The Leadership Quarterly 26 (2015) 270–285

Contents lists available at ScienceDirect

The Leadership Quarterly

journal homepage: www.elsevier.com/locate/leaqua

Leaders' impression management during organizational decline: The roles of publicity, image concerns, and incentive compensation

Daniel Han Ming Chng [a,*], Matthew S. Rodgers [b,1], Eric Shih [c,2], Xiao-Bing Song [d,3]

[a] China Europe International Business School, Shanghai 201206, China
[b] Ithaca College, School of Business, Ithaca, NY 14850, USA
[c] Sungkyunkwan University, SKK Graduate School of Business, Seoul 110-745, Republic of Korea
[d] Dalian University of Technology, School of Business Management, Liaoning 116024, China

ARTICLE INFO

Article history:
Received 29 January 2014
Received in revised form 28 October 2014
Accepted 2 December 2014
Available online 14 January 2015

Handling Editor: Stephanie Castro

Keywords:
Impression management
Organizational decline
Publicity
Image concerns
Incentive compensation

ABSTRACT

In this study, we develop and examine a model of leaders' impression management during organizational decline by elaborating on the roles of publicity, image concerns, and incentive compensation. We propose that the publicity of decline is an important antecedent of leaders' impression management during decline. We also examine how leaders' image concerns mediate this positive relationship. In addition, we consider the relative influence of incentive compensation and fixed compensation on the relationship between leaders' image concerns and their impression management during decline. Our results, based on a specially-designed management simulation game conducted with experienced Chinese managers, show that high publicity of decline elevates leaders' image concerns, which in turn increases their impression management during decline. In addition, incentive compensation strengthens rather than weakens the effects of leaders' image concerns on their impression management. We discuss the implications of leaders' impression management during organizational decline.

The importance of leaders'[4] role in managing stakeholders' impressions of an organization has long been recognized in leadership research (e.g., Gardner & Avolio, 1998; Gioia & Chittipeddi, 1991; Pfeffer, 1981), and leaders' ability to manage impressions is often linked to their effectiveness, especially in difficult and challenging situations (e.g., Coombs & Holladay, 2008; Ewen et al., 2013; McDonnell & King, 2013; Sosik, Avolio, & Jung, 2002; Zavyalova, Pfarrer, Reger, & Shapiro, 2012). In particular, leaders' impression management is extremely relevant in the context of organizational decline, when the substantive decline of an organization's internal resources over time threatens its survival (Mone, McKinley, & Barker, 1998; Musteen, Liang, & Barker, 2011; Sutton, 1990). Organizational decline adversely affects an organization's image, perceived legitimacy, performance, and ultimately, its survival (Pfeffer & Salancik, 1978; Suchman, 1995). To uphold its legitimacy and secure continued support crucial to organizational survival, leaders must convey appropriate impressions of the organization to key stakeholders during decline (Sutton, 1990; Sutton & Callahan, 1987).

* Corresponding author. Tel.: +86 21 2890 5632; fax: +86 21 2890 5650.
E-mail addresses: dchng@ceibs.edu (D.H.M. Chng), mrodgers@ithaca.edu (M.S. Rodgers), eshih@skku.edu (E. Shih), songxb@dlut.edu.cn (X.-B. Song).
[1] Tel.: +1 607 274 3940; fax: +1 607 274 1564.
[2] Tel.: +82 2 740 1525; fax: +82 2 740 1503.
[3] Tel.: +86 411 8470 9920; fax: +86 411 8470 8342.
[4] While our theory applies to formal organizational leaders in general (i.e., those who have strategic decision-making authority and accountability), CEOs and other senior executives represent the most compelling cases for our arguments.

http://dx.doi.org/10.1016/j.leaqua.2014.12.003
1048-9843/

Although leaders' impression management during decline is often crucial to organizational survival, it must also be balanced with other substantive leadership responsibilities, especially those related to organizational tasks and change (Yukl, Gordon, & Taber, 2002; Zavyalova et al., 2012). Leaders facing organizational decline must not only make important decisions concerning impression management but also address strategic issues needed to effectively turnaround the organization's deteriorating conditions (Sutton, 1990; Sutton & Callahan, 1987). Similarly, as Zavyalova and her colleagues (2012) observed, firms need to balance the use of technical versus ceremonial actions in their management of social perceptions following wrongdoing. However, managing impressions consumes an organization's limited resources (DuBrin, 1994; Vohs, Baumeister, & Ciarocco, 2005) and leaders' effective allocation of such scarce resources during organizational decline is extremely important.

Previous research has provided theoretical explanations and anecdotal evidence of leaders' impression management during organizational decline (Bettman & Weitz, 1983; Bozeman, 2011; Salancik & Meindl, 1984; Staw, McKechnie, & Puffer, 1983; Sutton, 1990; Sutton & Callahan, 1987). For example, Sutton and Callahan (1987), in their case studies of four bankrupt computer firms, proposed impression management strategies that leaders may use to avert the spoiled images of themselves and their firms. Similarly, Bozeman (2011), in his theoretical development of organizational implosion, offered case illustrations of the communications among organizational members following an organization disaster. Despite this previous research, our understanding of leaders' impression management during organizational decline is still relatively underdeveloped. Existing studies do not account for the significant variations in impression management observed across organizations during decline—why do leaders vary in the extent to which they engage in impression management when confronted with the challenges of organizational decline? More specifically, what specific characteristic of organizational decline drives leaders' impression management and how does this process unfold (Sutton & Galunic, 1996)?

In addition, while much has been said about leaders' motivation to manage impressions during organizational decline, no research to date has examined the influence of incentive compensation, designed to affect leaders' interests and motivation, on their impression management. This oversight is particularly glaring given that incentive compensation is an important part of the turnaround strategy of many declining organizations (Gilson & Vetsuypens, 1993). Following the prescriptions of positive agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976; Jensen & Murphy, 1990), Gilson and Vetsuypens (1993) observed in a sample of companies in financial distress that more than 80% expanded their use of incentive compensation by closely tying leaders' compensation to firm performance. This is designed to address potential agency issues and to initiate an effective turnaround for the distressed firm. However, despite the increased use of incentive compensation during decline, there is little empirical evidence within current research of how incentive compensation may influence leaders' behaviors during such difficult situations. These gaps in the literature not only limit our understanding of the intricacies of leaders' impression management during decline, but also restrict our ability to more effectively govern leaders' behavior at times when effective leadership is critical.

Moreover, such leadership behaviors are especially important in Chinese culture where leadership is revered. In China, individuals are expected to maintain a respected social image (i.e. face) by successfully performing their roles in society (Hwang, 1987). For Chinese leaders, face is often gained or lost through organizational accomplishments and decline in performance directly and adversely affects their social image. Thus, organizational decline, while likely to be influential toward all leaders, is especially relevant in the Chinese context. Yet, most research on organizational decline has been based on Western contexts, and we know little of how Chinese leaders are influenced by either organizational decline or incentive compensation. Given that Chinese leaders often behave in ways that are fundamentally different from their Western counterparts (Sun, Zhao, & Yang, 2010), this research void is particularly problematic for understanding leadership issues associated with organizational decline in China.

In this study, we seek to address these gaps by examining the underlying processes of leaders' impression management during organizational decline within the Chinese context. In particular, we focus on leaders' attempts to influence key stakeholders' impressions of the organization.[5] First, we contend that the extent to which key stakeholders (e.g., shareholders, suppliers, and customers) are aware, or are likely to become aware, of the poor performance of the organization (i.e. publicity of decline) is an important situational antecedent of leaders' impression management during decline. Next, we explore the role of leaders' image concerns in mediating the relationship between the publicity of decline and their impression management. Finally, we introduce and examine the moderating influence of incentive compensation on leaders' impression management during decline. Drawing on the agency theory perspective of executive compensation (Eisenhardt, 1989; Jensen & Murphy, 1990; Murphy, 1999), we examine how incentive compensation moderates the relationship between leaders' image concerns and their impression management during decline. We set up competing hypotheses because incentive compensation may either weaken or strengthen this relationship depending on whether the incentive property or risk-bearing property of agency theory prevails (Beatty & Zajac, 1994; Wiseman & Gomez-Mejia, 1998). This theoretical framework (see Fig. 1) is tested with a sample of experienced Chinese managers in China.

Leaders' impression management during organizational decline

Impression management is the process by which individuals attempt to create, maintain, protect, or otherwise control others' perceptions (Leary & Kowalski, 1990; Rosenfeld, Giacalone, & Riordan, 1995). Theories on impression management build upon Goffman's (1959) influential work, *The Presentation of Self in Everyday Life*. A fundamental assumption in the literature on impression management and self-presentation is that people have an inherent interest in how they are perceived and evaluated by others and,

[5] Leaders may engage in impression management activities oriented toward influencing key stakeholders' impressions of the organization (i.e., organizational image) or of themselves (i.e., individual image). In our study, we focus only on leaders' attempts to influence key stakeholders' impressions of the organization, and do not consider the ways in which leaders may seek to influence others' impressions of themselves.