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Failure Escape: The role of advice seeking in CEOs' awareness of financial difficulties and corporate restructuring

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ABSTRACT

This study investigates CEOs' advice-seeking behavior in small- and medium-sized enterprises (SMEs) and its influence on managing the financial difficulties these firms face. Grounded in the attention-based view of firms, our framework posits that CEOs' advice seeking plays a sequential role in shaping a firm's response to financial distress, by influencing CEOs' awareness of financial difficulties and, subsequently, the restructuring process. We differentiate between advice sought from formal and informal advisors and consider top management team (TMT) functional diversity as a moderator. We test these hypotheses using a proprietary dataset of 407 financially distressed SMEs in France. Our results indicate that advice seeking significantly enhances CEOs' decision to proceed to restructuring and this effect is mediated by the heightened financial awareness of CEOs. Furthermore, our research highlights the moderating role of the functional diversity of TMT members in the relationship between advice seeking and the restructuring decision.

1. Introduction

Annually, a significant proportion of small- and medium-sized enterprises (SMEs) experience the precarious state of financial distress. These financially distressed firms grapple with the dual challenge of reduced access to financial resources and an imperative need for a prompt and organized response, often necessitating a diagnostic assessment led by the CEO, followed by restructuring measures (Anderson & Davis, 2009, p. 68). However, existing literature has offered limited guidance for understanding how CEOs can effectively respond to financial difficulties. Research has traditionally adopted a dual-level approach to examine financial distress in SMEs. On one front, scholars have explored institutional, contextual, and firm-level factors, encompassing variables such as information asymmetry, creditor dispersion, incomplete contracts, and national bankruptcy regulations (Blazy et al., 2014; Gertner & Scharfstein, 1991; Mooradian, 1994). Conversely, recent research has increasingly emphasized individual factors, including personality traits and personal wealth (Cacciotti et al., 2020; Liu et al., 2019; Pomet & Sattin, 2019). In this regard, the academic literature has yet to address the interactive dimension of distressed firms' reactions and decision process. Much like any other, the CEO of a distressed firm must engage with diverse stakeholders. These

stakeholders include members of the top management team (TMT; Bromiley & Rau, 2016; Colbert et al., 2014; Ou et al., 2014), financial and accounting advisors, investors, fellow CEOs, and others (van Doorn et al., 2017; McDonald et al., 2008; Heavey & Simsek, 2015). These interactions provide the CEO with privileged access to knowledge and invaluable assistance in the decision-making process (Desai, 2018).

Significantly, a substantial strand of research has dedicated attention to CEOs' advice-seeking behavior (e.g., Bonaccio & Dalal, 2006; Ma et al., 2020). This literature has emphasized that CEOs often engage in decision-making processes beyond individual limitations, consistently seeking advice from various stakeholders and social connections (McDonald et al., 2008). The advice-seeking literature has highlighted the significance of CEOs' social networks on firm performance (McDonald et al., 2008). It has underscored the impact of CEO connections and team diversity on the decision-making process and, ultimately, on organization-level outcomes. Notably, the interweaving of advice with decision-making in times of poor performance has been recognized as crucial (McDonald & Westphal, 2003). However, the subsequent research has somewhat overlooked the potential of advice seeking as a pathway to explore the realm of financial distress.

The purpose of this study is to examine the impact of small-firm CEOs' advice-seeking behavior on two critical dimensions of a firm's

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response to financial distress: (a) the CEO's awareness of financial difficulties and (b) the restructuring process pursued by the firm. Our central hypothesis suggests that seeking advice from both formal and informal advisors will refocus the CEOs' attention on the firm's financial difficulties and accelerate the formulation of a suitable restructuring strategy. Theoretically, we base our approach on the attention-based view of the firm and existing research on mitigating biases through information sharing. We construct a sequential conceptual framework in which seeking advice enhances CEOs' awareness of financial difficulties, subsequently motivating the implementation of a restructuring strategy. For our purposes, we define advice seeking as "any interaction of the CEO with another person or group ostensibly directed at accessing knowledge deemed helpful for dealing with a problem" (Ma et al., 2020, p. 772).¹ Building on previous studies that have demonstrated how advice seeking facilitates more suitable and innovative responses to complex organizational challenges (Alexiev et al., 2010; Collins & Clark, 2003; Garg & Eisenhardt, 2017), our findings indicate that frequent and consistent advice seeking significantly enhances the beliefs and actions of CEOs grappling with financial distress.

One unique aspect of our research is that we account for the formality of the advice source as a distinguishing factor that directly affects the reception and execution of advice. Consequently, we differentiate between advice sought from formal advisors (including TMT members, bankers, consultants, chartered accountants, and lawyers) and advice obtained from informal advisors (e.g., social connections like suppliers or fellow CEOs). Our hypothesis suggests that, owing to their higher legitimacy, expertise, and commitment to the firm's survival, the influence of formal advisors on CEOs' awareness of financial difficulties and decisions regarding restructuring will be more pronounced.

Furthermore, our theoretical model posits that the connection between advice-seeking and subsequent actions is contingent upon the advisor's capacity to comprehend and effectively act upon the advice, aligning with Hogarth's (1978) suggestions. We extend this perspective by building on prior research, which asserts that a firm's ability to comprehend and act upon advisor guidance is significantly influenced by the functional diversity within the top management team (TMT) (Alexiev et al., 2016; Dahlin et al., 2005). Greater functional diversity enhances the TMT's capacity to engage with a broader array of external advisors possessing diverse expertise (Alexiev et al., 2016) and correlates with an augmented absorptive capacity (Cohen and Levinthal, 1990). Consequently, we propose that firms with more functionally diverse TMTs will experience more substantial benefits from advice seeking when considering the likelihood of restructuring options.

We empirically examine our theoretical framework using a dataset that comprises 407 small- and medium-sized French companies experiencing financial distress. We obtained the data from a proprietary dataset, PLAN-PME, compiled by the COACTIS research team between 2009 and 2013. Additionally, we augmented this dataset with financial information retrieved from the Diane database.

Our study contributes to the literature in several ways. First, we expand the understanding of CEO advice seeking by highlighting its positive impact in the context of financial distress, thus extending

¹ Although this definition of advice seeking has been widely employed in prior research (Alexiev et al., 2010; Heyden et al., 2013; Ma et al., 2020), it is important to acknowledge its significant contextual overlap with other constructs, such as knowledge sharing (see, e.g., Caimo & Lomi, 2015; Hansen, 2002) and group decision-making (see, e.g., Miller et al., 1998, 2023). Our decision to utilize the advice-seeking construct was motivated by the desire to maintain consistency with the existing literature and appeared to be most suitable, particularly in light of the measurement employed in this study. This measurement specifically focused on the systematic solicitation of insights from collaborators within or outside the organization, without a primary emphasis on knowledge or expertise, and without encompassing the final decision-making process.

previous research emphasizing the importance of advice seeking as a pivotal determinant of a firm's strategy and outcomes (Alexiev et al., 2010; McDonald et al., 2008; Vissa & Chacar, 2009). Second, our findings contribute to the literature on decision-making biases and selective information processing, demonstrating that these biases can be effectively mitigated through the practice of advice seeking and interaction with others (Meissner & Wulf, 2016). Third, our research complements studies on corporate restructuring and financial distress by showing that advice seeking can encourage early restructuring strategies, typically associated with improved chances of survival (Anderson & Davis, 2009; Barbero et al., 2017; Denis & Kruse, 2000). This has significant implications for both theoretical understanding and practical applications, underscoring the importance of promoting advice seeking among small-firm CEOs and fostering managerial networks as a specific mechanism for preventing failure. Given that SMEs often exhibit centralized executive power have a limited number of external stakeholders and have an increased risk of subjective or biased decision-making (Cassar & Gibson, 2007; Hayward et al., 2006; Shepherd et al., 2011; Ucbasaran et al., 2010), the benefits of advice seeking are presumably even more pronounced, potentially leading to a meaningful increase in the likelihood of firm survival.

Additionally, our study presents substantial contributions to entrepreneurship and small-business research. Our findings not only reaffirm the results observed in research concerning large publicly-listed companies, which emphasize the significance of seeking advice (Liang et al., 2021; McHugh et al., 2016) but also accentuate its unique relevance in the context of SMEs. Given that SMEs often exhibit centralized executive authority, have limited external stakeholders, and are more susceptible to subjective or biased decision-making (Cassar & Gibson, 2007; Hayward et al., 2006; Shepherd et al., 2011; Ucbasaran et al., 2010), the advantages of advice seeking are likely even more pronounced. This, in turn, could potentially result in a significant increase in the likelihood of firm survival.

The rest of this paper proceeds as such: The following section reviews the literature on financial distress, firm restructuring, and CEO advice seeking. Subsequently, we present our theoretical framework and hypotheses. We then outline the methodology employed and present the results of our analysis, including some additional robustness checks. Finally, our concluding section discusses our findings, emphasizing their theoretical and practical contributions, outlining their limitations, and suggesting avenues for future research.

2. Theoretical background

2.1. Advice seeking and corporate restructuring of financially distressed firms

In cases of financial distress, a firm's chances of survival are significantly enhanced by a timely and well-executed response involving corporate restructuring (Anderson & Davis, 2009). Corporate restructuring encompasses strategic changes such as modifications to the firm's asset structure (Bowman & Singh, 1993; Kolev, 2016) and capital structure (Dvorkin et al., 2022; Tan & Luo, 2021), along with strategies related to cost management and the divestment of surplus resources (Sudarsanam & Lai, 2001). Research has indicated that when these strategies are implemented promptly and efficiently, they substantially increase the likelihood of the firm's survival and successful turnaround (Barbero et al., 2017; Denis & Kruse, 2000). However, the successful execution of a suitable and timely restructuring strategy depends on two crucial factors: (a) the CEO's awareness of the firm's financial situation and challenges and (b) the capability of the CEO and the executive team to formulate and execute an appropriate restructuring plan.

Several factors may prevent a firm's CEO from being fully aware and adequately informed about the firm's financial situation. First, executives, particularly those in small firms, often possess limited financial literacy and a deep understanding of specific distress indicators (Molina-

Garcia et al., 2023). Second, extensive evidence underscores the prevalence of overconfidence (Hayward et al., 2006) and optimism (Cassar & Gibson, 2007) among corporate leaders, biases that can lead to an overestimation of the firm's future performance and contribute to an unrealistic assessment of the risk of failure (Ucbasaran et al., 2010). Third, CEOs who have previously endorsed a particular corporate strategy may be reluctant to admit to themselves and others that it is ineffective (Tripsas & Gavetti, 2017). Past research has shown that executives often employ self-blinding techniques when confronted with poor performance indicators, restricting their search for new information or selectively recalling feedback (e.g., Chew et al., 2020; McDonald & Westphal, 2003). The lack of awareness of financial difficulties can be even more pronounced for CEOs of small firms, where the disclosure of financial information is less regulated. Finally, as indicated by previous research, small-firm managers may perceive emotional and social costs associated with firm failure, prompting them to delay the psychological processing of this information as a form of self-preservation strategy (Shepherd et al., 2011). Thus, this study investigates how CEOs' advice seeking can enhance their assessment of the firm's financial situation by promoting information processing and mitigating the influence of individual factors such as personality and cognition.

The prospects of survival and turnaround for financially distressed firms also hinge on the CEO and the executive team's capacity to develop and execute an effective restructuring strategy. Although awareness of financial distress is a critical prerequisite for strategic action, the executive team must also define the specific changes needed to enhance profitability and facilitate debt repayment. Prior literature has identified four main categories of firm-restructuring strategies. The first category involves portfolio restructuring, which entails a substantial change in the firm's asset structure (Bowman & Singh, 1993; Kolev, 2016) and encompasses a range of transactions, including a diversity of business segments. The second category concerns financial restructuring, encompassing capital structure changes and financing patterns (Dvorkin et al., 2022; Tan & Luo, 2021). The third category, operational restructuring, aims to enhance efficiency and restore performance through cost control and the disposal of excess fixed resources (Sudarsanam & Lai, 2001). Finally, managerial restructuring involves changes in the organizational structure, often accompanied by the replacement of top executives or the CEO (Choi & Xu, 2022; Denis & Kruse, 2000; Liu et al., 2022; Tangpong et al., 2021; Urban, 2019). In contrast to larger firms, SMEs often lack the resources, management expertise, and information to make informed choices among the various restructuring options (Crick et al., 2018). They are more susceptible to external environmental changes (Ciampi & Gordini, 2013). These difficulties highlight the importance of appropriate guidance and advice in choosing and implementing strategic change (Alexiev et al., 2010).

Because of its omnipresence in social life, advice seeking has been extensively studied in various disciplines, including research studies in psychology, communication, business, and social networks (Lomi et al., 2014; MacGeorge & Van Swol, 2018; Nebus, 2006). Previous literature has shown that CEOs frequently seek advice on strategic directions such as diversification, acquisitions, innovation, and outsourcing (e.g., Alexiev et al., 2010; Jones et al., 2008; Kroll et al., 2008). They also addressed various stakeholders about operational issues, leadership challenges (Shen, 2003), and personal issues (McDonald & Westphal, 2011). However, CEOs' advice-seeking behavior within the specific context of poor economic performance and financial distress has been scarcely explored in the existing literature. A meaningful exception is the article of McDonald and Westphal (2003), in which they analyzed how CEOs of underperforming firms choose their advisors. This article highlights a pattern according to which CEOs tend to seek more advice from similar others and avoid referring to divergent acquaintances, which eventually reduces firms' propensity to change the corporate strategy in response to poor performance. In this research, we aim to complement these findings by exploring how CEOs' general propensity to seek advice would affect their acknowledgment of underperformance

and the strategic action they would undertake in response to such difficulties. In other words, whereas McDonald and Westphal (2003) focus on financial difficulties as an antecedent of specific advice-seeking behavior, we explore the outcomes of advice seeking on beliefs and behavior in the context of financial distress.²

2.2. Influence of advice seeking

Within the context of financial distress, the influence of seeking advice can primarily be understood through the lens of attention. As Ma et al. (2020) pointed out, previous research has approached advice seeking in various ways, with a significant lack of consensus on its outcomes. In our framework, we analyze how CEOs' advice seeking affects organizational decision-making, drawing from the attention-based view of the firm. The attention-based perspective is instrumental because it explains how advice seeking redirects the attention of CEOs rather than treating advisors as mere problem solvers. Thus, our theoretical framework is founded on the premise that the finite attentional capacity of individuals shapes organizational decision-making and the structural influences that guide the decision-makers focus (Cho & Hambrick, 2006). This dimension is particularly salient for SMEs, where CEOs often face the risk of cognitive overload due to the many considerations they must manage. In the context of financial turmoil, CEOs may grapple with challenges in promptly recognizing the severity of the issues confronting their firm. They may also experience hesitation when considering the available options for addressing the situation. Seeking advice can help decision-makers prioritize their concerns more effectively and better understand opportunities. During times of financial difficulties, CEOs may face difficulties in promptly recognizing the gravity of the challenges their firm is facing. Additionally, they might encounter hesitation when evaluating the available options for addressing the situation.

2.3. Formal and informal advisors

A crucial aspect of CEOs' advice-seeking process is the origin of the advice. CEOs typically maintain various relationships that give rise to multiple potential sources of advice, including TMT members, executives of other companies, family members, accountants, lawyers, and even employees (e.g., Acquah, 2007; Fiegenger, 2010). To date, the prevailing categorization of advice sources has predominantly classified them into two categories: internal advisors (those within the firm) and external advisors (individuals outside the firm with connections to the CEO, ranging from business partners and professional network members to family and friends, e.g., Cao et al., 2010; Heyden et al., 2013). This distinction has been favored due to the belief that external advisors, such as CEOs of other firms, government officials, bankers, and consultants (Heavey & Simsek, 2015; van Doorn et al., 2017), tend to provide the CEO with more current and objective information. Conversely, advice from internal sources is often valued for its firm-specific nature and ease of integration into the organizational culture (Arendt et al., 2005).

In our study, we distinguish between formal and informal advisors. Moving away from the traditional internal-external categorization, we align with the recommendation of Ma et al. (2020) to better consider the nature of relationships that facilitate the flow of advice. The formality of

² We do, however, acknowledge that the awareness of financial difficulties can impact subsequent advice-seeking behavior, both in intensity and in choice of advisors (as illustrated by McDonald & Westphal, 2003). Although this specific relationship was not in the scope of our study, we discuss some aspects of the potential, reversed causal relationship in the discussion section. To assure robustness of our empirical results to the risk of reversed causality, we also conducted a thorough examination of empirical relationships in this opposite direction. The results of this analysis are also summarized in the discussion section.

an advisor pertains to the extent to which rules and procedures assign advisory responsibilities to a specific stakeholder. In this context, formal advisors are officially recognized through organizational processes, company bylaws, and company law. This category encompasses TMT members with an officially designated advisory role and bankers who can review the firm’s financial choices and advise the CEO accordingly. It also includes consultants, chartered accountants, and lawyers, who are granted an advisory role through contracts and legal statutes. Conversely, informal advisors refer to individuals known to the CEO who do not hold an official advisory duty, such as CEOs from other firms or suppliers.

The formality of the advisor holds significant importance for several reasons. First, formal advisors are readily available and adequately prepared to guide the CEO. Their positions are associated with specific backgrounds, training, and skills that legitimize their analytical abilities. Consequently, they are expected to be capable of conducting rigorous analyses of information within their expertise. Moreover, they have access to detailed information about the firm’s current state and industry and a deep understanding of its history and culture. Second, formal advisors can directly influence decision-making through votes, resource approvals or denials, and legal constraints. As a result, their advisory role is complemented by decision-making power that can directly impact a CEO’s response to advice. Third, formal advisors are characterized by a higher level of commitment to the outcomes of their advice. Their positions often entail a solid loyalty to the organization, to which they are bound to offer their full assistance. Following this reasoning, formal advisors often bear direct financial and reputational costs if their advice proves inadequate. Due to this significant “stake in the game,” their level of involvement tends to be more substantial, motivating them to conduct more thorough research and analysis when formulating guidance.

In the following sections, we present a detailed theoretical argument elucidating the relationship between CEOs’ advice-seeking behavior (from formal and informal advisors) and their awareness of the firm’s financial difficulties and the implementation of a restructuring process.

3. Research hypotheses

The following section provides our hypotheses’ theoretical background and development. Fig. 1 presents the research model that we will detail hereafter.

3.1. The effect of formal and informal advice seeking on CEOs’ awareness of financial difficulties

Several interconnected strands of academic literature have consistently explored the phenomenon where senior executives often resist making substantial changes to corporate strategy in response to poor firm performance (e.g., McDonald & Westphal, 2003; Meissner & Wulf, 2016). A recurring theme in much of this literature posits that systematic cognitive biases or “perceptual distortions” among top managers play a significant role in this phenomenon (Hambrick & D’Aveni, 1988; Starbuck et al., 1978). In response to this observation, research on debiasing has delved into methods and tools to mitigate the adverse effects of cognitive biases in corporate contexts (Larrick, 2004). Historically, this research has predominantly focused on active intervention techniques, such as scenario planning (Schoemaker, 1993) and cognitive mapping (Hodgkinson et al., 2004). However, recent research has also underscored the vital role of executives’ information-acquisition behaviors, which positively contribute to information interpretation during the decision-making process and aid in mitigating biased judgments (Meissner & Wulf, 2016).

Research on TMTs has consistently highlighted the role of senior executives’ advice-seeking behavior, which serves as their primary avenue for acquiring information, in shaping the level of biases in strategic decision-making processes (Alexiev et al., 2010; Heyden et al., 2013). Although the overall impact of advice-seeking has been subject to debate, several arguments support the idea that it positively influences the awareness of issues that might otherwise be overlooked. Through the integration of diverse expertise and experiences, advice seeking enhances the likelihood of making accurate assessments of a given situation (Bonaccio & Dalal, 2006; McDonald & Westphal, 2003). This

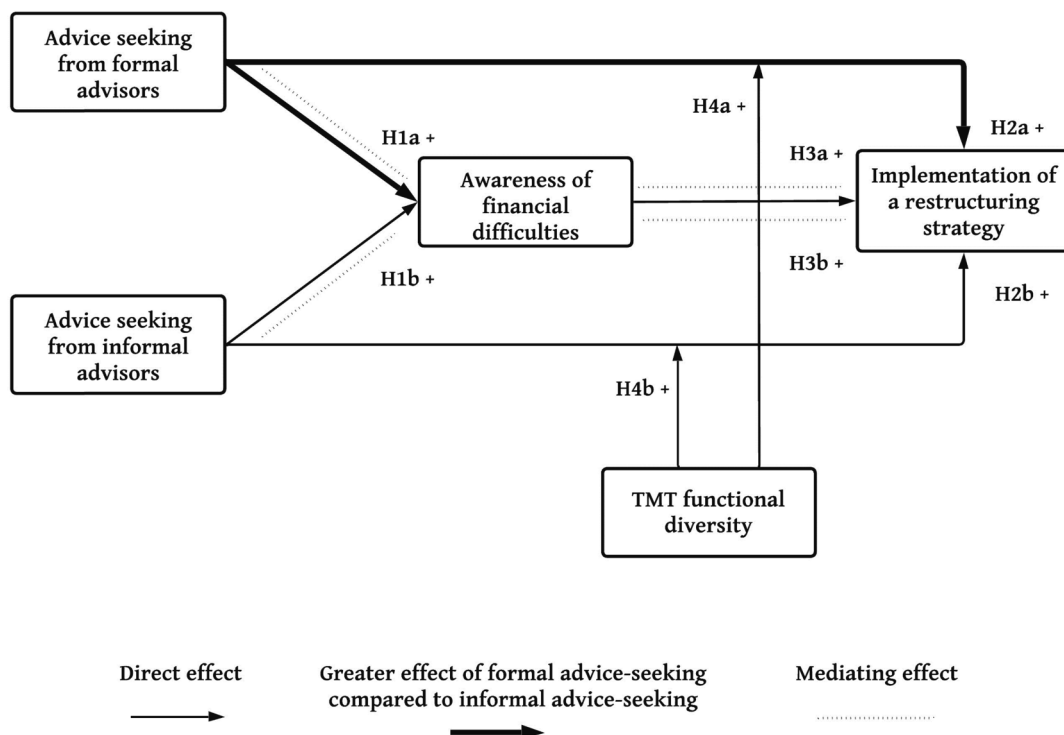


Fig. 1. Research conceptual model.

increased reliance on advice broadens an executive's perspective, reduces selective perception, and expands interpretation schemes (Alexiev et al., 2010). When confronted with explicit feedback about the firm's actual repayment difficulties, advice-seeking diminishes the selective updating of beliefs, reducing a CEO's inclination to employ self-blinding techniques (D'Aveni & MacMillan, 1990). Furthermore, access to constructive recommendations and counsel mitigates the CEO's perception of failure's social and emotional costs by presenting potential solutions and alternatives (Cope, 2011). Based on these arguments, we propose that a CEO's advice-seeking behavior is positively associated with their realistic perception of the firm's financial condition and awareness of financial difficulties.

However, the debiasing effect of advice seeking may differ depending on the category of advisors. Increased interaction with formal advisors creates specific opportunities for a distressed company to acknowledge the nature and severity of its problems. Formal advisors possess specific expertise that they must apply through their designated roles. For instance, a more comprehensive consideration of feedback from bankers and investors is expected to reduce CEOs' self-protective blindness strategies and encourage the acceptance of objective financial metrics and estimates. Some formal advisors, such as chartered accountants, are obligated to report on the state of the firm's accounts. In contrast, the impact of advice from informal advisors, such as CEOs from other firms and suppliers, is less evident. These advisors lack direct access to the detailed financial situation of the firm and may be unfamiliar with the specific challenges and financial constraints it faces. Moreover, as CEOs of their own firms, they may be susceptible to the same managerial biases and perceptual distortions related to optimism (Cassar & Gibson, 2007), illusion of control (Meissner & Wulf, 2016), or overconfidence (Hayward et al., 2006). Finally, the interests of informal advisors do not necessarily align with those of the firm, especially when they hold senior claims or face financial losses in the event of restructuring or insolvency proceedings.

Following this line of reasoning, we expect that, while inherently positive, the impact of advice seeking from informal advisors will be less pronounced than when advice is sought from formal advisors. Accordingly, we propose the following hypotheses:

Hypothesis 1a: *The CEO's advice-seeking behavior positively influences their awareness of the firm's financial difficulties.*

Hypothesis 1b: *The effect of advice seeking on the CEO's awareness of financial difficulties is stronger when the advice is sought from formal advisors rather than informal advisors.*

3.2. The effect of formal and informal advice seeking on restructuring strategy implementation

Beyond its role in shaping understanding and judgment, advice seeking can significantly impact decision-making and subsequent behavior. Previous studies have demonstrated the positive impact of advice seeking on complex organizational decisions, such as exploratory innovation (Alexiev et al., 2010), participation in international alliances (Balkundi & Kilduff, 2005), and the pursuit of entrepreneurial opportunities and objectives (van Doorn et al., 2017). This positive impact can be attributed to advice allowing CEOs to access expertise, recommendations, and proposed solutions (Schrah et al., 2006). Advisors are not necessarily expected to provide fully executable solutions; instead, they are likely to draw attention to a credible range of options. Given the resource constraints and time pressures facing distressed firms, advice seeking empowers CEOs to consider a broader array of strategic responses and promptly make more informed and suitable restructuring decisions. Consequently, we propose that the CEO's advice-seeking behavior directly influences financially distressed firms' implementation of restructuring strategies.

As previously mentioned, the formality of advisors is likely to play a pivotal role in the relationship between advice seeking and restructuring decisions. Formal advisors are anticipated to provide assessments of best

practices, market knowledge, and expert analysis (Heavey & Simsek, 2015; Larsson et al., 2003; van Doorn et al., 2017). For instance, TMT members can identify weaknesses that may have gone unnoticed in the strategy formulation and expose critical operational and functional concerns. Accountants and lawyers, in their respective capacities, are legally obligated to offer state-of-the-art advice on the possibility of a turnaround and the challenges the firm must address. In doing so, they increase the pressure on the CEO, who is likely to believe they cannot ignore their advice without risk. Consequently, the CEO is prompted to engage in meticulous analysis and planning.

Conversely, informal advisors typically possess knowledge not specific to the firm, its members, or its internal relationships (Menon & Pfeffer, 2003). Although they can provide CEOs with novel ideas and solutions, this broader perspective and diversity of interpretations may lead to confusion and decision inertia, especially when the CEO feels compelled to consider a multitude of strategic alternatives (Bonaccio & Dalal, 2006; Ma et al., 2020). Aligned with the attention-based approach, we anticipate that the CEO's attention will be directed toward advisors perceived as more legitimate in the specific context of restructuring while diverting attention away from others. Consequently, CEOs are likely to respond more strongly to advice from formal advisors, whose legitimacy in terms of restructuring solutions is perceived as higher. Thus, we hypothesize that the effect of advice seeking on the implementation of a restructuring strategy will be more pronounced for CEOs who seek advice from formal advisors than for those who seek advice from informal advisors.

Hypothesis 2a: *The CEO's advice-seeking behavior positively influences the likelihood of implementing a restructuring strategy.*

Hypothesis 2b: *The effect of advice seeking on the implementation of a restructuring strategy is stronger when advice is sought from formal advisors rather than informal advisors.*

3.3. Mediating effect of CEOs' awareness of the Firm's financial difficulties

It can be argued that the influence of advice seeking on the implementation of a restructuring strategy is, in part, mediated by the CEO's awareness of the firm's financial difficulties. This heightened awareness is the result of the diverse knowledge, skills, and cognitive perspectives acquired through advice seeking (Alexiev et al., 2010; Bonaccio & Dalal, 2006; Soll & Larrick, 2009). When the CEO actively engages in seeking advice, particularly from formal advisors, they have access to a wide range of expertise and viewpoints. This enriched awareness, gained from seeking advice, triggers a change in CEOs' perceptions. They become aware of the seriousness and urgency of financial problems and realize that the situation calls for rapid and appropriate measures. When the CEO is more aware of the company's financial difficulties, they are more motivated and eager to quickly implement the necessary restructuring measures. Instead of making minor adjustments, they understand that a comprehensive and far-reaching restructuring of the company's strategic framework is imperative. This leads to the hypothesis that the constructive impact of seeking advice on initiating a restructuring process is mediated by the CEO's heightened awareness of financial difficulties, which in turn reinforces their motivation and sense of urgency to implement the required changes. Thus, we hypothesize that the positive influence of formal and informal advice seeking on the initiation of a restructuring process is mediated by the CEO's increased awareness of financial difficulties.

Hypothesis 3a: *The effect of formal advice seeking on the likelihood of implementing a restructuring strategy is mediated by the CEO's increased awareness of financial difficulties.*

Hypothesis 3b: *The effect of informal advice seeking on the likelihood of implementing a restructuring strategy is mediated by the CEO's increased awareness of financial difficulties.*

3.4. Moderating effect of TMT functional diversity

In assessing the relationship between advice-seeking and subsequent actions, the effectiveness of advice seeking hinges on the recipient's ability to comprehend and apply the guidance offered by advisors (Hogarth, 1978). This dimension gains particular significance when the advice receiver, typically the CEO, relies on a collective of individuals, such as a TMT, to jointly comprehend and execute the recommended actions. An essential consideration in this context is the diversity within the TMT. Diverse teams have been observed to approach and process advice differently compared to homogenous teams (Dahlin et al., 2005). This is because functional diversity fosters a climate of team reflexivity, where members critically analyze information and engage in constructive, task-related conflicts. These interactions stimulate richer discussions and more comprehensive explorations of potential solutions (van Knippenberg et al., 2004).

Moreover, diverse TMTs have the advantage of connecting with a wider pool of potential external advisors, each possessing unique areas of expertise (Alexiev et al., 2016). This breadth of external insights provides a range of perspectives and novel strategic ideas that can be beneficial when contemplating critical decisions, such as initiating a corporate restructuring. Conversely, the cohesion typical of homogenous TMTs can lead to social control mechanisms, including skepticism toward external information and an "us versus them" mindset (Katz & Allen, 1982). Additionally, teams with stronger functional diversity are equipped with a broader spectrum of abilities and competencies. This expanded range of skills enhances the team's absorptive capacity, as well as the ability to recognize the value in external information and effectively integrate it into the organization's knowledge base (Cohen & Levinthal, 1990). This heightened absorptive capacity makes them better prepared to transform advisory recommendations into actionable strategies.

Given these dynamics, we suppose that the impact of formal and informal advice seeking on the likelihood of initiating a restructuring strategy will be more pronounced in firms with functionally diverse TMTs. Functional diversity allows the TMT to effectively process the recommendations, access a wider array of expertise, and swiftly translate advice into comprehensive and actionable strategies.

Hypothesis 4a: *TMT functional diversity positively moderates the relationship between formal advice seeking and the likelihood of implementing a restructuring strategy.*

Hypothesis 4b: *TMT functional diversity positively moderates the relationship between informal advice seeking and the likelihood of implementing a restructuring strategy.*

4. Methodology

4.1. Sample and data collection

The data were issued from a proprietary database called PLAN-PME, which was built by the COACTIS research team over the period 2009–2013. The initial sample consists of 576 small- and medium-sized French companies in the Rhône-Alpes region, encompassing two categories of information. The first part comprises data collected using a complete questionnaire (closed answers). CEOs were contacted to complete the questionnaire as a precondition for entering a training program dedicated to SMEs for which they had applied. All nonfinancial data used in our modeling strategy are drawn from the questionnaire. The second part of the data was taken initially from another database (DIANE, Bureau van Diik) before it was merged into the PLAN-PME database by the COACTIS research team.

For the purpose of our study, we only selected firms facing financial difficulties during 2009, leading to a final sample of 407 observations. To identify firms in financial distress, we calculated the firm-level AFDCC (Association Française des Crédit Managers et Conseils) score, equivalent to Altman's Z score (Altman et al., 2015). This score aims to

assess the risk of firm failure by calculating a ratio resulting from aggregating several performance indicators interacting with each other. Scores such as the one proposed by the AFDCC make it possible to avoid taking these indicators separately and, thus, present an overall view of the firm's risk. The AFDCC score ranges from 0 to 20 points, calculated from the sum of six financial ratios. When the score is higher, the firm is healthier and more stable. When it tends closer toward zero, its financial stability is threatened that much more. For the objective of our study, we only retained firms with a score below 13 (i.e., firms considered as likely to face financial distress; we retained the score of 13 based on the matching between the AFDCC and Altman's Z scores; Altman et al., 2015). Interestingly, we observed that most of the sample may be considered distressed. This might reflect the permanent fragility of SMEs compared to larger companies. Another explanation is that firms in the sample were a part of a support program to develop new business opportunities. This could result in a selection of firms with weaker financial statements.³

Reflecting the majority of French SMEs, the firms included in the study are relatively small: 39 % had fewer than 10 employees, 49 % had between 10 and 49 employees, and 12 % had between 50 and 250 employees. The definition of an SME is that of the European Commission (i.e., having fewer than 250 employees and an annual turnover not exceeding 50,000,000 euros). Nevertheless, their profiles are varied, and they operate in a wide range of different sectors. Thus, the size and variety of the sample make it suitable for empirical analysis. Given that the data were collected via a survey, we explored the potential biases of the common variance method. For this purpose, we performed a Harman single-factor test by incorporating all Likert-based items in an exploratory analysis. The result shows that no single component explained more than 30 % of the variance, which suggests no problem.

4.2. Measures

4.2.1. Dependent variables

In this study, we have two dependent variables. First, the **implementation of a restructuring strategy** measures the number of restructuring practices that the firm has enacted. We subscribe to a broad view of firm restructuring, defined as a process that may involve a wide range of strategies and practices in various dimensions. To measure our dependent variable, we asked the CEOs if they had implemented any restructuring strategies from a list of 14 restructuring strategies and practices. For each restructuring action, if the CEO's response was "yes," it was coded 1; if the response was "no," it was coded 0. The restructuring decision is then obtained by adding the restructuring strategies adopted by the firm, which may go from 0 to 14. The list of specific restructuring strategies includes employee downsizing, significantly reducing production capacity, abandoning a product or service, abandoning a type of customer, and so on. See Appendix A for an extensive list of all the restructuring measures. The reliability of the overall scale is satisfactory, with Cronbach's alphas = 0.87.

The second dependent variable, which also serves as a mediator, measures the **CEO's awareness of the firm's financial difficulties**. We presented the respondents with the following question: "Using a scale from 1 (*weak difficulties*) to 5 (*severe difficulties*), please rate the extent of financial challenges your firm is currently experiencing." These financial difficulties were further categorized into three distinct categories: (a) denial of financial support; (b) cash flow issues; and (c) substantial delays in securing funding. Subsequently, we averaged the ratings in these categories to derive an overall measure of the CEO's awareness regarding the firm's financial difficulties.

³ To mitigate concerns regarding the extensive inclusivity of the AFDCC threshold level, we carried out supplementary analyses as detailed in Section 5.3. We extend our gratitude to an anonymous reviewer for recommending these robustness checks.

4.2.2. Independent variables

Our measure of **advice seeking** is based on CEOs' self-reported tendency to seek advice. During the survey, each CEO was asked to indicate how much, he/she mobilized various categories of stakeholders within decision making, over the last 3 years. The scale ranges from 1 = *no mobilization* to 5 = *high mobilization*. We used the answers provided for each category of stakeholders to develop two measures of CEO advice-seeking behavior: CEO advice seeking from formal and informal advisors. Formal advisors encompassed members of the TMT, bankers, shareholders, consultants, lawyers, notaries, chartered accountants, and a board of directors. Consequently, we calculated an average score measuring CEO advice seeking from formal advisors ($\alpha = 0.81$). Informal advisors comprised managers or executives from other firms and suppliers. We used the average tendency to seek advice from executives of other firms and suppliers as a measure of CEO advice seeking from informal advisors ($\alpha = 0.87$).⁴

TMT functional diversity was measured using a series of questions about the previous functional work of TMT members. The respondents were asked whether or not any team members had experience in each of the following areas: "production," "accounting and finance," "administration and legal," "human resources," "strategy," "information systems and technology," "sales and marketing," "operations," and "design, research, and development." Each possible response was coded 1 if the answer was "yes" and 0 otherwise. Our measure of functional diversity represents the total number of expertise areas mastered by the TMT members (Harrison & Klein, 2007), ranging from 0 to 10. A low number indicates substantial homogeneity (TMT members have similar functional experiences), and 10 shows high-functional diversity among the TMT members (TMT members have different and various functional experiences). Cronbach's $\alpha = 0.77$ shows the good reliability of the measure.

4.2.3. Control variables

We controlled for several factors that may impact the restructuring decision by including several control variables on the firm, CEO, and TMT levels.

At the firm level, several factors were expected to influence the firm's restructuring process, as indicated by the existing literature. Therefore, we included several control variables in our analysis. First, we included firm age as a control variable, serving as a proxy for the firm's experience, which could influence its decisions regarding restructuring. This variable is particularly important because younger firms are often more susceptible to failure due to the liability of newness (Thornhill & Amit, 2003). Furthermore, firm age is related to information asymmetry and the propensity to restructure when financial difficulties arise (Davydenko & Franks, 2008). Additionally, **firm size**, measured as turnover, has been introduced as another control variable. Research has shown that small firms are generally less proactive in terms of restructuring compared to their larger counterparts (Barker et al., 2001). Smaller firms also tend to have higher mortality rates, whereas larger firms have a greater likelihood of survival (Hannan & Freeman, 1989; Schmitt & Raisch, 2013).

Moreover, **firm liquidity**, another important control variable, can have a notable impact on CEOs' awareness of the firm's financial difficulties and their approach to restructuring. Liquidity is measured using the current ratio, which is the ratio of current assets to current liabilities

⁴ The full question stem and a detailed discussion of the measure's direct connection with advice-seeking are presented in Appendix A. Notably, our survey explicitly prompted participants to discuss their regular tendency to mobilize others during the past three years. On the contrary, awareness of financial difficulties is assessed by questions that refer to the time of the study administration implying a temporal sequence wherein advice-seeking occurs before the measure of awareness of financial difficulties and the implementation of a restructuring strategy.

(Morrow et al., 2004; Schmitt & Raisch, 2013). It provides insight into the firm's slack, and previous research has suggested that the level of firm slack may affect the likelihood of a successful turnaround (Hambrick & D'Aveni, 1988) and predict the firm's survival as opposed to its failure (Agrawal & Taffler, 2008). Furthermore, it is crucial to account for the **severity of the firm's financial decline**, as this factor can significantly influence the CEO's perception of the situation and their propensity toward restructuring decisions (Bibeault, 1982). We operationalized the severity of the decline using the AFDCC score (Altman et al., 2015; Barker et al., 2001). In essence, when the downturn in the financial situation is more acute, the likelihood that the CEO will gain awareness of the circumstances, as well as opt for decisive restructuring measures, is greater.

The number of **bank partners** a firm has is also considered a control variable to gauge its options for raising funds and securing financial support, which can significantly affect the restructuring process.

Finally, we controlled for the **industry**, a well-studied contingency factor in turnaround research (Barbero et al., 2017; Ndofo et al., 2013). Competitive dynamics and market conditions in different industries can play a crucial role in shaping the strategies and processes of restructuring (Morrow et al., 2004). We included 10 industry dummy variables to control for these effects, covering various sectors (e.g., trade; construction; hotels, tourism, and catering; industry; media and communication; business services; consumer services; transport; administrative and scientific services; and other industries; Thornhill & Amit, 2003).

At the CEO level, we incorporated several control variables to account for individual characteristics. **CEO age** is represented as the natural logarithm of the CEO's age at the time of data collection (Miller, 1991). **CEO gender** is indicated by a binary variable, where 1 denotes a female CEO and 0 signifies a male CEO. **CEO tenure** is measured as the natural logarithm of the years the individual has held the CEO position in his current firm (Miller, 1991). This tenure variable considers career incentives for engaging in firm restructuring and how it might influence the CEO's preferences and biases during reorganization. **CEO education level** is a categorical variable that classifies the CEO's educational background and generic skills into four categories based on years of schooling (Georgakakis et al., 2017; Helfat & Peteraf, 2015): 1 = *high school and college*, 2 = *bachelor's degree*, 3 = *bachelor's degree + 2 years*, and 4 = *master's or doctorate* (Herrmann & Datta, 2002). CEO power and influence were assessed by determining whether the **CEO is the founder** of the firm (a binary variable taking the value 1 for founders and 0 for nonfounders) and whether the **CEO is a shareholder** in the firm (a binary variable coded 1 for CEO shareholders and 0 for non-CEO shareholders; Heyden et al., 2017).

The occurrence of a **CEO replacement** was indicated by a binary variable (1 for CEO replacements, 0 for no replacements), and it holds particular significance, especially in the turbulent period preceding a firm's potential failure (Hambrick & D'Aveni, 1992). Studies have shown that CEO changes often trigger a positive market response (Davidson et al., 1993), and incoming CEOs tend to implement more substantial strategic changes, which can lead to enhanced firm performance (Ndofo et al., 2013). Furthermore, in cases where a firm is aware of its financial difficulties, it is not uncommon for reorganization plans to include the replacement of the CEO who presided over the firm's descent into financial turmoil (Gilson, 1989). Furthermore, the **CEO's functional experience** was considered a binary variable coded 1 if the CEO has more "output" functional experiences (sales/marketing, product R&D, and entrepreneurship) and coded 0 if the CEO has more "throughput" functional experiences (production/operations, finance, accounting/data treatment/information systems, and process R&D; Barker & Mueller, 2002). According to the upper echelon theory, CEOs' prior functional experiences shape their strategic choices by influencing how they interpret information according to their expertise. Additionally, we controlled for a **CEO's experience in top management positions**, assessed by the number of years the CEO has served as the head of a company. Finally, we evaluated CEO experience by determining

whether they currently manage other companies in different sectors, represented as a binary variable (1 for CEOs managing other companies and 0 otherwise). This evaluation helps gauge the CEO's availability and commitment to overseeing the firm.

At the TMT level, to account for structural TMT characteristics that could influence CEOs' perception of financial difficulties and the subsequent restructuring process, we included a control variable for TMT size. We asked CEOs to specify the number of senior managers in their team. This practice is consistent with prior studies (Georgakakis et al., 2017; Simsek et al., 2005) and recognizes that TMTs are composed of managers responsible for strategy development, organizational execution, and decision-making (Buyl et al., 2011; Kor, 2003). These control variables are crucial for ensuring the robustness and accuracy of our analysis.

4.3. Model

To test the effect of advice seeking from formal and informal advisors on the CEO's awareness of the firm's financial difficulties and restructuring decisions, we used generalized multilevel structural equation modeling (GSEM). GSEM combines the flexibility and power of generalized linear and structural equation models in an embedded modeling framework (Lombardi et al., 2017). It simultaneously considers the direct and indirect effects of multiple interacting factors and is a better option for dealing with hypotheses with nested data. Using GSEM in this study allowed us to test the structural model with two dependent variables and all relationships simultaneously.

5. Results and analysis

5.1. Descriptive statistics

Table 1 provides a comprehensive overview of the descriptive statistics for the variables in our study. We focus on two dependent variables. The first variable is the CEO's awareness of financial difficulties. This variable is continuous, ranging from 1 to 5, where higher values indicate a stronger perception of financial difficulties and a mean value of 3.293. The second variable assesses the restructuring decision, quantifying the number of restructuring strategies firms implement, with an average of 4.03.

Additionally, Table 1 presents an exhaustive overview of our research's descriptive statistics concerning key firm attributes. These attributes provide valuable insights into the multifaceted composition of the firms under examination. Firm age, which varies widely, showcases a mean age of 15.25 years, with the age spectrum ranging from 3 to a maximum of 370 years. This diversity highlights the varying maturity levels and market experience among the firms in our study.

In assessing financial health, the AFDCC score presents a mean value of 4.925, with scores ranging from 0 to a maximum of 12.5. This variation underscores the differing levels of financial stability and distress present in the firms. TMT attributes play a significant role in decision-making. TMT diversity, with a mean value of 3.138, ranges from 0 to a maximum of 10, showcasing diversity in team composition. Concurrently, TMT size reveals that 53.07 % of firms have 1–2 members, 41.28 % have 3–5 members, and 5.65 % have 5–9 members, indicating varying team sizes within the sample.

The firms in our study represent many industries, with the highest representation in industry (32.67 %) and media and communication (23.34 %). The wide-ranging industry representation reflects the diverse sectors included in our research. Additionally, banking partnerships vary, with 63.14 % of firms having 0–1 bank partners, 30.71 % with 2–3, and 6.14 % with 4–10. This distribution underscores potential differences in financial relationships and access to capital among the firms.

Additionally, Table 1 offers a comprehensive insight into the diverse characteristics of the CEOs who lead these firms. CEO age, spanning four categories, indicates that approximately 28.01 % are in the 24–35 age

Table 1
Descriptive statistics of the study variables.

Panel A: Firms				
	Mean	Std. Dev.	Min	Max
Age	15.25	26.61	3	370
Turnover	1651.12	4734.64	0	56497.81
AFDCC score	4.925	4.411	0	12.5
Liquidity	82.877	213.927	0	1706
TMT diversity	3.138	3.25	0	10
TMT size:	N.		%.	
1–2	216		53.07 %	
3–5	168		41.28 %	
5–9	23		5.65 %	
Industries:	N.		%.	
Trade	45		11.06 %	
Construction	16		3.93 %	
Hotels; tourism; catering	51		12.53 %	
Industry	133		32.67 %	
Media and communication	95		23.34 %	
Business services	3		0.74 %	
Consumer services	5		1.23 %	
Transport	1		0.25 %	
Administrative and scientific services	47		11.55 %	
Other industries	11		2.70 %	
Bank partners:	N.		%.	
0–1	257		63.14 %	
2–3	125		30.71 %	
4–10	25		6.14 %	
Panel A: CEOs				
Age category:	N.		%.	
24–35	114		28.01 %	
36–47	130		31.94 %	
48–59	152		37.35 %	
60–74	11		2.70 %	
Gender:				
Female	32		7.86 %	
Male	375		92.14 %	
Education:				
High school and college	126		30.96 %	
Bachelor's degree	62		15.23 %	
Bachelor's degree + 2 years	44		10.81 %	
Master's or doctorate	175		43.00 %	
Practical experience:				
Throughput functional experience	63		15.48 %	
Output functional experience	344		84.52 %	
Tenure:				
1–3	170		41.77 %	
4–7	99		24.32 %	
8–12	45		11.06 %	
13–20	52		12.78 %	
21–83	41		10.07 %	
CEO founder:				
Founder CEO	328		80.59 %	
Non-founder CEO	79		19.41 %	
CEO shareholder:				
Shareholder CEO	367		90.17 %	
Non-shareholder CEO	40		9.83 %	
CEO is currently managing other companies:				
Yes	42		10.32 %	
No	365		89.68 %	
CEO experience in a top management position:				
1–3	160		39.31 %	
4–10	114		28.01 %	
11–17	86		21.13 %	
18–45	47		11.55 %	
CEO replacement:				
Yes	35		8.60 %	
No	372		91.40 %	

range, 31.94 % in the 36–47 range, 37.35 % in the 48–59 range, and 2.70 % in the 60–74 range. This diversity emphasizes the generational range among CEOs.

Among the CEOs of our sample, 7.86 % are female, whereas 92.14 %

are male, underscoring the persistent gender disparity in executive leadership positions. Educational backgrounds exhibit a mix, with 3.096 % holding high school and college degrees, 15.23 % having bachelor's degrees, 10.81 % possessing bachelor's degrees with 2 years of education, and 43.00 % attaining master's or doctorate degrees. This diversity in education highlights the significance of varied academic qualifications in executive leadership.

CEOs' practical experience is also diverse, with 15.48 % having throughput functional experience and 84.52 % having output functional experience. Tenure among CEOs varies widely, with 41.77 % serving for 1–3 years, 24.32 % for 4–7 years, 11.06 % for 8–12 years, 12.78 % for 13–20 years, and 10.07 % for 21–83 years. The CEO sample also consists of 80.59 % founder CEOs indicating their role in founding the companies they lead and 19.41 % non-founder CEOs indicating different leadership backgrounds.

Financial interests are diverse, with 90.17 % of CEOs being shareholder CEOs holding ownership stakes in their companies, whereas 9.83 % are non-shareholder CEOs. Furthermore, 10.32 % of CEOs concurrently manage other companies, reflecting multitasking demands, and 89.68 % focus solely on their current roles. CEO experience in top management positions is varied, with 39.31 % having 1–3 years of experience, 28.01 % with 4–10 years, 21.13 % with 11–17 years, and 11.55 % with extensive experience ranging from 18 to 45 years. Finally, CEO replacement impacts 8.60 % of CEOs, whereas 91.40 % have not experienced replacement, adding a layer of complexity to decision-making dynamics.

These CEO characteristics provide an essential context for understanding the diversity and dynamics of CEO leadership within the firms in our research, which, in turn, influence strategic decisions and corporate outcomes.

Table 2 presents the Pearson correlation matrix and variance inflation factor (VIF) values for the variables in our study. The table illustrates a weak but positive correlation between the restructuring decision and all three variables: the CEO's awareness of financial difficulties, formal advice seeking, and informal advice seeking. Moreover, the CEO's awareness of financial difficulties shows a positive relationship with formal advice seeking but a negative correlation with informal advice seeking. To assess the potential issue of multicollinearity, we used VIFs. Fortunately, the observed correlations and VIFs among the variables are within acceptable limits and do not raise any notable concerns for our multivariate analysis (Tabachnick & Fidell, 2001, pp. 84–90).

A notable finding highlighted in Table 2 concerns the weak correlation between advice seeking from formal and informal advisors and the firm's AFDC score (a correlation coefficient of 0.16 and 0.11, respectively). These low correlation coefficients indicate that the advice-seeking behavior measured in our study does not refer to a reaction to some feedback about financial difficulties but focuses on regular practices executed by the CEO regardless of scores and financial indicators.

5.2. Results and hypothesis testing

Tables 3, 4, and 5 present various models examining the relationship between CEOs' awareness of financial difficulties and the restructuring decision in this study. In Table 3, our focus lies on the direct impacts of seeking advice from formal and informal advisors on the CEO's

awareness of financial difficulties, spanning from Model 1 to Model 4. Moving to Table 4, we evaluate the direct effects of advice seeking from formal and informal advisors on the restructuring decision, spanning from Model 5 to Model 8. Lastly, in Table 5, we explore the influence of the CEO's awareness on the restructuring decision, which is essential for quantifying the mediation effect between formal and informal advice seeking and the restructuring decision. Additionally, Table 5 delves into the moderating role of TMT diversity in the relationship between formal and informal advice seeking and the restructuring decision.⁵

Our base models, namely Models 1 and 5, exclusively incorporate control variables for the CEO's awareness of financial difficulties and the restructuring decision as dependent variables. To examine our first hypothesis, we executed regressions of formal and informal advice seeking on the CEO's awareness of financial difficulties, as Model 2, Model 3, and a combined analysis in Model 4 show. Notably, the positively significant coefficient of formal advice seeking ($\beta = 0.395, p < .01$; Model 2 in Table 3) supports H1a, suggesting a favorable impact of formal advice seeking on the CEO's awareness of financial difficulties. However, the influence of informal advice seeking on the CEO's awareness of financial difficulties does not attain statistical significance. These findings validate H1a concerning formal advice seeking but do not extend to the effect of informal advice seeking. Hence, this outcome supports H2b by indicating that seeking advice from formal advisors exerts a more pronounced influence on the CEO's awareness of financial difficulties compared to seeking advice from informal advisors.

We also formulated a hypothesis that advice seeking by CEOs from both formal and informal advisors has a positive impact on the restructuring decision (H2a). The findings presented in Table 4 support hypothesis H2a for both formal and informal advisors, as evidenced by the respective coefficients ($\beta = 1.305, p < .01$; Model 8; $\beta = 0.490, p < .01$; Model 8). Notably, when we compare the coefficients of formal and informal advice seeking in Models 6 and 7 and the jointly estimated Model 8, it becomes evident that formal advice seeking yields a more substantial coefficient magnitude (1.305) in comparison to informal advice seeking (0.49). This observation indicates that, all other factors being equal, a one-unit increase in formal advice seeking is associated with a greater increase in the restructuring decision compared to a one-unit increase in informal advice seeking. Consequently, these results support H2b.

To assess whether the CEO's awareness mediates the relationship between formal advice seeking and the restructuring decision (H3a), we employ coefficients from Models 2 and 9. The indirect effect of mediation is computed as the product of the coefficients of formal advice seeking on the CEO's awareness ($\beta = 0.395$) and CEO's awareness of the restructuring decision ($\beta = 0.946$). This effect size is bias corrected and subjected to bootstrapping with over 5,000 iterations to establish a confidence interval (CI). Utilizing a 95 % CI for 5,000 resamples, which is well suited for our sample size (Hayes & Scharkow, 2013), we find that the effect (0.127) is significantly positive within the 95 % CI (95 % CI [0.029; 0.225]; see Table 6). These findings strongly support H3a.

To test the mediation of the relationship between informal advice seeking and the restructuring decision by CEO's awareness (H3b), we examine the coefficients from Models 3 and 9. As for H3a, we calculate the indirect effect by multiplying the coefficients of informal advice seeking on the CEO's awareness ($\beta = -0.124$) and the CEO's awareness on the restructuring decision ($\beta = 0.946$). Once again, we bias correct

⁵ The comparative analysis of model fit is based on a comprehensive examination of various fit indices. The results consistently indicate that Model 4, presented in Table 3, outperforms the other models in terms of goodness of fit, as evidenced by its highest R-squared and adjusted R-squared values, lowest RMSE, and smallest AIC and BIC values. Models 2 and 3 in Table 3 exhibit similar performance, while Model 1 in Table 3 generally underperforms when evaluated against these fit statistics. This trend is consistently observed across Tables 4 and 5.

Table 2
Pairwise correlations 1/2.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	VIF
(1) Restructuring decision	1.000												–
(2) CEO's awareness of financial difficulties	0.217***	1.000											–
(3) Formal advice seeking	0.491***	0.567***	1.000										1.649
(4) Informal advice seeking	0.195***	–0.258***	–0.214***	1.000									1.30
(5) TMT diversity	–0.070	–0.396***	–0.279***	0.320***	1.000								2.781
(6) CEO educational level	–0.013	–0.520***	–0.445***	0.383***	0.308***	1.000							1.652
(7) CEO tenure	0.316***	0.072*	0.186***	0.079*	0.064	–0.121***	1.000						1.868
(8) CEO replacement	0.244***	0.123***	0.163***	0.155***	0.164***	0.084*	–0.067	1.000					1.256
(9) TMT size	0.199***	–0.274***	–0.010	0.241***	0.624***	0.288***	0.231***	0.339***	1.000				1.68
(10) CEO experience (as CEO)	0.348***	0.079*	0.265***	0.032	–0.040	–0.166***	0.580***	–0.102**	0.093**	1.000			2.234
(11) CEO experience (CEO of other F.)	0.280***	0.005	0.167***	0.108**	–0.054	0.029	0.090**	0.054	0.039	0.236***	1.000		1.205
(12) CEO throughput functional experience	0.086*	0.125***	0.156***	0.180***	–0.089**	–0.003	0.133***	0.087*	0.063	0.175***	0.003	1.000	1.188
(13) CEO age	0.311***	0.410***	0.493***	–0.216***	–0.261***	–0.422***	0.408***	–0.075*	–0.053	0.616***	0.133***	0.106**	2.051
(14) CEO gender	–0.140***	–0.008	–0.150***	0.019	–0.068	–0.010	–0.062	–0.014	0.012	–0.051	0.076*	–0.045	1.103
(15) CEO founder	–0.208***	0.026	–0.237***	–0.134***	–0.123***	–0.119***	–0.078*	–0.246***	–0.351***	–0.074*	–0.038	–0.194***	1.964
(16) CEO stakeholders	0.025	–0.126***	–0.221***	0.141***	0.107**	0.089**	0.048	–0.180***	–0.052	–0.021	0.083*	0.009	1.275
(17) Firm age	0.190***	–0.020	0.212***	0.084*	0.138***	0.017	0.379***	0.091**	0.267***	0.255***	0.051	0.231***	1.758
(18) Bank partners	0.284***	0.040	0.312***	0.049	0.256***	0.013	0.292***	0.233***	0.395***	0.294***	0.266***	0.177***	1.97
(19) Turnover	0.166***	–0.032	0.191***	0.028	0.129***	0.096**	0.233***	0.226***	0.390***	0.109**	–0.036	0.164***	2.107
(20) AFDCC score	0.263***	–0.023	0.161***	0.110**	–0.052	0.066	0.134***	0.061	0.118***	0.164***	0.101**	0.090**	1.278
(21) Liquidity	0.152***	–0.087*	0.089*	0.087*	0.154***	0.092**	0.148***	0.102**	0.377***	0.210***	0.041	0.101**	1.873
(22) Industry	–0.232***	–0.287***	–0.360***	0.140***	0.049	0.354***	–0.085*	0.005	0.137***	–0.069	–0.049	0.035	1.36

Pairwise correlations 2/2												
Variables	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	VIF	
(13) CEO age	1.000										2.051	
(14) CEO gender	–0.009	1.000									1.103	
(15) CEO founder	–0.076*	0.112**	1.000								1.964	
(16) CEO stakeholders	–0.037	0.042	0.217***	1.000							1.275	
(17) Firm age	0.170***	–0.023	–0.519***	–0.018	1.000						1.758	
(18) Bank partners	0.262***	0.057	–0.357***	–0.041	0.350***	1.000					1.97	
(19) Turnover	0.064	0.019	–0.437***	–0.149***	0.454***	0.527***	1.000				2.107	
(20) AFDCC score	0.127***	0.012	–0.207***	0.059	0.186***	0.140***	0.137***	1.000			1.278	
(21) Liquidity	0.153***	0.026	–0.472***	–0.002	0.336***	0.305***	0.539***	0.281***	1.000		1.873	
(22) Industry	–0.249***	0.098**	0.189***	0.122***	–0.128***	–0.222***	–0.153***	0.006	–0.060	1.000	1.36	

*** $p < .01$. ** $p < .05$. * $p < .1$.

Table 3
Generalized structural equation model estimates for CEOs' awareness of financial difficulties.

	Model 1	Model 2	Model 3	Model 4
	Awareness of financial difficulties	Awareness of financial difficulties	Awareness of financial difficulties	Awareness of financial difficulties
Formal advice seeking		0.395*** (0.152)		0.433*** (0.153)
Informal advice seeking			-0.124 (0.098)	-0.165 (0.098)
CEO educational level	-0.505*** (0.077)	-0.467*** (0.078)	-0.479*** (0.08)	-0.43*** (0.081)
CEO tenure	0.016 (0.01)	0.018* (0.01)	0.017* (0.01)	0.019* (0.01)
CEO replacement	1.55*** (0.299)	1.495*** (0.298)	1.598*** (0.301)	1.553*** (0.299)
TMT size	-0.225*** (0.06)	-0.229*** (0.059)	-0.216*** (0.06)	-0.218*** (0.06)
CEO experience (years as CEO)	-0.063*** (0.015)	-0.063*** (0.015)	-0.062*** (0.015)	-0.061*** (0.015)
CEO experience (CEO of other F.)	0.077 (0.275)	-0.003 (0.275)	0.11 (0.276)	0.034 (0.275)
CEO throughput functional experience	0.387 (0.237)	0.318 (0.237)	0.44* (0.24)	0.382 (0.239)
CEO age	0.083*** (0.013)	0.083*** (0.012)	0.081*** (0.013)	0.08*** (0.013)
CEO gender	-0.104 (0.3)	0.028 (0.302)	-0.074 (0.301)	0.08 (0.303)
CEO founder	-0.106 (0.271)	-0.029 (0.27)	-0.12 (0.271)	-0.041 (0.27)
CEO stakeholders	-0.589* (0.301)	-0.542* (0.299)	-0.526* (0.305)	-0.453 (0.303)
Firm age	-0.004 (0.004)	-0.004 (0.004)	-0.004 (0.004)	-0.004 (0.004)
Bank partners	0.035 (0.093)	-0.024 (0.095)	0.023 (0.093)	-0.046 (0.095)
Turnover	0.001 (0.001)	0.003 (0.001)	0.001 (0.001)	0.002 (0.001)
AFDCC score	-0.006 (0.016)	-0.008 (0.016)	-0.005 (0.016)	-0.007 (0.016)
AFDCC score variation	-0.016 (0.03)	-0.018 (0.03)	-0.014 (0.03)	-0.016 (0.03)
Liquidity	0.002 (0.001)	0.001 (0.001)	0.002 (0.001)	0.001 (0.001)
Industry dummies	Yes	Yes	Yes	Yes
cons	6.337*** (0.72)	5.015*** (0.876)	6.551*** (0.739)	5.171*** (0.879)
R-squared	0.383	0.394	0.386	0.399
Adj. R-sq	0.355	0.364	0.356	0.367
RMSE	1.649	1.637	1.648	1.633
AIC	1569.2	1564.1	1569.5	1563.1
BIC	1645.2	1644.1	1649.5	1647.1

Note. Standard errors are in parentheses. *** $p < .01$. ** $p < .05$. * $p < .10$.

this effect size and employ bootstrapping with more than 5,000 iterations to establish a CI. As Table 7 shows, the effect (-0.049) does not fall within a significant 95 % CI (95 % CI [-0.106; 0.009]). Consequently, these results indicate no mediation effect for informal advice seeking, indicating no support for H3b.

Regarding the moderating influence of TMT functional diversity on the relationship between formal advice seeking and the restructuring decision, we observed that the interaction term involving the moderator variable "TMT diversity" exhibited a positive and significant coefficient for CEO formal advice seeking ($\beta = 0.172, p < .01$; Model 10, Table 5). This finding was consistently replicated in Model 12 of Table 5. Consequently, H4a receives strong support.

In contrast, concerning the moderating effect of TMT functional diversity on the relationship between informal advice seeking and the restructuring decision, we found that the interaction term with the moderator variable "TMT diversity" demonstrated a negative and significant coefficient for CEO informal advice seeking ($\beta = -0.083, p < .01$; Model 11, Table 5). This result was also consistently reaffirmed in Model 12 of Table 5. As a result, H4b is rejected.

Moving beyond the numerical coefficients, we illustrate these findings visually through graphical representations in Figs. 2 and 3. Fig. 2 depicts the interaction relationship between informal advice seeking and the restructuring decision across various moderator "TMT functional diversity levels," including the mean plus and minus one standard deviation. It becomes evident that the highest probability of initiating a restructuring decision is attained when there is both high TMT functional diversity and high formal advice seeking. Conversely, the lowest likelihood of implementing a restructuring strategy is found when there is high TMT functional diversity but low formal advice seeking. This alignment with H4a is visually reinforced.

Similarly, Fig. 3 illustrates the interaction relationship between informal advice seeking and the restructuring decision at different levels of TMT functional diversity. In this case, the highest probability of initiating a restructuring decision occurs when there is low TMT functional diversity combined with high advice seeking from informal advisors. Conversely, the lowest likelihood of initiating a restructuring strategy is observed when there is high TMT functional diversity and low advice from formal advisors. This visual representation underscores the

Table 4
Generalized structural equation model estimates for restructuring decision.

	Model 5	Model 6	Model 7	Model 8
	Restructuring decision	Restructuring decision	Restructuring decision	Restructuring decision
Formal advice seeking		1.247*** (0.15)		1.305*** (0.147)
Informal advice seeking			0.41*** (0.115)	0.49*** (0.106)
CEO educational level	0.194** (0.092)	0.413*** (0.089)	0.109 (0.094)	0.322*** (0.089)
CEO tenure	0.025** (0.012)	0.029** (0.011)	0.022* (0.012)	0.025** (0.011)
CEO replacement	1.84*** (0.359)	1.492*** (0.333)	1.682*** (0.356)	1.287*** (0.328)
TMT size	0.091 (0.072)	0.107 (0.066)	0.064 (0.071)	0.076 (0.065)
CEO experience (years as CEO)	0.057*** (0.018)	0.065*** (0.017)	0.051*** (0.018)	0.059*** (0.017)
CEO experience (CEO of other F.)	1.42*** (0.33)	1.036*** (0.308)	1.311*** (0.327)	0.888*** (0.301)
CEO throughput functional experience	0.34 (0.284)	0.099 (0.263)	0.166 (0.284)	-0.12 (0.261)
CEO age	0.02 (0.015)	-0.009 (0.014)	0.028* (0.015)	-0.001 (0.014)
CEO gender	-0.802** (0.36)	-0.252 (0.338)	-0.9** (0.356)	-0.344 (0.33)
CEO founder	-0.18 (0.324)	0.053 (0.3)	-0.133 (0.32)	0.121 (0.293)
CEO stakeholders	0.767** (0.36)	1.351*** (0.34)	0.559 (0.36)	1.129*** (0.334)
Firm age	-0.005 (0.005)	-0.006 (0.004)	-0.005 (0.005)	-0.006 (0.004)
Bank partners	-0.036 (0.111)	-0.156 (0.103)	0.003 (0.11)	-0.114 (0.101)
Turnover	0.001 (0.001)	0.002 (0.001)	0.001 (0.001)	0.001 (0.001)
AFDCC score	0.072*** (0.019)	0.049*** (0.018)	0.067*** (0.019)	0.043** (0.018)
AFDCC score variation	0.05 (0.036)	0.027 (0.033)	0.045 (0.036)	0.021 (0.033)
Liquidity	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.002 (0.001)
Industry dummies	Yes	Yes	Yes	Yes
cons	2.382*** (0.863)	-1.475 (0.921)	1.679* (0.873)	-2.495*** (0.923)
R-squared	0.323	0.337	0.344	0.354
Adj. R-sq	0.291	0.305	0.312	0.321
RMSE	1.976	1.957	1.947	1.935
AIC	1715.5	1708.6	1704.4	1700.1
BIC	1791.5	1788.6	1784.4	1784.2

Note. Standard errors are in parentheses.
*** $p < .01$. ** $p < .05$. * $p < .10$.

negative moderating effect of TMT functional diversity on the relationship between seeking advice from informal advisors and making restructuring decisions, thus leading to the rejection of H4b.

5.3. Robustness checks

In our primary analysis, we identified firms experiencing financial distress by applying an AFDCC score threshold of 13. To strengthen the robustness of our findings, a subsequent analysis utilized a more stringent threshold of 7, resulting in a limited sample of 239 severely distressed firms. The outcomes of these robustness checks, presented in Table 8, substantiate our primary analysis findings. The direct effects of advice-seeking from formal and informal advisors on CEOs' awareness of financial difficulties and the implementation of a restructuring strategy remain consistent. The mediating effect through the CEO's awareness also persists, while the moderating effect of TMT functional diversity consistently reinforces the impact of advice-seeking from formal advisors on CEOs' decisions to implement a restructuring strategy.

However, a noteworthy deviation emerges in the sub-sample analysis concerning the effect of informal advice-seeking on the CEO's awareness of financial difficulties (direct effect). Contrary to the main sample, this effect is no longer statistically insignificant and presents a negative coefficient value.

We have envisioned several possible explanations for this unexpected finding. One possibility is that informal advisors, lacking expertise and financial information, may provide inaccurate information and feedback about the firm's actual state. Alternatively, we considered the possibility that close personal or professional ties, are more likely to offer advice that aligns with the CEO's existing beliefs (McDonald & Westphal, 2003). This confirmation bias can hinder the CEO's ability to recognize the true extent of financial distress fully. In any case, these new results emphasize the multifaceted nature of the CEO's relationship with informal advisors during financial distress. While these advisors may provide emotional support and comfort, they may also inadvertently contribute to the CEO's diminished awareness of the firm's actual financial difficulties.

Table 5
Mediating effect of CEOs' awareness and the moderating effects of TMT functional diversity.

	Model 9	Model 10	Model 11	Model 12
	Restructuring decision	Restructuring decision	Restructuring decision	Restructuring decision
CEO's awareness of financial difficulties	0.292*** (0.059)	0.259*** (0.057)	0.264*** (0.057)	0.276*** (0.056)
Formal advice seeking	0.317* (0.178)	-0.236 (0.228)	0.282 (0.171)	-0.266 (0.227)
Informal advice seeking	0.416*** (0.113)	0.576*** (0.111)	0.777*** (0.15)	0.849*** (0.149)
TMT functional diversity		-0.731*** (0.161)	-0.046 (0.09)	-0.572*** (0.17)
Formal advice # TMT functional diversity		0.172*** (0.053)		0.191*** (0.053)
Informal advice # TMT functional diversity			-0.083** (0.037)	-0.1*** (0.037)
CEO educational level	0.285*** (0.096)	0.31*** (0.092)	0.279*** (0.092)	0.31*** (0.091)
CEO tenure	0.018 (0.011)	0.009 (0.011)	0.016 (0.011)	0.011 (0.011)
CEO replacement	1.182*** (0.356)	1.05*** (0.341)	1.207*** (0.342)	1.074*** (0.339)
TMT size	0.126* (0.07)	0.344*** (0.079)	0.357*** (0.08)	0.339*** (0.079)
CEO experience (years as CEO)	0.07*** (0.018)	0.073*** (0.017)	0.064*** (0.017)	0.066*** (0.017)
CEO experience (CEO of other F)	1.223*** (0.316)	0.901*** (0.306)	0.814*** (0.313)	0.746** (0.309)
CEO throughput functional experience	-0.005 (0.276)	-0.23 (0.266)	-0.255 (0.268)	-0.292 (0.264)
CEO age	0.004 (0.015)	-0.012 (0.015)	-0.01 (0.015)	-0.014 (0.015)
CEO gender	-0.766** (0.349)	-1.353*** (0.348)	-0.875** (0.349)	-1.162*** (0.353)
CEO founder	-0.04 (0.31)	0.172 (0.298)	0.217 (0.302)	0.277 (0.298)
CEO stakeholders	0.766** (0.349)	0.886*** (0.336)	0.924*** (0.338)	0.815** (0.335)
Firm age	-0.003 (0.004)	0.001 (0.004)	0.001 (0.004)	0.001 (0.004)
Bank partners	-0.054 (0.11)	0.059 (0.108)	0.078 (0.109)	0.037 (0.108)
Turnover	0.003 (0.001)	0.003 (0.001)	0.003 (0.001)	0.003 (0.001)
AFDCC score	0.067*** (0.019)	0.043** (0.018)	0.049*** (0.018)	0.039** (0.018)
AFDCC Score variation	0.048 (0.034)	0.041 (0.033)	0.05 (0.033)	0.046 (0.033)
Liquidity	0.001 (0.001)	0.001 (0.001)	0.002 (0.001)	0.003 (0.001)
Industry dummies	Yes	Yes	Yes	Yes
cons	-1.245 (1.055)	1.613 (1.167)	-0.608 (1.046)	1.332 (1.162)
R-squared	0.394	0.452	0.444	0.462
Adj. R-sq	0.360	0.419	0.410	0.428
RMSE	1.877	1.790	1.803	1.775
AIC	1676.7	1640.1	1646.0	1634.3
BIC	1764.8	1736.1	1742.0	1734.3

Note. Standard errors are in parentheses. *** $p < .01$. ** $p < .05$. * $p < .10$.

Table 6
Mediation effect of CEOs' awareness on the relationship between formal advice seeking and restructuring decision.

	Coef.	Std. Err.	Z	95 % Conf. Interval
Indirect Effect	0.1267508	0.0500649	2.53	0.0286254 0.2248763
Total Effect	0.4437511	0.1763096	2.52	0.0981905 0.7893116

Table 7
Mediation effect of CEOs' awareness on the relationship between informal advice seeking and restructuring decision.

	Coef.	Std. Err.	Z	95 % Conf. Interval
Indirect Effect	-0.0483415	0.0294241	-1.64	-0.1060117 0.0093287
Total Effect	0.3679757	0.1129157	3.26	0.146665 0.5892864

6. Discussion

Navigating financial distress poses a significant challenge for small-firm CEOs, underscoring the need for proactive identification and resolution of these issues. This study delved into the impact of CEOs'

advice-seeking behavior in this context, examining whether it influences their strategic responses to financial distress in small and medium-sized firms. Our investigation focused on the sequential process by which advice seeking shapes CEOs' awareness of financial difficulties and

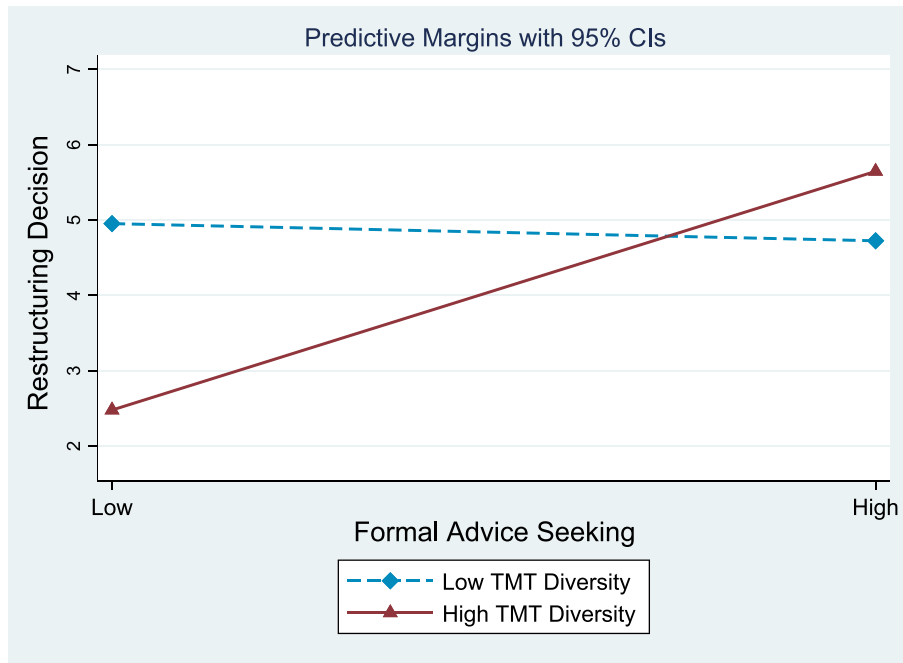


Fig. 2. Average marginal effects of TMT functional diversity on the relationship between formal advice seeking and restructuring decision with 95% CIs.

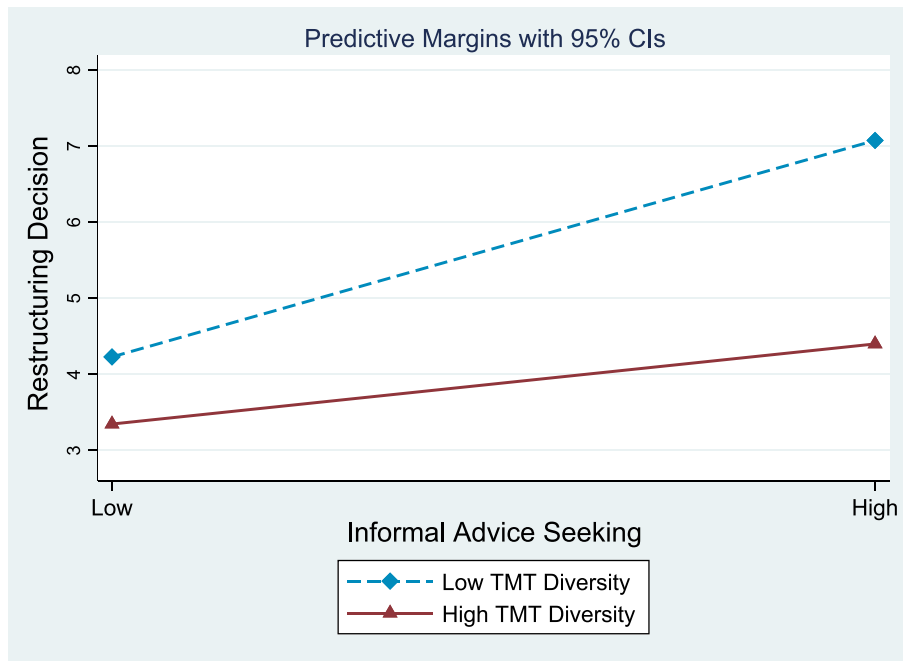


Fig. 3. Average marginal effects of TMT functional diversity on the relationship between informal advice seeking and restructuring decision with 95% CIs.

subsequently guides their decisions to implement restructuring strategies.

Our approach integrated both theoretical and empirical dimensions to understand the implications of CEOs’ propensity to seek advice from formal and informal advisors. Drawing on insights from debiasing research and attention-based approaches, we proposed a mechanism in which advice seeking redirects CEOs’ attention toward their firm’s financial challenges, reducing self-blinding tendencies that might hinder their comprehension of the need for restructuring. In essence, we posited that advice seeking accelerates the implementation of restructuring strategies, potentially enhancing these firms’ survival prospects.

To validate this sequential causal model, we conducted an empirical analysis using a sample of 407 financially distressed SMEs located in Rhone-Alpes, France. Our empirical findings support the notion that advice seeking significantly influences CEOs’ beliefs and strategic decision making, consistent with prior research (Alexiev et al., 2010; McDonald et al., 2008; Vissa & Chacar, 2009). Notably, our findings indicate that the influence of formal advice seeking on the decision to implement restructuring strategies is mediated by the CEOs’ awareness of financial difficulties. In other words, formal advice seeking does not merely impact the restructuring decision directly but also does so indirectly by heightening CEOs’ awareness of their firm’s financial

Table 8

Robustness check of overall analysis with a subsample of severely financially distressed firms.

	Direct effects		Mediation	Moderation
	Awareness of financial difficulties	Restructuring decision	Restructuring decision	Restructuring decision
Formal advice seeking intensity	0.753** (0.309)	0.918*** (0.333)	0.306*** (0.082)	0.37*** (0.078)
Informal advice seeking intensity	-0.366* (0.177)	0.232** (0.19)	0.687** (0.326)	-0.502 (0.42)
CEO's awareness of financial difficulties			0.344* (0.186)	0.98*** (0.259)
TMT functional diversity				-0.747** (0.287)
Formal advice # TMT functional diversity				0.227** (0.092)
Informal advice # TMT functional diversity				-0.089* (0.057)
All control variables included	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes
_cons	4.319*** (1.578)	-0.054 (1.7)	-1.377 (1.673)	3.085 (1.914)
R-squared	0.549	0.513	0.552	0.618

Note. Standard errors are in parentheses. *** $p < .01$, ** $p < .05$, * $p < .1$.

challenges. Moreover, our research highlights an intriguing moderating effect of TMT functional diversity, which plays a pivotal role in shaping the relationship between advice seeking and the restructuring decision. Below, we outline the key contributions of our research.

First, our study makes a significant contribution by delving into the source of advice, distinguishing between formal advisors, such as bankers, investors, consultants, TMT members, and informal advisors, such as fellow CEOs and suppliers. This distinction advances the literature on advice seeking, aligning with the call [Ma et al. \(2020\)](#) made to explore advisors' formality. Our research supports their perspective, as our findings demonstrate that, in the context of financial distress, the positive effects of advice seeking are more pronounced when one seeks advice from formal advisors as opposed to informal ones. This has important implications, emphasizing that while peer networks and local relationships, consisting of fellow CEOs and suppliers, may offer emotional support during challenging times ([Klyver et al., 2018](#)), financial feedback and guidance for restructuring is best sought from formal advisors, who hold greater influence in information dissemination and strategy development. It is worth noting that even formal advisors who express dissent or criticism, such as chartered accountants or lawyers, contribute to an increased awareness despite potential discomfort in the interactions.

Second, our study uncovers another significant aspect related to the diversity of advisees and its impact on their ability to understand and implement advice. Building on existing research ([Dahlin et al., 2005](#)), we found that diversity within TMTs amplifies the advantages of seeking advice, positively moderating the influence of advice from formal advisors on the likelihood of implementing restructuring strategies. However, contrary to our initial hypothesis, functional diversity within the TMT diminishes the effect of advice from informal advisors on the likelihood of adopting restructuring strategies. These contrasting effects are intriguing and may be attributed to the perceived legitimacy of formal versus informal advisors. TMT members may regard formal advisors as legitimate and well qualified, reacting positively to their advice and effectively utilizing their diverse functional expertise in implementation. In contrast, advice from informal advisors may be seen as less legitimate, particularly if it challenges the TMT's advisory role. This effect may be more pronounced in TMTs with a wide range of functional experience and capabilities, as they may perceive the CEO's reliance on external informal stakeholders as disrespectful.

Third, despite continuous scholarly interest in CEOs' advice-seeking behavior ([Garg & Eisenhardt, 2017](#); [Heyden et al., 2013](#); [MacGeorge et al., 2016](#); [McDonald et al., 2008](#)), the firm-level consequences of CEOs' general propensity to seek advice remain unclear (see [Bonaccio &](#)

[Dalal, 2006](#); [Ma et al., 2020](#) for reviews). By focusing on the specific context of small firms undergoing financial distress and examining the outcomes of advice seeking through the lenses of the attention-based view, this paper sheds light on a significant benefit of CEOs' advice-seeking behavior. Specifically, seeking advice from formal advisors can serve as a preventive or moderating factor for financial distress, especially when CEOs are already part of a functionally diverse TMT.

In light of our findings, we also emphasize the intricate nature of the relationship between advice seeking and the acknowledgment of financial difficulties. As previously mentioned, we firmly believe that an increased awareness of financial difficulties can lead to a heightened inclination among CEOs to seek advice. The existing literature corroborates that financial difficulties exert an influence on both the CEO's decision to seek advice and their selection of advisors ([McDonald & Westphal, 2003](#)). Consequently, it is plausible that a complex, cyclical relationship emerges, wherein awareness of financial distress serves as both a consequence of previously sought advice and a precursor to further advice-seeking behavior. This multifaceted dynamic likely characterizes the overarching reciprocal relationship between negative feedback and advice seeking. Our paper, in particular, zooms in on the initial phase of this process. We scrutinize how CEOs who regularly seek advice are more inclined to recognize and respond to financial difficulties. From an empirical perspective, our model is robust to the risk of reversed causality. In an unreported analysis, we conducted a thorough examination of a reverse mediation relationship (i.e., a model where formal/informal advice seeking serve as mediators in the relationship between CEO's awareness of financial distress and the restructuring decision). The results of this analysis indicate statistically insignificant mediation for advice seeking from both formal and informal advisors. Namely, the bootstrapping analysis with over 5,000 iterations indicated confidence intervals that included the effect size of zero (95 % CI for formal advice-seeking is [-0.002; 0.039]) and for informal advice-seeking it is [-0.039; 0.009]). Hence, we believe that our findings underscore the substantial impact of advice on the CEO's awareness of the financial state of the firm and add valuable insights to the broader understanding of the dynamic interplay between negative feedback and the pursuit of advice.

Fourth, this study contributes to the entrepreneurship and finance literature that explores managers' responses to financial distress and the risk of failure (e.g., [Blazy et al., 2014](#)). Financial distress poses cognitive and social challenges for top managers ([Nkomo et al., 2019](#)). Cognitive factors can cloud managers' judgment, leading them to avoid acknowledging the risk of insolvency and the necessity of restructuring decisions ([Ucbasaran et al., 2013](#)). Additionally, discussions about

bankruptcy or restructuring are often socially sensitive and difficult, leading CEOs to delay these decisions (Shepherd et al., 2009). The existing literature has typically emphasized institutional factors and bankruptcy laws as drivers of CEOs' early responses to financial challenges. However, our study highlights the crucial role of relationships with advisors in shaping CEOs' perceptions and behavior in such critical situations. Consequently, our findings emphasize the significance of network-level approaches in comprehending distressed firms' behavior and offer practical implications for CEOs and professionals dealing with corporate insolvency. For instance, our study illustrates that legislative measures promoting the appointment of formal advisors and fostering regular interactions with them can significantly impact small firms' management of financial distress. Furthermore, it underscores that small firms led by solitary managers who lack formal advisors and possess less functionally diverse executive teams are at a greater risk of corporate failure due to their unawareness and inadequate response to financial difficulties.

Finally, this article aligns with the growing body of literature exploring the effects of leaders' humility on leadership effectiveness and corporate performance (e.g., Ou et al., 2018). Humility is defined as a "bright side" personality trait that emerges in social interactions and encompasses three behavioral manifestations: (a) an accurate self-perception; (b) an appreciation of others' strengths and contributions; and (c) an openness to learning, feedback, and new ideas. Starting from this definition, seeking advice can be viewed as a direct behavioral outcome of humility. Although the antecedents of advice seeking are beyond the scope of our study, it is important to note that our analysis aligns with the positive perspective of leaders' humility found in the existing literature, according to which CEOs' expressed humility reinforces teamwork and fosters experimentation and adaptation to the environment (Rego et al., 2017).

6.1. Limitations and avenues for future research

Like every study, ours comes with certain limitations that could be addressed in future research. First, our study was limited to a sample of French firms, which means that the implications of financial distress and the available restructuring options are contingent upon the specific regulatory framework within the French bankruptcy context. Although we did not detect any cultural or contextual idiosyncrasies that would distinguish the impact of advice seeking in our sample from that of other samples, an intercountry analysis could enhance our findings' generalizability. Moreover, researchers might explore the relationships examined in this study within the context of larger or publicly listed firms, where the process of advice seeking can be more intricate and procedural.

Second, our study identified only one contingency factor affecting the influence of CEO advice seeking on beliefs and behavior, namely the functional diversity of TMT members. While this factor is pivotal in understanding how advisees can effectively implement advice, it offers only a partial glimpse into the broader context of advice implementation. Future investigations could delve into the interplay of advice seeking with various other factors, such as CEO personality traits, environmental and economic factors, and the advisors' characteristics.

Third, our study exclusively focused on the linear effects of CEOs' advice seeking. However, like many other explanatory variables in management, the impact of advice seeking may exhibit a curvilinear (reverse U-shaped) trend (Pierce & Aguinis, 2013). In certain scenarios, the advantages of advice seeking, including increased access to information and a broader attention span, might be offset by the costs associated with this behavior, such as the expenditure of time, energy, cognitive capacity, and other related resources. Consequently, a marginal increase in advice seeking may lead to improved responses to financial distress up to a certain threshold, after which it could become progressively detrimental. Addressing this issue both theoretically and

empirically can be an interesting avenue for future research.

Finally, our findings are closely tied to various methodological and empirical decisions, which should be taken into consideration when interpreting the results. As mentioned previously, the firms within our sample were all applicants to an SME-focused training program, introducing potential selection biases. For instance, our sample may disproportionately include managers who are particularly receptive to external support or feedback, as well as those with heightened awareness of the importance of identifying and managing financial risk. Future studies incorporating a more diverse sample of SMEs across sectors could help assess the gravity of such selection issues. Additionally, the definition of the AFDCC score threshold that qualifies a firm as distressed in our study may be subject to scrutiny. As demonstrated in our robustness checks, adopting a less inclusive definition of distress still affirms the majority of our findings. However, under such conditions, seeking advice from informal advisors no longer remains insignificant and instead negatively reflects on awareness of financial difficulties. The observation of this reversed effect is intriguing. If our results suggest a potential adverse impact of seeking advice from informal advisors when a firm is severely distressed, future research could delve into how informal advisors contribute to a lack of financial awareness or biased thinking among CEOs.

Moreover, our measure of advice-seeking, while aligned with prior CEO advice-seeking literature, lacks explicit reference to the term "advice" and relies on CEOs' indications of stakeholder involvement in decision-making. While drawing from established research (Vestal & Guidice, 2019; McDonald et al., 2008), alternative references pertaining to group decision-making (see, e.g., Miller et al., 1998, 2023) or shared leadership (see, e.g., Pearce et al., 2008) should be acknowledged in interpreting our results. Lastly, our study acknowledges the intricate interplay between awareness of financial distress and advice-seeking. Unfortunately, our data did not permit an exploration of the cyclical interplay in a dynamic setting. Leveraging advanced methodologies, such as panel data and lag-reversed regressions based on longitudinal data, holds the potential to further enhance our understanding of this complex interplay.

CRediT authorship contribution statement

Rachid Achbah: Conceptualization, Funding acquisition, Data curation, Writing – original draft, Writing – review & editing, Visualization, Investigation, Validation, Formal analysis, Methodology, Supervision, Resources, Project administration, Software. **Ivana Vitanova:** Writing – review & editing, Visualization, Validation, Supervision, Resources, Project administration, Investigation, Formal analysis, Data curation, Conceptualization, Methodology. **Marc Fréchet:** Writing – review & editing, Visualization, Validation, Supervision, Resources, Project administration, Methodology, Investigation, Data curation, Conceptualization, Formal analysis.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Data availability

The data that has been used is confidential.

Appendix A

Detailed presentation of variables.

- I. I List of all the restructuring measures for the dependent variable.
 1. Reduce your business scope by diversifying into new sector(s) of activity.
 2. Undertake retrenchment measures, including the discontinuation of certain products or services.
 3. Explore the potential for expanding into fresh geographical markets.
 4. Proactively target and serve new customer segments while simultaneously evaluating the need for retrenchment from less profitable ones.
 5. Retrench from specific customer segments.
 6. Initiate relationships with new suppliers as part of your restructuring efforts, potentially downsizing from less efficient ones.
 7. Reduce the production capacity to align with current demands.
 8. If production capacity hasn't been reduced, assess the feasibility of increasing it.
 9. Implement employee downsizing as part of your restructuring strategy.
 10. Expand your workforce while remaining mindful of the need for downsizing in other areas.
 11. Formulate new alliances, partnerships, or joint ventures to strengthen your restructuring strategy.
 12. Incorporate new franchise or licensing contracts into your restructuring plan.
 13. Pursue acquisitions of other companies to enhance your market position with corresponding plans.
 14. Consider being absorbed by another company as part of your restructuring process.
- II. Detailed description of the advice seeking measures

Our measures for seeking advice from formal and informal advisors derive from the following question stem: "Over the last three years, have you mobilized the following actors within your recent decision making?". Hereafter, a list of the different actors we queried managers about, representing those who might have participated in their decision-making processes.

	No mobilization	High mobilization
Bankers (f)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Members of the managerial team (f)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Consultants, lawyers, notaries (f)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Chartered accountants (f)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Governmental agencies or professional associations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Suppliers and/or clients (inf)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Shareholders (f)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Board of directors (f)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees of your company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Executives from other firms (inf)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Family and friends	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Note. Categories followed by (f) are included in the measure of advice-seeking from formal advisors, categories followed by (inf) are included in the measure of advice-seeking from informal advisors.

It is important to highlight that evaluating this construct through items related to mobilization in decision-making follows established practices in the literature. The mobilization of others in decision-making often acts as a practical proxy for assessing advice-seeking behavior and has consistently been employed in prior studies. For instance, in a study conducted by Alex Vestal and Rebecca Guidice (2019), the measure of a CEO's inclination to seek strategic advice from top executives at other organizations involved respondents listing the initials of CEOs or executive directors at other nonprofit agencies they had consulted for strategic advice over the past year. This methodology predates earlier research, including studies on executive leader networks (e.g., McDonald and Westphal, 2003; McDonald et al., 2008), where authors refer not only to the number of people CEOs consulted for advice or opinion but also the frequency of such interactions.

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