

# **STRATEGIC RESPONSES OF SME'S TO CRISIS ENVIRONMENT: THE ROLE OF ORGANIZATIONAL IDENTITY**

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# RESEARCH MOTIVATION

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- COVID-19 shock has negatively affected on all global economic sectors (Carletti et al., 2020);
- The pandemic creates a significant challenge for the survival small and medium sized enterprises (Guo et al., 2020);
- In order to survive firms are forced to interact with crisis environment and chose adequate strategies as a response;
- We suppose that organizations have identities (Albert and Whetten, 1985; Ashforth and Mael, 1989) which influence on choosing the strategic response during the crisis (Meyer, 1982; Miles and Cameron, 1982);
- It is expected that organizational identity is helpful concept to tackle serious issues that represent significant challenges to the company during the crisis (van Rekom and van Riel, 2000).

**Research question:** How does the organizational identity relate to SMEs' choice of strategic response to crisis?

# THEORETICAL FRAMEWORK

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The concept of **SME's strategic responses** to crisis (Miles et al., 1978):

- a) Proactive: an orientation toward adaptation to changing environmental conditions;
- b) Reactive: an orientation toward cost reduction objectives.

The concept of **organizational identity** is a “collective set of shared beliefs about the central, distinctive, and enduring features of an organization” (Albert and Whetten 1985):

- a) Utilitarian: an orientation toward economic production;
- b) Normative: an orientation toward ideological and social values;
- c) Dual: a combination of Utilitarian and Normative identities.

# DATA AND METHODOLOGY

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**Methodology:** multiple case study using a longitudinal research design (Yin, 1989).

**Period of data collection:**

- 1-st wave - spring 2020
- 2-nd wave - winter 2021

**The data was taken from:**

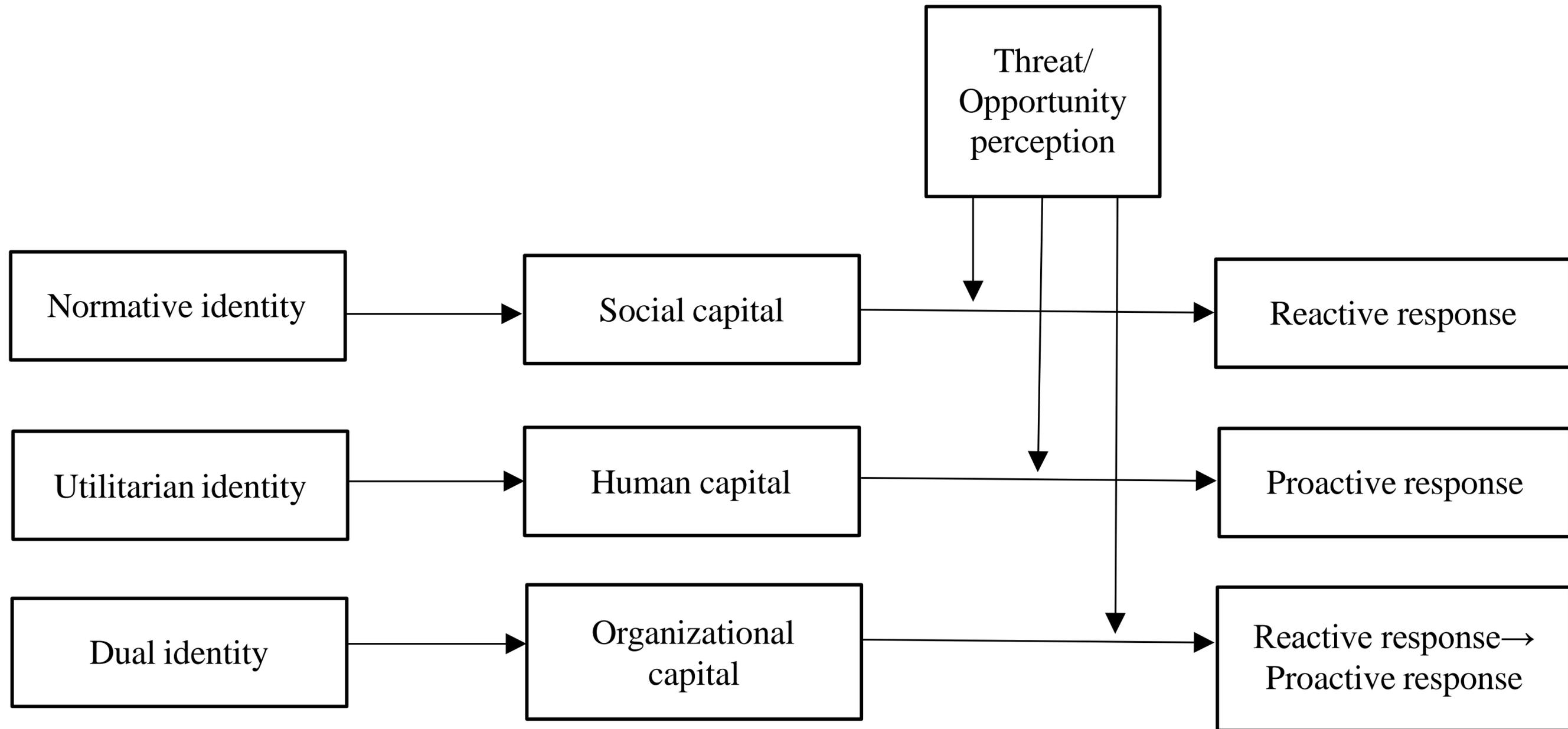
- Interviews of founders and top managers of 9 firms from different spheres of business. 3 firms with reactive strategic responses, 3 firms with proactive strategies, and 3 firms that switched from a reactive to proactive strategic response.
- External open sources (companies' social networks accounts, websites, documents etc.).

# CASES' DESCRIPTION

Company code	Industry	Date of founding	Interviews (date and duration)	Strategic response	Type of response	Revenue changes during 1 <sup>st</sup> wave	Revenue changes during 2 <sup>nd</sup> wave
Company A	Wholesale trade	2015	21.07.2020, 22 minutes, 18.12.2020, 22 minutes	Reactive	Retrenchment	Increase 32%	Increase
Company B	Online and wholesale	1993	03.07.2020, 52 minutes, 17.12.2020, 73 minutes	Reactive	Retrenchment	Loss	Loss
Company C	Museum, entertainment	2018	07.05.2020, 81 minutes, 17.02.2021, 50 minutes	Reactive	Mobilization of savings	Loss 100%	Loss
Company D	HoReCa	2016	04.08.2020, 30 minutes, 08.02.2021, 37 minutes	Proactive	Rise in investments	Loss	Increase 1000%
Company E	Marketing	2010	03.07.2020, 28 minutes, 20.01.2021, 37 minutes	Proactive	Innovation	Loss	Loss
Company F	Wholesale and retail hardware stores	1995	30.07.2020, 20 minutes, 18.12.2020, 22 minutes	Proactive	Expansion	Increase 36%	Increase 20%
Company G	Retail trade	2002	03.07.2020, 28 minutes, 20.01.2021, 37 minutes	Reactive / proactive	Retrenchment / Rise in investments	Loss 86%	Less losses
Company H	Production and development of resources accounting systems	1998	21.07.2020, 25 minutes, 18.12.2020, 25 minutes	Reactive / proactive	Retrenchment / Innovation	Loss 40%	Increase 10%
Company I	Production of cookies and gingerbread	2000	24.07.2020, 37 minutes; 11.12.2020, 36 minutes	Reactive / proactive	Retrenchment / Innovation	Loss 15%	Less losses

# LINKING ORGANIZATIONAL IDENTITY AND STRATEGIC RESPONSES TO CRISIS: THE KEY MECHANISM

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# FINDINGS

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Firms with utilitarian organizational identity choose proactive strategic responses.

- Utilitarian-based companies are more focused on the human capital, namely the knowledge, competencies, and skills of employees;
- The COVID-19 pandemic is an opportunity for them to strengthen organizational competencies through staff replacement with more qualified employees;
- Utilitarian-based companies realize that strategic changes call for a renewal of firm knowledge and competencies or the reconfiguration of the organizational capital.

# FINDINGS

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Firms with normative organizational identity implement reactive strategic responses.

- Firms with normative organizational identity heavily rely on social capital;
- Firms are focused on defending the level of trust gained from employees, customers, and suppliers before the crisis;
- Leaders of normative-based firms confirm that people and relationships are supportive under the crisis context;
- The maintenance of social capital also deflects organizational attention from the need to reconfigure the organizational capital.

# FINDINGS

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Enterprises with dual organizational identity adopt a sequential approach to strategic responses.

- Firms with dual organizational identity concentrate on organizational capital that in turn is known to be built on both human and social capital;
- First, they show the freezing behavior, trying to scan the external environment, calculating possible scenarios for action, or introducing anti-crisis measures developed through their earlier crisis experience;
- They spend time to prepare the organizational capital for strategic transformation, which is their next step.

# THEORETICAL CONTRIBUTIONS

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- We address the call for more research on strategy-making under crisis and internal determinants of this process (Wenzel, Stanske, & Lieberman, 2020);
- We also add to the organizational adaptation theory. Our findings are supported by the research stream on organizational flexibility and adaptation (Best et al., 2021; Weerawardena et al., 2021);
- We add to research on crisis perception by top managers (König, Graf-Vlachy, & Schöberl, 2021; Shimizu, 2007).

# PRACTICAL IMPLICATIONS

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- Depending on the degree of organizational identification, founders might assess their readiness to resist the crisis or revise existing arrangements and policies to offer a better fit with a particular type of response;
- Top managers may develop a clearer understanding of the importance of organizational capabilities for adopting a proactive response in times of adversity.

**Thank you for your attention!**