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A Contingency Theory of CEO Successor Choice and Post-bankruptcy Strategic Change

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While there is a wealth of research on strategic leadership, the findings are often contradictory (e.g., Carey and Ogden, 2000; Dawley *et al.*, 2003; Hambrick and Mason, 1984; Thomas, 1988). These contradictions are further exasperated when considering organizational performance because of the multifarious measures of performance. We have chosen an initial condition where organizations have filed for Chapter 11 bankruptcy since it is a definitive measure of performance (Daily, 1994). We then examine the potential for leadership's influence on strategic changes to the organization. We assume strategic change to be a necessary precursor for future organizational performance improvements essential for

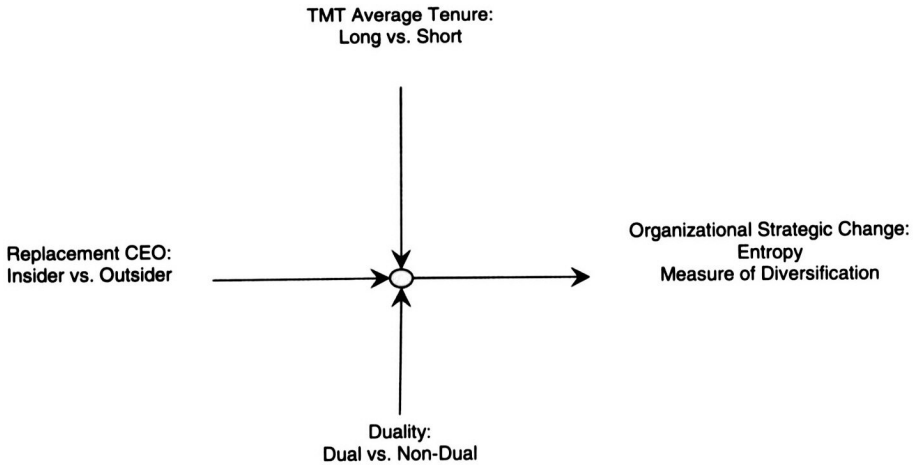
emerging from bankruptcy. We suggest an interactive effect among the different constructs concerning leadership, which may help explain some of the inconsistencies in extant studies.

Several of these previous studies on leadership have examined the benefits and drawbacks of hiring an insider versus an outsider in the context of bankruptcy (e.g., Gilson, 1990; Hotchkiss, 1995; LoPucki and Whitford, 1993). Currently, little attention is given to the factors that may affect a CEO's influence within each of these classifications (i.e., insiders and outsiders).

Our study addresses this shortcoming by developing a contingency theory of how CEO successor choice, du-

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Figure I. Factors in the Contingency Theory



ality, and Top Management Team (TMT) tenure interact to affect post-bankruptcy strategic change. In our context, organizational breadth of diversification reflects strategic change. Our three constructs draw from agency, stewardship, and resource-based theories and were chosen for examination due to the large amount of literature that has linked them to organizational outcomes (e.g., Barker and Patterson, 1996; Boeker, 1997; Boyd, 1995; Finkelstein and Hambrick, 1990; Greening and Johnson, 1996; Pfeffer, 1982; Shen and Cannella, 2002). Figure I illustrates our relevant constructs and their three-way interaction.

In the following sections, we review the findings relating our constructs to organizational change. In the first section, we present the relevant pros and cons of choosing a successor CEO who is an outsider or an insider. We then review the various arguments for and against having a CEO

who also holds the position of the Chairman of the Board of Directors (BOD). Next is a review of the mixed influences of a TMT with either high or low team tenure. Finally, we relate all three of these constructs together in order to develop a hypothesis linking them to strategic change following reorganization necessitated by bankruptcy.

CEO Successor Choice

The CEO is ultimately responsible and accountable for an organization's strategy, design, and performance (Carey and Ogden, 2000; Conger *et al.*, 2001; Kesner and Sebor, 1994). The CEO's role has been described as the most powerful of the power centers in controlling and directing the efforts of the organization toward achieving its goals (Brady and Helmich, 1984). As such, external parties are likely to view succession as a signal about the institution's future

(Beatty and Zajac, 1987), and the successes and failures of individual CEOs often translate into the successes and failures of the firm. This makes CEO succession a defining event for virtually every organization (Carey and Ogden, 2000).

As important as the CEO is, the BOD can remove the CEO for many reasons. The BOD can be displeased with organizational performance and are holding the CEO accountable for those results (Harrison *et al.*, 1988). They can desire a change agent (Staw *et al.*, 1981), or they may desire to send signals to the shareholders (Carey and Ogden, 2000; Conger *et al.*, 2001). Regardless of the reason, once the BOD decides to replace their CEO, they need to decide on an insider or outsider.

An insider has knowledge of the organization already and is also assumed to be in a better position to step in and take control since he or she "knows-the-ropes" (Zajac, 1990). This organizational knowledge, as well as his or her familiarity with the BOD, makes an insider replacement preferable to the BOD (Zajac, 1990). Empirical evidence suggests that there are both benefits and drawbacks associated with an insider replacement. Zajac (1990) found support for a positive association between insider replacement and firm performance, while Khanna and Poulsen (1995) found no market reaction to the origin of the replacement CEO.

Countering any benefits, arguments suggest that insiders perpetuate poor organizational performance (Boyd, 1994; Cannella and Shen, 2001). It is suggested that insiders are bogged down by organizational inertia (Zajac, 1990), are overly optimistic about an organization's ability when

developing reorganization plans (Hotchkiss, 1995), and are associated with continued poor post-bankruptcy performance (Hotchkiss, 1995).

The benefits of an outsider replacement hinge primarily on his or her ability to afford the organization with a change agent (Carey and Ogden, 2000). Change agents result in more rapid effectual recovery of a failing firm (Datta and Iskandar-Datta, 1995). They also bring a mandate for change from the BOD (Conger *et al.*, 2001), which can break ideological barriers. Logic would therefore support the association of survival with an outsider replacement CEO. In our context, we would suggest that the need for a change agent, as well as a corresponding need for a mandate for organizational change, would favor an outsider.

CEO Successor Choice and Duality: An Agency and Stewardship Perspective

The BOD must also consider giving the new CEO duality (i.e., a combining of the CEO and Chairman of the BOD (COB) positions). Duality has a significant effect of the power of the CEO (Boyd, 1995). Empirical results examining the advantages and disadvantages of duality, especially as it relates to organizational outcomes, are mixed (e.g., for a review see Boyd, 1995).

The main arguments against duality have their roots in the agent/principal relationship from agency theory (Berle and Means, 1932). That is, when the CEO holds a power position relative to the BOD, it is less likely that any monitoring mechanisms will function properly. When these mechanisms dysfunction, it is likely that organizational costs will rise and

subsequently lower organizational performance.

Arguments supporting duality rest primarily in stewardship theory. Stewardship theory (Davis *et al.*, 1997) can be viewed as the "anti-agency theory." It takes a humanistic approach (McClelland, 1960; McGregor, 1957), proposing that people just want to do their job and also strive to perform to the best of their ability (e.g., March, 1981). Since the theory of stewardship assumes a more humanistic approach, one could expect an easing of the monitoring demands placed on the BOD and therefore lower organizational costs.

Boyd (1995) proposed a contingent view of duality based on Dess and Beard's (1984) environmental dimensions. In particular, in a munificent environment, duality is negatively related to performance, supporting an agency perspective; in a complex environment (such as in bankruptcy), duality is positively related to performance, supporting the need for knowledgeable persons in command.

These differing findings suggest that duality may moderate the relationship between CEO successor choice and post-bankruptcy strategic change such that in the case of an outsider CEO successor, an organization may benefit more from duality (i.e., in terms of strategic change) than from a BOD that hires an insider CEO successor. This is because an outsider CEO successor with duality will provide an organization with a clear and powerful leader, and powerful leadership is particularly useful if significant changes are necessary in turning around a failing organization (Finkelstein and D'Aveni, 1994; Lorsch and MacIver, 1989).

CEO Successor Choice and TMT Tenure: A Resource-based Perspective

Resource-based theory (Barney, 1997) suggests that certain characteristics of the firm's TMT may play a pivotal role in how well a firm is able to realign systems, culture, personnel, and procedures with the new structure and ultimately to recover from bankruptcy. The resource of knowledge held by the TMT has the potential to meet the criteria to affect the organization's performance (Castanias and Helfat, 1991). Specifically, incumbent managers with long tenure generally have detailed knowledge of the firm's operations (Wruck, 1990) and access to established networks both inside and outside of the organization. However, since the organization has failed, these resources may not have been appropriate and therefore are in need of change.

A new CEO, as a change agent, would enter the organization with the appropriate mandate. However, any new CEO generally lacks extensive knowledge about contacts and procedures needed to perform his or her duties successfully, and such knowledge must be gradually obtained over time (Boeker, 1997; Hambrick and Fukutomi, 1991). Therefore, the knowledge that a long-tenured TMT would possess and its access to established networks should be of great value in assisting the CEO to progress through the disruptive process.

Thus, in the resource-based style, we are assuming the TMT's knowledge resource was already present, but its lack of use is manifest in the organization's failure. Therefore, an outsider CEO successor should be able to refocus the current resources to benefit both the organization (i.e.,

to recover from bankruptcy) as well as him/herself (i.e., to get "up to speed").

CEO Successor Choice, Duality, and TMT Tenure: A Contingency Theory

CEO succession, in itself, is a defining event for virtually every organization. However, given the mixed blessings of an outsider versus an insider successor, we suggest that other factors affecting organizational change are present. The suggested factors include the power given the successor CEO manifest in duality, as well as the tenure level of this new CEO's main advisory body for strategic actions (i.e., the TMT).

Likewise, CEO duality in itself is another area where mixed blessings occur. As discussed earlier, duality sanctions unity of command and provides benefits from a stewardship perspective. In situations where a BOD hires an insider as the CEO successor, duality may lead to excessive centralization and the resultant threat-rigidity (Daily and Dalton, 1994b; Staw *et al.*, 1981). This centralization can exacerbate an already excessive agency problem causing further organizational deterioration and a continuation of the downward spiral (Hambrick and D'Aveni, 1988; Hambrick and D'Aveni, 1992).

As with CEO successor choice and duality, the affect of TMT tenure also has mixed blessings towards the potential for organizational change. As the TMT's tenure lengthens, so does its capacity to act as a resource. However, long managerial tenure has also been associated with commitment to the *status quo* (Boeker, 1997; Michel and Hambrick, 1992; Wiersema and Bantel, 1992), reduced learning and increased inertial responses (Ham-

brick, 1994a, 1994b; Miller, 1991; Virany *et al.*, 1992). Longer TMT tenure has also been shown to reduce risk-taking and limit information processing (Finkelstein and Hambrick, 1990, 1996; Hambrick, 1994b; Hambrick and Finkelstein, 1995). These effects suggest a tendency for long tenured managers to maintain past business patterns (Barker and Patterson, 1996; Boeker, 1997; Hambrick *et al.*, 1993; Romanelli and Tushman, 1986; Staw and Ross, 1980).

The counter-argument supporting shorter TMT tenure was proposed by Virany *et al.* (1992). Their findings suggest that organization performance is best when there are frequent changes in the TMT while retaining the current CEO. They argued that new TMT members bring with them new knowledge, which leads to TMT learning and, more appropriate in our context, adaptation. The findings of Virany *et al.* (1992) suggest that TMT change (with CEO retention) is best for helping firms avoid the problems that could result in bankruptcy in the first place.

However, once a firm has gone bankrupt, the research reviewed above suggests that disruption is desirable because the firm needs to break from its past practices since they have proved to be unsuccessful. Perhaps the best way to get this type of disruption would be to hire a CEO successor from outside the organization. The organization could change due to the new knowledge brought into the firm by the new CEO. Furthermore, the outsider CEO should probably be given duality so that he/she has enough power to initiate and implement strategic change (Boyd, 1995). Additionally, in order to facilitate strategic change, it would be helpful to have a long-tenured TMT

that can provide access to established networks and the organization memory needed to help orient the new CEO to the firm and, thereby, ensure an adequate understanding of the firm's capabilities and limitations.

Based on our contingency theory, we hypothesize that:

Hypothesis 1: Successor CEO origin, CEO duality, and TMT tenure all interact together to affect post-bankruptcy strategic change.

METHODS

Sample and Data Collection

The sample for this study consists of all publicly-traded manufacturing firms (operating in SIC industries 2000-3999) having assets greater than \$10 million that filed for Chapter 11 reorganization between 1980 and 1995. These firms were identified through the *New Generation Research* database of bankrupt firms (Daily, 1996). SIC industries 2000-3999 were chosen to increase the likelihood of finding firms with characteristics consistent with the research questions in this study (i.e., some degree of refocusing activity). Publicly-traded firms with assets greater than \$10 million were chosen to increase the probability of finding sufficient data.

The period is consistent with prior research (Dawley *et al.*, 2002) and it was chosen for two reasons. First, 1980 was selected as a starting year because it was the first full year in which The Bankruptcy Act of 1978 law applied. Second, 1995 was selected as the ending year to allow most firms sufficient time to recover from bankruptcy, given the five-year timeframe of interest (i.e., through the data year 2001). In keeping with prior research, it may take two to five years to

assess the efficacy of post-bankruptcy refocusing strategies (Bergh, 1996; Bruton *et al.*, 1994; Hotchkiss, 1995; Markides, 1995). Therefore, this study examined post-bankruptcy strategic change from the end of year one to the beginning of year six following the filing of bankruptcy. All data were collected from COMPUSTAT, Annual Reports, 10-K filings, and the *Census of Manufactures*.

Data availability from SEC filings resulted in 208 usable organizations from the population of 565 organizations. Out of the 208 sample firms, 79 replaced their CEO during the first full year after filing for bankruptcy. Thirty-eight of these firms hired insiders and 41 of the firms hired outsiders. Further lack of data prevented statistical analyses of 32 firms, thus reducing the final sample size to 47 (28 Insiders/19 Outsiders).

Definition and Measurement of Variables

Dependent Variable. The dependent variable for this study is strategic change used to measure corporate downscoping in post-bankrupt firms. Some prior studies theorized that change agents (i.e., the BOD, CEO, and TMT) directly affect post-bankruptcy performance (e.g., Daily and Dalton, 1995; Hotchkiss, 1995). However, it is more likely that those agents affected the amount and type of strategic change. It should then follow that this strategic change affects the organization's post-bankruptcy performance (e.g., Bantel and Jackson, 1989; Bluedorn *et al.*, 1994; Finkelstein and Hambrick, 1990; Hoskisson and Hitt, 1994; Michel and Hambrick, 1992; Miles and Snow, 1978; Rumelt, 1974). Therefore, change,

instead of performance, becomes the dependent variable for our study.

Strategic change is operationalized as change in entropy measure of diversification (Jacquemin and Berry, 1979; Palepu, 1985). Similar to research by Markides (1995) and by Dawley *et al.* (2002), values for the entropy measure of diversification were calculated over the relevant period for each firm in order to measure a firm's refocusing activity as follows:

$$\text{Entropy measure of Diversification} = \sum [P_i * \ln(1/P_i)] \text{ such that } p_i > 0$$

where P_i is the share of sales in segment i and $\ln(1/p_i)$ is the weight for each segment i . This operationalization is appropriate here because the entropy measure of diversification is typically highly correlated with the number of unrelated business units in a portfolio (Hoskisson *et al.*, 1993) and therefore the level of diversification. Levels of diversification, as reflected by the entropy measure, were measured for each firm at $T_1, 2, 3, 4, 5$ and 6 and the degree of strategic change was calculated as the entropy measure at T_1 minus the respective entropy measure at T_6 .

Independent Variables. Replacement CEO origin, TMT tenure, and duality serve as the independent variables in this study. Replacement CEO origin (CEOorig) is a dichotomous variable. The replacement CEO is either an insider (CEOorig = 1) or an outsider (CEOorig = 0). An insider is operationalized as an executive coming from the BOD or the TMT, and an outsider is an executive coming from elsewhere.

TMT tenure is an interval variable operationalized as the average number of years the members (less the CEO) have on the TMT as of the end of the first full year following the year

in which the organization filed for bankruptcy protection. The year following bankruptcy was chosen since significant changes occur on the TMT's membership during the years leading up to and including the year of bankruptcy (Hambrick and D'Aveni, 1988). Thus, the TMT is operationalized as those who report directly to the CEO, as inferred by titles of Vice President and above (e.g., Bantel and Jackson, 1989; Finkelstein, 1992; Wiersema and Bantel, 1993).

Duality is a dichotomous variable where either the same person holds positions as both the CEO as well as the Chair of the Board of Directors (COB) (Duality = 1), or where the two positions are held by two different people (Duality = 0). Duality was measured at the end of the first full year following bankruptcy filing. As long as the same person recorded in the SEC filings for that year held the CEO and COB titles, we recorded duality as existing. Data regarding CEO replacement and TMT tenure were obtained from SEC filings and in *Standard & Poor's Register of Corporations, Directors, and Executives*.

Control Variables. In keeping with previous research in the strategy literature on bankruptcy, the following variables were included as controls: performance prior to bankruptcy (operationalized as ROA in the five years before bankruptcy) (Hambrick and D'Aveni, 1988), organizational size (operationalized as the natural log of total assets) (Daily and Dalton, 1995; Miles and Snow, 1978; Porter, 1980), organizational slack (operationalized as the sum of absorbed and unabsorbed slack) (Barker and Duhaime, 1997; Bourgeois, 1981; Singh, 1986) and, industry growth during recovery (operationalized as the indus-

try growth rate (by four digit SIC code) in the value of shipments for the five-year post-bankruptcy period) (Dawley *et al.*, 2002; Dess and Robinson, 1984; Hambrick and D'Aveni, 1988). Two financial measures commonly used as control variables in bankruptcy research are earnings before interest and tax (EBIT) and leverage (LEV) (e.g., Daily and Dalton, 1994a, 1994b, 1995; Hambrick and D'Aveni, 1988). Leverage (LEV) is a ratio variable operationalized as the total long-term debt (LTD) divided by the total equity. These data for size, slack, EBIT, LEV, and LTD were measured in the year of bankruptcy and determined from COMPUSTAT tapes.

Analytical Procedures

Because an interval dependent variable is examined, the hypothesis was tested using hierarchical OLS regression (Aiken *et al.*, 1991; Lewis-Beck, 1980). The control variables were entered first, then the individual independent variables, then the two-way interactions, and finally the three-way interaction.

RESULTS

Descriptive statistics of all applicable variables are provided in Table 1. The main effects are shown as non-standardized and then centered for the interactive terms (Aiken *et al.*, 1991). The results from the hierarchical regression analyses, including the adjusted R-squared and changes in F, are shown in Table 2. The results for each of the four steps of the regression are provided in the four models. Model 1 shows just the control variables, Model 2 adds the main effects, Model 3 adds the two-way in-

teractions, and Model 4 adds the three-way interaction.

In all four models, the only statistically significant contribution from the constant and control variables came from Beginning Entropy. In Models 1, 2, and 3 none of the other variables were statistically significant. However, in Model 4, the explained variance from the control variables as well as that from the addition of the three-way interaction (Adj. $R^2 = 0.485$; $p < 0.05$) were significant. We present some inferences from these results in the Discussion section.

Hypothesis 1, which stated that CEO origin, CEO duality, and TMT tenure all interact together to affect post-bankruptcy strategic change, was supported. The results are most apparent in graphical format because the values for the beta coefficients are not always logically obvious (as described in Aiken *et al.*, 1991). That is, the beta value for an interaction terms does not necessarily suggest directionality or magnitude as they may for a main effect.

Figures II and III show the interactions with the dependent variable of Strategic Change on the vertical versus duality and non-duality on the horizontal axes. Figure II shows the relationship for Low TMT tenure (mean tenure less one standard deviation) and Figure III for High TMT tenure (mean tenure plus one standard deviation). Since the slopes of all the lines are different in the two graphs as well as statistically significant ($\beta = -0.278$; $p < 0.05$), we can conclude that an interaction among the three independent variables of interest does exist. From a practical perspective, we can note (as discussed in the following section) that post-bankruptcy strategic change is greatest for firms that hire an outsider as CEO,

Table 1. Descriptive Statistics

	Mean	S.D.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
1. Entropy Decline	0.12	0.29	1.000														
2. Beginning ROA	-0.32	0.46	.166	1.000													
3. Industry Growth	1.20	0.30	-.179	-.069	1.000												
4. Size	4.50	1.49	.438	.298*	-.071	1.000											
5. Beginning Entropy	0.13	0.29	.982**	.179	-.156	.409**	1.000										
6. Slack	0.32	0.77	.155**	.131	-.114	-.033	.148	1.000									
7. Leverage	0.76	3.38	.274*	.130	.149	.286*	.270*	-.036	1.000								
8. LT Debt	42.45	20.36	.018	.078	.024	-.093	.018	-.059	-.043	1.000							
9. EBIT	-52.24	12.05	-.314*	.295*	-.125	-.483**	-.290*	.020	-.186	-.032	1.000						
10. CEOorig	0.60	0.50	-.071	.223	.075	.073	-.089	-.266*	.102	.140	-.001	1.000					
11. Duality	0.64	0.49	-.021	-.156	-.099	.179	-.025	-.139	.150	.118	-.293*	.012	1.000				
12. TMTTen	7.63	3.36	-.163	-.197	-.175	-.005	-.212	.042	.065	.074	-.024	.451	.196	1.000			
13. CEOorig x TMTTen	0.12	1.37	-.127	-.252*	-.098	-.002	-.162	-.130	.067	.126	.038	.839**	.129	.840**	1.000		
14. CEOorig x Duality	0.23	0.42	.094	.149	.097	.284*	.065	-.082	.295*	.232	.101	.455**	-.107	.314	.452**	1.000	
15. TMTTen x Duality	0.07	1.97	.088	.227	.021	.267*	.052	.110	.255*	.172	.027	.120	.018	.478**	.348**	.741**	1.000
16. Duality x TMTTen x CEOorig	0.08	1.06	.011	.144	-.035	.117	-.013	.050	.238*	.212	.117	.403**	-.051	.576**	.591**	.885**	.868**

N = 47, *p < 0.05, **p < 0.01

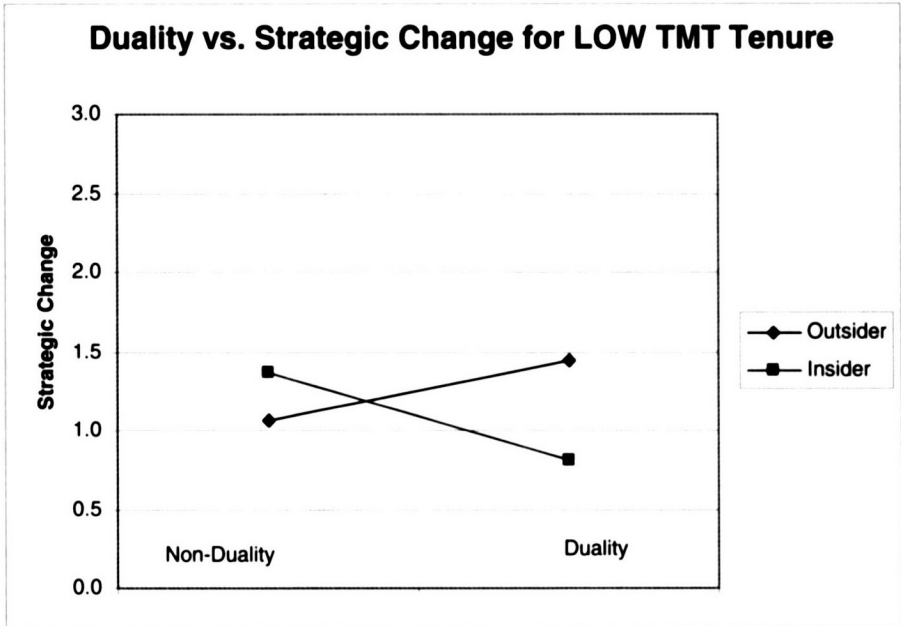


Table 2. The Combined Effects of CEO Duality, TMT Tenure, and Replacement CEO Origin on Strategic Change

Variables	Model 1			Model 2			Model 3			Model 4		
	β	t		β	t		β	t		β	t	
Controls												
1. Constant												
2. Beginning ROA	-0.021	-3.69		-0.016	-0.642		-0.017	-0.621		0.006	-0.007	
3. Industry Growth	-0.029	-5.56		-0.023	-3.92		-0.029	-3.85		-0.045	-1.30	
4. Size	0.046	1.081		0.044	0.977		0.029	0.557		0.003	0.064	
5. Beginning Entropy	0.954	27.811***		0.963	26.171***		0.969	24.411***		0.955	24.729***	
6. Beginning Slack	0.015	0.503		0.006	0.191		0.006	0.167		0.018	0.539	
7. Beginning Leverage	0.009	0.278		0.006	0.178		-0.002	-0.056		0.002	0.061	
8. Beginning LT Debt	0.009	0.282		0.008	0.243		0.001	0.017		-0.002	-0.056	
9. Beginning EBIT	-0.011	-0.268		-0.016	-0.361		-0.018	-0.368		-0.041	-0.835	
Adj. R ²												
F Change												
												14.213***
Independent												
10. CEOorig				-0.009	-0.257		0.051	0.382		-0.046	-0.331	
11. Duality				-0.024	-0.686		-0.015	-0.402		-0.027	-0.753	
12. TMTTen				0.042	1.122		0.099	0.751		0.045	0.349	
Adj. R ²												
F Change												
Two-Way Interactions												
13. CEOorig x TMTTen							-0.12	-0.517		0.081	0.352	
14. CEOorig x Duality							0.022	0.338		0.177	1.797†	
15. TMTTen x Duality							0.004	0.060		0.103	1.316	
Adj. R ²										0.405		
F Change										0.179		
Three-Way Interaction												
16. Duality x TMTTen x CEOorig										-0.278	-2.052*	
Adj. R ²										0.485		
F Change										4.210*		

Dependent Variable: Decline in Entropy (Strategic Change). N = 47, standardized regression coefficients, two-tailed significance levels.
†p < 0.10, *p < 0.05, ***p < 0.001

Figure II. The Interaction of CEO Origin and Duality on Strategic Change For TMT Tenure = Low



given the outside successor duality, and have a TMT with long tenure.

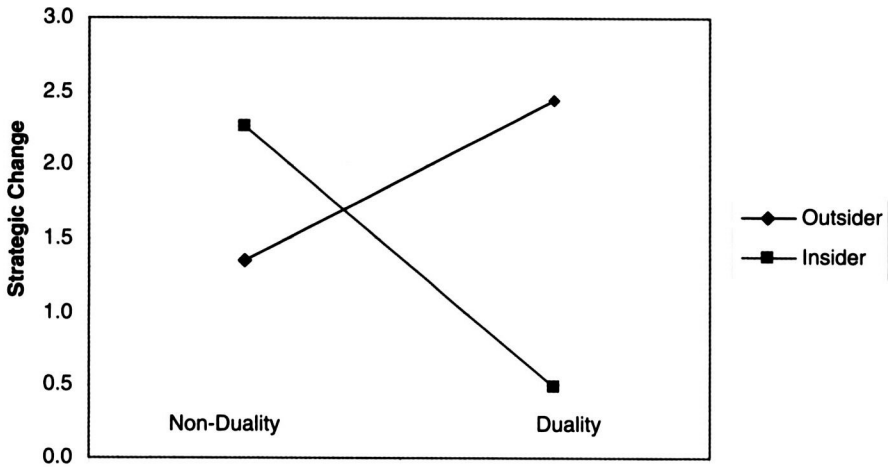
DISCUSSION

The current study developed and tested a contingency theory of how CEO successor choice affects post-bankruptcy strategic change. Findings indicate the significance of a three-way interaction, suggesting that post-bankruptcy strategic change is highest for firms hiring an outsider, giving him or her duality, and retaining a TMT with long tenure (the upper right point on Figure III). A similarly high level of strategic change is also noticeable with the combination of an insider successor, no duality, and a TMT with long tenure (the upper left point on Figure III).

From a practical perspective, it would therefore appear that the BOD has some latitude in their selection of a new CEO. This flexibility reflects the contingency aspect of our hypothesis. For instance, if the TMT tenure is high as on Figure III, then the difference in strategic change from having a new outsider CEO with duality versus an insider without duality does not appear to be that large. A similar relationship exists on Figure II for a TMT with low tenure. Therefore, should a BOD find themselves with fewer than all the options considered here at their disposal, they could still maximize the potential gain in strategic change within the limitations present. The BOD should tailor the leadership structure in whatever

Figure III. The Interaction of CEO Origin and Duality on Strategic Change for TMT Tenure = High

Duality vs. Strategic Change for HIGH TMT Tenure



manner necessary to maximize the potential for strategic change instead of being restricted to a particular combination of our relevant constructs.

Inferences from Table 2 reflect other suggestions available to the BOD, particularly if they are limited in their options for changing the strategic leadership of their organization. For instance, although not specifically hypothesized, one may infer that the interaction between the CEO's origin and Duality is statistically significant by itself without the addition of the TMT Tenure variable (Table 2, Model 4, $\beta = 0.177$; $p < 0.10$). Although this may seem favorable initially, further *post hoc* analyses may suggest otherwise. In particular, the

explained variance for the addition of the two-way interactions is not statistically significant (Adj. $R^2 = 0.405$; $p > 0.10$). Therefore, the level of strategic change is explained by the control variables with Beginning Entropy being the only statistically significant variable $\beta = 0.955$; $p < 0.001$).

A significant contribution to explained variance from Beginning Entropy makes anecdotal sense. One would expect that an organization with a significant level of diversification prior to bankruptcy would have more options at its disposal for reorganization (Marlin *et al.*, 2004). The number of options should increase particularly if those diverse resources were unrelated (Skaggs and Droege, 2004). An unrelated structure should

allow the leadership to spin-off or liquidate those unrelated assets or businesses without unduly affecting any core competency present or in development. This type of refocusing should result in capital from sales or liquidation that could then be reinvested in the retained business in order to maximize the potential for emergence from bankruptcy.

From a theoretical perspective, our results extend the turnaround literature (e.g., Daily and Dalton, 1995; Datta and Iskandar-Datta, 1995; Staw *et al.*, 1981). Previous research on organizational turnaround suggests that bringing in an outsider to replace the CEO and giving the outsider duality can provide a mandate for organizational change and break ideological barriers to change (Hambrick and Fukutomi, 1991). Our results suggest that situational factors (i.e., TMT tenure and duality), in addition to successor choice (i.e., insider versus outsider), affect post-bankruptcy strategic change. One explanation for these results is that an outsider provides the change impetus, duality gives the outsider the power to make changes, and the organizational knowledge and access to established networks held by a long-tenured TMT make it possible to implement the changes.

Additionally, our results also extend the succession literature and specifically the work of Virany *et al.* (1992) who found that organization performance is best when there are frequent changes in the top management team, while the CEO tends to be retained. While Virany *et al.*'s (1992) results suggest that TMT change (with CEO retention) is best for helping firms avoid the problems that could result in bankruptcy, our results suggest that once a firm has

gone bankrupt, an outsider CEO successor should be hired and given duality if the firm has a TMT with long tenure. In the event that a bankrupt firm's TMT has already changed much (i.e., short tenure), our results indicate that the hiring of an insider CEO successor who is not given duality may be the best course of action for the firm.

Finally, from a practical perspective, results from the current study suggest that the BOD carefully weigh many different factors when deciding on who should replace the CEO (i.e., an insider or an outsider) because of poor organizational performance. Although numerous other considerations are necessary in management structure and bankruptcy (Brockmann *et al.*, 2004; Daily, 1994, 1995, 1996), our results suggest that whether an insider or an outsider should be hired is contingent on the tenure of the top management team and/or whether or not the new CEO is given duality.

Limitations

As with any study, this project has certain limitations restricting the generalizability of the findings. In particular, our limited data set resulted in a sample size of only 47. As with any study, an increase in sample size will reduce the potential for errors and increase the potential for finding statistical significance. Our limited data set probably influenced the ability to find significance in our variables. This limit is particularly noticeable in the lack of statistical significance in most of our control variables. Therefore, our results should be viewed with this limitation in mind.

In a more general consideration, the very nature of bankruptcy research influences the availability of

data that may lead to selection bias. To begin with, SEC filings are only available for large, publicly-traded organizations. During bankruptcy, the SEC eases the filing requirements. Those filings useful to researchers (e.g., Annual Reports, 10-Ks, Proxies) are often the first ones omitted. Frequently, only those organizations with significant resources will continue to submit the entire spread of filings. Therefore, a natural selection process, based on data availability, may result in a sample of organizations having relatively more resources than those not selected.

The dependence on SEC filings itself presents limitations. It precludes an examination of smaller organizations and leads to less refined measures. Many more small organizations go bankrupt than those included in this study. Furthermore, the SEC filings allow measurement refinement only down to the quarter at best and annually in other cases.

Similarly, it should also be noted that since firms that did not come out of bankruptcy could not be included in the sample, it is possible that those firms did not experience net positive effects of the interactions of the three variables of outsider CEO, non-duality, and longer TMT tenure on their performance.

Future Research

Since this is one of the few studies on the post-bankruptcy period, a sim-

ple continuation of focus would be beneficial. One specific area of immediate interest would include the influence of an organization's strategy and size on its odds of surviving bankruptcy. Although we controlled for organizational size, this variable has an intuitive appeal when examining the potential for survival, especially in light of its pre- and post-bankruptcy strategy. For instance, related and unrelated diversification strategies would be expected to have dissimilar influences on how the organization can restructure in order to survive bankruptcy. A larger organization with an unrelated diversification strategy may possess more options for divestitures. If the available options are wider, an organization may be better able to raise capital necessary for saving the rest of the organization.

Overall, we feel that this examination of the post-bankruptcy period is important since all too often the focus of strategic management research has been on factors associated with organizational growth and survival (Bettis, 1991; Daft and Buenger, 1990). This is in spite of the fact that it is expensive for our society when organizations fail or go bankrupt. The expense of bankrupt firms to society is compounded by the fact that even though the Chapter 11 law is designed to prevent organizational failure (Johnson *et al.*, 1986; Moulton and Thomas, 1993), it is not proving beneficial in practice.

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organization in conjunction with actual congruence between employee values and those of the top management team. Findings indicated that perceived and actual values fit have both unique and interactive effects on employee commitment, intention to stay with the organization, satisfaction, beliefs about agency effectiveness, and perceptions of conflict. Perceived fit was the dominant positive predictor of attitudes. Effects of actual fit tended to be more dependent on level of perceived fit, supporting a social construction approach to understanding employee reactions to the work environment. No evidence was found here for a model in which actual fit is mediated by perceived fit in its effects on attitudes, nor for a met expectations approach in which consistency between perceived and actual fit relates positively to attitudes.

Toward a Multidimensional Theory of Person-Environment Fit 193
Karen J. Jansen and Amy Kristof-Brown

This study examines the proposition that the presence of women on a company's board of directors is positively associated with gender diversity in its top management team. Regression analyses indicate that after controlling for firm size and profits, industry type and profits, number of officers, and number of board members, the number of women corporate directors on a *Fortune 500* board is positively associated with the number of women officers at the company, the number of women officers holding line jobs, the presence of a critical mass of women officers, the number of women officers with high-ranking or "clout" titles, and the presence of women among the company's top earners. These results indicate the importance of women board members for top management team diversity, and suggest that companies striving for increased gender diversity in their senior officer ranks and more facilitative environments for their top women employees should pay attention to their board-level representation of women.

A Contingency Theory of CEO Successor Choice and Post-bankruptcy Strategic Change..... 213
Erich N. Brockmann, James J. Hoffman and David D. Dawley

This study examines the effect of successor choice, CEO power, and Top Management Team (TMT) tenure on an

organization's post-bankruptcy strategic change. We test a sample of 17 major organizations that filed for Chapter 11 bankruptcy protection and replaced their CEO. Our results indicate that there is a statistically significant three-way interaction between CEO origin, TMT tenure, and CEO duality. Based on our results, we suggest that post-bankruptcy strategic change will be highest for firms where an outsider has been hired as CEO, the outsider is given duality, and the TMT has long tenure.

A Multilevel Examination of Work Life Practices: Is More Always Better?	232
<i>Richard L. Kopelman, David J. Prottas, Cynthia A. Thompson and Eileen White-John</i>	

We researched the following question: Is there a relationship between the number of work family practices offered by an organization and three psychologically relevant variables: employee perceptions of organizational family support (POFS), affective commitment (AC), and two forms of work family conflict? Data were examined (a) at the individual level of analysis and (b) at the group level of analysis using a convenience sample of 298 individuals in 104 work groups. The number of work family practices was significantly related to POFS and AC at the individual level (*Betas* of .14 and .20, respectively), and even more highly related at the work unit level (*Betas* of .52 and .32, respectively). Consistently positive relationships were found between the number of work life practices offered and POFS and AC, but not work family conflict. Larger mean effect sizes (*d*'s) were found at the group level of analysis than at the individual level for POFS (.40 and .31, respectively), and for AC (.43 and .29, respectively). We concluded that with regard to the number of work life practices offered, "More is better."

Relationship between Entrepreneurs' Psychological Capital and Their Authentic Leadership	254
<i>Susan M. Jensen and Fred Luthans</i>	

Entrepreneurship and leadership have arguably been among the most explosive fields of study within recent years, yet little research attention has been given to entrepreneurs as leaders or the psychological strengths that may be related to their

