International Journal of Risk and Contingency Management
Volume 6 • Issue 4 • October-December 2017

How the Nature of Exogenous Shocks and Crises Impact Company Performance?
The Effects of Industry Characteristics

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ABSTRACT

The authors develop an empirical study based on Event System Theory (Morgeson, Mitchell & Liu, 2015), which allows a clearer consideration of specific nature of each exogenous shock and crisis, such as its criticality and geographical proximity. More importantly, they highlight the importance of considering industry characteristics when studying how exogenous shocks and crises may impact both accounting and stock-market performances of companies. Finally, when testing the impacts of economic or political shocks respectively, the authors also take into account the effect of company resources. After analyzing data from companies listed in the New York Stock Exchange, they gain interesting insights: (1) Exogenous shocks and crises with high event criticality are more likely to impact company performance. (2) Exogenous shocks and crises with high event proximity are more likely to impact company performance. (3) Exogenous shocks and crises impact in different directions on a company's accounting performance and stock market performance. Finally, (4) Exogenous shocks and crises make salient the relationship between a firm's resources and its performance, while the relationship is contingent on industry characteristics (i.e., industrial-regulative mechanisms).

KEYWORDS

Company Performance, Event System Theory, Exogenous Crisis, Exogenous Shock, Industry Characteristics

INTRODUCTION

Many authors have studied the results of exogenous shocks and crises (Meyer, Brooks & Goes, 1990; Li & Tallman, 2011; Joseph & Ocasio, 2012; Wang, Madhok & Li, 2014; Bamiatzi, Bozos, Cavusgil & Hult, 2016; Chakrabarti, 2015). For example, the effects of the economic shocks/crises in the period of 2008–2010 (Bamiatzi, Bozos, Cavusgil & Hult, 2015) and the 1997 Asian financial crisis (Chakrabarti, 2015) were commonly investigated. In regard to such research, however, several issues remain unclear: The previous studies fail to clearly test what specific nature of the shocks, such as their criticality and proximity to a given company, may make the impacts of the shocks more salient. Also, it remains unclear which particular type of shock—political or economic—holds the most potential to affect two dimensions of company performances, i.e., accounting and stock-market performances. Furthermore, it remains unclear how industry characteristics and company resources should have

DOI: 10.4018/IJRCM.2017100103

their effects on the relationship between the shocks and company performances. According to recent research (Morgeson, Mitchell, & Liu, 2015), the strength of a shock/crisis depends on its nature such as geographical proximity and criticality in relation to a company's agenda. These natures can also become compounded by other variables, such as industry characteristics and company resources. It would be interesting to test how the natures of the shocks impact two dimensions of company performances (i.e., accounting and stock-market ones) given certain industry characteristics and company resources. This test should improve our understanding of the relationship between exogenous shocks and crises and company performance. For instance, past research has not shown whether a specific nature of a given shock/crisis, such as its criticality to a given company, should affect the company's accounting and stock-market performances differently, and our current research can address this research gap while taking into account the effects of industry characteristics. In addition, past research showed that company resources, such as diversification, can act as an indirect buffer during an economic shock/crisis; when this happens, it is less likely that a shock/crisis will negatively affect company performance (Chakrabarti, 2015). However, it remains unclear whether this buffer effect consistently works against all types of shocks for various types of industries. Our current research can also address this research gap with a more comprehensive data analysis.

Our research is conducted based on the latest developments in event theories—that is, the Event System Theory (Morgeson, Mitchell & Liu, 2015). The contribution of our research should threefold. First, it may be the first study that tests how the specific nature of a given political or economic shock/crisis may impact company performance. Prior research often considered one shock only and paid little attention to different natures between shocks. As a result, it remains unclear why one shock's impact can be more salient than those of another shock. Our current study should enrich the literature of exogenous shocks and crises by addressing this research gap.

Second, it may be the first to empirically examine how shocks, industry characteristics, and company resources intermingle to ultimately affect performance. When explaining why exogenous shocks and crises have stronger impacts on the performance of some companies rather than on the performance of other companies, authors have mainly been focusing on the moderating effects of internal resources at company level, such as a company's financial slack or its diversification (e.g., Li & Tallman, 2011; Chakrabarti, 2015), and the moderating effects of industry characteristics have been more or less ignored. When studying the impact of environmental jolts and firm behaviors, Meyer and co-authors have suggested that industry level of analysis should be helpful (Meyer, Brooks & Goes, 1990). Our current research assumes that industry characteristics should be a very useful set of variables helping to understand the impacts of exogenous shocks and crises. Accordingly, we posit that the industry characteristics may not only influence the impacts of exogenous shocks and crises on company performance, but also affect the relationship between company resources, such as companies' diversification, and company performance. By testing the effects of the characteristics at the industry level, our current research can help understand better the impact of a given exogenous shock on company performance.

Finally, this study investigates the impacts of exogenous shocks and crises on both company accounting performance and their stock market performance, and the exogenous shocks and crises considered in our current study include both the political and economic shocks/crises. In this way, our current study provides keener details on the impacts of the two types of exogenous shocks/crises.

From a practical viewpoint, the results of our research can help firm managers to assess the potential impact of an exogenous shock/crisis. Managers can make better decisions by regarding their industry's characteristics and company resources in relation to the specific nature of a particular shock/crisis. In other words, once a company grasps its industry's characteristics and can fully understand