

## **Firm's Capabilities and Characteristics that Enable Superior Performance in Recessions**

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### **Abstract**

Recessions are recurring events that cause severe impacts to firms. However, strategic management has made little progress in studying the effects of recessions on firm performance. We build on the RBV and its relationships with theories on entrepreneurship, improvisation and flexibility to create a model that explains the cultural characteristics and capabilities that enable a firm to adapt to and be successful in recessions. We propose that have superior performance in recessions those firms that have: (a) the perception to see the recession as an opportunity; (b) entrepreneurial orientation; (c) improvisation capability; and (d) flexibility.

## 1. INTRODUCTION

Today's global marketplace is characterized by increased turbulence due to disruptive changes, such as the recent global recession (Li & Tallman, 2010). Economists have thoroughly studied recessions (Zarnowitz, 1985), mostly from a macroeconomic perspective of understanding their causes and consequences for countries. The effects of recessions, however, are not limited to countries. They can transform and cleanse industries (Latham & Braun, 2011; Caballero & Hammour, 1994) and severely affect the performance or even survival of firms (Srinivasan, Rangaswamy, & Lilien, 2005). Most importantly, while most firms do suffer severe impacts, some others are less affected and even prosper in recessions (Gulati, Nohria & Wohlgezogen, 2010). Nevertheless, within strategic management there has been little investigation on the effects of recessions to firm performance and on how firms should deal with these events (Navarro, Bromiley & Sottile, 2010; Mascarenhas & Aaker, 1989).

The Resource-based view of the firm (RBV) posits that the value of resources, or their relevance, depends on the particularities of the environment surrounding the firm (Miller & Shamsie, 1996). In this paper we build on the RBV and its relationship with entrepreneurship, improvisation and flexibility theories to study the resources, in the broad sense of the term, provide firms with superior performance in moments of economic recession. More specifically, we investigate the characteristics and capabilities that firms possess before the recession that may represent protection from the negative effects of recessions, and grant better performance than that of competitors. In this sense, we answer a call for research that focuses on when and how companies steer successfully through changing environments (Brown & Eisenhardt, 1997), particularly interactions between organizational resources, behavior and competitive contexts (Worren, Moore, & Cardona, 2002).

Our study has three main contributions. First, by indicating resources, including company characteristics and capabilities that enable firms to have superior performance in recessions, this paper advances our knowledge on recessions, part of the business cycle management literature, a great, unexplored research stream that should be high on the list of strategy scholars (Bromiley, Navarro & Sottile, 2008). Second our paper contributes to the nascent theory of improvisation. It moves a discussion that was mostly focused on improvisation as a learning perspective and somewhat limited to organization studies, to a new, strategy-driven perspective of improvisation for performance rather than learning objectives.

## 2. LITERATURE REVIEW

Although there is no official definition of the term, recessions are technically defined by the International Monetary Fund (IMF) as a decrease in real (inflation-adjusted) Gross Domestic Product (GDP) for two consecutive quarters (Claessens & Kose, 2009). In practice, however, scholars tend to consider recessions long periods of contraction in real GDP and other indicators, particularly employment and production (Claessens & Kose, 2009; Geroski & Gregg, 1997; Zarnowitz, 1985).

Several economic theories that try to explain business cycles, including the effects of the recessionary stage of these cycles on firms. Most of these theories agree on the factors that influence these effects, such as demand and credit, but differ regarding their importance and cause-effect relationships (Zarnowitz, 1985). In this paper we focus on three important consequences of recessions for firms: change in demand patterns, increase in competition and increase in uncertainty. These factors represent important facets of the organizational environment (Grewal & Tansuhaj, 2001) *(note 1)*.

First, and most important, recessions reduce the demand for firms' products and services (Srinivasan et al., 2005) as a result of lower employment and income as well as reduced availability of credit. In addition to the general demand reduction, recessions alter demand patterns, the variability in customer populations and preferences, which requires organizations to adapt their product offerings, plans, and strategies to the changing market conditions (Grewal & Tansuhaj, 2001).

Second, and related to the first point, recessions change the competitive intensity, the degree of competition a firm faces (Grewal & Tansuhaj, 2001). It provokes a sharp, sudden increase in competition (Geroski & Gregg, 1997) resulting from the drop in demand that creates a pressure for price cuts which, in turn, tends to increase rivalry among industry competitors (Porter, 1979).

Third, and related to the first and second points, recessions generate uncertainties to organizations by altering most aspects of competition (Grewal & Tansuhaj, 2001). Changes in demand patterns and in competitor rivalry make it difficult for firms to predict new consumer preferences and competitor moves. Moreover, as recessions vary greatly in amplitude, scope and duration (Bromiley, Navarro & Sottile, 2008; Zarnowitz, 1985) firms cannot predict how drastic its effects will be, which adds another level to the uncertainty. Finally, firms tend to have very misleading expectations when the economy turns from expansion to recession (Navarro, Bromiley & Sottile, 2010; Zarnowitz, 1985), which defies interpretations and imposes severe demands on sensemaking (Grewal & Tansuhaj (2001; Weick, 1988) and not all firms are prepared for such additional effort.

Severe recessions represent risk to the survival of companies, which are forced to rethink their strategies (Geroski & Gregg, 1997), which requires new knowledge (Grewal & Tansuhaj, 2001). This is in line with the RBV. This theory argues that the value of resources, or their relevance, depends on the characteristics of the environment surrounding the firm. In particular, property-based resources are more valuable in stable environments, while knowledge-based resources are more valuable in turbulent environments (Miller & Shamsie, 1996), such as recessions.

### 3. THEORY DEVELOPMENT AND HYPOTHESES

Few scholars have investigated what particular resources are important in recessionary environments. Their studies have focused in marketing, technology and financial resources (Grewal & Tansuhaj, 2001; Latham & Braun, 2008; Srinivasan et al., 2005; Srinivasan & Lilien, 2009).

Latham & Braun (2011) proposed a framework to understand the underlying firm-level dynamics in recessions. The authors claim that performance during a recession should depend on a firm's initial conditions, before the recession, and on the strategies the firm follows during the recession. Drawing on RBV, we study the resources, in the broad sense of the term, controlled by a firm before a recession starts as the initial conditions in their model (*note 2*). We further build on the relationship between RBV and the literatures in entrepreneurship, flexibility and improvisation to create a model that explains the cultural characteristics and capabilities that enable a firm to adapt to and be successful in situations of economic crisis. We argue that cultural characteristics such as (a) a propensity to recognize opportunities in recessions and (b) an entrepreneurial orientation, as well as capabilities such as (c) improvisation and (d) flexibility protect a firm from the negative effects of a recession and grant better performance in these situations than that of competitors. These cultural characteristics and capabilities and their relationships are shown in Figure 2 and will be described in the following sections.

To begin with, the total resources a firm controls may be an important advantage in recessions. If a company has more resources than it actually needs, these slack, under-utilized resources can be used as a buffer to face environmental turbulence (Bourgeois, 1981; Srinivasan et al., 2005). Without this cushion, companies are not able to make necessary investments (Lumpkin & Dess, 1996). Despite this obvious advantage, a high level of slack resources may hide inefficiencies and make companies postpone necessary changes to adapt to new situations (Latham & Braun, 2008). This U-shaped effect of slack on performance, in which neither too little nor too much slack is ideal (Bourgeois, 1981) is beyond the scope of our study.

Entrepreneurial activities are usually associated with disruptions in the economy that generate value by bringing together a unique package of resources to exploit and opportunity (Morris & Lewis, 1995; Mudambi & Hill, 2010). Zahra et al. (2006) argue that entrepreneurship involves a sequence of: (a) perception of opportunities to productively change existing routines or resource configurations; (b) willingness to undertake such change; and (c) ability to implement these changes.

Like the results of entrepreneurial disruptions, an economic recession is a crisis situation that changes the normal course of business operations, including consumer demand, government policies and both the availability and value of companies' resources. Thus, we build on the sequence proposed by Zahra et al (2006) to create a parallel model that explains successful performance in recessions, based on a similar sequence of activities or competences. As shown in Figure 1, our model suggests that: (a) the perception of opportunities is represented by a company's ability to recognize a recession as an opportunity rather than a threat to its operations; (b) willingness to act is represented by a company's entrepreneurial orientation, which encourages the company to be proactive, innovate and take risks; and (c) the ability to implement changes is represented by both improvisation capability and flexibility.

### 3.1 Opportunity Recognition in Recessions

Given the scenario of decreased demand, intensified competition and higher uncertainty created by recessions, these moments naturally bring a sense of pessimism that usually

lead companies to cut costs, investments and reduce their operations. Nevertheless, history has shown that Procter & Gamble, Chevy, and Camel flourished during the 1929-1933 Great Depression because they advertised heavily (Gulati et al., 2010; Srinivasan et al., 2005).

Different companies follow these different strategies during recessions, partly because they differ in the extent to which they view a recession as a threat or as an opportunity (Gulati et al., 2010; Srinivasan et al., 2005), or at least in their ambivalence to see both a negative and a positive side from the same situation (Plambeck & Weber, 2010). These different views depend mostly on how executives fit the information they receive into some kind of cognitive structure to interpret the environment (Daft & Weick 1984).

To recognize and exploit opportunities, firms must identify and evaluate alternative knowledge from different sources and make it understandable (Zhou and Wu, 2002). The identification of knowledge requires access to information (Barney, 1986). In product markets, differently from financial markets, firms are expected to differ in the information they possess (Denrell, Fang, & Winter, 2003). Different information, combined with different resources, imply differences in a firm's positioning relative to opportunities (Denrell et al., 2003) and ability to exploit them for superior performance (Barney, 1986). After the identification of knowledge, the firm must evaluate it and decide whether a potential opportunity can be exploited to provide a positive net present value for investments (Denrell et al., 2003). Either the firm may be better positioned in the industry or segment to take advantage of a change (Porter, 1979), or the firm may have the right resources or be able to rapidly reconfigure its resources to take advantage of this change. Finally, in the interpretation phase, the more complex the cognitive structures used, the more adaptive will be the sensemaking process (Nadkarni & Narayanan, 2007), which is fundamental in situations of uncertainty (McDaniel, 2007), such as those of recessionary moments.

In line with Srinivasan et al. (2005), we define Opportunity recognition in recession as a firm's assessment of a recession as an opportunity, which may arise either from the market itself, directly from changes in demand (Grewal & Tansuhaj, 2001) or indirectly, from the difficulties of rivals (Geroski & Gregg, 1997). An indirect, positive link between opportunity recognition and performance *(note 3)* has been investigated by Srinivasan et al. (2005). In line with these authors, we argue that companies that see these opportunities in recessions are able to invest (Srinivasan et al., 2005) and benefit from the returns on these investments, improving their performance. Moreover, as most other companies are not investing and even reducing their operations, suppliers offer discounts and new hires accept lower salaries, which tends to increase the returns on investment (Navarro, Bromiley & Sottile, 2010).

Not only is it advantageous for firms to see recessions as opportunities, but it may also be easier. In the context of crisis, uncertainty and risk, because of a collective feeling that something must be done to deal with the problems, organizations are more receptive of transformations and become more open to see opportunities in the environment (Vera & Crossan, 2004). Moreover, change is easier in recessions because the opportunity cost of redirecting resources is lower when production and sales drop (Geroski & Gregg, 1997). Thus, we propose:

*H1: Opportunity recognition in recessions has a positive effect on performance.*

### 3.2 Entrepreneurial Orientation

While scholars have posited a variety of definitions of EO, we follow the original concept by Miller (1983), also adopted by Anderson et al. (2009), and define EO as the extent to which firms are innovative, proactive, and risk taking in their behavior and management philosophies. Based on recent empirical work by Engelen (2010) and Scott, Gibbons, & Coughlan (2010), we consider the following three dimensions for the EO construct: innovativeness, proactiveness and risk-taking propensity. Innovativeness reflects a firm's tendency to engage in and support new ideas that may result in new products and processes. (Anderson et al., 2009; Lee, Lee, & Pennings. 2001; Lumpkin and Dess, 1996). It also refers to a willingness to discard old beliefs and favor change (Covin & Slevin, 1989; Lumpkin & Dess, 1996) to learn from experimentation and the trial-and-error initiatives, including a tolerance for their possible mistakes. Proactiveness relates to the proclivity of the firm for first mover actions in introducing new products or entering new markets (Anderson et al., 2009; Lee et al. 2001; Lumpkin and Dess, 1996). Risk-taking propensity is the willingness to incur large resource commitments to uncertain and novel business (Lumpkin and Dess, 1996; Lee et al. 200; Miller, 1983), which have high return potential (Lee et al. 2001) but also a reasonable chance of costly failure (Engelen, 2010).

A direct, positive link between entrepreneurial orientation and performance has been extensively studied and empirically supported (Anderson et al., 2009). We believe that particular characteristics of recessionary moments, such as uncertainty and intensified competition, should make this link even stronger. First, entrepreneurial firms perform well in uncertain environments partly because they seek competitive advantage by taking risks and adapting their efforts to the prevailing conditions in such environments (Covin & Slevin, 1989, Srinivasan et al., 2005). Second, in moments of intense competition and resource scarcity firms are more likely to dedicate slack resources to trial and error experimentation (Daft & Weick, 1984), an important characteristic of the innovativeness dimension of EO. In fact, innovation is critical for firms to adapt to these turbulent environments (Zhou & Wu, 2010). Thus, we propose:

*H2: Entrepreneurial orientation has a positive effect on performance in recessions.*

Returning to our model in Figure 2, we claim that in addition to EO's direct effect on Performance, it also moderates the relationship between Opportunity recognition and Performance. Zahra et al. (2006) argue that entrepreneurship involves a sequence of: (a) perception of opportunities to productively change existing routines or resource configurations; and (b) willingness to undertake such change. Recognizing an opportunity does not improve performance if the firm is not willing to make the necessary changes in its existing routines and resource configurations to exploit that opportunity. In other words, if the firm does not take action to invest in an opportunity there will be no profit from that opportunity and no improvement in performance.

Firms vary in their ability to develop a response to capitalize on a perceived opportunity (Srinivasan et al., 2005). We argue that this willingness to act and exploit that opportunity is part of a firm's entrepreneurial orientation, in its all 3 dimensions. First, if the firm is not proactive, by definition it will not take the necessary action. Second, if the firm does not favor change (part of the innovativeness dimension of EO), it will not



take the necessary steps to exploit the opportunity. Third, if the firm does not have risk-taking propensity it will not invest in opportunities, which have uncertain outcomes.

In addition, entrepreneurially-oriented firms will seek opportunities that would enable them to gain a competitive edge (Covin & Slevin, 1989; Lumpkin & Dess, 1996 in Srinivasan et al., 2005). This facilitates the recognition of opportunities, which we consider the first step in EO's moderating role between opportunity recognition and performance. Entrepreneurially-oriented firms have the judgement and intuition skills (Casson & Godley (2007) that are required in an environment of difficult analysis that (Daft & Weick, 1984) consider to foster the visualization of opportunities. In line with this argument, Worren et al. (2002) found that some (US and UK home appliance) firms had "proactive cultures" (another dimension of EO) that lead managers to interpret external events as implying new opportunities. Thus, we propose:

*H3: Entrepreneurial orientation moderates the relationship between Opportunity recognition in recessions and Performance, such that increased Entrepreneurial orientation strengthens the positive effect of Opportunity recognition in recessions on Performance.*

### 3.3 Improvisation Capability

Bergh and Lim (2008) explain that within strategic management, literature on organizational learning generally offers two theories, absorptive capacity and improvisation, which explain the importance of knowledge in two opposite situations. Comparing these two learning theories, the authors conclude that, while the concept of absorptive capacity is related to repetition, routines and explicit, prior knowledge, the concept of improvisation is related to novelties, real-time and tacit knowledge. Therefore, considering that recessions are new situations of change and uncertainty in which prior learning is not expected to be very useful (Grewal & Tansuhaj, 2001), improvisational learning is more related to recessions and a more appropriate theoretical perspective for our analysis than absorptive capacity.

Improvisation, initially considered a way to fix problems resulting from poor planning, gained a positive perspective and emerged as a learning theory in organizational studies in the 1990's (Leybourne, 2007) from comparisons with jazz and theater (Crossan, Cunha, Vera, & Cunha, 2005). Early definitions of improvisation are very theoretical, such as no split between composition and performance, between design and production (Weick 1993), intuition guiding action in a spontaneous way (Crossan & Sorrenty, 1997), the conception of action as it unfolds (Cunha, Cunha, & Kamoche, 1999), or deliberate and substantive fusion of the design and execution of a novel production (Miner et al. 2001).

More recently, some authors shifted improvisation to a more practical, strategy-driven perspective concerned with performance. That is the case of Eisenhardt (1997), who defines improvisation as organizing in such a way that the actors both adaptively innovate and efficiently execute, Weick (2001), who calls improvisation a "Just-in-time strategy" (emphasis added) and Mendonça & Fiedrich (2006), who define improvisation

as a combined behavioral and cognitive activity that requires serial creativity under tight time constraint in order to meet *performance* objectives (emphasis added).

We follow these recent lines and treat improvisation as a capability, based on the two dimensions proposed by Crossan et al. (2005): spontaneity and creativity. So, for the purpose of this paper we define Improvisation capability (IC) as an ability to generate a successful, fast response to an unexpected event, without prior planning (Cunha et al. 1999; Miner et al. 2001; Vera & Crossan, 2005) through creative adaptation of the resources at hand (Eisenhardt, 1997; Meyer 1998; Preston, 1991; Vera & Crossan, 2005). These resources might have been originally intended for one purpose and reconfigured or recombined for a new one. Both dimensions are important to our study as both are associated with other constructs. Moreover, we agree with Vera & Crossan (2005) who warn about the spontaneous facet of improvisation being overemphasized.

As we have seen in section 2, recessions alter demand patterns, intensify competition and create uncertainty (Grewal & Tansuhaj, 2001). In particular, in a severe recession, when real GDP and employment levels are seriously affected, people lose their jobs and income. Consumers have to postpone their purchases until the end of the recession when they find new jobs, or look for substitutes to products that they no longer can afford. Downtrading to lower price segments rarely an option in these moments. This results in big shifts in demand. In addition, intensified competition provokes new competitor moves and aggravates the scenario of changes. These radical changes represent a risk to the survival of companies (Geroski & Gregg, 1997) and require fast responses. With no sufficient time to plan, these companies have to rely on the spontaneity of improvisation for such fast responses. Moreover, a changing environment creates uncertainty and becomes less analyzable (Daft & Weick, 1984), which creates further difficulties for planning and stronger need for spontaneity.

In drastic cases, companies' responses to the risk of survival may include the closure of production sites or offices (Geroski & Gregg, 1997) altering the value of their assets (Li & Tallman, 2010). Companies may need to reconfigure these assets for a new use, related to the new consumer preferences, for which the creativity dimension of improvisation capability is helpful. Thus, we propose:

*H4: Improvisation capability has a positive effect on performance in recessions.*

Returning to our model in Figure 2, we claim that in addition to IC's direct effect on performance, it also moderates the relationship between Entrepreneurial orientation and performance. Zahra et al. (2006) argue that entrepreneurship involves a sequence of: (a) perception of opportunities to productively change existing routines or resource configurations; (b) willingness to undertake such change; and (c) ability to implement these changes, determined in part by the skills of managers. We argue that, in recessionary environments, IC is one of the necessary skills, fundamental for implementation of changes in existing routines or resource configurations.

EO may be more strongly associated with performance depending on the environmental conditions (Lumpkin & Dess, 1996). In stable environments, the entrepreneur can make plans before investing or taking any action. These plans should increase the probability of better returns and higher performance. Nevertheless, fast-changing environments such as recessions require fast responses and do not allow time for such careful



planning before action. In these cases the entrepreneur may have to rely on intuition and judgment to interpret the environment and make decisions less than perfect information (Casson and Godley, 2007; Daft & Weick, 1984). The spontaneous facet of the improvisation capability is fundamental to guarantee a good outcome from these activities and improved performance. Indeed, Bingham (2009) finds that improvisation increases the probability that entrepreneurial firms will respond quickly to unforeseen needs. Thus, we propose:

*H5: Improvisation capability moderates the relationship between Entrepreneurial orientation and Performance in recessions, such that increased Improvisation capability strengthens the positive effect of Entrepreneurial orientation on Performance.*

### 3.4 Flexibility

The strategy literature establishes a trade-off between two opposite alternatives: specialization and flexibility. Specialization requires persistence and long-term commitment. It produces economies of scale and creates efficiency, but is only indicated in stable situations, when chances of benefiting from long-term investments are high (Del Sol e Ghemawat, 1998; Ebben & Johnson, 2008).

In situations of instability, scholars recommend flexibility, defined as a firm's ability to rapidly change its policies and procedures to adapt to changes in the environment that bring uncertainly and significant impact to performance (Aaker & Mascarenhas, 1984, Rowe & Wright 1997). Volberda (1997) establishes three dimensions of flexibility: operational, strategic, and structural, in which he is followed by Verdú-Jover, Lloréns-Montes, & García-Morales (2006) (note 4). The operational dimension of flexibility is defined as a firm's ability to change production volume and product mix, through the firm's existing routines, as a response to small changes in the environment that are within expectations (Ebben & Johnson, 2008; Fiegenbaum & Karnani, 1991; Volberda 1997). The strategic dimension of flexibility is defined as a firm's ability to relocate or reconfigure its organizational resources ((Nadkarni & Narayanan, 2007; Sanchez, 1995; Zhou & Wu, 2010). It relates to more substantial changes in the environment. The structural dimension of flexibility is defined as a firm's ability to adapt its decision and communication processes, both internally and externally (Volberda, 1997). We expect it to be related to even more substantial changes in the environment.

A direct link between flexibility and performance has been extensively studied and empirically supported. We believe that in recessionary moments this link should be even stronger. Scholars recommend strategies that emphasize focus and standardization to increase volume, gain economies of scale and improve efficiency during the normal course of operations in markets with stable consumer preferences and flexible strategies in situations of uncertainty and intense competition that require fast changes (Ansoff, 1978; Ghemawat & Del Sol, 1998; Nadkarni & Narayanan, 2007; Volberda, 1997; Worren et al., 2002). As we discussed in section 2 recessions are perfect examples of situations characterized by change in demand patterns (or consumer preferences), intensified competition and uncertainty which require fast changes from companies. Accordingly, authors have suggested flexibility in recessions (Gulati et al., 2010;

Mascarenhas & Aaker, 1989) and even confirmed its positive effect on performance (Grewal & Tansuhaj, 2001). Thus, we propose:

*H6: Flexibility has a positive effect on performance in recessions.*

Returning to our model in Figure 2, we claim that in addition to Flexibility's direct effect on performance, it also moderates the relationship between Improvisation capability and performance in recessions. Competitive intensity, typical of recessions, requires firms to take a flexible approach to adapt and improvise (Grewal & Tansuhaj, 2001; Moorman and Miner 1998).

IC does not directly improve performance if the firm is not able to provide the necessary resources for the improvised actions. As we have seen in section 3.3, organizational improvisation is a team effort that requires knowledge and assets from various departments. If the firm is not able to relocate or reconfigure the necessary resources, the improvised idea will not come true and performance will not be improved.

More specifically, strategic flexibility in the allocation and reconfiguration of resources allows the firm to experiment with new alternatives for products and technologies (Worren et al., 2002; Zhou & Wu, 2010). In addition, structural flexibility is necessary as improvisers need to combine minimal definitions of priorities and responsibilities for projects with extensive freedom, interaction and communication throughout the organization (Brown & Eisenhardt, 1997; Worren et al., 2002). Thus, we propose:

*H7: Flexibility positively moderates the relationship between Improvisation capability and Performance in recessions, such that increased Flexibility strengthens the positive effect of Improvisation capability on Performance.*

## 4. DISCUSSION

Recessions are recurring events that cause severe impacts to countries and firms. However, while macroeconomic theory has thoroughly studied the causes and consequences of recessions for countries, strategic management has made little progress in studying the effects of recessions to firm performance. The RBV theory posits that the value of resources depend on their surrounding environment. We build on the RBV and its relationships with theories on entrepreneurship, improvisation and flexibility to create a model that explains the cultural characteristics and capabilities that enable a firm to adapt to and be successful in recessionary environments.

We propose that have superior performance in recessions those firms that, before the recession starts: have (a) the perception to see the recession as an opportunity; (b) entrepreneurial orientation; (c) improvisation capability; and (d) flexibility. We also propose that these constructs have not only direct effects on performance, but also some moderating roles. In fact, in their study of successful companies in recessions, Gulati et al. (2010) find that executives, instead of having a plan, find out what works along the way, in line with improvisation. Moreover, the authors suggest a mix of cost cuts to survive the short term, with investments to allow future growth, in line with flexibility.

Our paper offers three main contributions to research. First, by proposing the cultural characteristics and capabilities that enable firms to have superior performance in recessions, it advances the business cycle management literature, a great, unexplored research stream (Gulati et al., 2010; Mascarenhas & Aaker, 1989) that should be high on the list of strategy scholars (Bromiley et al., 2008). These resources may be also important for other types of turbulent, fast-changing environments that resemble the consequences of recessions. Companies that consider these situations to be recurrent should invest in fostering such a culture and developing those capabilities. For instance, Nadkarni and Narayanan (2007) mention that firms in fast-clockspeed industries respond to various environmental stimuli, focus on experimentation and innovation, and use an act-first, think-later approach, which respectively supports opportunity recognition, entrepreneurial orientation and improvisation. Second our paper contributes to the nascent theory of improvisation. It moves the discussion, mostly focused as a learning perspective, somewhat limited to organization studies, to a new perspective of improvisation as a strategy for performance rather than learning objectives.

There are some boundary conditions to our suggested view of recognizing recession as an opportunity, and acting entrepreneurially, with improvisation and flexibility for superior performance in recessions. First of all, the company may operate in industries or segments that were not affected by the recession, or even benefited from the situation. In this case, the company may just receive the profits from the lucky occurrence. Second, even if the company is affected, the optimism of viewing recession as an opportunity and acting proactively is not always the best solution. Indeed, Gulati et al. (2010) suggest a combination of offensive and defensive moves to fight recessions and Srinivasan et al. (2005) recognize that, for some firms, with certain characteristics, the best strategy would be to cut back investments. Third, if the recession is mild or the company operates in industries where changes are common it may already have the required operational flexibility and the appropriate cultural characteristics and systems that allow fast changes in plans and directions. In this case, existing routines may properly address the required changes and no improvisation is necessary.

We also see limitations regarding testing of our propositions. It may require the use of a survey questionnaire as they deal with cultural characteristics and capabilities that cannot be easily measured with objective data. As it is common in surveys, testing will have to rely on the perceptions of respondents, which can always differ from reality. Moreover, the survey will have to be run after a crisis is over, for a full impact to be investigated. Therefore, the questionnaire will need a longitudinal perspective. Respondents might not remember exactly what happened a few years back, both regarding the effects of the recession and the company's conditions before it started.

We see two promising areas for future research. A first avenue is to investigate other factors that may impact company performance during, or after a recession. In this sense, a first factor of interest would be the strategies followed by companies during the recession. In particular, companies may choose pro-cyclical strategies of merely cutting costs and reducing investments until the end of the crisis, or companies may opt for a counter-cyclical strategy of increasing investments to be better prepared for the post-crisis period (Navarro et al., 2010). A second factor of relevance to performance would be the sector or industry in which the company operates. Typically, suffer more in recessions those companies from industries related to: (a) products that can be considered superfluous, whose purchase can be postponed; or (b) products of high

value, whose purchase depend on credit, restricted in recessions. A third factor of relevance to performance is company size. Small companies, with fewer hierarchical levels, particularly if they are still new ventures with little inertia, may be more entrepreneurially-oriented and have higher improvisation and flexibility capabilities. On the other hand, large companies may have slack resources not only to guarantee survival in difficult times, but also to invest in the exploitation of new opportunities.

A second avenue for future research is to investigate whether the specific environment of certain countries influences the development of the characteristics and capabilities important for performance in recessions. For instance, emerging countries, for their more turbulent environments, may have exposed companies to more turbulence and change and allowed them to develop more improvisational capability and flexibility than those companies from developed countries.

#### Notes:

1. Grewal & Tansuhaj (2001) included technological uncertainty also, but we think technology is not necessarily altered in recessions.
2. We do recognize that the availability of these resources, as well as their value, may change as a result of the recession, but this is beyond our scope.
3. Srinivasan et al. (2005) include opportunity recognition as part of the larger construct called proactive marketing response.
4. The authors also consider a financial flexibility dimension, which is similar to the concept of financial slack and is beyond our scope.

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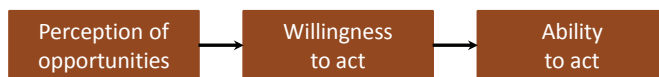
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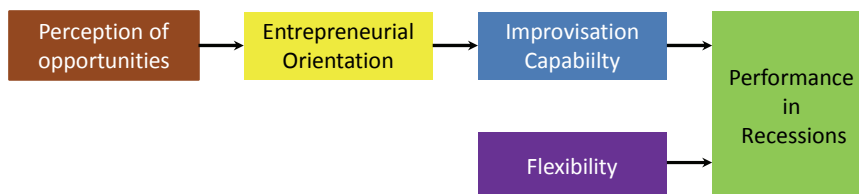
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**Figure 1: The model of sequential steps for good performance**

Sequential steps involved in entrepreneurship (Zahra et al., 2006)



Proposed sequential steps for good performance in recessions



**Figure 2: Summary of hypotheses**

