



Research Article

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Business Models of Chinese Firms Impacted by the Crisis Based on Case Studies

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Abstract

The Covid-19 pandemic has hit businesses extremely hard. Because of reduced social contact, many business models (BMs) have been limited, and some have become unviable. In the current external crisis, timely BM changes are crucial for more effective responses to challenges of critical importance. Based on the resource-based view theory, this study adopts a multi-case study approach to investigate the core competencies demonstrated by firms in different industries in adjusting to the external environment. Integrating and adapting existing BMs to form new BMs presents significant differences in operational outcomes between firms. This study focuses on the response and development of firm crisis management during the Covid-19 pandemic. Successful BM can enable firms to survive the crisis and even achieve improvement in the crisis. In addition, this paper distinguishes between business model innovation (BMI) and business model adaptation (BMA) at the theoretical and substantive levels, mainly from the perspective of firm value, including value proposition, value creation, value capture and value transfer, to differentiate between BMI and BMA. This study explains the impact of various BM changes on sustainable firm profitability and value through a detailed collection of media and company official reports. The emphasis on strategic flexibility has positively impacted firm BMs and value, which has implications for providing insights into companies' long-term development.

Keywords: Covid-19 pandemic; Business model adaptation; Business model innovation; Firm value; Resource based view

1. Introduction

The Covid-19 pandemic led to changes in international trade policies in several countries and turmoil in the global market, adversely affecting business performance (Ahmad et al., 2022). In the face of this sudden market crisis, firms were forced to transform and change their profitable BMs to survive. However, the crisis can also be viewed as an opportunity, as the turbulent environment has inspired organizations in different industries to respond while exploring new market opportunities. This change is one of the ways organizations respond to transformation and change and continues to drive them to evolve their BMs to explore new growth opportunities.

In unstable environments, BM changes can facilitate organizations' transformation (Lo., 2013) and assist them in identifying new sources of profitable growth. As a result, an increasing number of top executives are focusing on BM evolution to maximize firm value. When firms change critical components closely related to creating, delivering, and capturing value, this triggers a shift in the BM through resources and technology, improving firm performance (Hartmann et al., 2013). However, there are differences in the mechanisms by which different BMs affect firm performance (Wu et al., 2015). This paper focuses on the effects of BMA and BMI on firm performance.

With the rapid rise of emerging economies such as China, China's domestic market environment has shown a trend of rapid change, and domestic firms are facing increasingly fierce market competition (Wu et al., 2015; Guo et al., 2017). Between early 2020 and late 2022, many Chinese firms suffered from a decline in international market share due to the tightening of foreign trade policy as a result of the pandemic, while competition in the domestic market further intensified, forcing them to make adjustments to their BMs to varying degrees (Wu et al., 2015; Guo et al., 2017). However, at the beginning of 2023, the Chinese government relaxed its foreign trade policy in the post-pandemic era, which put pressure on domestic firms to face new changes in the market environment once again and thus adjust their BMs. It has been empirically and from a case study perspective that BMA and BMI positively impact firm performance (Saebi et al., 2017; Guo et al., 2017). However, in practice, this positive impact is not invariable, and many firms fail to achieve the desired goals set by their management despite conducting BMA and BMI (Kim, 2021; Clauss et al., 2022).

Against this background, we pose the following research question: (1) How do Chinese firms cope with market turbulence before and after the pandemic through BMA and BMI? (2) What BM improved firm performance? To answer these questions, we selected 4 BM adjustment cases from Chinese firms and collected data from publicly available media reports, official statements, and firm reports. This study used a comparative research framework and visual charts to analyze the BMA and BMI processes and the main drivers of improved firm performance.

This study is divided into the following parts: first, the theoretical background of how BM changes (BMA and BMI) affect firm performance is organized through the literature review; next, a comparative study is conducted on the cases of BMA and BMI in Chinese companies, and analyzed in terms of value proposition, value creation, value delivery, and value capture; finally, the findings are summarized as well as the information that can be given to firm management implications and limitations for the research.

2. Literature Review

2.1 Theory of Resource Based View

The resource-based view theory indicates that a business's valuable, rare, and inimitable resources and capabilities are the foundation for sustainable competitive advantage (Barney, 1991). By reducing information asymmetry and uncertainty in existing BMs, BM changes can bring competitive advantages to firms. On the one hand, firms obtain more market information and perform BMA, which brings efficiency advantages (Zott and Amit, 2007); on the other hand, firms perform BMI,

which brings heterogeneity advantages, by introducing new resources or recombining existing resources (Denicolai et al., 2014).

2.2 Business Model

Due to the evolution of technological progress, globalization, competitive landscape, and customer demands, BMI has become an urgent issue for firms to address to maintain and improve their market position. Traditionally, BMs have focused on value creation and capture within the organization. However, BMI introduces a new concept of value to the customer and involves issues such as reconfiguring the logic and redesigning the organization's structure (Narayan et al., 2021). There is no unified definition of BM in academic sessions, and there are some differences in the definition of BM based on different research perspectives. Research scholars have defined the BM concept from a strategic, marketing, and firm value perspective (Amit and Zott, 2001; Osterwalder and Pigneur, 2005; John et al., 2008). For this study, we adopt a broader definition of a BM as the logic of changes in firm value, including the value proposition (i.e., the components of value that the firm holds, which can be products or services), value creation (i.e., the customer's experience of the product or service), value capture (which represents the firm's ability to capture monetary or other forms of revenue), and value transfer (i.e., the firm's sales patterns, channels, and relationships with customers) (Amit and Zott, 2012; Clauss, 2017; Teece, 2010; Foss and Saebi, 2017; Hock et al., 2021). These four elements create value for customers and stakeholders, such as upstream and downstream partners. Therefore, based on the above analyses, a BM is a system of activities that involves crossing core business and industry boundaries, with interdependence between the elements, and whose core principle is to help firms create, deliver, and capture value (Gregory et al., 2021; Amit and Zott, 2001).

2.3 Business Model Adaptation and Firm Performance

Due to the study of external triggers inducing BM "learning," "evolution," "erosion," and "lifecycle", these changes can be defined as BMA (Saebi et al., 2017; Teece, 2010). BMA is based on firm value and utilizes the firm's dynamic capabilities to proactively adapt to changes in the market environment, including changes in customer preferences, supplier bargaining power, technological changes, and competition (Saebi et al., 2017; Cavalcante et al., 2011; Wirtz et al., 2010). In crisis environments, firms' dynamic capabilities enable firms to recognize the current situation, including business opportunities, threats, and strategic orientations, helping firms to identify BMA paths and reconstruct firm performance (Zott, 2003; Saebi et al., 2017). Opportunity recognition positively impacts small and medium enterprises searching for new BMs during a crisis (Guo et al., 2017). Guckenbiehl and Corral (2022) also found that the BMA process facilitates start-up firms to search in crisis environments for new opportunities and survive. Bettiol et al. (2023) suggested implementing new BMs for small and medium enterprises to improve performance using digital technology during turbulent times and crises. Chanyasak et al. (2022) examined the case of BMA in a hotel in Thailand and found that the hotel was able to improve business performance by re-activating the hotel's assets, such as tapping into a new source of revenue from idle rooms in a way, it reduced business costs and improved business performance. BMA is considered a scalable, repeatable, and profitable model for businesses, enabling them to survive in a dynamic environment.

2.4 Business Model Innovation and Firm Performance

Unlike BMA, which focuses on adapting a firm's business to environmental changes, BMI represents a novel, comprehensive form of organizational innovation (Teece, 2010). BMI includes resource allocation, market, and organizational innovation (Foss and Saebi, 2017). Most researchers focus on whether BMI can bring about lasting performance for firms in a variable environment. Zott and Amit (2007, 2010) proposed the hypothesis of the effect of efficiency-centered and innovation-centered BM

design on the performance of entrepreneurial firms, and the empirical results showed that innovation-centered BM design has a significant impact on the performance of entrepreneurial firms. This positive correlation is stable over time, even under different environmental conditions. Visnjic (2016) examined product innovation, service BMI, and their impact on performance, where the interaction between service BMI and product innovation leads to long-term performance gains with a certain degree of short-term performance sacrifice. However, not all companies perform better when they add new BMs to their existing ones. The current Covid-19 pandemic has led to many firms struggling to maintain day-to-day operations. Bashir et al. (2023) analyzed 280 Saudi SMEs and structurally showed that internal management relationships in turbulent environments have a positive impact on firm performance, with a significant positive mediating effect of BMIs. Clauss et al. (2022), based on a case study of five small and medium enterprises in Austria, Germany, and Liechtenstein, indicated that small and medium enterprises in turbulent environments can innovate temporary BM from internal resources and thus create new performance.

3. Methodology

This study analyzes several case studies of BM change in a pandemic context. It explores BMA and BMI in Chinese firms during the crisis by collecting secondary data from media reports, official reports of enterprises, and the literature. The case studies attempt to find answers to the "how" or "why" questions by identifying real-life problems (Yin, 2009). Multiple case studies analyze the complexity of real-life relationships and provide the underlying logic and foundation for theoretical follow-up (Flyvbjerg, 2006; Eisenhardt and Graebner, 2007). This study examines (1) how Chinese firms adjusted their BMs to cope with the crisis and (2) how BMA and BMI can improve firm performance.

3.1 Selection of Cases

The pandemic has severely impacted traditional BMs. This study focuses on industries negatively affected by the pandemic, and the sample cases are all from Chinese firms in low-tech industries. Case selection consists of three main steps. *Step 1:* We collected information on the BMs of 15 firms through media reports and firm annual reports. *Step 2:* By combing through the information of the sample firms, we found that five firms did not have substantial BMI or BMA, although they undertook layoffs and wage cuts to cope with the crisis; four firms had technological upgrades in the office service rather than BM; and the other two firms had BMI or BMA that started before the crisis. *Step 3:* After iteratively determining whether these firms had BM changes (BMA or BMI) caused by the pandemic, we finally identified four firms from the manufacturing, entertainment, tourism, and catering industries to conduct case studies of their BMs.

3.2 Framework of Analysis

Operational outcomes are defined differently across industries but are commonly defined as the results of an organization's day-to-day operations. Combining the purpose of the study and the cases, we relate operational outcomes to firm value, i.e., the case firm's operational outcomes are defined as the continuation of the BM changes to the firm's value during the crisis.

By analyzing the case studies of 4 firms, we measured the occurrence of BM changes in four dimensions: value proposition, value creation, value capture, and value transfer. The companies in the selected cases adjusted their BMs to varying degrees before, during, and after the pandemic. Around the four values of the BM, we ask (1) Has the target market changed? (2) Has the main business changed? (3) Is it profitable? Furthermore, (4) Is there a business ecology? To judge whether a business is BMI or BMA (Figure 1). After these four questions, when the BM change occurred due to the pandemic, did not substantially change the core business of the enterprise, and did not continue

to operate after the pandemic, it can be regarded as BMA, while the change of the core business and value chain of the enterprise innovation and continued to operate after the pandemic can be regarded as BMI.

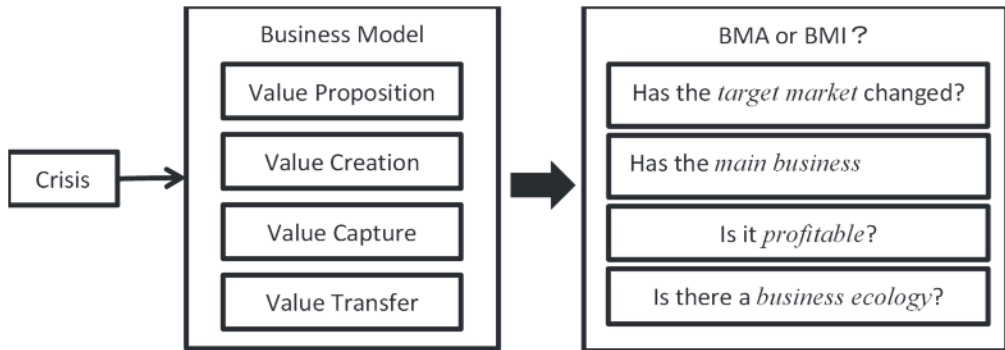


Figure 1: Business Model Analysis Framework

4. Case Studies

4.1 Introduction of Cases

4.1.1 Case A-Machinery Company Turns to Mask Production

Before the pandemic, Case A mainly processed wind power equipment and constructed three-dimensional garages (Sun, 2022). In 2020, the head of the firm found that the pandemic had led to a supply shortage in the mask market. Through self-research and equipment purchase, the company completed the construction of 15 fully automatic production lines of masks (and reached the standard of exporting to the European Union). Mask production has opened up a new business growth point for the company. It can be seen that the BM change is enormous, but the core production capacity of the enterprise has remained the same. The mask production business has changed the value proposition and value creation of the enterprise's BM. New mask production lines were added in response to the pandemic shock to meet the new market consumption gap. By cooperating with the local government and logistics enterprises, the enterprise successfully opened mask sales channels and completed the value acquisition of the new BM. After the pandemic, although the mask production business was successful, the firm did not intend to operate for a long time. This shows that the model did not form the transfer of firm value, so the case is a BMA rather than a BMI.

4.1.2 Case B - Catering Company Adjusts Sales Model

The company's main meals are mainly cold, and the ingredients can easily face multiple challenges, such as seasons, transport, and temperature (Scott, 2023; Sina, 2021). During the pandemic, the company's many offline catering outlets experienced weak performance growth, and the company's operations were complicated and suffered severe losses. To save itself, the company conducted a BMA, using online platforms to recommend dishes to consumers and stimulate consumption through top-up campaigns. The company did not undergo substantial changes in its value proposition and value creation, with its target consumer base and essential products still centered around its core model before the pandemic. Therefore, although the company tried its best to recover its operating results during the pandemic, the new sales model needed to actively capture new profit growth

points, eventually leading to bankruptcy.

4.1.3 Case C-Entertainment Company Diversification Model

Case C's business is mainly wrapped up in cinema film exhibition, film and television investment, and production (Wanda, 2022; Zeng, 2022). Affected by the pandemic sealing and control, limiting the number of people in public places led to the dismal operation of offline cinemas. Facing this challenge, the company actively conducted BMI to cope with the adverse impact of objective factors on box-office revenue. The firm developed a diversified value proposition by integrating resources, binding core users, and developing sub-businesses around core values to enhance service quality and cinema-going experience. The firm delivered the value of its new BM to multiple perspectives, effectively increasing brand awareness. Thus, for Case C, the BMI caused by the pandemic has become a part of its business activities. This model has successfully shaped the proposition, creation, and delivery of business value and continues to deliver profits even after the pandemic, which we define as the BMI.

4.1.4 Case D - Digital Innovation in the Hospitality Company

Case D specializes in providing hospitality services to middle-class customers (Yang, 2023). The business used digital innovation to respond to market changes and customer demands despite the outbreak. During the outbreak, it kept its core business running normally by cooperating with the government; after the outbreak, it continued to digitize its operations and services, pinpointing its target customer groups, expanding its business scope, and improving its value proposition and value capture. Through BMI and the integration of resources, the company improved its sustainability and ability to respond to disasters, thus laying a solid foundation for value creation and delivery. In the fiercely competitive environment of the mid-range hotel market, expanding the hospitality industry's business, reducing management costs, and realizing cross-border cooperation through the digital innovation model is the key to improving profitability and risk resistance.

4.2 Analysis of Cases

4.2.1 Within-case Analysis

This section focuses on the BMI or BMA of each of the 4 case firms. Based on the four values of BM mentioned earlier, table 1 shows the BMI or BMA of the four cases during the pandemic and compares the old and new BM. The BM changes in Cases A and B are considered BMA because the firms in Cases A and B are not following the new BM after the pandemic. The firms in Case A are not changing their main business due to the new BM, although they are gaining new firm value through the new BM, and the firms in Case B are not generating income from their ongoing operations or creating value for the firm due to the new BM. Cases C and D are regarded as BMIs because the firms in Cases C and D conduct BMI in their original core business and following the new BM.

4.2.2 Compare-case Analysis

Table 2 compares and analyzes the four cases and discusses them from the degree of how the pandemic affected the firm, the reasons for the new BM, the degree of linkage to the core business, changes in old and new BM, and whether to continue the new BM after the pandemic. We discovered that except for Case A, whose business was partially affected by the pandemic, the other cases are highly affected because the core businesses of Cases B, C, and D need to keep close contact with customers. Case A conducted BMA without affecting the original core business and brought new value to the firm. Case B conducted BMA but did not bring new value to the organization. The

comparison shows that Case B failed to make changes in value proposition and value creation, which may explain why BMA was successful in Case A but failed in Case B. Cases C and D conducted BMI in their core business and brought sustainable growth momentum to the organization's value. The firm value of Cases C and D can continue to maintain the new BM in the post-pandemic period.

Table 1: Within-case Analysis

Case		Value Proposition	Value Creation	Value Capture	Value Transfer
Case A	Old	Provide mechanical production and processing services	Engaged in the processing of wind power equipment and the construction of three-dimensional parking garages	Have order contracts with numerous large domestic firms	Achieving vertical integration of the supply chain
	New	A sharp increase in the demand for masks amid the pandemic	Manufacturing masks	Collaborating with the government and logistics companies to open up avenues for mask sales	Abandoning this business after the pandemic
Case B	Old	Providing catering services for office white-collar workers	Light food products primarily made with fresh ingredients	Establishing multiple offline stores	Establishing a store brand to achieve a chain of stores
	New	Unchanged	Unchanged	Online promotion of dishes, encouraging consumers to make prepayments	Unable to create new points of profit growth
Case C	Old	Cinema film screenings, film and television investment, and production-related business	Selling movie tickets, merchandise, and snacks for moviegoers	Traditional sales model, collaborating with supermarkets and hypermarkets	Traditional box office revenue
	New	Leveraging e-commerce traffic to achieve value conversion	Core membership model, expanding into derivative product categories	Attracting more audiences to step into the cinema	Increase in market share and operational efficiency
Case D	Old	Providing hotel services for middle-class customers	Traditional hotel room sales	Establishing multiple offline branded hotels	Revenue from hotel rooms
	New	Maintaining partnerships with online travel agencies; expanding into target markets; accurately positioning to serve customers	Digitized operations to create a unique hotel brand	Meeting the demand to gain a larger market share and attract more customers	Enhancing economic benefits and reducing operational costs

Table 2: Compare-case Analysis

		Case A	Case B	Case C	Case D
Degree of impact of the pandemic		Partial impact	Highly impact	Highly impact	Highly impact
Reasons for new BM		Managers identified gap in mask market	The entity's operating results have declined severely	The entity's operating results have declined severely	Orders from individual customers plummeted
Degree of linkage to core business		Partial linkage	Highly linkage	Highly linkage	Highly linkage
Changes in old and new BMs	Value Proposition	Changed	Unchanged	Changed	Changed
	Value Creation	Changed	Unchanged	Changed	Changed
	Value Capture	Changed	Changed	Changed	Changed
	Value Transfer	Unchanged	Unchanged	Changed	Changed
Whether to continue the new BM after the pandemic		Not continued	Not continued	Continued	Continued

5. Discussion and Conclusion

Cases A and B involve BMA. However, Case B was unsuccessful, primarily because the new business in Case B needed to create new profit growth points. In Case B, despite knowing that the market had

undergone drastic changes, the company remained overly confined to its existing business and consumer base, ultimately leading to a failure in financial turnover, resulting in its closure. In contrast, Case A's business leader actively identified new market opportunities, effectively utilized company resources to develop a new BM, and discovered profitable space to alleviate the business pressure caused by the pandemic. Post-pandemic, the company decisively returned to its original core business, maintaining the integrity of its initial business ecosystem.

Both Cases C and D successfully implemented BMI changes. By innovating around their core business, these cases demonstrate that companies create new business ecosystems and successfully navigate pandemic-induced crises. The new BMs also proved to be resilient in the post-pandemic era. Cases C and D continue to actively explore BMIs, attracting a broader consumer base to their core businesses.

Based on these findings, the key to the success of BMA and BMI lies in their alignment with the company's values. In other words, the pivotal factor for success is the coherence between changes in the BM and the firm's core values, which can be summarized in the following three propositions:

Proposition 1: BMA or BMI can help companies navigate crises.

Proposition 2: The decision to maintain BMA or BMI after a crisis depends on effectively aligning with the company's pre-existing values.

Proposition 3: BMI is more effective than BMA in uncovering new profit growth points for the company and developing a new business ecosystem.

6. Implications and Limitations

This study illustrates changes in Chinese firms' BMs before, during, and after the pandemic to emphasize the need for flexibility and rapid responsiveness when facing market crises. While new BMs can help companies overcome challenges, not all BMAs and BMIs will be successful. Therefore, when companies undertake actual changes in their BMs, it is crucial to consider whether the new ventures align with the company's values, can generate new profit growth, and contribute to the company's long-term development.

The practical implication for managers is that BM changes in a firm need to consider the core business relevance and contribution to the firm's value. Second, when a crisis occurs, managers must observe market changes keenly and promptly make BM changes. Again, in the process of BMI or BMA, managers should pay attention to the integrity of the firm's value ecosystem. The long-term implication of this study is that firms should focus on improving their crisis management ability in their long-term planning and increasing the resilience of their BM.

This study analyzed cases through the acquisition of publicly available data. Due to limitations in data collection methods, no interviews were conducted with executives of the case companies to obtain more valuable internal information. In addition, the focus of this study was solely on changes in the BMs of Chinese companies, requiring a comparative analysis across multiple countries and cases. The distinction between BMA and BMI was explored only through textual analysis, which requires more quantitative research. Future research could enhance the study of BMI and BMA through quantitative analysis and a broader, cross-country examination of multiple cases.

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