The first essay examines the impact of firm bankruptcy on director reputation in the director labor market. Consistent with a reputational penalty, directors on boards of firms filing for bankruptcy (bankruptcy-affiliated directors) are less likely to gain new directorships in the three years following the filing. Post-bankruptcy, bankruptcy-affiliated directors lose roughly 1.5 outside directorships. Of the bankruptcy-affiliated directors, those with more experience as a director and those whose firm reorganizes under Chapter 11 (as opposed to liquidation) realize a lesser director labor market penalty from the bankruptcy. These results suggest bankruptcy harms director reputation, but experienced directors who protect shareholders from liquidation by creditors can mitigate some of the reputational damage. I also find evidence of a reward for distress experience as directors of financially distressed firms who avoid bankruptcy are more likely to gain new directorships at financially distressed firms.

In the second essay I study the spillover effects of customer financial distress on investment decisions of suppliers. Using a U.S. sample of customer-supplier relationships between 1980 and 2017, I find suppliers are more likely to reduce their investment in capital expenditures when a customer is financially distressed. Supplier investment efficiency does not improve when a customer is financially distressed as suppliers with a greater likelihood of under-investment reduce their investment, while suppliers with a greater likelihood of over-investment increase their investment. The effect of customer distress on supplier investment decisions is more pronounced for suppliers of economically
distressed customers. I also find the reduction in capital expenditures is greater when a supplier firm is financially constrained; however, non-constrained suppliers also reduce their investment when a customer is financially distressed. This study suggests customer distress spills over to the investment decisions of supplier firms.