Business Management and Strategy
ISSN 2157-6068
2024, Vol. 15, No. 1

The Influence of Organizational Resilience on SME Firm Performance: A Conceptual Model

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Received: March 5, 2024 Accepted: April 27, 2024 Published: May 1, 2024

doi:10.5296/bms.v15i1.21813 URL: https://doi.org/10.5296/bms.v15i1.21813

Abstract

SMEs' performance has been affected due to the pandemic situation, and managers should pay attention to the changing external environment and adjust their business strategies. For long-term business sustainability, organizational resilience is nevertheless an important factor that enables SME businesses to mitigate the disruption caused by the innate uncertainty presented in the environment. This paper extends the research on the development of organizational resilience in the field of business management by doing a complete literature review and proposing a link between organizational resilience and firm performance. The findings of this study indicate that there is a considerable association between organizational resilience and firm performance. The proposed conceptual framework will make significant contributions to future studies.

Keywords: organizational resilience, SEMs, firm performance

1. Introduction

The business environment is volatile and can be easily disturbed by changing conditions (Gong et al., 2020). Furthermore, organizations are perceived to encounter myriad adversities that threatens their operations and performances (Campagnolo, 2022; Williams et al., 2017). Hence, businesses must seek changes in their operations and develop contingency plans to stay competitive and acquire higher revenue in an ever-evolving market (Liu et al., 2020). In fact, organizational resilience is both a process and an outcome, broadly defined as "the process by which an actor builds and uses its capability endowments to interact with the environment in a way that positively adjusts and maintains functioning before, during, and following adversity" (Williams et al., 2017).

Due to the complex internal and external environmental influence, SMEs are confronted with

Business Management and Strategy
ISSN 2157-6068
2024, Vol. 15, No. 1

added difficulties in operating and sustaining high performance (Sun et al., 2021). Under such circumstances, a resilient organization can identify relevant weak signals more quickly due to its developed capability to respond to a broader array of events. One essential element for organizational resilience is the high levels of slack resources, especially financial reserves (Vogus & Sutcliffe, 2007). In other words, organizational resilience involves both planning for future crises and adapting to chronic stresses or acute risks (Barasa et al., 2018).

Then, "make your organization more resilient" seems to be the buzzword in management practice recently (Hillmann & Guenther, 2020). Although the concept of organizational resilience has gained momentum in high-quality journals almost a decade ago (Clément & Rivera, 2016; Williams et al., 2017), it has been criticized for being vague and lacking a consistent definition (Burnard & Bhamra, 2011; Linnenluecke, 2017).

Given the multiple obstacles that SMEs confront, this conceptual study aims to address a research gap by focusing on positive organizational resilience. The purpose of this study is to investigate the relationship between organizational resilience and firm performance.

2. Literature Review

2.1 Organizational Resilience

Resilience has been increasingly acknowledged as an important capability for an organization to "react to and recover from duress or disturbances with minimal effects on stability and functioning" (Williams et al., 2017). Nevertheless, most researchers feel it is a firm capability to successfully absorb, adapt ~~to~~, and finally capitalize on the disruptive events that may jeopardize existence (He et al., 2023; Melián-Alzola et al., 2020; Chowdhury et al., 2018).

Organizational resilience has been the focus which leads to rapid change in the world. It is an organizational capability that firms demonstrate in a crisis, which is based on behaviors such as acquiring, integrating, and leveraging entrepreneurial resources (Mzid et al., 2019). The organization not only needs to develop the aforesaid capability, it is also important for it to anticipate, react and adapt as well as respond in a creative, flexible and resilient manner (He et al., 2023; Williams et al., 2017). It is nonetheless, the most direct component explaining why companies can successfully overcome crises (Granig & Hilgarter, 2020).

2.2 Firm Performance

To measure firm performance, different criteria have been used so far. According to Venkatraman and Ramanujam (1986), a company's ability to accomplish its objectives is shown by its performance, which is measured using both financial and non-financial metrics. Non-financial success metrics include market share, quality, satisfaction, and market efficacy, whereas financial measures include economic considerations (Zehir et al., 2016). Integrated performance measurement systems "strive to align the organization's process just as production, marketing, and other traditional functional areas, with corporate strategy using both performance drivers and outcome measures" (Bremser & Barsky, 2004).

Choongo (2017) pointed out there are two types of firm performance in SMEs: non-financial performance and financial performance. Financial performance measures return on assets, return on equity, profit-to-revenue ratio, cash flow from operations, profit, return on investment, revenue growth, market share won, productivity, effectiveness, and efficiency. Indicators of non-financial performance measures include corporate image, reputation, quality of human resources, customer base, brand devotion, and investment in research and development.

As a result, firm performance is the foremost strategic goal of a firm, with measures such as return on investment to reflect the achievement of the economic goals of a company. Commercial indicators such as sales growth, market share, or the success of a new product launch, on the other hand, measure technological efficiency (Venkatraman & Ramanujam, 1986). The sales growth, reputation and image, customer satisfaction, market share, and success of new product launches were referred to as the commercial success of the company and used to measure commercial performance (González-Benito, 2007).

2.3 Relationship between Organizational Resilience and Firm Performance

In more recent reports, He, Huang, Choi and Bilgihan (2023) found that the relationship between organizational resilience and organizational performance in service trades was highly vulnerable during crises due to their specific characteristics. The findings revealed that organizational resilience positively and significantly affects business performance.

Seraj, Fazal and Alshebami (2022) explored the impact of entrepreneurial resilience on the relationship between competency and financial literacy with sustainable business performance. The study applied a quantitative method for collecting data from 220 small business entrepreneurs in Saudi Arabia using an online questionnaire. The study’s findings suggested that entrepreneurial resilience had a significant impact on sustainable performance while also mediating the effect of financial literacy and competency on sustainable performance across Saudi SMEs. The study’s contribution, in addition to expanding the corpus of knowledge, will assist policymakers in developing effective initiatives to encourage SMEs that have been badly hit by the COVID-19 epidemic to perform sustainably.

Beuren, Santos and Theiss (2021) research the relationship between organizational resilience and business performance in companies that have undergone corporate reorganizations. The data was collected through a random selection of 102 executives and managers from Brazil. The result showed that organizational resilience influences business performance (in the dimensions of economics, customers, and processes). The primary implication of the study focused on the benefits of active organizational resilience on multifaceted company performance; notwithstanding, it also offered managers insight into how to deploy resources to benefit both the employer and the employee. The findings show that organizational resilience has a direct and positive effect on business performance.

García-Contreras, Valle-Cruz and Canales-García (2021) recently conducted an empirical analysis of the correlation between organizational resilience and SME firm performance during the COVID-19 pandemic. To gather data, the research obtained support from a sample of 112 SME attendants in two Latin American countries (Mexico and Chile). Findings suggested that there was a positive relationship and impact of organizational resilience on SME performance.

Anwar, Coviello and Rouziou (2021) investigated the relationship between organizational resilience and firm performance during the COVID-19 pandemic's external disruption. The findings indicated that when such companies are resilient, they perform significantly better during times of crisis. At the same time, management team members' resilience and inter-functional cooperation improve organizational resilience. Organizational resilience is also enhanced by the inter-functional cooperation and personal resilience of the management team members. The results demonstrated that, in nascent ventures, organizational resilience has a large and favorable impact on business performance.

Zahari, Mohamed, Said and Yusof (2021) aimed to examine the role of leadership capabilities, organizational resilience, and organizational performance among higher private learning institutions in Malaysia. The analysis of the 120 responses was accomplished by questionnaire survey statistics. The study discovered that organizational resilience and leadership capabilities have a positive and significant impact on the performance of private higher education institutions. The work focuses on values that have an impact on organizational performance, which is a critical aspect of surviving in an uncertain environment.

Marco-Lajara, Úbeda-Garcíam, Ruiz-Fernández, Poveda-Pareja and Sánchez-García (2021) studied the rural hotel resilience during COVID-19, and the main objective is to assess the influence of CSR strategies on the organizational resilience and the influence of organizational resilience on the firm performance in the wake of COVID-19. The sample contained a total of 100 Spanish managers' responses, and PLS-SEM was used to tabulate the statistics. The finding demonstrated a positive and significant impact of CSR strategies on organizational resilience and the effect of organizational resilience on hotel performance.

Melián-Alzola, Fernández-Monroy and Hidalgo-Peñate (2020) proposed a holistic model to measure organizational resilience in the tourism industry in the Canary Islands. The study of hotel resilience is a critical topic for the survival and competitiveness of organizations and destinations due to the tourism industry's vulnerability, as proven by the COVID-19 pandemic. The research model proposes a two-factor structure for predicting organizational resilience and hotel performance. Hotel performance not only recognizes resilience as a result, but it also explains what organizations are resilient for. After analyzing the 72 usable surveys, the findings showed that organization resilience has a significant effect on performance.

Zabłocka-Kluczka and Sałamacha (2020) built a theoretical research model and verified the sample of 268 organizations operating in Poland (among manufacturing organizations 122, trade organizations 59, and service organizations 72). The obtained research results showed that the built regression model was valid and statistically significant. The obtained results showed a statistically significant and high positive correlation between organizational resilience and organizational performance. Hence, there is reason to believe that the role of organizational resilience in shaping organizational performance seems to be a significant issue in the management of modern organizations.

Suryaningtyas, Sudiro, Troena and Irawanto (2019) sought to further knowledge by researching the relationship between organizational resilience and firm performance, both directly and indirectly. The findings showed that organizational resilience was positively related to firm performance. The investigation was carried out in three-star hotels and resorts in two locations in East Java, Indonesia. The findings demonstrated that organizational resilience has a significant impact on firm performance.

Rodríguez-Sánchez, Guinot, Chiva and López-Cabrales (2019) pointed out that organizations must strive in an uncertain and tough environment, and the function of organizational resilience at work has been of particular attention over the last decade. In the study, structural equation modeling was used to test the research model with a sample of 296 companies from different sectors. The result showed that organizational resilience had a positive influence on firm performance via organizational learning capability. However, the direct relationship between resilience and performance was not significant.

Chowdhury, Prayag, Orchiston and Spector (2018) concluded that the adaptive resilience of tourism organizations has a positive and significant influence on business performance in the post-disaster context of Christchurch, New Zealand. The sample is selected from 251 remaining operation organizations. The findings had several theoretical and managerial implications, but most importantly they established the positive effects of organizational resilience-building activities on business performance.

Prayag, Chowdhury, Spector and Orchiston (2018) investigated the influence of organizational resilience on financial performance. The sample was collected from tourism operators with 84 email surveys. Organizational resilience was divided into two dimensions planned resilience and adaptive resilience. The study’s findings revealed that planned resilience had no statistically significant impact on financial performance, however adaptive resilience had a positive and significant impact. The findings validated organizational resilience as a strong predictor of financial performance.

Ortiz-de-Mandojana and Bansal (2015) investigated 121 U.S-based 242 individual firms over 15 years, and because of the organizational resilience which is defined as a latent, path-dependent construct, through the long-term outcomes, they all achieved improvement in financial volatility, sales growth, and survival rate. The finding showed that organizational resilience resulted in lower financial volatility, higher long-term growth, and higher performance over 15 years of data.

Business Management and Strategy
ISSN 2157-6068
2024, Vol. 15, No. 1

3. Conceptual Framework

The framework components (shown in Figure 1) include independent and dependent variables, with organizational resilience as the independent variable and firm performance as the dependent variable.

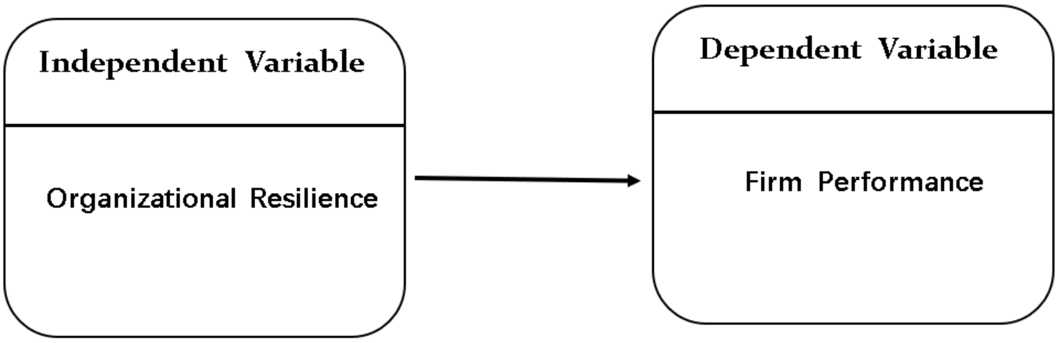

Figure 1. Conceptual framework of the impact of organizational resilience on firm performance

4. Propositions

Based on the aforementioned literature analysis, the following propositions will be addressed:

P1: Organizational resilience is significantly related to firm performance.

5. Conclusion

After reviewing the literature and discussing organizational resilience, it can be seen that there is a significant effect between organizational resilience and firm performance. Given the insufficient research on firm performance in the past, we need to call for the strengthening of the importance of organizational resilience. This is a expanding research on performance concerns in the field of organizational management, and it warrants additional investigation in terms of fostering and developing organizational resilience. This study can help managers and decision-makers in SMEs better understand the variables that influence firm performance. Most essentially, they will identify the true causes of firm performance, and increase SMEs' ability to respond to environmental change.

By increasing organizational resilience, organization can improve their ability to withstand crises. With that ability, business managers, regardless of optimizing their management style and improving the sense of belonging and cohesion of their employees, can efficiently make organizational adjustments when a crisis strikes. In addition, after a crisis occurs, managers need to reflect and look for problems promptly to prepare for possible future crises. The enhancement of enterprise organizational resilience can improve firm performance.

Acknowledgments

Not applicable.

Authors contributions

Not applicable.

Competing interests

Not applicable.

Informed consent

Obtained.

Ethics approval

The Publication Ethics Committee of the Macrothink Institute.

The journal's policies adhere to the Core Practices established by the Committee on Publication Ethics (COPE).

Provenance and peer review

Not commissioned; externally double-blind peer reviewed.

Data availability statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

Data sharing statement

No additional data are available.

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