

New business models can save smaller firms during economic crises

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The COVID-19 pandemic has caused unprecedented levels of disruption and hardship for many small businesses. But rather than adopting a more conservative approach involving relatively minor tactical adjustments,

small businesses should consider changing their competitive strategies or offering new product lines to survive—and even thrive—during turbulent economic times, according to researchers at Florida Atlantic University and Texas A&M University-Corpus Christi.

A study published in the *International Small Business Journal* confirmed the positive effect of these business shifts, which researchers refer to as "dynamic capabilities" (DC). Small businesses adopting a DC approach outperformed those that did not, and the smaller a [small business](#) was, the more it benefited, the study found.

"Every day we would see new headlines documenting the plight of struggling small businesses, so we decided to study a strategic management theory designed to predict performance in turbulent settings and see if it helped during COVID-19," said Melanie Lorenz, Ph.D., an assistant professor of marketing in FAU's College of Business. "Interestingly enough, this theory of dynamic capabilities is normally thought to benefit [large firms](#) more, but we found that when turbulence is as extreme as it is during COVID-19, being small actually increases the efficacy of dynamic capabilities. No matter how small you are, this can help."

Lorenz worked on the study with TAMUCC's Jack A. Clampit, Ph.D., John E. Gamble, Ph.D., and Jim Lee, Ph.D. Their data was gleaned from a survey of nearly 600 [business owners](#) and managers in the southern United States during the first week of June 2020, soon after government-imposed COVID-19 lockdowns on non-essential businesses were lifted.

The study noted that economic downturns historically tend to hurt small and medium-size businesses more than larger firms, and that was never more evident than during the pandemic. Three times as many small and medium-size firms failed from February to May 2020 than during the 18-month Great Recession.

One reason larger businesses tend to do better during economic downturns is they have cash reserves to maintain operations until conditions improve. The federal government's efforts to provide coronavirus aid offered small and medium-size businesses a measure of relief, leveling the playing field and allowing the researchers to conduct a natural experiment isolating the role of DC in business performance.

The researchers highlighted Flags of Valor, a Virginia wooden flag manufacturer that struggled during the pandemic until it discovered a new market: craft kits for children across the country who were on extended breaks. In another example, South Florida restaurant Oceans 234, barely surviving by offering takeout orders, leveraged personal relationships with suppliers and a local nonprofit agency to operate as a grocery store. The restaurant provided items with strong demand that were often sold out in traditional grocery chains, such as toilet paper, while also helping to feed children who no longer had access to meals once served at school.

The study showed how smaller firms can more quickly and easily recognize new customer needs and then quickly pivot from old to new business models without being bogged down by the bureaucratic and political hurdles that make larger firms efficient but less agile. Owners of smaller businesses have the authority to make sweeping decisions and can garner immediate buy-in from key employees.

What's more, smaller firms are more likely to capitalize on [personal relationships](#) with internal and external stakeholders in ways that can facilitate their shifts toward new business strategies, the researchers found.

"This is not to suggest these changes will be easy," Lorenz said. "The owner of the flag-making company, for example, compared it to trying to build a parachute while falling to the ground. But the company also

noted that it was ultimately worth it because it's an entirely different [business](#) now. And all their furloughed workers are back working full time."

More information: Jack A Clampit et al, Performance stability among small and medium-sized enterprises during COVID-19: A test of the efficacy of dynamic capabilities, *International Small Business Journal: Researching Entrepreneurship* (2021). [DOI: 10.1177/02662426211033270](#)

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