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Strengthening the Resilience of Small and Medium-Sized Enterprises

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Abstract: In the global world, we live in, business environment is interdependent and increasingly diverse speaking of culture. Therefore, operational risks exceed local and regional limits, which results in the risk which is shared by companies in global environment. However, not only can resilience be observed from the aspect of community, but also from the aspect of organization. In this study, authors research only organizational aspects of resilience. The goal of these researches is to indicate the significance of the need for improving resilience and determining possibilities for its achievement. Qualitative methods, as well as the extensive literature being a theoretical research frame have been used for this purpose.

Key words: organizational resilience, theory of resilience, building resilience

1 Introduction

Small and medium-sized enterprises create new jobs and contribute to economic development of each country. In globalization, enterprises are exposed to global economic "shocks", which are unpredictable by nature and which affect their profitability. In order to be resilient, organizations should lean to strong leadership, comprehension of work environment and the ability to adapt and respond to fast changes. However, are they resilient enough to cope with operating in a risky and unpredictable business environment? We have tried to get the answer to this question as well as to determine possibilities for improvement of resilience of enterprises in this research. In other words, we have tried to determine under which conditions the sector of small and medium-sized enterprises can raise the level of resilience to all "shocks" coming from internal and external environment and ensure sustainable development.

1.1 Concept of Resilience

The concept of resilience is used to explain why so many endangered countries achieve relatively high level of GDP (gross domestic product) per capita i.e., how a national economy is able to return to the previous level speaking of the rate of economic growth and to achieve macroeconomic stability and microeconomic market efficiency. However, economic resilience of a country cannot be achieved unless organizations are also resilient to negative impacts. Therefore, many people see this as two sides of the same coin.

Singapore is usually mentioned as an example in literature, as a country highly exposed to external shocks which managed to achieve high rates of economic growth and high GDP per capita. This reality can be explained as the ability of Singapore to build its economic resilience.

Analyzing the case "Singapore" many professionals are aware of the fact that "the concept of resilience" need not imply an absolute getting back to the pre-existing condition, but it can indicate the ability to respond to challenges resulting from negative impacts and changes. This is confirmed by many researches indicating that "resilience" has an indirect impact on economic growth, private investments and employment. [1] goes on to argue that resilience has four domains:

- technical (The ability of systems to perform during and after disasters),
- organizational (The ability of organizations to take actions to reduce disaster impacts),
- social (The ability of the communities to lessen negative consequences of disaster).
- economic (The capacity of enterprises and economies to absorb economic losses resulting from disaster).

Accordingly, literature has been reviewed in order to observe this issue from the position of four above mentioned domains of resilience observation and analysis.

2 Theoretical Background

The term "resilience" originates from the English language and it can hardly be translated using one word as its meaning is multilayered. It might be best explained with the term "resistance to negative incentives" and the ability of a country's economy to recover from external shocks of various nature, i.e. from structural changes caused by global market trends to negative impacts resulting from natural disasters and wars.

The term "resilience" was mentioned" firstly in 1973 [2] and this work represents a starting point for many studies on the concept of ecological endurance, as well as on many other forms of flexibility. Resilience or resistance of enterprises was defined [3] as the ability of an enterprise to cope with changes, adapt to and recover from negative impacts coming from business environment. He states that, in order to adapt to potential risks, enterprises must have a complex infrastructure management. The key is in the ability of the enterprise to estimate the degree of endangerment, realize mutual relations and interdependence between business activities, information and technologies in the enterprise [4]. Namely, countries having well developed business plans and action plan in case of risks of natural disasters, as well as programs for evaluation of resilience of an enterprise have shown higher resilience index than the countries which haven't had such plans and programs. This concept is also present in interdisciplinary fields dealing with complex systems, such as enterprises, infrastructural systems and ecosystems [5].

In literature, social and organizational resilience are often analyzed separately. Despite this, to improve community resilience, it is important for organizations to make the link between resilience and organizational competitiveness, and to invest in resilience [6]. Speaking of the importance of organizational resilience we state that organizational resilience directly contributes to faster and more successful recovery of the community after the crisis or disaster.

Building a resilient enterprise should be a strategic initiative that changes the way a company operates and that increases its competitiveness [7]. These authors indicate that a company's resilience can be achieved by reduction of vulnerability and increase of flexibility, which indicates the company's ability to get back on "the right path" in case of disturbances.

Speaking of organizational resilience of small and medium-sized enterprises, some authors make difference between big and small enterprises [8]. They believe that small and medium-sized enterprises are more endangered than big enterprises i.e., that their resilience to climatic and other disasters is much smaller due to the fact that they usually are not insured against disasters and that they have limited access to loans, while a majority of them doesn't have business continuity in emergency situations. Also, risk management is not incorporated in their business strategy and plans. Namely, bigger organizations are better organized than small and medium-sized organizations, they have more resources and greater technical knowledge. Furthermore, there are no strategic programs for operationalization of actions plans for small and medium enterprises. Statistical data also indicate that small and medium-sized enterprises are less resilient than big enterprises. However, small and medium-sized enterprises tend to be faster in giving responses, even if their response is not coordinated. The reason for this is highly simplified structure of decision-making. In addition to fast response to shocks, entrepreneurs should consider high rate of failure of small enterprises with regard to this and to pay more attention to liquidity, cash flows and seasonal fluctuations [9].

Literature on organizations also uses the term "resilience" as a versatile and multidimensional concept [10] . In the context of strategic management and changes, resilience is the ability of self-renewal over time through innovations [11]. Furthermore, building of organizational resilience is connected to employees and management [12] ,[13], [14] who work in the learning organization.

According to human resource management (HRM), an organization is resilient if people can respond to changes with minimum stress promptly and efficiently and these are positive possibilities of adaptation which separate competition. In the context of environmental changes / emergency management, resilient organizations are able to adapt to new conditions within which they become better and better [15], as well as to develop organizational systems which are capable of overcoming turbulent environmental conditions.

Resilience implies adaptation of corporate strategy [16], as well as a solution for organizations having high level of threat in all aspects of their work environment [8]. As it can be concluded from literature review, building of resilience is based on prompt perception of changes in the work environment and early adaptive responses. "This means that winners will be unbridled firms that are responsive to challenges and adroit in both creating opportunities and capturing them "[17].

3 Research Method

This research had an exploratory phase and it is qualitative study in its nature . The findings presented in this working paper are drawn from research conducted in January 2017 and based on an online survey.

3.1 Hypothesis

H1. incumbent firms suffer from organisational inertia,which prevents them from adapting to new, hostile environmental conditions (Kitching,J., Blackburn,R., Smallbone,D., Dixon,S. 2009).

H2.Creating organizational resilience is associated with employees and management working in learning organization (Vogus and Sutcliffe 2007).

H3. The most effective ways to enhance resilience is a strong motivation system that drives the individual to learn, grow and adapt to their environment (Southwick SM, Bonanno GA, Masten AS, Panter-Brick C, Yehuda,R.,2014).

4 Key findings and discussion

Data was collected through an online form and a convenience sampling approach was used for this purpose. A total of 50 responses were recoded over a period of one month.

Gender	
Male	53.1%
Female	46.9%
Age	
<20	12.9%
21 to 30	35.5%
31 to 40	29.0%
41 to 50	16.1%
51 to 60	6.5%
Level of Current Position	
Senior Management	28.1%
Middle Management	18.8%
Supervisor/Team leader	25.0%
Staff/Individual Contributor	15.6%
Other	12.5%

Years of Work Experience	
<1 year	21.9%
1 - 2 years	15.6%
3 - 5 years	15.6%
6 - 10 years	21.9%
11- 15 years	15.6%
16+ years	9.4%

Table 1.
Respondents by gender, age, level of current position and work experience

A total of 81 executives and staff members participated in the online survey.

The survey sample was: 46.9 % of respondents were senior executives and middle management. Among the respondents, most were persons aged between 21 and 30 (31.5%) and with work experience between 6 and 10 years (21.9 %) (Table 1).

A range of industries was represented, including financial services, accounting, education, information technology and professional services. In our study, respondents were from Serbia . Our survey consist of 15 questions, but we will discuss in our paper only replies on the selected questions which are crucial for our research..

The survey has shown that respondents identify unstable market as a key external factor that made a negative impact on their business in the last several years (Figure 1). However, the most of them consider lack of financial resources (37.5%) as a main internal circumstance (Figure 2).

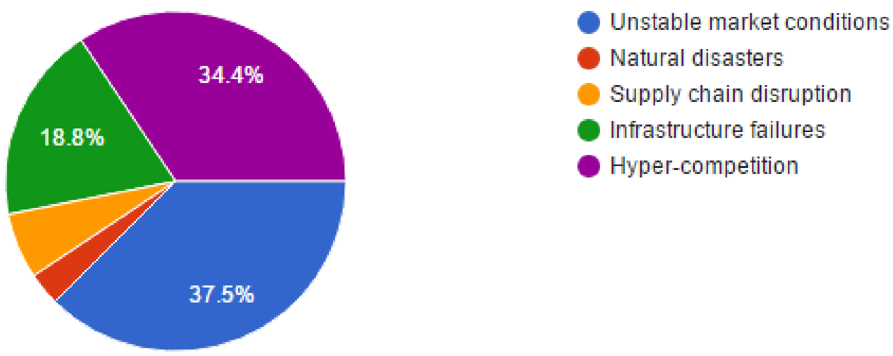

Figure 1
Event that made a negative impact

Source: Authors

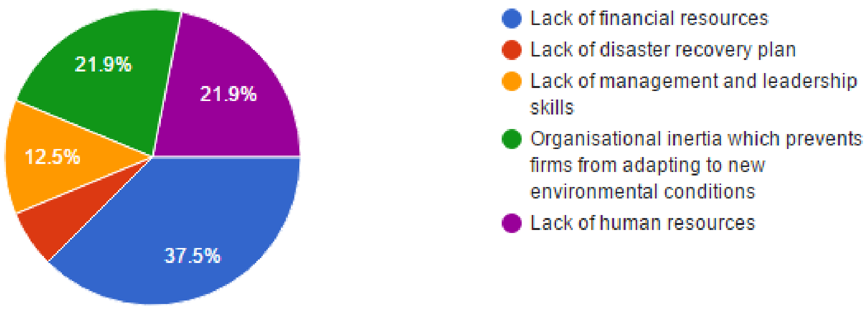

Figure 2
Internal circumstances that made a negative impact

Source: Authors

According to our respondents, one of the most common is organizational active inertia and lack of human resources (21.9 %) (Figure 2). At Sull "active inertia is an organization's tendency to follow established patterns of behavior—even in response to dramatic environmental shifts" [18].

The problem also lies in an inability of executives to take appropriate actions and managerial incompetence and lack of management and leadership skills in risk management (12.5%).

The analysis done on the basis of the respondents' answers to the question "do you have action plan", showed that 31% of organizations did not have an action plan to respond to changes in business environment (Figure 3).

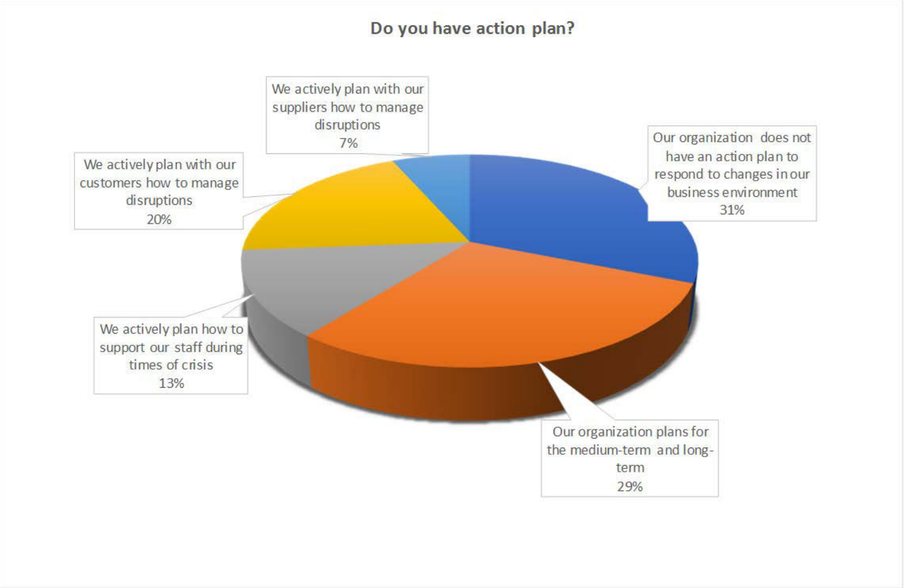

Figure 3.
Coping strategies

Source:Authors

Depending on many business' specific circumstances, there are many possible events that might constitute a crisis:

- Natural disasters -for example, impacts of recent extreme weather events highlight the vulnerability of businesses ;
- Theft ;
- Fire and few other situations have such potential to physically destroy a business.;
- IT system failure - computer viruses, attacks by hackers or system failures could affect employees' ability to work effectively;
- Terrorist attack ;
- Crises affecting suppliers ;

- Crises affecting customers ;
- Crises affecting business' reputation and etc.

This disruption means pressure on company profits, borrowers, consumers, as well as house and share prices.

In order to test how severe recent crisis affected organizations, we offered respondents five possible answers:

a) It challenged us but was not overly disruptive,

b) It definitely challenged us and was moderately disruptive,

c) It definitely challenged us and was very disruptive,

d) It could have shut us down permanently,

e) We dealt with it as part of business-as-usual

The half number of respondents stated that they dealt with it as part of their business as usual (Figure 4).

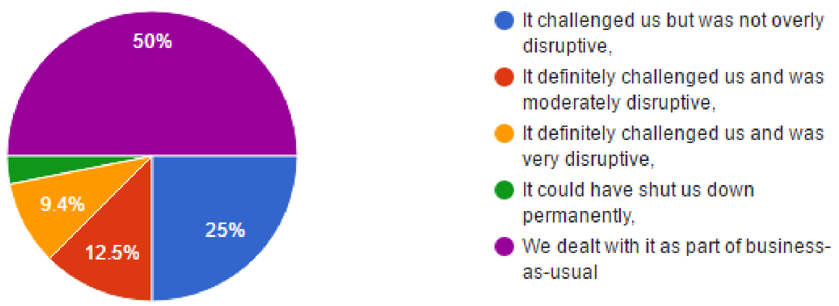

Figure 4.
Severity of most recent crisis

Source:Authors

In this context , we need to analyse the probability to cope and reduce consequences of crises and to explore the most effective way to enhance resilience of SME`s (Figure 5).

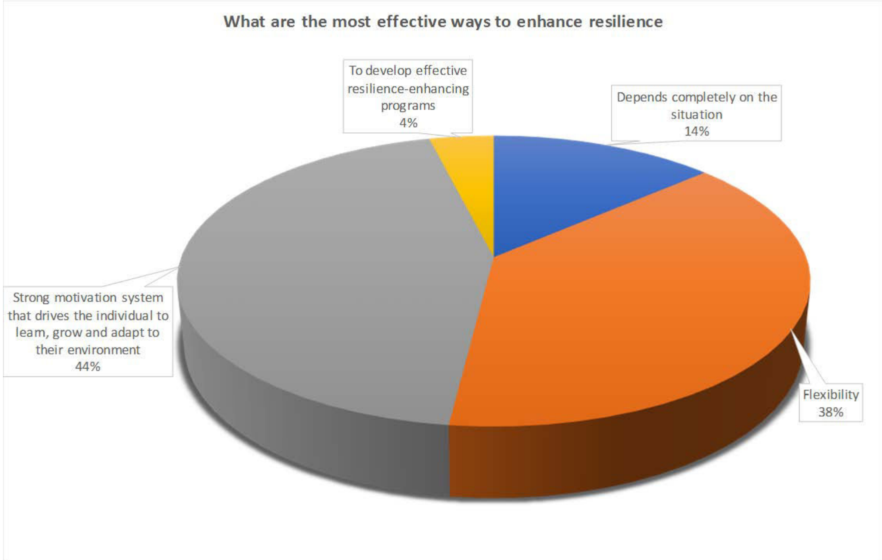

Figure 5.
Most effective ways to enhance resilience

Source:Author

Based on our review, hypothesis H1 is partially confirmed. Namely , organizations do not only suffer from organizational inertia, which prevents them from adapting to new, hostile environmental conditions .The problem also lies in managerial incompetence and lack of management and leadership skills in risk management. The hypothesis H2 that creating organizational resilience is associated with employees and management working in learning organization (Vogus and Sutcliffe 2007) ,is confirmed by our respondents as well as . hypothesis H3. Namely,findings of our study have revealed that strong motivation system which can drives the individual to learn, grow and adapt to their environment and flexibility are the most effective ways to enhance resilience of small and medium sized enterprises. This opinion was expressed by as much as 44% of our respondents (Figure 5).

The organizations that refuse to learn and improve will one day become not relevant to the industry. According to this statement, we can mention example of Nokia. Its president used to say to his colleagues "we didn't do anything wrong, but somehow, we lost". However, they missed out on learning, they missed out on changing, and thus they lost the opportunity at hand to make it big.

Limitation of our research is sample size (81 respondents), which can influence our research outcomes. However, it is the first phase of our research. In the next phase, we shall expand our sample and add more questions in our survey.

Conclusion

Because the economic resilience needs to be strengthened, achieving economic resilience should be one of the overriding goal of the implementation of long-growth promoting government macroeconomic policies.

The main results of the study pointed out that boosting resilience to the risks of economic, social and environmental shocks should be a top priority and goal because the risks for the SME`s can have serious consequences on entire economies. In line with this, it is necessary through researching and introducing new ways of improving organizations, implementing change interventions and developing new best practice models to recover and adapt to changing circumstances. In this context, our research should have implications for researchers and policy-makers.

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