

How can small businesses strengthen their resilience to unexpected crises?

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Abstract

Small firms are increasingly exposed to external shocks, like pandemics, inflation surge, global and local conflicts, natural disasters. A common issue is how to address these shocks and how to enable the organization to survive and continue doing business. This study explores responses to crises in some firms along a particularly challenging period, how they responded to external shocks and finds out which factors help in building their resilience.

Keywords: Resilience, entrepreneurship, slack resources, uncertainty.

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1 Introduction

During the last decade, firms have been facing repeated shocks in the environment threatening their business continuity. From financial crises and natural disasters to a pandemic, raw material shortages and inflationary trends, these events have been significantly challenging businesses' survival over time. In response to these shocks, smaller entrepreneurial firms must find ways to become more resilient and prepare for future crises.

In the paper "Responding to unexpected crises: The roles of slack resources and entrepreneurial attitude to build resilience", recently published in the journal of *Small Business Economics*, we describe four different ways in which small entrepreneurial firms could build resilience to thrive in the face of uncertainty, thanks to their slack resources and entrepreneurial attitude.

2 Theoretical background

Slack resources refer to the resources in excess available to organizations, such as financial capital, human and technological resources, that can be leveraged to respond to unexpected events. The presence of slack resources, such as cash reserves, excess capacity, and highly skilled employees, has been shown to enhance the resilience of firms in the face of unexpected events (Wang & Li, 2017; Kantis, De Massis, & Frattini, 2012). For example, having a surplus of financial capital can allow organizations to invest in new technologies or services that can help them to remain competitive in the face of a crisis. Similarly, having a surplus of human resources can allow organizations to allocate workers to new tasks or projects, enabling them to continue operations even when faced with unexpected challenges.

Entrepreneurial attitude refers to the mindset and behaviour of entrepreneurs, including their willingness to take risks, their ability to identify and pursue opportunities, and their ability to

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adapt to change (Covin & Slevin, 1991). A favourable entrepreneurial attitude can help a firm building resilience because the entrepreneur is able to identify new opportunities, adapt to changing circumstances, and pursue new strategies in response to unexpected crises.

3 Method

We were able to make repeated interviews to nine Italian entrepreneurial firms, pre-during and after the first wave of Covid 19 in Lombardy (April 2021), one of the regions in Europe most affected by the pandemic. Thanks to our informants' narratives, we find that both slack resources and entrepreneurial attitude play a significant role in building resilience. Leveraging slack resources, such as business or family slack, is a key factor in enabling organizational resilience. Moreover, the different combinations of slack resources leveraged, and the degree of entrepreneurial attitude are associated with different entrepreneurial and resilient responses, with slack being necessary but not sufficient to turn adversities into opportunities.

4 Results

The study also found that family firms are not necessarily more able to turn threats into opportunities or demonstrate superior resilient performance compared to non-family firms, during crises. While family slack and socioemotional wealth played a positive role in building resilient responses to adversity, non-family firms are equally capable of capturing opportunities and displaying resilience, despite not relying on family-specific resources that have been identified as key to build resilience.

We find that owning slack resources alone does not mean the firm can turn adversities into opportunities, as a favourable entrepreneurial attitude is also needed, for both family and non-family firms. Our findings show that a firm whose entrepreneur presents a favourable

entrepreneurial attitude is more likely to respond to unexpected crises by innovating the business model and searching for new market segments, entering new geographic markets, or introducing new products or services. By contrast, entrepreneurs displaying an unfavourable entrepreneurial attitude are more likely to adopt a defensive strategy, such as reducing their operations or cutting costs, in response to unexpected events.

5 Discussion and conclusions

The study provides important insights for managers and business owners who are looking to enhance their firm's resilience to unexpected crises. The findings highlight the crucial role that slack resources and entrepreneurial attitude play in responding to unexpected crises and building resilience.

First, to leverage slack resources effectively. Managers should be aware of the importance of their firms' slack resources in responding to unexpected crises. They should allocate resources such as time, money, and personnel to those activities that can help build resilience in the face of a crisis. This also includes investing in technology and infrastructure, improving communication channels, and creating contingency plans.

Second, to foster a proactive and favourable attitude to disturbances. Encouraging positive responses to adversities among managers and employees can also help build organisational resilience. Managers should create a work environment that promotes innovation and encourages employees to cope with uncertainty. This can be achieved by setting clear goals, providing opportunities for skill development, and fostering a culture of continuous learning and improvement.

Third, to increase proactivity and embrace change, such as seeking out new opportunities,

engaging in ongoing learning and professional development, and actively seeking out feedback from customers and other stakeholders. By adopting this mindset, entrepreneurs can be better prepared to quickly adapt to changes in the marketplace and respond effectively to unexpected crises.

Fourth, to build a diverse portfolio of activities. Diversifying the business portfolio can help mitigate the impact of unexpected crises. Managers should consider adding new products or services, entering new markets, and expanding into new geographic locations. This can help to spread risk across the business and increase resilience in the face of unexpected challenges.

Fifth, continuously monitor and adapt to external changes. Finally, managers should continuously monitor their business operations and adapt to changing circumstances. This requires regular monitoring of key performance indicators and market trends and making adjustments as needed. The ability to quickly adapt and respond to changing conditions is an important factor in building resilience.

In addition to the managerial implications, the study offers practical implications for business owners and entrepreneurs. Some of the practical implications include:

- Build up their slack resources. Entrepreneurs should set aside cash reserves and develop contingency plans. This will help them to weather – at least the initial phase - of an unexpected crises and have time to develop a mid-term plan to recover.
- Assess the level of slack resources. Business owners and entrepreneurs should regularly assess their level of slack resources and allocate resources effectively to build resilience. This includes evaluating their financial, human, and technological resources and adjusting as needed.
- Encourage a culture of innovation in the face of uncertainty. Entrepreneurs should foster a culture of innovation by promoting creativity, as this is critical for adapting and rejuvenating the business after a shock. This can be achieved by setting clear goals, providing opportunities for skill development, and encouraging employees to take ownership of their work.
- Diversify the business portfolio. Diversifying the business portfolio is an effective way to mitigate the impact of unexpected crises in one specific area. Business owners and entrepreneurs should consider adding new products or services, entering new markets, and expanding into new geographic locations.
- Monitor and adapt to changes in the environment. Finally, entrepreneurs should develop a flexible mindset within the organization to adjust when a shock arises. The capability to be able to quickly adapt and respond to changing conditions is critical to building resilience in the face of unexpected challenges.

Practitioners working especially with small entrepreneurial businesses should also be mindful of the importance of slack resources and entrepreneurial attitudes when helping their clients to build resilience. They can help small business owners to build up their slack resources by advising them on management strategies and encouraging them to set aside resources to be employed during emergencies. They can also provide guidance on developing an entrepreneurial attitude, such as by connecting small business owners with training and development opportunities or mentorship programs.

In conclusion, we emphasize the importance of slack resources and entrepreneurial attitudes in building resilience in entrepreneurial ventures in the face of unexpected crises. Business owners

who have disposable slack resources, and an entrepreneurial attitude characterized by proactiveness and a willingness to embrace change, will be more likely to successfully navigate and recover from crises.

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