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E. Erin Powell

Clemson University, USA, eepowel@clemson.edu

Ted Baker

Rutgers University, USA & The Bertha Centre for Social Innovation & Entrepreneurship, University of Cape Town Graduate School of Business, South Africa

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READY FOR THE TIMES TO GET BETTER? HOW RESPONSES TO ADVERSITY SHAPE RECOVERY IN FOUNDER-LED FIRMS



E. Erin Powell, Clemson University, USA

Ted Baker, Rutgers University, USA &

*The Bertha Centre for Social Innovation & Entrepreneurship,
University of Cape Town Graduate School of Business, South Africa*

ABSTRACT

Powell and Baker (2014) bridged identity theory and social identity theory to show how and why the structure founders' identities shapes how their firms responded strategically to prolonged adversity. In this paper, we extend the theory of founder identity structures to explain how and why they shape firms' later patterns of recovery. Most theoretically intriguing to us is that having made it through years of adversity, some founders stopped believing they could counter the challenge, became disillusioned and abandoned their commitment to being who they wanted to be just as they saw that things were starting to get better.

INTRODUCTION

“The sower may mistake and sow his peas crookedly: the peas make no mistake but come up and show his line.” ~ Ralph Waldo Emerson

A paper presented at BCERC in 2012, and subsequently published in the *Academy of Management Journal* (Powell & Baker, 2014), extended research on founder identity through the discovery that the structure of founders' identities strongly molded their firms' strategic responses to adversity. Identity structures describe whether either single or multiple identities are salient to founders in how they run their firms, and whether multiple salient identities are congruent or exhibit incongruities in which some salient identities require the suppression of others in the day-to-day operation of the firm. Founders with singular identities – and for whom the firm was just a way of making money – enacted the adversity as a threat to be accommodated and crafted strategic responses that accepted the decline as inevitable. Those with multiple congruent identities enacted the adversity as a challenge to be countered and fought to maintain the status quo. Those with multiple incongruent identities enacted the adversity as an opportunity to be embraced and used it to transform their firms.

Each of these strategies might make sense as a way of positioning firms for the future, but because of the unknown likelihood, timing and extent of improvements in environmental conditions – that is if, when and to what extent the adversity would subside or reverse – the prior research was unable to predict how each strategic response positioned firms for the future. An important question for evaluating these strategies is therefore, “what happens next?” Remarkably little theory exists to help understand how different strategies for weathering the storm of adversity shape firms' recovery trajectories when the adversity subsides. Our research question in this paper is therefore: How and why do founder-run firms' strategic responses to adversity affect their later patterns of recovery?

We explored this question by continuing to study the surviving firms on which Powell and Baker (2014) reported in the original paper. Our results suggest that as conditions improve, identity structures continue to guide founders' strategic responses and that this too works through a process in which identity structures shape how the environment is enacted. In addition, this continued observation allowed us to generate deeper theory about a process of reciprocal changes in founder identity structures. Much of what we observed extends and validates the theory developed in the earlier paper, but other patterns we observed were not simple or predictable extensions of the theory.

THEORETICAL BACKGROUND

Research on organizational resilience has focused on how appropriate use of slack both before and during adverse events can allow firms to survive and recover. Excess resources can sometimes serve as a buffer allowing firms to ignore, delay or sometimes completely avoid responding to adversity by waiting it out. In planned preparation for adverse events, expensive resource-intensive "redundancies" supporting high reliability systems (Weick, Sutcliffe, & Obstfeld, 1999) or "resilience capacity" is sometimes built into organizations as sets of routines (Lengnick-Hall & Beck, 2005) in preparation for surprise or rare events (Weick & Sutcliffe, 2001). While calling for more work about resilience at the organizational level, Vogus and Sutcliffe (2007: 3420) put slack front and center, noting, "slack resources are fundamental to our definition of resilience." Answers built on appropriate use of slack, however, are of limited use in trying to explain how resource constrained entrepreneurial firms may nonetheless achieve resilience. The continued development of interesting work around founder identity theory holds some promise of providing insight to this question, which given the rates at which nascent and young firms disband (Aldrich & Ruef, 2006), appears to be quite practically important.

Attracting increasing attention from entrepreneurship researchers (Ireland & Webb, 2007), the concept of founder identity has been invoked to explain a wide variety of behaviors, including for example, personal resistance to gendered cultural and religious restrictions on entrepreneurship (Essers & Benschop, 2009; Iyer, 2009), university scientists' uneasy transitions to commercialization roles (Jain, George, & Maltarich, 2009), the motivation to give up a job in order to create a new venture (Hoang & Gimeno, 2009; Farmer, Yao, & Kung-Mcintyre, 2011), and passion for being an inventor, a founder or a developer of a new venture (Cardon, Wincent, Singh, & Drnovsek, 2009). Most of this work has utilized "identity theory" (from sociology) (Stryker, 1980). In identity theory, individuals identify with roles that are defined by others' expectations and reinforced by "validating responses from others" (Stryker, 1980: 63). More recently, Fauchart and Gruber (2011) used "social identity theory" (from psychology) to develop a typology of social identities – Darwinian, Communitarian and Missionary – derived from Brewer and Gardner's (1996) work on the theory of self. In social identity theory, social identities constitute "that part of an individual's self-concept which derives from his knowledge of his membership in a social group (or groups) together with the value and social significance attached to that membership" (Tajfel, 1978: 63). Powell and Baker (2014) drew on both identity theory and social identity theory to show that founders use their firms as a vehicle to create roles in their firms, and thereby role identities that express their valued social identities. They developed a typology of founder identity structures – singular, multiple congruent identities, multiple incongruent identities – that allowed them to explain how the firms these founders ran responded strategically to prolonged adversity. In this paper, we extend this research to understand how those responses to adversity, and the underlying identity structures that explain them, are implicated in how firms respond if and when the adversity subsides.

METHODS

The firms in our study were selected originally because they all operated in the same industry – textiles and apparel manufacturing – in the southeastern US, were owned and managed by their founder and faced substantial adversity due to the combination of “the great recession” and the continued decline in the industry’s US manufacturing market share. Both sources of adversity, however, have shown recent improvements. The overall improvement in US economic conditions has made life somewhat easier for textile and apparel manufacturers. Other changes, such as labor cost changes in other countries, transportation challenges and consumer social movements have also helped to reduce some of the disadvantages that had driven decline in this industry. This change from prolonged adversity to relatively improved conditions makes the original study context a strategic research site for investigating how differences in firms’ strategic responses to adversity shapes their patterns of recovery when conditions improve.

We continued our observations of the surviving firms from the earlier study through multiple data sources, including site visits, tours of manufacturing facilities, in-person interviews, email exchanges and publicly available web sites and news stories. Interview questions remained open-ended (Denzin & Lincoln, 2005; Kahn & Cannell, 1957) and for the most part, the founders welcomed our continued interest in them and their firms. Interviews were audio recorded and transcribed and we documented our experiences in our field notes within 24 hours of the site visit or interview. In all instances, we reflected upon what we were learning as we continued updating case reports and building out timelines of events for each of the firms in our study. It is important to note that both data analysis and all reported results remain preliminary.

We iterated between our case study data, previous theory and emerging themes (Eisenhardt, 1989; Miles & Huberman, 1994) to continue to induct grounded theory (Glaser & Strauss, 1967). Though we were unable to enter the field without knowledge of the firms and their founders, we were still able to engage the participants as they faced the new challenges of navigating the changing economic and industry conditions, and to observe the emergence of new patterned differences and similarities across cases. The real-time longitudinal data collection allowed us to reduce the chances of retrospective rationalization. As what seemed like contradictions to our original theory emerged, such as the congruent identity structure becoming incongruent, we used in vivo codes to capture these changes and new themes. Eventually, these discoveries allowed us to extend the prior theory in terms of both precursors and later outcomes. The structure of founder identities and their processes of becoming are far richer and more intertwined with both firm and environment than prior work has suggested.

RESULTS

Early patterns in our data suggest that founders with incongruent identities – those who had previously enacted the adversity as an opportunity to become who they wanted to be by transforming their firms – now enacted the recovery as *validation* and continued to work through the transformations they had begun earlier. The remaining founder with a singular identity enacted the recovery, again in very clear and simple terms, as a form of *good fortune*. Just as he had seen the adversity as something happening to him, he had a similar sense that the good things were now happening to him. Interestingly, five of the founders with multiple congruent identities, who had enacted the adversity as a challenge to counter, also enacted the recovery as a form of good fortune. Two, however, enacted the recovery as *temptation*. Despite congruent identities and elaborate authenticating narratives to support the sustaining strategies that had allowed them to

weather the storm, these founders became disillusioned just as things started getting a little bit better for their firms, and took steps that were clear violations of the narratives they had earlier constructed. In effect, these founders suppressed what had been important identities and made decisions for their businesses that they would previously have considered personally unacceptable.

Enacting Recovery as Validation

Founders enacted the munificence and changes in the environment as *validation* for their efforts to transform their firms such that their multiple incongruent identities were becoming increasingly congruent. The identity congruence that these changes had created by allowing founders to create new role identities expressing previously suppressed social identities was apparent not just to the founders, but also to some of the key people with whom they did business. For example, advisors to case A commented to us about how the founder now seemed to be “in his element” as he guided his firm along a pathway of becoming entirely environmentally sustainable. In addition to close colleagues recognizing this shift, new stakeholders such as customers also provided positive feedback for the new direction and the sense that Founder A was “all in.” Where the founder had previously lamented his original and long-standing customers falling by the wayside he was now generating many new customers, who valued the emphasis on the non-toxic chemicals and local manufacturing facilities, but he was also happily surprised that a few of the old customers were returning. He described the uptick in business: “we’re going into our [traditionally] slower months and hitting record sales.” Increased demand provided validation and positive appraisal for the direction in which he was steering the organization and for his newly congruent set of identities.

As conditions improved, his evangelizing about “all things green” broadened beyond his local focus. Worldwide events, such as “things like [the publicized building collapse in] Bangladesh” allowed him to favorably compare his firm to those to which competitors outsourced production: “our average wage probably is 15 dollars an hour and not 26 cents.”

It began to seem almost obvious to these founders that their efforts would be embraced by many new stakeholders as conditions improved. For example, Founder A suggested that “the thing that gives me hope for the future is I think the market is more interested in what we’re doing and understand why our prices are higher not ‘cause we’re making more money [but because of] where we’re making it.” In some ways this message reflects the same language Powell and Baker observed among founders who had multiple congruent identities at the beginning of the study; the transformation of their firms and thereby their identity structure led them to believe that by acting authentically, in a manner true to who they had become, they could make things work.

Enacting the Recovery as a Form of Good Fortune

We observed two scenarios in which the recovery was enacted as a form of good fortune: the surviving founder with a singular founder identity and five of the founders with multiple congruent identities. In case B, the excitement and optimism was palpable and infectious in our visits in comparison to the fatalistic tone of encounters during the prolonged adversity. The founder noted increased demand for his products because “everybody [was] holding on to their money a little bit more” during the adversity and now they were starting to spend. In addition, “stuff that was beyond our control, you know, getting better” made it a stroke of good luck to still be in business as times improved. Industry-specific regulations that once had him worried were resolved in such a way that he “thought should have been the solution all along,” which meant that the suppliers of toxic chemicals were forced to change and therefore “that kind of took it out of, um, it took it out

of my hands of having to worry about it so much, because the regulation happened backwards.” Overall, consistent with the fatalism and lack of seeing options that Powell and Baker attributed to founders with singular salient identities, he took little or no personal credit for the flourishing of his business but rather enacted the recovery as a rising tide of good fortune.

In addition, five other founders with multiple congruent identities enacted the recovery as a form of good fortune but also they believed they had “earned” their luck by sustaining their value-laden approaches to doing business. For example, the founder in case C believed that his persistence and bootstrapping approach, primarily through community collaboration, had set the stage for the expanded lines of credit that were serving him well early in the recovery. Founder D, similarly believed that the increased demand for his environmentally sustainable and made in the USA apparel was a direct reflection of him staying true to who we was as he sustained his business during the bad times and started to grow it as things improved. In each of these cases, the founder enacted the recovery as earned good fortune.

Enacting the Recovery as Temptation

For two of the founders that Powell and Baker described as drawing on their previously congruent identities to “sustain” their firms in the face of adversity, however, both sustaining strategies and identity congruence fell by the wayside as they enacted the more munificent environment as *temptation*. “We had an opportunity to be financially stable” started the explanation by the founder of case E as he described the decision to sell a portion of the company to a larger manufacturing company, and thus violating his valued previous role as a caring boss committed to employing the local community. Early on, he appeared to be trying to talk himself into believing that he could protect his employees even in his newly subordinate role with the new firm. But his doubts were clear as he suggested that he could escape the non-competes and open up a new firm to employ anyone who lost their job due to the takeover. He quickly realized that he had been reduced to a powerless figurehead as more consolidation decisions were made to lower headcount in the company. He became increasingly disillusioned about the direction of what was now his former company and his overall founder identity. Having been by far the most garrulous founder in the original study, he now became reluctant to talk about what he had done.

Similarly, in a clear violation of previously ‘superior’ domestic manufacturer role identity, as conditions began to seem like they were improving, and as he saw other businesses experiencing some improvement, founder F experienced the temptation to seek the sorts of international work he had coarsely disparaged earlier. Not only was the demand he sought to generate no longer predicated on zip code, but he even violated his textile evangelist identity when he opened up his product offerings beyond textiles. During the adversity his set of congruent identities and the challenges he sought to counter were focused on the belief that “this is who I am.” A series of failed contracts and lawsuits left him disillusioned and he begin to view these violations as options, and as “ways to, to go another month.”

DISCUSSION AND CONCLUSION

Our preliminary findings provide insights into how founders’ strategic responses to adversity affect their subsequent responses to recovery, and allow us to extend the process model and theory from the prior study. They also allow us to contribute to the growing body of literature on founder identity by showing how and why continued dynamism affects the structure of founders’ identities. First, we further explore the path of becoming who one wants to be through firm level

transformations and the solidifying of role identities that express valued social identities. Second, for the first time we observe and theorize transformations through which founders go from congruent to incongruent identities, in effect becoming who one does not want to be, and taking on roles that violate valued social identities. This provides the foundations for developing theory about reciprocal causation between identity structures and founders' behaviors shaping the firm under varied environmental conditions. Most theoretically intriguing to us is that having made it through years of adversity, some founders stopped believing they could counter the challenge, became disillusioned and abandoned their commitment to being who they wanted to be just as they saw that things were starting to get better.

CONTACT: E. Erin Powell; eepowel@clemson.edu; (T): 864-656-3759, 100 Surrine Hall, Clemson, SC 29634.