

# **Learning the Hard Way vs. Vicarious Learning: Post Crisis Learning For Small Business**

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## **Abstract:**

Crisis management is a critical responsibility for all organizations. Regardless of the size of the organization, it is essential to address three general phases - pre-crisis planning, management and recovery during and immediately after the crisis and learning and adjustment recovery after the crisis. Entrepreneurial concerns and small businesses, however, differ from larger, more established businesses in the mechanisms for avoidance and/or reacting to crises, specific types of crises they may face and the disproportionate effect crises has on them, and the ways in which they learn and adjust after a crisis. This paper explores the critical phase of learning from crisis through a small business/ entrepreneurial lens. The authors propose a five step process to recover from crisis and prepare for the future that emphasizes learning not only from your own experience and the external environment, but from other businesses that faced challenges during the crisis.

Keywords: Crisis Management, Small Business, Entrepreneurship, Organizational Learning

## **INTRODUCTION**

Crisis management is important for any organization. Ignoring or minimizing the responsibility of preparing for crises allows leaves organizations vulnerable to crises. Not only are avoidable crises more likely, without proper planning organizations are risk of suffering significantly greater damage when an unavoidable crisis occurs. Poorly handled crises can threaten an organization's viability in the marketplace and cause irreparable damage to a firm's reputation (Wisnblit, 1989; Vassilikopoulou, Lepetsos, Siomkos & Chatzipanagiotou, 2009). Only 20% of companies without contingency plans are still in business two years after a major disaster, (Brown, 1993). In the early 1990's despite these known risks it was reported that less than 60% of the Fortune 1000 industrial companies had crisis management plans (Tiller, 1994). In the two decades since, that number has not significantly increased (Crandall, Parnell & Spillan, 2010, 2014).

There are 25 million small businesses in the United States (Small Business Administration (SBA) 2013). Small businesses create two out of three new jobs (SBA, 2013), employ about half of private sector workers and represent 99.7% of employer firms in the United States (SBA, 2007). Despite the prevalence of small businesses, much of the literature on crisis management has focused on medium and large organizations. When we consider that small businesses are more vulnerable to crises than large businesses (Drummond & Chell, 1994), crisis management takes on an even more important role.

Crisis preparedness and reactions during crisis situations are frequently the subjects of academic studies and practitioner articles. Learning from crisis is equally important as the other stages, but does not receive the same emphasis. The post-crisis literature emphasizes minimizing negative effects and returning to the status quo, and not on improving preparedness and processes. It also emphasizes internal reflection. For small businesses post crisis recovery must result in a stronger more prepared company, and learning must come from the external surroundings and from competitors and other businesses in addition to first-hand knowledge. Learning through the experiences of others provides valuable information without the cost of the crisis impacting your business.

The objective of this article is to present a process for small businesses to learn and adjust after a crisis occurs to itself or near to it. The article begins with descriptions of crisis and crisis planning. This is followed by an approach to examining external reactions to crisis in five different areas. We then turn our focus internally and examine what has happened to the focal firm and other firms in similar situations using a five stages process. In the final section, we summarize the prescriptions to small business owners and entrepreneurs and outline several areas of research for academics and others interested in further exploration and development of the topic.

## **SMALL BUSINESS CRISIS MANAGEMENT**

Hurricane Sandy left 450,000 businesses damaged or destroyed (Chordas, 2013). Wal-Mart gave 1,000,000 bottles of water to the hurricane victims. Years earlier, when Hurricane Katrina directly affected 126 Wal-Mart stores, in just 18 days they had already reopened 113 of them. They also were able to contribute \$3 million of supplies and \$17 million in cash to the relief efforts ("Crisis management - easy to do badly...", 2007). Wal-Mart is a very large

company with significant slack resources and an effective crisis management plan. It was able to respond help others because of its size and crisis management process. Western Digital was able to recover from a flood in its Thailand facility in 2011. 46 days after the flood, it had regained its top position as the world's number one disk drive maker (Lau & Wongsurawat, 2013). They had the resources – cash position, personnel and supply line flexibility – to facilitate such a recovery. Not all crises are externally created, such as the natural disasters mentioned. Crises can be created internally, often associated with the life cycle of the organization or its products or services, or growth beyond the ability of internal control systems (Hill, Nancarrow & Wright, 2002). Toyota had a crisis involving massive recalls and problems related to supply chain practices (Andrews, Simon, Tian & Zhao, 2011). They were able to handle it somewhat because of their reputation and resources, however they may still be in a chronic crisis condition until they can adequately respond to malfunctioning vehicles in a timely manner (Heller & Darling, 2012). Unfortunately many small businesses cannot recover from crises, whether externally or internally caused. They do not have formal crisis management processes in place, and few have slack resources to weather the crisis storm. The US Chamber of Commerce estimates that 52% of small businesses never reopen after a natural disaster such as Hurricane Katrina or Sandy (Greenfeld, 2012).

The field of crisis management has grown considerable in the last few decades (Todarita & Ranf, 2009). “A standardized corporate wide crisis planning system” was unheard of in most American companies twenty-five years ago (Beaudoin, 1988). There was not even a clear definition of what constitutes a ‘crisis’. Pearson and Clair attempted to clarify this issue a decade later, proposing that “an organizational crisis is a low-probability, high-impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effect, and means of resolution, as well as by a belief that decisions must be made swiftly” (Pearson & Clair, 1998). This definition recognizes that crisis management is an extension of risk management that “focuses on the most dramatic events and circumstances that could disrupt operations or make it impossible to continue business” (Herman & Oliver, 2002).

The overall process of crisis management is not difficult to understand despite the widespread impact that a crisis can have on an organization (Adams, 2002). There are three phases - pre-crisis, during the crisis and post-crisis. The pre-crisis phase involves two sets of activities, identifying potential crisis and the preparing for the crisis (Crandall, Parnell & haran, 2010, 2014), or what the Federal Emergency Management Agency (FEMA) refers to as ‘mitigation’ and ‘preparedness’ (Adams, 2002). The second set of activities involves responding during the actual crisis. The post-crisis phase involves an initial recovery but needs to be followed by an assessment of the response. This includes reflection and analysis to learn from the crisis and be better prepared in the future (Crandall, Parnell & Spillan, 2010, 2014).

In small businesses, the strategic management process is either proactive and driven by the owner or reactive and driven by ‘crisis’ (McCarthy, 2003). Small businesses that do better and more extensive planning, that is those that are proactively driven by the owner, have better performance (Berman, Gordon & Sussman, 1997). For example, proactive risk management for potential financial problems and early assessment of the effectiveness of those controls enable small businesses to limit the possibility of crises (Chan, 2006). Many models of the growth and development of entrepreneurial endeavors involve changes that occur only after the organization has had crisis following a period of growth or stability (i.e. Greiner, 1972). The organization once again experiences stability or growth after the changes are made, but only until the next crisis (Reynolds & Lancaster, 2006; Watts, Cope & Hulme, 1998). Crisis management in these

firms is often limited to marketing campaigns to respond to competitive pressure (Anonymous, 2005). Some have used the term 'hurdles' instead of 'crisis' for these developmental change points (Parks, 1977) because they are more like the 'unfreezing' phase of Lewin's 'freeze-unfreeze-freeze' model of organizational change (Lewin, 1947) than the definition of 'crisis' defined above. However such 'hurdles' are to a great extent avoidable by an organization proactively undertaking continued intentional change guided by the owner's vision. This approach anticipates and avoids crises by proactively changing when necessary instead of being forced to change only in the event of such difficulties. This paper will examine 'crises' as defined by Pearson & Clair (see above) and not the 'hurdles' described in small business growth models. Other research has addressed pre-crisis planning and reacting during a crisis for small business (Betts, Huzey & Vicari, 2012; McCarthy, 2003; Drummond & Chell, 1994). The following sections will concentrate on post-crisis learning and the changes that organizations make to better avoid or handle the next crisis.

## **POST-CRISIS LEARNING AND ADJUSTMENT**

It is essential for small businesses and entrepreneurial concerns to learn from crisis and make continuous improvements in the way they avoid, prepare for and react during crises. Because of the wide variety of circumstances that can occur during crisis management needs to include many internal and external stakeholders and address all aspects of an organization from internal operations to external boundary spanning functions (NyBlom, Reid, Coy & Walter, 2003). Two approaches will be explored here, an external approach that emphasizes the effects on and reactions by various players in the firm's operating sphere. The second approach is a five step internal reflective approach that emphasizes considering the internal dynamics of other organizations that are affected by a crisis.

### **EXTERNAL APPROACH**

The external environment contains many entities that could be affected by a crisis that hits any given firm or nearby firms. Figure one shows these external organizations in five categories – industry, local government, state and federal government, supply chain and other stakeholders.

#### **Industry**

The way that one company in an industry reacts to crisis can affect other companies because of the effect on the competitive environment (Ham, Hong & Cameron, 2012). A crisis might be extensive enough as to change the predominant practices and methods within your entire industry. If this is so you must be aware of the new practices, or even more desirable, lead the industry renewal. Be the company that develops and champions the modifications needed to deal with crisis occurrence for the future. You will be able to reap the benefits of industry renewal while the rest lose power. Keep in mind, however that the advantage is shortly expired as others adopt the practices.

A rising tide raises all boats, but a sinking tide will sink all boats as well. Competitors are not enemies, they are collaborators in the area. Reputations of competitors can disrupt the state of the industry (Coldwell, Joosub & Papageorgiou, 2012). Sharing information within the

industry is crucial. It may be necessary in order to preserve the industry and context or there will be no industry.

### **State, Federal and Local Government**

Be ready for new government regulations. It is important to be able to forecast likely government regulation emanating from the crisis. Seek advice and counsel. One source of information could be your Advisory Board. You can encourage them to inquire on your behalf with those within their personal professional networks. They may themselves or may know people who have some indications or “inside information” about likely governmental regulatory responses.

Develop contingency plans based upon various scenarios of government regulation before it is imposed. The government may go as far as eminent domain buying or insist that you meet regulations or close down. Move quickly to acquire the capabilities to change current practices. There may be a great ‘first-mover’ advantage being among the first to bring your practices into compliance with future predicted regulations. In fact, if possible, promote the new compliance and take an industry leadership position regarding such compliance. You can find ways to use it as an effective promotional tool to assist in selling your products.

During the aftermath of Hurricane Sandy in Edgewater NJ, a contractor used his personal crane & heavy equipment to help the town. These are his customer base. He has personal and professional ties to the area. At the local level it is important to keep good relations with municipal government and the chamber of commerce. Local officials will help small businesses however they can because they know that it is important to ‘rebuild downtown’ (Greenfeld, 2012). Be prepared for new regulations and higher costs. For example, there can be a municipal requirement that forces contribution to a fund to pay for additional services.

### **Supply Chain and Stakeholders**

Be aware of new stakeholder outlooks. After a crisis, their perspective changes. As one small business consultant said “You don’t know where the ‘no’ is”. The key is careful study to find the changed outlook of stakeholder groups. You might use market research instruments and focus groups. You can set up discussion boards/chat forum on the company web site designed for the exchange of such ideas. Consider sending company representatives to meet with any stakeholder groups who express changes in their outlooks regarding the company and/or the industry to discuss your feelings and explore theirs, in order to re-assure stakeholders that your outlook has adapted in accordance with theirs. Make any necessary adaptations to meet their newly formed needs. Rely upon your Advisory Board, industry association groups, and trade publications to give you input and indications of such changes before you encounter situations in which you might otherwise reveal a lack of knowledge and sophistication regarding such changes in stakeholder outlook.

In times of crisis, reliability and sustainability are much more important than price. You might have to pay a bit more to sustainable delivery time. You cannot afford to give the impression that you are disaster prone and not reliable. The scope of your network in region is critical because now it is networks that support relationships. It is time to get on the phone and say ‘I need a guy’ or ‘I got a guy for you’. It is time to call upon your contacts. Be open to

sharing resources, swap stuff, and keep as short a delivery time as possible to susceptible businesses. It is not a time for placing blame. It is a time to prove your disaster mitigation ability to your supply line and competitors.

## **INTERNAL APPROACH**

An internal approach to post-crisis activities centers on evaluating the success and failure outcomes of the crisis management process. To look only at your own crisis management processes and do so only when the crisis hit you is a very limited approach. It also may be too little, too late. Figure 2 shows a five step approach to examining internal operations, but of other organizations in addition to your own. This way, small companies can learn vicariously through the experiences of others.

### **Step I - Identify the Crisis Situation**

Identifying the problem is frequently listed as the first step in problem solving or decision making models. It is the same in crisis management. Identifying the crisis is the first step. When a real crisis occurs, do not assume that the first information that you receive accurately informs you what the crisis actually is. Or even what the specific crisis is to you. Hurricane Sandy in 2012 is a good example. The 'crisis' in New Jersey was the hurricane, but what does that mean? At the shore it meant unprecedented flooding. With flooding came many things – electrical outages, roads washed out, disruption of deliveries of food and other essentials. Inland, there was little flood damage because the amount of rain was not that much (unlike Irene the year before). Inland in Northern NJ there were winds that caused massive damage. There were power outages that lasted for weeks because of the great number of trees that were torn from the ground. A tree falling on your property is a crisis, the lack of electricity is another crisis, the roads that are closed due to fallen trees are another crisis, and the lack of food on the store shelves is another crisis, and so on. There are many layers and types of crises that occurred during and after that one event. Identifying all of the crises that are relevant to you is an important but difficult task. To learn from the experience of others you need to look at firms with similar characteristics to your own, discover what occurred to them, examine how they reacted, and evaluate the effectiveness of those reactions.

### **Step II – Examine Processes and Reactions**

Examining the crisis management plan implementation of other firms is a difficult task, but the rewards make it a worthwhile endeavor. The first step is to scan the environment and identify firms with similar characteristics. This should be done well in advance of any actual crisis. Ideally you should be somewhat aware of those firms vulnerability to various crises and their approaches to avoiding or coping with them. Once a crisis occurs, either an isolated crisis occurring at individual firm or a widespread situation resulting many crisis situations, having trusted sources that can monitor the operations of these firms is preferred. If live monitoring is not possible, have sources provide you with information as quickly and completely as possible.

There are many approaches to sifting through the data gathered about other firms' reactions to crisis. Below is a potential approach in the form of a list of questions:

- Was the process or reaction relevant?
- Was the result as planned and desired?

- Did the firm's actions avoid or minimize the impact of the crisis?
- What other actions could they have taken?
- Were the solution approaches similar to what we implemented or have planned?
- What relevant situational elements make our companies similar or different?

When making comparisons check against objectives of your own plan. Make direct comparison with neighbors. Look for similarities and differences in approach, such as centralized vs. decentralized operations, specialists vs. cross trained individuals, phone vs. Phone over IP, and so on. You can also compare w/industry standards

If possible, interview individuals who were involved in implementing the plan at the other organizations. Ask how they did behave and how they would under other situations or if it happened again. Don't point fingers or ask others to. Ask what in the planning was done to deal with various things. Don't be afraid to evaluate the respondent from a psychological or behavioral perspective. Ask the individual how they 'felt' about the process. You can learn a great deal from their answers. Of course, you can do the same thing internally in your own organization.

### **Step III - Organizational Learning**

Some organizational scholars propose that crises can be viewed as positive opportunities for learning. Crises provide an opportunity to examine what happened, what the response was and how well it worked (Ouedragogo & Boyer, 2012). The key is to make essential lessons learned to become best practices. How does a business know what the essential lessons learned are? The examination of practices and responses proposed above is a start, but it is not enough. It then becomes important to make sense of the data gathered. Accurate attribution of causes, timely action and adequate resources allow small businesses to recover from declines and crises (Chowdhury & Lang, 1993). Seek the input and counsel of company outsiders – experts, consultants, and industry organization services to audit the outcomes of the crisis and propose guiding informational insight from learned knowledge related to the crisis and its outcomes.

Ask company personnel for their advice and insights, as well as their suggestions about prevention and handling of future potential or actual crisis situations for the future. Seek their advice about what additional support may be needed from management to help them implement preventative or mitigation practices and procedures regarding potential or actual crisis events in the future. Additionally, run an essay contest (or other input event) for employees which requests that they engage in an active discussion of things learned from the crisis and the practices employed to deal with it.

### **Step IV – Determine Changes**

In large organizations leadership from the executives during the planning phase is of critical importance (Jaques, 2010; King, 2002). In order for all parts of an organization to be involved and coordinated in crisis management efforts, it is essential that they be initiated and supported by top management (Sapriel, 2003) and approached in a systematic and formal manner (Chong, 2004). This means that in a small business the owner is the key to preparing for, coping with and recovering after a crisis (Harrell, 2008). During the planning phase establishment of a crisis management team (Podolak, 2002), appointing an individual to be in charge of maintaining plans and training (Sapriel, 2003), reliance on an advisory board for advice and assistance,

heeding early warning signs (Mitroff, Shrivastava & Udwadia, 1987) and building a corporate reputation (Greyser, 2009) are crucial elements.

When making adjustments to existing plans, keep in mind that if you are innovative, you get the first mover advantage. It might initially require you to back up and re-establish control, but then be the tip of the spear. Inability to succeed at preparation drills, new taxes and insurance, new regulations, in addition to the damage due to the crisis will make your competitors comparatively weak. Two additional things to keep in mind when determining the changes to make – first, don't rely on government money. There might be assistance available eventually, but the smart conservative thing to do is assume there is no help. The second thing is that you should be aware of organizational politics & personal failings, self-justifications, rationalization, blame, and so on, but be aware of them in order to minimize their effects. After a crisis and in times of change individual feel threatened, get defensive and start placing blame. "Who should we blame" is less important than "what should we do?".

### **Step V - Implementation**

Implementation of a crisis management plan might seem to be a passive activity. The plan is for use under rare extraordinary conditions. What more is necessary besides documenting the plan, having necessary emergency equipment on board and letting key personnel know their responsibilities? The answers are training and ongoing improvement. Everyone in the organization should be trained in the crisis management plan. Selected individuals should be cross-trained in order to give the plan flexibility.

The plan itself should be tested by simulations and 'stress tests'. Simulations will not only develop the necessary skills in the workforce, it will also put people in a 'crisis' frame of mind and signal that the administration is serious about crisis management. The simulations will also invariably lead to suggestions on how to improve the plans and expose discrepancies between benchmarks and actual results.

## **CONCLUSIONS DISCUSSION AND FURTHER RESEARCH**

In this paper the crisis management discussion was moved the focus on medium and large organizations to the vast majority of employer firms – small businesses. Small businesses have a greater vulnerability to crises than large businesses making crisis management a critical concern. A general discussion about crisis management and crisis management in small business is followed by a narrower look at the post-crisis learning and adjustment period. A list of external considerations is presented and a five step model for gathering information and adjusting crisis management plans is presented.

Academics that theorize or investigate crisis management are encouraged to shift their focus to small businesses and entrepreneurial concerns. Their findings and assistance would be welcomed by these firms who are unlikely to have the resources to research the effectiveness of their approaches to crisis management. There are also specific areas within crisis management that are under researched, such as crisis communication (Budden & Budden, 2010; Frandsen & Johansen, 2011; McDonald & Crawford, 2012), the effects on family firms (Harrel, 2008), how the internet has changed the way we can respond to crisis (Gonzalez-Herrero & Smith, 2010), the effects of networked organizations on crisis management (Zhang, 2010), the ethics of crisis management (Sandin, 2009; Simola, 2003) and of particular relevance to small businesses the

effect of organizational resilience in dealing with crises (Lalonde, 2007). Academics are encouraged to investigate these under researched areas to develop a more complete and useful portrait of the complexities and nuances of crisis management.

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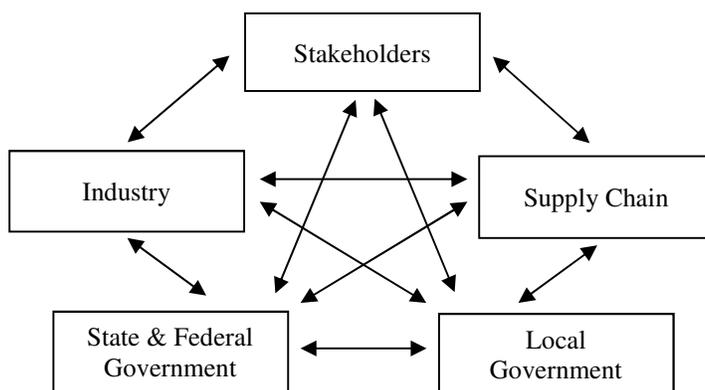
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## APPENDIX – Figures 1 and 2

**Figure 1 – The External Environment**



**Figure 2 – Five Step Model for Post-Crisis Learning for Small Business**

