Int. J. Production Economics 147 (2014) 410–428

Contents lists available at ScienceDirect

Int. J. Production Economics

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

Antecedents of organizational resilience in economic crises—an empirical study of Swedish textile and clothing SMEs

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ARTICLE INFO

Article history:
Received 22 May 2012
Accepted 27 February 2013
Available online 15 March 2013

Keywords:
Resilience
Crisis
Small and medium-sized enterprise
SME
Textile and clothing
Sweden

ABSTRACT

Economic recessions have created challenges for small and medium-sized enterprises (SMEs) and contributed to disruptions requiring them to be resilient. At times of economic crises, SMEs face major threats to their financial performance and ultimately to their survival. The average number of Swedish textile and clothing (T&C) firms that went bankrupt during the recent crisis (2007–09) escalated twofold compared to the average over 2000–10. Following the 1990s economic crisis nearly 12 per cent of the T&C companies went bankrupt in 1994–95. The structural industrial statistics also plummeted in these crisis years, aggravating many internal problems in SMEs as a ripple effect.

This study concentrates on the constraints faced by Swedish textile-related SMEs, primarily during the economic crises of the past two decades (1990–93 and end 2007–09), and identifying the antecedents and their different degrees of influence on economic resilience. It also deepens the understanding of the underlying patterns in the antecedents, observed in SMEs, favouring or inhibiting resilience due to their significance or deficit, respectively.

The paper adopts an exploratory research conducted in two phases, first through a survey and followed by a series of interviews, responded by eight Swedish T&C SMEs. Annual reports provide a detailed account of the financial performances of these firms. A conceptual resilience framework was developed earlier, based on a review of extant literature.

Findings provide insight on how the responding firms considered resourcefulness, viz. cash flow and investment finance, relational networks and material assets, along with 'dynamic competitiveness' through strategic and operational flexibility to be key enablers of resilience and financial performance, mostly through generation of profitability, cash flow/liquidity and sales turnover. Responses also highlighted the indirect influence of the 'soft' learning and cultural aspects like attentive leadership and collectiveness on economic resilience, considered tacit and ingrained in small or medium-sized family businesses. Additional process initiatives, in particular growth and continuity strategies, were also emergent patterns to properly utilize and direct the antecedents for resilience development. These are beneficial for firms to understand the key areas, in which to invest for developing resilient business models.

1. Introduction

The recent economic recessions and global trade conditions have created challenges for many Western economies and their embedded industries, particularly to the small and medium-sized enterprises[3] (SMEs). According to Acs et al. (1990), SMEs are particularly vulnerable to failures in both continuous shifts and unpredictable events. They are susceptible to financial fluctuations (i.e. cash flow), legislation, supply network relationships (i.e. power issues), changing customer requirements and demands and even collapsing of national financial systems (as it happened recently in Greece) (Bhamra and Dani, 2011).

The Scandinavian market, however, has been somewhat stable with stagnant growth rates though the main export market has fallen during the recent global credit crunch since 2007–08 (Keay, 2012). There has not been any particular evidence showing the effect has been more pronounced in case of the textile-related

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[3] The European Commission (2011) definition of SMEs is used as enterprises with headcount lesser than 250 or turnover≤€ 50 million or balance sheet total≤€ 43 million (http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm, 14.02.2012).

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http://dx.doi.org/10.1016/j.ijpe.2013.02.031

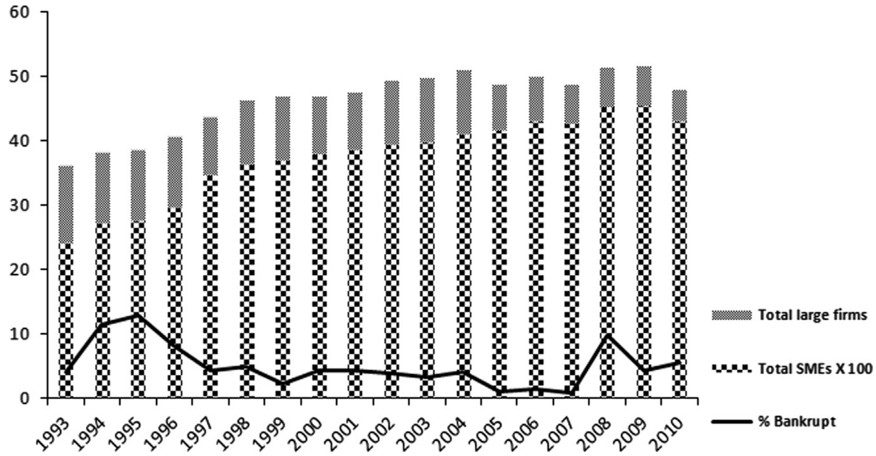

Fig. 1. Bankruptcy statistics of Swedish textile and clothing firms (1993–2010).

sectors, but it is noticeable from Swedish central statistics that the average number of Swedish textile and clothing (T&C) firms that went bankrupt during the recent crisis (2007–09) escalated two-fold, compared to the average over 2000–10 (cf. Fig. 1—adapted from SCB database statistics). The 1990s economic crisis was the toughest in the Swedish context, with nearly 12 per cent of the T&C firms going bankrupt in 1994–95. It was also evident that most of these firms were small with less than 50 employees.[4]

The structural industrial statistics also plummeted in these crisis years. For example, during the global credit crunch (2007–09) the textile and wearing apparel industries made massive losses (from a profit of 419 mSEK in 2006 to losses of 387, 223 and 155 mSEK, respectively, 2007 onwards) (adapted from SCB database statistics).[5] Other indicators, like the net turnover and total assets, also reduced by 19.4 per cent and 8 per cent, respectively, though no substantial dip was observed in other structural indicators. During the 1990–93 crisis the repercussion was worse as the total operating revenues and value addition for the industries declined by 24 per cent and 20.4 per cent, respectively, though it picked up again in 1994 but did not reach the level before the crisis until 1997.[5]

It is thus evident that the Swedish textile-related SMEs faced major threats to their financial performance and ultimately to their survival at times of economic crises, and thus economic resilience has become a prerequisite to be fostered in such firms in order to be successful.

In this context, the central objective of the paper is to identify the nature of problems and constraints faced by Swedish textile related SMEs, primarily during the economic crises of the past two decades (mainly 1990–93 and end 2007–09) as well as the antecedents and the differential degree of influence they exhibit on economic resilience. The study also deepens the understanding of the underlying patterns favouring or inhibiting resilience in such firms.

2. Framework for antecedents of SME resilience

Small- and medium-sized enterprises are highly vulnerable to times of crisis, then being affected by the cascading and aggravating effects of several related problems and constraints, especially regarding financial and human resources (Vargo and Seville, 2011). As Thun et al. (2011) asserted, SMEs usually face conditions of weaker cash flow and less equity reserves; they lack resources and are overloaded with short-termism, thus, lack the necessary skills to pursue long-term strategies to drive resilience (Ates and Bititci, 2011; Wesson and De Figueiredo, 2001). However, due to their relative small size, they are flexible, and as Salavou et al. (2004) assert, market- and learning-oriented SMEs tend to be more innovative and resilient. The relative strength of SMEs is argued to be characterized by flexibility, adaptability and innovation (Vossen, 1998), instrumental in fostering resilience, although they have varying resource constraints. Previous research has found that SMEs generally lack resources and capabilities (Herbane, 2010; Vossen, 1998), hence attempt to build resilience through strategic and operational readiness or rapidity (Ismail et al., 2006; Sheffi, 2007; Sullivan-Taylor and Branicki, 2011), positive adjustments (Weick et al., 1999) or knowledge creation. Resilience of SMEs requires knowledge retention through flexible workforce, strategic thinking, and top management support (Levy et al., 2003), although it has been argued there that SMEs lack knowledge retention. However, SMEs need to improve both their access to finance and their individual competitiveness for optimizing their most common constraints, hence, balance their soft and hard assets (Beer and Nohria, 2000; McElroy, 1996) to develop win-win solutions (Gunasekaran et al., 2011).

The following section highlights three broad assets, in general required by firms to bolster resilience. They are resourcefulness, like finances, materials, people (social assets) etc., competitiveness (flexibility, networking, robustness and redundancy) and 'learning and cultural' aspects (cf. Fig. 2).

2.1. 'Resourcefulness' and resilience

Resource constraint is considered to be a key inhibitor of SME resilience, while its availability can be a potential enabler as well (Sullivan-Taylor and Branicki, 2011). From this perspective, a recent study described that SMEs mainly lack resources like control, cash and compressed time to respond (Herbane, 2010). Similarly, Vossen (1998) and Van Gils (2005) described SMEs to be suffering from resource constraints predominantly material (related to economies of scale and scope), financial (cash flow and investment finance) and technological resources, while Ghobadian and Gallear (1997) highlighted how this leads to success or failure of SMEs. Wesson and De Figueiredo (2001) pointed at a similar lack of long-term resources in SMEs, as they are overloaded with short-term cash and payment problems,

[4] Only 2 firms, with number of employees > 50 were bankrupt in 1995 and 2008 and 1 each in 2000 and 2001.
[5] Statistiska Centralbyrån (http://www.ssd.scb.se/databaser/makro/start.asp, 27.02.2012).