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VIRTUAL SPECIAL ISSUE

Strategic responses to crisis

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Abstract

Research summary: The pandemic spread of the coronavirus COVID-19 is rightly focusing policy-makers' attention on saving people's lives. At the same time, the pandemic crisis is threatening the survival of firms at a global scale, with potentially devastating societal and economic outcomes. In this Virtual Special Issue, we gather and discuss key papers published in the journals of the Strategic Management Society that provide insights into firms' potential strategic responses to crisis. Based on our overview, we identify four types of responses: retrenchment, persevering, innovating, and exit. Awareness of these responses has implications for managers and strategy scholars alike.

Managerial summary: How can firms respond to crises such as the current pandemic spread of the coronavirus COVID-19? This Virtual Special Issue begins to provide answers to this question. Based on a select overview of papers published in the journals of the Strategic Management Society, we advance four types of strategic responses to crisis: retrenchment, persevering, innovating, and exit. Awareness of these responses has implications for managers and strategy scholars alike.

KEYWORDS
COVID-19, crisis, strategic responses

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1 | INTRODUCTION

National economies—and the firms and individuals within them—have in recent years experienced a series of global crises. Among others, they have responded to the 1997–1997 Asian economic crisis, the 2000–2002 burst of the dot-com bubble and the post-9/11 economic downturn, the 2008 economic and financial crisis, the 2011 Fukushima nuclear meltdown, the 2015 migration crisis, political crises such the rise of populism, struggles over Brexit, and trade wars, and the climate crisis. These and other crises may differ in their origins and scale (see Bansal, Kim, & Wood, 2018). Yet, they have in common that they have potentially devastating individual, societal, economic, and natural outcomes (Hällgren, Rouleau, & de Rond, 2018; Pearson & Clair, 1998), such as the breakdown of firms and industries, massive job losses, social precarity, and natural damages. These overwhelming impacts often stem from their global or cross-border effects, since responses are subject to the disparate governance regimes of the affected nation states and regions.

Currently, the pandemic crisis is affecting the lives of people and organizations around the world. As the coronavirus COVID-19 continues to spread, more and more governments are implementing strong measures to save people's lives, such as the prohibition of events, lockdowns, and shutdowns. These measures contribute to slowing down the spread of COVID-19 in order to avoid lethal capacity overloads of national healthcare systems. At the same time, they threaten the survival of firms across all sectors and industries at a global scale. As previous crises have shown, such threats not only provoke major economic recessions, but also have severe societal repercussions when household incomes break away. Yet, the current pandemic crisis may have even more devastating impacts in these regards, given that it is hitting firms and societies at a fragile moment in time in which political and economic circumstances are particularly unstable (see Cuervo-Cazurra, Mudambi, & Pedersen, 2017). Therefore, the current crisis raises important questions about how firms can respond effectively to crises such as the COVID-19 pandemic.

In this Virtual Special Issue, we gather and discuss key articles published in the journals of the Strategic Management Society (SMS) that shed light on how firms respond to crisis. Given the long history of articles published in the SMS journals on this and related topics, such an overview is inherently selective. Here, we focus on papers that relate directly to strategic responses to crises in a narrow sense, i.e., shocks that are perceived by organizational members as sudden, unexpected, and massively disruptive (see Pearson & Clair, 1998; Weick, 1993). This leaves us with 13 insightful papers[1] that hint at four strategies for responding to crisis: retrenchment, persevering, innovating, and exit. We next elaborate on how these papers inform our understanding of strategic responses to crisis.

[1] We generated the presented corpus of articles in three steps. First, we read the abstracts of all papers published in the SMS journals and saved the 109 papers with references to crises and strategic responses for further analysis. Second, we read the saved papers and sorted out those that refer more loosely to "crisis" as organizational underperformance caused by socio-technical changes in the environment. This left us with a sample of 21 papers. Finally, we focused on those 13 papers that provide strong empirical evidence for, or conceptual arguments relating to, different types of strategic responses to crisis.

2 | RETRENCHMENT

Retrenchment is a widely observable strategic response to crisis (Bruton, Ahlstrom, & Wan, 2003). This response refers to "reductions in costs, assets, products, product lines, and overhead" (Pearce & Robbins, 1993, p. 614). Such measures, thus, potentially narrow the scope of a firm's business activities. As prior research shows, narrowing a business' scope through retrenchment makes mixed contributions to business turnaround. Some scholars consider retrenchment an important part of long-term firm recovery, as it stabilizes performance declines (Pearce & Robbins, 1994; Robbins & Pearce, 1992), improves the focus on existing activities by decreasing complexity and increasing transparency (Benner & Zenger, 2016; Gartenberg, 2014), and, in doing so, provides a solid basis for strategic renewal. Others argue that retrenchment might contribute to continual underperformance compared to nonretrenchers (Barker & Duhaime, 1997; Barker & Mone, 1994).

De Figueiredo, Feldman, and Rawley's (2019) study shows why a reduction in business scope in times of crisis may be associated with a net loss for affected firms. In their study of the closure of several hedge funds during the 2007–2009 global financial crisis, the authors demonstrated that the performance of related sister funds was negatively affected by this decision. This trend was even amplified and seemed to persist for a longer period of time if hedge funds were more closely affiliated with each other. Hence, the key essence of this study is that managers need to be aware of the potential destruction of synergy effects through downsizing measures in times of crisis. The loss of synergy effects, then, obstructs economies of scale and scope in the longer run, given that the management cannot spread resources and costs across businesses anymore.

Thus, although retrenchment might partly be a necessary or even an unavoidable ad-hoc response to crisis in the *short run*, the long-term viability of this response is far from uncontested (see also Chadwick, Hunter, & Walston, 2004). Especially when a crisis lasts for a longer period of time, continued retrenchment may lead to an erosion of a firm's valuable resources, capabilities, and culture (see Ndofor, Vanevenhoven, & Barker, 2013). This draws our attention to alternative strategic responses to crisis.

3 | PERSEVERING

Persevering relates to measures aimed at sustaining a firm's business activities in response to crisis. Thus, in contrast to a narrowed scope of activities through retrenchment, such measures aim at preserving the *status quo* and mitigating the adverse impacts of the crisis (Wenzel, 2015). As prior studies indicate, persevering can be a surprisingly effective strategic response to crisis (Pacheco-de-Almeida, 2010; Stieglitz, Knudsen, & Becker, 2016). Especially in uncertain situations in which firms are confronted with changed circumstances on a day-to-day basis, persevering firms may outperform competitors that conduct strategic renewal. This is so because "frequent directional changes undermine the value of [strategic renewal] and decisively shift performance advantages to inert organizations that" preserve the *status quo* (Stieglitz et al., 2016, p. 1854).

For example, in a study of Asian manufacturing firms during the economic crisis in 1997, **Chakrabarti (2015)** observed that, compared to firms that persevered, firms engaging in asset reconfiguration were more likely to suffer from performance disruptions and faced a higher risk of failure. This study shows that radically renewing one's business in times of crisis is not always the superior response, as such strategies even "augmented the adverse effect of the economic shock on firm performance and survival" (p. 1717). Hence, a key insight of this study is that persevering can make greater contributions to firm survival than using slack resources for strategic renewal. Moreover, strong external institutions "help mitigate the disruptive effect of a shock" (p. 1723) by providing firms with access to capital and information, among others.

In their study of the economic aftermath of the 9/11 terrorist attacks, **Li and Tallman (2011)** focused on factors that mitigate the impacts of crises. They highlighted that a multinational firm is more likely able to thrive over time if it is more internationally diversified. Specifically, the authors showed that, although markets punish internationally diversified firms in the short run for being potentially exposed to greater risks than non-diversified firms, multinational firms may have to persevere in order to reap benefits that kick in at a later point in time. This is because international diversification is associated with a broader base of reaction, a positive portfolio effect through the means of diversification, and the possibility to evade crises. Hence, similar to Chakrabarti (2015), one of the key insights derived from this study is that firms might forego potential benefits when leaving prior paths too promptly in times of crisis.

This perspective is also shared by **Cuervo-Cazurra, Doz, and Gaur (2020)**, who point to multinational firms' strategies for sustaining their business activities in the wake of increasing skepticism toward globalization. As the authors argue, multinational firms counteract this trend through flexible and protective measures. In doing so, multinational firms preserve the *status quo* instead of fundamentally reshaping their businesses. The authors substantiate their argument by providing examples such as multinational firms' lobbying work in global finance to counter rhetoric of skepticism against cross-border finance.

De Carolis, Yang, Deeds, and Nelling (2009) also underpin the importance of perseverance as a strategic response to crisis. They examined firm characteristics that contribute to mitigating the impacts of acute adverse events. Specifically, the authors studied pharmaceutical biotech ventures in the wake of events of forced, premature termination of their product development. This study suggests that not all resources and capabilities are equally important for persevering a crisis. As this study shows, leveraging firm-specific core competencies is "the strongest bulwark against an adverse event" (p. 157).

Finally, **Lim, Das, and Das (2009)** highlighted that, in order to maintain a firm's existing strategy in times of crisis, managers may have to adapt their decision-making at least to some extent. Specifically, their study of publicly listed Singapore companies in the 1997 Asian economic crisis shows that managers pursuing unrelated diversification strategies needed to adjust their take on debt financing. While managers were generally more averse to debt financing in times of relative stability, their perceptions changed in times of crisis. Consequently, they were more willing to engage in debt financing to sustain their strategy of unrelated diversification.

Thus, as these studies show, persevering may be an effective strategic response to crisis, such that managers may be well-advised not to engage in strategic renewal too early. However, this response is essentially bound to the availability of slack resources, both internally and externally. The likelihood that a firm (or an external institution offering debt financing) reaches the limits of available slack increases with the duration of the crisis that is faces. Therefore, we argue that persevering can contribute to sustaining firm survival in the *medium run*, but it will be difficult, if not impossible to enact this response if a crisis lasts for a longer period of time.

4 | INNOVATING

While crises can have devastating impacts on economies and societies, they also open up an opportunity space for strategic renewal. Specifically, crises “relax [...] the ‘normal’ constraints around decision-making” (Bryson, 1981, p. 181) and, thus, offer to realize what used to be unthinkable or unfeasible (Rosenbloom, 2000; Roy, Lampert, & Stoyneva, 2018; Tripsas, 1997). In this sense, we refer to *innovating* as the realization of strategic renewal in response to crisis.

Reymen, Andries, Berends, Mauer, Stephan, & van Burg’s (2015) study is instructive in this regard. Their study of causation and effectuation (Sarasvathy, 2001) in new venture creation shows that increased environmental uncertainty, such as during a crisis, is conducive of widening a venture’s scope of business activities. Specifically, the authors showed how firms start to explore new alternatives, expand their activities toward other sectors, and reflect on new ways of doing business in the wake of environmental uncertainties. Thus, in contrast to persevering or pursuing retrenchment measures, the founders of the examined ventures decided to engage in strategic renewal.

Relatedly, **Helfat (1997)** highlighted the importance of complementary assets for adapting and broadening the scope of business activities in response to crisis. Based on a study of the U.S. petroleum industry in the 1970s oil crisis, the author showed that firms engaged in R&D on coal conversion in order to retrieve synthetic fuel if they possessed physical assets and complementary technological knowledge.

In turn, **Wan and Yiu (2009)** highlighted opportunities for corporate acquisitions that crises open up. Intriguingly, their study in the context of the 1997–1998 Asian economic crisis shows that firm acquisition is positively related to firm performance *during* a crisis, but not before or after the shock. Therefore, based on their analysis, the authors concluded that slack resources are only beneficial for corporate acquisition in the event of a crisis. Thus, whereas studies on persevering partly highlight that slack resources and strategic renewal might not outperform a “wait and see” response to crisis (e.g., Chakrabarti, 2015), such resources seem to be particularly important when looking to acquire other firms in order to deepen or extend a firm’s business activities in the wake of crisis.

Other studies have unpacked the role of decision power in the process of innovating in response to crisis. For example, **Dowell, Shackell, and Stuart (2011)** showed that young internet firms performed better amidst the dot-com crisis if they were governed by smaller and more independent boards, and if they had a powerful CEO with far-reaching room to maneuver. More specifically, the authors suggested that a powerful CEO and a small board enables a firm to move more quickly than rivals without such governance structures. Importantly, however, this assertion seemed to hold only for firms that were particularly affected by the crisis.

Similarly, **Gartenberg and Pierce (2017)** pinpointed the importance of strong corporate governance when engaging in strategic renewal in response to crisis. Based on their examination of banks in the 2008 mortgage crisis, they suggested that vertically integrated banks, as opposed to more traditionally structured banks, were only able to reap benefits from their organizational structure in times of crisis if they possessed a strong corporate governance. However, in non-crisis situations, vertical integration harmed the examined firms, as it invited managers to exploit their broader discretion. Thus, the authors warned of too much scope of action for managers, as this might lead to agency problems. In fact, they even suggested that potential governance advantages of vertical integration during a crisis might be offset or reversed when managers are poorly monitored.

Thus, as these studies demonstrate, innovating can be an effective strategic response to crisis (see also Brinckmann, Villanueva, Grichnick, & Singh, 2019; Lee & Makhija, 2009). Given the resource-based limits to persevering over time, we argue that innovating may be increasingly valuable, if not unavoidable to sustain firm survival in the *longer run* if the crisis lasts for a longer period of time and heeds the exploration of alternative sources of revenue. However, unless managers and employees are able to "creat[e] something from nothing" through bricolage (Baker & Nelson, 2005, p. 329) or understand and exploit the fungibility of their resources (Danneels, 2011), they most likely need excess capacities to realize strategic renewal in response to crisis. Here, "cash is surprisingly valuable as a strategic asset" (Kim & Bettis, 2014, p. 2053), as it offers the liquidity needed to conduct strategic change in hostile contexts (see also Deb, David, & O'Brien, 2017). Therefore, the opportunity space for conducting strategic renewal may close if managers wait too long and, thus, use up the firm's slack resources through persevering or retrenchment measures.

5 | EXIT

By *exit*, we refer to the discontinuation of a firm's business activities in response to crisis (see Argyres, Bigelow, & Nickerson, 2015; Burgelman, 1996). An exit may be unavoidable when the other responses fail. It may also be the outcome of fatalistic judgments, meaning that managers discontinue their business because they do not believe that any other response will help their firm survive the crisis (see Wenzel, Cornelissen, Koch, Hartmann, & Rauch, 2020). However, unlike the filing of bankruptcy, business exit may even be a valuable strategic decision from the outset.

For example, **Dai, Eden, and Bemish (2017)** argued that "the best way to cope with [a crisis] may be to exit" (p. 1478). To gain an understanding of why some firms flee and others stay, the authors conducted a study of multinational firms with subsidiaries in war-afflicted regions. Their study shows that exit rates depend on firm vulnerability, characterized by the degree of immediate exposure to the crisis, at-risk resources which would be hard to replace once lost, and a firm's capacity to cope with harm. Especially at-risk resources might become a liability, as managers may opt against exit although being exposed to major crisis.

Oh and Oetzel's (2011) study sheds light on the dynamics of exit in response to crisis. The authors examined large European multinational firms whose managers responded to terrorist attacks, technological disasters, and natural disasters. A key implication of their study is that managers' choice to exit depends on the type of disaster that a firm faces. In the authors' sample, exit was less likely in response to natural disasters, and it was more likely when facing terrorist attacks or technological disasters. Furthermore, the authors showed that developed external institutions mitigated this trend. Specifically, exits were less likely in the case of natural disasters or terrorist attacks when the host country's government was perceived to be more effective. Thus, similar to studies on persevering as a strategic response to crisis (Chakrabarti, 2015), the authors found that strong and developed institutional environments mitigate the outlook of economic disturbance and, thus, render exits less attractive for firms.

Thus, exits may not necessarily be imposed on firms by adverse business environments: In part, they also constitute a deliberate strategic response to crisis (see also Wan, Chen, & Yiu, 2015). Importantly, as prior research suggests, exits can be an important foundation for strategic renewal (Ren, Hu, & Cui, 2019), as they free up committed resources and, therefore, contribute to the formation of new ventures (Carnahan, 2017). Therefore, although exits are not costless (Moulton & Thomas, 1993) and potentially leave a stigma of "business failure" (Xia, Dawley, Jiang, Ma, & Boal, 2016), such responses may not necessarily be the end of the road.

6 | DISCUSSION AND CONCLUSION

How do firms respond effectively to crisis? As the current spread of the coronavirus COVID-19 is expected to have devastating economic and societal repercussions, this question raises growing interest among strategy scholars and practitioners alike. Our overview of select articles published in the SMS journals points to four strategic responses to crisis: Retrenchment, persevering, innovating, and exit.

Retrenchment refers to cost-cutting measures that potentially reduce the scope of a firm's business activities. As prior research shows, this strategic response may help firms survive a crisis in the *short run*, as it partially offsets lost revenues. However, evidence on the long-term viability of retrenchment measures is mixed at best: While some studies position retrenchment as a necessary precursor to strategic renewal and firm recovery, other studies warn of the irrecoverable damages such as the loss of synergies that retrenchment measures entail.

Persevering relates to the preservation of the *status quo* of a firm's business activities in times of crisis, e.g., through debt financing and the consumption of available slack resources. Prior studies suggest that persevering can be a viable strategic response to crisis in the *medium run*. Specifically, the value of conducting strategic renewal "too early" in times of crisis may be eroded by constant and unforeseeable changes in the business landscape, thus leaving firms that persevere better off. However, when crises last for longer periods of time, the sources of internal and external slack may dry up at some point. Then, it might be "too late" to conduct strategic renewal in order to tap into alternative sources of revenue, as this process often requires slack resources as well. Thus, in the long run, persevering may threaten firm survival.

Innovating refers to conducting strategic renewal in response to crisis. As prior studies show, crises open up opportunities for strategic renewal—even for firms that rigidly stick to their strategy under business-as-usual conditions. This is so because crises trigger a mode of reflection that allows managers and employees to transcend the boundaries of what they believe is thinkable and feasible. Given that especially long-lasting crises leave irrevocable traces in the business landscape that render a return to the previous order impossible, innovating is an important, if not unavoidable strategic response to crisis for sustaining firm survival in the *long run*.

Exit refers to the discontinuation of a firm's business activities. While a firm's exit is conventionally viewed as a forced outcome of conducting an unprofitable business, it can also be a strategic response to crisis. Specifically, exits free up committed resources that can, then, be reused for pursuing crisis-induced business opportunities. In this sense, an exit is not necessarily a manifestation of business failure *per se*, and it is not necessarily the last resort when the other strategic responses to crisis fail. Instead, a business exit may be a valuable strategic response to crisis at *any time*.

6.1 | Implications for strategy scholars

Arguably, since the 1970s, crises have increasingly become an omnipresent part of organizational life (Wenzel, Krämer, Koch, & Reckwitz, 2020). As a result, managers and employees increasingly experience uncertainty concerning the appropriateness of firms' business activities (Alvarez, Afuah, & Gibson, 2018). This, then, raises questions about how managers and employees can respond effectively to crisis.

As this Virtual Special Issue showcases, strategy scholars have begun to respond to this shift. The issue gathers key papers from a body of literature that informs different types of strategic responses to crisis. As our overview suggests, the value of these responses is associated with different time horizons, unfolding potential net benefits in the short run, medium run, long(er) run, or at any time. Thus, the main contribution of this Virtual Special Issue is to make sense of this burgeoning stream of strategy literature by developing a taxonomy of strategic responses to crisis, one that surfaces "time horizon" as an important dimension when considering the value of such responses.

However, given the omnipresence and profoundness of crises such as the current pandemic spread of COVID-19, we argue that more research is needed to unpack strategy-making in times of crisis. Specifically, whereas uncertainty "has fallen out of favor" in many theories of strategic management (Alvarez et al., 2018, p. 169), it is an integral part of responses to crisis. This makes it difficult, if not impossible for managers to know *ex ante* which strategic response will lead firms to survive a crisis and recover in the aftermath of the shock (Pearson & Clair, 1998). Therefore, we encourage future research to examine in greater depth the internal and external enablers (and disablers) that lead managers and employees to respond (in)appropriately to the situational circumstances that crises invoke.

This Virtual Special Issue points to several opportunities for future research. First, the relative value of strategic responses to crisis based on varying time horizons points to temporal dynamics in the process of responding to crisis. That is, at certain points in time, one response might be superior to others, and it might be "too early" or "too late" to pursue some of the strategic responses to crisis. This hints at "windows of opportunity" (Huy, 2001; Tyre & Orlikowski, 1994) in which strategic responses to crisis are more or less effective. Although time and the dynamics of strategic continuity and change have been found to be closely interconnected (Kunisch, Bartunek, & Mueller, 2017), we know little about the temporal dynamics involved strategic responses to crisis. Therefore, we invite future research to explore the role of time and temporality in the process of responding to crisis in greater depth.

Second, as this overview indicates, the identified strategic responses to crisis are not unrelated. That is, one response might be a necessary precursor to another. Although previous work partly points into this direction (e.g., Langley, Fallon, & Kakabadse, 2009; Robbins & Pearce, 1992), we know little about the dynamics of shifting between strategic responses to crisis. Therefore, we encourage future research to explore sequential patterns of responses as well as their underlying mechanisms that are more or less effective in dealing with crises.

Third, as indicated earlier, Virtual Special Issues are inherently selective in that they can only showcase the cornerstones of focal debates (see also Wenzel & Lieberman, 2020). Awareness of such cornerstones opens up opportunities for exploring hitherto untapped terrain. For example, one may explore new strategic responses to crisis that have not been identified as such. Among others, such responses may include using slack resources to help other individuals and organizations in times of need (Muller & Kräussl, 2011), forming temporary alliances with other firms (Bucheli, Salvaj, & Kim, 2019; Mitchell & Singh, 1996), or acquiring smaller players (Cozzolino & Rothaermel, 2018; Furr & Kapoor, 2018).

Finally, all of these strategies are likely to be rendered more complex when they have to be undertaken across national borders, i.e., within multinational firms. The voices of units within the firm are likely to have differential weight depending on whether they were acquired or greenfield operations since “managers that were part of an acquired group tend to be associated with a different corporate culture” (Cantwell & Mudambi, 2005, p. 1115). However, Cantwell and Mudambi (2005) find that this weaker position of acquired units is more than offset when they have significant roles in the firm’s innovation processes. Thus, acquired units may be more vulnerable to *retrenchment* and *exit* in times of crisis, unless they can play a significant role in the firm’s *innovating* responses.

6.2 | Implications for managers

Retrenchment is a main, if not the most common strategy that managers select in response to crisis (Bruton et al., 2003). In fact, from the perspective of managers, retrenchment may even be the only perceived way forward in the short run. This, then, leaves no viable alternative to reduce the scope of business activities. Yet, as our overview points out, retrenchment is not the only strategic response to crisis. This Virtual Special Issue raises awareness of the variety of potential responses that managers have available. It also raises doubts concerning the effectiveness of retrenchment compared to other strategic responses, especially when crises last longer. In this sense, retrenchment may be a first, but not necessarily not the last step on the road toward firm recovery.

Furthermore, our overview points to *persevering* and *innovating* as potentially effective strategic responses to crisis in the medium and long(er) run, respectively. Both types of responses, however, essentially build on the availability of slack resources, whether internally or externally, which may become scarce rather quickly in times of crisis. In the wake of the corona crisis, governments seem to have understood this, as they increasingly implement measures such as interim financing, reduced hours compensation, and fiscal stimulus packages to support firms (e.g., FAZ, 2020; Stein, DeBonis, Werner, & Kane, 2020). For managers, this implies making use of the public support structures in place (see also Fainshmidt, Smith, & Judge, 2016; Landau, Karna, Richter, & Uhlenbruck, 2016) in order to accumulate the slack resources needed to persevere or innovate.

Importantly, this Virtual Special Issue also includes *exit* as a strategic response to crisis. A business exit may leave a stigma of “failure” for managers (Xia et al., 2016). As a result, managers may adversely delay a business exit (seeElfenbein & Knott, 2014). The present overview, however, highlights the opportunities that can arise when pursuing a business exit: Rather than being located at the end of the road, an exit may be the starting point of a new venture, one that is able to do justice to the changed business conditions that the crisis has created. Therefore, we encourage managers and business owners to view exit as a potentially viable response to crisis that opens up opportunities to move forward.

In summary, strategic responses to crisis are an important and highly relevant field of study. We hope that this Virtual Special Issue inspires ongoing and future debates about how managers and employees respond to crisis.

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