BOARD MEMBER EFFORT AND BANKRUPTCY EMERGENCE

Members of the board of directors serve roles in monitoring on behalf of shareholders and providing access to resources, but such roles are likely to be especially critical when companies face significant crises, such as bankruptcy. During crises, directors with access to critical resources, such as financial capital, can play an important bridging role. Recent research in the *Journal of Management* suggests that ties to financial institutions can play a strong role in helping companies emerge from bankruptcy through gaining access to capital and signaling credibility for the company, but that not all directors with ties to financial institutions play a supportive role.

Key Takeaways:

- Companies are more likely to emerge from bankruptcy when directors with links to financial institutions are more involved in board meetings.
- Involvement by directors with ties to financial institutions also assist in gaining access to Debtor-in-Possession financing, which subsequently enhances probability of bankruptcy reemergence.

The author explores the likelihood of emergence from bankruptcy for 307 companies between 2001 and 2012 and illustrates that reemergence from bankruptcy for a company is greater when firms have directors with ties to financial institutions and such directors provide greater effort to the company through attending board meetings. Emergence from bankruptcy is not affected by companies with financially linked directors who fail to attend board meetings or directors without links to financial institutions. Further, directors with ties to financial institutions result in a greater likelihood that a company will have access to Debtor-in-Possession (DIP) financing, a critical resource in overcoming the problem of bankruptcy. Results also suggest that when financially-linked directors have greater commitments to other organizations through board service, bankruptcy reemergence is less likely.

In summary, board members can play critical roles when companies face times of crisis, such as bankruptcy; however, not all directors have the expertise and connections to be assist the company equally. Further, not all directors engage in providing the same level of effort to assist the company. Having directors who have important connections is necessary to solve critical problems; however, such directors must also be involved for connections to provide value.

Source: Arora, P. (2016). Financially linked independent directors and bankruptcy reemergence: The role of director effort. *Journal of Management*, DOI: 10.1177/0149206316648384.