Small and Medium-Sized Firms Are Less Prepared for Crises

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Newer, smaller businesses, often led by entrepreneurs, are usually comfortable operating in dynamic, ever-changing, and even unpredictable environments. They are quicker than larger firms to innovate and to pivot when market conditions change. While this can give them an advantage over bigger firms, my survey of 301 U.S. managers showed that smaller businesses also have a blind spot: while they know that crises may happen, they often don't have a plan to deal with them.

This is hurting them financially, since the survey also showed that the organizations with greater crisis readiness also reported higher financial and non-financial performance.

Crises Are Now More Common

A crisis is more than a business problem: It is an unpredictable event that can directly threaten an organization. Examples include natural disasters, cybercrime, labor conflicts, product recalls, pandemics, and lawsuits resulting from sexual harassment, discrimination, and other offenses. Organizations often develop crisis readiness plans to avoid and mitigate crises.

Many large firms started paying attention to crisis management after a high-profile case in 1982. Several packages of extra-strength Tylenol were removed from a Chicago pharmacy, laced with cyanide, and returned to the shelf. Seven customers died after buying and consuming the tainted capsules, triggering a nationwide panic. Tylenol's producer, Johnson & Johnson, immediately accepted responsibility and invested the resources necessary to rebuild consumer trust. The Tylenol disaster would become the gold standard for crisis response, and a role model for other companies. Leaders and scholars have continued to learn from other crises that followed, including widespread events like terrorist attacks, the Covid-19 pandemic, and the 2023 wildfires in Maui. In the four decades since the Tylenol disaster, increasing technology, globalization, and social media have made crises more prevalent and effective management more important.

Today many big companies employ crisis specialists and work with consultants to integrate advanced crisis assessment and training (Bhaduri, 2019; Nicolau, 2015; Watson, Finn, & Wadhwa, 2017). At companies with solid plans, employees know their specific responsibilities during a crisis and are empowered to manage a crisis in their departments. The crisis team leads the effort by developing worst-case scenarios and standard operating procedures, anticipating crises, and providing guidance to organizational members as a crisis unfolds. The team also develops the plan, which outlines the appropriate steps when a crisis strikes.

However, past research has found that small to medium-sized companies are less likely to adopt these measures because they have fewer resources, and therefore are often less prepared and struggle when disasters strike (Parnell & Crandall, 2021). They also can be distracted by intense competition, demanding customers, and a general inability to see where the organization is heading in middle to long term (Crandall, Parnell, & Oglesby, 2023). Entrepreneur-led firms can be especially vulnerable because they operate in dynamic, unruly, and unpredictable markets. They confront frequent changes in the customer base and face constant demands for innovation.

My Research

Building on what other researchers have found, I developed a survey to test how company size, the instability/dynamism of the market, and awareness of the potential for crisis affects crisis readiness. It included various demographics and measures for crisis readiness (e.g., access to crisis management resources, an adequate budget, appropriate training, and other resources), and asked questions that gauged their perceived likelihood of a crisis, and the instability of their market. Other questions asked about firm performance (e.g., profit, revenue growth, stock price).

I gathered 301 valid responses. After testing the results and probing the data more deeply, I studied how operating in dynamic markets, the perceived likelihood of a crisis, and crisis readiness all influenced one another. The findings showed that small to medium-sized companies may indeed be aware that crises can happen, but are exposed to more risk because they are less likely to have systems to deal with it.

The survey showed that market dynamism has the biggest impact on both financial and non-financial performance. In other words, innovative firms willing to compete in less predictable markets have a shot at big rewards, something many entrepreneurial firms already know and accept.

However, crisis readiness was the second most important factor in performance, and this is where smaller firms often fall short. Forming a crisis management team, creating a crisis management plan, and adopting other preventive measures can have a noticeable performance impact. Putting these teams and plans together requires time, energy, resources, and sometimes guidance from a crisis consultant. Small and medium-sized companies often struggle to afford it (Kurschus, Sarapovas, & Pilinkiene, 2017; Vargo & Seville, 2011). The survey confirmed that they often don't have it.

The survey also found that firms in more dynamic markets were, in general, more likely to anticipate and prepare for a crisis. Indeed, many businesses appear to build crisis-ready capabilities because they perceive a crisis as a real danger, especially in the markets where they compete. However, managers at smaller firms reported *lower* crisis readiness while expressing *more* anxiety about potential crises in their firms, highlighting the importance of resources when preparing for crises.

Takeaways

The findings suggest several important takeaways for managers, particularly those in small to medium-sized entrepreneurial firms.

Evaluate the Likelihood of Crisis

Managers—especially those in smaller firms—are vulnerable to a costly "it can't happen to us" blind spot. Managers who do not foresee a catastrophe are less likely to take the necessary precautions to avoid or minimize the damage. Crisis awareness training is an excellent place to start for firms without a crisis management team or plan, especially if managers are unfamiliar with common crises in their industry. Organizations like the Institute for Crisis Management (www.crisisconsultant.com (http://www.crisisconsultant.com/)) offer helpful resources and crisis training.

Recognize That Innovative Firms Can Be the Most Vulnerable

Small and medium-sized firms should periodically reevaluate and enhance their crisis management practices. Although managers in these firms are often aware that crises can happen, they are uneasy with their level of overall readiness. Innovative smaller firms tend to outperform their rivals in dynamic markets (Kraus, Rigtering, Hughes, & Hosman, 2012), but the inherent uncertainty can also make them more crisis-prone (Kurschus, Sarapovas, & Pilinkiene, 2017; Vargo & Seville, 2011). Companies need a well-organized crisis team and a useful crisis plan if they don't have them already. Companies that recognize a vulnerability but need help getting started can work with a crisis consultant to help managers develop a crisis mindset and create teams and plans appropriate for their firms, industries, and risk tolerance. The best consultant—particularly for a small firm—will guide the process rather than writing the plan.

Evaulate Costs and Risks

This study adds to mounting evidence that effective crisis management can improve firm performance. (Helm & Tolsdorf, 2013; Liu, Shankar, & Yun, 2017; Mansor & KaderAli, 2017). However, many managers still don't see the impact of a strong crisis management plan on the bottom line, so they hesitate to invest in one. No precise formula can calculate how much a firm should spend on crisis management because some organizations, industries, and strategies are inherently more vulnerable than others. The challenges that today's smaller firms face differ markedly from those addressed by J&J in 1982 or today, but the steps necessary to prepare are similar. Spending more is not always the solution, but a frank discussion about the costs and risks associated with potential crises is vital.

Be proactive

Finally, given the vital link between crisis preparation and firm performance, managers should start planning for a crisis well before it's even on the radar, and even if

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many people think it may never happen. Crisis planning may be viewed as superfluous if an organization does not experience a crisis—until it does. Then, those who promote crisis planning may be the unsung heroes in organizations.

Explore the Research

Access the article here: https://digitalcommons.newhaven.edu/americanbusinessreview/vol24/iss1/6/.

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