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Crises and Its Occurence in SMEs in the Czech Republic

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Abstract The crisis in company's management represents a condition that may threaten its company existence. Compared to the large corporations, SMEs are more endangered. In this paper authors dealt with identification of critical conditions that have occurred in selected SMEs in the Czech Republic. As the research of 183 companies from the year 2014 suggests, the most frequent critical conditions are related to customers, demand and employees. The implementation of strategic management (formulated strategy) has a rather positive influence on anticipation of critical conditions.

Keywords SMEs, Crisis, Management, Strategies

1. Introduction

The word crisis originates in the ancient Greek expression "krino" which means to choose, decide, judge or measure. The word "krisis", meaning the moment of change, the necessity to decide, was derived from the original word "krino" [1]. Reference [2], [3] shows a crisis as a stage in a life of a company in which the aims of the company or its existence itself are threatened. At this stage, there can be seen a negative development of company's efficiency performance, significant drop in volume of revenues, decrease in the net business equity, reduction of the company's solidity, which causes a threat to the company's existence provided that this condition persists for a longer period of time ([4], [5]).

Reference [1] shows as a specific situation happening during a limited period of time that is crucial for the decision whether the company will return to the original state before crisis or whether the achievement of company's goals as well as its future development will be endangered. Here we can see either a lack of balance between the company and its surroundings, or a dysfunction among the company's inner systems. Imbalance and dysfunction are a consequence of risks engagement that reached a critical point ([6], [7]).

Reference [8] shows the term crisis describes a situation in a company that consistently, or for a longer period of time represents a negative derivation from a normal state. There are two typical features of crisis in relation to a company:

1. major crises – threatening the company's existence itself
2. minor crises – threatening the basic targets of a company on a long-term basis

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Crises occur either unexpectedly (e.g. accidents, natural disasters, unsuccessful innovation, etc.), or gradually, through continuously developing processes [2]. Reference [9] shows, crises may arise from serious accidents (natural disasters, terrorist attacks), or as a consequence of a severe economic situation. This situation may be caused either by external impacts (e.g. fluctuation of economic cycle, change of product demand, technological progress) or by the company's internal situation (e.g. wrong financial strategy of the company, wrong company location etc.) [10]. Reference [11] shows, crises caused by inner influence can be divided into 3 groups:

- Crises of strategy – arise as a consequence of wrong decisions taken already at the moment of the company start-up (e.g. wrong choice of location, wrong choice of assortment, dependence on one supplier only, etc.)
- Crises of business results – caused by mistakes in company's financing, setting too high prices, high cost of operation, low-quality products etc.
- Crises of solidity – they are usually caused by quick growth of the company that is connected with large investment, lack of respect of financial balance rules, insufficient management of working capital, etc.

Reference [8] shows, give examples of crises that may arise inside a company:

- Material and raw material crises
- Financial crises
- Human resources crises
- Know-how crises

In the external environment of a company we can see for example:

- Sales crises in the company's surroundings
- Quick and significant crises in price policy of suppliers
- Legislation permitting unfair competition on the market
- Crises of the customer, etc.

Many authors (e.g. P. Drucker, R. Mann, Alcalde) do not perceive a crisis as something exclusively negative. On the contrary, a crisis can be viewed positively, as it brings a possibility to change something, to do something differently than in the past. A crisis thus may be perceived not only as a threat, but also as a chance, source of innovation [12].

2. Methodology

The aim of this paper is to identify critical conditions that are most frequent among selected small and medium – size Czech enterprises. Furthermore, we wanted to find out whether there is a relation between strategic management of a company and the frequency of crisis occurrence in individual categories. Moreover, our next target was to determine whether strategically managed companies are better prepared for crises that occur and which each company must be able to respond to.

This paper was supported by Gaju 79/2013 / S. The data were collected from 183 companies in the Czech Republic in 2014, as shown in Tab. 1. Research sample was selected using non-probable random selection, with regard to circumstances of the data collection. The data necessary for conducting the research were collected by a questionnaire survey and they were supplemented by qualitative data, obtained through in-depth interviews as well as case studies.

Table 1. Characteristics of the sample

Focus on enterprises	Presence of enterprises	
Industry (A1, A2)	45	24,6 %
Services (B1,B2)	104	56,8 %
Agriculture, construction and utilities (C)	34	18,6 %
Total	183	100 %

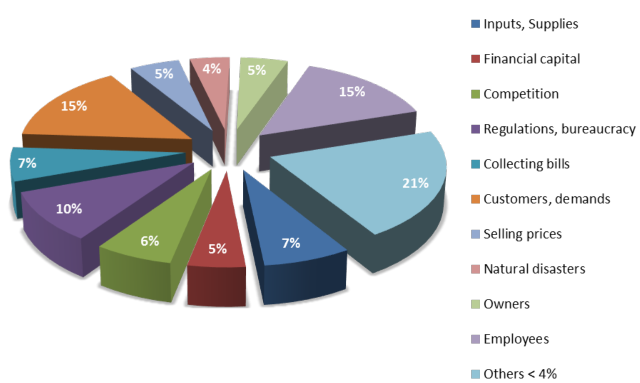

Figure 1. Types of crises

A methodology presented by OECD was used to classify companies with respect to their business activities. This methodology defines 5 groups of companies:

- A1 = Industry: High and Medium High Technology
- A2 = Industry: Medium Low and Low Technology
- B1 = Knowledge-intensive market services
- B2 = Less knowledge-intensive market services
- C = Agriculture, construction and utilities [13].

Representatives of different companies responded to questions concerning mainly crises that they had to solve during their operation on the market. Each of the selected companies identified at least 3 crises they had to deal with trying to minimize the impact on their business activities. Crises that were defined this way were consequently divided into 19 categories; see Table 1, Figure 1. The total number of crisis occurrence was 753.

For the purpose of this paper, a company is considered strategically managed when it has a fixed strategy in a written form.

3. The Research

As can be seen from Table 2, companies most often encounter crises in the following fields: “customers, demands”, and “employees” regardless of the implementation of strategic management of the company.

Table 2. Types of crisis

Type of crisis	Number	%
Capacity	28	3,7%
Collecting bills	49	6,5%
Competition	49	6,5%
Customers, demands	114	15,1%
Employees	110	14,6%
Entrepreneur - personal crisis	17	2,3%
Financial capital	36	4,8%
Inputs, Supplies	55	7,3%
Legal form of business	8	1,1%
Natural disasters	31	4,1%
Outdated product	3	0,4%
Owners	37	4,9%
Placement of business	19	2,5%
Processes	22	2,9%
Quality of production	18	2,4%
Regulations, bureaucracy	74	9,8%
Selling prices	39	5,2%
Technical breakdowns	28	3,7%
Thefts	16	2,1%

The field “customers, demands” can be defined by excess offer over demand, thus we can see almost every company constantly struggling for each individual customer. Companies have to tackle surplus. In the past, enterprises were operating on selected markets, nowadays, thanks to IT technologies, they can operate worldwide. This way companies are able to compete regardless of the location of their production facilities. That is why enterprises deal with sales difficulties, customers and insufficient demand as cases of crises regardless of the strategic management.

A lot of companies perceive the cause of crisis in the field of their own “employees”, namely 14.6 % of all companies. High occurrence of crises in the field “employees” is caused by the fact that all companies perceive human factor as their main asset without respect to the strategic management.

Another factor with negative impact on companies’ activities is “regulations, bureaucracy” e.g. frequent changes in tax legislation, implementation of the new Law No. 90/2012 Coll [14]. Reference [15] shows, study “Doing Business” (annually issued by the World Bank), the entrepreneurial environment in the Czech Republic is not very encouraging. The World Bank uses 10 indicators for its evaluations. These are mainly focused on limitations of business regulations. 185 countries were analysed in 2013, in the year 2014 the number was 189. Based on the study “Doing Business”, the Czech Republic occupied 68th place in 2013, in 2014 the country experienced a fall to the 75th place, which is a drop by 7 places ([15], [16]).

Findings of the survey suggest several facts concerning the relation between the frequency of critical conditions and the fact whether a company has a clear strategy or not, respectively if it is or is not managed strategically. Generally speaking, we can suppose that strategically managed companies plan strategically (long-term), define long-term goals and create a variety of strategies for the case of a necessary reaction to changes in the surroundings or within the company itself. At the same time, strategically managed companies are supposed to be better prepared for a possible crisis. They should be able to deal with a crisis better than companies without strategic management. Graph No. 2 provides several facts to support the above text, others contradict it.

The research suggests that enterprises that do not have a fixed strategy in a written form (are not strategically managed) can face higher occurrence of crises in the following fields:

“Inputs, supplies” - companies without a company policy in a written form have by 18% higher probability of crisis occurrence in the field “inputs, supplies” (crises in the field of inputs concern suppliers, quality of supplies, supplies prices including exchange rates, material shortages). Our research suggests a possible reason of this fact – strategically managed companies focus on a long-term cooperation with selected suppliers, as well as evaluation of suppliers including the quality of supplies. Non-strategically managed companies deal with this field of crisis more randomly, at the time when it is necessary to cope with it.

“Competition” - businesses without a stable strategy have by 17% higher probability of crisis occurrence in the field “competition” than companies that are managed strategically. Companies with strategic management analyse their competition regularly, discover new facts on the market and thus they are better prepared for possible steps that their competitors might take. Their reaction is faster owing to predictions they make.

“Selling prices” - enterprises without a strategy experience 18% higher probability of crisis occurrence in the field “selling prices” (strong influence of consumers resp. competition in prices, prices of commodities). The findings show that strategically managed companies solve their price policy in long-term horizon, prices of input commodities are negotiated on a long-term basis and they experience smaller pressure than companies that do not solve these issues on a long-term basis.

“Natural disasters” - businesses without a strategy have also by 36% higher probability of crisis occurrence in the field “natural disasters” (weather, floods, drought, etc.). Our research suggests that strategically managed companies analyse the risks, they try to manage them and lower their possible impact. Insurance and diversification belong to the activities of strategically managed companies, which can to a large extent reduce the negative impact of natural disasters that companies cannot influence in any way.

“Technical breakdowns” - companies that lack a strategy can face by 31% higher probability of crisis occurrence in the field “technical breakdowns” (equipment, water leakage, fire, etc.) than companies that are strategically managed. Even in these cases we can apply the risk analysis that is often done in strategically managed companies. This analysis is often followed by insurance that could compensate technical breakdowns, e.g. fire or water leakage. Technical breakdowns of equipment are solved systematically; there can be seen regular check-ups and machine inspections. These risks are dealt with in advance, at intervals planned beforehand; they are not solved at the time when a breakdown occurs.

On the other hand, companies that have implemented strategic management can see a higher probability of crises occurrence in the following areas:

“Financial capital” - companies that have implemented strategic management have by 43% more probable occurrence of crisis in the field “financial capital”(loans, insufficient capital, etc.). This can be explained by the fact that strategically managed businesses plan on a long-term basis, including planning of long-term investments. These investments are then executed at a time which is different from the time when companies were deciding about them. Long-term investment is planned for time when it is not possible to ensure sufficient capital or get some external financing.

“Owners” - enterprises that have implemented strategic management can experience by 32% more probable occurrence of crisis in the field “owners” (relations between owners). This can be caused by the fact that strategic management focuses more on long-term goals of the company (e.g. technology upgrades, sales arrangements, entry to new markets, etc.) than dealing with ownership relations.

The objectivity of the results of our research confirms the fact that strategic management has no influence on crises in the field “regulations, bureaucracy”. These crises cannot be predicted in any way; moreover, it is not even possible to be prepared for them, not even if the company uses tools of strategic management.

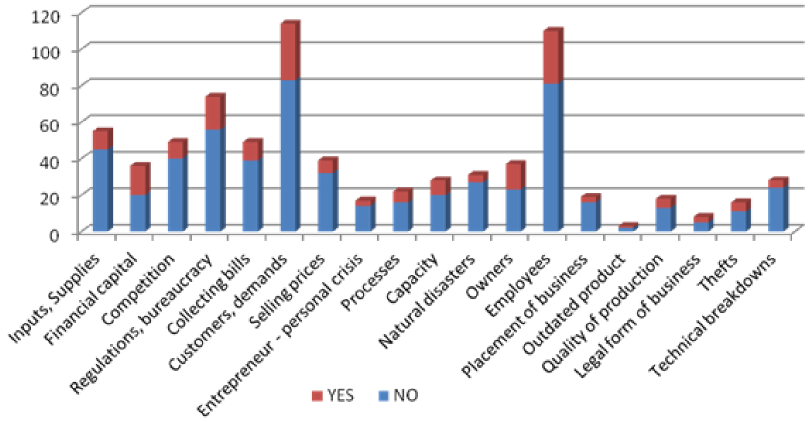

Figure 2. Frequency of different types of crises in relation with the company strategy

4. Conclusions

Critical conditions and their occurrence are a natural part of management of a company. However, it is possible to reduce or even eliminate their impact by using appropriate preliminary measures. From this point of view, it is primarily important to deal with the fact, what crises occur in the case of the article in SMEs. As we can see from the survey results, management of SMEs should significantly strengthen the area of marketing (crises most often occurred in the field “customers”) which can be reduced by entering into business clusters as recommended or better networking [17-19]. The same problem is HR management (the second most frequent crisis occurrence), as well as in the study of Weber [26]. However, crisis occurrence related to customers was to a large extent influenced by the impact of outer environment. In the field of personal management, problems can be found especially in the area of choice of employees and their motivation Hochner [25]. From the owners’ responses we can see that they even had to deal with employees’ thefts.

Strategic management represents a set of tools that might be useful for more effective management decisions as well as the anticipation of critical conditions. This fact was confirmed in most cases. Due to this fact it is necessary that the SMEs management focus more on contracts dealing with relations between owners of the company that are prepared in advance. Succession and passing the family businesses on further generations can be as well perceived as other points of discussion. From the management point of view, the occurrence of crises in the field of financial capital is only partially soluble by using suitable decision making methods. Anyway, the final result is to a large extent influenced by complicated predictions of development in many different branches.

Organizational crises are rare events that can threaten the viability of organization [20] but also provide opportunities for learning [23, 24]. Learning from organization crisis involves understanding the causes of the crises as well as identifying ways of preventing similar rare events from recurring [21, 22].

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