the Netherlands, Philips has historically had a strong international orientation, reflected in a widely dispersed ownership, as well as in its geographical sales distribution. We investigate announcement effects of six CEOs, each having with different professional backgrounds throughout their tenures. We conclude that Philips has not been capable to convincingly communicate its strategic intentions to the financial market, and that particularly towards the end of the 20th century this has harmed Philips' valuation.

The remainder of this paper is organized as follows. In the second section we first provide some background on the development in financial markets in the Netherlands, but also internationally. Then we review the relevant literature on CEOs, strategic decisions, and financial market communication. In the third section we describe our case study analysis of Philips. Finally we provide a synthesis of the role of CEO communication in changing financial markets and conclude.

2. Background

2.1. Introduction

In this section we sketch the background of our study, as we describe the literature on the valuation effects of strategic decisions (2.2), the role of CEOs in the decision making process (2.3) and on investor relations (2.4).

2.2. The valuation effects of strategic decisions

Firms are continuously renewing themselves through tactical and strategic decisions. The restructuring strategies by firms can be classified in investment and divestment decisions. The most prominent investment decisions are capital expenditures and acquisitions. However, also joint-ventures and alliances should be considered as investment decisions.

Divestments include asset sales, management buy outs, spin-offs, and lay-offs (Lai and Sudarsanam, 1997). Since the seminal paper by Fama *et al.* (1969), finance researchers have used the so-called event study method to measure the value effects of announced strategic decisions (MacKinlay, 1997). Event studies measure the change in the stock price immediately following the arrival of new information in financial markets, controlling for stock price effects in absence of new information. As such event studies are testing a dual hypothesis of market efficiency and the value effects of a particular decision.

In a recent contribution, Moeller *et al.* (2005) analyze mergers and acquisitions for U.S. domestic acquisitions by U.S. acquirers in the period 1980–2001. They find that a relatively small number of acquisitions accounts for significant losses in value due to extremely high valuations. Moeller *et al.* provide a possible explanation for this pattern as the markets' reaction either to a firm's inability to maintain a 'growth through acquisition' strategy, or simply to a strategy that is not as profitable as foreseen. Focusing at the relationship between market value and growth, high market values are an indicator that a firm has growth opportunities, or is considered to be well run. Generally, high market valuations are considered proxies for growth opportunities. Dong *et al*. (2006) find that higher bidder valuation is strongly associated with lower bidder abnormal returns. However, Dong *et al.* do not provide an answer to the discrepancy in market reaction to divestment announcements as opposed to market reactions to acquisition announcements in a period of high valuation.

The event study method has also been applied in case studies. Baker (1992) studies Beatrice, a U.S. creamery, which grew to be a conglomerate firm. A description of the announcements of 26 acquisitions and divestitures is used to evaluate to the performance of three CEOs. De Jong *et al.* (2007) study the announcement effects of Dutch retailer Royal Ahold's main acquisitions and show that shareholders reacted negatively to acquisitions that later almost caused the firm to collapse.

2.3. The roles of CEOs and their tenure in strategic decisions

Management research has traditionally had a strong focus on the topic of top echelons and their impact on organizations. A basic premise in strategic management research is that top executives play a dominant role in formulating corporate strategy (Westphal, 2001). Various studies have evidenced that experience, such as prior positions in other firms, influence strategic decisions in the executive's own firm. Westphal (2001) finds that the event of CEO succession provides an important opportunity for change. In line with earlier empirical studies they find that newly appointed CEO's often take office just prior to major corporate-level strategic change initiatives (Kessner and Sebora, 1994). Having experience with the current strategy, inside successors are more likely than outsiders to maintain the existing strategy (Tushman, 1985). However, the departure of a CEO may leave a vacuum that enables the selection of new outside CEO's, who have experience with the favored strategic change (Westphal, 2001). These findings emphasize the premise that new outside CEO's, will direct strategic change. Based on a comprehensive dataset Bertrand and Schoar (2003) empirically demonstrate that manager fixed effects are important determinants in a wide range of corporate variables. Especially in acquisition and diversification decisions manager fixed effects play an important role. They also find that managers who engage in more external acquisitions and diversification also display lower levels of capital expenditures and R&D.

Another avenue to investigate market reactions to company performance in relation to asset restructuring and alliances strategy is CEO job tenure. Strategic management researchers have been interested in this topic for some time. An early study in this field is Hambrick and Futukomi (1991). They posit a concept to govern the relationship between CEO tenure and company performance. Their basic premise is that the CEO tenure has discernable phases. The phases of a CEO's tenure are characterized by distinct patterns of the CEO's attention, his behavior and therefore of the performance of the company that he presides. They find that early in the tenure, the CEO's task knowledge is accumulating, but not yet at its peak. Additionally, the CEO may not have had the opportunity to reinforce or completely implement his initial directions. Therefore, in the early part in the CEO's tenure, the company performance tends to increase. Beyond a certain point in the tenure, the CEO often adheres to an absolute paradigm; he relies on narrow and highly filtered flow of information and has a diminished task interest. As a result, the company performance tends to diminish. In subsequent studies the relationship between CEO tenure and company performance is analyzed by focusing more on the effects or outcomes of tenure, such as R&D spending (Barker, 2002). Recenty, Simsek (2007) has modeled the CEO risk taking behavior in relation to his tenure. He analyzes the top management team risk taking behavior, and models this as a bridge between CEO tenure and company performance.

2.4. Investor relations

We now turn to communication with the financial markets, usually vested in the investor relations function, and the relation with the price of a company's security. In an efficient financial market, the price of a company's securities is a proper reflection of all available information, and, apart from maintaining the appropriate investment and financial policies, there is little that a company can do about the price of its securities. The validity of this efficient market hypothesis is that information is free and available to every investor at the same time, and can easily be understood by all investors alike. Brennan and Tamarowski (2000) provide evidence of the link between a company's investor relations policy and its share price. They demonstrate a positive relation between a company's disclosure policy and the number of analysts, who follow the company, and provide the market with views and recommendations with regards to the company's securities. The number of analysts that follow a security affects its liquidity, and Brennan and Tamarowski (2000) show that an increase in liquidity reduces the company's cost of capital and thereby increases the share price. In short, company disclosure reduces information asymmetry, increases liquidity and the share price. Or, as Welker (1995) puts it: uninformed investors 'price protect' against adverse selection.[1] Subsequent research shows that changes in investor recognition are an important determinant of contemporaneous security returns, and that changes in investor recognition are even more important than news about fundamentals in explaining contemporaneous returns (Lahavy, 2005). This also helps in understanding why earlier research has found that news about

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[1] Merton (1987) defines a model of capital market equilibrium under incomplete information with its principal assumption that, in constructing their optimal portfolio, investors only select securities that they know about. He demonstrates that variation in the degree of 'investor recognition' of a security influences the security's equilibrium pricing. Amongst others, his model predicts that security value is increasing in investor recognition, and that financing and investing activities in the underlying firm are increasing in investor recognition.

fundamentals explains a relatively small proportion of the variation in returns (e.g., Roll, 1988; Lev, 1989).

3. The case of Royal Philips NV, 1971-2001

3.1. Introduction

In this section we describe the case of Royal Philips NV (Philips) and zoom in on the major restructuring announcements by subsequent CEOs and the reactions of financial market participants. From its inception in 1892 until the early 1970s Philips was very successful. Even through periods of economic downturn, such as the war periods, the company prospered and showed continuous growth. However, since the 1970s Philips' dominance in the traditional markets has been diminishing. Eroding margins furthermore emphasized the need for change. The successful decentralized organization needed to be replaced with a more centrally-managed organization in order to streamline production and provide a more competitive cost structure. At the same time, the new era increasingly demanded serious efforts in research and product development initiatives in order to keep up with the pace of technological evolution. We are investigating six consecutive Philips CEOs in their attempt to solve this multidimensional puzzle. The remainder of this section describes the sources (3.2), the company history up to 1971 (3.3), the governance structure (3.3) and the results per CEO (3.4). We conclude with a description of the CEO tenure (3.5) and financial market communication differences between the CEOs (3.6).

3.2. Sources

Our event data collection is built on Philips' announcements with regards to asset restructurings and alliances over the period 1971-2001. Asset restructuring is defined to include asset sales (divestments, management buy outs, spin offs) and investments (full acquisitions, partial acquisitions, joint-ventures and alliances). We exclude announcements with regards to capital expenditures, reorganizations and lay-offs. We include initial announcement in the Dutch financial daily, *Het Financieele Dagblad*. The electronic version is available starting 1985; we retrieve all newspaper articles with the company name in the title or in de body of the text and we manually identify articles with the relevant events. For the period 1971-1985 we analyze Philips annual reports to identify relevant events and subsequently verify announcement dates with the paper version of *Het Financieele Dagblad*. In total, we include 451 announcements in the period 1971-2001.

We measure the acquirer's cumulative abnormal returns (CAR) around announcements using abnormal returns generated by a market model (MacKinley, 1997). Our estimation window runs from day -120 to day -20. We aggregate the abnormal returns over a period of seven days, starting three days prior to the event announcement date until three days after the event announcement date. Apart from the percentage returns, we also calculate the euro wealth effects by multiplying the seven days CAR by the beginning of the year's market value of the acquirer's equity.

We collect financial data and corporate governance characteristics from several sources. Stock returns and index returns are obtained from Datastream (as of 1973) and the *Officiële Prijscourant* (before 1973). Company financial information is obtained from annual reports as issued by the company. Board and ownership data is taken from the *Handboek Nederlandse Beursfondsen, Jaarboek Nederlandse Ondernemingen* and yearly overviews of WMZ notifications in *Het Financieele Dagblad*. Adjustment for inflation are based on CPI data on www.iisg.nl to 2001 euro amounts. Dates with regards to the announcements of the CEO successor are based on public announcements, either made in the Annual General Meeting of Shareholders or made public through articles in Dutch and/or international newspaper media.

In order to visualize the 'seasons' of CEO tenure, we define three phases. Phase one starts when the CEO comes into office. Hambrick and Futukomi (1991) posit that this phase typically lasts 12 to 18 months. In the case of Philips, all CEO's are internal successors, who (with the exception of Boonstra) have served the company for most of their professional life and may be assumed to be well acquainted with the internal and external environment. For this reason we have limited the first tenure phase to 12 months. The second tenure phase starts after the CEO has been in office for 12 months and ends when a CEO successor is announced. The length of the second phase, therefore, is flexible and depends on when phase three is initiated. The third and last tenure phase starts with the public announcement of the CEO successor and ends at the CEO's last day in office. Philips has a policy to announce the CEO successor well in advance. Typically, some 8-10 months before the new CEO takes over the helm. For the first three CEO's in our sample, this was announced at the AGM (a full year ahead therefore). For the third CEO and beyond, the announcement of the CEO successor was made separately from the AGM and the company issued a separate press release to this effect.

Information with regards to communication of company strategy is based on interviews given by the CEO within the first 18 months in office. Boonstra postponed communication with regards to strategy and made several public statements to this effect. We have therefore analyzed interviews in the first 36 months in office. A second source of information with regards to company strategy is provided by financial and company analyses in *Het Financieele Dagblad* and other international business magazines in the same period.

Information with respect to the Investor Relations aspects of Philips' communication strategy has been obtained from Rematch. Rematch Investor Relations is a Dutch independent research/consultancy agency, advising medium-sized and large companies in the area of Investor Relations management. Rematch scores are based on market research with target audiences from the financial markets.

Our empirical analysis is presented in Tables 1 to 4 and Figures 1 to 3. Table 1 presents the key characteristics per CEO, in terms of background, mandate and strategy. Table 2 contains the firm characteristics over the 1971-2001 period, including firm size (Panel A), strategy and investments (Panel B) and performance (Panel C). In Table 3 we show the shareholder wealth effects, per CEO and tenure phase, both expressed in percentage and euro returns. Table 4 contains the largest transactions based on shareholder wealth effects. Figures 1 and 2 describe the number of transactions per year, distinguishing investments and divestments (Figure 1) and positive and negative announcement effects (Figure 2). Figure 3 shows the investor relations scores and evolution of the number of analysts following.

3.3. The history of Philips prior to 1971

Philips was founded by Gerard Philips and his father in 1892. Soon Gerard's brother Anton joined the venture as a salesman. By the turn of the century, Philips was the number three light bulb production company in Europe. Initially, Philips focused on the production of light bulbs. Because of this single product focus, Philips was able to invest heavily on a continuous basis in modern production assets and facilities. Philips also invested significantly in research. As a result, Philips created technological advances, which enabled the company to generate a healthy financial fundament. From 1900 onwards Philips penetrated foreign markets initially through export sales. Later on (from 1912) this was replaced with local sales organizations. All non sales functions remained at the corporate headquarters in Eindhoven. From its initial single product focus on electrical light bulbs, Philips diversified into radio equipment (1925) with a 20% market share around 1935. In the 1930's Philips further diversified with the production of X-ray tubes. In the 1930's the general economic conditions lead to many macro economic protection measures forcing Philips built local production facilities to protect its market share. Anticipating the break-out of World War II, Philips took several far reaching measures: (A) it transferred its foreign operations into two trusts – North American Philips Corporation and British Philips; (B) all top management was moved to the US, and (C) a substantial part of the research laboratory were moved to the UK.

During the war the national organizations increased their independence from Company Headquarters and developed strong local market knowledge. With the loss of production capabilities in the war, Philips regarded the National Organizations as an important building block in the post war development of the company. By letting the National Organizations develop their business in the way they see fit for local market, Philips developed prosperously. The National Organizations had the freedom to cater for many local differences, such as technological standards and consumer preferences. By doing so they were able to build a strong local business. As a result, product development was decentralized within Philips. Production typically took place in local (or at best regional) production facilities and factories.

The organization model that emerged from this is the typical Philips matrix structure, where product divisions (lead from Company Headquarters in Eindhoven) were formally responsible for the development, the production and the distribution and the National Organizations owned the production assets and the customers, and sales channels. Upon the introduction of the EEC (European Economic Community) in the sixties, the role of the National Organizations had to change. New product requirements demanded more production intensity. For economic reasons many of Philips competitors shifted production to low coast regions (e.g. Asia). Starting in the late sixties, Philips' ability to turn technological superiority into commercial success began to diminish. Asian (Japanse) competitors began to penetrate the markets that traditionally had been dominated by Philips. Early seventies, Philips management realized that the Philips organization needed to adapt to the changing circumstances.

3.4. Philips' governance structure, 1971-2001

Dutch corporate law provides for a two tier structure, with a management board and a supervisory board. Shareholders have the right to elect the members of both the management board and the supervisory board, the right to approve the annual accounts and the right to formally approve the company's dividend policy. However, shareholder rights can be restricted in several ways. De Jong *et al.* (2007) describe how a Dutch company can mitigate shareholder influence in three different ways. First, through the incorporation of a trust office, that holds the company's shares and issues non voting share certificates to the investors. Secondly, through issuing non-fully paid up, but full voting preference shares to friendly shareholders. And lastly, to issue priority shares with special rights. Special rights attached to priority shares may be the nomination of board members, merger approval, new public offerings and charter amendments. Historically, the above described mechanisms have been widely used by Dutch corporations as means to restrict shareholder power in general and particularly as takeover defense. Starting as of 1989, the provisions of Euronext Amsterdam only allow the use of a maximum of two out of the three types described above. Empirical research has shown that the use of takeover defenses has implications for firm value. In line with earlier studies De Jong *et al.* (2005) find that takeover defenses as described above are negatively related to firm performance, measured by Tobin's q.

Koninklijke Philips Electronics N.V., a Dutch limited liability company, is the holding company of the Philips Group. The company has been incorporated in 1891 as a limited partnership (a so-called 'commanditaire vennootschap' under Dutch law) called Philips & Co, was changed into a N.V. called N.V. Philips' Gloeilampenfabrieken, in

1912. In 1994, the name was changed into Philips Electronics N.V. which became Koninklijke (Dutch for ‘Royal’) Philips Electronics N.V. in 1998. As from 1913 Philips’ shares are quoted at Euronext Amsterdam, and traded in the US as from 1962. Since 1987 the shares are also quoted at the New York Stock Exchange. Historically, the Philips family has held priority shares with special rights. The special rights allotted to the priority shares pertained to the binding nomination of the members of both the Management Board and the Supervisory Board. Through this mechanism the Philips family could exert influence for a long time. In time the Philips family has diminished their influence through a gradual transfer of the priority shares to the Dr. A.F. Philips Stichting. By 2002 all 10 priority shares had been transferred from the Philips family to the Dr. A.F. Philips Stichting. In 2005 the priority shares have been cancelled by shareholders resolution. Since 1989 Philips’ articles of association allow the issuance of preferred stock to a trust office (the ‘Stichting Preferente Aandelen Philips’) as a takeover defence mechanism. Until 1991, N.V. Gemeenschappelijke Bezit van Aandelen Philips’ Gloeilampenfabrieken is the holding company whose sole purpose is to hold the shares of N.V. Philips Gloeilampenfabrieken. Since 1991 the holding company is transformed into a holding- and management company from which the Philips group of companies is managed**.**

Under the Dutch compliance rules, investors have to report an investment when it exceeds 5% of the issued share capital (and then subsequently when the shareholding exceeds higher thresholds). Since 1998 Janus Investments US (a publicly quoted US investment company) with a shareholding of 5,41% is the only registered holder exceeding the lowest (5%) threshold.

3.5. Strategic decisions per CEO

3.5.1. Van Riemsdijk (1971-1977)

In the period 1971-1977 the company was relatively stable. The workforce was around the 370,000 to 380,000 employees and the asset book value (taking into account inflation) actually decreased with 10.5%. Sales increased from € 8.2 billion to € 14.1 billion, which was primarily caused by inflation. After adjusting for inflation, sales per fte was stable at approx. € 73,000 and EBITDA per fte was stable at around € 9,000 to € 10,000.

Investments in capital expenditure (measured in relation to total assets) for the period is 0.03 on average per year. The investments in research and development (measured in relation to total assets) are on average 0.063 per year. However, for this period the R&D data were not available for the first 4 years.

Profitability (measured as net income divided by equity book value) was on average 0.061 per year and ranged from 0.017 to 0.095. Total shareholder return for this period was negative, with -3.6% on average per year, ranging from -47.5% to +42.5%. However, abnormal returns for this period were even more negative, with -4.2% on average per year, ranging from -11.3% to +5.5%.

When Van Riemsdijk became CEO, Philips did not have a track record of deploying acquisitions or alliances to achieve its strategic goals. The number of events is therefore rather limited. We have found 29 qualifying announcements, 8 of which related to acquisitions, 5 related to divestitures and 16 are related to alliances and joint ventures. The average CAR generated in this period was -0.7%, which results in a total shareholder wealth loss of € 386 million for this period. Acquisitions accounted for an average CAR of -1.6%, or a wealth loss of € 244 million. Joint ventures and alliances accounted for an average CAR of -0.6%, or a wealth loss of € 288 million. Divestitures and sell-offs accounted for an average CAR of +0.6%, or a wealth gain of € 66 million.

3.5.2. Rodenburg (1977-1981)

In the period 1977-1981 the asset book value (taking into account inflation) decreased with 11.4%, and the workforce was reduced with almost 36,000 fte's (or 9.3%). The market value of equity decreased with € 529 million (or 24.8%). And although the inflation adjusted Sales per fte increased from € 73,000 to € 89,000 per fte, inflation adjusted EBITDA was stable at € 8,000 per fte. The investments in capital expenditure (measured in relation to total assets) for the period is 0.025 on average per year. During his tenure, the investments in research and development (measured in relation to total assets) are on average 0.069 per year.

Profitability in this period decreased to on average 0.041 per year, ranging from 0.024 to 0.058. Total shareholder return for this period was negative, with -5.2% on average per year, ranging from -35% to +30.5%. Abnormal Returns for this period were -2.0% on average per year, ranging from -12.9% to +11.5%.

Rodenburg was the first non-family member to become CEO. With a background in engineering, and a career starting in the Philips Laboratories, Rodenburg was appointed CEO, having run the Telecommunications unit successfully. Rodenburg's communication with the financial markets focused on Philips' need to reorganize and streamline its operations in the light of intensifying Japanese competition. In doing so, he defined a key role for technology for Philips to achieve its goals. Philips did not have a track record in acquisitions. However, in market analyses it was recognized that the Philips was becoming far more active in acquisitions and divestments in order to strengthen certain business lines and eliminate others. The Superscope deal and the 1979 purchase, for $ 185 million, of a one-quarter stake in Germany's Grundig, were put in this perspective. In this period, Philips was listed only at the Amsterdam Stock Exchange.

As in the previous period, in this period too the number of events is limited. We have a total of 21 qualifying announcements, 8 of which related to acquisitions, 7 related to divestitures and sell offs and 6 related to alliances and joint ventures. The average CAR generated in this period was -0.7%, corresponding with a shareholder wealth loss of € 182 million. Acquisitions accounted for an average CAR of -0.04%, or a wealth loss of € 67 million. Joint ventures and alliances accounted for an average CAR of -1.1%, or a wealth loss of € 63 million. Divestitures and sell offs accounted for an average CAR of -0.7%, or a wealth loss of € 52 million.

3.5.3. Dekker (1982-1986)

In the period 1982-1986 the asset book value (taking into account inflation) increases with 7.4%, and the workforce increases with 8,000 fte's (or 2.4%). The market value of equity significantly increases with € 3.7 billion (or almost 200%). Sales per fte (after adjusting for inflation) increased from € 88,000 to € 101,000 per fte, and inflation adjusted EBITDA shows strong increase from € 8,000 to € 12,000 per fte. Investments in capital expenditure (measured in relation to total assets) for the period is 0.013 on average per year. During his tenure, the investments in research and development (measured in relation to total assets) are on average 0.073 per year.

Profitability in this period more than doubles and increased to 0.052 on average per year, ranging from 0.029 to 0.065. Total shareholder return for this period was 17.6% on average per year, ranging from -34.5% to +48.2%. Abnormal returns for this period were 6.4% on average per year, ranging from –4.1% to +12.5%.

Contrary to his predecessors, Dekker had a commercial background with a more than solid international track record. He had been working for 24 years in Asia, in charge of local National Organizations and heading up Philips' Asian operations, before coming to Europe. When Dekker became CEO, Philips traditionally insisted on technological autarky. This strategy supported growth into a multi billion electronics company, among the biggest in the world. However, this required heavy spending in R&D (Philips had the world third largest R&D budget only after IBM and AT&T). Using many of his business relations with Asian, US and European partners, Dekker deployed a strategy of concluding joint ventures to share R&D efforts so as to reduce Philips' own R&D spending. This change in strategy was deployed in 1984, when Dekker was 2 years in office. Dekker (also know as 'the great communicator') frequently communicated about this change in strategy to the financial markets in interviews, in analyst and shareholder meetings and through publications, such as the annual report. In this period, Philips was only listed at the Amsterdam Stock Exchange. The importance of Philips share value for management is increasing with the issuance of bonus shares (1982) and stock options (1986) to Philips' management.

Again we registered a limited number of events, with a total of 33 qualifying announcements, 8 of which related to acquisitions, 4 related to divestitures and sell offs and 21 related to alliances and joint ventures. The average CAR generated in this period was -0.8%, corresponding with a shareholder wealth loss of € 1,399 million. Acquisitions accounted for an average CAR of 0.3%, or a wealth gain of € 37 million. Joint ventures and alliances accounted for an average CAR of -1.1%, or a wealth loss of € 1,209 million. Divestitures and sell offs accounted for an average CAR of -1.3%, or a wealth loss of € 227 million.

3.5.4. Van Der Klugt (1986-1990)

In the period 1986-1990 the asset book value (taking into account inflation) initially increases but starts to decrease from its high of € 34 billion in 1989 to € 31.5 in 1990. The workforce decreases with more than 71,000 fte's (or 20.7%). The market value of equity decreases with € 1.7 billion (or almost 30%). Sales per fte (after adjusting for inflation) increased from € 101,000 to € 125,000 per fte, but inflation adjusted EBITDA plummets particularly in 1990 to € 3,000 per fte. Investments in capital expenditure (measured in relation to total assets) for this period amounts 0.006 on average per year. During his tenure, the investments in research and development (measured in relation to total assets) amount to 0.085 on average per year.

Profitability in this period more declines to -0.025 on average per year, ranging from -0.402 to 0.098. Total shareholder return for this period was -21.5% on average per year, ranging from -85.0% to +37.0%. Abnormal Returns for this period were -4.2% on average per year, ranging from –27.5% to +21.3%.

Like Dekker, Van Der Klugt had a commercial background and a strong international track record. Before becoming CEO, Van Der Klugt concluded various high-profile international acquisitions. For Philips, he acquired Bauknecht, a German domestic appliances producer and he acquired a stake in Grundig, a consumer electronics firm. Before, he made his career within Philips through the ranks of the local national organizations, particularly those in Latin America. When Van Der Klugt became president, he publicly stated to continue his predecessors focus on returns (improving the performance of all units) and improving efficiency. He also mentioned to continue his predecessors policy of concluding alliances to improve the Philips position in various markets or share development efforts. In addition to the listing at the Amsterdam Stock Exchange, a second listing at the New York Stock Exchange is obtained in 1987, while in the same year a seasoned equity offering (€ 440 million) is placed. The importance of Philips share value for management further increases with the incorporation of an annual stock options program (1986, 1989 and further) to Philips' management. In this period we see a strong increase of qualifying events, totaling 74 announcements, 13 of which related to acquisitions, 23 related to divestitures and sell offs and 38 related to alliances and joint ventures. The average CAR generated in this period was negligible (0.03%, corresponding with a shareholder wealth loss of € 70 million). Acquisitions accounted for an average CAR of 2.8%, or a wealth gain of € 1.587 million. Joint ventures and alliances accounted for an average CAR of 1.0%, or a wealth gain of € 1.525 million. Divestitures and sell-offs accounted for an average CAR of 0.1%, or a wealth loss of € 26 million.

3.5.5. Timmer (1990-1996)

In the period 1990-1996 the asset book value (taking into account inflation) initially declines from € 31.5 billion in 1990 to € 25.6 billion in 1993. From its low in 1993, asset book value increases to € 28.5 billion in 1996. The workforce is reduced with some 22,000 fte (or 8.2%). The market value of equity strongly increases with € 5.6 billion (or almost 142%) from € 3.9 billion in 1990 to € 9.5 billion in 1996. Sales per fte (after adjusting for inflation) over the period increases to € 132,000 per fte on average, and inflation adjusted EBITDA per fte returns to earlier levels of € 11,000-14,000 per fte. Investments in capital expenditure (measured in relation to total assets) for this period amounts -0.010 on average per year. During his tenure, the investments in research and development (measured in relation to total assets) amount to 0.077 on average per year.

Profitability in this period improves to 0.08 on average per year, ranging from -0.088 to 0.173. Total shareholder return for this period was 20.6% on average per year, ranging from -39.9% to +71.4%. Abnormal Returns for this period were -5.4% on average per year, ranging from –21.7% to +11.1%.

Jan Timmer’s career within Philips has an extensive international fundament. In addition, he developed a track record of successful reorganizations. By subsequently reorganizing the Philips national organization of South Africa, Polygram and the business unit Consumer Electronics, Timmer gained a strong reputation of restoring profitability in distressed business lines. This reputation made him the ideal CEO-candidate to restore Philips’ returns. The day after which he was formally appointed CEO, he immediately launched a reorganization plan, announcing an unprecedented loss of € 900 million and 10,000 lay offs. When this proved insufficient to convince the financial markets (analysts downgraded the Philips shares), he announced further measures as a result of which 45,000 to 55,000 jobs would be cut bringing the total costs around € 2 billion. The sheer magnitude of the plan made Timmer immensely popular with the press and the financial markets. Timmer communicated openly about the state the company was in, therewith creating a platform for the actions that he deemed necessary. He announced his plans to cut in research and development costs for certain business lines (semi-conductor and computers) with the aim to find partners to share the efforts with. Ultimately, he announced his intentions to dispose of both activities if the quest for partners would prove unsuccessful. He communicated frequently with analysts and other financial market intermediaries about his strategic intentions. In the first three years of his CEO tenure, Timmer made another unprecedented move: he withheld all dividend payments. Philips continues to be dual listed in both Amsterdam and New York. Under Timmer, the need to professionalize the Investor Relations function is recognized. In 1994, the Philips annual report for the first time refers to the existence of a separate Investor Relations Department. Philips' management gets the incentives to focus on the performance of the Philips' share price through option programs issued annually (from 1990 onwards).

In this period the number of qualifying events more than doubles compared to the previous period, to 181 announcements. In total, 44 announcements are related to acquisitions, 84 to divestitures and sell offs and 53 are related to alliances and joint ventures. The average CAR generated in this period was 0.2%, which adds up to a shareholder wealth gain of € 1.299 million. Acquisitions accounted for an average CAR of 0.3%, or a wealth gain of € 881 million. Joint ventures and alliances accounted for an average CAR of 0.1%, or a wealth gain of € 61 million. Divestitures and sell offs accounted for an average CAR of 0.3%, or a wealth gain of € 357 million.

3.5.6. Boonstra (1996-2001)

In the period 1996-2001 the asset book value (taking into account inflation) increases steeply with € 9.9 billion (or 34.7%), from € 28.5 billion to € 38.4 billion. The workforce is reduced with some 60,900 fte (or 24.3%). The market value of equity very strongly increases. It initially increases with more than € 52 billion from € 9.5 to € 61.9 billion. However, in the subsequent year 2001 the market value of equity is reduced with more than € 20 billion (or 33%). Sales per fte (after adjusting for inflation) increases from € 124,000 to € 174,000 per fte, and inflation adjusted EBITDA per fte for the period increases slightly to € 15,000 per fte on average. Investments in capital expenditure (measured in relation to total assets) for this period amounts 0.004 on average per year. During his tenure, the investments in research and development (measured in relation to total assets) amount to 0.075 on average per year.

Profitability in this period strongly improves to 0.149 on average per year, ranging from -0.282 to 0.478. Total shareholder return for this period was 26% on average per year, ranging from -15.6% to +82.7%. Abnormal Returns for this period were -2.6% on average per year, ranging from –28.1% to +20.6%.

Before coming to Philips in 1994, Boonstra had made his career in the DE (Douwe Egberts, part of Sara Lee in the US). Deploying a tough management style, he had successfully built profitable business lines for Sara Lee. Doing so, he was a strong advocate of the shareholder value concept, focusing primarily on shareholder returns with a keen eye on short term share price development. In 1994, Boonstra joined Philips, initially to head up the Light business unit, to look after company marketing and to manage the growth in Asia. He achieved various high profile successes, such as the harmonization of worldwide product marketing under one Philips marketing campaign, a strong improvement of the Asian business and restructuring of the Light business unit. These successes combined with his marketing and sales background positioned him as candidate for CEO. When Boonstra became CEO in 1996, the financial markets were very positive about his assignment. His tough Anglo Saxon management style, his focus on shareholder value and his open contest of the Philips culture caused that analysts and other financial markets intermediaries reported positively. However, subsequently Boonstra categorically declined talking about his strategic intentions. He initially postponed the communication on strategy to the markets several times, and ultimately claimed that the strategy had formed itself in the course of business. In press and other publications, he was heavily criticized for his lack of strategic vision and his unwillingness to communicate about matters pertaining to strategy.

In this period the number of qualifying events is significantly less than in the prior period, with 113 announcements. In total, 19 announcements are related to acquisitions, 73 to divestitures and sell-offs and 21 are related to alliances and joint ventures. The average CAR generated in this period was 0.5%, which adds up to a shareholder wealth loss of € 14.8 billion. Acquisitions accounted for an average CAR of 1.1%, or a wealth gain of € 5.4 billion. Joint ventures and alliances accounted for an average CAR of -0.3%, or a wealth loss of € 558 million. Divestitures and sell offs accounted for an average CAR of 0.1%, or a staggering wealth loss of € 19.6 billion.

3.6. Tenure effects

We analyze the relationship between CEO tenure and shareholder wealth effects performance using the conceptual approach as in Hambrick and Futukomi (1991). In the first phase (the first year) of the CEO tenure, the shareholder wealth effects of all announcements of asset restructuring and alliances (n=102) on average amounts to 0.03%, which corresponds to a total shareholder wealth gain of € 84 million across all CEOs. In the second tenure phase (starting after the first year and ending when a successor is announced) the shareholder wealth effects of all announcements of asset restructuring and alliances (n=282) on average amounts to -0.05%, which corresponds to a total shareholder wealth loss of € 4,405 million across all CEOs. In the third and last phase (as of the successor announcement date until the end) the shareholder wealth effects of all announcements of asset restructuring and alliances (n=67) on average amounts to -0.09%, which corresponds to a total shareholder wealth loss of € 11,209 million across all CEOs.

3.7. Financial market communication

Starting 1990, Rematch has conducted an annual survey among asset managers, financial analysts, and investors with a focus on the investor relations performance of Dutch publicly quoted companies. The subsequent evaluation of their feedback is aggregated at the company level and subsequently analyzed and reported. In prevailing cases the reports are published. For Philips Electronics, the Rematch Investor Relations reports reveal positive feedback to Investor Relations efforts in the year 1995. Philips wins the Investor Relations Award and is mentioned among the companies positively distinguishing themselves with respect to Investor Relations criteria credibility, clarity, disclosure and timeliness. Timmer is mentioned explicitly as having made a positive contribution to the corporate image. In 1997, Philips ranked number three and it is mentioned that the quest for a new company strategy ‘is mirrored in negative connotations for clarity and openness'. Boonstra is mentioned explicitly as having made a positive contribution to the corporate image. The Philips annual report is mentioned as distinguishing itself negatively from the other Dutch publicly quoted companies. The 1997 report mentions that over time Philips is the company with the highest IR-volatility. The 1998 report adds that there are 'disturbing signals': the company is mentioned both positively and negatively with respect to the different IR criteria. However, Boonstra is still reported as having made a positive contribution to the corporate image. In 1999, Boonstra is said to occupy an ambivalent position with respect to his contribution to corporate image. He occupies both a positive top position with all target groups as well as a 'flop position' (ranking as worst performer) with three target groups. In the year 2000, Philips is mentioned as gaining in the Investor Relations ranking, with high appreciation for its annual report in terms of readability and information value. However, Boonstra is not mentioned anymore. In the year 2001 (Boonstra's last day as CEO was April 30, 2001), Philips was (mildly) criticized for not having up to date information on its website. In 2001, Boonstra was heavily criticized as a bad performer in terms of making a positive contribution to the company's image. He received a 'red' card for this.

4. Discussion

We have investigated Philips major decisions and interactions with financial markets in the period 1971-2001. In this period six CEO's have been presiding over the company. We investigate all six CEOs, the market reactions to their acquisitions, joint ventures, alliances and divestitures. First, we analyze the asset restructuring and alliances announcements.

In our analysis we have included announcement effects of all types of asset sales and all types of acquisitions as defined by Lai and Sudarsanam (1997). Furthermore, we have included announcement effects of alliances and joint ventures, since both have served as a strategic alternative to asset restructuring as defined by Lai and Sudarsanam (1997). We have excluded possible announcement effects of capital expenditure. The reason for this exclusion is that capital expenditure mostly is of an internal nature, and only rarely is announced publicly. The pattern found with Philips in the period 1971-

2001 is similar to that found by Moeller *et al.* (2005). The transactions with the biggest value implications for the Philips shareholders, both in positive and negative euro amounts, are relatively few in numbers and have all been conducted in the last two to three years of our 30 year period. Furthermore, the announcements with the biggest value implication can mostly all be tied back to divestments. Therefore, the explanations in Moeller *et al.* do not fit our findings. This is remarkable since in the same period Philips operationally generated volatile, but quite healthy returns. In addition, Philips' market value is relatively high. High market values are an indicator that a firm is well run or has growth opportunities. Our findings are in line with Dong *et al.* (2006), who find that higher bidder valuation is strongly associated with lower bidder abnormal returns. However, these authors do not provide an answer to the discrepancy in market reaction to divestment announcements as opposed to market reactions to acquisition announcements in a period of high valuation.

We now turn to the relation between capital expenditure and number of acquisitions and alliances. Calculating the annual capital expenditure for each CEO averaged across tenures, we find a negative correlation with the number of acquisitions and alliances. Our findings, therefore, match those of Bertrand and Schoar (2001) who find that managers who engage in more external acquisitions display lower levels of capital expenditures. However, calculating the average annual R&D expenditure (in relation to total sales) we do not find a clear relationship with number of acquisitions and alliances. Therefore, we cannot confirm the Bertrand and Schoar (2001) assertion of a positive correlation between numbers of acquisitions/alliances and R&D expenditure. This may be caused by the limited number of observations in our dataset. Another explanation could be that the relationship found by Bertrand and Schoar (2001) does no apply to the electronics industry, with its rapid pace of technological change constantly requires high levels of R&D plus the opening of new distribution channels and markets through acquisitions.

Hambrick and Futukomi (1991) find an increasing organization performance in the early years of a CEO's tenure. Peak performance tends to occur around the mid point of the CEO tenure, after which they find diminishing performance towards the end of the tenure. With an average CAR around 0 (0.033% and 0.049% respectively for phase one and phase two of CEO tenure across all CEO's), we find no evidence for increasing performance in the first tenure phase, or peak performance occurring around the mid point of the tenure. However with an average CAR of -0.9% we do find evidence of diminishing performance in the third and last phase of the CEO tenure.

All Philips CEOs have been recruited internally. Furthermore, all CEOs, with the exception of Boonstra, had been working almost all of their working lives with Philips, and had been appointed to the Management Board well before being appointed as CEO. Board familiarity includes involvement in decision making at the top of the organization before assuming the CEO position. However, when Boonstra became CEO he had been with Philips for barely two years, and was considered an outsider. Furthermore, Boonstra came from a different industrial background (Sara Lee) and from a different cultural background (Anglo-Saxon company culture, shareholder value thinking), and he made very clear that he did not favor at all the Philips company culture. These elements can be viewed as important indicators of his attitudes and beliefs about strategy (Westphal, 2001). In this setting, with a new CEO, qualifying as an outsider, taking the helm, strategic change - being a discontinuation of the than prevailing strategic direction - was likely to occur when Boonstra came into office. However, with high expectations for changing directions, investors are deprived of information as to which strategic direction Boonstra chooses to take. Shareholders grapple with how asset restructuring and alliances fit into the overall company strategy and how such events should be valued. Diminishing investor appreciation is reflected in the Investor Relations reports for this period. When Boonstra became CEO, he initially is appreciated in terms of Investor Relations contribution, even though as a company Philips is criticized (negative connotations to openness and clarity and annual report lacking sufficient disclosure). Appreciation further deteriorates until 2001, when Boonstra get a ‘red card’ for investor relations in his last year in office. Information asymmetry - the absence of clarity on the new strategic direction – caused by weak or failing communication to the market, is the explanation for huge negative market reaction to the announcements of divestitures by Boonstra, generating shareholder wealth losses amounting to € 19.6 billion.

When we analyze the tenure aspects across all six CEOs we note remarkable shareholder wealth losses in the last tenure phase. All three event categories, acquisitions, divestments and alliances, reported negative average CARs, both across all CEO’s and for each CEO individually. Across all CEOs, the largest average losses are generated in the category of acquisitions and alliances. Total wealth loss in the last tenure phase is € 11.2 billion, of which € 5.26 billion corresponds with acquisitions and € 5,473 relates to alliances.

5. Conclusions

The case of Royal Philips also demonstrates among six consecutive CEO's, that once a new CEO has been announced, shareholders will be skeptical about the current CEO pursuing restructuring in the evening of his tenure. Shareholders react negatively to all such restructuring announcements, but most negatively to non organic growth initiatives – acquisitions and alliances. This is probably explained best by the unclarity of how such growth initiatives would fit in the new, yet to be communicated strategic direction.

In particular, the case of Royal Philips N.V. illustrates that financial markets have become increasingly demanding with respect to adequate communication skills and efforts. Especially Boonstra has not been able to unambiguously communicate his strategic intentions to the market. At the time he became CEO the financial markets were booming and developing rapidly. The financial market expected from Boonstra a change in strategy, given his background and his reputation. Failure to convincingly communicate his strategic intentions has resulted in shareholders pricing uncertainty into their appreciation of restructuring announcements. This has resulted in massive shareholder wealth losses.

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Table 1: CEO descriptions

CEO (and period)	Background	Mandate / M&A and strategy
Henk van Riemsdijk May 6, 1971 to May 5, 1977	Henk van Riemsdijk was the last member of the Philips family in the Board of Philips. He started his career with Philips in 1934 in the commercial department and married Henriëtte Anna Philips, Philips' daughter. It has been generally assumed that he thanked his presidency to this relationship – the Philips family owned so-called priority shares which carried the right to appoint members of the Board and members of the SvB. After he stepped down, he joined the Supervisory Board as president until 1984. When, in 1971, Henk van Riemsdijk was appointed president, he took over a company with 20 years of uninterrupted postwar success.	In the 50ties and sixties Philips had built technical superiority in recording, transmitting, and reproducing television pictures. Early 70ties Philips introduced the first video cassette recorder to the market. The 1970s, however, were a difficult time, as competition from Asia entered Philips' markets. Many of Philips smaller, less-profitable factories were closed as the company created larger, more efficient units. The company also continued its innovative efforts in recording, transmitting, and reproducing television pictures. Competition from Japanse companies with more efficient production continued to increase. Philips restructuring could be characterized as rationalization without forced lay offs. M&A is not explicitly mentioned as part of Philips' strategy.
Nico Rodenburg May 6, 1977 to Dec. 31, 1981	Dr. Ir. Rodenburg is the first non family member president. Having started as engineer with Philips NatLab, he subsequently made his career in the Telecommunications division, where he was considered to be a good manager. He joint the Board in 1972 and was asked to become president by Frits Philips in 1977. Within a 12 to 18 months period it became clear that this role was too much for Rodenburg. Officially health problems were mentioned to cause his resignation. In his last year his role was limited to a ceremonial function. Behind the scène, his successor Wisse Dekker, was already taking control. Under Rodenburg sales grew steadily for most of the late 1970s and early 1980s, but increased profits did not follow. This made him the first president to cut in this part of Philips. Many smaller production facilities in Europe were closed down, against the wish of unions and authorities.	Philips strategy was aimed at gaining traction in the area of professional products, e.g. computers, defense systems and telecommunication. With his technical background Rodenburg was the right person for this mission. Rodenburg reorganized the internal organization: he ended the until then prevailing practice that each Division was lead by both a commercial and a technical director. As Japanese companies, with their large, automated plants, flooded the market with inexpensive consumer electronics, Philips, with factories scattered throughout Europe and rising labor costs, saw its market share continue to decline. In 1980 a rather large restructuring was conducted in Consumer Electronics. This is generally regarded as Philips' first reorganization including lay-offs. After a year of protracted negotiations with the labor unions he agreed with layoff of 1500 employees at Elcoma (components) en Glass (1979). This decision was very difficult for him as it was generally considered a breach with the life time employment guarantee that Philips until than used to provide to its employees. M&A is not explicitly mentioned as part of Philips' strategy.

Table 1: CEO descriptions

CEO (and period)	Background	Mandate / M&A and strategy
Wisse Dekker Jan. 1, 1982 to April 22, 1986	Wisse Dekker built his career in Philips National Organizations. In 1948 he started in the Regional HQ in Asia. In the fifties and sixties he subsequently made career in the Asian part of Philips. In 1966 he was appointed as General Manager for Philips in the Far East. In 1972 has was asked to come to Europe and had various board positions with Philips in the UK. In 1979 he came to the Netherlands and joined the Board of Directors. In 1982, when he became CEO of the company, Philips heavily suffered from Japanse competition and failed product launches, like the V2000 video recorder. Even though Dekker reorganized the company and cut work forces, he became popular with the employees because he restored the faith in the future of the company. He thanked his presidency to a successful multibillion dollar order from Saudi Arabia as well as to the failure of his predecessor. He was very active in public relations and loved the relationships with other European industry leaders. Dekker has lead the way in the participation in many joint ventures, which nearly all failed. When he left the office in 1986 he became President of the Supervisory Board.	Dekker initiated an ambitious restructuring program to mitigate bureaucracy and rationalize production. After only a few months, Dekker had closed more than a quarter of the company's European plants and had significantly reduced the global work force. Dekker also began to seek acquisitions and joint ventures with the aim to concentrate the company's resources on its most profitable and fastest-growing product lines. Philips bought the lighting business of Westinghouse (US), and acquired a 24.5% of Grundig, the largest West German consumer-electronics firm. In the US, North American Philips merged its Magnavox consumer-electronics division with the Sylvania and Philco businesses. Two years later, the company announced a 50-50 joint venture with AT&T to manufacture and market public-telephone equipment outside the United States, a deal it hoped would save millions in R&D. Frequent communication towards press, analysts and shareholders on M&A as integral part of Philips' strategy.

Table 1: CEO descriptions

CEO (and period)	Background	Mandate / M&A and strategy
Cor van der Klugt Apr. 23, 1986 to June 30, 1990	Cor van der Klugt had a proven track record within Philips before being elected President. He succesfully led the local Brazilian organization before coming to Corporate HQ in 1978. As a member of the Board he succesfully closed the Bauknecht acquisition and acquired control over the Grundig activities at the right moment in time, in fierce competition with other potential buyers. As a president, probably his biggest achievement has been to re-align the quite independent and autonomous unit, North American Philips subsidiary (NAPC). Van der Klugt sold many units and divisions in an attempt to restore Philips results and to compensate earnings suffering from strong price decline caused by devaluation of the dollar and the yen. In 1988 he put the division large domestic appliances in a jv with Whirlpool and he sold the subsidiary Holland Signaal to Thomson. In 1989 he managed to report record earnings, which actually for 40% were caused by extra-ordinary items such as the sale of the Paris headquarters and the IPO of PolyGram. Within Philips, and within the Board of Directors he became more and more isolated, loosing grip on the company and the operations. Towards the end of 1989 and the beginning of 1990 Group earnings were falling dramatically. Effects from cost reduction measures did not materialize, operational results were suffering badly from a weakening dollar and weak operational performance in almost all the Philips divisions. However, towards external stakeholders and towards shareholders (on the AGM of April 10th, 1990) Van Der Klugt continued to paint a rosy picture claiming that the company was still on track. When plummeting 1989 results were released in May 1990, he lost his credibility and was forced to step down in 1990 by Dekker, who had lost faith in him (not in the last place because Van der Klugt had lied to him about the affair with his secretary). His resignation was announced on May 14th, 1990. The general perception is that he has not been very successful in his presidency.	Van der Klugt continued to seek acquisitions and joint ventures to improve the company's market position. Research in laser technology and microelectronics, resulting in advancements in the processing, storage, and transmission of images, sound, and data, also helped regain part of the market lost to the Japanese. This research produced highly innovative products such as the LaserVision optical disc, the compact disc, and optical telecommunications systems. Van der Klugt reorganized the company and thereby eliminated an entire layer of management and bureaucratic internal governance. Van der Klugt also made an effort to globalize the company's structure and improve profitability (with success: rising profits in 1988). He also rationalized operations (push for increasing market share in consumer electronics). In response to Japanese competition, van der Klugt also began to drop non-core activities in favor of development in electronics. In late 1989, for example, Philips began to withdraw from the defense market, where it had a leading role. Philips sold its Dutch defense electronics subsidiary, Hollandse Signaalapparaten (HSA) to Thomson S.A. of France at the end of 1989 and put other European defense subsidiaries (and interests) up for sale shortly thereafter. Philips also began to share rising R&D costs with other large corporations such as AT&T, Siemens A.G., and Whirlpool through joint ventures. Frequent communication towards press, analysts and shareholders on M&A as integral part of Philips' strategy.

Table 1: CEO descriptions

CEO (and period)	Background	Mandate / M&A and strategy
Jan Timmer July 1, 1990 to Sept. 30, 1996	Also Jan Timmer had built a solid track record within Philips before being appointed. In the period 1983-1987 he brought Philips daughter PolyGram back to profitability. While doing that he bought out Philips partner while at the same time he put a strong effort in refocusing the company to new technological developments (compact disks) – against which there was quite strong opposition within the PolyGram management. After this assignment he restructured the ailing division Consumer Electronics and cut more than ten thousand job. As a candidate for president he received very strong support from Van Der Klugt (CEO at that time) and Dekker (President SVB at that time) against fellow candidate Bouwman. He was appointed almost 18 months ahead of plan, due to the early resignation of Van Der Klugt. On the second day of his appointment he announced that Philips would suffer a significant loss in that year (amounting to almost Euro 1 billion), and that because of this situation significant cost reduction measures needed to be taken. During his tenure more than 50.000 people were laid off. Restructuring of this magnitude was until then unknown in the Netherlands and because of this he was given many nick-names such as ‘the butcher’, ‘the killer’ and ‘the hurricane’. Nonetheless, he personally did not feel bad about it. His restructuring, also known as ‘operation centurion’ was successful and changed the mindset of Philips employees for the better. After he resigned he became member of the Supervisory Board. The agreement was that he would become President of the Supervisory Board, but his successor Boonstra effectively blocked this appointment, after which Timmer left and broke off all contacts with Philips.	Timmer's initiatives were broad, bold, and swift. By implementing a so-called operation Centurion, he hoped to make Philips more responsive to the competitive marketplace by raising productivity, stimulating cost consciousness, and minimizing internal bureaucracy. In 1991 Philips announced a plan to reduce working capital and the size of its property portfolio by several billions of guilders within several months. R&D projects were initiated to develop high-value, software-rich products and services, R&D contracts were concluded with universities and institutions, with R&D objectives tied to broad corporate strategies in order to compensate for cutbacks in R&D budgets since the 1980s. New alliances were launched (with Nintendo to develop CD-based video games, with Motorola to produce video circuits) and Philips sold most of its computer business, Magnavox and its stake in Whirlpool and Matshushita. VCR/camcorder operations were consolidated at Grundig. Philips continued to pursue its strategy of gaining market share by developing new products and then buying into companies that sold them directly to the consumer. Increasing emphasis was placed on R&D (with mixed successes and especially with failures in consumer electronics, e.g.. CD-i, DCC, HDTV etc.). In spite of the successful reorganization efforts, the foundation for profit remained narrow and fragile. Frequent communication towards press, analysts and shareholders on M&A as integral part of Philips' strategy.

Table 1: CEO descriptions

CEO (and period)	Background	Mandate / M&A and strategy
Cor Boonstra Oct. 1, 1996 to April 30, 2001	At the age of 16 years he prematurely left school (HBS) to join Unilever. In 1974 he switched to Sara Lee, where he ultimately became president of the Board of Directors. After stepping down at Sara Lee on December 31, 1993, Philips president Timmer asked him to join the Philips Board early 1994. His mandate was to give the Philips brand name new energy. Initially Boonstra wanted to step back, considering that his tasks were too heavy, but Timmer convinced him to stay. Boonstra took responsibility for the Let's make things better-campaign. After two years at Philips he became the successor of Timmer as president of the Board of Directors. When he was appointed he clearly set the company priority on profitability. He announced that only after restoring profitability, other strategic matters would be dealt with. He immediately reserved almost Euro 1 billion for reorganizations. He also almost immediately announced to cut activities with no or little cancer to profitability – therewith indirectly unwinding some of the initiatives of Timmer. Although scheduled to stay until 1999, he stayed on until 2001 when he was succeeded by Kleisterlee. During the tenure of Boonstra, the market capitalization of Philips grew dramatically. He moved Philips headquarters from provincial Eindhoven to Amsterdam. In the year 2000 he was elected top executive of the year. Privately, he was less fortunate. His wife was kidnapped and barely survived. Later on, several insider trading allegations (Endemol, Ahold) ruined his reputation. His royal reward was cancelled at the last moment because of it.	Boonstra's main focus was on improving the profitability of Philips. Cost reductions (e.g. by eliminating management layers in corporate HQ and moving production to low cost countries) were an important theme. A second area of attention was the company culture, he wanted to improve its aggressiveness and responsiveness, while reducing the bureaucracy and improve accountability. With his marketing background he based the company strategy on 'branding' - Philips-products had to carry the Philips name. Secondly, Boonstra focused on limitation of activities and technologies in which he wanted Philips to be leading. He aimed at mass products for the consumer electronics market. The divestiture of the largest music company in the world, PolyGram, should be seen as a consequence of this strategy. However, Boonstra failed to clearly communicate his strategy to the market. He time and time again postponed his "strategy update" much to the annoyance of analysts and shareholders. The market openly credited him for his cost reduction and rationalization efforts, but after two years at the helm of the company they questioned his skills to create value with Philips. Boonstra sold a long list of activities and companies before making his first big acquisition (ATL Ultrasound - $ 800 million).

Table 2: Strategy and performance

Panel A: Size

Year	Total Assets (unadjusted in € mln.)	Total Assets (inflation adjusted in € mln.)	Total Sales (in € mln.)	Market Value Equity (in € mln.)	Employees
1971	9,661	31,301	8,222	1,957	367,000
1972	10,043	30,181	9,041	3,134	371,000
1973	10,976	30,542	10,239	3,062	400,000
1974	12,837	32,593	11,313	2,124	397,000
1975	13,632	31,407	12,304	1,967	397,000
1976	13,656	28,918	13,811	2,317	391,000
1977	14,116	28,016	14,142	2,132	383,900
1978	13,939	26,574	14,160	2,002	380,400
1979	15,950	29,183	15,083	1,831	378,600
1980	17,991	30,908	16,579	1,391	372,600
1981	19,390	31,220	19,245	1,603	348,100
1982	19,646	29,842	19,508	1,923	336,200
1983	21,672	32,022	20,957	3,526	343,000
1984	24,747	35,398	24,415	4,561	344,000
1985	23,997	33,554	27,247	5,296	345,600
1986	22,975	32,060	24,975	5,626	344,200
1987	22,661	31,781	23,921	4,838	336,700
1988	23,982	33,399	25,448	3,244	310,300
1989	24,948	34,368	25,967	4,933	304,800
1990	23,413	31,466	25,305	3,944	272,800
1991	21,628	27,975	25,859	4,118	240,000
1992	22,165	27,648	24,846	4,014	235,100
1993	21,003	25,659	26,694	4,391	238,500
1994	21,836	25,976	27,670	7,833	241,400
1995	23,706	27,648	29,252	9,751	253,600
1996	24,991	28,546	27,094	9,537	250,400
1997	26,973	30,147	29,658	19,248	252,000
1998	28,153	30,849	30,459	23,742	234,500
1999	29,496	31,625	31,459	31,249	227,500
2000	38,541	40,275	37,862	61,896	219,500
2001	38,454	38,454	32,339	41,699	189,500

Table 2: Strategy and performance

Panel B: Strategy and investments						
Year	**Total Assets growth**	**Capital Expenditure in relation to Total Assets**	**RD expenditure in relation to Total Assets**	**Number of Acquisitions**	**Number of JV/Alliances**	**Number of Divestitures**
1971	0.115	0.084	NA	0	3	1
1972	0.039	0.013	NA	2	4	1
1973	0.093	0.032	NA	3	6	1
1974	0.170	0.038	NA	2	3	0
1975	0.062	0.035	NA	1	0	1
1976	0.002	-0.004	0.061	0	0	0
1977	0.034	0.013	0.066	1	1	2
1978	-0.013	-0.004	0.073	2	2	0
1979	0.144	0.034	0.069	1	1	2
1980	0.128	0.050	0.069	3	2	3
1981	0.078	0.031	0.068	1	0	1
1982	0.013	0.034	0.073	3	4	0
1983	0.103	0.001	0.069	2	3	0
1984	0.142	0.037	0.066	1	1	0
1985	-0.030	-0.009	0.076	2	10	4
1986	-0.043	0.001	0.083	3	9	3
1987	-0.014	0.005	0.087	4	11	2
1988	0.058	0.001	0.087	2	7	3
1989	0.040	0.001	0.083	2	5	10
1990	-0.062	-0.037	0.085	3	14	13
1991	-0.076	-0.052	0.081	8	7	19
1992	0.025	0.006	0.075	7	9	10
1993	-0.052	-0.032	0.073	2	9	17
1994	0.040	-0.001	0.077	5	9	13
1995	0.086	0.022	0.074	10	9	11
1996	0.054	0.027	0.074	12	8	12
1997	0.079	0.008	0.068	0	6	27
1998	0.044	-0.026	0.073	4	4	20
1999	0.048	0.026	0.077	6	5	6
2000	0.307	0.044	0.072	8	2	12
2001	-0.002	-0.034	0.086	0	1	2

Table 2: Strategy and performance

Panel C: Performance							
Year	**EBITDA/ BVTA**	**Sales per fte (inflation adjusted in € '000)**	**EBITDA per fte (inflation adjusted in € '000)**	**NI/BV equity**	**TSR**	**AR**	**Div yield**
1971	0.101	73	9	0.053	-26.1%	0.6%	4.6%
1972	0.130	73	11	0.090	42.5%	-11.3%	3.3%
1973	0.146	71	11	0.095	-17.7%	-8.8%	4.4%
1974	0.118	72	10	0.070	-47.5%	5.5%	6.5%
1975	0.083	71	7	0.017	29.4%	-10.0%	5.5%
1976	0.118	75	9	0.050	-8.2%	-3.4%	5.3%
1977	0.115	73	8	0.054	2.3%	-1.8%	6.2%
1978	0.114	71	8	0.058	-9.9%	11.5%	7.0%
1979	0.094	73	7	0.046	-14.1%	1.4%	7.6%
1980	0.081	76	7	0.024	-35.0%	-8.4%	10.1%
1981	0.091	89	8	0.025	30.6%	-12.9%	8.7%
1982	0.093	88	8	0.029	31.1%	8.8%	7.7%
1983	0.102	90	10	0.040	48.2%	5.6%	4.4%
1984	0.114	102	12	0.067	30.9%	-4.1%	4.2%
1985	0.124	110	12	0.057	12.0%	9.0%	3.9%
1986	0.125	101	12	0.065	-34.5%	12.5%	3.7%
1987	0.113	100	11	0.051	-49.8%	-27.0%	4.8%
1988	0.109	114	12	0.063	24.5%	-27.5%	7.2%
1989	0.104	117	12	0.098	37.0%	21.3%	5.1%
1990	0.029	125	3	-0.402	-85.0%	0.0%	0.0%
1991	0.129	139	15	0.118	36.4%	-5.8%	0.0%
1992	0.098	132	11	-0.088	-39.9%	-5.9%	0.0%
1993	0.120	137	13	0.160	71.4%	-7.8%	1.7%
1994	0.139	136	15	0.153	25.1%	11.1%	2.4%
1995	0.131	135	14	0.173	12.1%	-2.3%	2.5%
1996	0.093	124	11	-0.034	18.8%	-21.7%	2.6%
1997	0.141	132	17	0.219	55.2%	20.6%	1.7%
1998	0.082	142	11	0.413	3.5%	-28.1%	1.5%
1999	0.121	148	17	0.099	82.7%	-7.0%	1.3%
2000	0.157	180	29	0.478	11.5%	17.7%	0.7%
2001	0.016	171	3	-0.282	-15.6%	2.7%	1.1%

Table 3: Shareholder wealth effects

Panel A: Averages

Average CAR [-3,3] per CEO

	Acquisitions	(N=)	JV's and alliances	(N=)	Divestitures and sell offs	(N=)	Total per CEO	(N=)
van Riemsdijk	-0.016	(8)	-0.006	(16)	0.006	(5)	-0.007	(29)
Rodenburg	-0.004	(8)	-0.011	(6)	-0.007	(7)	-0.007	(21)
Dekker	0.003	(8)	-0.011	(21)	-0.013	(4)	-0.008	(33)
van der Klugt	-0.028	(13)	0.010	(38)	0.001	(23)	0.000	(74)
Timmer	0.003	(44)	0.001	(53)	0.003	(84)	0.002	(181)
Boonstra	0.011	(19)	-0.003	(21)	-0.010	(73)	-0.005	(113)
Total		(100)		(155)		(196)		(451)

Average CAR [-3,3] per tenure phase

	Acquisitions	(N=)	JV's and alliances	(N=)	Divestitures and sell offs	(N=)	Total per tenure phase	(N=)
Tenure phase 1	-0.016	(16)	0.001	(39)	0.005	(47)	0.000	(102)
Tenure phase 2	0.004	(65)	0.001	(90)	-0.004	(127)	0.000	(282)
Tenure phase 3	-0.011	(19)	-0.008	(26)	-0.009	(22)	-0.009	(67)
Total		(100)		(155)		(196)		(451)

Table 3: Shareholder wealth effects

Panel B: Totals

Total CAR [-3,3] per CEO

	Acquisitions	(N=)	JV's and alliances	(N=)	Divestitures and sell offs	(N=)	Total per CEO	(N=)
van Riemsdijk	-0.130	(8)	-0.100	(16)	0.032	(5)	-0.198	(29)
Rodenburg	-0.031	(8)	-0.068	(6)	-0.048	(7)	-0.147	(21)
Dekker	0.025	(8)	-0.227	(21)	-0.050	(4)	-0.252	(33)
van der Klugt	-0.365	(13)	0.369	(38)	0.020	(23)	0.024	(74)
Timmer	0.121	(44)	0.035	(53)	0.281	(84)	0.438	(181)
Boonstra	0.209	(19)	-0.059	(21)	-0.738	(73)	-0.588	(113)
Total		(100)		(155)		(196)		(451)

Total CAR [-3,3] in Euro mln. per CEO

	Acquisitions	(N=)	JV's and alliances	(N=)	Divestitures and sell offs	(N=)	Total per CEO	(N=)
van Riemsdijk	-244	(8)	-208	(16)	66	(5)	-386	(29)
Rodenburg	-67	(8)	-63	(6)	-52	(7)	-182	(21)
Dekker	37	(8)	-1,209	(21)	-227	(4)	-1,399	(33)
van der Klugt	-1,570	(13)	1,525	(38)	-26	(23)	-70	(74)
Timmer	881	(44)	61	(53)	357	(84)	1,299	(181)
Boonstra	5,377	(19)	-558	(21)	-19,611	(73)	-14,792	(113)
Total	4,415	(100)	-452	(155)	-19,493	(196)	-15,530	(451)

Total CAR [-3,3] in Euro mln. per tenure phase

	Acquisitions	(N=)	JV's and alliances	(N=)	Divestitures and sell offs	(N=)	Total per tenure phase	(N=)
Tenure phase 1	-1,108	(16)	802	(39)	390	(47)	84	(102)
Tenure phase 2	10,782	(65)	4,219	(90)	-19,406	(127)	-4,405	(282)
Tenure phase 3	-5,260	(19)	-5,473	(26)	-477	(22)	-11,209	(67)
Total	4,415	(100)	-452	(155)	-19,493	(196)	-15,530	(451)

Table 4: Events with largest positive/negative shareholder wealth effects

Announcement Date	CEO	Target company	Type*	Country	deal size (as disclosed)	CAR in %	CAR in € mln.
Top 5 events in euro mln. CAR [-3,3]							
22-02-2000	Boonstra	Completion of sale of project management activities	3	Worldwide	revenue of euro 300 mln.	13%	8549
05-12-2000	Boonstra	Sale of media activities	3	Worldwide	revenue of euro 250 mln./1050 employees	14%	7987
22-04-1998	Boonstra	Sale of Optoelectronics	3	Netherlands	300 employees	25%	7347
13-01-2000	Boonstra	MDT	2	Netherlands		13%	6480
29-08-2000	Boonstra	Origin	3	Netherlands	revenue of euro 725 mln.	9%	6153
Top 5 events in % CAR [-3,3]							
Announcement Date	**CEO**	**Target company**	**Type***	**Country**	**deal size (as disclosed)**	**CAR in %**	**CAR in € mln.**
17-11-1990	Timmer	Intention to sell Installation and Services activities to Stork	3	Netherlands		15%	377
11-11-1992	Timmer	Announcement of NiCad battery production joint venture with Matshushita	2	Japan		14%	370
22-04-1998	Boonstra	Sale of Optoelectronics	3	Netherlands	300 employees	25%	7347
22-02-2000	Boonstra	Completion of sale of project management activities	3	Worldwide	revenue of euro 300 mln.	13%	8549
05-12-2000	Boonstra	Sale of media activities	3	Worldwide	revenue of euro 250 mln./1050 employees	14%	7987

*Type: acquisition = 1; joint venture/alliance=2; divestiture/equity carve out/sell off = 3

Table 4: Events with largest positive/negative shareholder wealth effects

Announcement Date	CEO	Target company	Type*	Country	deal size (as disclosed)	CAR in %	CAR in € mln.
Bottom 5 events in € mln.CAR [-3,3]							
01-04-2000	Boonstra	Initial announcement of divesting from ASML	3	Netherlands	euro 4 billion transaction value	-11%	-6582.1
06-10-2000	Boonstra	Sale of production facilities	3	Netherlands	550 employees	-11%	-6410.6
30-06-2000	Boonstra	Sale of FIMI (monitor production)	3	Italy	65 employees	-8%	-5760.9
08-06-2000	Boonstra	Completion of divesting transaction ASML	3	Netherlands	euro 3 billion transaction value	-7%	-4913.5
28-03-2001	Boonstra	Announcement of alliance with Toolex (video production)	2	Netherlands		-12%	-4892.7

Announcement Date	CEO	Target company	Type*	Country	deal size (as disclosed)	CAR in %	CAR in € mln.
Bottom 5 events in % CAR [-3,3]							
03-05-1990	van der Klugt	25% interest in B&O for fl. 100 mln.	1	Denmark	euro 45 mln transaction value	-17%	-692
24-02-1993	Timmer	intensification of cooperation with Grundig (100% loss consolidation)	2	Germany		-6%	-415
25-02-1993	Timmer	sale of printing activities to Multicopy	3	Netherlands	65 employees	-8%	-452
13-11-1997	Boonstra	announcement of joint venture wit NEC	2	Japan		-33%	-2634
15-09-1998	Boonstra	Sale of component factories	3	Worldwide	4000 employees	-23%	-2526

*Type: acquisition = 1; joint venture/alliance=2; divestiture/equity carve out/sell off = 3

Figure 1: Number of transactions, investments versus divestments

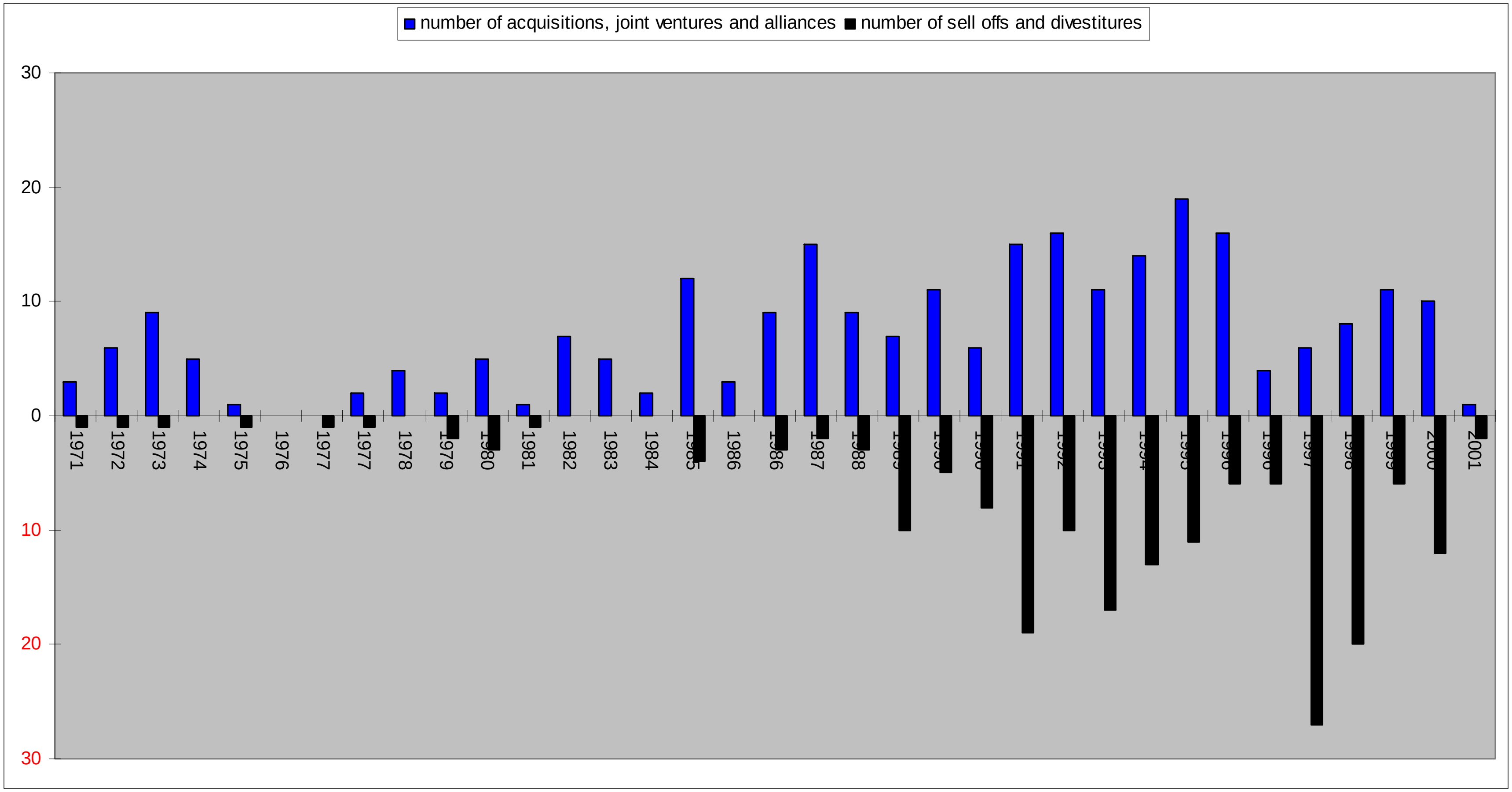

Figure 2: Number of transactions, positive versus negative returns

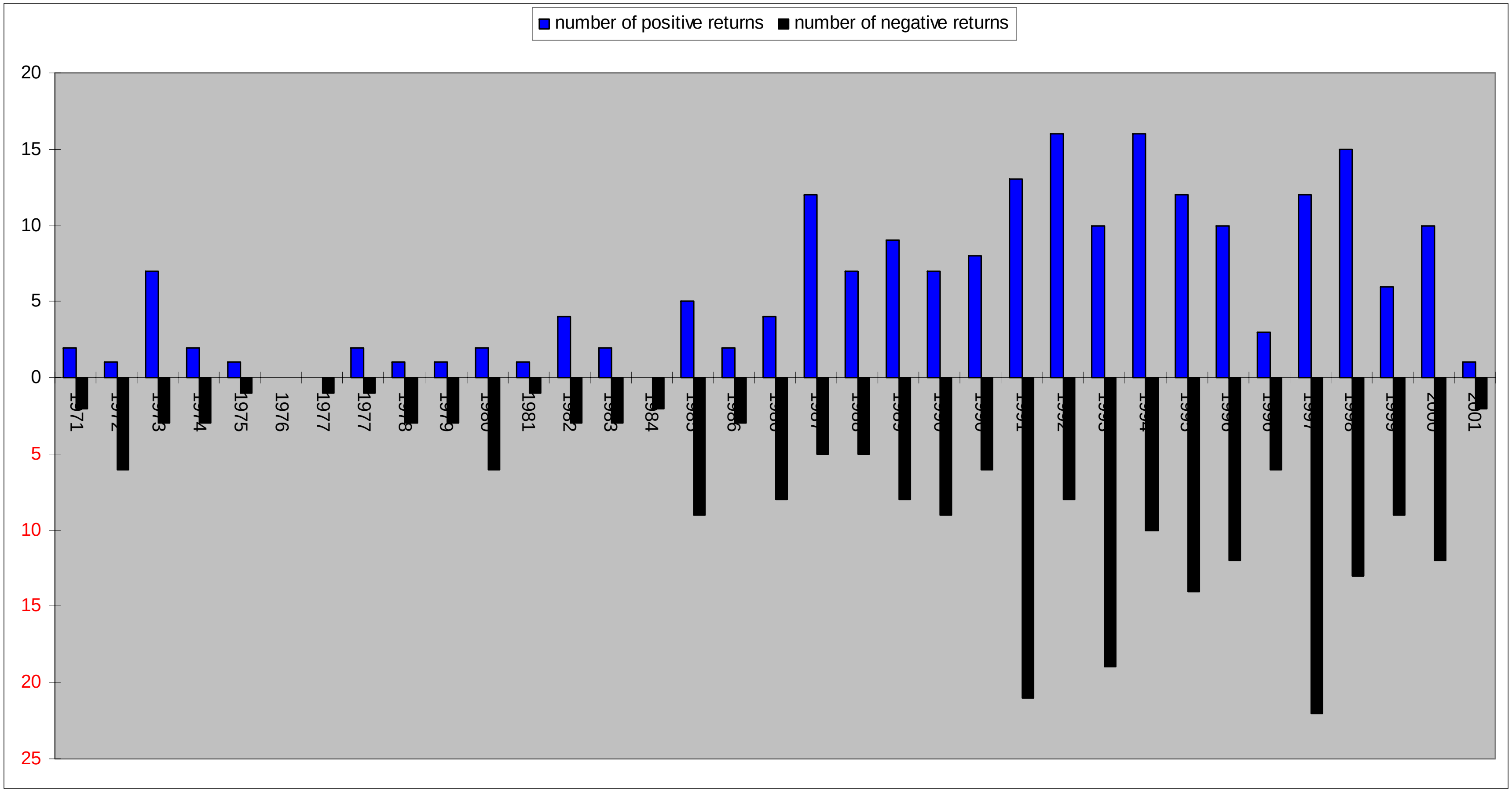

Figure 3: Investor relations scores and analyst following