

Financial resources and their impact on the organizational resilience as a business family sustainability strategy

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Abstract. The COVID-19 pandemic had a severe impact on Ecuadorian family business. More than 35% of organizations were temporarily shut down, while other 15% of them were permanently closed. Companies should adopt the organizational resilience as their business strategy to guarantee a long-term viability. Organizational resilience refers to the ability of a company to return to a stable state after an unexpected disruption to generate business sustainability. Financial resources are beneficial for organizational resilience due to the reason that a financial slack can absorb initial financial and material losses in times of adversity. This study focuses on knowing the impact of financial resources on organizational resilience as a business sustainability strategy in the context of the Ecuadorian family business.

1 Introduction

In 2020, the COVID-19 pandemic, a notable event that had a profound impact on the global economy, occurred. The consequences of this pandemic varied according to the countries and regions where it took place. Latin America, already in a vulnerable position, experienced particularly severe economic and health crises. During this period, these challenges were exacerbated by a significant drop in the economic activity among its main trading partners, as reported by the Economic Commission for Latin America and the Caribbean [1]. According to a study that examined the response of family businesses in Ecuador and Latin America to the COVID-19 crisis. Ecuadorian family businesses represent 95% of all companies and contribute 51% of GDP, which serves as the backbone of the productive economy of the country [2,3]. As a result, family businesses were the most affected by the impact of the pandemic. According to study by the STEP Global Alliance Project, more than half of these businesses experienced a decline in revenue, which had a negative impact on their financial liquidity, which leads to staff layoffs, and in some cases to permanent closures.

The impact of the pandemic on Ecuadorian family businesses has been severe: more than 35% temporarily closed, and 15% face permanent closure. Despite the government program “Reactivate Ecuador”, which provided billions of dollars in financial support, the threat to these companies remains imminent. To deal with unforeseen and disruptive events, it is crucial that companies adopt organizational resilience as a strategy for long-term

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viability. The concept of organizational resilience emerges from the notion of individual resilience [4], but it embraces some perspectives including individual and organizational psychology [5], strategic management, [6], security [7], supply chain management [8], and organizational sustainability [9].

The concept is closely related to the ability or flexibility that an organization has to return to a stable state after and unexpected disruption to generate business sustainability [10].

The fundamental challenge of organizational resilience as a business sustainability strategy is to understand how processes guarantee organizational efficiency and continuity and are capable of existing with actions related to adaptability, which is effectiveness and the difficulties and unforeseen events related to them [11]. Bloch [12], believe that organizational resilience focuses on building resilience and long-term performance skills, controlling expenses and limiting debts.

Literature about business resilience has been made to use long-term factors and frameworks to explain the sustainability of a company to face adverse events [13]. Few studies have examined organizational resilience as a corporate sustainability [14-19], although its relevance is widely considered a key attribute of organizational continuity [20].

In fact, resilience is fundamental to increase the probability of retaining the business and transmitting to the next generation of family members and guarantee continuity [17].

Literature shows that financial resources are beneficial for organizational resilience [21, 22]. Financial slack can be quantified in terms of unabsorbed cash or available credit [22, 23], while physical slack exists in money reserves or unused capacity [24]. Both types of resources allow organizations and employees to anticipate by taking preventive measures [21]. This is why some authors mention that the inactivity of cash and resources can absorb initial financial and material losses in times of adversity. They can also provide sustainability and the time needed to understand adversity [22, 25].

The present study focuses on the impact of financial resources on organizational resilience as a business sustainability strategy from an economic point of view, which has been a relevant concern since the COVID-19 pandemic. This study was carried out in the Ecuadorian family business context, which is one of the most affected Latin American countries. The main gaps why this study is important are: first, there is a need of empirical studies that focus on a comprehensive assessment of organizational resilience in difficult situations. Second, there are a few studies that focus on financial resources as a means for companies to be resilient and generate economic sustainability in countries with emerging economies. Thirdly, there is a lack of studies that combine financial studies and resilience, therefore there is no organizational sustainability emphasis. Based on the afore mentioned gaps, the study aims to discover how financial resources impact organizational resilience by affecting economic sustainability during the COVID-19 global pandemic.

2 Theory and hypothesis

2.1 Financial resources

Regarding companies, businesses sustain their existence on the financial resources they have to be able to cover costs, debts, and needs, so the work and position of the manager in question is essential to make correct decisions that are not significantly influenced by the distribution of the money, but by a fund that is generated over time to face eventualities. According to Gutierrez and Villafuerte [26], financial resources are crucial for a company to operate. These resources are the ones that establish if a company is ready to extend and innovate. Likewise, they allow decisions to be made for activities such as personnel

contracts or to increase productivity. Under this circumstance, the development and sustainability of a company is closely related to the financial resources that it has [28]. Gittel et al [23] considers that having low levels of debts, free cash flow, available credit, and inventory availability are a measure to identify financial resources in a company.

2.2 Organizational Resilience

The term “resilience” refers to the ability of a company to prosper, adapt, and expand in a dynamic unpredictable environment [28, 29]. After a disruptive event, regaining stability and achieve business sustainability is essential [9]. According to Sajko et al [30], resilience is defined as the ability of anticipating, mitigating, and adapting to the disruptive events during a crisis [31], emphasizes that a resilient company is well equipped to absorb the impacts of a disruption, and it has the ability of recovering.

According to Sheffi [8], the collection and dissemination of information plays a crucial role in forecasting potential hazards, establishing measures for unexpected circumstances, and maintaining a stable framework for sustainability. Therefore, the following hypothesis is proposed in figure 1.

H1: Financial resources have a positive impact on organizational resilience by generating organizational sustainability.

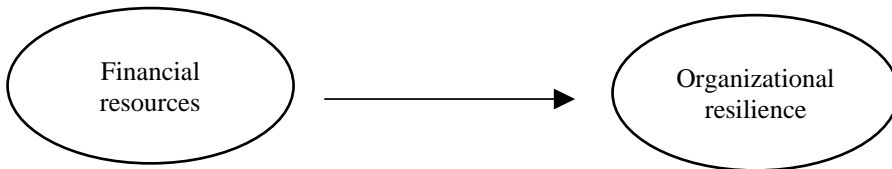


Figure 1. Hypothesis

3 Methodology

This study examined family businesses in Ecuador, specifically those located in Quito and Guayaquil. A total of 1200 family businesses were identified using the records of Superintendencia de Sociedades. 250 took the survey and 212 were considered valid. This survey was conducted at executives, managers, and owners of these family businesses companies. The collection of the data was from June to August 2023.

In this section of the study the different scales that encompass both the independent and dependent variables used as a measure tool are examined. Established scales that align with relevant constructs were assigned to each item by drawing inspiration from theoretical literature. The questionnaire was divided into three sections, with the initial two sections dedicating to collecting data about the organization under scrutiny and the personal attributes of the participants. These questions were modified based on insights gained from consultations with the STEP 2020 Project Global Consortium, which aims to investigate the practices of family businesses around the world and provide practical solutions for industry leaders.

To evaluate the organizational resilience in relation to its financial resources, the study carried out by Gittel et al [23] was an important reference point. This investigation focused on the impact of the terrorist attacks of September 11, 2001, which involved airline industries in the United States, highlighting a significant correlation between the crisis and the lack of financial support. In order to align with the suggestions presented by Gittel et al [23], in this study four specific indicators to measure financial organizational reserves were

developed. These indicators were classified in a five-points Likert scale, the ones that go from 1 (strongly disagree) to 5 (strongly agree).

To evaluate organizational resilience as an organizational strategy, two different scales were applied: The Whitman scale [32] and the Melián-Alzola et al. scale [33]. The Whitman scale [32] is a simplified iteration of the one proposed Lee et al [34], which evaluates resilience based on 13 indicators. This is a valid and reliable scale to assess organizational resilience by examining behavioral traits and perceptions regarding the organization ability to plan, respond and recover from unforeseen events. Additionally, a condensed version of this scale exists, and it effectively minimizes the probability of low response rates while maintaining a high level of reliability.

The data evaluation was carried out using Structural Equation Modeling systems (SEM) to investigate the proposed connections and evaluate the model compatibility with the collected data. SEM was chosen as the best rated due to its ability of analyzing multiple relations between constructs using a series of equations [35]. For the purposes of exploratory data analysis, the corresponding analyzes were carried out in the SPSS AMOS [36] software.

3.1 Exploratory Factor Analysis (EFA)

There are several approaches to conducting a reliability analysis, but a commonly used method involves evaluating the internal consistency of items. There are multiple metrics to determine evidence of internal consistency, with Cronbach's Alpha (α) being the most used coefficient. However, McDonald's Omega (ω) coefficient is increasingly gaining recognition as a reliable alternative. To ensure the reliability of the measurements, an evaluation was carried out using Cronbach's Alpha. All measurements exceeded the threshold of 0.7 as specified by Nunnally [37] and exceeded 0.6 as specified by Moss [38] for constructs with a reduced number of items. The results of this evaluation are present in table 1, which highlight the internal consistency of each construct and the reliability of the instruments used for measurement

Table 1. Cronbach's Alpha α and McDonald's Omega ω

	Cronbach's Alpha	McDonald's Omega
Financial Resources	0,92	0,93
Organizational Resilience	0,93	0,94

Note: The coefficients are: > 0.7 [37] and > 0.6 acceptable according to Moss [38] for constructs with a small number of items.

3.2 Structural equation modeling and hypothesis testing

After performing the Chi-squared test, which resulted in a statistic of 681450 and 335 degrees of freedom, a p value of 0.000 was obtained exceeding the significant level of 0.05. This indicates that the modeling is well adjusted and accepted. However, due to the sensitivity of this indicator other measures were considered. The GFI had a value of 0.831, which is marginally below the established criterion, but still acceptable. The AGFI had a value of 0.781, which does not meet the criterion of 0.80. The RMSR had a value of 0.037 which is less than 0.10. Meanwhile the CFI and TLI had values of 0.905 and 0.906 respectively, exceeding the established criteria. The NFI had a value of 0.912. Finally, the Chi-squared test had a value of 2034 lower than the established criterion of five. The RMSEA had a value of 0.070 which is less than the acceptance parameter of 0.10. All indicators met the established criteria, which led to the acceptance of the proposed model in table 2.

Table 2. Structural Model Indicators

Indicator	Value	Criterion
	681,450 /335	
C MIN / DF	2,034	< 5
χ^2	0.000	> 0.2
GFI	0.831	>=0.9
AGFI	0.781	> 0.80
RMSR	0.037	< 0.10
CFI	0.905	> 0.90
NFI	0.906	> 0.90
TLI	0.912	> 0.90
RMSEA	0.070	<=0.10

Note: The indicators met the acceptance criteria.

Table 3 presents conclusive evidence that financial resources have a direct correlation with organizational resilience. Therefore, financial resources positively impact the organization resilience of Ecuadorian family businesses, implying business sustainability.

Table 3. Structural model loads (Financial resources and organizational resilience)

	Estimated	Standard Deviation	CR	P Value
Resilience <-- financial	,574	,060	9,600	***

Note: All loads are different from 0 to a significance level of 0.05.

4 Discussion

Results describe the positive impact of financial resources in the organizational resilience, which implies organizational resilience. In other words, good financial stability considers having low levels of debt, free cash flow, available credit, and inventory availability as a viable measure to become a resilient and sustainable company over time. This study is a first look at giving much more importance to financial solvency and educating the businessman to prevent future havoc in the event of unexpected events. This study also suggests that the preparing for or to prevent a crisis or fortuitous event provides a more resilient organizational structure where organizations establish and maintain their resources including materials, money, and human resources.

The ability of organizations to resist crises and maintain stability is directly related to their level of financial preparedness. However, the true strength lies in the determination of the company to confront and overcome the crisis, which depends on preserving resources and establishing a sustainable workforce [8, 39, 40]. This study reveals the positive impact of organizational strength on the economic sustainability of a company. This could be attributed to the fact that resilient organizations strive to minimize costs and preserve resources.

5 Conclusions

The organizational resilience of Ecuadorian family businesses is strongly influenced by their financial resources, which in turn affects their economic and operational stability in such a dynamic and disruptive country. The consequences of misuse or organization of inadequate financial resources result in a lack of liquidity and inability to meet business obligations, leading to delayed business growth and a negative financial reputation.

As a result, it was revealed that financial management plays a crucial role in maintaining or improving the overall health of an organization. This helps founders, directors, executives, and managers drive competitiveness and ensure long-term sustainability.

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