ILM FAN XABARNOMASI
Ilmiy elektron jurnali

DEBIASING MECHANISMS: TOP MANAGEMENT TURNOVER AND CORPORATE RESOURCES REALLOCATION - ESCAPING INERTIA TRAP

PhD candidate Abboskhan Azizov,

Westminster International University in Tashkent, Uzbekistan

Associate Professor.D.Sc. Hayot Saydaliev,

Institute for Macroeconomic and Regional Studies,

100011, Tashkent, Uzbekistan

Abstract: Resource allocation decisions have a profound impact on organizational performance. This study examines the close relationship between debiasing mechanisms and inertia in operating companies. It seeks to understand whether resource reallocation leads to development through fresh leadership perspectives or stays unchanged. By examining the connection of cognitive biases, inertia, and debiasing mechanisms, this research offers a comprehensive framework for comprehending the key factors influencing resource reallocation during managerial transformation. Research employs dynamic threshold method using S&P 500 data over 2000 companies. From the perspective of organizational tenure, our findings reveal that teams with an average tenure of 8.8 years in the dynamic model and 5.3 years in the dynamic threshold model witness substantial changes in capital allocation. These findings emphasis the significance of team members' tenure length in triggering significant shifts in resource allocation patterns. This research enriches strategic decision-making practices, thereby contributing to both organizational theory and practical applications. The paper concludes with a policy recommendation that aims to guide organizations in navigating these dynamics effectively.

Keywords: team management turnover, resource reallocation, decision making bias, inertia trap

Абстракт: Распределение ресурсов имеет глубокое влияние на организационную производительность. В данном исследовании рассматривается тесная связь между механизмами дебиасинга и инерцией в работающих компаниях. Оно стремится понять, приводит ли перераспределение ресурсов к развитию через свежие лидерские перспективы или остается неизменным. Исследование использует метод динамического порога с использованием данных S&P 500 по более чем 2000 компаниям. С точки зрения организационного стажа наши результаты показывают, что команды со средним стажем 8,8 лет в динамической модели и 5,3 года в модели динамического порога наблюдают существенные изменения в распределении капитала. Эти результаты подчеркивают значение продолжительности стажа членов команды для вызова значительных сдвигов в распределения ресурсов. Это исследование обогащает практику стратегического принятия решений, тем самым способствуя как организационной теории, так и практическим

применениям. Статья заканчивается рекомендацией, которая направлена на то, чтобы помочь организациям эффективно управлять этими динамиками.

Ключевые слова:текучесть руководства команды, перераспределение ресурсов, предвзятость при принятии решений, высшее руководство

Annotatsiya. Resurslarni qayta taqsimlash bo‘yicha qarorlar korxona faoliyati samaradorligi uchun muhim. Ushbu tadqiqot resurslarni qayta taqsimlashning yangi rahbarlik boshqaruvi ostida korxonada rivojlanish bolish bolmasligini o‘rganadi. Ushbu tadqiqot uchun S&P 500 ma’lumotlaridan foydalanib, 2000 dan ziyod kompaniyalar ko‘rib chiqildi. Tashkiliy xizmat muddati nuqtai nazaridan, bizning topilmalarimiz shuni ko‘rsatadiki, dinamik modelda o‘rtacha 8,8 yil va dinamik chegara modelida 5,3 yil bo‘lgan jamoalar kapital taqsimotida sezilarli o‘zgarishlarga guvoh bo‘lishadi. Ushbu topilmalar resurslarni taqsimlash sxemalarida sezilarli o‘zgarishlarni keltirib chiqarishda korxona a’zolarining xizmat muddatining ahamiyatini ta’kidlaydi. Ushbu tadqiqot strategik qarorlar qabul qilish amaliyotini boyitadi va shu bilan tashkiliy nazariya va amaliy qo‘llanmalarga o’z natijalari bilan hissa qo‘shadi. Maqola tashkilotlarga ushbu dinamikani samarali boshqarishda rahbarlik qilishga qaratilgan tavsiyasi bilan yakunlanadi.

Kalit so‘zlar:jamoa boshqaruvi aylanmasi, resurslarni qayta taqsimlash, qaror qabul qilishda tarafkashlik.

Introduction

Many companies have been struggling to avoid the trap of inertia, the phenomenon which makes them remain stagnant despite changing environmental conditions (Argyres & Lovallo, 2023). Organizational inertia can be seen in the form of cognitive biases and resistance to change which, in turn, can prevent a company's ability to respond effectively to external threats, market shifts, or strategic decision-making (Easterby-Smith & Lyles, 2011). To address this issue, scholars and practitioners have been trying mechanisms capable of debiasing decision-making processes and stimulating corporate resource reallocation (Bardolet, Fox, & Lovallo, 2011).

Top management turnover, including CEO succession and executive team changes, represents a significant juncture in an organization's life cycle (Gentry et al., 2021). Such transitions are often viewed as opportunities to reshape strategic direction, break away from unproductive routines, and reconsider resource allocations (Busenbark et al., 2022). Having said that, how effective these changes would be to deal with inertia and promoting rational resource reallocation depends on various factors, including the nature of the transition, the decision-making processes, and the organizational context (Chulkov & Barron, 2019).

This study seeks to understand the mechanisms and dynamics involved in top management turnover to escape the inertia trap (Baliga & Ely, 2011). It investigates whether retaining old decision-makers who were involved in the initial allocation decisions can lead to improved allocation decisions (Boeker, 1997) or previous findings in management research that have emphasized the role of top management team (TMT) turnover as a critical determinant of organizational performance and change (Krause et al., 2014). To point a few well-established theories from managerial psychology (e.g., Upper Echelons, Sunk Cost Fallacy, Escalation of

Commitment) and internal politics (e.g., Power Circulation) suggest that new decision-makers often act as primary catalysts for changes in resource allocation (Chiu et al., 2016).

Not much attention has been given to how changes in top management teams affect the way a company allocates its resources (He & Huang, 2011). It has not been looked at how this relates to the idea that changes in top management bring about changes in a company's operations (David & Brachet, 2011). So, our research tackles this question: When a company's top leadership changes, in the case of a new CEO comes in or when key team members stay or leave, what effects it has on its resources (Greve, 1999)? In particular, we want to understand how these changes affect the flexibility of the company in reallocating its resources. By investigating its role in resource reallocation rigidity, we can uncover the significance of debiasing mechanism and understand why it diverges from the turnover-caused-changes paradigm (Boulding et al., 2017).

The remainder of the paper is structured as follows. Section 2 revises the related literature. Section 3 discusses methodology concerning the description of data and construction of empirical models. Section 4 reports and discusses our findings. Section 5 concludes.

2. Literature Review

Resource allocation decisions are foundational to organizational performance and are influenced by a complex interplay of cognitive biases, managerial cognition, and the tenure of top executives. Managerial cognition shapes resource allocation patterns, with past allocation decisions often replicated due to cognitive biases and agency problems (Hall et al., 2012; Lovallo et al., 2020). These cognitive biases, including the sunk cost fallacy, anchoring bias, and status quo bias, contribute to resource allocation inertia—a phenomenon wherein resource allocation patterns persist even when they might not align with the organization's evolving goals and needs (Baliga & Ely, 2011).

Executive tenure, a crucial determinant of organizational behavior, further compounds the dynamics of resource allocation. Long-serving executives tend to perpetuate existing allocation patterns, reinforcing path dependence and overinvestment tendencies that can lead to suboptimal outcomes (Geiger & Antonacopoulou, 2009; Pan et al., 2016). To counter the inertia induced by these biases and tenure-related patterns, scholars advocate for the introduction of new decision-makers, as fresh perspectives can catalyze shifts in resource allocation (Boulding et al., 1997; Gordon et al., 2000; Kalmanovich-Cohen et al., 2018).

Central to the phenomenon of resource allocation during managerial transitions is the notion of turnover-induced-forgetting and turnover-induced-change. Managerial transitions can lead to a loss of expertise and knowledge, hindering the effective leveraging of resources (Anand et al., 1998). The absence of communication models in new top management teams (TMTs) can impede the integration of new knowledge and innovations (Hambrick & D'Aveni, 1992). Moreover, the tension between continuity and change within TMTs is essential. Excessive turnover may lead to rigid resource allocation patterns due to conflicting ideas, while maintaining consistency in TMT composition fosters organizational routines and a dominant logic that shapes allocation decisions (Ferreira et al., 2014; Allen & Cohen, 1969; Prahalad & Bettis, 1986).

Considering this intricate landscape, this study focuses on the impact of turnover and tenure on resource allocation decisions. Hypothesis 1 posits an inverted U-shaped relationship between

Team level Turnover and Deviation of Investments, anticipating that an optimal level of turnover may facilitate dynamic resource allocation. Hypothesis 2 suggests an inverted U-shaped relationship between TMT average tenure and Deviation of Investments, aiming to uncover the nuanced role of tenure in influencing allocation patterns. Through these hypotheses, this research seeks to contribute to a deeper understanding of the intricate dynamics underlying resource allocation decisions during managerial transitions.

3. METHODOLOGY

3.1 Data

The study utilized data from COMPUSTAT to obtain details on variables at the business unit, firm, and industry levels. The analysis focused on a sample of S&P 1500 companies with at least 2 business units. Also, we excluded financial firms (SIC 6000–6999), utility firms (SIC 4900–4999), and public administration firms and conglomerates (SIC 9100-9999) due to varying regulatory oversight. The resulting sample comprised a panel with 602 S&P firms repeatedly observed (at least two consecutive years) during the 2007-2018 study period, and the dependent variable is continuous. The data had two notable features. First, properly testing the hypotheses required including the lagged dependent variable as a covariate.[1] The lagged dependent variable was intrinsically correlated with the unobserved panel-level effects, giving inconsistent standard estimators from fixed-or random-effects linear regression models (He & Huang, 2011). A particular solution to this problem is a consistent generalized method-of-moments (GMM) estimator for the parameters (Arellano & Bond, 1991; Arellano & Bover, 1995; Greene, 2003).

Independent variable: Team level turnover: The number of executives who left the TMT within a three-year period were then summed and divided by the total number of executives employed by the firm during the same three-year time span to yield an average turnover percentage for each firm (Messersmith, Lee, Guthrie, & Ji, 2014). Data corresponding to base year 2015 include information from 2013, 2014, and 2015. For example, if 1 member leaves a team each year and if the firm assigned 7 member each year, then TMT turnover will be 0.14 (3 divided by 21). Data were collected in rolling three-year increments to capture the data longitudinally and avoid bias that may arise from large yearly fluctuations. All executives, including the CEO, were included in the turnover calculations. It's essential to consider the potential distortion in understanding executive turnover's cognitive effects due to performance-related circumstances (Chulkov & Barron, 2019; Miller, 1993; Shen & Cannella Jr, 2002). In cases where the previous CEO is forced to leave, strategic changes are usually evident, with 38%-55% of employee turnover attributed to this scenario (Jenter & Lewellen, 2021). Therefore, the reason for dismissing the former CEO and the associated change in leadership can carry implications beyond cognitive aspects. We attempt to account for this by including the forced CEO's dismissal due to underperformance as a control variable. Data for each firm were drawn from ExecuComp, and the dismissal reason were retrieved from Gentry, Harrison, Quigley, and Boivie (2021).

TMT organizational tenure: Here we focus on TMT organizational tenure, which refers to the average amount of time that top managers have held their executive positions at the focal company. This variable is included because Team level Turnover only accounts for the size and magnitude of team-level turnover over 3 years, while tenure considers reallocation pattern within

a year. For example, during turnover, the company may lose most of its long-tenured members, or it may include relatively new members such as interim managers. However, focusing solely on Team-level Turnover may not provide a complete picture of the situation, as it may not account for the variation in employee tenure. Therefore, we use mean tenure to understand whether the new team is entirely new and to what extent the company should retain old members to improve capital reallocation. Suppose team-level turnover is 0.7 (i.e., 70% of the team has been replaced). In that case, organizational tenure can help determine whether the remaining 30% of the team has been working for a long time and has a deep understanding of the company's internal processes.

Dependent Variable: To measure budget replication and allocation rigidity, this study applies the Deviation of Investment ratio (DIR) as proposed by Lovallo et al. (2020): DIR uses the firm's own capital allocation in the previous year as a benchmark. If firms simply decided to replicate the previous year's allocation when making investment decisions, the result would be a very rigid capital allocation rule that would likely ignore changes in industry environment or the particular needs of each business unit over time. Here is the capital expenditure of segment in firm in year , is total assets of segment in firm in year , and is the asset share of each segment in firm in year . A coefficient close to 0 indicates that the firm is replicating the old pattern, which in turn suggests that firms may be experiencing organizational forgetting in the initial years of top management team (TMT) tenure or escalation of commitment in the later years of tenure.

Control Variables: CEO Duality: The presence of a former CEO serving as the board chair can impact resource allocation. Instead of being an impartial monitor, they might hinder strategic changes in certain cases (Krause, Semadeni, & Cannella Jr, 2014). Role Interdependence: The composition of the top management team (TMT) is important. A TMT with more executive vice presidents often leads to higher CEO-TMT interdependence. Conversely, low interdependence can obstruct strategic change due to isolated members. This was emphasized by Hambrick et al. (2015) and reviewed by Georgakakis, Heyden, Oehmichen & Ekanayake (2022). We gauged this by the proportion of executives with titles indicating executive or senior vice presidents. Presence of COO: The influence of a Chief Operating Officer (COO) is significant. When the CEO and TMT lack firm-specific knowledge, a COO can drive strategic change and performance, as per Zhang (2006). However, during periods of poor performance, COOs might challenge leadership, creating distinct TMT factions (Hambrick et al. 2015). Age and Number of TMT Members: Age affects decision-making, with older executives often avoiding risks. Varying ages within a team can lead to conflicts. We used the coefficient of variation to measure age diversity. The number of team members also matters – a larger team can bring diverse ideas (Amason & Sapienza, 1997). Firm-Specific Factors: Prior performance, number of units, firm size, Capex growth, acquisitions, and market position are vital. Poor performance can drive resource allocation change, while good performance might lead to inertia (Miller & Chen, 1994). We measured prior performance using the lagged Return on Assets (ROA). The number of divisions impacts allocation, especially finer partitions (Argyres & Lovallo, 2023).Market Position and Investment Inertia: Greater market dominance can hinder strategic shifts (Greve, 1999). We measured market position using sales share and segment market share. Industries with lower concentration tend to be more inert. Major mergers and acquisitions (M&As) can alter the organization. Acquisitions were measured by dividing spending by total assets.

3.2 Method of estimation

To measure budget replication and allocation rigidity, this study applies the Deviation of Investment ratio (DIR) as proposed by Lovallo et al. (2020):

$$DIR_{i,t} = \sum_{i \in F} \omega_{i,t-1} \left| \frac{CAPX_{i,t}}{AT_{i,t}} - \frac{CAPX_{i,t-1}}{AT_{i,t-1}} \right|$$

DIR uses the firm's own capital allocation in the previous year as a benchmark. If firms simply decided to replicate the previous year's allocation when making investment decisions, the result would be a very rigid capital allocation rule that would likely ignore changes in industry environment or the particular needs of each business unit over time. Here $CAPX$ is the capital expenditure of segment i^i in firm F in year t^t, AT is total assets of segment i in firm F in year t, and ω^ω is the asset share of each segment in firm F in year t. A coefficient close to 0 indicates that the firm is replicating the old pattern, which in turn suggests that firms may be experiencing organizational forgetting in the initial years of top management team (TMT) tenure or escalation of commitment in the later years of tenure.

4. Results and results discussion

This study supports the general assumption that when new top management members join an organization, they bring with them fresh perspectives, experiences, and ideas that can have a substantial influence on the allocation of resources within the company. These individuals may introduce different strategies, priorities, and decision-making approaches compared to their predecessors. As a result, the reallocation flow can be significantly impacted.

However, our findings indicate that if only a subset of the team is replaced, with less than five in six-member position being replaced within a three-year period, there is a high possibility that the team may choose to replicate the old allocation pattern. This may occur because incoming members may be influenced by the existing team dynamics and the dominant logic that has already been established. This suggests that the previous patterns of resource allocation and decision-making may continue to shape the behaviors and choices of the new members. In such cases, it becomes crucial to consider the potential influence of the old team and their established ways of operating. Thus, the study supports the concept of organizational forgetting, suggesting that turnover may lead to escalation of commitment. However, this effect is observed when there are minor to moderate changes in the composition of the top management team (less than five out of six members). On the other hand, frequent and complete turnover of the team enhances the allocational flexibility within three years, as it allows for a more significant departure from the previous patterns and encourages the bold resource reallocations.

Table 4 TMT tenure and Deviation of Investments

VARIABLES	(1) Dynamic Linear Model	(2) Below threshold (Tenure<5.3)	(3) Above threshold (Tenure>5.3)
DIR (t-1)	0.107***	0.255***	-0.323***
	(0.027)	(0.066)	(0.064)
TMT tenure	0.003**	0.006***	-0.009***
	(0.001)	(0.001)	(0.002)

TMT tenure (t-1)	-0.004***		
	(0.001)		
TMT tenure squared	-0.000**		
	(0.000)		
CEO dismissal (underperformance)	-0.002	-0.011***	0.017***
	(0.004)	(0.004)	(0.006)
CEO duality	0.001	0.002	-0.004
	(0.002)	(0.002)	(0.003)
COO presence	-0.003	0.009***	-0.021***
	(0.002)	(0.002)	(0.004)
Role interdependence	0.008	-0.006	0.018*
	(0.006)	(0.006)	(0.011)
TMT age	0.000	-0.001***	-0.000
	(0.000)	(0.000)	(0.000)
TMT age diversity	-0.022	-0.093*	0.097*
	(0.027)	(0.048)	(0.050)
TMT size	0.002*	0.003***	-0.005***
	(0.001)	(0.001)	(0.002)
ROA (t-1)	-0.006	-0.009	-0.006
	(0.012)	(0.023)	(0.034)
N of units	0.002**	-0.002**	0.008***
	(0.001)	(0.001)	(0.001)
Firm size	-0.003	0.000	-0.007***
	(0.002)	(0.001)	(0.002)
Capex growth	0.002	-0.007***	0.002
	(0.001)	(0.002)	(0.003)
Acquisitions	0.003	-0.000	-0.006
	(0.010)	(0.022)	(0.028)
Market position (t-1)	-0.023**	-0.007	0.021*
	(0.009)	(0.010)	(0.012)
Constant	**0.036**	**0.130*** **	
	(0.027)	**(0.035)**	
Observations	**2,069**		
Number of firms	**330**	**109 (t=10)**	
Threshold		**5.334*** (0.487)**	

Source: Authors calculation from stata software(for reference look at 3.2 Method of estimation

From an organizational tenure perspective, our findings indicate that teams with an average tenure of 8.8 years in the dynamic model and 5.3 years in the dynamic threshold model are associated with substantial changes in capital allocation. This suggests that as the team members' tenure reaches a certain length, significant shifts in resource allocation patterns occur. These results support the findings of hypothesis one, which proposed that new members would have a positive impact on resource reallocation. In addition, it suggests that retaining few old members in the team may be preferred. In presence of few long tenured members, team's accumulated experience and knowledge can help identify and weed out unnecessarily risky investments, enabling the team to make more informed decisions in the face of uncertainties (Boulding et al., 2017; Ferreira,

Raisch, & Klarner, 2014). Also, indeed, the study highlights that as managers stay with a company for a longer period, they tend to escalate commitments to old strategies, resulting in a substantial reduction in the capital reallocations.

5. Conclusion and Policy recommendation.

Implementing a policy that calls for changing at least 30 percent of top management over 5 to 8 years, while taking into account insights from organizational tenure dynamics, can help companies break free from the inertia trap. This approach aims to strike a balance between experience and innovation, ensuring that organizations remain agile, adaptable, and responsive to changing market dynamics. By doing so, companies can enhance their capacity to make informed decisions and allocate resources strategically in the face of uncertainty, ultimately fostering long-term sustainability and growth.

REFERENCES

1. Amason, A. C., & Sapienza, H. J. (1997). The effects of top management team size and interaction norms on cognitive and affective conflict. Journal of Management, 23(4), 495-516.
2. Argyres, N., & Lovallo, D. (2023). Internal Resource Allocation: Partitions, Granularity, and Selection Mechanisms. Working paper.
3. Baliga, S., & Ely, J. C. (2011). Mnemonomics: the sunk cost fallacy as a memory kludge. American Economic Journal: Microeconomics, 3(4), 35-67.
4. Bardolet, D., Fox, C. R., & Lovallo, D. (2011). Corporate capital allocation: A behavioral perspective. Strategic Management Journal, 32(13), 1465-1483.
5. Boeker, W. (1997). Strategic change: The influence of managerial characteristics and organizational growth. Academy of Management Journal, 40(1), 152-170.
6. Boulding, W., Guha, A., & Staelin, R. (2017). Do we really need to change the decision maker? Counterintuitive escalation of commitment results in real options contexts. Management Science, 63(10), 3459-3472.
7. Busenbark, J. R., Yoon, H., Gamache, D. L., & Withers, M. C. (2022). Omitted variable bias: Examining management research with the impact threshold of a confounding variable (ITCV). Journal of Management, 48(1), 17-48.
8. Chiu, S.-c., Johnson, R. A., Hoskisson, R. E., & Pathak, S. (2016). The impact of CEO successor origin on corporate divestiture scale and scope change. The Leadership Quarterly, 27(4), 617-633.
9. Chulkov, D. V., & Barron, J. M. (2019). Turnover in top management and de-escalation of commitment. Applied Economics, 51(23), 2534-2551.
10. David, G., & Brachet, T. (2011). On the determinants of organizational forgetting. American Economic Journal: Microeconomics, 3(3), 100-123.
11. de Holan, P. M., Phillips, N., & Lawrence, T. B. (2004). Managing organizational forgetting. Mit sloan management review, 45(2), 45.
12. Easterby-Smith, M., & Lyles, M. A. (2011). In praise of organizational forgetting. Journal of Management Inquiry, 20(3), 311-316.
13. Fortune. (2015). The Spy in General Dynamics' Corner Office. Retrieved from https://fortune.com/2015/09/11/phebe-novakovic-general-dynamics/
14. Gentry, R. J., Harrison, J. S., Quigley, T. J., & Boivie, S. (2021). A database of CEO turnover and dismissal in S&P 1500 firms, 2000–2018. Strategic Management Journal, 42(5), 968-991.

15. Greve, H. R. (1999). The effect of core change on performance: Inertia and regression toward the mean. Administrative science quarterly, 44(3), 590-614.
16. Hall, S., Lovallo, D., & Musters, R. (2012). How to put your money where your strategy is. McKinsey Quarterly, 2, 27-38.
17. He, J., & Huang, Z. (2011). Board informal hierarchy and firm financial performance: Exploring a tacit structure guiding boardroom interactions. Academy of Management Journal, 54(6), 1119-1139.
18. Hill, A. D., Johnson, S. G., Greco, L. M., O'Boyle, E. H., & Walter, S. L. (2021). Endogeneity: A review and agenda for the methodology-practice divide affecting micro and macro research. Journal of Management, 47(1), 105-143.
19. Krause, R., Semadeni, M., & Cannella Jr, A. A. (2014). CEO duality: A review and research agenda. Journal of Management, 40(1), 256-286.