

IS YOUR SMALL BUSINESS PREPARED FOR A CRISIS?

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ABSTRACT

Recent well-publicized catastrophic events have increased the importance of crisis management for many large business managers. The issue of crisis management for small businesses has received little attention in the literature. This article examines the issue of crisis management for small business owners/managers. A small business crisis model is presented to enable business owners and consultants to consider the types of crises that might affect small firms. Guidelines are proposed for small business owners to use to anticipate crises that might affect their firms and to effectively prepare for these events.

INTRODUCTION

In recent years, large organizations have been forced to give increased attention to the issue of crisis management. One needs only to mention such words as Bhopal, Chernobyl, Three Mile Island, Exxon Valdez, Tylenol, World Trade Center, Branch Davidian, and the Los Angeles earthquake to understand why crisis management is now an integral part of strategic business management. However, much of the attention in the literature has focused on how large firms can improve their crisis management planning rather than on examining this issue from a small business perspective. One reason for the lack of attention to small business crisis management might be that the size of loss is thought to be smaller for small firms than for large companies. While this may be true, the percentage losses may be greater for small firms, resulting in a more significant impact on the business. For example, in the Exxon Valdez oil spill, the company set aside over \$1.25 billion in the quarter that the incident occurred, yet still made over \$160 million in profits (Sullivan, 1989). The oil spill caused some other problems within the company. However, Exxon was able to continue its primary business operations despite the loss. A similar crisis could result in bankruptcy or a major disruption of a small company's operations.

A crisis can be even more devastating for a small business than it is for a large one. A single crisis, such as a fire or a flood, could shut a small business down entirely, while it would probably only affect a small portion of a large business. Yet, are small businesses prepared to manage a crisis? How can crisis management be added to the growing list of responsibilities of small business owners? To effectively answer these questions, a number of crisis types that affect small businesses need to be considered along with a suggested crisis management model applicable to small firms. Once small business owners begin to integrate crisis management into their firms, they will be able to prepare more effectively for potential crises.

WHAT IS A CRISIS AND HOW CAN IT BE MANAGED?

A crisis is often viewed from a negative viewpoint and is considered to be an extreme situation requiring immediate action, like a fire that must be extinguished. However, Webster's defines a crisis not solely as a negative event, but a "turning point for better or worse (*Webster's*, 1991, p. 307)." Fink applies the term to business by defining a crisis as a warning event that:

runs the risk of escalating in intensity, falling under close scrutiny by the media or government, interrupting normal business operations, jeopardizing the positive public image of a company, or damaging a company's bottom line in some way (Fink, 1986, pp. 15-16).

The key point is that a crisis often begins before the fire starts — with the symptom or warning stage. The best crisis management is to have no crisis at all — to identify warning signs and to take action before a situation escalates in intensity.

This issue has important implications for small business owners and managers. Small business owners have often been identified as "here and now-type" problem-solvers rather than "proactive" managers (Hoy & Hellriegel, 1982). Small business owners have much to gain by recognizing and responding to warning signs that precede crises before these situations escalate in intensity. Small business owners must also realize that many crises can be averted through effective management planning. Before the steps involved in effective crisis management are considered, let's examine why crises are more prevalent in today's business environment and why they can be deadly for small business owners.

CAN IT HAPPEN TO YOUR BUSINESS?

In a word, the answer to this question is yes. Stevens (1992) suggests that the threat of a crisis occurring in today's society is ever-increasing because of the news media's sensitivity and quick response, the public's expectations of ethical behavior, increased business complexity, and the heightened threats of deliberate sabotage. In addition, the rapid increase in video, satellite, and cellular phone technology has increasingly amplified the media's ability to report on developing crises. Small businesses are definitely not exempt from potential crises and may have a greater risk potential than larger firms.

Barton (1993) conducted an extensive review of several hundred crises from 1981 to 1991 and categorized the businesses studied in terms of their susceptibility to public crisis. Table 1 lists the businesses in the high-risk category.

With the exception of nuclear power plants and public officials, small businesses are present in every entry in this risk category. Although these firms have a greater likelihood of experiencing a public crisis, any business has the potential for experiencing a major crisis if the warning signs are ignored.

Table 1

Businesses in the High Risk Crisis Category

Manufacturers, particularly pharmaceutical and chemical
Banks and other financial institutions
Technologically sensitive businesses (software, biotechnology)
Public transportation: air, rail, bus, automobile, subways
Hotels and motels
Other lodging facilities: apartments, inns, and campsites
Nuclear power plants
Food producers and distributors
Nightclubs and casinos
Government agencies
Amusement parks, resorts
Public personalities: political and sports figures, entertainers
Soft drink and juice manufacturers
Helicopter, raft, shuttle boat, and other pleasure crafts
Real estate developers
Public and private utilities and airports
Builders, roofers, and other construction companies

Note: Adapted from Barton, 1993, p. 65.

WHY IS CRISIS MANAGEMENT IMPORTANT TO SMALL BUSINESSES?

A number of reasons make it necessary for small business owners to engage in crisis management. Two important reasons discussed previously were the potential size of the loss and the percentage of business lost. Another important reason is that many small business owners are lulled into a false sense of security by relying on insurance for risk protection. Insurance agents are trained to help small business owners identify potential risks; however, their recommended solution is usually to purchase more insurance rather than exploring other preventive measures. Not only is insurance expensive, but many crises can be prevented without relying on insurance and many risks may not be adequately covered by insurance. For example, which 'key employees' does an owner choose to cover through insurance? What if the wrong 'key employee' is chosen? Even if this type of insurance is purchased and a claim is filed when the individual leaves the business, does the settlement fully compensate for the loss? How can a key employee's value be accurately estimated? If the employee starts a rival business, does the insurance fully compensate the owner for the current and future losses? Further, if a claim is filed against any type of insurance, rates usually rise immediately. The owner may end up paying a greater amount in the long run through increased rates.

A crisis may disrupt operations and many small business owners may not be able to shift operations to another site. Consider the example of a small restaurant that experiences a fire during the night. If this location is the only business site, then the owner has more risk and cannot shift operations to another location. Even if the business can be shifted to a second site, the percentage of business lost may be overwhelming. Many small businesses are hand-to-mouth operations. Revenue earned on Monday is used to purchase goods and services on Tuesday. Cash flow is critically important to small businesses and if a new business does not begin to produce positive cash flow, it usually fails.

The owner's age adds further importance to the issue of crisis management. Unlike large firms, a small business owner often opens his or her business within a narrow time window in their life. The owner may not want to start over after a major crisis. What the owner hoped to achieve at age 25 may have been accomplished, and therefore at age 55, the window of opportunity for the future may be closed.

Finally, small business owners may be limited in their ability to assess potential crisis situations. For example, Brightman (1989) analyzed the managerial decision making during the Pearl Harbor attack and concluded that the top officers were "selective" perceivers. Brightman suggests that selective perceivers view problems from a narrow perspective of their own life experiences, education, and personalities. This narrow focus may lead to major errors in judgment before and during a crisis. The previously cited Hoy and Hellriegel (1982) study concludes that the problem-solving styles of small business managers primarily focus on internal problems that relate to a "here and now" perspective. This narrow focus on internal problems within a limited time horizon suggests that many small business owners may be selective perceivers. Their inability to see issues from a broad perspective may limit their identification and assessment of the warning signs that precede potential crises.

Any of these issues should make crisis management an important priority for small business owners. However, many persons today have become insensitive to losses. Large organizations often proclaim major losses because of write-offs and other non-cash expenses while continuing to produce positive cash flows. Insurance, government bailouts, and disaster loans make it appear that losses are not real. However, for most small businesses, a loss is serious and real. A loss can force the business to close within a matter of hours or days. Therefore, potential crises must be viewed in a serious light. Preventive and corrective action must be taken quickly so that damage is minimized. If action is not taken, there is significant potential to harm the business and, ultimately, the individual small business owner in a very real way.

CORE TYPES OF CRISES THAT AFFECT SMALL BUSINESSES

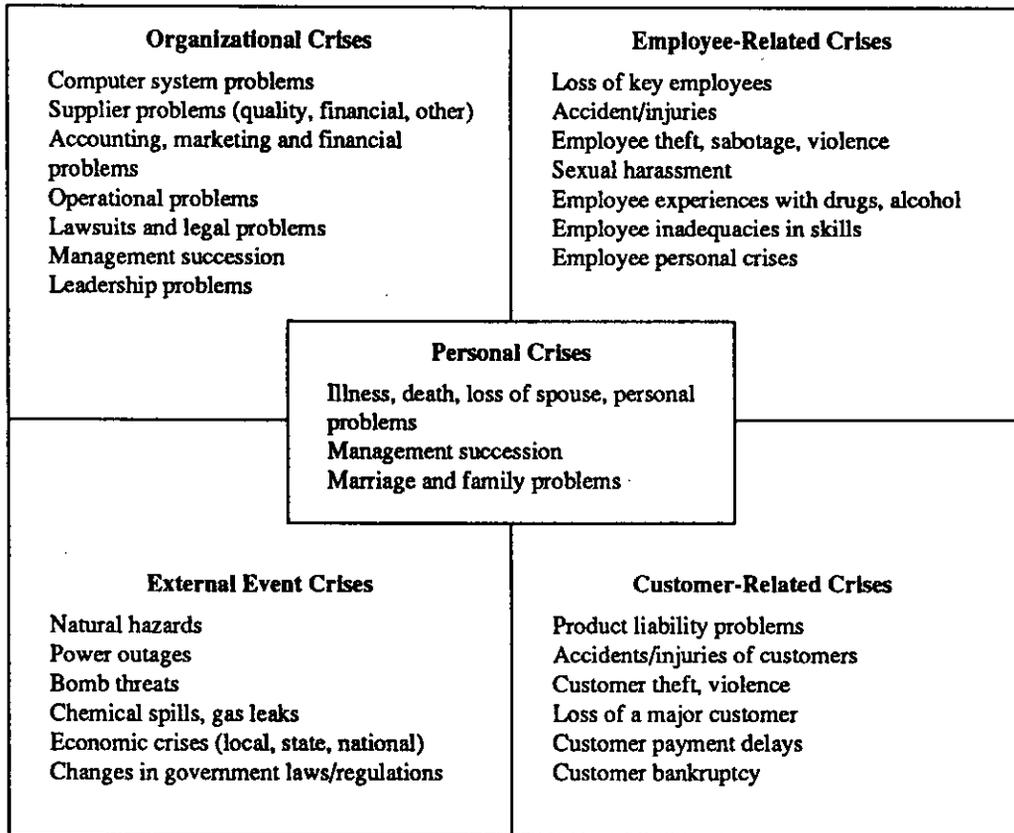
Figure 1 illustrates five core types of crises that can affect small business owners. It provides a framework for small business owners to consider potential crises that might affect their own industries and companies. This framework identifies five crisis types: organizational, employee-related, external events, customer-related and personal. Except for the external events category, most of the crises listed are internally related since they are under the small business owner's direct responsibility.

Organizational Crises

Organizational crises primarily relate to situations that can disrupt business operations. They are especially applicable to small businesses because any of these crises could cause failure. Examples of this crisis type are provided below.

Mitroff, Pauchant, and Shrivastava (1989) note that the top four crises experienced by organizations they surveyed between 1984 and 1986 were mechanical or product-related: equipment or product defects, environmental accidents, and computer breakdowns. However, they note that the primary catalysts of many of these crises were people. As computers and other equipment become more sophisticated and as environmental regulations become more complex, small business owners are increasingly dependent on reliable equipment, prompt support service-providers, backup capabilities as well as competent employees.

Figure 1. Core Types of Small Business Crises



Suppliers are another important potential source of business disruption. Finding a good supplier for a business can be just as important as obtaining a good family physician. Conversely, a bad or even a marginal supplier can create a crisis of disproportionate grief. The best suppliers are those who care about your business at least as much as they care about their own business.

Small organizations often become highly dependent on single-source suppliers. The owner may not know where to look for other suppliers or does not want to take the time to do so. Those familiar with the Murphy's Law admonition of "whatever can go wrong will go wrong" know that this phrase has special meaning for the single-source supplier. A crisis at the single-source supplier can often become an immediate crisis for the small business organization.

Fortunately, there is an almost fool-proof way to avoid this type of crisis. Do not use single-source suppliers without some degree of backup. Even if there is no other supplier in your town or state, there are other suppliers as close as an 800 telephone number. The backup supplier may take longer to respond and also could be more expensive. However, if this action avoids a potential crisis, it is worth the extra time and money to develop backup suppliers. Timing is of the utmost importance in this particular situation. Links should be established with backup suppliers before they are needed. This step can often be accomplished with a telephone call or a fax of your requirements.

Accounting, marketing, financial, legal and other operating problems can easily escalate into crises for a small business owner. These core business activities are the backbone of any business operation and are the source of many daily problems. Examples of such organizational crises include accounting errors, poor product selection, service problems, advertising mistakes, computer failure, pricing errors, cash flow problems, loan troubles, and legal complications. These activities are required to successfully remain in business. The comforting fact is that small business owners generally become adept at managing operating problems. If they do not address these situations, the business will almost certainly decline or fail.

Management succession is a particularly important issue for small businesses to consider. This issue has been discussed extensively in the literature (Christenson, 1953; Davis, 1968; Handler, 1990; Lansberg, 1988; Longnecker & Schoen, 1978). There are many examples where the transition from one owner to another has resulted in crises for employees, customers, suppliers, and other individuals. This issue can be especially volatile in family-owned businesses.

The small business owner's leadership style can also produce crises in certain situations. There are a number of different leadership styles, such as autocratic, democratic, supportive, and laissez-faire. Most leaders have a particular style with which they are most comfortable. A crisis may occur if there is a mismatch between their style and the particular situation.

Organizational crises can be especially devastating to small businesses. Since they have more bargaining power with suppliers, may have integrated operations, and have professional managers who have a different perspective of management succession than a small business owner, large firms are often much better prepared than small firms for this crisis type.

Employee-Related Crises

Employee-related crises include any problem situation that can be traced back to the people working in a business. As noted previously, Mitroff, Pauchant and Shrivastava (1989) indicate that the primary catalysts of many mechanical and product-related crises were people. Human error, deviant behavior, and loss of confidence and trust are examples of people-related crises. This finding makes it imperative for companies to pay attention to their people. Every employee plays an important role in a business. Some employees, however, perform jobs where a mistake or their absence can have a devastating impact on the firm. From a crisis management perspective, these employees are the firm's key people. The owner or manager needs to take steps to "back-up" key persons should they become injured or absent for extended periods of time.

Small business owners need to get to know key employees, their work patterns, family situations, and outside interests. For example, if a key employee owns a boat, he or she may want to take a day off during nice weather to be out on the water, leaving the small business in a crisis situation. Using temporary agencies, cross-training other employees, and developing backups for key people may help prevent this type of employee crisis.

All employees have crisis-creating situations in their own lives that spill over into the business. Single employees have problems that differ from married employees. Married employees with children have different crises from single-parent employees. The common thread in all individual crises is that they can create a crisis for the small business. Several steps can be taken to minimize the negative effects of employee crises. These include:

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- selecting people who are “right” for the organization and the job,
 - learning as much as possible about the backgrounds and lives of *all* employees, and
 - training and cross-training every employee so that he or she has the background and ability to deal with many possible crisis situations (the military has used this strategy effectively).

External Event Crises

External event crises are situations that occur in the external environment of a small business organization. The recent Los Angeles earthquakes, Mississippi River floods, hurricanes in Florida, and other natural disasters exemplify this type of devastating crisis. An infinite number and variety of events could occur from the external environment. The owner or manager is responsible for determining which external events could be a real crisis for the business.

A short list of external events include, but are not limited to, the following:

- Natural disasters such as lightning strikes, tornadoes, hurricanes, flooding, severe wind and/or snow storms, and earthquakes may occur. Each owner or manager should prepare a list that more accurately reflects his or her specific geographic area and business.
- Legal and zoning changes can affect the future viability or even existence of the business. Owners need to keep abreast of local political issues to prepare for and minimize the potential effect on their businesses.
- Highway relocations may fall into the same category as zoning changes, but these are usually proposed by the state rather than local government. Again, owners need to stay alert to any changes being proposed in their market area.
- Crime and other random acts of violence can tax the resources of any organization. Crime is one of the most random external events that can affect today’s organizations. No community is immune to this type of activity, even the upscale areas. Small business owners need to be aware of actions that occur in other communities and prepare accordingly for this crisis.

Many small business owners think that their insurance can cover all types of external crises. However, the small business owner should be aware of the limitations and costs of insurance, as previously discussed. Small business owners should also be aware that the impact of many external crises can be either prevented or minimized through proper planning.

Customer-Related Crises

Customer-related crises are those situations that can be traced back to an unhappy or unsatisfied customer. Unlike other categories discussed in this section, customers are different because the business has very little control over them. Unlike employees and suppliers, the customer relationship is often one-sided and the organization can do little or nothing to “make” customers buy the goods or services. Unhappy customers may simply stop patronizing a business and often the business owner does not know why. Business owners must continuously strive to improve customer satisfaction, because it is quite clear that they cannot survive without customers.

Small business owners should emphasize the development of loyal customers through their business activities. Deming states that businesses should not simply seek satisfied customers. Instead, they should focus on building loyal customer relationships, which are the greatest source of profit (Gabor, 1990). Loyal customers produce additional profits by making referrals to friends and relatives through word-of-mouth advertising. When crisis situations occur, loyal customers can often be strong allies by continuing to patronize the business throughout the crisis and offering personal support to the owner.

Personal Crises

Personal crises can be the most difficult situations for small business owners to manage. Often, the owner's personal needs become last in order of priority. The owner may focus on all types of external and internal business problems, but to whom does the owner turn in the case of a personal crisis?

If the answer is "his or her family," it may well be the wrong answer. A small business owner may have to appear tough and steady on the outside, yet he or she may be very delicate on the inside. The personal crisis potential is greatly increased when no one cares about what is going on in the owner's personal life. Very little has been written about the stamina that it takes just to get up each day to run a business.

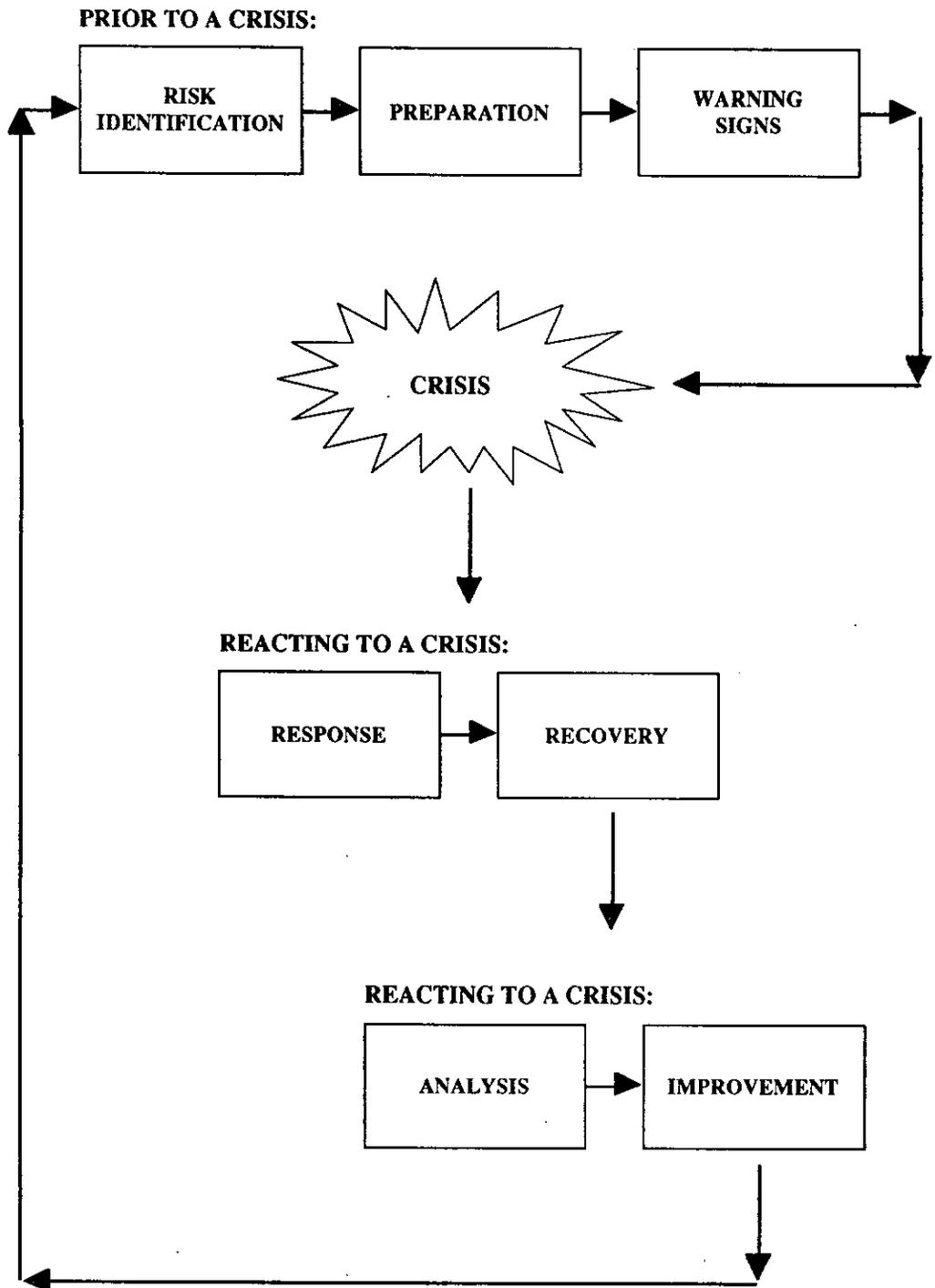
Further complicating these crises are the problems arising from many other areas such as family, customers, suppliers, and employees. When a crisis occurs in the owner's life, people say, "Joe didn't see it coming." Or they say, "Sharon didn't tell us how she felt about so and so." By the time these words are spoken, the crisis has run its course and the only job remaining is to clean up the mess and count the casualties. Birley (1985) notes that small business owners often limited their information network to family, close friends, and colleagues and were either unwilling or unaware of professionals who could be more capable sources of assistance. To effectively prepare for personal and business crisis situations, owners need to develop professional relationships with persons with whom they can share their feelings.

Small business owners can identify potential crises by reviewing the examples given in Figure 1 and considering the possibilities for their own businesses. Using the model discussed in the next section, small business owners can take action when potential warning signs appear before these situations escalate into major crises.

A CRISIS MANAGEMENT MODEL FOR SMALL BUSINESSES

After small business owners consider the types of crises that might occur in their firm, a crisis management model is needed to illustrate the process of effectively managing a potential crisis situation. Several authors have proposed models and steps for dealing with risks, threats, and crisis management (Aspery & Woodhouse, 1992; Barton, 1993; Beam & Carey, 1991; Bernstein, 1990; Fink, 1986; Pauchant & Mitroff, 1992; Pearson & Mitroff, 1993; Souter, 1991). In general, these models can be condensed into three stages, with additional steps within each stage. The major stages include activities undertaken prior to a crisis (prevention), during a crisis (reaction), and after a crisis (education). Figure 2 illustrates the three stages and the underlying steps of each stage. Each step is discussed further following this figure.

Figure 2. A Crisis Management Model



Stage 1 — Action Taken Before a Crisis (Preparation)

The goals of this stage are to prepare for and hopefully prevent a crisis from occurring by being proactive in anticipating potential crisis situations. Specific steps to be taken in this stage of the crisis management model include:

- Identify potential crises that specifically apply to your business or industry. What are the areas of potential vulnerability or risk? What risks apply specifically to firms in your geographical area, such as weather-related crises? What crises are common to your industry? What ideas do trade sources have regarding potential crises? What types of things *could* happen? Are there any warning signs that will precede each type of crisis?
- Consider how these situations would affect your business.
- Examine current policies and procedures in effect that would minimize a potential crisis.
- Determine if you have experience in handling any of these potential crises.
- Organize a crisis management team, consisting of the owner/manager, operations person, marketing person, administrative person, and external team members such as an attorney and a CPA.
- Develop a crisis management procedures sheet or plan, with each team member's phone number and key area officials (state and local government, media, law enforcement) based on the crises that you feel has potential for your business. Develop alternate sites for business resumption. Keep copies of the plan at each team member's home and work locations. Post the crisis management team members' names and phone numbers at the business. Head (1990) and Humphreys (1992) provide outlines for a crisis management procedure manual.
- Educate and train employees in how to respond in a crisis situation.
- Review the adequacy of insurance coverage. In particular, business interruption insurance should be considered to safeguard against a loss of income if the business is shut down because of a crisis.
- Watch for warning signs that might precede a crisis. Respond to warning signs with action. Sheridan (1992) discusses how to be aware of symptoms from customers and suppliers that might signal a potential crisis.
- Maintain good relationships with local and state government officials and local newspaper, radio, and television contacts.

Stage 2 — Action Taken During a Crisis (Reaction)

The main goals of this stage are to respond quickly, to express concern for customers, employees, and the public, to minimize losses, and to resume operations as soon as is feasible. Specific steps to be taken in this crisis management stage include:

- Provide effective and timely communication with media representatives, government officials, employees, customers, suppliers, and other affected individuals or groups. This step is a crucial element of successful crisis management. Many examples of failure in crisis management can be traced to poor handling of media communications. For example, the apparent lack of concern shown by Exxon's management in the oil spill crisis was considered to be a major factor in the escalation of the crisis. In contrast, Johnson & Johnson has been widely praised for its handling of the Tylenol poisoning crisis (Barton, 1993). For further advice about successfully communicating with the media during a crisis, see Izatt (1992).
- Let people know that you are in control (as well as can be expected) of the situation. It is especially important for the owner to be actively involved in the crisis response.
- Be sensitive to the impact of the crisis on employees and be prepared to respond.
- Expedite emergency response to protect customers, employees, and the public and defuse the crisis as soon as possible.
- Resume business as soon as possible. If this is not possible, seek ways for customers to receive needed good and services.

Stage 3 — Action Taken After a Crisis (Education)

The primary goal of this stage is to learn from the crisis and to determine what changes are required for future improvement. Specific steps to be taken in this stage include:

- Analyze what happened and determine if any parts of your crisis management plan were inadequate.
- Determine how to improve the existing crisis management plan to reduce the possibility of future crises.

CONCLUSIONS AND IMPLICATIONS FOR SMALL BUSINESSES

Crisis management is an increasingly important issue that applies to small businesses as well as their large firm counterparts. Small business owners have a number of unique crises that can seriously affect the survival and growth of their organizations. In addition, small business owners may lack the resources and expertise to identify potential warning signs and also to deal with crises after they occur. Small business owners need to emphasize preventive measures to avoid potential crises. Preventive crisis management is an issue for all small business owners, especially those who are "here and now-type" problem solvers. All small business owners need to develop a targeted crisis management plan that focuses on identifying and preparing for crises that have high potential for occurrence.

An example of a small business that successfully implemented a crisis management plan is included in the Appendix. This small corporation owns land and leases campsites for hunting and fishing. The corporation president developed a crisis management plan to lessen the chances of hunting accidents and to reduce the risk of shareholders being sued by someone who might be hurt on the property (F. J. Hebert, Jr., personal communication, February 24, 1994). This case also illustrates the limitations of insurance. Although the corporation president used insurance to minimize risk, he also set up a hunting club to regulate hunting activities, developed a wildlife management plan for his land, and required that hunting club members attend an annual hunter safety course.

The information presented in this article could be used in several ways with small business owners. Small business professionals could use the crisis types and suggested crisis management model to help small business owners identify the types of crises that might affect their firm, the crises they would like to cover using insurance, and the non-insurance preventive measures that could be taken to minimize potential crises. Small business groups organized through local chambers of commerce or industry trade groups could use the information to identify potential crises that could affect members in their area and could generate a suggested crisis management plan for businesses in the same area or industry. Further steps might involve the preparedness of the local and regional governments concerning potential crises. Local and regional media and government officials could assist small business owners in identifying potential crises and in preparing a crisis management plan.

Classroom applications might involve student projects to assist a small business in identifying potential crises and in developing a crisis management plan. Students in a family business course could use the crisis types to identify potential crises that may affect their family's firm. Presentation of the information and the example offered in the Appendix could provide an impetus for existing family business managers to identify potential crises and to develop a crisis management plan for the family firm. Another classroom application would be for students to evaluate an actual crisis situation by discussing what steps could have been taken to prevent the crisis from occurring.

Further research is needed to determine small business owners' perceptions of crisis management and to identify what approaches they are taking to prepare for potential crises. Several questions could be addressed to a sample of small business owners, such as their perceptions of the probability of occurrence of the different crisis types presented in Figure 1, their perceptions of the uses and limitations of insurance, their own crisis experiences, and their views on the suggested steps included in the crisis management model presented in Figure 2.

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APPENDIX

Example of Small Business Crisis Management Planning

Jules A. Hebert Rental Corporation, Inc.'s Crisis Management Plan

This situation had probably happened many times before. Two people who lived on the Jules A. Hebert Rental Corporation, Inc.'s property were out deer-hunting one day. One of the hunters was up in a tree stand, while the other hunter was on the ground. The two hunters were being very quiet, so each person was unaware of the other's presence. The hunter on the ground fired his gun first, and then moved toward the animal. As the tree stand hunter prepared to fire, he almost shot the hunter on the ground! A major crisis was luckily avoided. When the corporation president, Mr. Hebert, found out about this near accident, a cold shiver went up his spine as he considered what would have happened if the person had been shot. He discussed this situation with his son, who was also a shareholder of the corporation that owns and manages approximately 1,000 acres of property. He also discussed the situation with other area landowners who allowed hunting on their properties. The result was the decision to develop a crisis management plan that would hopefully prevent a shooting from occurring and also protect shareholders from potential lawsuits.

Mr. Hebert discovered through his research that there were several insurance companies that wrote policies to protect hunters and landowners from these types of accidents; however, the insurance policies must be written through a hunting club rather than for individual residents or a landowner. Since his lessees were not members of a hunting club, Mr. Hebert realized that it would take considerable time and effort to implement his plan. He would have to create a non-profit corporation for the hunting club, and then ask property residents to join the club for a nominal amount of dues. Officers and directors of the club would need to be elected, and the hunting club would also have to develop policies to regulate who was allowed to hunt and where they could hunt on the property. These policies would enable the property owner to prosecute someone who hunted on the property without authorization from the club. After all of these steps were completed, an insurance policy could be written to protect both hunters and shareholders.

Mr. Hebert realized that purchasing insurance was only part of the preparation needed to protect individuals from a potential crisis. He took several additional precautions to prevent potential hunting accidents. The state wildlife and fisheries department was asked to develop a wildlife management program for the property. This program would require that tags be issued to regulate the number and species of animals that could be hunted. This action would improve the management of the property's wildlife. Also, the state wildlife personnel were asked to present a hunter safety course for club members. Club members would be required to attend the training course to ensure that safe hunting safety practices were being used.

Mr. Hebert concluded that this effort would require a great deal of work to implement. However, he believed that it would help prevent a crisis from occurring and would protect property residents and the corporation's shareholders.