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Impact of Corporate Life Cycle Stages on Managerial Restructuring: The Moderating Effect of Financial Distress

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Abstract
Implementing an effective restructuring strategy is essential for a firm's survival, especially when facing financial constraints. Financial distress affects a company's health and sustainability; therefore, adopting an appropriate corporate restructuring approach during a financial crisis is very important. Recognizing the importance of restructuring strategies in organizations, this research paper aims to analyze how different stages of the corporate life cycle influence managerial restructuring, a key aspect of corporate restructuring. The independent variable in the study is the stages of the corporate life cycle, classified using the methodology developed by Dickinson (2011), which is based on cash flows from accounting information, specifically the statement of cash flows, identified by Dickinson as a reliable indicator. The stages include Birth, Growth, Maturity, Shakeout, and Decline. Financial distress serves as a moderating variable in the study. The influence of corporate life cycle stages on restructuring strategies is analyzed both individually and in the context of financial distress. The study uses a panel data set of 314 non-financial Pakistani firms across thirteen diverse sectors over ten years, from 2013 to 2022. Logistic regression models are employed to investigate the impact of CLC stages on selected restructuring strategies. The findings show a lower tendency among Pakistani firms to replace top management at all stages.

Keywords: Corporate restructuring, Managerial Restructuring, Corporate Life cycle stages, Financial distress

Introduction

Corporate restructuring is the process by which a firm reorganizes its organizational structure, operations, or financial arrangements in response to internal or external challenges, thereby enhancing overall business performance (Akinsola & Hamzah, 2025). It involves a comprehensive transformation of an organization's structure, business model, leadership, and management team, aimed at overcoming obstacles, boosting operational efficiency, maximizing shareholder returns, and improving employee productivity, ultimately contributing to enhanced organizational performance (Udeoji & Udeoji, 2025).

A firm's management views corporate restructuring as one of the most challenging and essential phenomena. The restructuring process begins with redefining its underlying purpose. Once the purpose of restructuring is appropriately redefined, the scope must also be established (Srivastava & Mushtaq, 2011). Corporate restructuring decisions are critically important in a company's lifecycle; therefore, implementing corporate restructuring strategies is vital for a business's

survival (Koh, Durand, Dai, & Chang, 2015; Ahsan, Wang, & Qureshi, 2016; Akbar, Hussain, Sokolova, & Sabahat, 2022).

The business life cycle is fundamental to understanding the organization (Ramzan & Lau, 2023). Firms typically undergo a sequential and predictable process of development, indicating that they progress through distinct stages in their life cycle until closure (Gray & Ariss, 1985; Miller & Friesen, 1984; Quinn & Cameron, 1983). Many past studies have suggested that as organizations grow and expand, they move through various phases in their life cycle (Torbert, 1974; Mintzberg, 1984; Hanks, Watson, Jensen, & Chandler, 1993; Dodge, Fullerton, & Robbins, 1994; Miller & Friesen, 1984).

The corporate lifecycle theory is extended by Dickinson (2011), and the different phases of a firm represent firm progress. She outlined five stages of the firm's lifecycle: introduction, growth, maturity, shakeout, and decline.

Financial distress is a problem that any company can encounter during its lifetime. Firms that are well managed may also face financial distress at different stages of their lifecycle. Companies employ several restructuring strategies to avoid financial distress. Predicting defaults is important to protect stakeholders' interests in financial markets (Khan & Ullah, 2021). Financial Distress occurs when the overall creditor obligations value is greater than the total value of assets liquidated (Chen, Weston, & Altman, 1995). It is important to study how corporate structures are affected by different stages of a firm's life cycle, as this will help policymakers develop appropriate strategies. The association between a firm's lifecycle stages and the related financial vulnerability has not been studied empirically (Ahsan, Tanveer, Wang, & Qureshi, 2016). There are always chances of facing the problem of financial distress, no matter what the firm's lifecycle stage is. Hence, once a firm is under financial distress, it becomes very important for it to decide strategically for the organization. These strategic business decisions can help firms save themselves from the unfavorable effects of financial distress (Sari, 2022). The influence of financial distress and Corporate Life Cycle (CLC) stages on corporate restructuring strategies has not been previously identified in an emerging economy like Pakistan, and the only restructuring strategies implemented were categorized into debt and equity restructuring (Akbar, Hussain, Sokolova, & Sabahat, 2022). However, to the best of my knowledge, the issue that remains unaddressed in Pakistan is the adoption of another restructuring strategy, called managerial restructuring (Koh et al., 2015). This strategy has not been previously considered, and its effectiveness at various stages of the corporate lifecycle during periods of financial distress is still in question. The study conducts an empirical investigation to find the impact of life cycle stages on managerial restructuring adopted by firms while they face financial distress.

In light of the problem under investigation, this study formulates the following research questions and sets the corresponding research objectives.

RQ1: What is the impact of corporate lifecycle stages on managerial restructuring?

RQ2: Do corporate lifecycle stages affect managerial restructuring when firms face financial distress?

RO1: To assess the impact of corporate lifecycle stages on managerial restructuring.

RO2: To evaluate the effect of corporate lifecycle stages on managerial restructuring when firms face financial distress.

Literature review

Corporate restructuring

To succeed in today's world, companies must be willing to undergo restructuring and reengineering (Maroro, Gathii, & Koima, 2018). Restructuring is no longer a choice but a necessity for growth and survival (Schuler & Rogovsky, 2007). Terms such as reengineering, renewal, transformation, reorientation, and restructuring express change in business operations (Bish, Newton, Browning, O'Connor, & Anibaldi, 2014).

Corporate restructuring is a lengthy process conducted by an organization as a reaction to some crisis or it happens as a preventive measure to ensure firm survival in the respective industry (Yoon & Miller, 2004). The idea of corporate restructuring evolved during the 1970s, originally as a means of intervening in situations of severe crisis. During severe crises, restructuring that involves drastic measures like rescue operations, liquidation, or bankruptcy is not the starting point but rather the final step in a long period of decline (Fedele & Antonucci, 2015).
Firms develop various restructuring strategies whenever their performance declines by either adding or reducing assets, replacing the CEO, by dismissing their employees (Kang & Shivdasani, 1997; Lai & Sudarsanam, 2001; Yawson,2009; Koh et al., 2015, Pandey, 2015) or by reducing or eliminating the dividends (John & Netter,1992; Koh et al., 2015; Pandey, 2015).

Managerial restructuring

Managerial restructuring occurs when a senior manager or Chief Executive Officer (CEO) is replaced (Koh et al., 2015). If, during a specific period, a CEO or managing director is changed, it is referred to as managerial restructuring (Atanassov & Kim, 2009). To achieve successful turnarounds, a change in top management is broadly considered a precondition (Schendel, Patton, & Riggs, 1976; Hofer, 1980; Bibeault, 1982; Slatter, 1984). The managers responsible for poor decision-making and other financial troubles must be replaced with a new team to assess the reasons for these problems and identify turnaround strategies (Lohrke, Beheian, & Palmer, 2004). Management restructuring involves modifications in the corporate governance framework, typically marked by changes in the top-tier leadership—specifically, the Chairman, CEO, and members of the Board of Directors. Such leadership changes are often seen as a critical first step towards corporate recovery in times of financial distress. Replacing top management can serve as a positive signal to lenders, investors, and employees, indicating a proactive approach to enhancing performance, even when the decline stems from factors outside the management's direct control (Ambarwati & Haryono, 2021). A change of firm CEO is influenced by financial distress. During a crisis, the change in CEO is often observed due to shareholders' pressure; however, many firms do not give priority to this strategy (Ataabadi & Mirlohi, 2019). According to Sari (2022), all four corporate lifecycle stages had a significant influence on corporate managerial restructuring. The CLC of a firm affected its decision to go for managerial restructuring. A firm changed its CEO/MD (Managing Director) whenever it wanted to replace them at any stage of the CLC. At the growth stage, firms usually follow managerial restructuring. At the mature stage, firms tend to decrease their investment activities. Firms present in the birth and maturity stages faced financial distress, followed by managerial restructuring by replacing the CEO and top management.

Corporate life cycle stages

Since the 1970s, the corporate life-cycle theory has been extensively researched across numerous fields and is considered a crucial tool for evaluating a company's unique economic conditions (Gulec & Karacaer, 2017). The stages of the CLC are an extension of concepts from the product life cycle in microeconomics and marketing (Mueller, 1972; Rink & Swan, 1979). The life cycle theory states that the progress of firms occurs in several stages (Helfat & Peteraf, 2003; Al-Hadia, Chatterjeeb, Yaftianc, Taylor, Monzur Hasan, 2017).
No consensus exists for the definition of a CLC however one of the most common definitions is as follows "Firm life cycles are distinct and identifiable phases that result from changes in internal factors (e.g., strategy choice, financial resources, and managerial ability) and external factors (e.g., competitive environment, macroeconomic factors) many of which arise from strategic activities undertaken by the firm" (Adizes, 1979; Miller & Friesen, 1983).
Unlike the product life cycle, the stages of firms in the CLC may not necessarily follow a specific direction as firms navigate phases due to market competition, risk, and financial or managerial decisions. There is a possibility that a firm may remain at a particular stage for an extended period,

and similarly, some firms may enter the decline phase quite early (Chen, Yang, & Huang, 2010). Previous studies have divided a company's life cycle into distinct phases, differentiated by characteristics unique to the firm, such as levels of uncertainty, availability of assets, and investment opportunities (Aharony, Falk, & Yehuda, 2006).

The maximum number suggested by Adizes (1979) for stages of the CLC is ten. However, Dickinson (2011) and Gort and Klepper (1982) proposed that there are five stages in the CLC. They defined the stages in such a way that the introductory stage is characterized by innovation, the growth stage is marked by a dramatic rise in competition, the maturity stage sees a maximum number of producers, the shake-out stage is where a firm experiences a decline in its market share, and finally, the decline stage is characterized by near-zero market entry.

A comprehensive categorization of CLC stages was provided by Dickinson (2011) by using the patterns of cash flows, describing it as a reliable method for forecasting firm performance. Cash flow patterns have a greater amount of information regarding the business life cycle and exert a more significant influence on decisions related to capital structure than the age of the firm (Tian, Liang, & Song, 2015).

Financial Distress

Financial Distress refers to a condition when the total value of creditor obligations is more than the total value of assets liquidated (Chen et al., 1995). When the same situation continues for a long time, it results in liquidation or bankruptcy, due to which financial distress is stated as the possibility of bankruptcy (Hendel, 1996). Financial distress is described as a state in which a firm or individual is unable to earn revenue or income, as it cannot cover its financial obligations. The reason for this is mostly high fixed costs, non-availability of liquid assets, or revenue sensitive to poor conditions (Kenton, 2019). Once a firm identifies the risk of financial distress, it must take corrective measures to control expenses with an appropriate restructuring strategy formulation. Four classifications of restructuring were provided by Sudarsanam and Lai (2001), namely managerial, operational, asset, and financial. The primary phases in a firm's life cycle are financial distress, default, and bankruptcy. In order to get out of financial distress, the restructuring strategies that firms select are extremely important (Ataabadi & Mirlohi, 2019).

Financial distress can occur due to several reasons. Firms may experience financial distress because of factors like high fixed costs, ownership of huge amounts of illiquid assets, or generating revenues that are vulnerable to economic downturns. However, individuals can suffer from financial distress due to poor budgeting, excessive spending, carrying a heavy debt burden, legal issues, or loss of employment (Hayes, 2021).

Considering the theoretical foundations and empirical findings discussed above, the following hypotheses are formulated to further explore the relationship under investigation.

H1: There is a significant relationship between CLC stages and managerial restructuring.

H2: Financial distress moderates the relationship between CLC stages and managerial restructuring.

Research methodology

In line with the research objective, this study adopts a positivist paradigm and a deductive approach, through which hypotheses are tested. It is a quantitative study based on secondary panel data. The population for this study is the non-financial firms from all the sectors listed on the Pakistan Stock Exchange (PSX). The total population of this study comprises 407 firms. A sample of 314 firms is selected from 23 non-financial sectors based on one of the probability sampling techniques called simple random sampling, where each element in the population is treated equally (Berger & Zhang, 2005). Data is collected for a period of ten years from 2015 to 2025 from the annual reports of non-financial listed firms selected for the study. The availability of relevant data was made possible through multiple sources. These include the firm's official websites, khistocks.com, opendoors.com, and the official website of the Pakistan Stock Exchange, in which the PSX Data Portal was further accessed for financial statements of listed non-financial firms.

Logistic regression is used to test the hypotheses H1 and H2, which are related to managerial restructuring, CLC stages, and financial distress. Since the dependent variable, managerial restructuring, has a binary outcome, the correct statistical technique for this situation is the panel logit model or logistic regression. It evaluates how effectively CLC stages predict or explain corporate restructuring strategies with or without the presence of financial distress.
To analyse the data and test the research hypotheses, STATA version 15 was used as the primary statistical software. In this study, it was utilized to conduct descriptive statistics, regression analysis, and diagnostic tests were utilized to examine the relationships among variables.

Operational Definition and Measurement of Variables
The dependent variable in the present study is managerial restructuring, the independent variable is corporate life cycle stages, and the moderating variable is financial distress. The control variables include leverage, firm size, profitability, and sales growth.
The proxy used for calculating managerial restructuring is the CEO, where

CEO = Dummy variable where it is equal to one if the CEO of the firm is replaced and zero otherwise.
For measuring the corporate life cycle stages, the independent variable, the study used the method proposed by Dickinson (2011) for dividing the stages of a firm lifecycle based on Cash Flows or Cash Flow patterns that are derived from accounting information, that is statement of cash flows, as it is a robust indicator according to Dickinson (2011). The reason for using this model is that it is beneficial in certain ways, as it highlights the financial information of a firm and assumes that the lifecycle does not necessarily follow a particular sequence (Akbar et al., 2019). Firms were classified into life cycle stages such as introduction, growth, maturity, shake-out, and decline based on the cash flow from operating (CFO), investing (CFI), and financing (CFF). As per her methodology, the firm is in the introduction if CFO<0, CFI<0, and CFF>0; growth, if CFO>0, CFI<0, and CFF>0; mature, if CFO>0, CFI<0, and CFF<0; decline, if CFO<0, CFI>0, and CFF≤ or ≥0; and the remaining firm years are classified under the shake-out stage (Dickinson, 2011).
The eight patterns are collapsed into five stages as follows (Dickinson, 2011).

Table 1: Patterns of Cashflow in different stages

Pattern	1	2	3	4	5	6	7	8
Stage	Introduction	Growth	Mature	Shakeout	Shake out	Shake out	Decline	Decline
CFO	-	+	+	-	+	+	-	-
CFI	-	-	-	-	+	+	+	+
CFF	+	+	-	-	+	-	+	-

Financial distress serves as a moderator variable. Model 1 of moderation suggested by Hayes (2013) is utilized for applying moderation in the study. Various models have been developed to predict financial distress, including the Altman, Springate, Fulmer, Taffler, Grover, Ohlson, and Zmijewski models (Indriyanti, 2019).

To calculate financial distress, the study used the Altman (1968) Z-score model. The financial strength of a company is assessed through Altman's (1968) Z-score, which is derived from several balance-sheet values and the corporation's income. Altman (1968) developed a model that includes five explanatory variables, collectively known as the Altman Z-score. A Z-score value less than 1.8 indicates that the company is in distress. If the Z-score value is between 1.81 and 2.99, this signifies that the corporation is in the "caution" zone. A Z-score value above 3.0 indicates that the company falls into the safe zone.
The following formula is used to find the Z score:

$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$
Z = 1.2 (working capital/total assets) + 1.4 (retained earnings/total assets) + 3.3 (earnings before interest and taxes/total assets) + 0.6 (market value of equity/book value of total debt) + 0.9 (sales/total assets).
Many different models were developed to calculate distress, but the Altman Z score is recognized as the most appropriate for evaluating the financial strength of companies (Bhandari & Iyer, 2013; Chouhan, Chandra, & Goswami, 2014; Mizan & Hossain, 2014; Almamy, Aston, & Ngwa, 2016).
The control variables used in this study are leverage, firm size, profitability, and sales growth. These are calculated by using the following formulas:

$$\text{Leverage} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Firm size: Natural Log of Total Assets

$$\text{Profit Margin} = \frac{\text{Net profit before tax}}{\text{Total Sales}}$$

$$\text{Sales Growth} = \frac{\text{Sales in Year T} - \text{Sales in year T} - 1}{\text{Sales in Year T} - 1}$$

Econometric Model

Managerial Restructuring = $\alpha+\beta_1(BIR) + \beta_2(GRW) + \beta_3(MAT) + \beta_4(SO) + \beta_5(DEC) + \beta_6(LEV) +\beta_7(FS) + \beta_8(PRO) + \beta_9(SG) + \beta_{10}(FD) +\beta_{11}(BIR*FD) + \beta_{12}(GRW*FD) +\beta_{13}(MAT*FD) + \beta_{14}(SO*FD) + \beta_{15}(DEC*FD) +\beta_{16}(LEV) +\beta_{17}(FS) + \beta_{18}(PRO) + \beta_{19}(SG) + e$

Where,
BIR= Birth
GRW= Growth
MAT= Maturity
SO= Shake-out
DEC= Decline
LEV= Leverage
FS= Firm size
PRO= Profitability
SG= Sales Growth
FD= Financial Distress

Results and Discussion

The following tables present the results of the quantitative analysis conducted to address the previously outlined research questions. It includes descriptive statistics and correlation matrices, followed by an evaluation of the assumptions underlying the regression model. The results of the regression analysis are then presented and interpreted within the context of the research objectives.

Table 2

Descriptive Statistics

Variable	Observations	Mean	Std. Dev.	Min	Max
IntroBirth	2,986	0.1812	0.3852	0	1
Growth	2,986	0.1976	0.3982	0	1
Maturity	2,986	0.3552	0.4787	0	1
Shakeout	2,986	0.1403	0.3474	0	1
Decline	2,986	0.1253	0.3311	0	1
CEO	2,986	0.0881	0.2835	0	1
Birthzscore	2,986	0.2681	2.921033	-4.4405	154.6924
Growthzscore	2,986	0.4811	2.7173	-15.3939	122.4637
Maturityzscore	2,986	1.2596	2.3072	-15.0744	37.7180
Shakeoutzscore	2,986	0.2868	1.7002	-5.3724	69.2467
Declinezscore	2,986	0.2732	2.6407	-11.0141	52.2870
Leverage	2,986	1.6348	20.9383	-271.1905	1010.233
Firm size	2,986	22.59	1.8060	14.6563	27.7532
Profitability	2,986	80351.4	4389265	-104.0539	2.40e+08
Sales growth	2,986	0.2788	1.2536	-3.0927	24.0238

The table above presents the descriptive statistics of firms at various stages of the corporate life cycle. There are 2986 observations representing all the variables under consideration. About 18.1% of the firms in the sample are in the introduction or birth stage, 19.8% are in the growth stage, and 35% are in the maturity stage, making it the most prevalent stage in the sample. Approximately 14% of the firms are in the shake-out stage, while only 12.5% are in the decline stage, making it the least represented. Min=0 and Max=1 indicate that it is a dummy variable, coded as 1 if the firm is in this stage and 0 otherwise. The higher mean and standard deviation (0.4787) suggest that maturity is the dominant stage and has a well-distributed representation. The maturity stage controls the sample, as firms often stabilize and operate in this phase for an extended period. 8.8% of the firms in the dataset underwent managerial restructuring. The minimum value of "0" and maximum value of "1" indicate that the variable for managerial restructuring is binary and is thus treated as a dummy variable. These results reveal that financial distress, as measured through z-scores, is not uniform across CLC stages. While distress is relatively low on average during the growth phase, it tends to intensify in the maturity, shakeout, and decline stages, underscoring the need for stage-specific restructuring strategies.

Variance Inflation Factor

To assess multicollinearity, variance inflation factors (VIFs) were calculated for all independent variables. All VIF values were well below the commonly accepted threshold of 10, indicating no significant concerns about multicollinearity.

Table 3

Variance Inflation Factor

Variable	VIF	1/VIF
IntroBirth	2.02	0.4945
Growth	1.74	0.5763
Maturity	1.24	0.8084
Shakeout	1.13	0.8814
Decline	1.12	0.8903
Birthzscore	1.04	0.9633
Growthzscore	1.03	0.9708

Maturityzcsore	1.02	0.9818
Shakeoutzscore	1.02	0.9837
Declinezscore	1.01	0.9858
Leverage	1.01	0.9863
Firm size	1.00	0.9979
Profitability	1.00	0.9996
Sales growth	1.00	0.1000
Mean VIF	1.16	

Regression Results

Impact of CLC Stages on Managerial Restructuring

The following Table shows the regression outcomes for all variables used to measure managerial restructuring strategy. The table not only exhibits the impact of CLC stages on operational restructuring, but also their impact in the presence of financial distress is represented.

Table 4

Regression Model-Managerial Restructuring

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity (H0:constant variance)	Model 1
Hausman Test (p-value)	<0.05
	CEO
Birth	-0.208
	(0.1117)
Growth	-0.2131
	(0.1116)**
Maturity	-0.209
	(0.1115)
shake-out	-0.2203
	(0.1115)**
Decline	-0.1964
	(0.1111)
birth*financial distress	-0.0106
	(0.0053)**
growth*financial distress	-0.006
	(0.0026)**
maturity*financial distress	-0.0075
	(0.0041)
shake-out*financial distress	-0.0042
	(0.0036)
decline*financial distress	-0.006
	(0.0031)**
Leverage	-0.0001
	(0.0003)
firm size	-0.0246
	(0.0012)**
Profitability	-0.0000
	(0.9027)

sales growth	-0.0038
	(0.0054)
Constant	0.3059
	(0.2973)
F statistics	1.76
(p-value)	(0.039)
Rsquared	0.5544
( ) standard error in parenthesis	*p<0.01; **p<0.05;

Heteroskedasticity is controlled through the use of the 'robust' standard errors option. For the Hausman test, the null hypothesis is that the preferred model is random effects vs. the alternative, the fixed effects.

Table 4 describes managerial restructuring, one of the strategies employed in the study to measure corporate restructuring within organizations. Managerial restructuring is measured through a proxy "CEO," where it is equal to one if the CEO of the firm is replaced and zero otherwise. To choose the appropriate model for panel data analysis, the Hausman test was conducted. The fixed effects model is selected as the test yielded a p-value less than 0.05.

The findings show an R-squared value of 0.5544, which indicates that 55.44% of variation in managerial restructuring is explained by CLC stages. The F-statistic with a p-value of 0.039 indicates that the overall model is statistically significant, implying that the CLC stages significantly explain variations in the managerial restructuring collectively.

The results indicate that the introductory stage has an insignificant negative impact on managerial restructuring, making it difficult for firms to change their CEO or top management (Mueller, 1972). To maintain managerial control, young firms tend to avoid risky projects (Cariola, La Rocca, & La Rocca, 2005). Similar results are observed in the case of maturity and decline stages of the CLC, having an insignificant negative impact on the adoption of managerial restructuring strategies. This suggests that firms in all these stages are less likely to adopt managerial restructuring strategies. However, the insignificant p-value indicates that this relationship is not statistically supported, meaning there is no strong evidence to confirm that firms in these stages consistently avoid managerial restructuring. Pundziene, Kundrotas, and Lydeka (2006) indicate that during the later stages of the firm life cycle, i.e., maturity and decline, organizations focus on achieving smooth and efficient operations, leading to establishing bureaucratic structures and a decrease in innovation. Other studies also demonstrate that CEO and top management retention during maturity and decline often result from structural inertia, governance weaknesses, and strategic misalignment rather than deliberate choice (Koh et al., 2015). Hence, there is a potential reluctance to adopt managerial restructuring strategies in later stages (D'aveni,1989; Lai & Sudarsanam,1997; Kruse & Denis, 1998; McColgan & Hillier, 2005).

Firms in the growth and shakeout stage of the CLC have a negative yet statistically significant (Koh et al., 2015; Sari, 2022; Deun & Corbey, 2023) impact on managerial restructuring, showing that firms in these stages are much less likely to change top executives. A significant negative effect on adopting managerial restructuring indicates a lower likelihood of firms in these stages replacing the CEO, or that the probability of replacing a CEO decreases.

The above table also examines the impact of financial distress as a moderating factor. Firms in the birth and growth stages show a significant negative effect on managerial restructuring when experiencing financial distress. This indicates that firms in these stages are less likely to pursue managerial restructuring during financial distress. These findings align with a study by Chatterjee, Jia, Nguyen, Taylor, and Duong (2023), which finds that firms in the birth and growth stages of the CLC are more likely to retain their CEOs despite financial difficulties.

In the maturity and shakeout stages, a negative, insignificant relationship is observed, which shows that firms in these stages are less likely to engage in managerial restructuring when experiencing financial distress (De Angelo, 1990; Wruck, 1990; Lai & Sudarsanam, 1997; Iwasaki, 2020).

However, this insignificance suggests that the tendency is weak and not statistically supported, meaning financial distress does not strongly influence the managerial restructuring decisions of firms in these stages. A study by Koh, Durand, Dai, and Chang (2015) shows an insignificant impact of firms in the maturity and shakeout stages of the CLC on managerial restructuring. This indicates that firms' tendency to change CEOs in times of financial distress holds no relationship to whether they are in the maturity or shakeout phase. Creditors increasingly prioritized retaining CEOs with high expertise to stabilize firm performance. In mature firms where operational complexity is much greater, creditors resisted the change in leadership to avoid disrupting established workflows, leading to insignificant turnover rates despite financial distress (Evans III, Luo, & Nagarajan, 2014). Another study by Gilson (1990) states that only 8% of firms change their entire board after going through financial distress. The least common turnaround actions adopted by financially distressed firms are changes made in top management, with only 13% of firms observed to be implementing these measures (Mbogo & Waweru, 2014). In the decline stage, a significant (Sari, 2022) negative impact indicates that firms in this stage are less likely to engage in managerial restructuring while experiencing financial distress. This suggests that financial distress has a substantial adverse effect on the ability or willingness of firms in this stage to undertake managerial restructuring.

The above table also shows the effect of control variables on managerial restructuring at different stages of the CLC. The coefficient of leverage is negative and not significant, indicating that firms relying on debt financing do not significantly adopt a managerial restructuring strategy (Chen, Zhang, & Liu, 2014). Pandey and Ongpipattanakul (2015) examined restructuring decisions in Thai firms facing performance declines. Due to entrenched agency conflicts, high-leverage firms tend to avoid restructuring management in emerging economies with weak governance mechanisms. A study by Wong (2021) argues that managers with private benefits of control prefer stability over restructuring, even when leverage is high. These entrenched managers try to block CEO turnover to maintain their control, making leverage statistically insignificant in influencing restructuring.

Firm size shows a significant negative coefficient, indicating that as a company grows larger, the chances of adopting a managerial restructuring strategy decrease; however, the significant relationship suggests that this inverse link is statistically reliable and consistent in the data. Pukthuanthong, Ullah, Walker, and Zhang (2018) suggest that firm performance tends to improve with increased size and decreased CEO turnover. Similarly, Firth, Fung, and Rui (2006) find a negative relationship between firm size and the likelihood of replacing a management chairman in Chinese companies, indicating that larger firms are more likely to keep their chairmen. A possible reason is that large firms need more skilled managers, who are often scarce, thus lowering the chance of top managerial changes. This idea is further supported by Kato and Long (2006), who also found that larger Chinese firms have a lower chance of CEO turnover.

The coefficient of profit margin and sales growth is negative with managerial restructuring, indicating that when both profit margin and sales growth increase, managerial restructuring tends to decrease; however, this relationship is not considered strong enough to be statistically meaningful, as the p-value shows insignificance. Hazarika, Karpoff, and Nahata (2012) suggest that good financial performance does not necessarily lead to CEO stability. Similarly, a study by Coles, Lemmon, and Naveen (2003) indicates that an increase in profit margin and sales growth does not necessarily lead to CEO turnover.

Conclusion

The findings of this study provide valuable insights into the impact of corporate life cycle stages on managerial restructuring strategy, particularly within non-financial Pakistani firms, both in the presence and absence of the moderating effect of financial distress.

Regarding the hypotheses on the impact of the CLC's stages on managerial restructuring (H1a), the study notes a diminished tendency for firms to replace top management across all stages, as these stages adversely affect managerial restructuring. This finding confirms that previous studies, like Mueller (1972), suggest that managers prioritize entrenchment, focusing on preserving their interests and power instead of maximizing shareholders' interests, particularly in mature firms, indicating a reluctance towards managerial restructuring. Similarly, D'Aveni (1989) and Ataabadi and Mirlohi (2019) note that CEO turnover only rises in extreme cases of decline, such as bankruptcy, suggesting that firms postpone leadership changes until the crisis is irreversible. Kruse and Denis (1998) argue that layoffs frequently exclude top executives and are typically seen among middle and lower-level managers. During the birth stage, firms refrain from managerial restructuring due to the absence of separation between ownership and management. The likelihood of replacing top management diminishes as the actual founders maintain control (Koh et al., 2015; Sari, 2022).

Another hypothesis, H1b, finds the impact of CLC stages on managerial restructuring with the moderating effect of financial distress. With financial distress, Pakistani firms at all stages exhibit a negative influence on adopting managerial restructuring. Several previous studies support the notion that firms show reluctance in replacing their top-tier management, even after experiencing financial distress. Internationally diversified firms experiencing financial distress exhibit lower rates of CEO turnover in comparison to non-diversified firms. Due to diversified firms' complex nature and breadth, a greater tolerance level is observed for existing management during challenging financial periods. Experienced leadership is retained because they are familiar with multifaceted operations and markets, thus being considered the best options to navigate the company through financial difficulties (Cook, 2015). Managerial restructuring is the least common among firms at all stages as compared to operational and financial restructuring. At the birth stage, firms are often owner-managed, leading to centralized decision-making and less pressure to replace leadership during financial distress. Growth-stage firms experience complexity in organizational structure, which makes leadership decisions and financial outcomes uncertain, making boards hesitant to assign distress to executives. Firms in the maturity phase prioritize strategic continuity to exploit existing resources and competitive advantages, avoiding leadership changes to maintain stability. Finally, declining firms are also reluctant to adopt managerial replacements due to the perceived costs of leadership disruption and creditor focus on immediate financial stabilization (Koh et al., 2015). A study by Ataabadi and Ahmadi (2019) finds that leadership continuity is viewed as critical for sustaining innovation and expansion during periods of distress in growth-stage firms, whereas operational restructuring, such as workforce downsizing, is considered an immediate solution to financial distress. In contrast, managerial restructuring is perceived as destabilizing. Replacement of executives is often avoided due to high transition costs and the risk of intensifying organizational uncertainty. According to Damodaran (2024), technology-based firms in compressed life cycles, especially during rapid growth to decline, avoid managerial restructuring to maintain investor confidence in volatile markets. Leadership changes during financial distress signal instability. In the decline stage, firms prefer reinvestment in innovation over governance changes.

No study in the context of Pakistan explicitly found the impact of CLC stages on managerial restructuring, making the current study a valuable addition in filling the gap in an unexplored area.

Recommendations

Corporate decision-makers should align their restructuring strategies with the firm's stage in its life cycle. Aligning relevant strategies with specific life cycle stages can help firms achieve goals

more effectively. The role of top-tier management, like the CEO, chairman, or managing director, holds great significance in the governance of a firm. The current study emphasizes the significance of replacing top-level management to maximize the firm's benefits. Future studies can expand upon this research by including industry-specific analysis and cross-industry analysis, employing primary data, or incorporating qualitative methods of research like interviews with corporate executives and managers. Moreover, comparative studies involving developed and emerging economies can also be taken into consideration, as this would help validate the generalizability of these findings across different institutional contexts. Financial sector firms of Pakistan are not taken into consideration for this study, which can be used by future researchers.

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