

A Preliminary Examination of Why Small Businesses Don't Adapt Marketing Practices Following a Natural Disaster: An Inertia Theory Explanation

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Abstract

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Businesses should align their strategies and practices with the opportunities and threats posed by their environment. Inertia theory has been proposed as an explanation for why this alignment does not necessarily take place, thus creating a business as usual stance. A study of how small businesses responded in the aftermath of a devastating flood is reported here. Inertia theory is offered as a possible explanation for why the marketing practices of the small business community were not significantly changed or adapted.

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Businesses should align their strategies and practices with the opportunities and threats posed by their environment. Inertia theory has been proposed as an explanation for why this alignment does not necessarily take place, thus creating a business as usual stance. A study of how small businesses responded in the aftermath of a devastating flood is reported here. Inertia theory is offered as a possible explanation for why the marketing practices of the small business community were not significantly changed or adapted.

INTRODUCTION

It is commonly accepted in marketing practice that companies must anticipate and respond to environmental factors that pose opportunities or threats to the organization (e.g. Hisrich and Peters 1998; Kotler 1997; Tyebjee, Bruno and McIntyre 1983). Stevenson (1983) suggests that successful firms either have rapid responses to uncontrollable environmental changes or innovate in ways that actually change the environment. The uncontrollable nature of the business environment can be turned to the firm's advantage because it provides opportunities for businesses to generate solutions that offer competitive advantage. The nature of the business's environment is typically assessed in a situation analysis and the result is used to develop or refine the marketing plan. If scanning the environment is so important to successful businesses, why then are examples of failure to respond accordingly so common?

One possible explanation is furnished by the concept of inertia theory. Inertia theory postulates that organizations do not change or respond because their current practices provide reliability and accountability. It is said to be in the firm's self interest not to change, because change increases the risk of failure (Hannan and Freeman 1984).

To better understand the role of inertia theory in explaining how firms respond to an environmental event, this paper will examine how a mid-western city's business sector responded to a devastating flood during the spring of 1997. The paper will specifically examine self reported descriptive data of the impact of the flood on the businesses' marketing practices. This natural disaster simultaneously shut down and affected practically every business in Grand Forks, North Dakota, a city of 50,000 people. Because the businesses in Grand Forks are predominately small, this paper will focus on how small businesses (fewer than 100 employees) responded to the natural disaster. The events leading up to and following the flood provided clear evidence that business as usual was going to be likely, regardless of whether this was desirable or not. The major question to the business community and area decision makers was how to best respond to the calamity and somehow survive and ultimately prosper.

While it is clear that natural disasters have a significant impact on business functioning, the research literature has not generally focused on this problem (Dahlhamer 1992). The process of small business's response is not well understood and this presents a particular problem since they are especially vulnerable to disruption (Nigg and Tierney 1990). What natural disaster recovery literature that does exist is typically concerned with physical recovery (Quarantelli 1989).

Following is a brief discussion of inertia theory and how it furnishes one possible explanation for the small business community's marketing response to the natural disaster. The paper presents empirical results from a series of studies which examined, among other things, how the marketing practices of the community's small businesses did not appreciably change in spite of the disaster. Finally, conclusions from the study as a test of inertia theory and small businesses marketing practices are presented.

LITERATURE REVIEW

Hannan and Freeman (1984) consider that organizational inertia occurs when the core features of an organization change more slowly than the surrounding environment. These authors argue that the marketing strategies of an organization are one of its core features. Thus, an organization operating in a dynamic and changing environment, whose marketing functions do not correspondingly change, experiences inertia. The probability of an organization significantly changing a core feature is said to be low (Hannan and Freeman 1984). According to Hannan (1998), organizations have restricted capacity for significantly altering any of their core functions, such as, marketing practices.

Hannan (1998) indicates that when core functions are established by early organizational decisions and resist future change or adaptation to environmental change, fit between the organization and its environment erodes. Thus, depending on the nature of the environmental change, the organization becomes less aligned with its environmental context. Clearly, this has potential negative consequences for organizations when they are not sensitive to environmental opportunities or threats. This is especially true when the environmental change is caused by a catastrophic natural disaster, because the very survival of non-responsive organizations is cast in doubt (Powell 1991). The marketing plan and, thus, the marketing practices of the organization are particularly important to the firm's attempts to anticipate or react to changes in the environment (Hisrich and Peters 1998). In essence, the firm uses its marketing practices to navigate through changes in the environment.

Is there an explanation for the resistance of organizations to environmental change? One explanation offered by Hannan and Freeman (1989), suggests that structural inertia in organizations is realized because organizations desire reliability and accountability. Changing an organization's core functions is said to introduce risk of failure and unreliability, which internal and external stakeholders want to avoid (Amburgey, Kelly and Barnett 1993). Inertial forces on core functions restrict the organization's ability to re-align with the changed environment. Strong pressures against organizational change allow organizational members to protect their vested interests (Hannan and Freeman 1984). In fact, organizations may even escalate their commitment to core function practices, even ones not conducive to successfully responding to environmental change. Related to the inertia created by apprehension over

risk of failure is the notion that many environmental changes are temporary. Milliken and Lant (1991) report that organizational change is less likely when problems brought on by environmental change are considered just temporary setbacks. In other words, firms will be reluctant to introduce change in core functions if they perceive that the environmental problem is not of a permanent nature. Thus, research into how Grand Forks' small businesses responded to the flood must consider the owner's possible perceptions that the disruptions were a temporary condition and, therefore, posed no need for permanent changes.

Another potential contributor to a firm's inertia or resistance to change related to disasters is provided by the concept of post-traumatic stress disorder (PTSD). According to Powell (1991), business catastrophes tend to make firms rigid to change and detached from their environments. These organizations are said to be disoriented by the disaster and might see change as impossible, thus leading to a continuation of proven past behaviors. These organizations will survive in the long run only if the existing behavior is favorable to the environmental change. Compounding the lack of organizational change due to the disaster are the PTSD like symptoms of key owners or managers, who see adaptive change in a personally threatening capacity.

RESEARCH METHODOLOGY

Sample

Immediately following the 1997 Grand Forks Flood a census was conducted of all organizations in the Grand Forks' area (Staples and Stubbings 1997). Approximately 1900 organizations were identified and contacted by telephone. This census was used as a sample frame for a follow-up mail survey of 1,576 for-profit businesses conducted in the spring of 1998 (Bronson, Faircloth and Staples 1998). Of the 697 for-profit businesses that responded to the mail survey, 281 were willing to be interviewed in person for more detailed questioning on how they were dealing with the flood's aftermath. Ultimately, 211 personal interviews were conducted in the summer of 1998 (Bronson and Faircloth 1998). Because the objective of this paper was to examine the impact of the flood on small businesses, only businesses with 100 or fewer employees were used in the currently reported analysis.

Data Collection

The 281 respondents to the mail survey who had agreed to be personally interviewed were contacted by telephone by one of two graduate students who conducted all the interviews. The phone call was used to ascertain the name of the business owner, manager, or employee most likely to complete the survey and

Questionnaire Development

Because the research project had a number of objectives, it was decided that a structured questionnaire was necessary. The entire questionnaire used several open and closed end formats. The items specific to this paper regarding the impact on marketing practices measured changes in markets served and product, pricing, promotion and distribution practices (see Table 2). These variables are generally accepted as critical to a firm's marketing management efforts. These items were reviewed for face validity by several marketing faculty and pretested for clarity. The various items were all measured with a five point Likert scale (4=strongly agree and 0=strongly disagree).

RESULTS

Sample Demographics

A breakdown of several important demographic characteristics of the sample is provided in Table 1. It can be seen that most of the businesses were very small; 67% had between 0 and 10 full-time employees. The flood had a significant effect on most businesses. Approximately 70% of the businesses were closed for over 10 days. Most businesses sustained property damage. Although 50% of the respondents did not estimate the level of damage, approximately 26% sustained over \$50,000 in damages. While it is not reported here, a number of the businesses were under insured. It is observed that 21% of the respondents had been in business less than 5 years and approximately 45% had been in operation over 10 years. Over two-thirds of the small businesses were organized as corporations.

Approximately 76% of the respondents suffered non-business losses to their personal residences. The residences of almost 46% of the respondents were uninhabitable after the flood and of this group over 90% were uninhabitable for over 2 weeks. Thus, many of the respondents suffered professionally and personally as a result of the flood.

Impact on Marketing Practices

The following discussion is summarized in Table 2.

Target Markets Over 66% of the respondents disagreed or strongly disagreed with the statement that

arrange a meeting time. In practically every case the personal interview was conducted with the individual who had completed the first two surveys. The interviews, which were typically conducted at the business, lasted approximately 45 minutes. The survey was very comprehensive in scope and included a number of items not reported in this study. they had used the flood to expand their markets served. Almost 50% of the respondents indicated that they had not used the flood to acquire more customers in existing markets and 70% indicated that they had not used the flood to eliminate any existing markets. Thus, the respondents did not perceive significant new market opportunities as a result of the flood, nor did they use the flood to narrow the markets served.

Products A strong majority of the respondents reported their product offerings were not substantially changed as a result of the flood. Over 71% had not modified product offerings, approximately 61% were not considering new product opportunities and 69% had not changed brands offered. Almost 50% of the respondents indicated that they would continue to examine changes in product offerings.

Pricing A large percentage (76%) had not raised prices and almost 59% had not instituted new pricing methods or policies. There was a slight indication that maintaining prices was easier since the flood.

Promotion Almost 53% of the respondents indicated that they had not changed their methods of promotion and 58% were not more inclined to use paid advertising since the flood. Approximately 60% were not inclined to use more sales promotions and 59% were not inclined to use more direct marketing. Interestingly, approximately 38% of the respondents were more inclined to use personal selling since the flood. Basically, most respondents (approximately 56%) had not found reaching customers more difficult since the flood.

Distribution There was little indication that businesses had any particular interest in changing distribution practices. Over 72% of the respondents reported that they had not changed distribution methods and were not in need of new or better locations.

SUMMARY AND CONCLUSIONS

As suggested by inertia theory, few of the small businesses surveyed had instituted any significant marketing changes in response to a devastating flood. Specifically, target markets, product, pricing, promotion, and distribution practices did not appreciably change as a result of the flood. While there was significant temporary operating difficulty for the affected businesses, the impact one year after the flood appeared negligible. The lack of tangible marketing changes might seem incongruous with the fact that a significant environmental event had occurred in the community. The city of Grand Forks lost population, but will benefit from significant recovery spending. Clearly, there are opportunities to participate in the recovery, but few admit to its impact on their marketing. Additionally, the loss of a large number of residents does not appear to have resulted in revised marketing strategies.

Critical questions are begged by the study's results. Are the businesses missing a chance to revise their marketing strategies to better align them with the community's future economic opportunities or are the environmental changes temporary, thereby rendering permanent changes inappropriate? Additionally, was the devastating impact of the flood on businesses compounded by the impact on the respondent's personal residence and well being? If so, then future research needs to examine how the recovery of the business and business owner must be viewed together.

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Table 1
Demographic Profile of Sample
Frequency (Percentage)

Full time Equivalent Employees

0 - 10	116 (67%)
11 - 25	32 (18%)
26 - 50	17 (10%)
51-100	9 (5%)

Number of Days Business Closed

Never Closed	17 (11%)
1 - 10	32 (19%)
11 - 30	88 (53%)
Over 30	28 (17%)

Amount of Physical Damage

Less than \$10,000	18 (10%)
\$10,001 to \$20,000	5 (3%)
\$20,001 to \$30,000	9 (5%)
\$30,001 to \$40,000	6 (4%)
\$40,001 to \$50,000	3 (2%)
Over \$50,001	44 (26%)
Not Estimated	84 (50%)

Years In Business

Less than 5	35 (21%)
5 to 10	56 (34%)
11 to 20	47 (28%)
21 to 30	18 (11%)
Over 30	10 (6%)

Business Organization Type

Sole Proprietorship	39 (23%)
Partnership	16 (9%)
Corporation	118 (68%)

Non-Business Losses

Suffer non-business losses ?:

Yes	162 (76.1%)
No	51 (23.9%)

Habitable Home

Was home habitable?

Yes	78(48.1%)
No	74(45.7%)

Uninhabitable Home Days

Days Uninhabitable

1 to 14 days	7(9.5%)
15 to 30 days	35(47.3%)
31 to 50 days	10(13.5%)
51 to 100 days	11(14.9%)
101 to 365 days	5(6.8%)
Over 365 days	1(1.4%)