Firm’s Capabilities and Characteristics that Enable Superior Performance in Recessions

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Propósito Central do Trabalho:

Recessions are recurring events that cause severely affect the environment of countries and firms. Most firms do suffer severe impacts from recessions, but others are less affected or even prosper in these moments (Gulati, Nohria & Wohlgezogen, 2010). However, while economic 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 and how firms should deal with these particular events (Navarro, Bromiley & Sottile, 2010). A theoretical perspective that is helpful for such investigation is the Resource-based view of the firm (RBV), which posits that the value of resources depend on their surrounding environment (Miller & Shamsie, 1996). 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, that provide firms with superior performance in moments of economic recession. More specifically, we built an integrative model to investigate the characteristics and capabilities that firms possess before the recession that may protect it from the negative effects of recessions and grant better performance than that of competitors. Our central proposition is that have superior performance in recessions those firms that, before the recession starts, have: (a) propensity to recognize opportunities within the recession; (b) entrepreneurial orientation; (c) improvisation capability; and (d) flexibility. We also propose that these constructs have not only direct, but also indirect effects on performance.

Marco Teórico:

Recessions are technically defined by the International Monetary Fund as a decrease in Gross Domestic Product (GDP) for two consecutive quarters (Claessens & Kose, 2009). In practice, however, scholars tend to evaluate recessions considering GDP in conjunction with other indicators such as employment and production (Zarnowitz, 1985). 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). 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 (Hall, 2005; Lamey et al., 2012). In addition to the general demand reduction, recessions alter demand patterns, 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 increase competition (Geroski & Gregg, 1997) as demand contraction creates pressure for price cuts, which tends to increase rivalry amongst industry players (Porter, 1979). Third, and related to the first and second points, recessions generate uncertainties (Parnell et al., 2012) to organizations. 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 in amplitude, scope and duration (Bromiley et al., 2008; Zarnowitz, 1985) firms cannot foresee how drastic their effects will be. Finally, firms tend to have very misleading expectations when the economy turns from expansion to recession (Navarro et al., 2010), which makes interpretations and sensemaking more difficult (Grewal & Tansuhaj, 2001). The RBV posits that the value of resources is context-specific (Miller & Shamsie, 1996). Several resources, or capabilities have been suggested by scholars as relevant in turbulent, fast-changing and uncertain environments such as recessions, including
improvisation (Bergh & Lim, 2008), flexibility (Volberda, 1996) and entrepreneurial orientation (Anderson, Covin & Slevin, 2009), but always separately. We link improvisation and flexibility to entrepreneurship based on a sequence of activities proposed by Zahra, Sapienza, and Davidsson (2006). The authors 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. 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. Our model proposes that: (a) the perception of opportunities is represented by a firm’s propensity to recognize a recession as an opportunity rather than a threat to its operations; (b) willingness to act is represented by a firm’s entrepreneurial orientation, which encourages employees to be proactive, innovate and take risks and accept changes; and (c) the ability to implement changes is represented by both improvisation capability and flexibility.

Método de investigação se pertinente:
Our hypotheses were tested using data from Brazilian firms on the 2008-2009 recession, including traded and non-traded firms from various industries. Data were collected from a questionnaire with 5-point, Likert-type scale questions sent to firms either from the Economática database or affiliated with FGV’s students or alumni. The questionnaire was discussed with executives and pre-tested with students attending an executive master of management program. The final version was administered in 2011-2012 either through the LimeSurvey software or on a paper-version. Our dependent variable, performance, was treated as a reflective construct, measured with 5 items. Our first independent variable, OPP, was treated as a reflective construct, measured with 3 items. The other independent variables, EO, IC and flexibility, were treated as formative constructs, with 3, 2 and 3 dimensions, measured with 10, 7 and 12 items respectively. We analyzed our data using Structural Equation Modeling based on Partial Least Squares (PLS), adequate for combinations of reflective and formative constructs. Reflective constructs. Most indicator loadings (24 out of 29) are above the threshold of 0.7 that confirms good indicator reliability. The only 6 exceptions are still well above the 0.4 limit considered acceptable for early stages of theory development (Hair et al., 2011). All constructs have composite reliability above the 0.7 threshold, which confirms good internal consistency reliability. Formative constructs. The minimum indicator weight is 0.233 and its T-value at 2.520 is statistically significant at the 0.05 level, indicating that all indicators sufficiently contribute to the formation of its respective construct. Moreover, the maximum Variance Inflation Factor is 2.166, well below the threshold of 10, indicating that multicollinearity is not a problem, which confirms good discriminant validity. Structural model – Results. Control variables alone explain 20% of the variance in performance. In a model that adds the direct effect of all 4 independent variables, the R2 calculation increases to 34%, indicating sufficient contribution (0.14pp) to explaining the variance. In the final model in which we added our indirect effects, the R2 calculation at 48% indicates that our complete framework is a good predictor of performance in recessions.

Resultados e contribuições do trabalho para a área:
We confirmed our hypothesis that have superior performance in recessions those firms that, before the recession starts, have a propensity to see opportunities within the recession, rather than only threats. These firms are able to invest in opportunities (Srinivasan et al., 2005) and benefit from the returns they provide, improving performance. As most other companies are not investing, suppliers offer discounts, increasing the returns on investments (Navarro et al., 2010). Moreover opportunity costs of redirecting resources are lower after sales dropped (Geroski & Gregg, 1997). We also confirmed that improvisation capability (IC) for fast and
creative actions to exploit these opportunities is important in recessions. Radical changes in demand and competitor moves represent a risk to the survival of companies and require fast responses. With no sufficient time to plan, these companies have to rely on the spontaneity dimension of IC. Moreover, uncertain situations are less analyzable (Daft & Weick, 1984), which creates further difficulties for planning and stronger need for spontaneity. Furthermore, when companies’ responses include closure of production sites (Geroski & Gregg, 1997), their assets need to be reconfigured for a new use, for which the creativity dimension of IC is helpful. Entrepreneurial orientation (EO) has only indirect effects on performance. First, it improves opportunity recognition. Employees in entrepreneurially-oriented firms have the intuition skills required in an environment of difficult analysis. They are well attuned to environmental cues and ready for quick interpretation of changes to detect emerging trends (Wright et al., 2000). A second indirect effect is that EO enhances the positive effect of opportunity recognition on performance. The more a firm is proactive, accepts changes and risks to be innovative, the more it will be willing to invest in the visualized opportunities, thus improving performance. Flexibility also has only an indirect effect on performance, moderated by slack. Firms might show flexibility as a state of openness to consider various alternatives of action. But, only when slack resources are available, firms can take risks to experiment with new strategies and realize the potential of those alternatives to improve performance. In fact, this idea supports the prevalence of IC, rather than flexibility, with a significant effect on performance. The IC construct is intrinsically linked to action as opposed to analysis. One possible explanation for the non-significant direct effects of EO and flexibility on performance is that some inertia may be necessary even in a recession due to its temporary character. Companies that are excessively flexible and engage in many entrepreneurial projects may change course too often and waste scarce resources before having time to enjoy profits from their exploitation. Our paper offers two 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. These resources may be also valuable for other types of turbulent environments, which represents an important implication for both theorists and practitioners. Firms that consider these situations to be recurrent should invest in fostering such a culture and developing those capabilities. Second, the paper enhances our understanding of the complex relationship between EO, flexibility and improvisation. For instance, Anderson et al. (2009) claims that entrepreneurship has a complex relationship with various constructs that are sometimes seen as antecedents, correlates and outcomes of entrepreneurship. Moreover, while Bingham (2010) indicates that improvisation enables flexibility, Brown & Eisenhardt (1997) suggest the opposite. Although these constructs have been extensively studied, particularly EO and flexibility, we are the first authors to test all these constructs in conjunction.

Referências bibliográficas:
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