International Business Review 23 (2014) 1096–1107

Contents lists available at ScienceDirect

International Business Review

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

Resilience: Lessons from banks that have braved the economic crisis—And from those that have not

Gideon M. Markman [a], Markus Venzin [b,*]

[a] Management Department, Colorado State University, Fort Collins, CO, USA
[b] Department of Management and Technology, Bocconi University, Milan, Italy

ARTICLE INFO

Article history:
Available online 4 July 2014

Keywords:
Bank size
Financial services
Home-market solidity
Product/market complexity
Resilience
Sustained superior performance
VOLARE

ABSTRACT

Resilience – a firm's ability to adapt, endure, quickly bounce back, and then thrive despite a catastrophic event – addresses diverse managerial constructs including performance (Carmeli & Markman, 2011). Our exploratory study expands this line of research by making two contributions: first, we develop and test a new revelatory measure for resilience – *VOLARE* – combining financial performance measures with volatility data. Then, applying this new measure to the financial industry, from 2002 to 2011, we identify highly resilient international financial services firms (IFSFs; e.g., banks) and compare them with less resilient IFSFs. Second, we assess three factors – bank size, home-market solidity, and product and market complexity – that the literature has traditionally shown to be highly predictive of banks' performance. Consistent with our expectations, the results corroborate that *VOLARE* is complementary to, but distinct from, traditional financial measures of firm performance. We explain these deviations from traditional studies and suggest further research topics.

© 2014 Elsevier Ltd. All rights reserved.

1. Introduction

Since 1970, the IMF has identified 145 banking crashes, 204 monetary collapses, 72 sovereign debt crises, and Kindleberger (1989) has listed 48 massive financial meltdowns between 1637 (the Dutch tulipomania) and 1929. Despite this prevalence, each financial crisis is often seen as unique (Hallsmith & Lietaer, 2011). Diverse catastrophic events – nature-made hurricane Katrina (US; 2008), the earthquake and tsunami that caused the Fukushima Daiichi nuclear disaster (Japan; 2011), and of course, the human-made global financial crisis (2007–8) – pose a serious and broad-reaching economic threat, particularly when such travails are swift, unpredictable and/or unpreventable. These crises are highly ruinous to society at large – retarding and even reversing economic progress, ravaging corporate investment, and obliterating individuals' pension funds (Barton & Wiseman, 2014). Surprisingly, a few organizations seem to withstand and even prosper despite the destructive impact of such economic gales.

The fact that financial disruptions affect firms' operations is not new, but their adverse bearings, coupled with unexpected survival accounts, present real-life opportunities to assess the concept of organizational resilience – a firm's ability to adapt, endure, quickly bounce back, and then even thrive despite catastrophic events that are beyond its control. This is precisely the purpose of our study as it follows 84 international banks and assesses their resilience before, during and after the 2007–08 financial meltdown.

To offer context, firm performance is often regarded as a key driver of its endurance, so it is no surprise that performance is a highly researched construct in management science (Denrell, Fang, & Zhao, 2013). Consultants and practitioners are also riveted by *persistent superior performance*, as seen by publications that feature 'excellent companies' (Peters & Waterman, 1982), 'built-to-last' firms (Collins & Porras, 1994), and the 'good-to-great' enterprises (Collins, 2001). Attention to persistent superior performance is often motivated by its revelatory potential: studying firms that sustained their superior performance can shed light on the capabilities that produced said performance in the first place. Put differently, performance can be a highly observed and well-parameterized outcome, so managers and scholars seek to measure it, and then identify the drivers or antecedents as a tool to enhance future performance.

We aim at explaining why a few international financial services firms (IFSFs; e.g., banks), but not most others, exhibited persistent superior performance despite the 2007–8 global economic crisis. Interestingly, neither the field of strategic management nor the literature on international business are in total agreement on the

[*] Corresponding author.
E-mail address: markus.venzin@unibocconi.it (M. Venzin).

http://dx.doi.org/10.1016/j.ibusrev.2014.06.013
0969-5931/© 2014 Elsevier Ltd. All rights reserved.

drivers of persistent superior performance (Denrell et al., 2013). Based primarily upon an economic tradition, one research stream emphasizes the importance of external market forces in shaping firm performance (Porter, 1980). Another line of thoughts, in the tradition of the resource-based view or RBV, holds that superior performance is substantially driven by what firms own – a combination of valuable, rare, inimitable, and non-substitutable (VRIN) resources and heterogeneous capabilities (Barney, 1991; Levinthal, 1995; Lieberman & Montgomery, 1988; Miller, 2003; Teece, Pisano, & Shuen, 1997; Wernerfelt, 1984).

In addition to the resource-capability perspective, a complementing interpretation attributes persistent superior performance to internal activities and external events. Examples include, but are not limited to, inimitable routines (Winter, 1971; Lippman & Rumelt, 1982), the erection of isolating mechanisms (Rumelt, 1984, 1991), the attainment of first-mover-advantages (Lieberman & Montgomery, 1988), time-compression diseconomies (Dierickx & Cool, 1989), switching costs (Beggs & Klemperer, 1992), network externalities (Katz & Shapiro, 1987; Farrell & Saloner, 1988), learning curves (Argote, 1999), and reputation (Podolny, 1993).

We acknowledge that at a broader conceptual level, persistent superior performance is driven by some combinations of resource-capability mix, firm actions, historical events, market contexts, and industry conditions. We also concur that common performance measures are adequate – they offer a sound proxy for what they are intended to measure. Diverging from prior work, however, we question the use of yearly performance measures for the purpose of assessing firm *resilience* – which we define as no less than 10 years of *persistent superior performance*. For example, profitability, productivity, efficiency, cash-flow, economic value added (EVA), return on assets (ROA), and growth are useful yearly measures but they are no match for assessing long-term (10-year) resilience. Similarly, the use of a single performance measure – while ignoring others, or factoring risk in isolation – might too be inappropriate for capturing a firm's long-term resilience.

In sum, theory and empirical evidence on performance measurements abound. Surprisingly, however, little has been done to develop a dedicated, composite-based measure that is designed for persistent superior performance – resilience. Similarly, not much has been done to develop a measure that would transcend spurious and industry effects as well as disruptive events such as the 2007–08 global financial crisis. This is a serious criticism because – as we will show – the development of a specialized measure of resilience might shed light on firm activities that are more likely to bring about and sustain persistent superior performance.

Our study proceeds as follows: first, we offer a brief review of some of the most common performance measures and describe their strengths and limitations. Second, we introduce our composite measure of long-term performance and explain why it is better calibrated for enumerating firm resilience. Then, applying our measure to companies in the international banking industry, we assess some factors that prior research is endorsing as highly differentiating between persistent-superior-performance firms and those that are not. We conclude by suggesting areas for expanding research in the area of resilience.

2. Performance measures

Firm performance matters; it creates opportunities that attract and motivate top talent, it supplies access to resources for growth and for fending off competition, a gateway to critical partners, suppliers, and buyers, and it provides cash outlays for international expansion, research and development (R&D), and innovation. On the other hand, underperformance can set off gales of creative destruction with devastating chain reactions. For example, when assets are misallocated and strategies are misdirected, competitors diffuse talent, jobs get eliminated, markets react negatively, the cost of capital increases, and management ends up diverting attention from, say, international expansion, growth, and innovation, to fighting daily upheavals.

Performance measures gauge the degree to which firms outcompete their industry, including, for example, for how long firms can sustain their positions relative to their rivals. At a broader level, performance is a quantitative representation of a firm's financial health, operational stamina, and strategic position. Such measures allow firms to use key financial ratios as indicators to manage input–output conversion and progress towards achieving their goals, increasing accountability, and re-defining their strategy. Indeed, performance that is measured is more likely to be improved upon than performance that is not (Porter & Lee, 2013). If performance yardsticks link strategy, resources, and operations with prescribed outcomes, then reliable quantification of performance is critical. Our view is that there are numerous types of performance (e.g., financial, non-financial, balanced scorecard, etc.) and various ways to quantify each performance type. This diverse framing of performance explains why some performance measures often provide different, and even conflicting, views of firm effectiveness and endurance.

Performance may also include the capacity to adapt and thrive in the face of a persistent industry-wide disruption. While the literature on population ecology offers a wealth of insightful lessons on this subject (Hannan & Freeman, 1977, 1984), the broader paradigm is not as useful for the purpose of our study because it caters to entire populations rather than focusing on a few firms that outperformed their industry. For example, population ecology would seek to explain the "mortality rate" of the entire banking population rather than account for the divergent trajectories of the few successful banks within that population (Pfeffer & Salancik, 2003). We do not ignore this literature; we simply focus on one type of performance, which we call *resilience* (persistent superior performance) because, as we will show, it can differentiate between banks that broke their industry dogmas and braved the economic crisis and those that did not.

2.1. Performance measures and challenges

A familiar management principle is that any improvement requires tracking and measuring. Firms improve and thrive by tracking progress over time and comparing their performance to that of others inside and outside their industry. Indeed rigorous measurement is one of the most important steps in improving outcomes (Porter & Lee, 2013). The reality is that the great majority of firms do measure diverse outcomes, and yet they often do not track their resilience or endurance level. This surprising truth goes a long way towards explaining why decades of research on firm performance has not advanced our understanding of what makes firms resilient (Carmeli & Markman, 2011).

At this point, it is important to issue a disclaimer: while the goal of the current study is to develop a measure of firm resilience, it does not criticize traditional accounting practices or the use of prevailing performance measures per se. Far from it. Accounting and financial measures and the quantification of performance – e.g., earnings and revenue growth, cash flow, debt load, etc. – are clearly paramount. Indeed, a firm's financial performance allows decision-makers to assess the firm's strategies and activities in objective monetary terms. We worry, however, about the misapplication of traditional performance measures for the purpose of gauging firm resilience. That is, measures that were designed, optimized, and validated to parameterize quarterly and yearly financial performance are not quite suitable for the purpose of gauging firms' ten-year resilience.

As is to be expected, the performance measurement literature is vast and highly diverse so offering a detailed review is beyond the

Download English Version:

https://daneshyari.com/en/article/1002430

Download Persian Version:

https://daneshyari.com/article/1002430

Daneshyari.com