

Researching the Resilience-building Path for Small and Medium-sized Private Enterprises in the Face of Uncertainty: An Exemplary Case Study Using Path Construction Theory

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Abstract: Uncertainty shocks have become a significant topic in macroeconomics, especially since the outbreak of the COVID-19, which has severely impacted economies worldwide. This study explores how enterprises can integrate resources and enhance their resilience from the perspective of path construction. Through on-site visits and interview-based research, we constructed a resilience-building path model for small and medium-sized private enterprises using Enterprise A, which has been heavily impacted, as a case study. The study reveals that when facing sudden challenges, enterprises tend to adopt conservative strategies in the short term to maintain their market share, but in the long term, they need to innovate and adjust their path construction. This not only strengthens resilience but also promotes sustainable development.

Keywords: Uncertainty Shocks; Enterprise Resilience; Small and Medium-sized Private Enterprises; Path Construction

1. Introduction

The global economy has faced significant devastation since the outbreak of COVID-19 at the end of 2019. Even as the pandemic gradually becomes a part of our daily lives by 2022, its profound impact on domestic enterprises and markets remains. In the current era of anti-globalization and heightened uncertainty, the global economy is navigating through rapid and unpredictable changes in the business environment and market demands.

From the perspective of path construction theory, enterprises must cultivate invaluable experience and adaptability to navigate complex markets, thereby elevating their

resilience and fortitude in the face of risks. Enterprise resilience stands as a pivotal component in effectively addressing shocks and adversities. Previous research has indicated that, particularly in emerging market environments, enterprises enhance their organizational resilience through deliberate path construction, thereby bolstering their organizational capabilities [1].

2. Literature Review

2.1 Enterprise Resilience

“Resilience” is a multidisciplinary and multilevel concept that originated in ecology, describing the ability of an ecosystem to absorb and maintain stability in the face of disturbances. It has since been widely adopted in fields such as psychology, sociology, and crisis management.

In 1988, Wildavsky introduced the concept of resilience at the enterprise level, emphasizing its significance in helping businesses identify and navigate future opportunities and challenges. Over time, the understanding of enterprise resilience has deepened, leading to varied definitions within the academic community, largely due to different research perspectives. For the purpose of this study, enterprise resilience is defined as a comprehensive embodiment of an organization’s ability to withstand and respond to crises and adversities. It encompasses the integration of various capacities, including resistance, coping mechanisms, and the capability to swiftly recover and discover new pathways for development following these challenges.

Enterprise resilience can be classified into four main objectives: anticipation, endurance, recovery, and adaptation. Alternatively, Ponomarov and Holcomb [2] condensed its

characteristics into three facets: anticipation and preparedness, response and adaptation, and recovery and adjustment.

While current research primarily focuses on evaluating the level of enterprise resilience, less attention has been given to understanding the specific pathways and processes involved in building resilience. Building upon Kantur and Dseri-Say's framework of four sources of organizational resilience [3]: perceptual stance, situational integration, strategic capability, and strategic action, this study seeks to highlight the necessity of enterprise resilience for sustained organizational development.

2.2 Path Construction Theory

Path construction theory integrates the concepts of path dependence and path creation.

Path dependence, originating from evolutionary economics, explains the inertial and restrictive measures taken by organizations after experiencing risks. From a temporal perspective, path dependence favors conservative traditional practices to reduce costs, mitigate risks, and improve the survival rate of businesses. However, this approach is not conducive to long-term development and innovative progress.

Building upon path dependence, Pham (2006) introduced the concept of path creation, emphasizing the notion of "conscious deviation". This refers to strategic and deliberate behavior exhibited by organizations during path construction to avoid being trapped in traditional development models and constrained by outdated ideologies. Through this process, new developmental paths evolve, empowering organizations to enhance their overall competitiveness, break free from existing constraints, and achieve breakthroughs. However, this requires leaders to possess exceptional judgment, a broad vision, extraordinary courage, and remarkable determination.

3. Research Design

3.1 Objectives

This study is aimed at exploring how Enterprise A, from the perspective of path construction, adjusts its strategy and integrates its resources to enhance organizational resilience, using the

COVID-19 pandemic as a case study. The goal is to provide insights for small and medium-sized enterprises on how to construct their path of resilience in the face of uncertainty.

3.2 Methodology

This study was conducted from 2021 to 2022, using a combination of observation and interview methods to collect data. The interviewees included the general manager, grassroots employees, and store managers of Enterprise A. The goal was to gain an understanding of how Enterprise A constructed strategic paths and adjusted its business mindset in response to uncertainty shocks. The interview contents were transcribed and cross-verified using triangulation analysis. Drawing on the theory of path construction, this study analyzed the resilience path of small and medium-sized private enterprises under uncertain shocks, providing valuable insights for other similar enterprises.

4. Case Analysis

4.1 Description of Enterprise A

Enterprise A is a food operation, catering service, and investment company established in 2015. Its business activities include supply chain management and retail of pre-packaged food. With a staff size of fewer than 300 employees, the enterprise is registered and primarily operates in Shenzhen. It has eight offline catering stores located in various regions of Shenzhen, including Pinghu, Longhua, and Henggang. According to the classification standards for small and medium-sized enterprises released by the Ministry of Industry and Information Technology[4], Enterprise A falls under the category of small and medium-sized enterprises in the catering industry.

After communication and negotiation with the enterprise's management, we obtained an overview of the enterprise's net profits from the first quarter of 2016 to the third quarter of 2022. The figures are presented in the table below (amounts are in ten thousand yuan, with smaller units omitted). (Shown in table 1)

According to the table, it can be observed that Enterprise A experienced steady growth from

2016 to 2019, with an increasing net profit each year. However, since the outbreak of the pandemic at the end of 2019, the enterprise faced significant challenges. In the first quarter of 2020, its revenue decreased by 53% compared to the previous year. Additionally,

Enterprise A suffered a loss of 1.48 million due to unsuccessful investments in 2020. Despite a recovery in revenue in 2021, it still did not reach the levels of previous years. The overall performance of Enterprise A was greatly impacted by the pandemic.

Table 1. Financial Performance of Enterprise A

Years	2016	2017	2018	2019	2020	2021	2022
Q1	623	678	712	732	389	316	286
Q2	762	786	791	812	562	576	423
Q3	864	883	892	916	613	628	406
Q4	892	913	925	936	656	628	
Annual revenue	3141	3260	3320	3396	2220	2148	1115
Annual net profit	286	293	326	358	-148	-236	

During the pandemic, Enterprise A primarily faced challenges such as rental pressure, salary payments, and weakened consumer spending. Although there were supportive policies such as the Ten Measures to Support Epidemic Resistance and Benefit Enterprises and People in Luohu District, Shenzhen and the Special Support Measures for Assisting Enterprises (Individual Businesses) in Nanshan District in 2022, the coverage of these policies was limited, and the application criteria were strict. The impact on the catering sector, particularly on large-scale restaurants and chain catering establishments, was particularly severe. Catering establishments relying on large supermarkets also suffered significant setbacks due to the closure of such environments. The significant decrease in consumer purchasing power led to a 40% decline in Enterprise A's sales performance. The narrowing of sales channels and a decrease in upstream raw material procurement further undermined the enterprise's pricing advantage, dealing a severe blow to its core competitiveness.

4.2A Paths to building resilience for Enterprise A in the face of uncertainty

During the initial phase of the pandemic, the catering industry generally lacked effective response measures. However, by 2021, the industry began gradually transforming its development strategies. In the latter half of 2021, drawing on past crisis experiences, Enterprise A devised a self-preservation plan of "increasing revenue while reducing costs", implementing extensive layoffs, halting investments in new directions, and adopting conservative strategies to maintain cash flow.

When discussing the development trends of the entire industry, the enterprise's management stated that a wave of closures for large chain restaurants is unavoidable, and the industry is undergoing a gradual transformation. Traditional heavy dining establishments are shifting towards lighter dining options to meet the demand for quick and convenient services in the post-pandemic era. Additionally, new forms of restaurant management, such as central kitchens and cold chain transportation, offer advantages like high efficiency, transport safety, and lower costs. These innovative models have become important means for coping with shocks and have gained popularity among emerging restaurant enterprises. Enterprise A is actively learning and exploring the implementation of cold chain transportation and central kitchen management. However, the limitations imposed by the investment errors in 2020 and the decline in revenue from new stores have hindered its ability to reform and adjust, acting as obstacles to its path breakthrough. (Shown in Figure 1)

Based on the findings from the interview and research, the catering industry has not only relied on traditional experiences but actively explored new paths after experiencing significant shocks. Some enterprises have adopted a centralized kitchen model with intensive unified procurement to alleviate upstream supply pressures[5-7]. Additionally, many companies have expanded their traditional marketing strategies by using the internet and new media to attract more customers[6]. These reform measures

demonstrate the industry’s strong adaptability.[8]

However, small and medium-sized private enterprises face challenges in cash flow, which limits their investment in new management models. On the other hand, large enterprises and state-owned enterprises have the advantage of resources and capital.

Therefore, it is crucial for small and medium-sized private enterprises to prioritize financial and cash flow management to ensure stable development. It is advisable for them to develop emergency plans, improve the efficiency of fund utilization, and seek support from the government and financial institutions. [9-11]

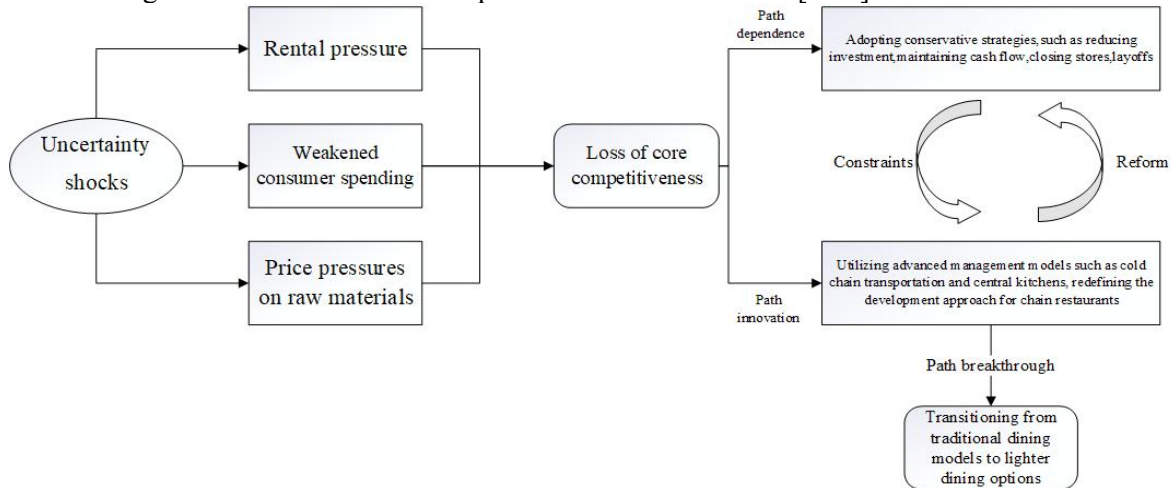


Figure 1. Paths to Building Resilience for Enterprise A in the Face of Uncertainty

5. Research Conclusions and Management Recommendations

5.1 Conclusions

The case of Enterprise A demonstrates that when faced with uncertainty shocks, businesses often experience path dependence, maintaining market share through conservative strategies to enhance short-term resilience. However, relying solely on path dependence is insufficient to sustain an enterprise’s core competitiveness. Entrepreneurial judgment plays a crucial role and influences the management style. Existing literature has abundantly proven the significant role of entrepreneurs in fostering business resilience. Entrepreneurs are essential factors in determining the

management style of small and medium-sized private enterprises and are also the foundation for building business resilience. To meet the demands of industry reforms, entrepreneurs need to actively pursue path innovation, consciously deviating from existing rules and creating new development paths. Moreover, path dependence and path innovation are not completely separate. The path dependence adopted by Enterprise A in reducing investment and stabilizing cash flow significantly influenced the planned path innovation, thus delaying the enterprise’s transformation process. Under the mutual influence of path innovation and path dependence, they ultimately reinforce and integrate the current path. Based on this, this study presents a theoretical model, as shown in Figure 2.

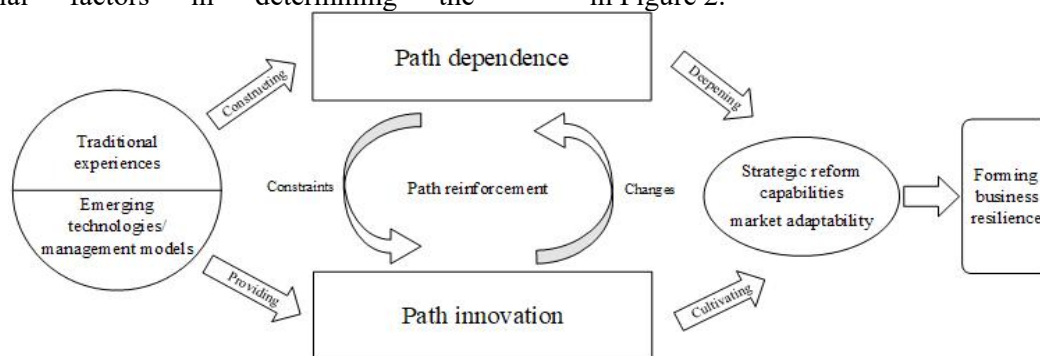


Figure 2. Resilience Construction Model for Enterprises based on Path Construction Theory

The enterprise's formation of path dependence based on experience is complemented by the entrepreneurial drive for path innovation. These two factors have a reciprocal impact, resulting in a strengthened strategic approach for the enterprise. When faced with external shocks, the coexistence of path dependence and path innovation cultivates the capabilities of strategic reform and market adaptability, which align with the four sources of organizational resilience proposed by Kantur and Dseri-Say. Market adaptability reflects the organization's ability to integrate contextual factors and adopt a perceptive stance to navigate changing circumstances. On the other hand, strategic reform involves proactive strategic actions and the effective development of capabilities to address evolving challenges. This symbiotic relationship between path innovation and path dependence demonstrates the enterprise's ability to foster resilience and adaptability in uncertain environments, showcasing its capacity for self-regulation. However, it is important to note that excessive "self-protective" behaviors can impede the progress of necessary reforms.

5.2 Management Recommendations

5.2.1 Recommendations for enterprise management

Adapting and recovering swiftly in the face of sudden events and changes has always been a focal point in both theory and practice. Based on the real-world context, this study proposed management recommendations and strategies to effectively enhance the resilience-building efforts of small and medium-sized private enterprises through research models.

1. Actively pursue path creation: Embracing new technologies and management approaches as avenues for breakthroughs is crucial, particularly when confronted with shocks. Path creation serves as a key driver for cultivating resilience.

2. Strike a balance between path dependence and path creation: Following a crisis, enterprises reinforce their paths through the interaction of dependency and creation. It is essential to continue exploring and nurturing the process of path adjustment to enhance organizational resilience.

5.2.2 Policy recommendations

Amid uncertainty shocks, fostering resilience in small and medium-sized private enterprises is crucial for governments to restore market order. With regard to financing challenges and fiscal policies, based on research models, this study presented the following policy recommendations:

1. Address the difficulties and high costs of financing. This becomes particularly important during large-scale uncertainty shocks. The government should enhance financial support for small and medium-sized enterprises and intervene in instances of market failure in the financing process.

2. Optimize enterprise fiscal policies. Fiscal policies should be synchronized with market structures and financial policies to create a collective force that drives enterprise development. The government should also introduce more fiscal policies that support management innovation and technological reforms, guiding enterprises towards independent breakthroughs from external factors.

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