Restructuring Decision: The Diversity of Manager Personality

Rachid ACHBAH *
Université Jean Monnet, Saint-Etienne

Marc FRECHET
Université Jean Monnet, Saint-Etienne

Ivana VITANOVA
Université Lyon 2

Abstract

In this article, we analyze the relationship between the restructuring decisions of distressed firms and the psychological profile of the manager. We predict that the manager's two psychological attributes, narcissism, and optimism, are negatively associated with the manager's choice of in-court rather than out-of-court restructuring. On the contrary, we posit that manager emotional stability is positively related to the choice of in-court restructuring. We used an original sample of 230 French SMEs collected via a survey administered directly to managers to test our predictions. Our findings provide a new understanding of choice between in and out-of-court restructuring. Furthermore, we offer theoretical contributions to corporate restructuring, bankruptcy, upper echelons theory, executives personality literatures, and managerial applications for executives and boards of directors.

Keywords: Insolvency. Manager characteristics. In-court restructuring. Out-of-court restructuring. Upper echelons theory.

Cette étude analyse la relation entre les décisions de restructuration des entreprises en difficulté et le profil psychologique du dirigeant. Nous supposons que les deux attributs psychologiques du dirigeant, le narcissisme et l'optimisme, sont négativement associés au choix d'une restructuration judiciaire plutôt que privée. En revanche, nous supposons que la stabilité émotionnelle du dirigeant est positivement liée au choix d'une restructuration judiciaire. Nous avons utilisé un échantillon original de 230 PME françaises collecté via une enquête administrée directement aux dirigeants pour tester nos hypothèses. Nos résultats apportent une nouvelle compréhension du choix entre restructuration judiciaire et privée. En outre, nous apportons des contributions théoriques à la restructuration des entreprises, à la faillite, à la théorie de l'échelon supérieur, à la littérature sur la personnalité des dirigeants et des implications managériales pour les dirigeants et les conseils d'administration.

*Corresponding author. PhD Student. COACTIS. rachid.achbah@univ-st-etienne.fr

1. INTRODUCTION

A firm's ability to reconfigure itself rapidly is crucial to its survival. This is particularly obvious for financially distressed firms, as restructuring strategy is a pivotal decision in strategic management. Restructuring is a form of corporate reorganization (Girod and Whittington, 2017). It encompasses all strategic, financial, and organizational practices to restore firms' health in financial distress (Bowman and Singh, 1993). Consequently, corporate restructuring decisions have received considerable research attention over the past decade (Blazy and al. 2014; Adriaanse and Rest 2017; Rico et al., 2020; Jostarndt and Sautner, 2010; Hotchkiss et al., 2008; Bowman and Singh, 1993).

One of the most critical choices in the restructuring procedure is related to the in-court and out-of-court dichotomy. Although existing literature has extensively focused on the choice of restructuring method (Gilson et al., 1990; Blazy et al., 2014; Jostarndt and Sautner, 2010), several gaps remain regarding the role of managers' psychological and personality characteristics in the restructuring decision. To our knowledge, there has not been an empirical study that examined this relationship between in and out-of-court restructuring. This gap is all the more noticeable as strategic choices, and upper echelons theory (Hambrick and Mason, 1984) have highlighted the importance of senior managers in strategic decision making and firm performance (Campbell et al., 2019; Liu et al., 2018; Schumacher et al., 2020; Marquez-Illescas et al., 2019).

The goal of this paper is thus to theoretically and empirically analyze the effect of three critical psychological attributes: narcissism (Fengyi et al., 2022; Cragun et al., 2020; Buchholz et al., 2018; Zhang et al., 2018), optimism (Yenn-Ru Chena et al.,2020; Goldberg et al., 2020; Hung and Tsai, 2020; Jin-Ping Lee, 2020; Huang et al., 2018; Malmendier and Tate, 2005), and emotional stability(Ormiston, ME et al., 2021; Peterson et al., 2003; Herrmann, Nadkarni, 2014; Nadkarni and Herrmann, 2010) on the manager's choice of restructuring strategy (in-court versus out-of-court). Our theoretical framework integrates two strands of existing research.

On the one hand, we refer to upper echelons theory (Hambrick and Mason, 1984) which claims that personality and psychological attributes determine how managers perceive, interpret, and react to environmental stimuli and, therefore, influence their strategic choices (Chatterjee and Hambrick, 2007, Gordon et al., 2021; Campbell et al., 2019; Liu et al., 2018; Schumacher et al., 2020; Marquez-Illescas et al., 2019; Fuming Jiang et al., 2018; Gupta and Misangyi, 2018; Capalbo et al., 2017). We have identified three psychological attributes that are likely to influence the choice of restructuring strategy: narcissism, optimism, and emotional stability. Interestingly, the three are highly prevalent among senior executives, with various studies confirming their effect on managers' choices in a variety of corporate decisions and outcomes (e.g., Yenn-Ru Chena et al.,2020; Goldberg et al., 2020; Fengyi et al., 2022; Cragun et al., 2020; Malmendier and Tate, 2005; Lauriola and Iani, 2015).

First, we focus on manager narcissism as one of the most examined personality traits (Capalbo et al., 2017; Buyl et al., 2019). Narcissistic managers persistently prefer bold actions and audacious strategies that attract attention (Buchholz et al., 2018; Foster et al., 2009). They engage in activities that reinforce their self-image and support their ideal ego (Campbell et al., 2004). Thus, one would expect this need to be fully manifested when high stakes are involved, such as restructuring a distressed firm.

Second, we focus on manager optimism as a well-defined concept in strategic management (Alicke et al., 1995; Malmendier and Tate, 2005). There is a reasonable reason to believe that an executive's optimism may explain the choice of the restructuring type. To the extent that the future of a distressed firm is ambiguous, an optimistic manager will be confident that the situation will improve and that they will be able to successfully restructure the firm privately. In contrast, a less optimistic manager will view the situation as ominous and that it is more appropriate to restructure in court.

Finally, we focus on manager emotional stability, as previous research considers it a trait that spans the dimension of affectivity, from negative to positive affect (e.g., Sy and Choi, 2013). Specifically, high emotional stability is positively related to being calm (Lauriola and Iani, 2015). Low emotional stability refers to "the tendency to exhibit poor emotional adjustment and to experience negative affect, such as anxiety, insecurity, and hostility" (Judge, Bono, Ilies, and Gerhardt, 2002, p. 767). Therefore, it is more relevant to the restructuring decision than the other Big Five factors.

On the other hand, we build upon the literature on corporate restructuring and reorganization (Blazy and al. 2014; Adriaanse and Rest 2017; Jostarndt and Sautner, 2010; Hotchkiss et al., 2008; Bowman and Singh, 1993) to identify the contextual constraints under which managers choose their restructuring strategy and the way each psychological attribute (i.e., narcissism, optimism, and emotional stability) is likely to influence their choice individually and conjointly.

By integrating these two strands, we develop a theoretical model to understand how personality and psychological attributes shape the strategic choices made by managers. In an insolvency context, we can expect a considerable impact of a manager's psychology and personality on the firm's restructuring decision due to their weak position under stakeholders' pressure. This paper addresses this critical gap and tests our theoretical predictions using an original sample of 230 French SMEs collected via a survey administered directly to managers.

Our study offers several contributions to research on upper echelons theory, executives personality, and corporate restructuring. First, our study is the first to highlight and empirically confirm the impact of a manager's personality and psychological attributes on the choice between in and out-of-court restructuring. Hence, we contribute to the existing literature on the effects of manager personality and psychological characteristics by illustrating how each manager deals with financial difficulties, more precisely her or his preference between in and out of court restructuring. Second, regarding upper echelons theory, previous research has examined the critical role of the executive's personality and psychological attributes in shaping firm outcomes and strategic decisions (Gordon et al., 2021; Campbell et al., 2019; Schumacher et al., 2020; Benischke, Martin, and Glaser, 2019). We contribute to this theory by examining the effect of the manager's narcissism, optimism, and emotional stability on the choice between in and out-of-court restructuring. Finally, we extend and contribute to the research on corporate restructuring by showing that not only the characteristics of the firm are important in its restructuring process, but also the characteristics of the manager, especially his personality and psychological attributes.

In the following section, we review the extant literature on restructuring decisions, managers' personality traits, and psychological attributes before setting hypotheses. After, we describe the conceptual model and methodology before presenting the results. Finally, we discuss the theoretical and managerial implications of the findings; we also identify some study limitations and opportunities for further research.

2. THEORETICAL FOUNDATIONS

2.1. TWO TYPES OF RESTRUCTURING

Financial distress is generally defined as a situation where the firm cannot meet its current obligations as they come due (Blazy et al., 2014). In the context of financial distress, firms face two alternatives as to how to restructure their debt. First, private restructuring consists of strategic and operational reorganization measures without judicial intervention. Second, formal (in-court) restructuring consists of filing for insolvency and obtaining court support (Gilson et al., 1990). Private restructuring then consists of strategic and operation overhaul, while public restructuring consists in filling insolvency proceedings to obtain the support of a court. It’s a fundamental choice for firms is to determine whether they are going to restructure through a private or public procedure.

Each of the restructuring methods has its features. In-court restructuring benefits from the legitimacy of the law to help the firm. It obliges the creditor to wait for a common solution until the court rules out a plan for the distressed firm. At the same time, existing empirical evidence has shown that both direct and indirect costs of insolvency proceedings are significant (Blazy et al., 2014). Those costs are challenging to sustain, especially for small businesses (Bergthaler et al., 2015). Direct insolvency proceedings costs include administrative and legal fees and the decline of the firm’s market value at the time of bankruptcy (Weiss, 1990). Indirect costs, which are generally more important than direct ones, usually represent a wide range of opportunity losses, loss of managers’ ability to make their own decisions, and exercise complete control over the firm decisions (Hotchkiss et al., 2008). Finally, the restructuring of a firm within insolvency proceedings may be affected by the efficiency of its process, which would represent a significant indirect cost (Eckbo et al., 2016).

In contrast, private restructuring would allow avoiding such costs (Hotchkiss et al., 2008). Confidentiality is one of the main advantages of private restructuring, as firms can negotiate with creditors and restructure the firm while maintaining business operations. Therefore, private restructuring guarantees both the confidence of creditors and the firm’s reputation among all its stakeholders. Finally, private restructuring is generally faster than formal proceedings (Hotchkiss et al., 2008), given that court restructuring is a process that involves a multitude of complex interactions at multiple levels. Given those choices, a significant question among scholars has been to identify which factors favored either in-court or out-of-court restructuring. They thus emphasized the importance of banking relationships (Peek and Rosengren, 2005), the nature of firm’s assets (Gilson et al., 1990), the firm debt structure (Blazy et al.,2014), the dispersal of creditors (Franks and Sussman, 2005), and the asymmetry of information (Jostarndt and Sautner, 2010).

Surprisingly, the characteristics of the manager have received little attention, whereas the literature has elaborated about the impact of the manager’s personality on the strategic decision (Herrmann and Nadkarni, 2014; Nadkarni and Herrmann, 2010; Fisher and Chen, 2018; Benischke, Martin, and Glaser, 2019). We develop this argument hereafter.

2.2. IMPORTANCE OF PERSONALITY TRAITS AND PSYCHOLOGICAL ATTRIBUTES

We build on the idea that strategy formulation and implementation cannot be fully understood without an in-depth knowledge of the cognitive process through which the managers have reached their decisions (Finkelstein et al., 2009). Managers face dynamic organizational environments that involve many complex situations and scenarios. Therefore, strategic decision-makers necessarily use their cognitive base and personality as a screen or filter to form managerial perceptions and make decisions (Maitland and Sammartino, 2015). This process involves perceiving a certain number of information selectively and interpreting them. These effects are significant in a problematic situation where the manager has to make an irreversible decision (*e.g., restructuring decision*) that directly impacts the firm continuity and the manager's reputation (Rico et al., 2020).

Executives' personalities influence how they perceive and interpret information, which affects how they make strategic decisions (Benischke et al., 2019; Finkelstein et al. 2009; Hambrick and Mason, 1984; Herrmann and Nadkarni, 2014; Liu et al., 2018; Nadkarni and Herrmann, 2010; O'Reilly et al., 2014; Peterson et al., 2003). In this regard, three personality traits are critical when considering distressed firms: narcissism, optimism, and emotional stability.

3. HYPOTHESES DEVELOPMENT

3.1. MANAGER NARCISSISM

Narcissism is a complex, multi-faceted personality trait that combines grandiosity, overconfidence, attention-seeking, exaggerated self-image, adversity when challenged, and a general lack of interest in others (Cragun et al., 2020; American Psychologic Association, 2013). Generally, narcissism includes three inseparable components: cognitive, motivational, and behavioral (Chatterjee and Hambrick, 2007; Zhu and Chen, 2015). The cognitive component means that narcissists believe that they are superior and incomparable to their peers (O'Reilly et al., 2014). The motivational component reflects the desire for personal recognition and fame, power and personal prestige, and continued reaffirmation of superiority (Rosenthal and Pittinsky, 2006). Finally, the behavioral component means that narcissists are audacious and dramatic, reject adverse outcomes, and attribute favorable results to themselves (Chatterjee and Hambrick, 2007).

Narcissism has proved a fundamental construct to understand executive decisions (Capalbo et al., 2017; Buyl et al., 2019). Interestingly, narcissism is highly prevalent among senior executives, with various studies confirming its effect on managers' choices (Fengyi et al., 2022), organizational outcomes (Chatterjee and Hambrick, 2011; Grijalva and Harms, 2014), strategic firm decisions (Zhu and Chen, 2015), firm performance (e.g., Olsen et al., 2014; Patel and Cooper, 2014), and financial decisions (Fengyi, Sheng-Wei, Wen-Chang, 2020). From a theoretical perspective, the relevance of narcissism in such settings lies in the conjunction of critical and risky decisions with a person's self-image. As such, restructuring decisions are a perfect example of such a situation where fundamental and difficult choices meet the decision-makers' self-esteem in the presence of potential business failure.

There are several ways in which managerial narcissism is likely to influence the choice of restructuring method. First, narcissistic managers are more likely to choose bold and riskier strategies than less narcissistic managers. In this line, narcissistic managers have been found to prefer audacious actions that attract attention, whether they result in huge gains or losses (Buchholz et al., 2018; Foster et al., 2009). Likewise, Campbell et al. (2004) find evidence that narcissistic managers are more impulsive and risk-taking in their decision-making. Additionally, they demonstrate more self-confidence and persistence in performing their missions than non-narcissists managers (Campbell et al., 2004). Practically speaking, this relationship typically manifests itself when managers make riskier decisions to gain a wider audience and attention (Chatterjee and Hambrick, 2011) or manipulate policies to achieve desired outcomes (Buyl et al., 2019; Olsen et al., 2014). For instance, a study on investments has shown that narcissistic managers choose riskier investments, persist in these choices, and waste more money (Campbell et al., 2004; Foster et al., 2009).

Second, a growing body of research has confirmed that narcissistic managers engage in ethically questionable activities and doubtful, unwise, or even selfish behavior (Amernic and Craig 2010; Olsen et al. 2014; Olsen and Stekelberg 2016). In this line, high levels of managerial narcissism have been linked to tax avoidance (Olsen and Stekelberg, 2016), manipulation of accounting data (Ham, Seybert, and Wang, 2017), overcompensation (O'Reilly et al., 2014), fraud (Rijsenbilt and Commandeur, 2013; Schrand and Zechman, 2012), use of corporate tax shelters (Olsen and Stekelberg, 2016); manipulation of financial performance measures (Amernic and Craig 2010), and financial reporting fraud (Capalbo et al., 2017). Accordingly, we might assume that narcissistic managers of financially distressed firms would be less likely to be transparent about the actual state of their firm's insolvency. In this sense, such managers would be more likely to prefer private restructuring methods that would allow them to conceal the previous manipulation of financial data. At the least, they should delay as long as possible to resort to in-court — and thus public — restructuring.

Finally, a strong desire for power and admiration, and adversity when challenged, are significant attributes of the narcissistic manager. Narcissistic managers are more likely to make bold decisions that expose their superior capacity to meet their need for admiration and attention (Petrenko et al., 2016). Recently, Capalbo et al. (2017) demonstrated that narcissistic CEOs engage in earnings management to boost financial performance to improve their self-image. Therefore, a narcissistic manager is expected to opt more for private restructuring, which allows them to have the overall control of the process and exhibit their superiority, which in turn serves the self-image confirmation they need. Additionally, narcissistic managers are likely to be more confident in their workability (Campbell et al., 2004) and the success probability of private restructuring.

Given the overall arguments presented above, we make the following hypothesis regarding the relationship between managerial narcissism and the choice of restructuring method.

Hypothesis 1. Manager narcissism is negatively related to in-court restructuring.

3.2. MANAGERIAL OPTIMISM

Optimism is another central concept in decision studies. It is defined as a generalized expectation of positive outcomes. It is based on three general components "the illusion of control, a high degree of commitment to good results, and abstract reference points that make it difficult to compare performance between individuals" (Alicke et al., 1995). Previous theoretical and empirical research has indicated that optimism significantly impacts how individuals treat and interpret information about their own experience and, consequently, their future decision-making (Huang et al., 2018). CEO optimism has been shown to influence various corporate decisions, such as corporate investments (Malmendier and Tate, 2005), earnings smoothing (Bouwman, 2014), corporate governance mechanisms (Goel and Thakor, 2008), mergers and acquisitions (Malmendier and Tate, 2005), cash holdings (Yenn-Ru Chena et al.,2020) and risk-taking (Goldberg et al., 2020).

Optimistic managers are more likely to underestimate the gravity of financial distress. They attribute good results to their actions and dire consequences to bad luck. Moreover, they expect bad results to change soon. Consequently, they don't see the need for insolvency proceedings. Consistent with this hypothesis, Schumacher et al., 2020 found that more optimistic CEOs are more likely to ignore negative performance feedback.

Additionally, it has been shown that optimistic CEOs underestimate the risk and overestimate the returns of the projects they undertake (Goel and Thakor, 2008; Ho et al., 2016).

For instance, Malmendier and Tate (2005) reported that highly optimistic managers make very risky decisions compared to less optimistic ones. This is through investing a very high percentage of the firm's cash flow in investment decisions instead of dividing the result into dividends. In addition, they expect their behavior and decisions to be successful. Highly optimistic managers appear to be especially inclined to have excessive confidence in the firm's management (Goldberg et al., 2020; Hung and Tsai, 2020; Jin-Ping Lee, 2020). They demonstrate overconfidence, which encourages them to meet challenges with enthusiasm and perseverance (Carver and Scheier, 2003). In this sense, optimistic CEOs might be more likely to overestimate the success probability of a private restructuring procedure.

Another possible justification for why optimistic CEOs may be more likely to restructure privately is their illusion of control. A highly optimistic manager may opt for private restructuring and is expected to believe that his proposed restructuring plan is successful and may control its outcome. Thus, he underestimates the probability of failure. They are confident that the firm's situation will improve and that they will be able to restructure the firm privately without asking the court for assistance.

Hypothesis 2. Manager optimism is negatively related to in-court restructuring.

3.3. EMOTIONAL STABILITY

Emotional stability, or neuroticism in its negative specification, reflects self-confidence and a sense of emotional adjustment. Emotional adjustment is the capacity of individuals to adapt their emotional states to various sensational pressures and to remain calm and stable in stressful situations (Costa and McCrae, 1992).

On the one hand, managers with low emotional stability (high neuroticism) exhibit excessive worry, depression, anger, lack of confidence, and insecurity (Barrick and Mount, 1991). They are poor performers and less willing to embrace changes or challenges (Barrick et al., 2007). They perceive more significant risk in any decision (e.g., Herrmann and Nadkarni, 2014). However, they favor usual situations where there is no pressure from others (Rossberger, 2014). They may resist entering into new collaboration (e.g., restructuring the firm under court supervision). Indeed, corporate restructuring is usually a great challenge because of its unfamiliar nature and uncertain situation. Managers with low emotional stability are reluctant to collaborate and do not exhibit creative tendencies (Zhao, 2011). This means less chance of restructuring the firm before the courts, which requires more collaboration and stress management.

On the other hand, emotional stability is a powerful indicator of a person's ability to adapt to unpredictable and stressful situations. Research suggests that executives with high levels of emotional stability are more comfortable making decisions and managing the firm in changing and unexpected situations than in more stable conditions (De Hoogh, Den Hartog, and Koopman, 2005). Emotionally stable managers remain calm and focused in difficult situations, concentrate on appropriate actions to face unexpected problems, and act decisively in crises (Peterson et al., 2003). This pattern suggests that emotionally stable managers may feel less threatened by financial difficulties and support employees to deal with these situations. This means in the case of a firm facing financial problems, emotionally stable managers control their emotions more and deal with the situation of distress. Additionally, they are likely to improve their responsiveness to financial difficulties (Johnson et al., 2003) and enhance their collaborative spirit and social interactions (Judge et al., 2002), essential for restructuring the firm before the courts. Thus, there is a higher probability of restructuring the firm before the courts and collaborating with the stakeholders.

Looking at the background and mindset of an emotionally stable personality, we expect that the higher managers score on emotional stability, the higher the probability of an in-court restructuring.

Hypothesis 3. Manager emotional stability is positively related to in-court restructuring.

4. METHOD

4.1. SAMPLE AND DATA COLLECTION

Our sample consists of 230 top managers from French firms that were qualified as financially distressed firms during 2019. We used a four-step selection process to identify our sample. First, we extracted the target population from the DIANE database, which encompasses the main financial information about French companies. The extracted data include firm-specific information, contact details, and financial statements. Second, we targeted firms facing financial difficulties. We used specific financial information data to calculate the Z-score (Altman in 1968; Altman et al., 2015) for 2019. We choose the year 2019 to assess the pre-crisis situation of firms that is more reliable. Based on the overall index, the firm is classified as not bankrupt (Z-score > 2.99), in the grey area (1.81 <Z-score< 2.99), and likely to go bankrupt (Z-score <1.81). Thus, we retain only firms with a score below 1.81 (Altman et al., 2015). Third, we selected only SMEs. According to the definition of SMEs based on the recommendations of the European Commission (European Commission, 2003); (≤250 employees). Finally, only SMEs with a valid e-mail address and contact information of the managers were retained. This resulted in a total of 3000 firms. The constructed questionnaire was first pilot tested, pretested, and then administered directly to managers via email.

Several mailshots were sent to directly contact the managers of the selected firms, asking them to answer the survey in two different ways: manually or via Sphinx. The invitation to the survey contained a cover letter, explaining that the study was supported by the Commercial Court of Saint Etienne and the CIP Loire Sud (Centre d'Information sur la Prévention des Difficulties des Entreprises). This organization promotes the measures provided by French law to prevent or deal with business difficulties. We received a total of 338 responses. After deleting surveys with missing data, we recorded a final sample of 230 responses that provided all the required data. In the end, we obtain the last sample corresponding to a response rate of 7%, which is consistent with previous similar studies of CEOs (Herrmann and Nadkarni, 2014) and is very appropriate for research of this nature in the context of declining executive response rates (Garcés-Galdeano et al., 2017).

4.2. MEASURES

4.2.1. Dependent variable

In this study, we aim to test the impact of the manager's profile and their decisions between in-court restructuring and private restructuring (Peng, Yamakawa, and Lee 2010; Blazy and al. 2014; Adriaanse and Rest 2017; Rico, Pandit, and Puig 2020). The dependent variable is binary and coded (1) if the manager is more likely to opt for an in-court restructuring and (0) if the manager is more likely to opt for a private restructuring. To measure our dependent variable, we asked managers, based on the evidence available to them (the study period), to indicate the measures they intend to implement to address the current difficulties. Thus, we proposed 11 restructuring measures, with the option to choose more than one measure. Five bankruptcy procedures are specific to the French bankruptcy law (Mandat Ad Hoc, Conciliation, Sauvegarde, Redressement Judiciaire et Liquidation Judiciaire) and six private restructuring measures. For instance, downsizing, search for new financing, suspension of specific production or service operations. Therefore, we coded the dependent variable (1) if the manager chooses at least one of the five bankruptcy procedures and (0) if the manager chooses only private restructuring.

4.2.2. Independent variables

Narcissism. We measured CEO narcissism using the NPI-16 Narcissistic Personality Inventory (Ames et al., 2006), an abbreviated version of the original 40-item NPI. We decided to use the NPI-16 based on research suggesting that response quality is improved when managers are surveyed with shorter questionnaires (Bednar and Westphal, 2006). This measure has been widely used in previous research as a self-report measure of narcissism (e.g., Fengyi et al., 2022). Although the reliability of the NPI-16 has been demonstrated in previous research (e.g., Ames et al., 2006).

Optimism. We measure optimism using the psychometric Life Orientation Test-Revised (LOT-R), developed by Scheier, Carver, and Bridges (1994). The LOT-R is specifically designed to assess the level of optimism and has been widely used in the psychological literature; it has the advantages of being a highly credible measure of optimism, being brief, and easy-to-use. In this test, there are ten questions: six relevant questions and four filler questions. Respondents are asked to indicate the extent to which they agree with the items on a five-point Likert scale, from "I strongly agree" to "I strongly disagree". High scores indicated a generalized sense of optimism about the future, and low scores indicated a more pessimistic outlook.

Emotional stability. We measured managers' emotional stability using a short 20-item version of the International Personality Item Pool-Five-Factor Model (i.e., the Mini-IPIP) (Donnellan et al., 2006). Each measure of the Personality Inventories was built from four items. We were exclusively interested in measuring emotional stability (only four items). Still, we asked the managers to answer all the 20 Big Five personality traits items for more validity. The managers questioned rated the extent to which they agreed with each statement about themselves using a five-point Likert scale ranging from "strongly agree" (1 point) to "strongly disagree" (5 points). For example, items used to assess emotional stability (neuroticism in its negative specification) " Am relaxed most of the time,” extraversion "I talk to a lot of different people at parties.” We reverse coded the ratings on emotional stability to improve the interpretation of results.

And finally, we performed internal consistency and confirmatory factor analyses (CFA) to test the internal validity of the tree independent variables.

4.2.3. Control variables

Previous research has confirmed that managers and firm characteristics impact strategic decisions and firm performance (Cronqvist et al., 2012). Therefore, at the manager level, we controlled for manager gender (Schmittet al. 2008), manager age (Ashton and Lee, 2016), manager tenure (Herrmann and Datta, 2002), manager founder status (Jain and Tabak, 2008), manager level of education (Herrmann and Datta, 2002), manager functional experience

(Hambrick and Mason, 1984), and finally we controlled for the manager experience with insolvency proceedings. At the firm level, we controlled for three important variables: firm size, firm age, and firm industry (Herrmann and Nadkarni, 2014; Bouncken, Ratzmann, and Kraus, 2021). For more details, see Table 3 in the Appendix.

5. ANALYSES AND RESULTS

5.1. PRELIMINARY ANALYSIS AND DESCRIPTIVE STATISTICS

Table 1 presents the descriptive statistics and correlations among study variables. Consistent with previous research, we found a positive correlation ($r = 0.50$, $p<0.01$) between optimism and emotional stability (Lounsbury, Saudargas, and Gibson, 2004). We also found a positive correlation between optimism and manager age ($r = 0.16$, $p<0.05$). Regarding the dependent variable, table 1 indicates initial support for the predicted relationship between narcissism and in-court restructuring ($r = -0.15$, $p<0.05$). Also, we found that firm age is negatively associated with in-court restructuring ($r = -0.15$, $p<0.05$). However, manager bankruptcy experience is positively related to in-court restructuring ($r = 0.11$, $p<0.1$).

In this study, we performed structural equation modeling (SEM) to evaluate the measurement and structural models. To obtain more valid results, we assess the convergent and discriminant validity of the measures - confirmatory factor analysis (CFA) - before moving to the structural model and testing the hypothesis.

5.2. MEASUREMENT MODEL

Previous research has generally treated narcissism as a general factor and multidimensional construct (e.g., Zhang et al., 2018; Fengyi et al., 2022; Cragun et al., 2020; Buyl et al., 2019). Therefore, we followed previous research (e.g., Judge et al., 2006) and used CFA to examine whether the second-order factor structure fits the data better or worse than the four-sub dimensional factor structure. The results indicated that the second-order factor structure did not fit satisfactorily. Thus, we chose to use the average narcissism score as the measure for our study. We drop one item due to a negative correlation. Then, the reliability of the overall 15-item narcissism scale is satisfactory with "Cronbach's Alphas = .70".

For optimism and emotional stability, the first attempt of CFA did not generate good model fits. Therefore, we dropped some items because of their low factor loadings. The second attempt of the CFA yielded a satisfactory fit to the data $\chi2 = 114.944$ (p > chi2 | 0.034), confirmatory fit index [CFI]= 0.971; Tucker-Lewis index [TLI]= 0.961, which represent a good model fit according to the recommendation of previous studies (Hair et al., 2010). Root mean square error of approximation [RMSEA]=0.036 (90% C.I. = 0.011, 0.053) and standardized root mean residual [SRMR]=0.046 also generated good model fit.

All factor loadings of the reflective construct measures exceeded .50, and most exceeded .70, which is acceptable. Also, the measures achieved satisfying reliability, with Cronbach's alpha values above .60 (Hair et al., 2010). Thus, all criteria of the measurement model were successfully met.

5.3. STRUCTURAL MODEL ANALYSIS AND HYPOTHESIS TESTING

After testing the measurement model, we used a generalized structural equation model GSEM to analyze our data. This allows us to test the structural model with a binary dependent variable. Table 2 shows the results and the main effects of managers' personality traits and psychological attributes on the restructuring decision. In Model 1, we included all control variables. Many of the control variables (manager's founder status, manager's education level, manager's functional experience) did not significantly alter the results or relationships in our study, so we removed them to maintain statistical power. We gradually added the key independent variables in Models 2, 3, and 4.

First, the regression coefficient for narcissism is negative and statistically significant, confirming H1. Optimism is also significantly and negatively related to in-court restructuring, confirming H2. However, the results show that emotional stability is positively and significantly associated with in-court restructuring supporting H3. In addition, we found that manager experience with bankruptcy proceedings is positively related to in-court restructuring. However, the firm age is negatively associated with in-court restructuring.

Table 1. Descriptive statistics and correlation matrix for variables and key constructs.

Variables	Mean	Std. Dev	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) In court restructuring	.41	.49	0	1	1.00										
(2) Narcissism	4.39	2.54	0	12	-0.15**	1.00									
(3) Optimism	.63	.54	-1.81	.97	0.00	0.07	1.00								
(4) Emotional stab	.93	.75	-1.97	1.67	0.09	-0.07	0.50***	1.00							
(5) Manager age	51.58	8.94	26	74	0.03	0.04	0.16**	0.15**	1.00						
(6) Manager gender	.79	.41	0	1	0.00	0.05	0.06	0.06	0.16**	1.00					
(7) Manager tenure	15.42	9.96	1	44	0.01	-0.03	0.03	0.00	0.55***	0.06	1.00				
(8) Bankruptcy Exp	1.19	.39	1	2	0.11*	0.06	0.10	0.02	0.21***	0.00	0.18***	1.00			
(9) Firm age	30.5	25.67	1	192	-0.15**	-0.07	0.09	0.09	0.22***	0.04	0.22***	0.16**	1.00		
(10) Firm size	36.66	54.73	1	250	-0.06	0.00	0.08	0.09	-0.01	0.05	-0.10	0.18***	0.21***	1.00	
(11) Industry	4.4	2.23	1	10	0.06	-0.03	-0.02	-0.05	0.02	-0.13**	-0.11*	0.00	-0.14**	0.00	1.00

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Table 2. Regression results for the main effect of personality traits and psychological attributes of the manager on restructuring decision

	Model 1 **Controls only**	Model 2 **Narcissism**	Model 3 **Optimism & Emotional Stability**	Model 4 **All effects**
	Coef. B **(SE)**	**Coef. B** **(SE)**	**Coef. B** **(SE)**	**Coef. B** **(SE)**
Narcissism		-0.095*** (0.035)		-0.080** (0.036)
Optimism			-0.606** (0.267)	-0.493* (0.274)
Emotional stab			0.548*** (0.195)	0.473** (0.200)
Manager age	0.006 (0.012)	0.009 (0.012)	0.004 (0.012)	0.006 (0.012)
Manager gender	0.001 (0.214)	0.020 (0.215)	-0.000 (0.216)	0.016 (0.217)
Manager tenure	0.001 (0.011)	-0.001 (0.011)	0.002 (0.011)	0.001 (0.011)
Bankruptcy Exp	0.437* (0.227)	0.487** (0.229)	0.527** (0.233)	0.555** (0.234)
Firm age	-0.010** (0.004)	-0.011*** (0.004)	-0.010** (0.004)	-0.011*** (0.004)
Firm size	-0.001 (0.002)	-0.001 (0.002)	-0.001 (0.002)	-0.001 (0.002)
Industry	0.018 (0.039)	0.014 (0.039)	0.026 (0.039)	0.021 (0.040)
_cons	-0.383 (0.561)	-0.046 (0.581)	-0.313 (0.576)	-0.015 (0.595)

*** *p<0.01*, ** *p<0.05*, * *p<0.1*

6. DISCUSSION

This study examined how managerial narcissism, optimism, and emotional stability influence the likelihood of initiating an in-court restructuring procedure. We have found that emotional stability increases the chances for an in-court restructuring, while narcissism and optimism decrease the possibility for an in-court restructuring.

The current study enriches our understanding of the determinants of the restructuring decision by moving its focus from firm-specific characteristics (Gilson et al., 1990; Peek and Rosengren, 2005) to top managers' psychological traits. Moreover, our empirical analysis contributes to the largely underexplored specifics of corporate restructuring in European firms[1]. Hence, our findings have important implications for theory and practice.

Our results contribute several ways to the upper echelons theory, executives' personality, and corporate restructuring research. Previous studies have examined the critical role of the executive's personality and psychological attributes in shaping firm outcomes (Gordon et al., 2021; Campbell et al., 2019; Schumacher et al., 2020; Herrmann and Nadkarni, 2014; Fisher and Chen, 2018; Benischke, Martin, and Glaser, 2019). In this study, we extend those research by investigating the effect of the manager's narcissism, optimism, and emotional stability on the choice between in and out of court restructuring. Our results highlight the relevance of the manager personality factors in such strategic and risky contexts.

Our evidence that narcissistic managers are more likely to restructure privately is in line with previous findings of the effect of narcissism on risk-taking (Campbell et al., 2004), attention-seeking (Chatterjee and Hambrick, 2011), engagement in ethically questionable activities, and doubtful behavior (Olsen et al. 2014; Olsen and Stekelberg 2016), tax avoidance (Olsen and Stekelberg, 2016), and manipulation of accounting data (Ham, Seybert, and Wang, 2017). Therefore, we can understand that the narcissistic manager may manipulate a firm financial statement to avoid the obligation to initiate bankruptcy proceedings. They may prefer a private restructuring that allows them to have a scene to shine and show their capacities to all their collaborators even if it is riskier (Buchholz et al., 2018; Foster et al., 2009).

Our results are also in line with previous research on how optimism shapes executives' decision-making (Huang et al., 2018). We found that optimistic managers are more likely to prefer restructuring privately instead of initiating bankruptcy proceedings because they are more likely to underestimate the gravity of firm financial difficulties. Thus, they expect those problematic situations to change soon.

1 We have identified only three studies which have examined corporate restructuring using European data: Franks and Sussman, (2005) on UK firms; Jostarndt and Sautner, (2010) in Germany and Blazy et al, (2014) in France.

In contrast, our findings show that managers with high emotional stability are more likely to restructure before the courts instead of private restructuring. This means emotionally stable managers control their emotions more and stay focused, which is consistent with prior studies. For instance, Peterson et al. (2003) argued that managers with high emotional stability remain calm in difficult situations, concentrate on appropriate actions to face unexpected scenarios, and act decisively in crises. Similarly, Johnson et al. (2003) found that emotionally stable managers control their emotions more and deal with the situation of distress. This emotional stability enhances their collaborative spirit and social interactions (Judge et al., 2002), essential for restructuring the firm before the courts. However, managers with low emotional stability exhibit excessive worry, lack of confidence, and insecurity (Barrick and Mount, 1991), which explains their preference for restructuring out of sight of the court.

The present research provides practical implications for management teams. Our findings show a significant impact of executive narcissism, optimism, and emotional stability on the firm's restructuring decision. In this regard, boards of directors are strongly encouraged to consider the personality and psychology of executives when choosing a CEO. Although it can be challenging to measure personality indirectly, research suggests that personality can be unobtrusively measured (Hirschmüller et al., 2015). For instance, boards can assess the emotional stability of leaders using situational judgment tests, in which candidates are presented with a situation and asked how they would manage it (e.g., Lievens, 2017). These tests were designed to assess interpersonal situations (McDaniel, Hartman, Whetzel, and Grubb III, 2007). For example, boards could develop situational judgment tests based on critical incidents and ask candidates how they handled a difficult strategic decision, such as dealing with financial difficulties. Similarly, board members may more precisely assess candidates' personalities and psychological attributes by examining their experiences with corporate crises and reviewing the most immediate post-event communication, looking for behavioral indicators that may be telling of the leaders' personalities.

In addition, auditors and accountants can learn from this research, including how to relate to their clients and be more vigilant when reviewing accounts based on the executive's personality.

7. LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Despite these theoretical and practical implications, our study has several limitations that should be considered and addressed in future research. First, our study is specific to the French bankruptcy context. According to Jostarndt and Sautner (2010), each bankruptcy system has its specificities. Thus, even if the French bankruptcy system is considered a reference by other countries, it would be interesting to study the same relationship in other legal systems.

Second, as an initial study on this topic, our framework allowed us to identify and measure the direct effects of narcissism, optimism, and emotional stability in the restructuring context. Further work aiming to identify specific moderators and mediators in the relationship between executive personality and the choice between in and out-of-court restructuring is needed to fully understand how the personality and psychology of managers influence the restructuring process. After testing various potential moderators such as managers' age, gender, tenure, educational level, and functional experience, we did not find a significant effect on the relationship between personality and psychological attributes on the firm's restructuring decision. Thus, we strongly encourage further research of potential moderating effects and contingency factors, including the firm’s environment, industry dynamism, and competitive intensity.

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APPENDIX

Table 3. Description of the control variables

Variable	**Description**
Manager Gender	Dummy variable taking the value of 1 if the manager is a man and 0 if the manager is a woman.
Manager Age	Number of years the manager has lived up to the time of the study.
Manager Tenure	Number of years the manager has held the manager position in the current firm. The tenure variable is coded into five categories: 1 shows tenure of fewer than 2 years, 2 shows tenure of 2 to 10 years, and 3 shows tenure of more than 10 years.
Manager Founder Status	Dummy variable, taking the value of 1 for founder-manager and 0 for the manager only.
Manager Level of Education	Number of years of schooling, was assessed on a six-point scale: 1 = high school, 2 = college, 3 = undergraduate, 4 = graduate, 5 = master's, 6 = doctorate.
Manager Functional Experience	Dummy variable taking the value of 1 if the manager has more throughput functional experience (production, operations, finance, accounting, data treatment, information systems, and process R&D), and coded 0 if the manager has more output functional experience (sales, marketing, product R&D, and entrepreneurship).
Manager Experience with Bankruptcy	Dummy variable coded 1 if the manager has experienced bankruptcy proceedings, not necessarily in the same firm as the one they currently work in, otherwise 0.
Firm Size	Firm size was measured by the number of employees.
Firm Age	Number of years since the founding date.
Firm Industry	10 dummies corresponding to the sectors: agriculture and fishing, transport and logistics, hotels and restaurants, construction, trade, industry, health and education, information and communication, financial and insurance activities other services.