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# The role of resilience capabilities in shaping how firms respond to disruptions<sup>☆</sup>

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## ABSTRACT

This study sheds light on firm resilience in the face of disruptions. A number of resilience capabilities are proposed as factors that influence firm resilience. Data collected from an emerging economy during a period of severe power supply disruptions were used to test the proposed hypotheses. The findings contribute to our understanding of how proactive risk management mediates the influence of disruption orientation and investment in risk-averting infrastructure on firm resilience. The study shows that the ability of a firm to reconfigure its resources enables the firm to become more resilient. Disruption impact does not moderate this relationship.

## 1. Introduction

Disruptions are inevitable, yet there are striking differences in how firms cope with disruptions. Why do some firms fail in the face of disruptions, while others survive, thrive, and emerge more resilient? This paper addresses this question.

This study examines how firms can develop the necessary capabilities to become resilient to disruptions. The study responds to the call for scholars to explore two major challenges: first, to manage firm vulnerability and resilience (van der Vegt, Essens, Wahlstrom, & George, 2015), and second, to explore the challenges facing Africa (George, Corbishley, Khayesi, Haas, & Tihanyi, 2016). By studying South African firms that have experienced severe disruptions, this study simultaneously contributes to the discussions addressing both these challenges.

Although some scholars have explored the challenge of resilience (e.g., Sabatino, 2016), much research is still needed to understand how firms can become resilient to different types of disruptions in today's turbulent environment. Studies of resilience have tended to focus on supply chain disruptions. Furthermore, van der Vegt et al. (2015) report that the research on resilience has focused on the supply chain context and has remained largely conceptual. Studies of resilience have also focused on large firms in developed economies (e.g., Bode, Wagner, Petersen, & Ellram, 2011). There is therefore a gap in our understanding of the resilience of small, emerging economy firms that face other types of disruptions.

George et al. (2016) highlight the lack of institutional infrastructure

in Africa, including electricity generation infrastructure, and explain how this challenge has caused many firms to fail. For example, “in South Africa, small and medium sized enterprises have among the highest failure rates in the world (70%), largely attributable to external factors.”

A survey in South Africa found that 71% of small businesses consider “frequent and prolonged power failures” the most significant threat to their continuity and survival (ENCA, 2015). Power supply is a severe threat to business in South Africa because economic activity depends on a reliable power supply. South Africa suffered a period of frequent power supply disruptions, which caused almost daily nationwide disruptions to business and domestic operations for approximately eight months from November 2014 to June 2015. While some firms failed during this period, others proved more resilient. This scenario provides a platform for empirical studies of how firms responded to these power supply disruptions and which capabilities enabled their resilience to the disruptions. The challenge for small firms in dealing with power supply disruptions lies in their limited resources. Sullivan-Taylor and Branicki (2011, p. 5568) explain that small firms are susceptible to resource constraints, which impede their resilience under disruptive conditions. Runyan (2006) explains that small firms have largely been overlooked in the disruption discussion. Wright, Filatotchev, Hoskisson, and Peng (2005, p. 27) provide further motivation for studying firms in emerging economies and assert that “for the same reason that strategy practice in emerging economies pushes the frontier in strategic thinking, strategy research with a focus on these emerging economies, both as an opportunity and as a necessity, is

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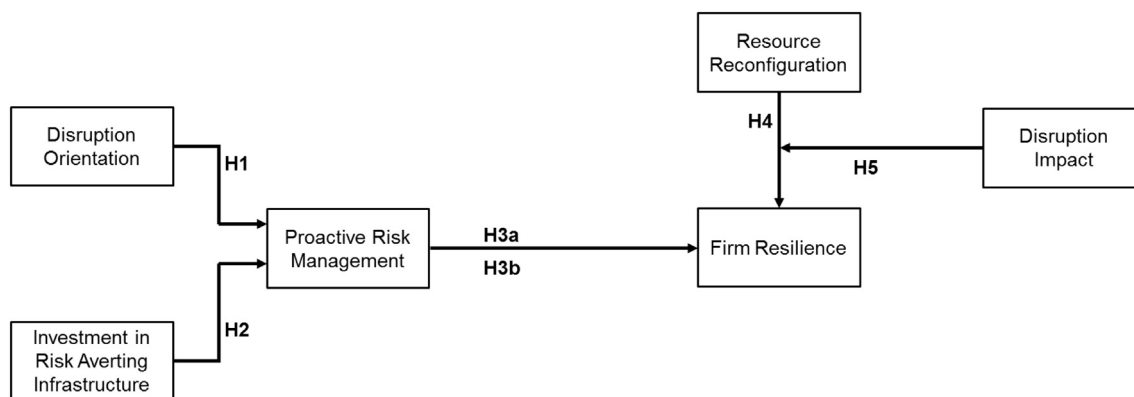


Fig. 1. Conceptual framework.

challenging conventional wisdom in academic thinking and theories in significant ways.”

We therefore contribute to the literature by empirically studying the way small firms confront severe power supply disruptions in an emerging economy. Drawing on the dynamic capabilities perspective (Teece, Pisano, & Shuen, 1997), this study focuses on how specific resilience capabilities (i.e., resource reconfiguration, disruption orientation, investment in risk-averting infrastructure, and proactive risk management) influence a firm's resilience to power supply disruptions. This study also examines whether firm size matters for firm resilience.

Section 2 discusses the theory on capabilities, disruptions, and resilience and presents the hypotheses tested in this study. Section 3 describes the research method. Section 4 describes the data analysis and presents the results. Section 5 discusses findings, notes limitations, indicates avenues for future research, and draws conclusions. Section 6 highlights practical implications for managers who must confront disruptions.

## 2. Theory and hypotheses

The term disruption has been used to describe external shocks (Shepherd, Douglas, & Shanley, 2000), environmental jolts (Meyer, 1982), extreme events (Sullivan-Taylor & Branicki, 2011), and crises (Vargo & Seville, 2011). Despite nuances in each definition, each term broadly refers to an event with an adverse economic impact, potentially threatening business survival (Shepherd et al., 2000).

Similarly, the term resilience is defined differently depending on the field of study. Resilience is often linked to Holling's (1973) original work on resilience in ecology, wherein Holling (1973) describes resilience as the system's ability to cope with and absorb disturbances. Roundy, Brockman, and Bradshaw (2017) assert that resilience refers to a firm's ability to recover from shocks and adapt to disruptions. Van de Vegt et al. (2015, p. 973) describe resilience as a system's ability to be flexible, withstand stress, and recover from a disruption, noting that “to understand a system's resilience, it is important to identify the capabilities and capacities of important parts of the system, and to examine how they interact with one another and with their environment to predict key performance outcomes.” The dynamic capabilities perspective, derived from the resource-based view (RBV), is therefore a useful lens through which to view resilience and its antecedents.

By conceptualizing the firm as a set of unique physical and intangible resources, the RBV explains why some organizations outperform others (Barney, 1991). Vanpoucke, Vereecke, and Wetzels (2014) explain the importance of applying the RBV when seeking to identify the resources that contribute to a firm's success. Vanpoucke et al. (2014, p. 447) assert that “a capability view complements the RBV by identifying the specific capabilities that help firms apply their resources across multiple environments or situations.” Wang and Ahmed (2007, p. 35) define a firm's capability as the “capacity to deploy resources,

usually in combination,” incorporating “explicit processes and those tacit elements (such as know-how and leadership) embedded in the processes.”

Under the Schumpeterian perspective (Vanpoucke et al., 2014), maintaining competitive advantage in a changing, volatile environment is challenging and requires firms to constantly reconfigure resources to fit changing situations. This requirement of constant resource reconfiguration implies the need for dynamic capabilities to cope with uncertain environments. Teece et al. (1997, p. 510) refer to dynamic capabilities as the firm's ability to “exploit existing internal and external firm-specific competences to address changing environments,” considering “how combinations of competences and resources can be developed, deployed and protected.” Wang and Ahmed (2007) assert that a firm's ability to swiftly and creatively apply competencies is the key to understanding dynamic capabilities, which effectively enable the firm to transform its existing resources and capabilities to sustain its competitive advantage.

Annarelli and Nonino (2016) report that a number of studies have highlighted that resources and capabilities are critical for building organizational resilience. In a discussion on small firm resilience, Sullivan-Taylor and Branicki (2011) stress the importance of understanding which capabilities are required in preparation for and response to extreme events. Bhamra, Dani, and Burnard (2011) assert that small firm resilience is a function of the firm's capability and resource availability. Sheffi and Rice (2005) identify flexibility and redundancy as capabilities that can increase firm resilience.

### 2.1. Disruption orientation

Within the supply chain context, Bode et al. (2011, p. 837) define the concept of supply chain disruption orientation as “a firm's general awareness and consciousness of, concerns about, seriousness toward and recognition of opportunity to learn from supply chain disruptions.” The concept of disruption orientation helps generalize this definition at the firm level. Disruption orientation is effectively an adaptation of the supply chain construct to a broader range of disruptions that affect the firm (e.g., power supply disruptions). Accordingly, firms with a disruption orientation should be more likely to be resilient to disruptions Fig. 1.

### 2.2. Proactive risk management

Linked to the concept of disruption management, is the concept of risk management, which can be proactive or passive. The concept of proactive risk management stems from the firm's need to be able to detect and plan for disruptions. Proactive risk management indicates the firm's ability to proactively obtain information regarding disruptions. This information can then be used to plan appropriate responses. To characterize the alertness and approach of firms in volatile

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