Navigating Uncertainty and Growing Jobs: Considering Small Employer Firm Resilience During Challenging Economic Times

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Overview

Interise

Small Businesses & the Recession

Why Did Some Small Businesses Fare Better Than Others?

Methodology

Key Findings

Additional Insights

What’s Next?
Interise stimulates economic revitalization in lower income communities. We provide a diverse group of small business owners with entrepreneurial education, new networks, and access to markets. Our community creates jobs, grows businesses, and develops community leaders.
Interise StreetWise ‘MBA’™

Drivers of Change
- New knowledge
- New know-how
- New connections

Participant Outcomes
- New contracts and financing secured
- New markets accessed
- New revenue growth

Local Impact
- Jobs created
- Successful local businesses
- Stronger local economy

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Small Business and the U.S. Economy

Small businesses employ about half of all private sector employees and, from 1993-2009, accounted for nearly 65 percent of net new jobs, according to the SBA.
Our network’s job growth rate was almost 7x that of private sector growth in 2010 & 2011

Source: Interise 2011 Impact Report
During the Great Recession, small businesses struggled because of their inability to respond to the uncertainty brought on by weak sales & flagging consumer demand.

### Small businesses face multiple challenges:
- Financing and credit challenges
- Limited resources
- Limited capacity
- Constrained ability to survive poor managerial decisions

### Employment Decline among Small Businesses

- **40% (2007-2009 Recession)**
- **10% (2001 Recession)**

### Why Did Some Small Firms Fare Better Than Others?

<table>
<thead>
<tr>
<th>Group</th>
<th>Firm-level Job Growth Performance Relative to City/Industry (2008-2010)</th>
<th>Number of Survey Firms (N=374)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Firm added employees and outperformed city/industry, which lost employees</td>
<td>127</td>
</tr>
<tr>
<td>2</td>
<td>Firm maintained employees and outperformed city/industry, which lost employees</td>
<td>19</td>
</tr>
<tr>
<td>3-6</td>
<td>Not enough Information to determine resilience</td>
<td>111</td>
</tr>
<tr>
<td>7</td>
<td>Firm lost employees and underperformed city/industry by losing employees at a higher rate than the city/industry as a whole</td>
<td>57</td>
</tr>
<tr>
<td>8</td>
<td>Firm lost employees and underperformed city/industry, which added employees</td>
<td>60</td>
</tr>
</tbody>
</table>

**City/Industry change in FTE**
- Firm, add any Full-time Employees (FTE)
- Firm, lose any FTE
- City/Industry decrease FTE
- City/Industry increase FTE

**Groups**
- **Group 1**: 127
- **Group 2**: 19
- **Group 7**: 57
- **Group 8**: 60
During and after the Great Recession market volatility and uncertainty have increasingly become the new norm.

Some small business have been able to thrive despite a stormy economic climate.

Why were some small businesses able to maintain or expand their workforce?

What gave these firms a leg up?

What skills can they teach businesses that fared poorly in the stormy economic climate?
Confronting Uncertainty
“Strategic resilience is ... having the capacity to change before the case for change becomes deeply obvious.”

- Hamel and Välikangas in “The Quest for Resilience,” 2003

Aspects of Organizational Resilience

- Resilience is an outcome
- Resilience is multidimensional and not static
- Resilience exists over a range of conditions
- Resilience is good risk management
- Resilience is the organizational ability and confidence to act decisively and effectively in response to disruptions that could jeopardize long-term survival

This study examines the relationship between one measure of resilience — the ability to maintain or add jobs in relation to city/industry during the recession — and particular aspects of strategy.
## Survey Results

### Synthesized Results of the Survey Analysis

#### Managerial Strengths Positively Associated with Resiliency
- Confidence in overall leadership
- Value of government contracts
- Regular use of financial data and analysis
- Mean of all strategies in 2010

#### Managerial Strengths Negatively Associated with Resiliency
- Confidence in retaining existing customers
- Confidence in applying for government contracts

#### Managerial Strengths with Mixed Significant Results
- Knowing how to make an effective case for additional funding
- Using well thought out procedures to address human resource needs
- Sales strategy & marketing

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### Survey Firms at a Glance

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of survey firms</td>
<td>374</td>
</tr>
<tr>
<td>Number of firms adding net new FTEs or maintaining all FTEs</td>
<td>253</td>
</tr>
<tr>
<td>Net new full-time employees (FTEs) added, from 2007–2010</td>
<td>414.5 FTES</td>
</tr>
<tr>
<td>Number of firms losing net FTEs</td>
<td>121</td>
</tr>
<tr>
<td>Median of net jobs lost per business for those reporting loss</td>
<td>-2 FTES</td>
</tr>
<tr>
<td>Median of net new jobs created per business for those reporting zero or positive growth</td>
<td>2 FTES</td>
</tr>
</tbody>
</table>
Case Study Results

Case Study Firms at a Glance

- **16**
  - Number of case study firms

- **13.4 Years**
  - Average length of time as business owner

- **>$500,000 – $18 million**
  - Range of revenue of firms

- **56.25%**
  - Firms reporting new financing since 2008

- **38 FTEs**
  - Average number of full-time employees (FTEs) per business

- **14**
  - Number of firms adding net new FTEs or maintaining all FTEs

- **6**
  - Number of firms reporting fluctuations in FTEs

Identified Managerial Strengths

- Strategic positioning: 15
- Focus on core: 12
- Brand/marketing: 4
- Exercise leadership: 10
- Employee management: 11
- Financial discipline: 9
- Access to capital: 7
- Focused growth plan: 7
- Business networks: 3
- Customer relations: 5
- Secure new business: 6
- Build partnership: 6

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Key Findings

Adaptability

Creativity under pressure

Plan effectively

Assess strengths

Measurable indicators
Capabilities of Resilience

1. Measurable Indicators
   Resilient firms make effective use of measurable indicators, using them to build internal structures and create firm opportunities rather than simply focusing on survival.

2. Assess Strengths
   Resilient firms correctly assess strengths and the business environment, identifying possible responses rather than relying on formulas and planned strategic growth schemes.

3. Plan Effectively
   Resilient firms plan effectively, identifying alternative responses to dramatic change and demonstrating how these new approaches will add value instead of soliciting assistance without a clear vision of sustainability.

4. Creativity Under Pressure
   Resilient firms demonstrate creativity under pressure, trying new ideas that respond to the unexpected opportunities brought on by market volatility instead of relying on normal business routines or established strategic growth plans.

5. Adaptability
   Resilient firms are adaptable, committed to firm improvement and able to dynamically revise aspects of the firm's strategic positioning in response to market shifts rather than sticking to a conventional business routine or adopting a reactive posture. Adaptability also requires at least some competency in the aforementioned capabilities.

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### Firm at a Glance

**Industry:** Healthcare services  
**Location:** Des Moines, Iowa

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<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Length of time as a business owner:</strong></td>
<td>13 years (co-owner)</td>
</tr>
<tr>
<td><strong>Number of full time employees (FTEs) in 2008:</strong></td>
<td>16</td>
</tr>
<tr>
<td><strong>Number of FTEs added in 2009:</strong></td>
<td>-1</td>
</tr>
<tr>
<td><strong>Number of FTEs added in 2010:</strong></td>
<td>9.5</td>
</tr>
<tr>
<td><strong>Number of FTEs added in 2011:</strong></td>
<td>15.5</td>
</tr>
<tr>
<td><strong>Estimated employee turnover:</strong></td>
<td>2% annually</td>
</tr>
<tr>
<td><strong>Outperforming city/industry, as of 2010:</strong></td>
<td>75.73%</td>
</tr>
<tr>
<td><strong>Estimated revenue (in 2012):</strong></td>
<td>$13-18M</td>
</tr>
<tr>
<td><strong>Reported increase in revenue:</strong></td>
<td>490% (in 2011)</td>
</tr>
<tr>
<td><strong>New financing since 2008:</strong></td>
<td>None</td>
</tr>
</tbody>
</table>

Photo: [http://ow.ly/hlKZ2](http://ow.ly/hlKZ2)
Resilience – No Quick Fix

• Businesses must acquire the capacity for resilience before difficult economic times
• Resilience depends on numerous variables and varies over time, so firms need to constantly work toward increased resilience
Translating Strategy into Action

Demonstrated Challenges Among Study Firms:

• Manage human resources
• Effective employee management
• Effective growth management
• Build internal capacity & adaptability skills

Photo: http://ow.ly/hH1C1

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Planning for a Rainy Day

Building Capacity to Manage and Proactively Respond

- Balance between control and flexibility
- Reliable systems and organizational structures to create consistent operations and the capacity to pivot
- Strong management team
- CEO focused on strategy, not operations
Implications

• Support small business development programs that are focused on building the capabilities that improve the sustainability of existing businesses – creativity, flexibility and adaptability.

• Integrate small business capacity building and lending.
  – If a bank gives a small business a loan without a strategic plan, they are gambling. If that business has a strategic plan, it’s an investment.

• Identify existing small businesses that are less resilient and target ways to better prepare them to navigate uncertainty.

• Strengthen local and regional economic areas through small business development that supports the growth and sustainability of existing small businesses as well as the creation of new ones.
Navigating Uncertainty – the Sequel

In the next phase of research, Interise will focus on:

• A more nuanced—and comprehensive—look at resilience
  – How does the local business environment and community impact small business resilience?
  – How and why does firm resilience degrade or improve over time?

• A deeper understanding of what’s necessary to improve a firm’s capacity for resilience
  – What is the relationship between small business development and strategic hiring and the creation of responsive organizational structures in building resilience?
  – How to help develop the capacities for greater resilience?
    – How can these employer firms foster the competitive orientation and innovation necessary to rapidly respond to volatile environments?
    – How can small employer firms better attract, hire, and support the people who possess these traits and capabilities?
If you are committed to helping small businesses in your community or interested in the next phase of our research ...

We should talk.

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