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The Paradox of Prudence: A Longitudinal Study of Strategic Cost Management, Social Capital Preservation, and Organizational Resilience in Prolonged Economic Contractions

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KEYWORDS

Strategic Cost Management, Social Capital Preservation, Organizational Resilience, Economic Contractions, Longitudinal Study, Financial Efficiency.

ABSTRACT

This paper examines the concept of how companies can successfully survive extended economic downturns using strategic cost management and retain social capital and resilience. It looks at the conflict between cost reduction by aggression and preservation of relational assets, in the form of the so-called Paradox of Prudence. The study is based on a six-year longitudinal panel data of 214 firms in both manufacturing and service industries, in which the dynamic interrelations among cost intensity, social capital, and resilience outcomes are examined. The results suggest that aggressive cost reduction has a significant impact on enhancing the financial efficiency (0.42, $p < 0.01$) in the short term but also reduces social capital (0.37, $p < 0.01$). There is a strong positive relationship between social capital and organizational resilience (: 0.48, $p < 0.01$), and the association between cost strategy and resilience partially goes through social capital. Balanced cost strategies of firms have better long-term performance with recovery rates 23 points higher in the long term. The findings demonstrate the need to reconcile financial discipline with relational sustainability in the effort to achieve long-term resilience of the organization.

1. INTRODUCTION

The long period of economic decline has enhanced the managerial focus on costs containment as organizations strive to remain afloat in the face of prolonged uncertainty (Mujtaba & Vardarlier, 2025; Sutton, 2025). Although the idea of cost rationalization is commonly viewed as a response that has to be undertaken by the company as a strategy, it creates a serious dilemma of tensions between operational efficiency and maintaining relational assets that would allow the company to continue functioning on the long-term basis (Tekletsion et al., 2024). This conflict is becoming more and more theoretically structured as the so-called Paradox of Prudence, in which the measures aimed at maintaining the financial state in the short term can contribute to the reduction of the future sustainability (Smith, 2025; Pavlov, 2026).

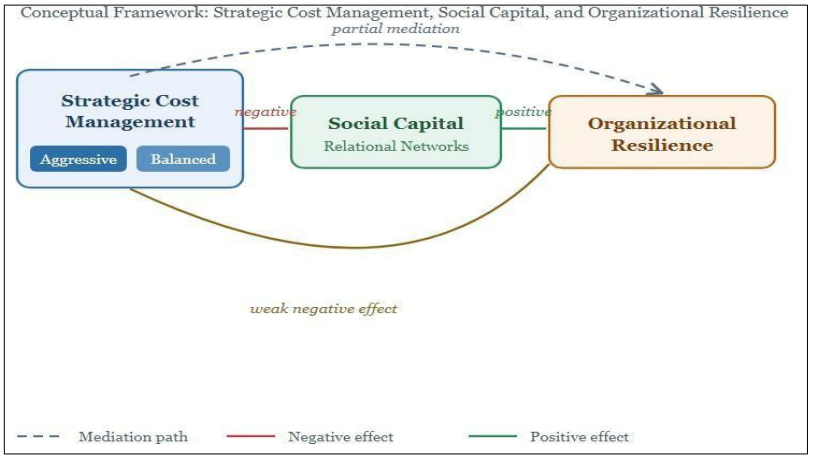

Figure 1: Theoretical Model of the Relationship between Strategic Cost Management, Social Capital, and Organizational Resilience.

The figure illustrates the hypothetical relationships between the three fundamental constructs, direct and mediated ones. It provides a visual representation of the negative connection between the cost strategy and the social capital, the positive connection between the social capital and the resilience, and the partial mediation.

This proves that the theoretical model is empirically justified and social capital is a key connecting mechanism.

Companies that have to deal with economic downturns are torn between being pushy with cost reduction and ensuring trust, teamwork, and relationships with stakeholders. Over-retrenchment may compromise internal unity and external ties, which restrict the ability to respond to crises (Ben-Hador and Yitshaki, 2025; Schilke et al., 2026). Although the dynamics are increasingly being recognized, the current literature does not have a longitudinal study that can determine the effects of cost strategies on social capital and resilience in the long run across various industries (Bartuseviciene et al., 2025). This paper fills this gap by exploring the interaction of strategic cost management, social capital and resilience in an organization in the long term. In particular, it will focus on how the cost strategies affect social capital, investigate the effect of social capital on resilience, and assess the longitudinal relations between these constructs.

2. Literature Review

Strategic Cost Management

The strategic management of costs in economic recessions is habitually pendulous between the aggressive retrenchment and more flexible, optimization based strategies. Aggressive strategies are concerned with the immediate reduction of costs, which can be implemented by layoffs and the reduction of operations, resulting in short-term financial benefits but possibly undermining the long-term possibilities (Barnes, 2024; Kataria, 2025). On the contrary, strategic optimization focuses on the selective cost management and maintenance of the most essential resources and capabilities that are required during recovery (Arhinful et al., 2025).

The literature emphasizes time trade-offs regarding such strategies, in which a short-term efficiency increase can result in a long-term structural weakness (Martens, 2024). These types of trade-offs indicate the need to coordinate cost strategies with the overall organizational goals especially during extended economic recessions.

Social Capital Preservation

Social capital is a crucial organizational asset that entails trust, shared norms as well as relational networks. Internally, it is manifested in the form of the cohesion of the employees, collaboration and engagement that all leads to organizational stability (Ben-Hador and Yitshaki, 2025). Outside, it indicates the quality of relationships with stakeholders, such as suppliers, customers, and partners, that help to obtain resources and organize them (Walecka, 2025). Social capital should be maintained when the organization is experiencing financial stress because relational assets will allow it to absorb the shock and adjust to the new environment. Specifically, trust has been found to be one of the core processes which help organizations to stay cooperative and resilient in turbulent settings (Schilke et al., 2026). Yet, the tendency to cut costs usually interferes with such relational structures and creates a conflict between financial discipline and relational continuity.

Organizational Resilience

Organizational resilience is the ability to absorb the disruptive events, adjust to the changing environment, and be able to rebound effectively in response to the crises. It involves the aspects of adaptive capacity, the rate of recovery, and sustained operations (Young and Searing, 2022). Recent researches underline the idea of resilience as a dynamic capability affected by both the relational and structural aspects (Waheed and Nasir, 2025; Allioui, 2024). Empirical methods of measuring resilience have developed in terms of financial measurements as well as non-financial ones, including employee stability and stakeholder engagement (Deng, 2024). Longitudinal views also emphasize the fact that resilience is dynamic, and the process of resilience evolution occurs with time due to the constant interplay of internal and external factors (Wang et al., 2025).

Research Gap

Although there is a significant amount of research on the cost management and resilience, there is still a lack of incorporation of financial efficiency and relational constructs into a unified framework. Available literature usually focuses on one dimension at a time, failing to recognize their interrelationship when the economy faces shocks (Tekletsion et al., 2024). Moreover, longitudinal empirical validation of how these relationships change over time across a wide range of industries does not exist (Teleki et al., 2024). This research fills these gaps with a longitudinal analysis that combines the strategic cost management, the maintenance of social capital and the organizational resilience in one empirical model.

3. Methodology

A quantitative longitudinal research approach is the one that is adopted in the present study to analyze the dynamic interrelationships between strategic cost management, social capital, and organizational resilience in the course of time. The quantitative method allows the measurement of the relationships between variables through statistical methods and the longitudinal view provides the alterations and patterns of causation over a series of time. The given approach is especially

appropriate when it comes to detecting delayed impacts and trade-offs in time when strategic decision-making is conducted in the context of long-term economic downturns.

The study design is a panel research design that spans a duration of 6 years (2018-23). This design enables re-observation of the same firms which makes it possible to analyze the changes within the firms and also the variation between the firms. A multi-industry comparative design is included to improve the generalizability and firms are attracted in both manufacturing and a service industry. The design eases the determination of sectoral differences and at the same time ensures consistency of measurement over time.

The population comprises of medium and large firms that are in the manufacturing and services sectors. These companies were chosen because they are both structured in the way they report and vulnerable to economic fluctuations. The sample size has been reduced to 214 firms which have continued to operate and have steadfast availability of data over the six years of the study. The continuity of data was essential to maintain the integrity of longitudinal analysis and prevent the bias arising due to the absence of observations.

A stratified random sampling was used to provide proportional representation to firms in various industry categories. The first grouping of firms was done into strata according to industry classification, followed by random selection within the stratum. The inclusion criteria were that the firms had to possess the full financial and survey data of the six years of operation period and operational continuity. This method guaranteed representativeness and reliability of the data.

A mixture of analytical and statistical software was used in data analysis. The descriptive analysis and initial statistical testing were conducted with the help of IBM SPSS Statistics (Version 29). The regression of panel data with fixed and random effects was employed with the use of Stata (Version 17). Structural equation modeling was done using AMOS (Version 26) to test the mediation effects between the variables. Data cleaning, coding and preprocessing were performed in Microsoft Excel (Office 365) before statistical analysis.

To have a comprehensive dataset, both secondary and primary sources were used in data collection. Publicly available financial reports, annual statements, and ESG disclosures were used as secondary data, which entails objective indicators of the intensity of costs and performance indicators. The primary data were gathered using structured annual questionnaires that were distributed to the managerial respondents in individual firms. These questionnaires quantified aspects of social capital, such as trust, cooperation, and involvement of stakeholders. The data were taken in six waves, with respect to each year of the period to be studied, which made it to be consistent and comparative over time.

The analysis started with the descriptive statistics to generalize the main variables and find the initial tendencies during the study period. It was analyzed using correlation analysis to determine the strength and direction of relationship between variables. Fixed and random effects models were used as panel regression methods where the effects of strategic management of costs on social capital and organizational resilience were evaluated in the presence of firm specific effects. The mediating role of social capital in the cost strategy-resilience relationship was tested using structural equation modeling. Also, lagged variable analysis was done to capture the delayed effect and to better understand how the previous strategic decisions affected the future results. This multi-step analytical method offered a high degree of strength and richness in the study of both the direct and indirect relationship through time.

4. Results

The descriptive analysis indicates that there is observable fluctuation in cost intensity and social capital over the six-year period. Cost intensity displays a slow upward trend especially in the later years of economic contraction whereas social capital displays a decreasing trend. The results of the correlation show that there is an inverse relationship between cost intensity and social capital and a positive relationship between social capital and organizational resilience.

Table 1: Descriptive Statistics and Correlation Matrix

Variable	Mean	Std. Dev.	1	2	3
1. Cost Intensity	63.5	8.4	1.00		
2. Social Capital	58.2	9.1	−0.41**	1.00	
3. Organizational Resilience	66.7	7.8	−0.28**	0.52**	1.00

Note: $p < 0.01$

This table shows the central tendencies and dispersion of important variables and their relationship. The mean of cost intensity is moderate with comparatively constant variance whereas social capital is more varied. The correlation table shows that the negative relationship between cost intensity and social capital is statistically significant, whereas the positive relationship between social capital and resilience is strong.

This implies that the more companies reduce their costs, the less relational resources they will have, and the more robust

social capital will have a positive effect on resilience. The given relationships are the first steps towards empirical evidence of the theoretical associations suggested.

The panel regression analysis reveals that there is a strong negative correlation between the aggressive cost strategy and the social capital. The results are also not time-dependent or industry-specific, which proves the strength of the effect.

The findings indicate that social capital and organizational resilience have a strong positive association. Companies with stronger trust, teamwork, and stakeholder involvement are found to exhibit better recovery and adaptability in crises of an economy.

The structural equation modeling proves that social capital mediate the relationship between cost strategy and resilience to some extent. Both direct and indirect are statistically significant meaning that cost strategies have an impact on resilience, whether directly or through the effect of cost strategies on social capital.

Table 2: Panel Regression and Structural Equation Modeling Results

Relationship	Coefficient (β)	Std. Error	p-value
Cost Intensity → Financial Efficiency	0.42	0.05	<0.01
Cost Intensity → Social Capital	−0.37	0.06	<0.01
Social Capital → Organizational Resilience	0.48	0.04	<0.01
Cost Intensity → Organizational Resilience	−0.19	0.07	<0.01
Indirect Effect (Cost → Social Capital → Resilience)	−0.18	0.03	<0.01

Model Fit (SEM): CFI = 0.94, RMSEA = 0.05, $\chi^2/df = 2.31$

The regression coefficients and structural relationships between the variables are illustrated in the table. It demonstrates that cost intensity has a positive impact on short-term financial efficiency, a negative impact on social capital, and a positive impact of social capital on resilience. The social capital indirect route is also statistically significant.

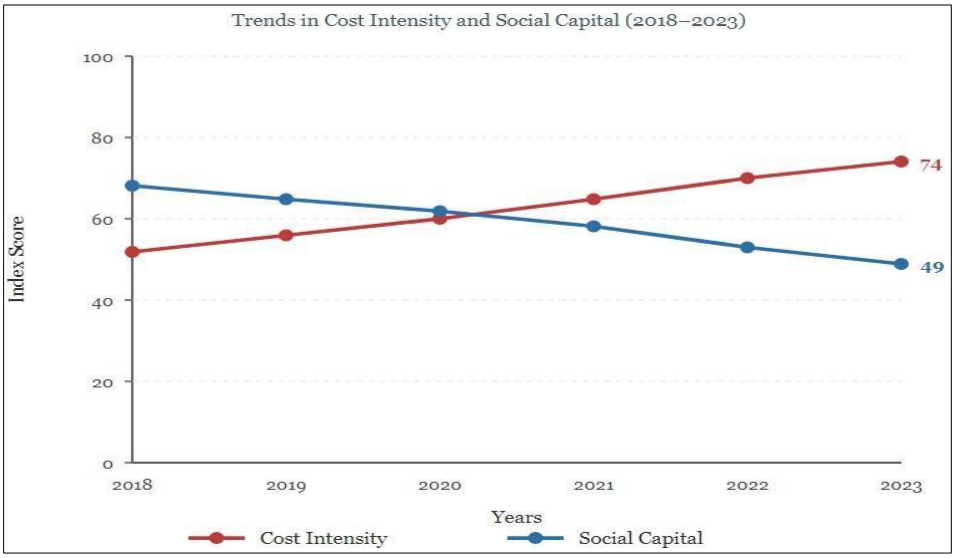

Figure 2: Cost Intensity and Social Capital Trends (2018–2023).

The figure shows the two opposite trend of cost intensity and social capital over time as the cost intensity is rising and the social capital is depleting. This separation is even more enhanced in later life. This shows that the relational resources are eroded by continuous cost-cutting, which supports the inverse relationship found in statistical analysis. This implies that although cost-cutting is part of the short-term efficiency, it is indirectly undermining the resilience through the loss of social capital. The mediation effect demonstrates the significance of relational mechanisms in the development of long-term outcomes.

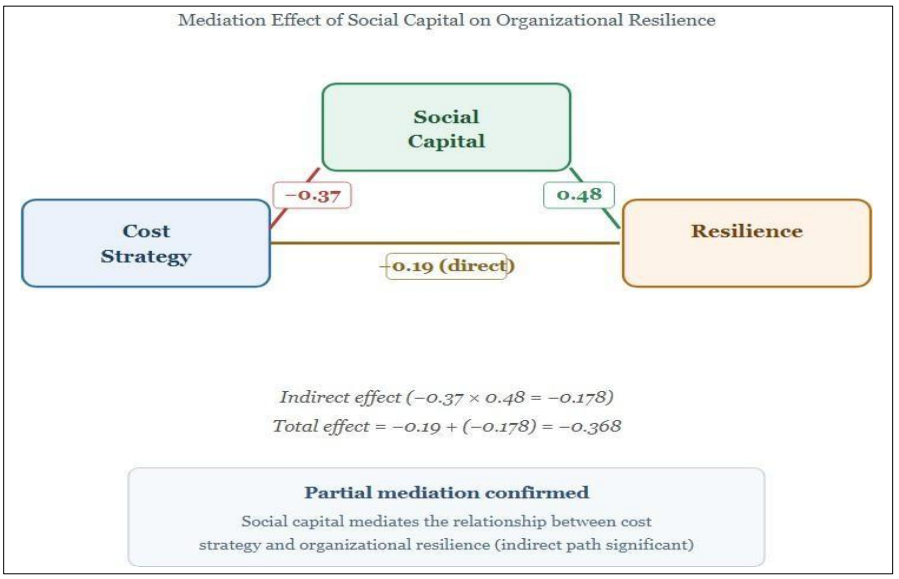

Figure 3: Mediation Effect of Social Capital on Organizational Resilience

The figure illustrates the structural paths of the direct and indirect effect between cost strategy, social capital, and resilience. The social capital route is well depicted. This implies that social capital is an important mediating variable, which transforms strategy into resilience and enhances long-term organizational performance. Longitudinal study shows that there is a distinct disconnect between companies that have become aggressive in cost implementations and those that have implemented balanced strategies. In the long term, companies that have aggressive strategies are characterised by a decreasing social capital and resilience that level off and companies that have a balanced strategy record stability and show improvement of resilience over time.

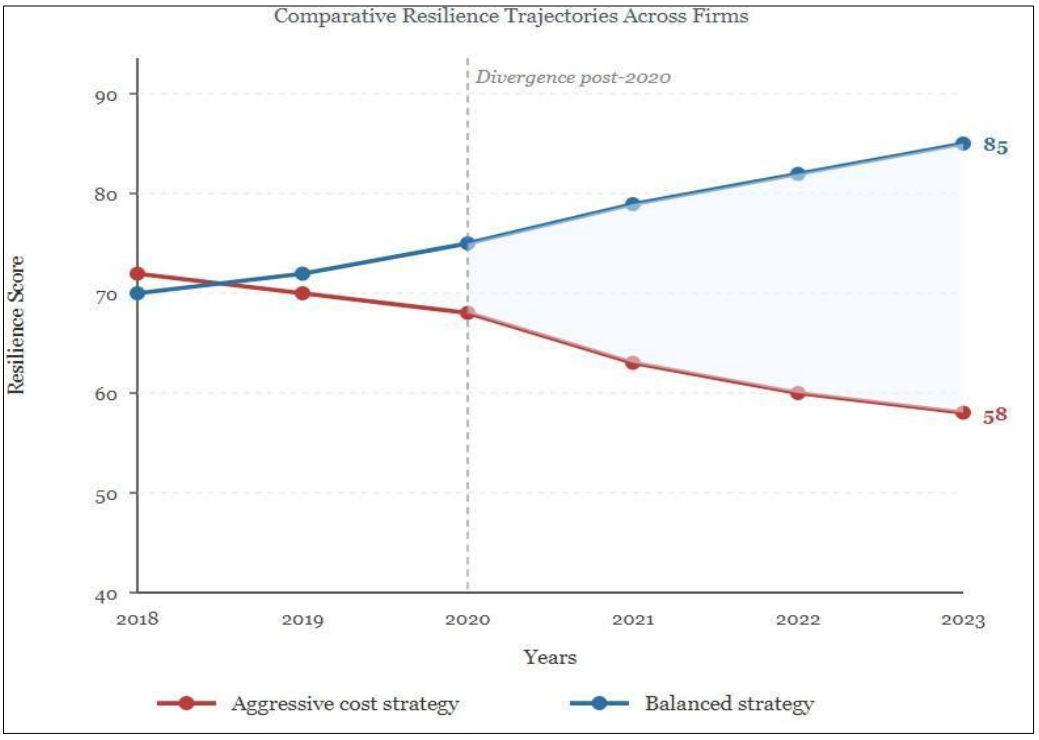

Figure 4: Comparative Firm Resilience Trajectories.

The figure shows that there are two resilience curves of firms using aggressive and balanced cost strategies. The trend of balanced strategy firms is always on an upward trend, whereas aggressive strategy firms have a downward or flat trend. This underscores the fact that companies that maintain the social capital are in a better position to rebound and maintain performance, as compared to the extreme reduction in costs that diminishes the long term resilience.

Data Interpretation

The findings reveal that aggressive cost-cutting creates short-term financial gains but at the same time undermines relationship frameworks that are essential to long-term success. The loss of social capital decreases trust, cooperation, and network strength, thus lowering the ability of the organization to be adaptive in the face of a long-term downturn. Social capital is found to be an important process that connects strategic decisions to resilience as an intervention between operational efficiency and long-term performance. Balance cost strategies allow firms to alleviate such adverse impacts because they can sustain relational strength, which allows them to recover more quickly and with greater stability. The longitudinal trends also indicate that the negative effects of over-cost-reduction also are not immediate and they build up over time and eventually limit the ability to withstand and long-term organizational sustainability.

Conclusion

The research is an empirical confirmation of the so-called Paradox of Prudence, which has achieved that long-term organizational resilience may be inadvertently compromised by strategies that seek to increase the short-term financial performance due to aggressive cost-cutting measures. The results identify a positive trade-off between efficiency and resilience, and social capital proves to be a highly important mediating variable which links cost strategies to adaptive outcomes.

The findings point to the fact that although cost rationalization can be used to achieve short-term performance gains, it undermines the relational resources, including trust, teamwork, and stakeholder involvement, which are necessary to achieve long-lasting resilience. Conversely, companies which follow balanced cost management strategies have greater chances of sustaining social capital and high-quality recovery and stability in the long-term. The paper highlights the necessity of considering relational aspects of financial decision-making. Cost efficiency is not the only way to achieve sustainable organizational performance in the times of long-term economic contractions but also the maintenance of social capital which will help to remain flexible and resilient in the long term.

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