

STRESS AND WELL-BEING AT THE STRATEGIC LEVEL

RESEARCH IN OCCUPATIONAL STRESS AND WELL-BEING

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and Chu-Hsiang (Daisy) Chang

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RESEARCH IN OCCUPATIONAL STRESS AND
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STRESS AND WELL-BEING AT THE STRATEGIC LEVEL

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INVESTOR IN PEOPLE

OVERVIEW

Volume 21 of *Research in Occupational Stress and Well-being* is focused on promoting theory and research in the increasingly important area of occupational stress, health, and well-being. In the past few years, as the world has dealt with the ongoing consequences of a global pandemic, the critical role played by institutions in the well-being of their employees and citizens has become increasingly clear. To that end, we felt the need to shine a spotlight on an oft-overlooked area of research concerning how organizations can both promote and inhibit well-being. To that end, we solicited a series of chapters investigating how organizational policies and decisions could impact stress and well-being (whether intentionally or not), how best to assess stress and well-being in organizations, how individuals in the upper echelons of companies shaped the emotional tone of their organizations and the experiences of their followers, and how the experiences and obligations of strategic leaders shape their own lives.

Although research on stress and well-being is well-established in the organizational literature when it comes to the study of individuals, this is generally not the case for scholars who investigate macro-level phenomena. Consequently, we were thrilled to be able to assemble an eclectic and talented group of authors who have broken new ground when it comes to understanding how, when, and why psychological phenomena such as stress and well-being can play a role in organizational functioning and success.

In our chapter by Bass, Milosevic, and DeArmond, the authors change the level of analysis for stress and well-being and utilize conservation of resource theory and dynamic capabilities to examine how firms experience and adapt to stress events. Our second chapter by Irwin and Willis expands on this by examining how strategic decisions impact members of firms, both leaders and employees, and stress and well-being can, in turn, impact strategic decisions. In the third chapter, Cobb and Brummel further delve into the issue of strategic decision-making by expanding on how policy decisions by corporate leaders can impact the stress and well-being of their employees by promoting or hindering their ability to establish health boundaries and balance between their work and nonwork lives. The next chapters both dig deeper into how stress, well-being, and emotions impact the decision-makers themselves. First, in the fourth chapter, Wright, Silard, and Bourgoin shed light on the nature of loneliness in the CEO position and how the various aspects of the job can contribute to feelings of isolation even among the highly successful. Next, in the fifth chapter, Hyde and Borgholthaus investigate how CEO affect intensity can influence strategic decision-making with regard to risk and also firm performance. Finally, in the last two chapters, we have examples of innovative methods for assessing and understanding stress, well-being, and emotions at the organizational level. In the sixth chapter, Lindgren, Wang,

Upadhyay, and Kobayashi use sentiment analysis to assess the emotional tone of organizations in order to enable a deeper understanding of corporate values and priorities. And finally, in the seventh chapter, Welbourne reviews 20 years of research concerning the assessment and promotion of energy in the workplace and how it can drive firm-level performance and sustainability.

Our goal for this issue was to provide avenues for expanding the study of stress and well-being beyond the individual. We are thrilled with our author teams and how they managed to introduce and integrate such a diverse and interesting set of ideas, both in terms of advancing theory and methods. We believe that this volume provides critical insights into the cutting-edge research going on in our field and we are grateful to the author teams and the staff at Emerald who helped to put it all together in this volume of *Research in Occupational Stress and Well-being*.

Peter D. Harms and Chu-Hsiang (Daisy) Chang

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FIRM STRESS, ADAPTIVE RESPONSES, AND UNPREDICTABLE, RESOURCE-DEPLETING EXTERNAL SHOCKS: LEVERAGING CONSERVATION OF RESOURCES THEORY AND DYNAMIC CAPABILITIES

A. Erin Bass, Ivana Milosevic and Sarah DeArmond

ABSTRACT

A growing body of literature suggests that unpredictable, resource-depleting shocks – ranging from natural disasters to public health crises and beyond – require the firm to respond adaptively. However, how firms do so remains largely undertheorized. To contribute to this line of literature, the authors borrow from the conservation of resources (COR) theory of stress and the dynamic capabilities perspective to introduce the concept of firm stress – a state of reduced and irregular readiness firms enter into following unpredictable, resource-depleting shocks. Our theoretical model illustrates that firms must punctuate the stress state to adapt by first deploying a retrenchment response, thereby conserving resources and allowing the firm to consider how to best redeploy its dynamic capabilities to adapt. Subsequently, the firm can redeploy its capabilities and adaptively respond in one of three ways: exiting (reconfiguring resources for alternative use), persevering (reconfiguring resources for better use), or innovating (developing new resources). Overall, the authors offer a process model of firm stress and adaptive responses

following an unpredictable, resource-depleting shock that paves the way for future research on stress in the strategy literature.

Keywords: Adaptive response; conservation of resources theory of stress; dynamic capabilities; evolutionary fitness; external shocks; firm stress; resource reconfiguration

INTRODUCTION

The ability to respond to external shocks is critical for contemporary firms (Brown & Eisenhardt, 1997; Moeen et al., 2020; Rindova & Courtney, 2020). Shepherd et al. (2000, p. 394) argues that external shocks comprise significant changes to the external environment “that alter the overall degree of novelty at a point in time,” requiring the firm to adjust its activities fundamentally (Kammerlander et al., 2018; Rindova & Courtney, 2020). This is particularly evident today as many firms, regardless of size and innovative potential, grapple with how to appropriately respond to external shocks. These shocks can range from the nationalization of energy and other strategic industries, changes in climate leading to deadly wildfires and severe storms, to public health crises including contagious viruses, and beyond (Aunphattanasilp, 2018; Oh & Oetzel, 2022).

However, it is important to note that not all external shocks are created equal. For example, technological shocks, although disruptive and unpredictable, often create new growth opportunities for firms as well as introduce new platforms necessary for subsequent innovation. Other external shocks are negative due to being unpredictable and resource-depleting. For example, in its rapid global spread and considerable impact, COVID-19 most closely exemplifies an external shock that is high-impact, resource-depleting – and difficult to predict, thereby delaying an adaptive response (Uhl-Bien & Arena, 2018). These external shocks limit a firm’s ability to reconfigure resources in a timely manner (because they are unpredictable) or acquire new external resources (because they are resource-depleting). Consequently, unpredictable, resource-depleting external shocks like COVID-19 introduce sudden and unexpected newness that is difficult to predict a priori, significantly disrupting the firm’s ability to adaptively respond and risking its survival. Here, we focus on these unpredictable, resource-depleting shocks and theorize how firms can adaptively respond.

Previous literature has suggested that these external shocks are particularly challenging because they require the firm to make sense of the unexpected newness and adapt and respond to it while maintaining operations (Simsek et al., 2005; Thomas & Douglas, 2022; Uhl-Bien et al., 2007). As such, the literature has pointed to the importance of acquiring new resources for facilitating an adaptive response to the shock that enables the firm to overcome it (Kammerlander et al., 2018; Uhl-Bien & Arena, 2018). In this view, the initial condition of the firm and its resource base can impact how the firm subsequently responds. That is, if a firm has a strong innovative capability, it may be leveraged to create new resources

necessary for the adaptive response (Berglund et al., 2020; Milosevic et al., 2022). However, if the firm focuses on efficiency and exploitation before the shock, it may leverage its current resources to achieve higher efficiencies for the adaptive response (Benner & Tushman, 2003). Thus, differences in the firm's initial condition and subsequent adaptive responses remain undertheorized (Eggers & Park, 2018; Thomas & Douglas, 2022).

The purpose of this chapter is to theoretically explore what happens to the firm as it experiences an external shock that is unpredictable and resource-depleting and how it creates an adaptive response based on its initial condition prior to the shock. To do so, we borrow insights from the dynamic capability view of the firm (Barreto, 2010; Helfat et al., 2007; Teece et al., 1997) and the COR theory of stress (Hobfoll, 1989; Lazarus & Folkman, 1984; LePine et al., 2004). More specifically, with its emphasis on evolutionary fitness, defined as "how well a dynamic capability enables an organization to make a living by creating, extending or modifying its resource base" (Helfat et al., 2007, p. 7), the dynamic capability view provides an appropriate framework to theorize the dynamics of adaptive responses to external shocks. Additionally, the COR theory of stress provides the terminology necessary to consider the firm's experience following an external shock and the mechanisms through which it forms an adaptive response.

We offer three contributions to the extant literature. First, we introduce *firm stress* as a concept that describes a state of reduced and irregular readiness experienced following a resource-depleting external shock. Borrowing from the stress literature, we theorize that firms experience considerable stress when an external event requires significant resources to respond to and confront it (Harms et al., 2017; Lazarus & Folkman, 1984). This triggers a state of reduced readiness that may strain the firm's current operations and aggravate existing resource constraints that, if not reconfigured, may ultimately threaten the firm's survival.

We further theorize that in aggravating existing resource constraints, a stress state may manifest in two forms: too much efficiency and too much innovation, each requiring a different response. More specifically, when the firm has an extreme focus on efficiency, it reaffirms existing patterns and mires within feedback loops of past routines when confronted with external shock. This is further amplified in resource-poor firms (firms that are so focused on efficiency that new resources are rarely acquired or needed to maintain operations) (Boisot & McKelvey, 2010; Uhl-Bien, 2021; Wenzel et al., 2020). Conversely, when the firm has an extreme focus on innovation, it is mired in vicious cycles of innovative reactions, which can produce counterproductive activities, further stifling an adaptive response to an external shock (Es-Sajjade et al., 2021; Uhl-Bien & Arena, 2018).

Finally, utilizing insights from the dynamic capability view of the firm and COR theory of stress, we theorize how a firm may deploy an adaptive response. More specifically, we suggest that when the firm enters a stress state, its first adaptive response should be retrenchment, regardless of the initial condition. Retrenchment conserves the firm's resources, preventing further depletion of resources through fruitless pursuits. Subsequently, depending on whether there is a stronger (weaker) capability for efficiency or innovation, the firm must consider

three adaptive responses to punctuate the stress state: exiting, persevering, or innovating (Wenzel et al., 2020). Our overarching contribution is a process model of firm stress and adaptive responses following an external shock. We discuss relevant literature next.

THEORETICAL CONTEXT

Dynamic Capabilities and External Shocks

As the dynamism and volatility of external environments increased, interest in how firms respond to a “new normal” has taken center stage (Barreto, 2010; Davis et al., 2009; Teece et al., 1997; Uhl-Bien et al., 2007). The resource-based view and its focus on firms’ valuable, unique, and difficult-to-imitate resources (Barney, 1991), combined with insights regarding how firms leverage those resources to create value (Teece et al., 1997), has become increasingly important. Dynamic capabilities emerged from the resource-based view of the firm, driven by the realization that a firm’s inability to respond quickly to environmental changes and achieve evolutionary fitness may have grave consequences (Davis et al., 2009; Makkonen et al., 2014). To this end, dynamic capabilities, defined as “the capacity of an organization to purposefully create, extend and modify its resource base” (Helfat et al., 2007, p. 4), are a differentiator between firms that can successfully respond to environmental changes and those that cannot.

In contrast to ordinary capabilities that focus on maintaining the status quo, dynamic capabilities enable the firm to respond to external shocks through the creation of new activities and new processes (Barreto, 2010; Makkonen et al., 2014). More specifically, dynamic capabilities induce change needed to achieve fit by disrupting routines through individual interactions, processes, and structures (Felin et al., 2012; Salvato & Vassolo, 2018; Zahra et al., 2006). Despite these insights, the nuances of dynamic capabilities and how firms deploy them to create adaptive responses to major external shocks remain underexplored.

Yet, this is important to consider because external shocks comprise

unanticipated and disruptive changes in a firm’s external environment (Meyer et al., 1990) [that] may be mild or severe, and may affect specific organizations (Bregé & Brandes, 1993), industrial segments (Sheppard & Chowdhury, 2005), or entire economies (Singh & Yip, 2000). (Chakrabarti, 2015, p. 354, citations in original text)

Many external shocks are difficult to predict a priori because they are derived from unpredictable, unprecedented, and exogenous events, which can substantially affect the firm’s operations and position in the competitive environment (Chakrabarti, 2015). When external shocks are both unpredictable and resource-depleting, they require a drastic firm response (Romanelli & Tushman, 1994), such as revising its core business by developing new resources and capabilities not just to adapt but, in some cases, to survive (Chakrabarti, 2015; Volberda, 1996).

One way firms can respond to such disruptions is via a system-level process that leverages or develops new capabilities. The key assumption underpinning this literature is that firms maintain a tension between efficiency and innovation and

deploy that tension to facilitate an adaptive response (Sarkees & Hulland, 2009; Shepherd et al., 2000). Indeed, this focus on efficiency and innovation enabled 3M to leverage “surge capacity” and double global production of N95 masks in response to the COVID-19 pandemic (Gruley & Clough, 2020). For 3M, the ability to adapt included building capacity at the system level as well as adapting employee practices at the individual level (i.e., marking the floor with yellow tape to ensure a six-foot barrier and assembling emergency response teams ready to jump in whenever an external shock may occur – from tornadoes to hurricanes, wildfires, and pandemics) (Gruley & Clough, 2020).

However, the extant literature does not consider the process underpinning the adaptive response nor how the firm’s initial condition may shape the nature of the response. Building on the framework put forth by Wenzel et al. (2020), we suggest that firms may take at least four adaptive responses: retrenchment, exiting, persevering, and innovating (Wenzel et al., 2020). We further enrich the framework using the COR theory of stress to examine which adaptive responses are most appropriate based on the firm’s initial condition. We review the COR theory of stress next.

COR Theory of Stress

Stress research is wide-reaching, given its relevance to various academic disciplines, including management, psychology, public health, and medicine. This research is relevant to academics, practitioners, and the public, appearing in various outlets (i.e., journals, books, and conferences), making it complex to summarize (Ganster & Rosen, 2013; Griffin & Clarke, 2011). Even more complex are the many different conceptualizations of stress, which have included views that stress refers to stimuli in the external environment that impact individuals; stress is the reaction that people have to stimuli; and stress is a process that involves the interaction of the two (Ganster & Perrewé, 2011; Ganster & Rosen, 2013; Sonnentag & Frese, 2013). In the third conceptualization, environmental stimuli are referenced as stressors and the reactions to those stimuli as strain. For our purposes, we build from the third conceptualization of stress to theorize the state following an external shock (the stressor).

Numerous theories have helped to shape and propel stress research forward: the allostatic load model of stress (McEwen & Seeman, 1999; Seeman et al., 1997); the transactional model of stress, and the job demands–resources theory (Bakker & Demerouti, 2007; Demerouti et al., 2001). However, given its focus on resources as critical to responding to stress, we borrow predominately from the COR theory of stress (COR theory) to conceptualize firm stress (Hobfoll, 1989, 2001). COR theory is consistent with many assumptions of the job demands–resource theory, particularly the process of resource depletion stemming from increased demands and the role of acquiring resources to moderate the relationship between stressors and experienced strain (for a complete review of the model and its evolution, see Bakker & Demerouti, 2017). However, it also departs from the job demands resource theory in its focus on conserving and acquiring resources.

More specifically, COR theory suggests that resources are critical for functioning and, therefore, individuals are motivated and act to prevent resource loss

(conservation) and/or gain resources (acquisition). According to this theory, the stress state results from the threat of resource loss or a deficiency of resources. Therefore, environmental stressors are not inherently problematic as long as the individual has sufficient resources to cope with them. However, external stressors can also deplete resources if there is repeated exposure or if the stressor is significant, as is the case of external shocks. [Hobfoll \(1989\)](#) suggested the idea of a loss spiral, indicating that those with inadequate resources before the external stressor (initial condition) are at the most risk of losing even more resources and experiencing difficulty in responding to the stress. In other words, if an individual or an entity has an initial condition of already-depleted resources or has insufficient resources, it may be particularly ill-equipped to deal with the stressor or any additional stressors. Likewise, those with an initial condition of more resources are better positioned to acquire additional resources and deal with the stressor or additional stressors ([Hobfoll, 2001](#)). Given the central role of resources in this model, we use it as a building block for understanding firm stress, a concept we introduce next.

FIRM STRESS AND THE PROCESS OF ADAPTIVE RESPONSES

Introducing Firm Stress

Building from COR theory, we introduce *firm stress* and define it as the state of reduced readiness the firm enters following an unpredictable, resource-depleting external shock. More specifically, these shocks bring about sudden and unexpected newness that the firm cannot immediately comprehend. In this context, operations are strained (i.e., disrupted supply chains), yet the potential to change operations is also limited because of the unpredictable and reduced ability to resource the change ([Barrot & Sauvagnat, 2016](#); [Rindova & Courtney, 2020](#)). As such, the firm enters a state of reduced readiness – the stress state – characterized by the imbalance between its current capabilities and resource base and a suddenly shifting external environment that prevents the adaptive response.

We argue that firm stress may manifest differently based on the firm's initial condition: the condition it was in *before* the external shock ([Marion & Uhl-Bien, 2001](#)). Although often overlooked by extant studies in the strategy literature, the initial is critically important as it, no matter how slightly different, may significantly impact the adaptive response of the firm. This is in line with COR theory as it describes how stress is handled – dependent, in part, on the individual's cognitive, emotional, and social state before the experienced stressor or the individual's initial condition ([Hobfoll, 1989](#)). To this end, we argue that based on the firm's initial condition, the stress state following the shock may manifest in one of two forms: reduced readiness due to innovation loops or reduced readiness due to efficiency loops.

In the stress state marked by innovation loops, the firm experiences a state of chaotic interactions in which capabilities are used and developed for an “expanding and diverging process of discovery” ([Cheng & Van de Ven, 1996](#), p. 593). More specifically, when the initial condition is one of strong innovative capabilities, the external shock may trigger the overuse of those capabilities in search of

new solutions. This can increase variety beyond an optimal level and launch the firm into a chaotic state marked by ongoing and unproductive innovation loops. This extreme innovation may risk the firm's rapid depletion of resources and spiral failure traps (Andriopoulos & Lewis, 2010; Es-Sajjade et al., 2021). The stress literature has described this process as ongoing efforts to adapt to stressors through variations in stress hormones. However, if repeatedly engaged in – as in the case of a firm trying to redeploy its innovative capabilities continually – these efforts may result in significant adverse outcomes and even failure (Perrewé & Ganster, 2011; Seeman et al., 1997).

Conversely, in the stress state marked by efficiency loops, the shock may trigger the overreliance on past practices, launching the firm into regimented order marked by ongoing and unproductive efficiency loops. New or unpredictable information created by the external shock is filtered out of the firm or ignored, and past practices are continually repeated (Boisot & McKelvey, 2010). This creates rigidity within the status quo – or the competence trap (Leonard-Barton, 1992). When this occurs, the firm is mired in its past routines, unable to make sense of the new novelty in the external environment (Milosevic et al., 2018). Stress research suggests that when biological systems are mired in the stress state without opportunities for change and an influx of novel resources, continuing to engage in the same activities over time will exhaust all the resources, resulting in adverse outcomes (Harms et al., 2017; Hobfoll, 1989; Lazarus & Folkman, 1984).

In sum, we argue that unpredictable, resource-depleting shocks act as a potent stressor that induces strain on the firm and aggravates its initial condition. To withstand and overcome the stress from the shock, the firm must form an adaptive response – redeploying its capabilities in an idiosyncratically appropriate manner, thereby achieving evolutionary fitness (Riviere et al., 2018). Below, we utilize insights from the COR theory of stress and the dynamic capability perspective to theorize how firms achieve one of four adaptive responses from Wenzel et al. (2020): retrenchment, exiting, persevering, and innovating using a phased approach.

Punctuating the Stress State: A Phased Approach to Adaptive Responses

COR theory suggests that, when experiencing stress, individuals seek to “protect their current resources (conservation) and acquire new resources (acquisition)” (Halbesleben et al., 2014, p. 1335). We offer that firms should partially mirror this process. More specifically, we offer a phased approach to adaptive response, consisting of first conserving current resources (retrenchment) and subsequently acquiring new resources to generate an appropriate response. Thus, resource conservation, at least initially, is prioritized over resource acquisition, enabling the firm to purposefully reconfigure – acquire, develop, and recombine – its resource base (i.e., leverage dynamic capabilities) to facilitate value-adding adaptation given the firm's initial condition (Eisenhardt & Martin, 2000; Helfat et al., 2007; Schilke et al., 2018). We provide a graphical depiction of firm stress and adaptive responses following an unpredictable, resource-depleting external shock in Fig. 1 and a summary of the four adaptive responses in Table 1.

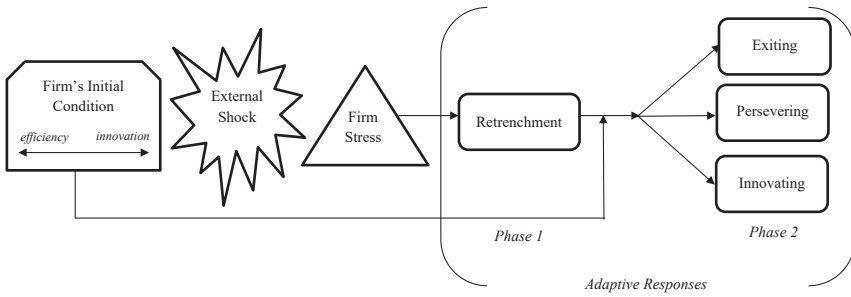


Fig. 1. Firm Stress and Adaptive Responses Following an External Shock.

Table 1. Adaptive Responses to External Shocks and Firm Stress.

	Adaptive Response	Dynamic Capabilities Deployed	Initial Condition	Time Horizon of Effectiveness
Phase 1	Retrenchment	Conserving the resource base	Both	Short term
Phase 2	Exiting	Terminating or reconfiguring/developing the resource base for alternative markets	Both: more likely utilized in the efficiency-focused initial condition	Long term
	Persevering	Reconfiguring resource base for higher efficiency	Efficiency-focused	Medium to long term
	Innovating	Developing a new resource base through innovative capabilities	Innovation-focused	Long term

Phase 1: Retrenchment

Retrenchment describes an adaptive response in which the firm focuses on resource conservation through “reductions in costs, assets, products, product lines, and overhead” (Pearce & Robbins, 1993, p. 614). When the firm enters the stress state following an unpredictable, resource-depleting shock (see Fig. 1), it needs to focus recovery on avoiding or refraining from activities that further tax the firm (e.g., if the external shock significantly affects the firm’s supply chain, slowing down or even stopping production may be appropriate). In doing so, the firm limits the impact of the stressor and conserves its resource base. By conserving its resource base, it focuses on stabilizing the firm’s activities and using what is directly required or needed to survive the unpredictable, resource-depleting external shock. Thus, in the retrenchment adaptive response, the firm is not yet focused on evolutionary fitness but on preventing the further drain of resources before it can determine how to reconfigure its resource base to create value given the changing external environment. See Table 1 for a summary of this adaptive response.