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The Impact of CEO Duality and Prestige on a Bankrupt Organization

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Everyone is most likely painfully aware of the raft of recent corporate scandals and bankruptcies (Byrne *et al.*, 2002). The current environment suggests a strong probability for changes in the rules affecting governance and bankruptcy. In this light, we present a study that examines a piece of the governance issue following the last major change in the bankruptcy laws (i.e., The Bankruptcy Reform Act of 1978). Specifically, we examine the influence of a CEO's power and his or her influence on organizational performance subsequent to bankruptcy filing.

When management files for bankruptcy protection, it proclaims the organization's deterioration with a definitive measure of performance (Daily, 1994). Although some bankruptcies are strategic in nature (Flynn and Farid, 1991; Johnson *et al.*, 1986; McConnell and Servaes, 1991; Moulton and Thomas, 1993), most result from an organization's inability to meet debt obligations (Altman, 1993), which is, after all, the legal definition of bankruptcy. How organizations get in such a predicament remains debatable (e.g., Daily, 1994). However, two perspectives dominate

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the literature—one proposes that failure is the fault of no one (e.g., Aldrich, 1979; Hannan and Freeman, 1977), and the other holds management culpable (e.g., Ansoff, 1988; Child, 1972).

Consistent with the latter perspective, we assume that leaders do in fact affect organizational performance. Our assumption is consistent with both the strategic choice perspective (Ansoff, 1988; Child, 1972; Cyert and March, 1963; Thompson, 1967) and upper echelon research (e.g., Dooley and Fryxell, 1999; Hambrick and Mason, 1984; Hambrick and Fukutomi, 1991; Hambrick *et al.*, 1996; Thomas, 1988; Zahra and Pearce, 1989).

Regardless of why the organization is bankrupt, responsibility falls upon the leadership to effect repairs and recovery. This presents a problem since the potential for any recovery is precarious, particularly when those same people accountable for the initial failure (i.e., management) now become responsible for the subsequent recovery. Intuitively, “the problem causers [sic] should not become the problem solvers” (Whetten, 1987: 349). Since it was management that most likely caused the failure (Altman, 1993), or at least failed to prevent it (Khanna and Poulsen, 1995), it follows that something about management must change.

The purpose of this study is to examine an area in strategic management that is virtually unexplored—that is, the period in an organization’s life beginning immediately upon a bankruptcy filing through its return to normalcy. In particular, we examine the influence of Chief Executive Officer (CEO) power, both formal as determined by duality and informal determined by

prestige. Our study begins after an organization has filed for bankruptcy.

Furthermore, we extend the extant research stream on organizational failure by examining the post-failure period; this is done in three stages. First, assuming the organization does survive, we examine the duration of the time spent under bankruptcy protection (reorganization time). Second, we compare those organizations that survive with those that did not to examine the odds of emerging from the bankruptcy process. Finally, we examine the length of time necessary for recovery and return to industry performance parity following emergence from bankruptcy protection (recovery time).

In the following sections we review the theoretical background routinely applied to bankruptcy research. We then review the applicable research on organizational bankruptcies and extend it to focus on the period after initial filing of Chapter 11 protection. We then incorporate the formal and informal power of the CEO and provide hypotheses to test their influences on bankruptcy outcomes.

CEO Duality and Prestige

In organizations larger than the “Mom & Pop” corner grocery store, power is rarely absolute (Dooley and Fryxell, 1999; Hambrick and Mason, 1984). In the context of corporate governance, power is normally relative. According to agency theory (Fama, 1980), the relation between the Board of Director’s (BOD) power and CEO’s power influences the ability of a BOD to monitor and control their CEO’s behaviors (Ocasio, 1994; Parrino, 1997). Since the CEO is the organization’s primary strategist, influence over his or her behaviors im-

plies influence over organizational performance. The more power the CEO has, the less likely the BOD's monitoring mechanisms will function effectively. In reality, this balance of power is affected by numerous factors including formal and informal mechanisms (Dooley and Fryxell, 1999; Hambrick *et al.*, 1996; Pfeffer, 1981).

The CEO holds formal power by virtue of his or her position (Pfeffer, 1981, 1992). The title of CEO has come to signify the individual who has ultimate legal authority and responsibility in today's corporate hierarchy (Kesner and Sebor, 1994; Ocasio, 1994). This formal, or position, power is regularly measured by duality (e.g., Boyd, 1995), a combining of the CEO and Chairman of the BOD (CBOD) positions. Prestige is probably the most significant contributor to informal power and has been characterized as elusive, equivocal, and fleeting (Pfeffer, 1981; Thompson, 1967). For the rest of our discussion, power will refer to formal power while prestige will refer to informal power.

Duality

CEO dynamics can influence the composition, structure and dynamics of the BOD (Ward *et al.*, 1999). The BOD can also affect corporate restructuring and performance (Daily and Dalton, 1994; Goodstein and Boeker, 1991; Johnson *et al.*, 1993). Empirical results examining the advantages and disadvantages of duality, especially as it relates to organizational performance, are mixed (e.g., for a review see Boyd, 1995). Finkelstein and D'Aveni (1994) viewed duality as a double-edged sword having both positive and negative effects.

Conversely, Baliga, Moyer, and Rao (1996) found no influence of duality on either operating performance or market value. This latter research also showed no market reaction to signals provided by announcements in leadership structure.

Support for duality normally rests in leadership and stewardship theories. From an organizational leadership perspective, if CEOs have the final accountability for their organization's performance, they should also have final authority to carry out their responsibilities (Dalton *et al.*, 1998; Rechner and Dalton, 1989). This unity of command normally outweighs the entrenchment problems of agency theory (Finkelstein and D'Aveni, 1994). Entrenchment refers to higher CEO power created through informal mechanisms or as a result of increased popularity, perhaps due to improved organizational performance (Finkelstein and D'Aveni, 1994).

Since the CEO is assumed to be responsible for improved organizational performance, even a vigilant BOD prefers non-duality to minimize entrenchment. On the other hand, the unity of command attitude supports duality so that the organization has a clear and powerful leader. Powerful leadership is particularly useful if significant changes are necessary in turning around a failing organization (Dalton *et al.*, 1998; Finkelstein and D'Aveni, 1994; Lorsch and MacIver, 1989).

In summarizing duality, the differing empirical results suggest a contextual consideration. That is, the leadership structure should be a strategic decision based on environmental and temporal considerations.

Prestige

As with duality, empirical results on prestige are mixed. Prior studies relied on Agency and Resource-Based theories and routinely associated prestige with the “good-old-boys” network, loyalty, and the ability to co-opt antagonists (Finkelstein, 1992; Finkelstein and D’Aveni, 1994). CEO prestige is significant in an organization’s perceived level of dependability. A lack of such dependability is a necessary, albeit insufficient, contributor to bankruptcy (D’Aveni, 1989b). However, following bankruptcy and building on resource dependency (Pfeffer and Salancik, 1978), a CEO may rely on his or her prestige and network connections to attract resources vital to organizational survival such as credit.

From a negative perspective, prestige has also been shown to corrupt the efficient labor market by protecting inept and inefficient managers (D’Aveni, 1989a). Without an efficient labor market, agency costs are increased and poor leadership extends the downward spiral that was begun prior to bankruptcy.

HYPOTHESES DEVELOPMENT

Duality and Reorganization Time

When confronted with a threat such as declining organizational performance, a “natural” response in organizations is to centralize the decision-making process (Staw *et al.*, 1981). This centralization can exacerbate an already excessive agency problem causing further organizational deterioration (Hambrick and D’Aveni, 1992). Such a downward spiral is more likely to continue with higher CEO power (Hambrick and D’Aveni, 1988, 1992). When the or-

ganization has deteriorated to a certain point, bankruptcy may be the only alternative.

In our context where the initial condition is bankruptcy, a continuing downward spiral can only lead to a continuation of bankruptcy. For instance, if the strategic leadership was unable to turn organizational performance around prior to bankruptcy, it is unlikely they will do so afterwards (Hotchkiss, 1995).

The lack of an appropriate turnaround plan is manifest by the lack of an approved reorganization plan. Although a reorganization plan is required within specific time limits (Mann and Roberts, 1994), the courts routinely grant extensions to the bankrupt organization. These extensions prevent the creditors from submitting their own plan and thus extend the time the organization spends in bankruptcy. In essence, the strategic leadership becomes protected and their power increased, thus exacerbating an already expensive agency problem. This literature suggests the following hypothesis:

H1A: CEO power will be positively associated with the length of time an organization spends in bankruptcy.

Duality and Organizational Survival

Once an organization files for bankruptcy protection, management’s focus shifts from one of ongoing operations to one focused on basic survival. Such a shift should ease the agency costs since the managers’ interests become immediately more aligned with those of the owners (Hotchkiss, 1995). With managers normally being employment risk-averse (Zajac, 1990) and bankruptcy normally leading to significant management turnover (Gilson, 1989,

1990), we would expect managers to increase their focus on keeping their jobs during bankruptcy.

Furthermore, when an organization is fighting for its survival, immediate and decisive actions are often necessary. Such actions demand a CEO with significant power so that he or she is effective. A powerful CEO also provides a rallying point and at least a perception of unity of command (Finkelstein and D'Aveni, 1994). Although these perspectives are examined less often than that of threat-rigidity (Staw *et al.*, 1981), the need for decisive leadership is most critical during times of crises. Therefore, a powerful CEO should have the ability to induce significant actions required during a survival struggle. Consistent with agency theory and leadership doctrine, the following is suggested:

H1B: CEO power during bankruptcy will be positively associated with the odds that the organization will survive; that is, the more power wielded by the CEO during bankruptcy, the more likely the organization is to have its reorganization plan approved.

Duality and Recovery Time

In an ideal world, where win-win situations are regularly attainable, a balance of power between the CEO and the BOD should result in the strongest positive influence on organizational performance. However, empirical results from the real world show that organizations with a BOD more powerful with respect to the CEO are associated with improved organizational performance (Pearce and Zahra, 1991). Similarly, Daily (1995) showed that a higher number of outsiders and an independent CBOD, both indicators of BOD

power, are positively associated with organizational success.

In general, the indicators of power (i.e., duality and BOD composition) imply that organizational performance is improved when the BOD holds the reins. Since organizational performance is improved, the length of time in the recovery phase should be reduced. Therefore, consistent with agency theory, the following is suggested for the recovery period:

H1C: CEO power will be positively associated with recovery time; that is, a powerful CEO will lengthen the time an organization needs to return to organizational performance parity with the rest of the industry.

Prestige

Prestige deserves our separate examination because of its close association with total power and since it brings with it significant agency and resource implications. For instance, prestige can promote and then protect an inept manager; it can also increase a manager's access to vital resources. Both of these "benefits" often arise from the good-old-boys network, loyalty, or co-optation (Finkelstein, 1992; Finkelstein and D'Aveni, 1994).

Prestige and Reorganization Time

As discussed previously, a CEO adept at avoiding sanctions prior to bankruptcy can extend the downward spiral in performance present prior to bankruptcy (Hambrick and D'Aveni, 1988, 1992) into the reorganization phase. Although previous research did not specifically address prestige, the influences from this informal power should be analogous to formal power. Such effects void the benefits from an efficient labor mar-

ket and increase the agency costs of BOD monitoring. Therefore, consistent with agency theory, we offer the following:

H2A: CEO prestige will be positively associated with the reorganization time; that is, a prestigious CEO will result in delays in the approval of the reorganization plan.

Prestige and Organizational Survival

The influence of a CEO's prestige on organizational survival should be comparable to its influence on the reorganization time. If the downward spiral is allowed to continue unbroken into bankruptcy, the only possible outcome should be organizational death through either acquisition or liquidation. However, accepting the precept that leaders make a difference (Hambrick and Mason, 1984; Hambrick and Fukutomi, 1991; Thomas, 1988), a prestigious CEO may also bring a positive benefit, that of access to vital resources.

From a resource perspective (Pfeffer, 1982; Pfeffer and Salancik, 1978; Shen and Cannella, 2002), prestige is a nexus for the network of common economic interests among the super-wealthy and power-elite (D'Aveni, 1989a). These network associations provide access to vital resources much in the way as do BOD interlocks (Pennings, 1980). Therefore, prestigious CEOs may be able to provide access to outside resources and in particular financial resources so necessary during bankruptcy. Perhaps more importantly, a CEO's prestige can signal a sense of dependability and thus increase the probability of actually obtaining the resources (D'Aveni, 1989a).

Herein is an inherent conflict between outcomes based on agency and

resource dependency theory. We choose to be consistent with our proposed outcomes from power and suggest the following which is consistent with the resource dependency perspective:

H2B: CEO prestige will be positively associated with the odds of an organization successfully emerging from bankruptcy.

Prestige and Recovery Time

In order to emerge from bankruptcy, an organization must have its reorganization plan approved by numerous outsiders; chief among these outsiders are the creditors and the Bankruptcy Court. The organization's primary concern is then to implement the reorganization plan. This transition of an organization from bankruptcy back to normalcy is a magnification of the more routine transition of strategic formulation to implementation. The main difference is that more stakeholders were involved in formulating and approving the new strategy.

As discussed earlier, since prestige is the most significant contributor to the CEO's level of informal power (Pfeffer, 1981; Thompson, 1967), a more prestigious CEO wields more power. A more powerful CEO results in higher agency costs because the monitoring and control of the BOD is reduced. For instance, a vigilant BOD will normally prefer to minimize other forms of CEO power, particularly when CEO informal power is high (Finkelstein and D'Aveni, 1994). With an increased agency problem, organizational efficiency suffers (Jensen and Meckling, 1976), thus potentially extending the recovery period. These influences lead us to suggest:

H2C: CEO prestige will be positively associated with recovery time; that is prestige will lengthen the time an organization needs to return to organizational performance parity with the rest of the industry.

METHODS

Sample

The population for this study is all publicly-held firms having total assets greater than \$25M, traded on one of the three major stock exchanges, and whom filed for Chapter 11 reorganization (11 U.S.C. § SEC 1306(b) of the Federal Bankruptcy Code) between 1980 and 1996. Public ownership and asset size avoid the “liability of smallness” (Aldrich and Auster, 1986; Carroll, 1984; Wholey and Brittain, 1986) and its corollary of the “liability of newness” (Hannan and Freeman, 1984: 160). Based on records maintained by *New Generation Research*, publishers of *The Bankruptcy Yearbook and Almanac* (Daily, 1996), 685 organizations satisfied the restrictions and therefore represent our population of interest.

Our time frame of interest was controlled by two factors. The starting year, 1980, is based on the first full year following the effective date of the Bankruptcy Reform Act of 1978 (i.e., October 1, 1979). The ending year of 1996 was selected to allow the average surviving organization sufficient time to return to industry performance parity (Dawley *et al.*, 2002).

Definition and Measurement of Variables

Data were obtained from secondary sources. The data for governance constructs came from the *Standard & Poor's Register of Corporations, Directors and Executives* and SEC filings

(10Ks, Proxies, and Annual Reports). The performance measures and other financial information for the control variables and recovery benchmarks were derived from COMPUSTAT tapes. All variables were measured at the end of the first full year following bankruptcy to allow time for any turnover of the CEO and TMT which is expected leading up to and immediately following bankruptcy filing.

Dependent Variables

The first pair of hypotheses (H1A and H1B), which address reorganization time, each used a continuous dependent variable. This dependent variable (ROTIME) reflects the number of months between the filing of the initial Chapter 11 protection (T_{BR}) and the approval of the reorganization plan by the Bankruptcy Court (T_{RO}). The second pair of hypotheses (H2A and H2B), addressing organizational survival, each required a dichotomous dependent variable (REORG). Either a firm exited bankruptcy protection (= 1, a survivor) or did not (= 0, a non-survivor). A firm was considered successful when it met Moulton and Thomas's (1993) successful or partially successful criteria while failure occurs when a firm files Chapter 7 (7 U.S.C. § SEC 1306(b) of the Federal Bankruptcy Code) for liquidation or is absorbed by another firm through a merger or an acquisition. The third pair of hypotheses (H3A and H3B), which address the recovery time, each used a continuous dependent variable. This dependent variable, recovery time (RECTIME), is the number of years between the approval of the reorganization plan by the Bankruptcy Court (T_{RO}) and the organization reaching

Table 1. Results of Principle Component Analysis

	Factor Variable	Observed Variable	Loading
Control Variables:	SIZE	1. ORGSIZE	0.880
		2. EBIT	0.871
	SLACK	1. USLACK	0.851
		2. LIQ	0.725
	STRUCTURAL	1. IND	0.794
		2. MONIT	0.678
3. LEV		-0.625	
Dependent Variable:	PRSTG	1. TMTED	0.687
		2. CEOSTS	0.650
		3. CEOED	0.619
		4. NROUTSDR	0.474

performance parity with the rest of its industry (T_{REG}).

To remain consistent with prior research (e.g., Daily, 1995), Earnings before Interest and Taxes (EBIT) was used as the indicator of profitability. An organization's return to success was based on a comparison of its EBIT to the mean EBIT for the other members of the same 2-digit SIC code. Recovery is deemed to have occurred whenever the organization's EBIT reaches at least 75% of the industry EBIT.

Control Variables

CEO-Tenure. A normal progression in corporate leadership from separate CEO and COB towards duality tends to occur over time (Harrison *et al.*, 1988). Therefore, a CEO tenure (CEOTEN) variable was included as a control to address this "natural" progression. Furthermore, CEO ten-

ure has been found to be directly linked to organizational *status quo* (Hambrick *et al.*, 1993).

Latent Control Variables. Because of the restricted population size and to protect the power (Cohen, 1969) in this study, we used Principle Component Analysis (PCA) with Oblimin rotation on the multiple, albeit necessary, control variables listed in the next sections. Analysis showed satisfactory results in sampling Adequacy ($KMO = 0.51$), a significant test for Sphericity ($p < 0.001$), and explanation of sufficient variance ($> 62\%$). The principle component analysis resulted in three factor variables grouped theoretically into SIZE, SLACK, and STRUCTURAL (see Table 1). A description of each of the individual control variables used in the factor analysis is presented next.

Financial Controls. In line with Daily and Dalton (1994) and Daily (1995), and keeping with the non-financial

focus of this study, we controlled for those financial variables commonly used in bankruptcy research. Our variables reflect the operational performance of a firm instead of market measures because operational performance is more under management control (Daily *et al.*, 2000) (Grossman and Hoskisson, 1998; Ocasio, 1994). All of the financial data were determined from COMPUSTAT tapes. Profitability is an interval variable and operationalized as the Earnings before Interest and Taxes (EBIT) (Daily, 1995). Liquidity (LIQ) is a ratio variable operationalized as the current assets (CA) divided by the current liabilities (CL). Leverage (LEV) is a ratio variable operationalized as the total equity (TE) divided by the total long-term debt (LTD). Unabsorbed Slack (USLACK) is a ratio variable operationalized by working capital (WC) as a percent of sales (S). Keeping with Hambrick and D'Aveni (1988), unabsorbed slack provides the advantages of assessing the firm's ability to meet its current resource needs, while at the same time providing a measure which adjusts for the size of the firm. Rate of decline (ROD) is the number of years an organization has non-positive net income in the five years prior to bankruptcy, which is reverse coded to reflect rate (Moulton and Thomas, 1993).

Other Controls. Size (ORGSIZE) is a ratio variable operationalized as the natural log of full-time employees (FTEMP) (Daily, 1995). Level of outside monitoring (MONIT) is operationalized as a ratio variable of the amount of stock owned by blockholders, each possessing in excess of five percent of the outstanding voting stock (Tosi Jr. and Gomez-Mejia, 1989; Useem, 1993; Useem *et al.*,

1993). Industry effects (IND) are controlled for by using the 2-digit SIC code (Hotchkiss, 1995), because of their potential impact on managerial discretion (Finkelstein and Hambrick, 1990). All amounts are normalized to 1980 since that is the beginning of our study.

Independent Variables

Formal Power is operationalized as duality to reflect position power and to be consistent with prior research (Boyd, 1994, 1995; Daily, 1995; Zajac and Westphal, 1996). CEO Prestige (PRSTG) is a latent variable derived from the CEO's education level (CEOED), the number of outside directors on the BOD (NROUTSDR), the number of outside BODs that the CEO sits on (CEOSTS), and the education level of the TMT (TMTED), all in keeping with prior research (D'Aveni, 1989a). Principal Component Analysis (PCA) resulted in sampling adequacy (KMO = 0.6871) greater than the generally acceptable minimum of 0.5 (Hair *et al.*, 1995), significant sphericity ($p < 0.0001$), and a sufficient explained variance (44%). The loadings resulting from PCA on prestige are shown in Table 1.

Analytical Procedures

Ordinary least-squares (OLS) multiple regression was selected to test the hypotheses (H1A and H2A) regarding reorganization time. The use of OLS regression is appropriate because of the postulated linear relationship and the outcome variable dependent on multiple independent variables (Cohen and Cohen, 1983; Lewis-Beck, 1980). The second pair of hypotheses (H2A and H2B), ex-

aming the odds of survival (REORG), was tested using logistical regression (Aldrich and Nelson, 1984). The third pair of hypotheses (H1C and H2C), the recovery time (RECTIME), was tested using regression modified for survival censoring (Cox and Oakes, 1984). In contrast to the reorganization testing, some organizations in this study are censored. That is, some organizations have yet to reach a level of performance comparable with the rest of the industry within our data set.

RESULTS

The descriptive statistics and inter-correlations are provided Table 2. The results of the hypotheses testing are shown in Table 3 and discussed in the next section.

Hypothesis H1A, claiming that a powerful CEO will lengthen the reorganization time, and hypothesis H2A, claiming prestige has the same effect, were both supported. Hypothesis H1B, claiming that more power held by the CEO while under Chapter 11 protection bettered the odds of survival, was supported, while hypothesis H2B, claiming a similar effect from prestige, was not. Although prestige was not statistically significant, it is interesting that the effect is in the opposite direction from that hypothesized. This will be discussed in the next section. Hypothesis H1C, claiming a powerful CEO will lengthen the recovery time, was not supported. The coefficient was in the direction opposite from that hypothesized. However, the level of significance raises an interesting point that will be discussed in the next section. Conversely, hypothesis H2C, claiming a similar lengthening effect from prestige, was supported.

DISCUSSION

The results show an interesting divergence between the influences of CEO power and prestige following a significant event in an organization's life. Power seems to have overall positive outcomes while prestige has negative ones. CEO power should improve the odds of survival (a desired result) while at the same time lengthen the time in bankruptcy (an undesirable result). These results may appear initially as contradictory until viewed holistically. In such a manner, they support Finkelstein and D'Aveni's (1994) concept of a double-edged sword. Meanwhile, prestige is associated with reduced odds of survival and, to a lesser degree, with a longer time in reorganization.

During regular operations, the BOD is supposed to monitor and control the actions of agents (i.e., the CEO) (Berle and Means, 1932; Fama, 1980; Jensen and Meckling, 1976). With bankruptcy comes two additional layers of oversight beyond that of the BOD—the creditors and the Courts (Mann and Roberts, 1994). Therefore, a CEO able to have his or her strategic plans easily approved by the BOD during the downward spiral may find the additional oversight impedes the approval process. Similar to the expectations from outside BOD members, these new monitors should not be susceptible to a CEO's power manifest by his or her ability to influence approval of unrealistic strategic plans. This idea is supported by previous work showing that powerful CEOs tend to provide unrealistic claims in their reorganization plans (Hotchkiss, 1995). Therefore, the reorganization plan may have to proceed through multiple iterations be-

Table 2. Descriptive Statistics and Intercorrelations

Variable	1.	2.	3.	4.	5.	6.	7.	8.	9.
1. LNGTBR	1.00								
2. CEOTEN	-0.196*	1.00							
3. DUAL	0.230**	0.155**	1.00						
4. PRSTG	0.218**	-0.101	0.289**	1.00					
5. SIZE	0.349**	-0.075	-0.092	-0.043	1.00				
6. SLACK	0.064	0.040	-0.124*	-0.100	0.058	1.00			
7. STRUCTURE	-0.120	0.060	-0.110*	0.025	0.050	0.018	1.00		
8. REORG	^a	0.158**	0.135**	0.000	0.000	0.000	0.000	1.00	
9. RECTIME	-0.164*	0.101	0.140	-0.142*	-0.280**	0.035	0.019	^a	1.00
Mean	19.47	13.62	0.69	0.00	0.00	0.00	0.00	0.55	4.93
s.d.	11.73	12.12	0.46	1.00	1.00	1.00	1.00	0.50	4.05

N = 252; ** p < 0.01, * p < 0.05

^a Cannot be computed because at least one variable is a constant

Table 3. Results of Hypotheses Testing

Variables	Reorganization Time Regression		Organizational Survival Logistic Regression		Recovery Time Regression	
	β	SE β	β	SE β	β	SE β
Constant	19.478**	0.562	-0.599*	0.240		
Controls						
SIZE	4.166**	0.844	0.038	0.125	0.362**	0.084
SLACK	0.546	0.843	-0.029	0.109	-0.140	0.099
STRUCTURE	-1.632	0.842	0.069	0.115	-0.166*	0.101
CEOTEN	-0.183*	0.066	0.013	0.010	-0.002	0.009
Adj. R ² /Chi-Square	0.128		0.244		18.608*	
Independent						
DUAL	6.331**	1.826	0.776**	0.275	-0.647**	0.256
PRSTG	1.827*	0.830	-0.390**	0.141	0.283*	0.099
Adj. R ² /Chi-Square	0.248		16.882**		28.650**	

N = 252, non-standardized regression coefficients, one-tailed significance levels.

** p < 0.01, * p < 0.05

^a Indicates statistically "interesting" while not "significant."

fore final approval, thus extending the reorganization time.

The results of prestige suggest similar effects but perhaps for different reasons. While power struggles may create delays in reorganization plan approval, prestige may simply be a vehicle to bypass some of the system requirements. For instance, prestige may result in automatic extensions of the time requirements mandated by the bankruptcy courts. Likewise, the network of personal contacts a CEO has through prestige (D'Aveni, 1989a) may support unreal expectations for a reorganization plan and likewise delay its approval (Hotchkiss, 1995).

Even though the reorganization time is extended, a powerful CEO is also shown to improve the odds of survival. Continuance of an organization as a surviving entity is by far the overriding goal of management during normal operations (Donaldson and Lorsch, 1983; Pfeffer and Salancik, 1978). It is also the underlying tenet for why bankruptcy laws were originally designed (Johnson *et al.*, 1986). Bankruptcy has the natural effect of reducing agency costs by aligning CEO interests with those of the shareholders. This alignment and a powerful CEO's ability to implement the, often drastic, steps necessary during this tumultuous time should combine to improve the odds of survival. Therefore, although it may take longer to get the reorganization plan approved, once approved, the plan's implementation may prove more effective. These results are consistent with the concept of unity of command taking precedence over entrenchment (Finkelstein and D'Aveni, 1994).

The negative potential effects from entrenchment is further illustrated

when examining prestige during reorganization. The odds of survival were reduced when the CEO's prestige was high. Since prestige is often associated with corruption of the efficient labor market, it may have the same results as entrenchment. This is what we saw in our results. This suggests that the corruption of the efficient market protects an inept CEO who was associated with the initial failure of an organization during its downward spiral. In this case, the spiral simply continues into bankruptcy and, most likely, ends up with liquidation or acquisition.

The two influences of power on reorganization time and survival are easily extended into the organization's recovery period. Once an organization emerges from bankruptcy, the additional layers of monitoring are removed but drastic actions on the part of the CEO must still be taken in order to implement the plan. Therefore, a powerful CEO should be able to obtain BOD concurrence and then implement the actions. Although contrary to our hypothesized influence, both of these time effects should accelerate an organization's return to performance parity and are supported by our results.

Although the influences of power on recovery time are positive, those from prestige are negative. Assuming the organization survives the reorganization process, the results suggest that a powerful CEO is better able to implement a recovery plan than a prestigious one. A prestigious CEO may simply continue to rely on his or her protection from the efficient labor market and continue to exhibit poor leadership ability. These results remain consistent with the view of entrenchment (Finkelstein and

D'Aveni, 1994) and also with prior research on organizational recovery (Hotchkiss, 1995).

Practical Implications

The results of our study are useful to the practicing manager. They suggest that the leadership structure has significant influence during a particularly fatal period in an organization's life. However, as with previous research, the influence from duality continues to be a double-edged sword (Finkelstein and D'Aveni, 1994) and its use should be a conscious and strategic decision. Likewise, prestige appears to have a more straightforward and negative influence on the organization. Since the results were in contrast to resource-dependency theory (Pfeffer and Salancik, 1978), they may suggest that the resources necessary during normal operations are not appropriate during a bankruptcy episode.

For instance, the BOD should consider the influences of duality carefully when deciding to give the CEO the position of CBOD. Although duality does extend the time in reorganization, its positive influence on the odds of survival and return to performance should probably outweigh such an extension. Furthermore, the BOD should be aware of the negative implications of prestige. Although exceeding the bounds of our study, the many other operationalizations of prestige may have similar influences on organizational performance. Finally, since our results did not support the resource-dependency theory, the BOD should consider the CEO's access to resources specifically applicable to reorganization.

Our findings should also influence the decision-making process of other

entities. For instance, the Bankruptcy Court Judge may be swayed by the CEO's power (both formal and informal) when he or she is deciding to approve the reorganization plan. If the Judge understands the various influences from CEO power, then a more informed decision may occur which directly affects reorganization time. Creditors have a similar potential effect on reorganization time since they must approve the plan (Mann and Roberts, 1994). Such consideration should avoid approving a plan with unrealistic goals and expectations which have been present with powerful CEOs (Hotchkiss, 1995).

Limitations

As with any study, this study has certain limitations, and the generalizability of the findings should be viewed in light of these limitations. For instance, the very nature of research in the area of bankruptcy influences the availability of data that may lead to selection bias. To begin with, an organization must be sufficiently large and publicly traded just to have SEC submissions on file. Then, after an organization files for bankruptcy, the SEC requirements are eased during the period of reorganization. Therefore, only those organizations with sufficient resources will continue to submit the entire spread of filings even though they are not legally required.

We also depended on one-time measures for our variables of interest (i.e., Duality and Prestige). Our one-year time lag does control for the most significant turnover in CEOs immediately following bankruptcy filing. However, our results must be viewed with the understanding that the CEO's reputation may decline with the length of time in reorgani-

zation. Such a decline would suggest a similar decline in the benefits from prestige.

Future Research

Only time will tell what changes in corporate governance rules will result from the current environment of organizational failures. However, one conclusion is almost certain—the rules will change. Therefore, an obvious line of future research will be to extend this current study under the new rules.

Specific limitations of the current study also provide a wealth of future research opportunities. First, as with all studies, a larger sample would have resulted in better results. This is difficult in the post-failure time since

data availability severely limits the population. Of course, inclusion of the larger population of smaller organizations would be a natural extension. Second, since this is one of the few research projects on the post-bankruptcy period, a simple continuation of focus would prove beneficial. All too often, the focus of research is on organizational aspects that are glamorous. Sometimes we need to delve into the darker side of operations to help find relief for organizations unable to see past the next creditor's demand. Overall, it is hoped that the current study will serve as a point of reference for future studies. It is also hoped that the findings of this study will give direction to future research efforts that examine the bankruptcy area.

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