

Small Enterprises vs. Crisis Management

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Abstract. Small and medium enterprises (SMEs) are hit hard by the current economic situation as they have mostly less chance to survive in the time of economic crisis. It is known that small and medium enterprises mostly do not have financial means or human resources to ensure all professional activities including the activity of a crisis manager. A vulnerable position of small enterprises, their effort to understand the threats resulting from potential crises acted as an impulse for research aimed at mapping the current level of SMEs' preparedness for crisis situation sorting out or the adaptation to the changed conditions on the market. The paper interprets results of the questionnaire survey in small enterprises in the Czech Republic. The overall result of the questionnaire survey was finding that managers of small and medium enterprises knew threats relatively well, and they were aware of them but they did not prepare themselves in advance for their negative consequences, the preparation for crisis situations in those small enterprises was not considered "normal" part of manager's work.

Keywords: small and medium enterprises, SMEs, crise, crisis management, survey

1. Introduction

Constantly changing business environment with still faster and harsher consequences especially for small and medium enterprises (SMEs) imposes higher demands on their survival. In discussions with owners or executives and managers of small enterprises in their surrounding, the author is mostly confronted with views that only big organizations can manage crisis management as they have specialists in organization's particular fields of activity. According to author's opinion, the owners and managers of small organizations have very distorted idea, if any, of crises and their management, possibilities of their development, cyclicity and the like. They are skeptical as for their possibilities to be ready for a crisis situation and manage the crisis. According to their opinion, the only way of 'solution' is to dismiss employees and wait. **The aim of the questionnaire survey is to obtain the initial vision of the relationship of those organizations to crises and their management.** It is a challenge for respondents, activation of their effort to be prepared for potential crises.

2. Questionnaire survey

The author addressed by the questionnaire executives and managers of organizations with maximum of 10 employees with the annual turnover up to 10 million CZK (500 000 USD). Subsequent finding that a majority of respondents are at the same time owners or co-owners of organizations was not any surprise.

By the first questions the author wants to find out whether organizations have already faced existential problems and whether those problems have made them take precautionary measures for the future or whether they are active in preventing the crisis no matter they were threatened by the crisis in the past. Furthermore, the author would like to know the reasons for which the organizations do not consider preparation for the crisis (prevention) important and what obstacles and complications most often prevent them from preparing

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for the crisis. The author is aware of the fact that the chosen 'reasons' in both questions may be a refusal to take personal responsibility and looking for excuses but it depends on respondents only to realize this fact.

A questionnaire is not meant only for crisis managers in case they have been appointed in the organization but for already mentioned executives or managers. These representatives of organizations should have at least an idea of what crisis management is what are its phases, what may be a result and what complications may arise during the crisis and of other problems connected with it. That is why the author is interested in what way the respondents will evaluate their knowledge of crisis management and whether they have information at their disposal (others than from the Commercial Code or the Insolvent Law), materials and sources, and whether they are useful for them. Those questions are aimed at self-assessment of the addressed. Even manager's self-confident contention that he has got a clear idea of his knowledge of crisis and its managing may appear to be illusory in practice.

In the final part of the questionnaire (about conditions to the preparation for managing the crisis) the author did not expect many positive answers. She rather considered that part as a reminder to managers of some problematic areas they should treat within the framework of prevention. Surprisingly, her expectations have not been confirmed.

3. Evaluation of the obtained data

3.1. Characterization of respondents

Organizations thought small for the purposes of this searching have been determined by two features: the annual return (up to ten million of CZK) and the number of employees (up to ten employees) Total number of respondents: 510 SMEs. From the results of the questionnaire it follows that most often it concerns the following organizations:

- with from five to ten employees (65% of respondents)
- in the last five months they have dismissed more than half of their employees (57% of respondents)
- with the annual return less than five million of CZK (72% of respondents)
- predominantly working in services (64% of respondents)
- they are on the market for a short period – less than five years (73% of respondents)
- the owner holds a high executive position (82% of respondents).

3.2. Has the crisis you have undergone motivated you to the prevention from the next one?

A majority of the addressed (86%) admit that they have already earlier faced serious problems that considerably jeopardized the operation or even the existence of their organization.

Only a half of organizations (56%) that have already solved a crisis situation the previous problems forced to make preparations for managing potential subsequent crises. The fact that none of the addressed organizations with the exception of those that have experienced a crisis situation makes preparations for crisis management has not surprised the author.

In view of the fact that 69% of all addressed think the preparation for managing potential threats important, the approach of managers to potential serious threats to the organization presented in answers to the question No 2 ("Has the 'crisis situation' you went through made you be ready to manage potential future crises?" – previous paragraph) is striking.

3.3. Why is it unnecessary to make preparations for the crisis?

Those who did not consider preparations for the crisis important (31% of all respondents) mostly do not hide behind the statement that they have a strong position (a strategic partner, product and the like) and that is why they are not afraid of the crisis. Only 13% of them, say that. A conclusion can be made that they are aware of possible threats. A significant role for shaping their view is taking into consideration high costs connected with the prevention (in 100%) in combination with the pointlessness of prevention since it will not prevent the crisis anyway (87%) and the view that the crisis will develop differently than it was suggested in precautionary plans (64%).

Although the addressed respondents admit a possibility of threats, they have built defensive mechanisms especially: unpredictability (crises are unpredictable, it is not possible to be ready for them) and costs (crisis management is too costly). Their attitudes incline to fatalism and they will be obviously devastating in the future.

3.4. What does complicate the preparation for coping with the crisis?

All respondents who wanted to make preparations for the crisis (69%) cope with lack of appropriate experts in their own ranks (100%) associated with lack of finance for their training or for hiring external workers (81%). Those drawbacks 75% of respondents give into context with a considerable work load the consequence of which is lack of time for the preparation for crisis prevention.

Results were expected in view of mostly lower scope of financial and human resources of small organizations. Big work load and from that resulting lack of time the author thinks questionable also in connection with the fact that for 82% of the addressed managers are the owners of organizations. In such situation there is rule, especially in small organizations that the owners - managers themselves try to have everything under control and refuse (or from other reason do not perform) delegation of competences and responsibility. This fact can be one of causes of the crisis.

3.5. What is crisis management?

Only one third of all respondents has a clear idea of what crisis management is, how crises may develop and what instruments can be employed (37%). In the context with answers to the question No 2 where 56% of respondents say that their organizations are preparing for crisis sorting out this result suggests to thought about the quality of their preparation for the crisis. Moreover, not all of those who think they have a clear idea of crisis management also say that they are preparing for the crisis. Only 53% of managers said that they had clear issues of crisis management and at the same time that their organization was preparing for the crisis. The remaining number of respondents preparing for the crisis (47%) admits the insufficient level of crisis management knowledge.

With the prevention and preparation for coping with potential threats is associated a sufficient number of information. Only one third of the addressed (32%) think that they have a sufficient number of sources concerning crisis management. All respondents would be pleased to have materials about crisis management to get them acquainted clearly and understandably with 'anatomy' of the crisis applicable in their work. Saturated book market or on the contrary missing practical publications dealing with that field, the offer from consultancies or managers' willingness to learn can be discussed. Ability and willingness to receive new information and learn something new is connected with a number of factors [e.g. 1-6] that are not a subject of this research.

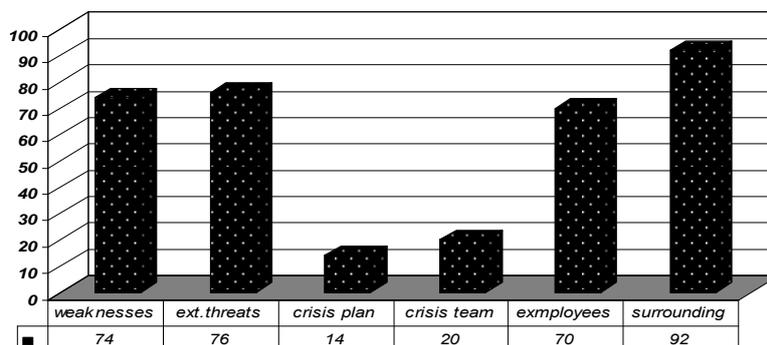


Fig. 1: To what extent has your organization created the following conditions for coping with crises?

From the last part of the questionnaire follows a positive self-assessment of respondents. Managers think highly of their organization as concerns the field of employment and the relation to surrounding. They are sure that they are trustworthy for their employees by their behavior (70%) as well as for their surrounding (92%). It is apparent that the surrounding (especially their business partners and state institutions) plays for them a more important role than the employees themselves.

Also knowledge of areas of potential threats is at the high level. Three quarters (74%) of respondents are aware of their own weak points (an obsolete product, lack of finance). A similar number (76%) mention their awareness of threats from the outside (competition, changes on the market).

Then it is rather precarious why more organizations do not make preparations for coping with the danger coming from those areas. A generally formulated question No 2 about the preparation for potential threats and crises prevention include only working out crisis plans and shaping crisis teams. Working out crisis plans declare 14% of respondents only, 24% of them admit that the plans are not regularly updated. Crisis teams exist in 20% of the addressed organizations.

4. How to characterize the small organization preparing itself for crises?

286 organizations (56% from the total number of the addressed) implement precautionary measures:

- These are only those organizations that have earlier experienced serious threats to their existence. Any of the organizations that did not have to solve serious problems earlier does not make any steps to the preparation for the crisis.
- They mostly work in industries (57%).
- All organizations have from 5 to 10 employees.
- From the beginning of 2009 they have mostly dismissed from 10% to 50% of their employees (79%, yet they remain in the category with a number of employees from 5 to 10).
- Their annual turnover is mostly between 5 and 10 million CZK (53%).
- They are mostly on the market for more than 5 years.
- In all organizations the owner holds the post of a manager.

The author has come to the conclusion that organizations try to identify conditions for their survival but they do not put the crisis into relation with strategic management, prevention is not considered a feature of competitiveness. It is rather disturbing but, on the whole, generally expected that they approach to the prevention of the crisis only when they themselves have gone through (and survived) the period threatening the existence of their firm. In connection with the fact that majority of organizations is aware of their internal weaknesses (74% of the total number) and majority of organizations know external threats (76% from the total number) the author does think their approach to the future sufficiently responsible. Organizations aware of their weak points and threats and they do not try to be ready for them most probably will fail in a potential crisis. Effort of more than a half of the addressed small organizations to implement precautionary measures no matter what their extent will be is gratifying. On the other hand, the quality and efficiency of those measures need not be sufficiently efficient (with regard to the idea of crisis management and sufficient background sources that the author sees as optimistic). The fact that in all organizations the owner is at the same time a managing body can be the reflection of their interest in own property. With hired managers, this has to be replaced by some other way.

5. 189 managers (37%) say they have a clear idea of crisis management in their organization:

- The reported result in view of reported complications in the preparation (lack of own experts, lack of finance for their preparation) the author sees as optimistic assessment of managers even though 87% of in that way responding managers answered 'Rather yes' and not 'Definitely yes'.
- A relatively high number may result from the fact that a majority of managers (67%) work in organizations with the annual turnover less than five million CZK. On condition that the activity in question is simple and performed under usual market conditions, managers can (must) know the operation and surrounding of the organizations perfectly, which will help in making procedures for crises prevention.
- According to the author' opinion this precondition holds true also for small organizations in which there is lack of experts not only in the field of crisis management but also in other professional fields.
- Further searching has revealed that not all managers who say they have a clear idea of crisis management were engaged in the prevention. Only 53% of them said at the same time that their

organization was preparing for potential crises (question No 2). In a more exact question they stated at the same time that they had crisis plans drawn including a crisis team or a crisis team appointed.

- Further preparation for crises may include drawing of reserve plans, ensuring reserve sources and the like, it means mostly partial actions only that can help in prevention against potential threats but they should be coordinated into a complete plan.

As regards small organizations' owners and managers' ideas of crises and their management, the results of the questionnaire survey has not denied author' presumption that their ideas of crisis course, its development and their knowledge of crisis management are distorted. Only one third of the addressed state they have a clear idea of that field. However, 87% of the given number tends not to the firm statement but to the variant 'Rather yes', which decreases 'clarity' of the idea.

Also author' idea of effort to make preparations for crisis situations has not been rejected. Small organizations' managers showed that they regarded prevention as important part of organization management (69% of respondents). Despite the fact that the preparation of precautionary measures is complicated especially by lack of human and financial resources they deal with the prevention even though only on the basis of threat they have already experienced. Surprisingly, it was necessary to reject the presumption about the creation of conditions for crisis management. From the questionnaire it follows that organizations know about threatening effects, and quite well, probably intuitively (for example their behavior towards their employees and surrounding) they have created conditions for coping with crises.

One third of the addressed is persuaded that they have a sufficient number of information to ensure crisis management in their organization but all of them would welcome receiving material to provide them with the basic information on the crisis and its course, on coping with it, and that would serve as instructions for the application in concrete conditions.

6. Conclusion

From the carried out research it follows that according to the author the managers - mostly SMEs owners are familiar with their firm and its surrounding but their preparation for crisis situations sorting out has not been included into 'normal' management of the firm.

A number of theoretical workers as well practitioners are persuaded that prevention that is the prevention from crises is the aim of crisis management process. Ability of management to predict and prevent crises is their important quality for ensuring the operation of organization. However, as it follows from particular cases, elements leading to the origin of the crisis and its development still remain hardly suggestible factors for the management. There are a number of reasons for it: a majority of managers believe that they do good work and that their acting cannot cause a failure. Furthermore, it is difficult to assume consequences of events for which managers cannot find casual linkages. Thanks to the scope of factors interconnection in the global environment and their quick interaction the possibilities for decision-making are becoming reduced, which creates another crisis potential and becomes more insistent threats just for SMEs.

7. References

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