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How to Manage a Crisis: Entrepreneurial and Learning Orientation in Out-of-Court Reorganization

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This paper analyzes the impact of SMEs' entrepreneurial and learning orientation on the outcome of reorganization. We draw on a resource-based view on reorganization, linked with entrepreneurial and learning orientation. Previous research indicates a higher success rate of out-of-court reorganization compared to formal court-supervised proceedings. Out-of-court solutions are handled privately, therefore little is publicly known about the process of an out-of-court reorganization and what determines its success or failure. Thus, we focus on out-of-court reorganization, analyzing a sample of 521 Austrian SMEs. The data were collected from the financing banks. To test our hypothesized model of the impact of entrepreneurial and learning orientation on reorganization success, we applied bivariate analyses and logistic regression. The findings indicate that both entrepreneurial orientation and learning orientation positively influence the success of reorganization. While action-oriented entrepreneurial orientation probably has a stronger impact on short-term success, vision-oriented learning orientation seems to be more important for long-term turnaround. Company size acts as a moderator, indicating that small companies are less likely to succeed than micro- and medium-sized companies. The study has implications for corporate practice and future research.

Introduction

The well-established field of research on the context and management of small businesses encompasses several sub-fields, including finance and entrepreneurship. Although bankruptcy and failure are especially prevalent among SMEs, particularly within their first years of operation (Carter & Van Auken, 2006; Mayr et al., 2017; Thornhill & Amit, 2003), work that addresses crises management remains rare (Herbane, 2010). Inasmuch as, from the perspective of a company's life cycle, a financial crisis is not an everyday occurrence, it arguably constitutes the most challenging task for corporate management and entrepreneurs (Herbane, 2010). Owner-managers in SMEs, who often think and act in a very entrepreneurial way, face resource constraints, making it increasingly difficult for them to cope with and overcome crises (Geroski et al., 2010; Smallbone et al., 2012; Thornhill & Amit, 2003). As previous studies have shown, a strategic realignment of corporate resources and innovation are key success factors for a sustainable turnaround (Carter & Van Auken, 2006; Mayr et al., 2017). Bankruptcy and failure can be painful and costly for an

entrepreneur, who may be confronted with the stigma of failure (Jeng & Hung, 2019).

In 2020, restrictions and measures to contain the COVID-19 pandemic led to a severe economic crisis worldwide. Experts see a distortion of competition and a future challenge to the global economy (Lim et al., 2020). However, in 2020 and in 2021, many countries have seen significantly fewer bankruptcies than in the years before. Austria, similar to other countries, has ensured the survival of many companies by means of facilitations in bankruptcy law and generous deferrals of tax payments. However, the medium- and long-term consequences of the pandemic are still unclear. Experts are currently predicting that this will lead to financial crises for SMEs in the future (Mayr et al., 2021). The current pandemic, like previous crises, demonstrates the relevance of addressing crisis management in SMEs (Wenzel et al., 2020).

Given both the economic importance and the vulnerability of small and medium-sized enterprises (SMEs), closer attention is needed to understand both how SME managers think and act in crisis situations (Herbane, 2010), and how entrepreneurial orientation (EO) and learning orientation

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(LO) can help to overcome the crisis and reorganize the business. The fundamental proposition that underpins EO is that entrepreneurial firms behave in ways different from other types of firms (Pett & Wolff, 2016). EO is consistently associated with characteristics such as risk taking, innovativeness, and proactivity (Covin & Slevin, 1991; Lumpkin & Dess, 1996; Miller, 1983; Pett et al., 2019). Learning orientation (LO), on the other hand, refers to the idea that firms question existing assumptions and beliefs about the firm and its environment, allowing them to adapt appropriately to a changed environment (Wales et al., 2020). Organizational learning can occur when managers act as learning agents for the organization, responding to changes in the environment and correcting errors. LO requires the willingness and ability of management to recognize and eliminate (correctable) errors (Argyris & Schön, 1978). As SMEs face resource constraints, both financial and human, it may also be necessary to add additional management resources to the company or even to change management in times of crisis to introduce values of open-mindedness and commitment to change and learning. Furthermore, creditors such as banks can press for such a change in management during the crisis, not only in large companies but also in SMEs (Franks & Sussman, 2005). Prior findings indicate that EO and LO positively influence SME performance (Pett et al., 2019). We suggest that EO and LO are also important drivers of successful reorganization, providing the mindset and willingness for the necessary changes. Rapidly changing environments and financial crises require firms to adopt and restructure their business. Understanding the importance of EO and LO in the context of financial crises and reorganization can help managers and consultants of SMEs successfully manage crises such as the current COVID-19 pandemic. Consequently, we pose the following research question: What influence do EO and LO have on overcoming a financial crisis in SMEs?

There are different ways of reorganization that depend on bankruptcy laws, which are regulated differently all over the world. One way is to choose formal court-supervised proceedings to restructure the company. The second way attempts to reorganize the business out-of-court, in most cases as an attempt to avoid formal bankruptcy proceedings. According to findings by Jostarndt and Sautner (2010) and Gilson (1990), the ratio between the two ways is more or less balanced. However, in concrete terms, the success rates of successful reorganizations, seem to be significantly better for out-of-court restructurings (63% in out-of-court compared to 44% in formal proceedings, according to a study by Blazy et al., 2014). This is the reason why we focus on out-of-court restructurings.

Consequently, the paper aims to explore and empirically test the notion that EO and LO have a positive impact on the outcome of a reorganization. Specifically, in the following sections, we examine the relationship between EO and LO with the reorganization success of SMEs. While EO and LO have received research attention in the context of SME performance (Altinay et al., 2016; D'Angelo & Presutti, 2019; Karami & Tang, 2019; Keskin, 2006; Lee et al., 2001; Martin & Javalgi, 2019; Pett et al., 2019; Zahra & Covin, 1995), there is hardly any prior research on the link between entrepreneurship (EO) and learning orientation (LO) and the

outcome of out-of-court restructurings. Prior findings indicate a positive relationship between EO, respectively LO, and SME growth (D'Angelo & Presutti, 2019). Firms that actively innovate and act proactively to grasp market opportunities tend to perform better (Altinay et al., 2016). LO is a prerequisite for innovation in SMEs, which in turn has a positive impact on performance (Keskin, 2006). EO has also been found to positively impact internationalization and international performance, with a moderating role of experiential learning and networking capability (Karami & Tang, 2019). For international SMEs, EO has both a direct positive impact on (export) performance and an indirect influence via marketing capabilities, which are critical to the success of international companies (Martin & Javalgi, 2019). The fact that financial crises are part of the life cycle of many SMEs (Mayr & Mitter, 2015), makes the influence of EO and LO on reorganization success a pertinent question.

The contribution of this research is to close the above-mentioned research gap by linking EO and LO with SME reorganization and empirically test the relationship between the constructs presented above. While previous studies have examined individual aspects of EO and LO in the context of both in-court and out-of-court restructuring (for example, Aalbers & Dolfsma, 2014; Blazy et al., 2014; Cater & Schwab, 2008; Collett et al., 2014), this is, to our knowledge, the first study to analyze EO and LO as overall concepts in the context of out-of-court restructuring of SMEs. In this paper, SMEs are defined in accordance with the definition recommended by the European Commission. We follow Shane & Venkataraman's (2000, p. 218) broad definition of entrepreneurship as "why, when, and how opportunities for the creation of goods and services come into existence." Consequently, both owner-managers and external managers of SMEs can be defined as entrepreneurs or as acting entrepreneurially.

An important contribution of our paper is to hypothesize the impact of EO and LO on reorganization success and empirically test it with a sample of Austrian SMEs. We operationalize both EO and LO in the context of reorganization and therefore apply existing concepts in a new context. The remainder of the article is structured as follows. This introductory section is followed by the theoretical framework of EO and LO in the context of the resource-based view. Section three presents a literature review on the role of entrepreneurship, EO and LO in reorganization, and the development of hypotheses. Then, in section four, we present the methodology applied in our empirical research and the description of the data. Section five explains the results. Following a discussion and implications of our study, the paper acknowledged limitations and presents avenues for further research.

Theoretical Framework

Resource-based view in reorganization

Financial crisis can be defined as a situation in which a company can no longer meet its financial obligations (Gilson, 2012). It constitutes a major entrepreneurial challenge (Mayr & Lixl, 2019). Crises are particularly threatening for SMEs, whose access to financial and human resources is constrained, resulting in lower crisis resilience

(Couwenberg & de Jong, 2006). Reorganization in general aims at overcoming financial crises. A failing company needs to raise cash through asset sales, operating improvements, and new financing. Otherwise, it must negotiate with its creditors to reduce or postpone interest and principal payments on the debt. Reorganization can be pursued either in bankruptcy court or through a consensual agreement out of court (Gilson, 2012). In bank-oriented financial systems, banks play a key role both in the choice of the form of restructuring and in reaching a restructuring agreement, as well as in the implementation of the restructuring measures (Blazy et al., 2014; Franks & Sussman, 2005; Mayr et al., 2020).

The resource-based view (RBV) assumes that the desired outcome of managerial effort within the firm is a sustainable competitive advantage or market position. To achieve this position, the firm must develop and possess certain key resources, which are characterized by value, rareness, barriers to duplication (imitability), and nonsubstitutability (Barney, 1991; Fahy & Smithee, 1999). In addition to financial resources, human, social, organizational and physical resources are of especially great importance for SMEs (Greene et al., 1997). In SMEs, performance depends not only on the accessibility of resources but also on the entrepreneurs' managerial competence and the ability to implement major changes (Westhead et al., 2001). In this context, resilience is a personal resource that positively impacts business performance. Resilience is also a key personality trait that allows entrepreneurs to overcome hardship and to adapt to changing circumstances (Velasco Vizcaíno, Cardenas, et al., 2021).

Although the RBV has been employed mainly in the study of high-performing companies, it is instructive to apply its tenets to the context of enterprises undergoing financial crises (Thornhill & Amit, 2003). Lussier & Corman (1996) found that various resources, such as entrepreneurial, social or financial resources, help to predict a firm's success or failure. Since there is an assumed misalignment between what a firm can do (resources) and what the competitive environment requires, managing crises and learning from mistakes must include organizational innovation as well as adaptation and renewal of resources that meet the requirements of the competitive environment (Mayr et al., 2017). We therefore also draw on the dynamic capabilities approach. Dynamic capabilities describe a firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece et al., 1997).

Responses to crises range from retirement (liquidation) to retrenchment, replication, and renewal of resources (Helfat & Peteraf, 2003). The process of reorganization is therefore closely related to the recovery and extension of financial and nonfinancial resources and capabilities (Thornhill & Amit, 2003). Regarding financial resources, managers can, for instance, take out new loans, collect money from investors, or renegotiate payment terms with suppliers (external renewal). In addition, they can reduce costs or increase the contribution margins through various measures. These measures lead to an internal generation of financial resources. Although the sale of unneeded assets is retrench-

ment from a resource perspective, it can also free up needed financial resources (Mayr & Lixl, 2019).

Non-financial resources also play a major role in reorganization. These include human, social, physical, and organizational resources (Greene et al., 1997). From a human resources perspective, experienced consultants and managers can be brought in for reorganization (Franks & Sussman, 2005). From a social perspective, networks and relationships can help to recognize the threat but also the opportunity of the crisis (McGrath, 1999). Physical resources, in the sense of new production facilities and equipment, require the provision of financial resources mentioned above. Organizational resources comprise structures, routines, culture, capabilities, and knowledge (Greene et al., 1997). From the perspective of dynamic capabilities (Teece et al., 1997), new skills and capabilities must be developed that meet current and future customer needs, thereby generating income and positive cash flows. Dynamic capabilities are drivers for business model innovation (Mayr & Mitter, 2015). They are based on organization processes that ensure the coordination/integration and reconfiguration of activities and resources, but also learning in the lifecycle of a company (Greene et al., 1997).

The key drivers behind each successful reorganization are decisions that require a highly entrepreneurial orientation and mindset as well as learning from mistakes (Mayr & Mitter, 2015). Frugality as a continuing and constant corporate value that prioritizes rigorous management and spending of a firm's resources (Velasco Vizcaíno, Martin, et al., 2021), keeping in mind the strategic goals of reorganization, can also support turnaround. In SMEs, firm success and performance depend not only on the accessibility and use of resources, but also on the entrepreneurs' managerial competence and ability to implement major changes (Westhead et al., 2001). Therefore, the entrepreneur represents an important human resource in the reorganization of a company. Thus, the owner-manager may not be up to the challenges of the restructuring or may not have the confidence of the creditors; therefore, a change in management might be necessary. The literature on turnaround and reorganization also supports management change for successful organizational turnaround for SMEs, despite potential disadvantages associated with organizational knowledge loss and transition frictions (Arogyaswamy et al., 1995; Barker & Mone, 1994; Cater & Schwab, 2008).

Entrepreneurial Orientation

A wide range of literature postulates that entrepreneurial attitudes and behaviors, i.e., EO, lead to solid performance (Covin & Slevin, 1989; Miller, 1983; Wiklund, 1999) and are therefore crucial to a firm's short- and long-term success (e.g., Dess et al., 2003; Zahra et al., 2000; Zahra & Covin, 1995). EO is consistently associated with characteristics such as risk taking, innovativeness, and proactivity (Covin, 1991; Lumpkin & Dess, 1996; Miller, 1983; Pett et al., 2019). Entrepreneurs have a greater willingness to take risks than non-entrepreneurs; they are regarded as risk takers in terms of their decision-making and business activity (Busenitz, 1999). Thus, firms with an entrepreneurial orientation are often characterized by risk-taking behav-

ior, such as incurring heavy debt or making large resource commitments, in the interest of obtaining high returns by seizing opportunities in the marketplace (Lumpkin & Dess, 1996). Since EO is related to processes, practices, and decision-making activities, e.g., with regard to development and innovation or risk-related financing decisions, it can be considered an action construct (Lumpkin & Dess, 1996). According to Pett et al. (2019), the impact of behavioral actions on firm performance is not only direct but also part of a larger set of strategic orientations that have an indirect effect on firm performance. Competitive intensity has been identified as a moderator for the impact of EO on SME performance: The higher the competition, the more important EO and marketing capabilities are (Martin & Javalgi, 2016). Previous entrepreneurial and industry-specific management experience of the owner-manager was identified as a prerequisite for EO and thus for high performance in SMEs (D'Angelo & Presutti, 2019).

During (immediate and predominantly financial) reorganization, a key challenge is to finance the reorganization (Mayr & Mitter, 2015). Banks and other external lenders are only willing to maintain existing financing or provide additional funds in a reorganization if the entrepreneur also bears part of the risk. Previous studies have identified financial contributions from SME owners as important building blocks of successful reorganization (Mayr et al., 2020; Mayr & Lixl, 2019). Often, it is only the financial contributions from owners and their risk-taking that ensure the necessary scope for a successful reorganization (Jostarndt & Sautner, 2010).

Innovativeness, on the other hand, reflects a firm's tendency to engage in and support new ideas, experimentation, and creative processes that may result in new products, services, or technological processes (Lumpkin & Dess, 1996). A mindset of innovation is also necessary in reorganization, since it provides the precondition for significant changes to enable realignment of existing and/or new resources. According to Lumpkin and Dess (1996), proactiveness is also crucial to entrepreneurial orientation, because it suggests a forward-looking perspective that is accompanied by innovative or new-venturing activities. Proactiveness refers to a posture of anticipating and acting on future wants and needs in the marketplace (Wiklund & Shepherd, 2003). In reorganization, the main focus of proactivity is on the support of creditors, whose consent to restructuring must be won and ensured in the further course of the process (Gilson, 2012).

Learning Orientation

LO can be described as the set of values of an organization that influences the ability to create and use knowledge (Sinkula et al., 1997). Particularly, it represents "the degree to which organizational learning and knowledge integration can occur within a firm, and beliefs and existing assumptions can be challenged" (Wales et al., 2020, p. 499). It therefore refers to the idea that firms question existing assumptions and beliefs about the firm and its environment, so that it can adapt appropriately to a changed environment. Organizational learning can occur when managers act as learning agents for the organization, responding to

changes in the environment and correcting errors. In small companies, learning is strongly shaped and driven by the entrepreneur (Altinay et al., 2016). LO requires the willingness and ability of management to recognize and eliminate (correctable) errors (Argyris & Schön, 1978). Based on Sinkula et al. (1997), the core elements of LO include a strong commitment to learning, open-mindedness, and a shared vision of learning within the organization. A shared vision is different from commitment to learning and open-mindedness, since it indicates the general and common purpose of learning. Commitment and open-mindedness, on the other hand, influence the intensity of learning (Sinkula et al., 1997). In contrast to EO, LO is therefore more of a value-based capability (Pett et al., 2019).

Although financial crises or failures may also be emotional and traumatic experiences (Cope, 2011; Shepherd, 2003) that obstruct learning, they may lead to a potentially valuable learning opportunity for the entrepreneur (McGrath, 1999). Learning from crisis means questioning inherent standards, strategies, and objectives as well as rethinking business models (Mayr & Mitter, 2015). Relationships with internal and external stakeholders, growth models, and the understanding of competition and the market are called into question (Ucbasaran et al., 2013). However, financial crises in SMEs are often characterized by crisis denial on the part of the entrepreneur. McGrath (1999) refers to this as confirmation bias, a psychological phenomenon that systematically causes people to reject information that shows that their current assumptions are incorrect. In this case, it can make sense to involve external managers. They can then convey and communicate the importance of learning to the employees (Altinay et al., 2016).

Literature Review and Development of Hypotheses Entrepreneurial Orientation in Reorganization

Risk taking. The construct of EO is associated with risk taking, innovativeness, and proactivity. Prior findings regarding the effect of risk taking on the success of reorganization are closely linked to the ownership of the troubled company, since the owner's investment in the company is especially at risk during financial crises. Research indicates that the type of ownership affects the outcome of the reorganization. Manzanque et al. (2016) determined that, for large companies, a higher ownership share increases the probability of success in reorganization. The results of the study indicate that the incentive to restructure increases with the number of shares held by management. Shareholding management tries to install a long-term strategy, because they benefit from the enhancement of firm value due to their shares. Jostarndt and Sautner (2010) refer to financial injections by owners as an effective, but risky, measure for out-of-court restructuring. In addition to financial injections, the owner might also provide personal guarantees for banks, for instance, to collateralize the underlying risk. Both a financial injection by the shareholder and a personal guarantee indicate that he still believes in the company's future. Blazy et al. (2014) have determined that the probability of an out-of-court restructuring instead of formal proceedings increases with a personal guarantee on the

part of the entrepreneur. The results of a study by Mayr & Lixl (2019) confirm the positive effect of personal (financial) contributions from the owner/entrepreneur. Banks and other creditors therefore make their decision to support the distressed company not only based on the valuation of the company but also take into account the entrepreneur's attitude toward the company and his/her willingness to take further financial risks. Consequently, the success of a reorganization is directly influenced by the amount of financial risk the owner is willing and able to take. Cater & Schwab (2008) found empirical evidence that family members in particular take risks by increasing their personal investment during an out-of-court restructuring in SMEs. This coincides with the fact that entrepreneurs are willing to take risks in reorganization. This leads to the following hypothesis:

H1: Risk taking has a positive impact on the success of an out-of-court reorganization.

Innovativeness. A central task in reorganization and turnaround management is to reduce the discrepancy between what the company can do or is capable of doing and what the competitive environment requires (Westhead et al., 2001). The crisis can thus be understood as an opportunity for renewal and innovation (Singh et al., 2007). Ideally, these adjustments to the requirements of the environment can lead to innovations both in the organization and at the product level (Carmeli & Schaubroeck, 2008; Morris et al., 2008). Companies become attractive again to stakeholders, such as suppliers and employees, and through this organizational renewal can create new demand among customers through product innovations (Mayr & Mitter, 2015).

From an empirical point of view, an investment strategy and the resulting innovations guarantee success, especially for SMEs (Rosenbusch et al., 2011). Even if these innovations are initially associated with risks, the future returns usually exceed the initial costs in the medium term. In the long term, SMEs also benefit more from a strategic focus on innovation than from pure product innovations. According to an empirical survey of formal reorganizations, the ability to develop and innovate is one of the key prerequisites for sustainable and long-term reorganization (Mayr et al., 2017). Aalbers & Dolfmsma (2014) also emphasize that, in restructurings, innovations are essential for long-term survival despite the need for short-term cost savings. Through a strong focus on innovation, both in the organization and at the product level, companies in out-of-court restructurings may be able to manage crises and secure a second chance. These insights inform Hypothesis 2:

H2: Innovativeness has a positive impact on the success of an out-of-court reorganization.

Proactivity. Another characteristic that is attributed to EO is proactivity. In general, proactivity is associated with a forward-looking perspective that is accompanied by innovative or new-venturing activity (Lumpkin & Dess, 1996). In addition to market focus, proactivity in a financial crisis or reorganization refers to active and forward-looking communication with banks and other creditors as well as active and consistent implementation of restructuring measures (Mayr & Mitter, 2015). In a study by Couwenberg & de

Jong (2006), 86% of successfully restructured companies actively implemented operational measures. In failed restructurings, only 50% did so. Consequently, active management is key to reorganization, and the entrepreneur must proactively initiate these activities. Blazy et al. (2014) highlight the importance of the relationship with the bank and determined that proactive and regular contact improves the prospects of out-of-court restructuring. As a consequence, cooperation with banks can be strengthened, and opportunities in funding and financing can be generated (Hisrich et al., 2017). Thus, we state the following hypothesis:

H3: Proactivity has a positive impact on the success of an out-of-court reorganization.

Learning orientation in reorganization

Commitment to learning. The development and use of resources and competencies are based on learning processes (Zollo & Winter, 2002). Financial crises and failures may result in learning (Sitkin, 1992) and contribute to (re)achieving competitive advantage, if they induce a change for the better (Carmeli & Schaubroeck, 2008). However, many companies, especially SMEs, have problems dealing with change (Fink et al., 2015). Learning from and in crisis means questioning inherent standards, strategies, and objectives as well as rethinking existing and often traditional business models. Relationships with internal and external stakeholders, growth models, and the understanding of competition and the market are called into question (Ucbasaran et al., 2013). In other words, (management) teams need to change their shared modes of their company, markets, and competitors (de Geus, 1988).

The resulting changes will only be successful, if a firm is able to eliminate adverse behavior and place the entire business on a new footing (Carmeli & Schaubroeck, 2008) that enables it to meet the requirements of its environment and seize future opportunities. LO in reorganization must therefore lead to an adjustment and change in the strategies and goals relevant to the management of the company (Mayr et al., 2017). If a company successfully implements these changes, it will be able to develop or renew its entrepreneurial resources. While EO focuses strongly on strategic decisions (innovation, funding) in reorganization, LO seems to represent prerequisite values needed to implement reorganization strategies within the organization in the long run through a shared understanding of values or vision. Absent these values that reflect a commitment to learning, the implementation of adaptation and change is unlikely (Pett & Wolff, 2016). This commitment to learning and readiness for change can be expressed in the reorganization plan. A convincing concept makes it more likely that creditors will be willing to vote for the plan (Gilson, 2012). This leads to the following hypothesis:

H4: Commitment to learning has a positive impact on the success of an out-of-court reorganization.

Adding new learning agents. Prior findings indicate that the owners/managers of a company act as role models for adaptations and changes in reorganization (Mayr & Mitter, 2015). They provide the necessary impetus for institu-

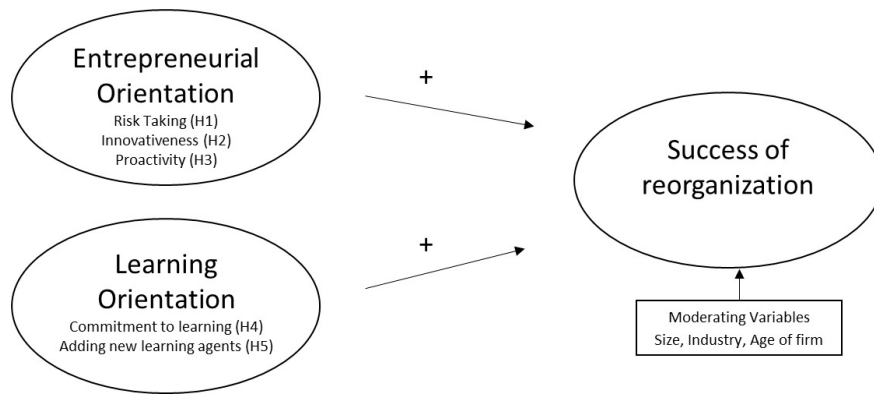


Figure 1. Hypothesized Model connecting EO and LO with Success of Reorganization

tional learning (de Geus, 1988). At the same time, however, the entrepreneur is often responsible for the crises. Regarding possible causes of crises, the entrepreneur or the responsible manager plays a central role alongside other internal and company-specific resources and characteristics as well as external influences. This has been confirmed by a large number of empirical studies (Carter & Van Auken, 2006; Collett et al., 2014; Pandit et al., 2000). Specifically, there are general management errors or specific wrong decisions in connection with financial, marketing-related, personnel-related, and leadership-related issues that trigger corporate crises. Couwenberg & de Jong (2006) analyzed the consequences of weak management performance on the success of reorganization. They found that 45% of successfully restructured firms mention weak management as the main reason for distress.

The prospects for success of an out-of-court restructuring are therefore significantly influenced by the question of whether the management of the distressed company has the ability and assertiveness to master the crisis and make the necessary organizational changes with the help of LO. Owner-managers of SMEs tend to deny the existence and underlying causes of the crises. This complicates or prevents the learning steps necessary to overcome the financial crisis, and thus represents a major deficit of the existing management. Management deficits can be addressed either by using external consultants or by replacing entrepreneurs and managers (Collett et al., 2014). Since LO involves welcoming the introduction of new ideas both from internal and external environments (Altinay et al., 2016), we assume that consultants and external managers can act as learning agents in reorganization.

While the replacement of salaried managers in larger companies is relatively easy to resolve through the termination of an employment relationship, the replacement of owner-managers in SMEs is significantly more difficult to arrange, as a clear separation between the private sphere and the company is often not possible, or both areas are strongly intertwined (Ucbasaran et al., 2013). For this reason, the owner-manager in an SME will be fundamentally negative about being replaced or taking on an additional manager. However, Grinyer et al. (1990), in their analysis of larger UK companies, found that in 85% of successful turnarounds, changes in management were implemented.

As the study by Franks & Sussman (2005) shows, a change in managers may have a positive effect on the success of the restructuring in out-of-court restructuring in SMEs as well. Given that organizational learning can only occur when managers act as learning agents for the organization, responding to changes in the environment and correcting errors, we derive hypothesis 5:

H5: Adding additional/new managers in the sense of learning agents has a positive impact on the success of out-of-court reorganization.

The hypotheses developed above are a specification of the expected relationships among the constructs we examine in our empirical study. Figure 1 illustrates the proposed hypotheses in a diagram that shows the dimensions of each construct and the postulated influence on success of reorganization, as well as the likely moderating variables (size, industry, and age of firm).

Empirical Research

Research Method

Scientific research on out-of-court restructuring has thus far been characterized by empirical-quantitative methods. Most of the papers identified in the literature review can be classified as quantitative. The predominant use of quantitative research methods in the context of out-of-court restructuring can be justified by the subject of the study. Recent studies mostly deal with listed companies, for which a large amount of publicly available information on restructuring is available due to reporting obligations (e.g., Goto & Uchida, 2012; Huang et al., 2013; Jostarndt & Sautner, 2010). Consequently, SMEs are clearly underrepresented in prior research.

The relationships assumed in our paper were tested using bivariate methods and a logistic regression analysis in line with previous studies (e.g., Blazy et al., 2014; Brunner & Krahnen, 2008; Elsas & Krahnen, 2002). First, the hypotheses were tested by using one-sided Fisher's exact tests. In addition, a logistic regression was applied to build a model estimating the relationship of the dependent variable, i.e., the outcome of the reorganization, with the various independent variables referring to the different hypotheses and moderating variables.

Table 1. Variables and operationalization

Variable	Role	Operationalization, Categories
Outcome of reorganization	Outcome	Dichotomous: successful (i.e. restructuring agreement and company continued) or not successful
Risk taking	Explaining	Dichotomous: yes (i.e. additional personal (financial) contributions from owner/entrepreneur) or no
Innovativeness	Explaining	Dichotomous: yes (i.e. innovation in organizational area and/or at product level) or no
Proactivity	Explaining	Dichotomous: yes (i.e. communication and cooperation with the banks) or no
Commitment	Explaining	Dichotomous: yes (i.e. reorganization concept) or no
Adding new agents	Explaining	Dichotomous: yes (i.e. replacing or adding managers) or no
Size of firm	Moderating	Turnover in classes: turnover (0 – 2 million €, 2 – 10 million €, and 10 – 50 million €)
Age of firm	Moderating	Dichotomous: young (under 5 years) or older companies (5 years and older)
Industry	Moderating	Categorical: service, construction/building, trade, manufacturing, and other

Sample

For the quantitative study, cases of out-of-court restructurings were analyzed within the scope of anonymized data collected at five participating banks in Austria. Austria, like Germany, is a country with a strongly creditor-oriented bankruptcy system with a frequent bank dominance in financing (Elsas & Krahnen, 2002). In such countries, the importance of out-of-court reorganization is comparatively high, as the rights of the entrepreneur are severely restricted in the formal proceedings (Blazy et al., 2014; Mayr et al., 2020). The financing banks, which often take on the role of the house bank, often have an interest in an out-of-court restructuring due to their good collateral situation (Elsas & Krahnen, 2002).

A total of 521 cases of SMEs in which an active reorganization attempt had been made and the reorganization had already been completed were included in the final sample, resulting from an overall survey of 920 cases including large companies. Taking into account the selection criterion of formal bankruptcy on the part of the affected firms, the participating banks were fully informed about the cases pending in their workout departments. The data were collected by the responsible workout officers at the banks. With regard to levying banks, this is a full survey of all pending cases in 2013.

With regard to the question of whether the participating banks represent the overall banking market in Austria, the following should be noted: The five banks are among the ten largest banks in Austria, including banks with either a centralized or decentralized organizational structure; thus, different levels of credit market access are taken into account. In addition, two banks are highly active internationally, and one bank operates predominantly on a regional and national level and is classified as a small bank.

Measurement

Outcome of reorganization. A company was identified as having been successfully restructured out-of-court if a restructuring agreement was concluded with the financing bank and any other creditors, and the company continued as a going concern in the existing legal entity in the same

or a similar form at the time of the survey (Gilson, 1990; Jacobs et al., 2012).

Entrepreneurial orientation. In line with previous studies (Covin & Slevin, 1991; Miller, 1983; Pett et al., 2019), EO was measured to differentiate between risk taking, innovativeness, and proactivity. The variables are binary coded and are based on the assessment of the workout officer in the banks. Risk taking was operationalized with the help of (financial) contributions from the entrepreneurs. Innovativeness includes the aspect of innovation orientation in the companies, while proactivity was measured on the basis of communication and cooperation with the banks.

Learning orientation. With regard to LO, we chose an operationalization approach adapted to reorganization. The commitment to learning as a value-driven construct refers to prior studies (Pett et al., 2019; Sinkula et al., 1997) and was measured on the basis of the learning and change orientation anchored in the reorganization concepts. Adding new learning agents takes into consideration the dynamics of the reorganization process and the frequent measure of replacing or adding managers in reorganization (Franks & Sussman, 2005). The variables are again binary coded and are based on the assessment of the workout officer in the banks.

Moderating variables. We used three distinct moderating variables in the logistic regression: firm size, firm age, and industry. We measured firm size with three groups using turnover (0 – 2 million €, 2 – 10 million €, and 10 – 50 million €). With regard to age, we distinguished between young (under 5 years) and older companies (5 years and older). Industry had the categories service, construction/building, trade, manufacturing, and other. All variables used are summarized and shortly described in [Table 1](#).

Descriptives

[Table 2](#) gives an overview of the outcome of reorganization: In the sample, 358 (68.7%) out of the 521 companies were positively restructured and continued to operate, while 163 (31.3%) failed to achieve a turnaround as a going concern.

Table 2. Frequency distribution: Outcome of reorganization

	Successful		Unsuccessful		Total	
	cases	in %	cases	in %	cases	in %
Outcome of reorganization	358	68.7%	163	31.3%	521	100.0%

Table 3. Turnover of companies in reorganization

Sales	Cases	Percent	Cum. Percent	Success rate
0-incl. 2 million €	185	35.5 %	35.5 %	72.4%
2-incl. 10 million €	172	33.0 %	68.5 %	58.1%
10-incl. 50 million €	164	31.5 %	100.0 %	75.6%
Sum	521			68.7%

Table 4. Frequencies independent variables

Hypothesis (Orientation)	Variables	Yes		No		Total	
		cases	in %	cases	in %	cases	missing
H1 (EO)	Risk taking	175	36.3%	307	63.7%	482	39
H2 (EO)	Innovativeness	145	32.4%	303	67.6%	448	73
H3 (EO)	Proactivity	306	62.4%	184	37.6%	490	31
H4 (LO)	Commitment	321	64.4%	180	35.9%	501	20
H5 (LO)	Adding new agents	159	32.4%	331	67.6%	490	31

[Table 3](#) presents the size of the companies in terms of turnover. Approximately one-third of the SMEs have micro size (up to 2 million €), one-third have small size (up to 10 million €), and one-third have medium size (between 10 and 50 million €). In the last column of [Table 3](#), success rates within several size categories are presented, and the results show an interesting u-shaped form of success rates.

The frequencies of impact factors on success according to hypotheses 1 to 5 are given in [Table 4](#). For missing information, all percentages are calculated as valid percentages based on the number of cases with information for the specific factor.

In approximately 36% of all cases, entrepreneurs took additional risk to reorganize the firm, and a similar percentage can be found for innovativeness. The highest amount in entrepreneurial orientation is given in proactivity, which shows that 62.4% of the SMEs in the sample proactively communicate with their creditors and cooperate with their banks.

Concerning learning orientation, we found a high proportion of commitment to learning, whereas adding or changing agents on management boards was done in only 32.4% of SMEs in the sample. Size (measured in turnover), age, and industry of a company were used as moderating variables. The frequency distribution for size is given in [Table 3](#). Age was measured using a dichotomous variable with a cutoff of 5 years (137 companies or 26.5% aged under 5 years, 380 companies or 73.5% aged equal to and above 5 years, and 4 cases with missing information on age). Information on industry was available for all companies. The main industries in the sample were 123 cases (23.6%) in manufacturing, 113 cases (21.7%) in construction/building,

94 cases (18.0%) in trade, 79 cases (15.2%) in service, and the remaining 112 cases (21.5%) in other industries.

Results

In the first step, one-sided Fisher's exact tests inform bivariate correlations between impact factors and success of reorganization. For each of the hypothesized impact factors, [Table 5](#) shows the success rates within the two categories (yes/no), as well as the one-sided p-value of the test.

All hypotheses were confirmed (significance level of 5%), and the highest descriptive difference of success rates was achieved for proactivity. Within proactive enterprises, the success rate is approximately 82%, whereas the success rate in non-proactive enterprises is nearly half (46%).

Although all bivariate analyses showed a significant positive influence of risk taking (EO-H1), innovativeness (EO-H2), proactivity (EO-H3), commitment to learning (LO-H4), and adding new agents (LO-H5), the multivariate perspective shows that meaningful and significant influence is given for items of entrepreneurial orientation only and, to be more precise, only for two of three items. Proactivity raises the odds of success more than fourfold and risk taking nearly threefold. With the exception of size (turnover), no moderating effects are given in the final model, and even concerning size the effect is more or less surprising. The results of the multivariate model as well as the success rates within the different categories of size (see [Table 3](#)) show a u-shaped effect of size. Microenterprises (0 – 2 million euro turnover) and medium enterprises (10 – 50 million euro turnover) had a slightly higher success rate than small enterprises (5 – 10 million euro turnover). However, the main

Table 5. Bivariate Results

Variables (Orientation, Hypothesis)	Yes		No		Fisher's Exact Test	
	cases	Success rate (%)	cases	Success rate (%)	p-value (one-sided)	result
Risk taking (EO-H1)	175	85.1%	307	59.6%	0.000 ***	✓
Innovativeness (EO-H2)	145	75.9%	303	64.4%	0.009 ***	✓
Proactivity (EO-H3)	306	81.7%	184	45.7%	0.000 ***	✓
Commitment (LO-H4)	321	72.0%	180	63.9%	0.038 **	✓
Adding New Agents (LO-H5)	159	82.4%	331	63.1%	0.000 ***	✓

Levels of significance: * p < 0.10; ** p < 0.05; *** p < 0.01

Table 6. Logistic Regression Models

Variables	Reference class	Full Model			Final Model		
		exp(b)	p value		exp(b)	p value	
Risk taking (EO-H1)	no	2.673	0.001	***	2.790	0.000	***
Innovativeness (EO-H2)	no	0.752	0.357		Not included		
Proactivity (EO-H3)	no	4.771	0.000	***	4.408	0.000	***
Commitment (LO-H4)	no	0.688	0.179		Not included		
Adding new agents (LO-H5)	no	1.583	0.146		Not included		
Size (in million €)	0 – 2 (micro)		0.006	***		0.007	***
2-10 (small)		0.436	0.006	***	0.499	0.008	***
10-50 (medium)		1.043	0.909		1.055	0.849	
Age	< 5 years	1.187	0.550		Not included		
Industry	other		0.046	**	Not included		
Service		0.618	0.249		Not included		
Construction/building		1.739	0.213		Not included		
Trade		0.709	0.397		Not included		
Manufacturing		1.596	0.222		Not included		
Constant		0.925	0.835		0.873	0.537	
Model fit							
Cox & Snell Pseudo-R ²			0.202			0.184	
Nagelkerke's Pseudo-R ²			0.284			0.258	

Levels of significance: * p < 0.10; ** p < 0.05; *** p < 0.01

driver impact factors for reorganization success are proactiveness and risk taking.

Discussion and Implications

In general, the results indicate a high success rate of out-of-court reorganizations, which confirms earlier findings (Blazy et al., 2014; Franks & Sussman, 2005). Our findings can thus provide guidance for deciding on a particular form of reorganization. The main purpose of this paper is to explore and empirically test the notion that EO and LO positively impact the outcome of a reorganization. This was the first empirical study that examined the relationship between the reorganization success of SMEs and EO and LO. We contribute to the research with this application of EO and LO in terms of the reorganization success of SMEs (e.g., Pett et al., 2019; Pett & Wolff, 2016). Using a sample of non-

performing SMEs, we can make a number of empirical and theoretical contributions.

First, according to the bivariate analysis, both EO and LO have a positive influence on the success of an out-of-court restructuring. This confirms prior studies (Blazy et al., 2014; Cater & Schwab, 2008; Mayr & Lixl, 2019; Singh et al., 2007), each of which focused on a single aspect, regarding the crucial role of EO and LO as key prerequisites for successful reorganization.

In terms of risk taking (H1), our results confirm that the entrepreneur's willingness to take risks, as a prerequisite for further liabilities and financial contributions, is critical to success (Blazy et al., 2014; Mayr & Lixl, 2019). The positive impact of innovation orientation and readiness on reorganization (H2) underlines the importance of a firm's ability to integrate, build, and reconfigure competences in reorganization (Aalbers & Dolfmsa, 2014; Teece et al., 1997).

The identified necessary proactivity (H3) in reorganization, measured by a proactive communication policy, confirms findings of Blazy et al. (2014) on the importance of the relationship with banks and other stakeholders. From a bivariate perspective, both the entrepreneur's commitment to learn (H4) and the possibility of bringing new learning agents (H5) into the company from outside are important measures in the reorganization. This means that the impetus for change and learning in SMEs can come from both within and without, confirming prior results of Franks & Sussman (2005).

As the results of the logistic regression show, the risk-taking and proactivity variables, both operationalizations of EO, are of central importance to the success of reorganization. Our results therefore show that, for short-term success, which was surveyed in our paper, EO is significantly more important than LO. This extends the previous literature by showing that action-oriented resources are more important in the short term than value-oriented influences (Pett et al., 2019). We therefore conclude that commitment to learning and new learning agents or resources might also have a long-term effect on reorganization success. An important contribution to the literature on small business management is that we address the joint impact of EO and LO on restructuring outcomes. We focus on non-financial resources, specifically entrepreneurial resources. In the multivariate analysis, we find that, in addition to financial resources, the entrepreneur must first and foremost demonstrate a willingness to take on further risks and be proactive in the restructuring process. We thus confirm previous findings on the influence of EO and LO on (international) performance (e.g., D'Angelo & Presutti, 2019; Karami & Tang, 2019; Pett et al., 2019), also for turnaround success; however, on the basis of our multivariate results and following the dynamic capabilities approach, we conclude that longitudinal observations and process-based analyses of turnarounds can provide an even deeper insight into the interaction of EO and LO as drivers of turnaround success. Building on the findings of Keskin (2006), we moreover conclude that LOs also lead to innovations in the medium term. Since we measured the success of our sample in the short term by concluding a restructuring agreement, future studies could analyze the mid and long-term effects of LO and innovations on long-term survival after reorganization.

A second contribution concerns the moderators analyzed. While previous studies have found an influence of industry on reorganization success (Blazy et al., 2014; Couwenberg & de Jong, 2006), neither firm age nor industry had a significant effect in our study. However, we were able to identify a u-shaped influence of company size on reorganization success. In the interplay with EO and LO, small companies, in contrast to micro and medium companies, are significantly less likely to succeed in reorganization. One possible explanation is that micro companies, often sole proprietorships, operate with very much improvisation and flexibility. At this size, the entrepreneur is the central actor. Small companies, on the other hand, already have a certain degree of organizational structure. Organizational deficits obviously also make it difficult to reorganize and establish EO and LO in their organizations. These companies are often at the beginning of their growth and orga-

nizational development. From a restructuring perspective, they are "stuck in the middle". Medium-sized companies that have a minimum organizational structure can apparently apply both action-oriented EO and vision-oriented LO in their reorganization. In summary, EO and LO combine different but very important factors for the success of a reorganization. However, it must be noted that in any reorganization, other fundamental prerequisites, such as financial viability, must be met.

Practical Implications

Our findings have multiple important practical implications for business owners, consultants and banks. Owners and managers of SMEs need to be aware that reorganization success highly depends on their agreement to take part in the financial risk in the reorganization. This means that an out-of-court reorganization is best started at an early stage, when the entrepreneur is still able to bear the risk and still has financial reserves in the private or company sector. On the other hand, entrepreneurs must be aware that restructuring is only possible through proactive action and open communication with creditors as the main indicators for EO.

The findings of the paper are also relevant for banks, which can be considered key enablers and supporters of SME reorganizations. Banks perform an important screening function in the restructuring process and assess the company's ability to restructure from an external creditor perspective, which is expressed not least by EO and LO. The results are also of great importance for SME consultants by contributing a certain degree of objectification in negotiations with creditors. Consultants can initiate learning processes at SMEs or act as learning agents themselves. They can also support the company in the development of EO by providing risk assessments (risk taking) and by promoting proactivity toward creditors as well as in the internal implementation of the reorganization. As the results show, the size of the company and its stage of development also play a role.

Limitations and Future Research

Possible distortions of the findings, which have to be taken into account when interpreting the results, may come from the fact that not all Austrian banks participated in the survey. Although this is a full survey of the participating banks in Austria, the results must be assessed against the background of Austrian bankruptcy law. Another limitation relates to the survey mode: since the SMEs in question have little public information available, it was necessary to rely on the partly subjective assessment of the workout experts in the banks. This also means that only out-of-court restructurings with bank liabilities were included in the survey.

Regarding reorganization success, we evaluated only the short-term success of out-of-court settlements on the basis of the agreements concluded with banks and other creditors. The long-term success of the restructuring process can be evaluated with the help of additional longitudinal studies. The success of SMEs is very much attributed to the owner. However, since employees are also a key success fac-

tor, future studies can examine the influence of employees' EO and LO in the context of reorganization (Pett et al., 2019).

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