Strategic Management of Crises in Small and Medium Businesses

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Abstract

> *"Strategy is when you run out of ammunition but keep firing anyway"*
>
> Anonymous

The main purpose of this study was to analyse what strategies small and medium businesses actually adopt when confronted with a major crisis such as a fire, flood or similar catastrophe, and determine what factors proved vital to the survival of the business.

Up until this study, the research in the area has been focused on large public companies. This study extends the earlier research in a number of areas, including the Resource Based Perspective Model, Dynamic Capabilities Theory, Business Continuity Planning, Benchmarking, and Stakeholder Theory, as well as Risk Diversification and Insurance, but with a strong focus on small and medium enterprises.

The primary aim of the research was to develop a Crisis Management Model that can be utilised by small and medium enterprises to minimise the risk associated with losses caused by disasters such as fire.

Bearing in mind that it is estimated that over 93% of all businesses in Australia fall within the definition of a small or medium enterprise, the study is considered important, as it adds to the existing body of knowledge on this important sector of the national economy.

To develop such a model, many components of earlier models of strategic management were tested for relevance to the manager during a major crisis in the business. This extended to identifying the key stakeholders and the critical variables to business survival.

Data was gathered from twelve small or medium enterprises, which had experienced a major fire or similar crisis within five years prior to the company being studied. A qualitative approach was taken, which involved interviews and in-depth analysis of twelve case studies.

The study found that the owners and managers of small and medium businesses rated the development of a Crisis Management Model as a crucial management tool to assist them to fight for the survival of their business following a crisis. Even those owners that found that the business, for whatever reason, could not be saved, needed to develop a modified plan that strategically addressed the owners' withdrawal from the enterprise.

Based on the research, which included a comprehensive literature review, a new strategic benchmarking model - the *Crisis Management Model for Small and Medium Enterprises* - has been developed for the management of a significant business crisis, particularly one resulting from an insured peril. The model is also expected to be pertinent for an operational unit of a large corporation. Further, while the model was primarily developed to assist in business survival, it has equal application in the situation of business failure as a methodology of implementing an exit strategy, following a crisis.

The testing of the Crisis Management Model for Small and Medium Enterprises, developed in this study, is recommended as the subject of further research.

Chapter 1.
Introduction to the Study

1.1 Setting the Scene

> *"Life is like a box of chocolates, Forrest; you never know what you're going to get."*
>
> Winston Groom (1994)

When a businessperson takes out fire or other general insurance cover, they do not really expect to use it.[1]

1.1.1 Timing

> *"There can't be a crisis next week. My schedule is already full."*
>
> Henry Kissinger (1969)

Imagine the scene: A businessperson sound asleep at 3.00am[2]. The telephone rings, the police officer explains as gently as possible that their business is on fire. What thoughts rush through the mind of the businessperson as they race to the scene of the fire to find all the past years' work literally going up in smoke? All of us have witnessed a scene on the television news of the distraught businessman or woman watching helplessly as the fire rages in the background.

1.1.2 Frequency

> *"We most often go astray on a well trodden and much frequented road."*
>
> Seneca (5 BC - 65 AD)

This research is directed towards small and medium enterprises or businesses ("SME"). Using the definition of a SME as one that employs less than 500 people, 99% of firms in the United States are small businesses (Perry, 2001). A similar percentage[3] is true for Australia (Bickerdyke, Lattimore and Madge, 2000).

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[1] There are, of course, some that do, and insurance fraud is of major concern to the insurance industry.
[2] Statistically, more fires occur at night than during the day, in Melbourne (MFB Annual Report, 2003).
[3] Unable to be more specific due to lack of data.

There are no reliable statistics on the number of businesses that are affected by fire or natural catastrophe in Australia in any one year. Similarly, business failure due to a crisis is not separately accounted for by the Australian Bureau of Statistics (Bickerdyke, *et al*., 2000) or any other body in Australia.

What is recorded, is that in 1999 the rate of business failure in Australia was 3.6 per 1,000 businesses. This was down from 10.4 per 1,000 at the start of the 1990s (1991-1992) where the effects of the 1988 stock market collapse was still being felt (Bickerdyke *et al*., 2000).

The Small Business Administration shows that the failure rate in the United States was slightly higher than Australia in 1991-1992, at 10.7 per 1,000 businesses. The United States-based Institute of Crisis Management states that business failures due to catastrophes is between 5% and 5.5% per annum of the total number of business failures during the 1990s (Miller, 2003).

Of course, business failure is not just measured by a business going into liquidation. It can be sold, or subjected to a successful hostile takeover, it can stop trading, or move into another area of business. When these factors are added in, the rate increases nearly ten-fold (Klien, 1999). This will be discussed later in this dissertation, where a definition of business failure will be set down for this research - see Chapter 3, 'Theoretical Framework'.

In theory, the rate of business failure due to fire and other such catastrophes should be reduced by the business having insurance coverage.

1.1.3 Insurance

> *"I detest life-insurance agents. They always argue that I shall some day die, which is not so."*
>
> Stephen Leacock (1947)

With modern business insurance, the policyholder should be better off. Cover is available and is often taken with reinstatement conditions. In layman's terms, this means 'new for old'. Therefore the business suffering the loss will be compensated, not for the written down or market value of their building, machinery and plant, and other contents, but rather the cost of replacing the item with new property.

The monetary value and benefit to the business owner can be substantially different. After the fire, the business may have all new assets. These assets are often more efficient or require less maintenance than the property destroyed. Subject to adequate cover, the major benefit of course is that the business does not have to re-finance to purchase the new property when it is lost as the 'new for old' cover provides the additional funds to meet these costs.

The modern policy goes further. It provides an additional cover under the *Extra Costs of Reinstatement Memorandum*. This cover protects the policyholder from the additional costs incurred to bring the premises, and any plant and equipment, up to the standards required by current building, local government, environmental protection agencies, WorkCover, fire brigade, or State and Federal government regulations.

An example that often occurs, is the need to provide sprinklers, or at least smoke detectors, in buildings. The provision of disabled toilets is another cost often imposed. Improved guards around machinery and clean air regulations are further examples that may be imposed on contents items rather than buildings. Subject to some conditions, these costs are all met by a typical commercial insurance policy.

The benefits of the modern insurance policy do not stop at the property loss, which is referred to as the material damage cover. It also covers the loss of profit sustained by the business. This is known as Business Interruption, Consequential Loss or Loss of Profits insurance.

With all this cover available providing significant additional benefits, the business assets, although damaged, should be able to be put back with no financial loss to the business owner. In fact, on paper, the business should be better off with buildings and equipment upgraded to modern equivalents. In reality, while some businesses do survive the fire and, like the ancient phoenix, rise from the fire better and stronger than before, many do not.

1.2 The Problem

> *"Most business failures do not stem from bad times. They come from poor management, and bad times just precipitate the crisis."*
>
> Thomas Murphy (1956)

Being in business in today's tough environment is hard work, with the businessperson having to keep a close eye on many parts of the business, from marketing to compliance issues to cash flow. The estimated rate of failure increases dramatically following a fire or other major event such as flood, significant storm damage (Insurance Council of Australia, 2003).

When the fire or crisis occurs, the businessperson has to manage their business as normal but, in addition, prudence dictates that they must manage the rebuilding, the sourcing and replacement of the plant and equipment, as well as the re-supply of stock on hand. Regardless of their insurer, they will also have to manage the claim process. This is particularly true if the loss adjuster and/or investigator adopt an adversarial approach (Manning, 2002).

The difficulty of these additional tasks increases with both the size of the business and the size of the loss. While no statistical evidence is available, intuitively one would expect that the businesses most at risk are the ones where management has had little or no formal training, and the business relies heavily on the owner for all business decisions as well as perhaps marketing and/or product design.

The owner is now faced with additional tasks at a time when they have just suffered a major trauma in their lives, that is, the extensive physical damage to their business assets. These roles are additional to the ongoing, vitally important tasks of protecting market share, maintaining staff morale and conducting all the other normal management functions of a business owner. Depending on the size of the business and/or the loss, each of these additional tasks can be a full-time job in themselves.

1.3 The Benefits of the Study

> *"When written in Chinese the word for crisis is composed of two characters. One represents danger and the other represents opportunity."*
>
> John F. Kennedy (1959)

The primary benefit of this study is as a contribution to knowledge in the areas of small and medium business and insurance. Details of this, and those that will benefit from the study, are explained hereunder.

1.4 Contribution to Knowledge

> *"My advice to managers in turbulent times is this: keep on learning. Ask yourself twice a year, what should I concentrate on to make a contribution. And demand of your subordinates that they educate you."*
>
> Peter Drucker (1990)

While strategic management has progressed a great deal over the past 40 years, the current literature reveals that there are many shortcomings in what has been researched to date. These shortcomings include:

- Most research is directed at large corporations that have different resources and needs to SMEs. For example, the research does not address the reality that all businesses, and particularly smaller businesses, are not bottomless pits, and that cash and time resources are limited.
- This research explores whether the factors researchers have determined as being important in the strategic management of a business, such as Resource-Based Perspective, Five Forces Model, Capabilities Theory and Stakeholder Theory, have any relevance to the firm, particularly an SME, when a major crisis hits.
- Business Continuity Planning ("BCP") is becoming more and more important as a risk management strategy for large corporations, yet very few SMEs have gone to the trouble of preparing a plan. This research examines whether a Business Recovery Plan has any benefit to the enterprise, and if any of the aspects of BCP can be brought across to the post-loss Business Recovery Plan.
- Insurance coverage is almost completely ignored in the research. Typically, SMEs have been directed by insurers as to what they can and cannot claim or do without breaching their policy coverage. What research there is has been conducted on large corporations. This research also examines whether the findings on the importance of insurance, risk transfer and control of the claim process, are relevant to SMEs.

The significance of this research is that by providing a model for the management of a crisis, particularly for an SME, this will add to the body of knowledge that currently exists on SMEs, strategic planning and insurance. On a practical note, it is expected that the model will assist in reducing the level of business failure due to a crisis. It may go further and allow SMEs to not only reduce the risks, but also to maximise the opportunities that confront a business following a crisis.

1.5 Significance of the Study

"The time is out of joint. O cursed spite,
That ever I was born to set it right!"

William Shakespeare (1600-01)

Eight stakeholders have been identified as being interested in this research. One of the major beneficiaries of the research will be the insurance industry, as they look to provide better and more relevant cover and levels of service to their policyholders.

Another major beneficiary will be business owners, particularly SMEs, but also the managers of business units of major corporations, who are unfortunate enough to have suffered a major crisis in their business. The research will provide them with a model for the strategic management of the crisis, which will assist them through the recovery process.

The research will also benefit business owners, risk managers, business consultants and business continuity consultants by identifying areas that they need to consider when preparing disaster recovery plans, particularly for SMEs.

Finally, and of most importance, the study will contribute to the overall base of knowledge of crisis management that further research can build on.

A Stakeholders Outcome Schedule for the eight (8) stakeholders, showing who will benefit and how they will benefit from this research, has been complied and is provided in **Table 1** overleaf.

Table 1
Stakeholders Outcome Schedule

Stakeholder	**Interest** *(ie. what they will get out of the research)*
SME Owners/Managers	1. Management tool for the strategic management of a crisis. 2. Gains experience from past claimants who have been through similar experience. 3. Identification of key issues to address for business recovery. 4. Identification of loss management specialists.
Individual Insurers	1. Minimising losses (overall reduction in cost of claim). 2. Ways to improve customer service. 3. Methodology to increase client retention. 4. Model for reduced claim life. 5. Value added service - not just pay claims, but assist in recovery process. 6. Increased awareness on the problems of under insurance. 7. Awareness of the importance of empathy during crisis.
Insurance Brokers	1. Improved relevance of insurance program. 2. Better understanding of client's needs following a crisis. 3. Ways to improve the value-added service to client. 4. Methodology for faster settlement for client. 5. Methodology for greater client retention. 6. Methodology for less cost to them in handling major claims. 7. Methodology to achieve improved relationship with other stakeholders in claim (insurer, loss adjusters). 8. Methodology for reduction in claims for failure in professional duty.
Loss Adjusters **(*Specialist claims consultants appointed by Insurers*)**	1. Survey results on SME's rating of profession in performance and empathy. 2. Methodology for providing genuine assistance to policyholder. 3. Methodology to improve and speed up claims handling process. 4. Identify areas requiring staff training. 5. Suggested move from adversarial to empathetic position. 6. Understanding of the role of claims handling consultants.
Claims Preparers **(*Specialist claims consultants appointed by insured to prepare insurance claim within terms of insurance policy*)**	1. Methodology for providing greater assistance to client than just quantifying loss. 2. Methodology on how to work as part of team to assist in business recovery. 3. Identification of areas where SME owner may need assistance to achieve speedy recovery of business. 4. Means of gaining greater acceptance within the insurance industry. 5. Methodology for speeding up the rate of progress payments.
Business Continuity Planners &Consultants	1. Greater understanding of problems facing business owners after a loss. 2. Identification of areas that need to be considered in recovery plan. 3. Recommendation to match business continuity plan with insurance program.
Insurance Industry	1. Methodology to provide more meaningful service on major losses. 2. Methodology to improve public image. 3. Methodology for better customer relations. 4. Case study data to assist in the aim to reduce the incidence of under-insurance. 5. Reduction in average claims cost in business interruption class.
Researchers	1. Greater understanding of problems facing SMEs after a major loss. 2. Identify variables that will lead to a reduction in the number of business failures following a major loss. 3. Continuing improvement on model for strategic management of crises.

1.6 Aim

"Be careful where you aim. You might get there."
Chet Atkins (1963)

The primary aim of this study was to develop a Crisis Management Model that can be utilised by small and medium business enterprises to minimise the risk associated with losses caused by disasters such as fire.

1.6.1 Components

To fulfil this aim, a review of the applicable theory was completed. This included, but is not limited to, the prior research on the following:

- The Competitive Forces Approach, (Porter, 1980)
- Resource Based Perspective Model (Grant, 1993)
- Dynamic Capabilities Theory (Schoemaker and Amit, 1997)
- Business Continuity Planning (Doherty, 1998)
- Benchmarking (Bogan and English, 1994)
- Stakeholder Theory (Nogiec, 1998)
- Risk Diversification and Insurance (Pretty, 1997)

To develop the model, many components of these earlier models of strategic management were tested for relevance to the SME manager during a major crisis in the business. This extended to identifying the key stakeholders and the critical variables to business survival.

1.6.2 Method

Data was gathered from twelve small or medium enterprise businesses that had experienced a major fire or similar crisis within 5 years of this research study. A qualitative approach was taken, which involved interviews and in-depth analysis of the twelve case studies.

The case studies were utilised to test the veracity of variables identified from the research as ones that should potentially be incorporated in a new strategic benchmarking model.

1.6.3 Further Research

The testing of the 'Crisis Management Model for Small and Medium Businesses', developed in this study, is recommended as the subject of further research.

Chapter 2.
Literature Review

> *"There is first the literature of KNOWLEDGE, and secondly, the literature of POWER. The function of the first is -- to teach; the function of the second is -- to move."*
>
> Thomas De Quincey (1821)

This chapter details the literature review that was conducted not only prior to the study commencing, but continued during the data collection phase and right through the data reduction, data analysis and conclusion drawing phases. The review started with an examination of: What exactly is a crisis?

2.1 Crisis Management

> *"Crises refine life. In them you discover what you are."*
>
> Allan K. Chalmers (1954)

The Concise Oxford Dictionary (Sykes, editor, 1985) describes a crisis as a "*turning point; a time of danger or suspense in politics or commerce*". Fink (1986, p.2) expands the definition to "*a turning point for better or worse*"; a "*decisive moment*"; or "*crucial time*". Fink (1986) goes on to claim that crisis management is "*the art of removing much of the risk and uncertainty to allow you to achieve more control over your destiny*."

In this study, a crisis is considered to be a major event such as a fire, flood, or other disaster that seriously damages the physical assets of the company, and thereby has the potential to seriously affect the firm's ability to earn income. When confronted with such a crisis, a systematic management process for surviving the crisis is required (Fink, 1986; Weiss, 1994; Grace and Cowen, 1995); this is the focus of this thesis.

To determine which model would best serve the owner/manager at the time of crisis, is the subject of Section 3.

2.2 The Evolution of Strategy

> *"I have called this principle, by which each slight variation, if useful, is preserved, by the term of Natural Selection."*
>
> Charles Darwin (1859)

Strategy-making has evolved over time, in line with the continuing changes in business challenges.

2.2.1 <u>The Beginning</u>

> *"If you do not look at things on a large scale, it will be difficult for you to master strategy. If you learn and attain this strategy, you will never lose, even to twenty or thirty enemies. More than anything to start with, you must set your heart on strategy and earnestly stick to the Way."*
>
> Miyamoto Musashi (1638)

A common way to classify the history of strategy-making is to break the process into four stages (Aaker, 1992; Easton Burrel Rothchild and Shearman, 1993). These stages are:

- Budgeting
- Long Range Planning
- Strategic Planning
- Strategic Management

(Stoner, Yetton, Craig and Johnson, 1994)

Like strategy itself, the study of strategy has changed, and a number of authors have offered a new insight into the topic since the early 1980s. This evolution of strategy is shown in **Table 2** overleaf.

Table 2
The Evolution of Strategic Thinking
1940 to Present Day

Author(s)/Period	*Focus/Approach*	*Principle(s)*
1940s to 1950s	Budgeting	Make sure that budget is met, bills are paid, and costs are not overrun.
1960s	Long range planning	With longer time horizon, fluctuations in the market could be better managed.
1970s	Strategic planning	Take into account the fundamental forces in the external environment, rather than reacting to them or simply 'trending' the past.
Porter (1980), (1985)	Competitive strategy and advantage (competitive forces approach)	• In formulating competitive strategy, management should consider five competitive forces: (i) competitors, (ii) suppliers, (iii) substitute products, (iv) potential entrants, and (v) customers. • Three generic strategies to gain competitive advantage: (i) cost leadership, (ii) differentiation, and (iii) focus.
Shapiro (1989), Ghemawat (1986), Brandenburger and Nalebuff (1996)	Strategic conflict	Competitive outcomes are the function of the effectiveness with which firms keep their rivals off balance through strategic investments, advertising, pricing strategies, signalling, and the control of information.
Rumelt (1984), Teece (1984), Wernerfelt (1984), Grant (1993), Montgomery (1995)	Resource-based perspective	Firm-specific capabilities and assets, and the existence of isolating mechanisms are the fundamental determinants of firm performance.
Prahalad and Hamel (1990), Porter (1990), Teece, Pisano and Shuen (1997)	Dynamic capabilities	It emphasises the development of management capabilities and the difficulties in imitating combinations of organisational, functional and technological skills. It integrates and draws upon research in such areas as the management of R&D, product and process development, technology transfer, intellectual property, manufacturing, human resources, and organisational learning.
Ward and Grundy (1996), Donaldson (1991), McFarlan (1991)	Linking competitive strategy and functional strategy	• *Strategic Business Finance:* How finance can be managed for gaining competitiveness by integrating corporate financial strategy, strategic management accounting, and strategic value management. • *Information System Technology:* Computer-based technology offers new and exciting competitive opportunities.
Bogan and English (1994)	Benchmarking	Three distinct types of benchmarking: (i) process benchmarking, (ii) performance benchmarking, and (iii) strategic benchmarking.
Freeman (1984), Clarkson (1995), Donaldson and Preston (1995)	Stakeholder Theory	• The corporation has relationships with many constituent groups. • The theory is concerned with the nature of these relationships in terms of both processors and outcomes for the firm and its stakeholders. • The interests of (all) the legitimate stakeholders have intrinsic value, and no set of interests is assumed to dominate the others. • The theory focuses on managerial decision-making.

Source: Kuncoro (1998) augmented by Manning (1999)

The first wave of strategy-making occurred during the late 1940s and 1950s. The seed was planted in the field of budgeting (Kuncoro, 1998). The principal objectives were to ensure that the budget was actually met, debtors were paid, and costs were controlled. During this period, researchers found themselves in an era where both the internal and external environments were relatively stable, and where the economies of most western countries were enjoying a high-growth rate. This was the post-World War II period, which moved into the start of the Korean War (Kuncoro, 1998).

Subsequent researchers found that as the environment in which businesses operate becomes more turbulent and competitive, budgeting becomes an ineffective and indeed risky strategic tool as it tends to rely on past performance and not future changes in the internal and external environment (Kahn, 1994). By the 1960s, rapid changes in technology as well as the expansion of both organisational size and business opportunities, started to occur. This forced managers to consider long range planning. This new approach moved the focus onto the capabilities of the enterprise and an analysis of the environment. It was, however, limited to forecasting what were fairly predictable trends (Lewis, Morkel and Hubbard, 1993).

Long range forecasting included the basic belief that if you are able to look out to a time horizon that was further away than the annual budget, fluctuations in the market could be better managed. Kahn (1994) suggested that companies could avoid financial surprises. The ongoing inability of companies to forecast economic fluctuations using the tools that were available to them at the time, continued to limit their growth (Kuncoro, 1998).

The next step occurred during the 1970s. During this period, strategic planning replaced long range planning. Many companies embraced this next level of strategy maturity when management began to understand the fundamental forces in their external environment rather than reacting to them or simply ‘trending’ the past (Tang and Bauer, 1995). This development was again mainly driven by rapid advances in technology. Other factors which made the concept of strategic planning popular included: increased international competition due to the removal of international trade barriers; the energy crisis in 1973 and 1979/80; chaotic money markets; a maturing market in some industries; burgeoning automation; and an explosion in the availability of information (Bowden, 1985).

2.2.2 Competitive Forces Approach

> *"Nothing focuses the mind better than the constant sight of a competitor who wants to wipe you off the map."*
>
> D. Wayne Calloway (1991)

Harvard Professor, Michael Porter, who took well-established concepts from industrial organisation economics and turned them into a theory of strategy, initiated a breakthrough in the development of strategic planning. Porter's two works, that explicitly introduced the notion of 'competitive strategy' (Porter, 1980) and 'competitive advantage' (Porter, 1985), are widely considered landmarks in the development of strategic development. Porter recommended that in formulating competitive strategy, management should consider five competitive forces, namely:

- Competitors - rivalry
- Suppliers
- Substitute Products
- Potential Entrants
- Customers

Porter argued that management must select a strategy that will give the organisation a competitive advantage via one of three generic strategies:

- Cost leadership
- Differentiation
- Focus

2.2.3 Strategic Conflict

> *"All the forces of corporate culture are set against change."*
>
> Bruce Henderson (1979)

The next stage of the development was the 'strategic conflict approach'. This approach uses the tools of game theory and, hence, implicitly views competitive outcomes as a function of the effectiveness of a firm to keep its rivals off-balance through strategic investments, advertising, pricing strategies, signalling, and the control of information (Teece, Pisano and Shuen, 1997).

It is closely related to the 'competitive forces approach' in its focus on product market imperfections, ease of entry, and strategic interaction. Furthermore, both share the view that income flows from privileged product market positions. **Table 3** indicates the similarities and differences of this approach to Porter's 'competitive forces' approach.

Table 3
Comparison between Competitive Forces & Strategic Conflict Paradigm

	Paradigm	
	Competitive Forces	***Strategic Conflict***
Intellectual Roots	Mason, Bain	Machiavelli, Schelling, Cournot, Nash, Harsanyi, Shapiro
Nature of Rents	Chamberlinean	Chamberlinean
Rationality Assumptions of Managers	Rational	Hyper-rational
Fundamental Units of Analysis	Industries, firms, products	Firms, products
Short-run Capacity for Strategic Orientation	High	Often infinite
Role of Industrial Structure	Exogenous	Endogenous
Focal Concern	Structural conditions and competitors positioning	Strategic interactions

Source: Teece *et al*. (1997, p.525)

2.2.4 Resource-based Perspective

> *"My green thumb came only as a result of mistakes I made while learning to see things from the plant's point of view"*
>
> H. Fred Ale (1943)

The resource-based perspective emphasises the firm-specific capabilities and assets, and the existence of isolating mechanisms such as the fundamental determinants of firm performance (Rumelt, 1984). Unlike the 'competitive forces model' where the focus is on the industry and the firm's external environment, this model stresses the importance of the firm's internal environment. This model relies on two points. The first is the role of resources in defining the identity of the firm in terms of what it is capable of. The second is that profits are ultimately a return to the resources owned/controlled by the firm (Grant, 1993).

Grant offers the key stages of resource analysis in a flow diagram (see **Figure 1**). Grant's model explores the relationship between the firm's resource base, its capabilities (potential competitive advantage), and its strategy.

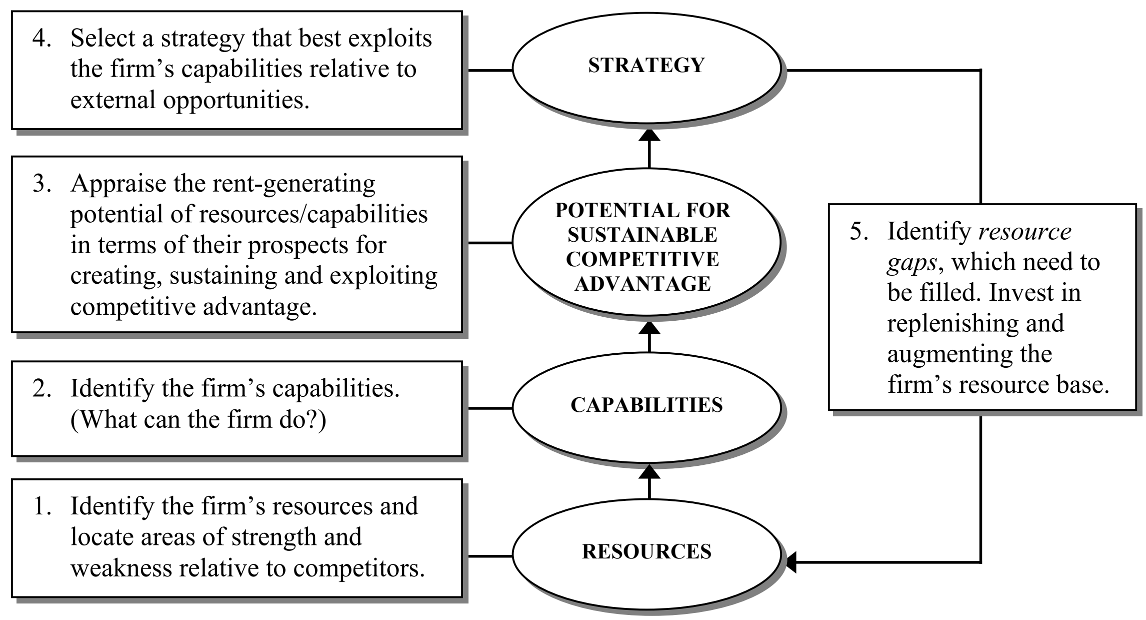

Figure 1: Framework for Resource Analysis

Source: Grant (1993, p.168)

2.2.5 Dynamic Capabilities

> *"American business can out-think, out-work, out-perform any nation in the world. But we can't beat the competition if we don't get in the ball game."*
>
> George Bush, 41st President of the United States (1989)

As global competitiveness increasingly became an issue in the 1980s, the focus of strategy widened considerably to include all elements of the firm, leading to the emergence of strategic management. Strategic management is based on the principle that "*the overall design of the organisation can be described only if the attainment of objectives is added to policy and strategy as one of the key factors in management's operation of the organisation's activity*" (Stoner Yetton Craig and Johnson, 1994, p.99).

Strategic management does not necessarily accept the environment as a given, with the strategic role confined to adaptation and reaction. Rather, it suggests that part of the environment, such as government policies and technological developments, can be influenced by creative and active strategies (Aaker, 1992).

A central element in this approach is Miles and Snow's general concept of 'fit' for an organisation's strategy, structure, and management processes (Miles and Snow, 1984). The authors consider 'fit' to be a prerequisite for high performance in a competitive environment. This means that strategic management includes all components of strategic planning, but it de-emphasises planning and focuses on organisational competence and learning, adaptability, implementation and time-based competition (Robson, 1997).

The dynamic capabilities approach focuses on exploiting existing internal and external firm-specific capabilities to address changing environments. To be a source of sustainable competitive advantage, a firm's capabilities must be distinctive. A firm's strategic capabilities can be classified into:

- *Economic Capabilities*: Physical assets, share of market, geographical location, financial resources, economies of scale and scope, patents, proprietary processes, and brand franchises or reputation.
- *Technological Capabilities*: The know-how implicit in products, processes, system physical plant and facilities, and people's skills and experience.
- *Human Capabilities:* The skills, attitudes, and behaviour of organisational members.
- *Organisational Capabilities:* The structures, systems, and style that guide and coordinate the behaviour of organisational members towards the achievement of goals.
- *Management & Leadership Capabilities:* The ability to allocate, coordinate change, and build economic, technological, human, and organisational capabilities.

(Lewis, 1993)

These strategic capabilities imply a set of firm-specific resources and capabilities that are a company's competitive advantage. They are referred to as strategic assets or core competencies. As pointed out by Schoemaker and Amit (1997), combining both the inside-out and outside-in perspectives is required in order to identify the strategic assets of the firm. (See **Figure 2** overleaf.)

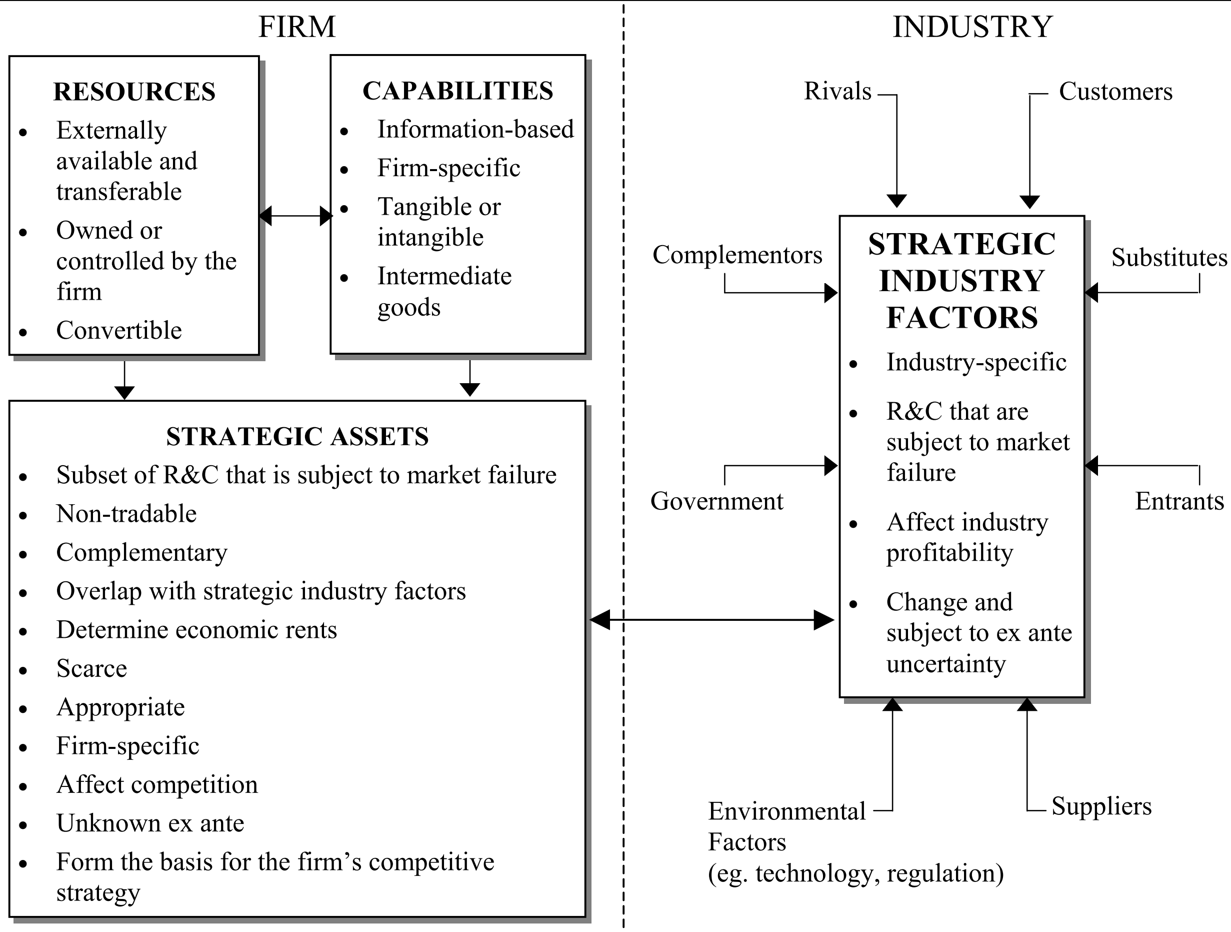

Figure 2: An Integrative Strategy Perspective

Source: Schoemaker and Amit (1997, p.154)

Prahalad and Hamel (1990, p.20) argue that the roots of competitive advantage lie in the core competencies that "*first, provides potential access to a wide variety of markets; and second, should make a significant contribution to perceived customer benefits of the end products; finally, should be difficult for competitors to imitate*."

2.2.6 Linking Competitive Strategy & Functional Strategy

"Strategy should evolve out of the mud of the marketplace, not in the antiseptic environment of the ivory tower."

Al Ries (1980)

The basic premise of this approach is that major operating policies at the functional level should be an explicit part of a firm's strategy (Montgomery and Porter, 1991). It makes sense that the policies in all of the various functional areas, such as finance, marketing and information systems, should be coordinated and be in line with the overall goals of the firm's strategy (Donaldson, 1991).

The main focus in this model is how finance can be managed to gain a competitive advantage. Ward and Grundy (1996) mount a case for creating closer links between strategic management and a number of strategic elements from finance. They call this *Strategic Business Finance* and claim that it offers a new framework for seeing how finance can be managed to allow the organisation to gain competitive advantage by integrating Corporate Financial Strategy, Strategic Management Accounting, and Strategic Value Management. In this approach, the common philosophy is based on integrating strategic and financial thinking. This philosophy can only be implemented by identifying a workable set of possible processes to support actual practice.

In practice, finance directors are expected to be strategic planners. Driscoll and Iversen (1998) carried out a study of more than 300 chief financial officers and finance directors worldwide. The result clearly shows that operating units are desperate for sharp, growth-oriented analyses from finance. The research also warns that many finance organisations are struggling to deliver what chief executive officers want. This they suggest is because wise finance directors are wary about taking on this responsibility without careful preparation. It is increasingly clear that strategic planning is not principally about numbers and spreadsheets.

The researchers claim that strategic planning is encouraging different parts of the company to agree to clear and consistent assumptions regarding the business environment and how best they should all respond. Further, they claim that the real test of a good strategy is whether it enables the business to use its capabilities successfully in circumstances it cannot confidently predict. To be accepted, the strategy needs to address the needs, expectations and fears of the principal stakeholders (Driscoll and Iversen, 1998).

All companies that want to succeed in highly competitive markets should assess the effectiveness of their financial department and its role in corporate decision-making. Like many other business operations, the finance function is undergoing a significant change as organisations make better use of their internal resources to be more competitive. One way to improve productivity within the finance function is to free financial staff from the manual data-collecting and data-management functions that take up so much of their time (Nogiec, 1998). Many companies are questioning the effectiveness of traditional 'period' financial reports in meeting the day-to-day operational and strategic business needs of the organisation (Nogiec, 1998).

During the economic recovery in the late 1990s, companies worldwide were able to squeeze more profit from each dollar through cost control measures and streamlined processes, but now they must look for ways to increase shareholder value through top-line growth (Nogiec, 1998). To do so, the finance professional's analytical talent will be required on all fronts. As a result, there is a major transformation on the horizon for finance executives. The Economist Intelligence Unit and Arthur Andersen present a strategic framework that will "*move the finance function from where it is today to where it must be in the next century*" (Nogiec, 1998). The four imperatives that they have identified are:

1. Improving fundamental financial processes.
2. Conducting value-added business analysis.
3. Managing business risks and opportunities.
4. Developing company-wide performance measurement systems.

With this line of thinking, the finance department must shift gears; spending less time tweaking transaction processing systems, and working harder to produce analyses that help line managers make sound competitive decisions quickly and effectively (Kuncoro, 1998). It is the second and third issues raised by Nogiec (1998), that are of interest to the proposed research.

2.2.7 Benchmarking

> *"The distance between the present system and our proposal is like comparing the distance between a Model T and the space shuttle. And I should know, I have seen both.*
>
> Ronald Reagan (1985)

One of the most important challenges facing every organisation on the eve of globalisation, is achieving international standards of performance. In order to compete successfully in the hyper-competition arena, it is believed that every individual, business, and organisation has to set world-class goals. They then need to achieve international best practice. The most common technique is benchmarking (Bogan and English, 1994). According to Bogan and English (1994), this technique was initially derived from the experience of Xerox Corporation in 1979; a leader in the business process of benchmarking. **Table 4** overleaf, sets out the 12-step process for benchmarking developed by Xerox.

Table 4
The Xerox 12-Step Benchmarking Process

Step	***Default***
Phase 1 – Planning	
1	Identify what to benchmark.
2	Identify comparative companies.
3	Determine data collection method and collect data.
Phase 2 – Analysis	
4	Determine current performance gap.
5	Project future performance levels.
Phase 3 – Integration	
6	Communicate findings and gain acceptance.
7	Establish functional goals.
Phase 4 – Action	
8	Develop action plans.
9	Implement specific actions and monitor progress.
10	Recalibrate benchmarks.
Phase 5 – Maturity	
11	Attain leadership position.
12	Fully integrate practices into processes.

Source: Bogan and English (1994, p.82)

During the 1980s and 1990s, the theories and concepts of benchmarking have proliferated in scope and focus. The proponents of benchmarking believe that benchmarking ensures organisations are able to gain competitiveness, but only if it is correctly adopted. It is a useful tool that will arguably improve cost, quality, time, and performance (Camp, 1989).

Benchmarking, in its generic form, has two elements: (i) specific standards of measurement or metrics, and (ii) practices or processes (Camp, 1989). The former is benchmarked to identify any performance gaps, while the latter is benchmarked to improve knowledge and identify improved practices and processes.

Bogan and English (1994) have identified three distinct types of benchmarking that have developed and proliferated:

- *Process Benchmarking*
- *Performance Benchmarking*
- *Strategic Benchmarking*

(Bogan and English, 1994, p.7)

Each is described briefly below:

- *Process benchmarking* focuses on discrete work processes and operating systems (eg. the billing process, strategic planning process) to identify the most effective operating practices from many companies that perform similar work functions. Its power lies in its ability to produce bottom-line results, and deliver performance improvements. Many advocating process benchmarking, refer to the American benchmarking success stories.
- *Performance benchmarking* enables managers to assess their competitive position through product and service comparisons in terms of price, technical quality, ancillary product or service features, speed, reliability, and other performance indicators.
- *Strategic benchmarking* examines how companies compete successfully in their marketplaces. Numerous Japanese corporations, which characteristically focus on long-term time horizons, are accomplished strategic benchmakers.

(Bogan and English, 1994, p.8)

The Xerox 12-Step Benchmarking Process (Bogan and English, 1994) is considered a good basis for a model to implement a post-loss Business Recovery Plan, but a move to 'strategic benchmarking' is considered necessary to achieve better results.

In addressing the strategic problem of how to get financial managers to move forward to a state of the art position, Brahim (1997) suggests that developing a Business Continuity Plan may be of great use. Before discussing business continuity, it is useful to identify the components of Stakeholder Theory.

2.2.8 Stakeholder Theory

> *"When a ship is sinking, any amount of gold in her hold has no interest for those who are aboard. This fact conveys an excellent moral if one can make it out."*
>
> Author Unknown

Stakeholder Theory, which is said to have started with Freeman in 1984, (Jones and Wicks, 1999) shows how every corporation has relationships with a great many groups that are, in reality, stakeholders in the organisation. The theory goes further and explores the nature of the relationship between the stakeholders and the organisation in terms of processes and outcomes (Jones and Wicks, 1999).

As the theory developed, it was found that the interests of all legitimate stakeholders have intrinsic value, and no one set of stakeholders is assumed to dominate the others. With this background, the theory focuses on managerial decision-making. It does not attempt to move the focus of business away from the economist's marketplace success toward human decency, but to further understand how business works, objectives are linked and mutually reinforcing. Such an approach may guide business activity in a more counteractive way (Jones and Wicks, 1999).

From Stakeholder Theory, an interesting question arises relative to this research. That is, when a firm is fighting for its very survival following a major disaster, do those that seriously consider all stakeholders, have a greater chance of survival than those that concentrate a disproportionately high amount energy on one or two stakeholders, such as the insurer and/or loss adjuster at the expense of the stockholder and/or customer?

The awareness of the importance of firm survival can be found in Evan and Freeman (1983), Freeman and Gilbert (1988), Wicks, Gilbert and Freeman (1994), and Wicks and Freeman (1998).

As Jones and Wicks (1999, p.214) state, "*if the goal of good stakeholder narrative accounts is to help human beings lead morally meaningful lives in the context of viable, productive organisations, there is no point in creating accounts that:*

(1) do not allow people to survive in such organisations, or

(2) hinder the organisation's quest to perform an essential mission - profitably producing goods or services in a market economy. Narrative accounts without some form of instrumental argument as to their practicality are incomplete as stakeholder theory."

While these and other advocates of stakeholder theory claim that firm survival is an excellent time to use the stakeholder approach, insurance is constantly being overlooked. As an example, Weiss (1994) in his text *Business Ethics*, examines in Chapter 2 the Exxon Valdez oil spill disaster. Here, all the stakeholders are allegedly identified. It is overlooked that the insurance industry paid out over USD1,000 million[4] in the clean-up, and actions taken against Exxon had an extremely active role in the process[5].

Mitroff and Pearson (1993) in their book, *Crisis Management,* do refer to insurance in the introduction, but then ignore this important stakeholder throughout the remainder of the book. This illustrates two points. Firstly, it is easy to miss an important stakeholder in any analysis, particularly one that may be dormant much of the time, but can become extremely important at the time of a crisis. The media and conservation groups may fall into this category for many smaller organisations that do not have exposure to one or both on a day-to-day basis, but who may show great interest say after a fire.

Secondly, while insurance is a vital part of the financial system, it is often neither taught nor recognised by the majority of commerce or management university faculties and, as a result, is not understood by many owners or financial controllers who are responsible for the insurance program of the organisation.

This paper returns to stakeholder theory again shortly, but first, another concept to business survival is introduced: Business Continuity Planning.

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[4] The exact amount has not been published and is not being released by Exxon. The original claims were in the order of USD11,000 million with the clean-up another USD3,500 million (Exxon, 1999). It is believed that insurers in fact will ultimately pay more than the USD1,000 million quoted.

[5] By missing the insurer(s), the management team may well be exposing themselves to further financial loss. Weiss (1995) suggests certain courses of actions to enhance the company's reputation and appease some activist groups. Whether this is good business or not is in dispute. The reality is that unless the insurer(s), who are important financial stakeholders at this time, are fully informed and a partner in the decision, the claim may be denied on the grounds that the insured has prejudiced the rights of the insurer(s).

2.2.9 Business Continuity Planning

"People who fail to plan, have planned to fail."
George Hewell (1954)

One area where the finance department, which often contains a risk management section, can 'shift gears' and move from transaction processing to genuinely assisting line managers make sound competitive decisions, is by implementing a Business Continuity Plan (Brahim, 1997).

In the business world, computer disaster recovery planning evolved toward business continuity planning. In recognition of this trend, in 1995 the Disaster Recovery Institute, an organisation founded in 1988 to provide a base of common knowledge in continuity planning, replaced the designation 'Certified Disaster Recovery Planner' ("CDRP") with the designation 'Certified Business Continuity Planner' ("CBCP") (Doherty, 1998).

What is the difference between disaster recovery and continuity planning? In an IT environment, a disaster recovery plan is reactive and usually focuses on recovering the computing environment. Although work may be done to harden the computing infrastructure to prevent a disaster, the plan's main purpose is to recover from damage to the infrastructure. In contrast, a Business Continuity or Contingency Plan is not only proactive, but it is also targeted at keeping the business running during an event, not just recovering the computers after the fact (Doherty, 1998).

Doherty (1998) states that some large companies have a Disaster Recovery Plan and a separate Business Continuity Plan. However, for most companies a single Business Recovery Plan is all that would ever be needed. That is, a Business Continuity Plan should be all-inclusive and provide recovery detail for the company's primary business functions, information systems, corporate support functions, and voice and data communications.

Turning back to Nogiec (1998), he identified four imperatives of strategy:

(a) Improving fundamental financial processes.

(b) Conducting value-added business analysis.

(c) Managing business risks and opportunities.

(d) Developing company-wide performance measurement systems.

The introduction of a Business Continuity Plan addresses Nogiec's (1998) points (b) and (c). Kelly (1996, p.3) asserts that developing a Business Continuity Plan is "*a natural extension of their (financial controllers) responsibilities*". Rodetis (1999) goes further and suggests that a company without an effective Business Continuity Plan may not be meeting its statutory obligations.

With corporate governance becoming increasingly important due to legislation, this is a timely warning. Even if it is not, the head of the finance department can find themselves in an unfavourable position if they do not have a Business Continuity Plan in place and/or sufficient insurance in place when a loss occurs. Yet, Kelly (1996, p.58) claims "*it remains the exception for the financial manager or risk manager to manage the business risk through contingency planning*".

The main reason for a continuity plan is to minimise the disruption to a business should an incident occur. The level of incidents caused by weather, terrorist activities, and human error is increasing (Mitroff, 1996; Tilley, 1997; Blackburn, 1998).

Rodetis (1999, p.27) states the goal of a Business Continuity Plan "*is to preserve and protect the essential elements of an enterprise and maintain an acceptable level of operation throughout a crisis and afterward, as the company recovers*". However, a Business Continuity Plan is more than preparing for a "*rainy day*" (Blackburn, 1998) - there is a second, perhaps more important role.

The first step of any Business Continuity Plan is an impact analysis. As Fink (1986, p.83) states "*you must diagnose the problem before you can treat it*". An impact analysis defines the scope and depth of what really goes on within a company, and focuses on financial, business and operational systems (Mitroff, 1996). What better way for the financial controller, chief executive officer, and senior operational people to understand the entire business? Indeed, the scope of Business Continuity Plans is widening to embrace relationships up and down the supply chain. "*Contemporary plans take a more organic view, concentrating on processes, networks, flows, procedures and affiliations*" (Rodetis, 1999, p.29).

With this background, what is the aim of a Business Continuity Plan? Smith (1990) states that a Business Continuity Plan should aim to preserve:

- Essential Customer Services
- Revenue Generation
- Essential Support Services
- Customer Confidence
- Shareholder Confidence
- Employee Confidence
- The Public Image of the Company

To achieve their aim, Business Continuity Plans need to be 'living' plans; that is, kept up to date (Nudell, 1996). Certainly, to create a plan and then leave it to gather dust on a shelf for years is next to useless when a loss actually occurs. Vogler and Perkins (1991) suggest that developing a plan involves 6 steps. This is set out in **Table 5**, below:

Table 5
6 Stages of Developing a Business Continuity Plan

Stage	***Description***
1	Identify the Organisation's Drivers
2	Define a Breaking Point
3	Determine Options
4	Evaluate & Select Alternatives
5	Document the Business Continuity Plan
6	Implement, Test & Maintain Plan

Source: Vogler and Perkins (1991)

While there appears to be no comprehensive study on the use of Business Continuity Plans in Australia, it does appear to be becoming of greater interest in the business world, with organisations such as the Institute of Company Secretaries holding awareness sessions on the subject. The reality is that while there may be a growing interest in the subject, it is still only in its infancy in Australia. As such, the vast majority of businesses, particularly SMEs, are faced with no Continuity Plan when a crisis hits.

As discussed earlier, during the last 15 to 20 years, a focus on cost-cutting and productivity increases has contributed to the consolidation of organisational operations, information, people, processes, and supply chain relationships. The September 11 terrorist attack in 2001 showed that these trends present new potentials for failures that have not been reflected in many Disaster Recovery and Business Continuity Plans (Garrison and Grand, 2001). Additionally, the incidents also point out risk factors related to close proximity to other 'high value targets', and cross-infrastructure dependencies on telecommunications, power, and transportation (Garrison and Grand, 2001). Similarly the outbreak of SARS shows that infectious disease is another little considered source of catastrophe that has been overlooked even by companies with a Business Continuity Plan (Robertson, 2003).

In a study into the impact of catastrophes on shareholder value, Knight and Pretty (1996, p.4) suggested that the effective management of the catastrophe *"would appear to be a more significant factor than whether catastrophe insurance hedges the economic impact of the catastrophe"*. They do find a link between management's ability to manage the crisis, particularly in the early stages, and the company's pre-loss preparation using business continuity planning, and the ability and speed of a company to recover.

2.2.10 Post-Crisis Planning using Stakeholder Theory

"These unhappy times calls for the building of plans."
Franklin D Roosevelt (1932)

Frederick, Davis and Davis (1988) set out a 7-step method of stakeholder analysis. The 7 steps are:

Step 1. Mapping stakeholder relationships
Step 2. Mapping stakeholder coalitions
Step 3. Assessing the nature of each stakeholder's interest
Step 4. Assessing the nature of each stakeholder's power
Step 5. Constructing a matrix of shareholder moral responsibilities
Step 6. Developing specific strategies
Step 7. Monitoring shifting coalitions

By carefully examining each of these 7 steps in detail, we obtain a much better understanding.

Step 1: **Mapping Stakeholder Relationships**

> *"Genius is the capacity for seeing relationships where lesser men see none."*
>
> William James (1895)

Freeman (1984) suggested a series of 9 questions that start the stakeholder analysis.

1. Who are the stakeholders currently?
2. Who are our potential stakeholders?
3. How does each stakeholder affect us?
4. How do we affect each stakeholder?
5. For each division and business, who are the stakeholders?
6. What assumptions does our current strategy make about each important stakeholder?
7. What are the current 'environmental variables' that affect us and our stakeholders [inflation, GNP, prime rate, confidence in business (from polls), corporate identity, media image, and so on]?
8. How do we measure each of these variables and their impact on us and our stakeholders?
9. How do we keep score with our stakeholders?

(Freeman, 1984, p.242)

Freeman (1984) used this series of questions to identify the typical stakeholders to a large firm. These he incorporated into a stakeholder map. His map is reproduced in **Figure 3**.

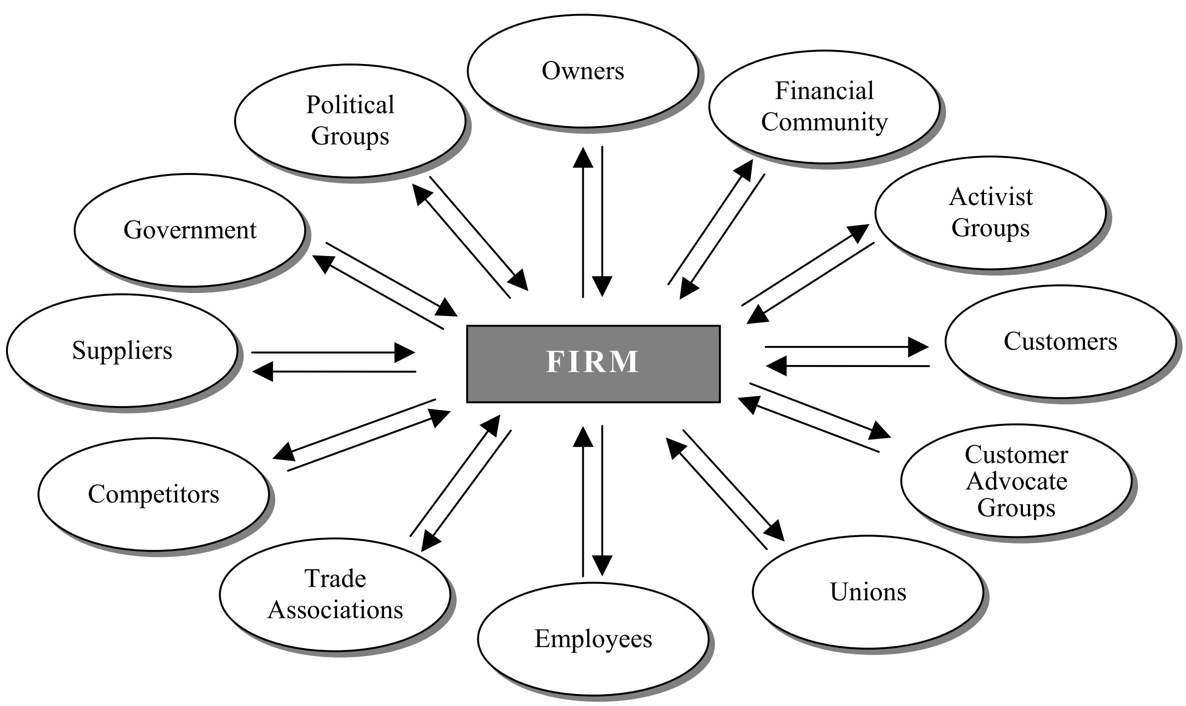

Figure 3: Stakeholders Map of a Very Large Corporation

Source: Freeman (1984, p.2)

Step 2: **Mapping Stakeholder Coalitions**

> *"A coalition of groups...is waging a massive propaganda campaign against the president of the United States. ...an all-out attack. Their aim is total victory for themselves and total defeat [for him]."*
>
> Gerald R. Ford (1974)

The next step is to ascertain and map any coalitions that may have formed. Coalitions between stakeholders and stakeholder groups may emerge against the firm at their time of weakness or because they caused damage to the other or another party's property or the environment (Weiss, 1994). An example of this may be a group of neighbours and an environmental group joining forces to campaign against asbestos contamination following a fire at the firm's factory.

Step 3: **Assessing the Nature of each Stakeholder's Interest**

> *Talk in terms of the other person's interest.*
>
> Dale Carnegie (1932)

According to Weiss (1995), this step and the next overlap somewhat. To assist with both Steps 3 and 4, Hatten and Hatten (1988) developed a stakeholder audit (see **Figure 4**).

	Supporter (Active)	**Uncommitted (Non-active)**	**Oppositio n (Active)**
Who are the stakeholders: Currently active? Potentially active? For or against? **Actions:** What are they doing, and what actions have they taken to get what they want? What are the thresholds between their indifference and activism? What could trigger a response? What are their sensitive areas? What are they asking for; what are their objectives? **Beliefs:** What do their executives believe in? Is their knowledge of us accurate? What assumptions do they make about us? What assumptions about them are *implicit* in our strategy? How do they think we affect their success, and they ours? What is their/our power relative to us/them? How do they measure our performance, we measure theirs? What do we really want? Are these objectives legitimate? What do we really want? How will time and current trends affect their satisfaction, relative power, and activism? **Co operative Potential:** With which of our stakeholder sets are they related? What differences are there between them and us? How could they be influenced? **Stakes:** What is their stake in us? What is our stake in them? What is their real power in our affairs? What power do we have in their affairs?			

Figure 4: A Stakeholder Audit

Source: Hatten and Hatten (1988, pp.116)

It is felt that by systematically working through the categories defined in this audit, you force a wider and more objective view of the problem, the participants and the firm's actual and potential role in the process (Weiss, 1994).

Step 4: **Assessing the Nature of each Stakeholder's Power**

> *"Remember, all men would be tyrants if they could."*
>
> Abigail Adams (1774)

This section gets down to 'what's in it for them and me'. In other words, who stands to win, who stands to lose and/or draw out of the crisis? Freeman (1984) identified three distinct types of power stakeholders. Those with:

- Voting power, eg. owners and stockholders.
- Political power, eg. government and government/semi government bodies such as the Environmental Protection Agency.
- Economic power, eg. insurers and customers.

By taking this step, it is possible to identify the groups with whom you wish to work and co-operate, those you can counter, and those you can completely neutralise (Weiss, 1995).

Step 5: **Constructing a Matrix of Shareholder Moral Responsibilities**

> *"When the freedom they wished for most was freedom from responsibility, then Athens ceased to be free and was never free again."*
>
> Edith Hamilton (1930)

This step determines what responsibilities and moral obligations the firm has to each of the identified stakeholders. Carroll (1989, p.69) first constructed a matrix, which he titled a Stakeholder Moral Responsibility Matrix. This matrix is reproduced below as **Figure 5**.

	Nature of Focal Company Responsibilities			
Stakeholders	Legal	Economic	Ethical	Voluntary
Owners				
Customers				
Employees				
Community Interest Groups				
Public Citizens at Large)				

Figure 5: Stakeholder Moral Responsibility Matrix

***Step 6:* Developing Specific Strategies**

> *"A strategy is trying to understand where you sit in today's world. Not where you wish you were or where you hoped you would be, but where you are. It's trying to understand where you want to be five years out. It's assessing the realistic chances of getting from here to there."*
>
> John Welch (1974)

The beauty of this approach to crisis management is that rather than take a knee-jerk response to problems as they arise, a set of strategies can be developed in advance to protect the firm in the long-term. To assist in the development of such a strategy, Weiss (1995) has developed a series of questions based on the work of Freeman (1984) and Carroll (1989). The questions are relevant in that they force the planner to consider how and when to approach a stakeholder. To assist the planner, four 'Golden Rules' were also developed by Weiss to guide them through the process. The questions and rules are set out in **Figure 6**.

Questions

1 Should you approach each stakeholder directly or indirectly?

2 Should you take an offensive or defensive position?

3 Should you accommodate, negotiate, resist, avoid, or do nothing?

4 What combination of strategies should you employ for each stakeholder?

Golden Rules

1 Your goal is to create a win-win set of outcomes, if possible.

2 Ask "What is our business? Who are our customers? What are our responsibilities to the stakeholders, to the public and to the firm?". You must keep the company mission and responsibilities in mind as you move forward.

3 Consider what the probable consequences of your actions will be. For whom? At what costs? Over what period of time? What does a win-win situation look like for us?

4 Keep in mind that the *means* you use are as important as the *ends* you seek. That is, how you approach and treat each stakeholder can be as important as what you do with and to them.

Figure 6: Questions to Assist in Developing Specific Strategies & Tactics

Source: Adapted from Weiss (1995, pp.42-43)

Perhaps the most important message from this is that every action a firm takes will have some response from at least one stakeholder. It is just like a game of chess. The managers of the firm have to appreciate not only the next move but also several moves ahead to achieve their goal.

Step 7: **Monitoring Shifting Coalitions**

> *"We spend all day broadcasting on the radio and TV, telling people back home what's happening here. And we learn what's happening here by spending all day monitoring the radio and TV broadcasts from back home."*
>
> P.J. O'Rourke (1991)

Changes occur over time and with new events. As a result, it is important for the firm to monitor any alterations to stakes and stakeholders. One method is to use a simple timeline or a diary.

2.2.11 Use of Consultants in Catastrophe Management

> *"A consultant is someone who takes your watch away to tell you what time it is."*
>
> Ed Finkelstein (1979)

Knight and Petty (2000, p.4), in their research into the recovery of publicly listed companies that had been impacted by a catastrophe, found that "*from these results there appears to be considerable value adding potential in…providing more extensive risk and catastrophe management services*".

Thorpe (2004) in the Australian & New Zealand Institute of Insurance & Finance Journal states that, in his opinion as a practicing loss adjuster handling large commercial material damage and business interruption claims, the use of a specialist adjuster is of benefit to the claims process. Others in the insurance industry are of the same opinion (Fawcett and Morgan, 1989; Manning, 2002).

An industry-wide survey conducted by the Australian Institute of Chartered Loss Adjusters during the first quarter of 2004, found that 15.4% of insurance staff surveyed see claims preparers as an intrusion and a cause of concern due to the possibility of increased claims costs and claims handling costs. Some literature on the subject such as Laye (2002) appears to be self-serving to encourage the business owner to use the author's services.

No research appears to have been conducted on the business owner's opinion as to the benefit of a specialist loss management/crisis management consultant to the business recovery process following a major insured loss. Similarly, little or no research has been carried out into the benefits to an SME in having insurance at all.

2.2.12 Insurance

> *"Free competition exists inside shelters of law, custom, insurance, political approval, and carefully protected status."*
>
> Mason Cooley (1994)

Why Insurance was the title of an address to the South African Risk & Insurance Management Association in 1993. The paper presented by Mr Roderick Strutt, outlined a self-confessed superficial analysis that the presenter had undertaken upon the effects of insurable catastrophes on share prices of a number of companies. This showed a very conflicting picture, with some companies making a full recovery and others not. The study did not explore the differences (Strutt, 1998).

Strutt's research (1993) was examined much more rigorously by Pretty (1997). She looked at three areas, discussed below as Parts 1 to 3.

In **Part 1**, Pretty (1997) found that while some corporations failed and others survived a major catastrophe, whether or not the loss was insured against did not appear to be a factor in survival. The issues that she identified as being of much more importance were:

- In the first 2 to 3 months, the magnitude of the estimated financial loss was significant.
- There was a large number of fatalities.
- Management was held to be responsible for the accident or safety lapses.

Part 2 of Pretty's study (1997) covered a highly detailed study of the attitude to hedging and insurance purchasing by corporations that ranked in the largest 1,000 non-financial[6] companies. Of specific interest was an analysis of the concerns that the chief financial officers of these companies had about financial markets. The concerns of the chief financial officers as a percentage of their total concern, is summarised in broad categories in **Table 6** overleaf.

[6] Financial companies were not included as the research wished to measure the attitudes of major end users of financial market products.

Table 6
Major Concerns of Chief Financial Officers regarding Financial Markets

Concern	*Percentage*
Service	43
Credit Risk	21
Price	13
Market Supply	10
Transactional Costs	9
Market Stability	4
Total	**100**

Source: Pretty (1997)

Interestingly, the concerns of the chief financial officers differed very little between insurance and capital markets (Pretty, 1997). As the concern over levels of service dominated the study, this concern was further broken down into the following six sub-categories:

- **Competence**: basic skills, knowledge and experience
- **Innovation**: vision, breadth of thought, sophistication
- **Responsiveness**: ability to tailor products to client's needs
- **Universality**: ability to provide global service
- **Disclosure**: clarity and availability of information relating to transactions
- **Controls**: effectiveness of internal monitoring procedures

While the level of concern of the chief financial officers of the world's largest non-financial companies was similar on the overall issue of service, significant differences existed between insurance and capital markets in terms of the percentage allocation of service concerns across the above sub-categories. These differences are listed in **Table 7** below.

Table 7
Differences in Major Concern of Chief Financial Officers over Service Levels

Sub-Categories of Concern on Service	*Insurance Markets Percentage*	*Capital Markets Percentage*
Competence	50	15
Innovation	16	20
Responsiveness	16	20
Universality	10	4
Disclosure	8	26
Controls	0	15
Total	**100**	**100**

Source: Pretty (1997)

It must be of disquiet to the insurance industry that the greatest concern of their major customers is perceived to be a lack of competence, while for capital markets this was only a relatively minor concern. The major concern regarding service in the capital market was disclosure[7], which was a relatively minor concern to the respondents in respect of insurance (Pretty, 1997).

As an aside, a simple examination of the level of concern regarding an issue is not sufficient to understand the respondents' concerns. For example, while the overall level of concern regarding innovation in the insurance industry was a lack of innovation, for capital markets it concerned excessive innovation and far too much complexity (Pretty, 1997).

Part 3 of Pretty's study (1997), examined the purchase of insurance by large corporations and the benefit of the insurance program in the event of a large insurable event. The research found that as corporations increased the diversity of their products and their geographical spread of assets, they placed greater reliance on natural operating hedging, rather than transferring the risk to an insurer. This willingness to accept more of the risk themselves was found to be based on the level of business diversification rather than on the actual size of the firm (Pretty 1997).

A corporation could accept more of the risk by or with a combination of:

- Self insuring;
- Setting a captive insurer; and/or
- Accepting much higher deductibles[8].

One of the limitations of Pretty's research (1997) was that it concentrated solely on the large firms; whether there was any relevance or lessons for an SME, was not addressed.

Thus far, only a small number of insurers in the United Kingdom are starting to discount premiums and/or recommending that their clients prepare a Business Continuity Plan (Walsh, 2003).

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[7] Australia, like many countries, has recently passed legislation to protect 'retail' clients by increasing the duty of disclosure. In the case of Australia, it is the *Financial Services Reform Act 2001.* This Act includes the insurance industry in the requirement for adequate disclosure.

[8] A deductible means that the insured meets any claim in full that is less than the deductible. For claims over this amount (or longer than the specified period in the case of a time deductible), the insured bears the first amount of the loss up to the amount of the deductible. In other words, a deductible is very similar to an excess under a motor or home insurance policy; only the amount is much larger. It is not uncommon to see deductibles of many millions of dollars on some corporate insurance programs.

In his paper on the role of loss adjusters and claims preparers, Thorpe (2004) does make the point that many large corporations pre-agree the loss adjuster before the event. This arrangement is not available to an SME.

2.2.13 Small & Medium Enterprises

> *"We believe that there is one economic lesson which our twentieth century experience has demonstrated conclusively - that America can no more survive and grow without big business than it can survive and grow without small business…the two are interdependent."*
>
> Benjamin Franklin Fairless (1950)

There is no standard definition of an SME. Further, up until recently, there has been no statistics available from the Australian Bureau of Statistics ("ABS") on either small or small- and medium-sized enterprises. On 28 April 2004, near the very end of this research, the ABS released *8127.0 Characteristics of Small Business, Australia*. While this only covers what they describe as 'small' business, and not SMEs as was researched in this study, it is certainly a start to recognising the importance of this sector of commerce and industry to the Australian economy.

This ABS paper acknowledges that there are no definitions of a small business operator, and confirms that other ABS publications do not use the term, nor do they provide statistics about small business operators as a group. However, they state:

> *"The expression 'small business operator' is one that is often used in research and policy debate and is generally taken to include the following:…Small businesses (excluding agricultural businesses) are those businesses employing less than 20 people. Note that because operators of all incorporated businesses are considered employees of that corporation, all incorporated businesses will be classified as employing businesses."*
>
> **Source:** Australian Bureau of Statistics, 8127.0 (2004)

While this research addresses both small and medium business, the number of entities recorded as a 'Small Business' by the ABS gives some idea as to the number of businesses that fall within this definition within Australia. The ABS paper states that as at June 2003, there were an estimated 1,179,300 small businesses in Australia (ABS 8127.0, 2004).

During the launch of guidelines to the *Privacy Amendment (Private Sector) Act 2000 (Commonwealth)*, the Federal Privacy Commissioner, Mr Malcolm Crompton, on 3 October 2001 estimated that businesses in Australia with a turnover of less than $3 million accounted for 93% of all business entities in Australia. This shows that by researchers concentrating on 'large' companies, they are researching what is mathematically only a small percentage of the total number of businesses that operate in the economy.[9]

2.3 Limitations of the Literature Review

> *"Some day the main aim in education will be to teach men and women to think and to live. That day has not yet come."*
>
> Ezra Hulburt Stafford (1954)

The literature indicates that previous research reviewed in this chapter has been heavily biased towards large business. Disappointingly, very little research has been carried out in this area on SMEs or family businesses. As an example, it was not possible to obtain any verifiable data on the number of family businesses in Australia or the percentage of all businesses that would fall into that area.[10] As mentioned previously, on 28 April 2004, the ABS brought out a publication *8127.0 Characteristics of Small Business, Australia* finally acknowledging the importance of this sector of enterprise to the Australian economy.

In particular, while insurance is a common form of risk transfer used by business, its effect and or benefit in the event of a large loss involving an SME has not been taken into consideration.

Finally, the models developed for crisis management have become so complex that it would be hard for 'generalist' business managers, typically found in SMEs, to understand and implement them at the time of a crisis.

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[9] Abernethy (2004) estimates that 50% of the Australian workforce is employed by a company with less than 20 employees.

[10] Australian Bureau of Statistics advised no statistics available. They suggested two of their publications:

(i) Characteristics of Small Business
(ii) Small Business in Australia

Both books were carefully checked, but the researcher could not find any information on family-owned businesses. The researcher also called the Small Business Association in Sydney - ph: (02) 9819 7208 - and spoke to the CEO, Jonathan Fowler. He confirmed that no information on this was available, and advised that he had had one request for this information before but was unable to help in that instance either. No other publications could be located with this data at the start of this research project.

2.4 Summary

> *"If all the economists were laid end to end, they would not reach a conclusion."*
>
> George Bernard Shaw (1928)

The history of strategic management shows researchers examining how business owners and operators can better manage their businesses. The fact that management can be faced with a crisis that threatens the very continuance of the enterprise, has been acknowledged and studied. Such studies, however, have concentrated on large publicly-listed corporations. Statistically, of the total number of businesses operating in Australia, it has been estimated that around 93% have a turnover of less than $3 million (Crompton, 2001). Little research on how SMEs manage a crisis has been conducted.

The theories on Competitive Forces Approach (Porter, 1980), Resource-Based Perspective Model (Grant, 1993), Dynamic Capabilities Theory (Schoemaker and Amit, 1997), Business Continuity Planning (Doherty, 1998), Benchmarking (Bogan and English, 1994), Stakeholder Theory (Nogiec, 1998), and Risk Diversification and Insurance (Pretty, 1997) appear to be of use in managing a crisis. However, while they cover very similar situations, they have areas that do not overlap. These and other models developed for crisis management have become so complex that it would be hard for a 'generalist' business manager, typically found in an SME, to understand and implement them at the time of a crisis.

A new model has been developed as part of this study, which is a hybrid of the existing models and, based on the key components, found to be relevant from this current study. This model is much more appropriate for SMEs facing a major crisis.

Chapter 3. Theoretical Framework

> *"A theory is something nobody believes, except the person who made it. An experiment is something everybody believes, except the person who made it."*
>
> Albert Einstein, attributed

As part of reality testing a proposed theory, a researcher needs to have a thorough grasp of the past theoretical issues through literature. Darlington and Scott (2003) suggest that in order to propose theory creation, the researcher needs to have a clear understanding of the relevant theory, as well as knowledge of contemporary issues. Denzin and Lincoln (2003) state the obvious, that it is necessary for a researcher to visit the library or go online to investigate what has been done before in his or her field. This background work will allow the researcher to focus on particular areas that previously may have been unclear.

The researcher must understand the theoretical issues, as judgements have to be made during the data collection phase (Yin, 1984). Further Patton (1987) actively supports a review of the literature as an integral component of the exploratory phase of the data collection. Strauss and Corbin (1998, p.4) stress the need to obtain a full understanding of the literature in gaining *"theoretical sensitivity*". They define 'theoretical sensitivity' as *"a personal quality of the researcher"* indicating *"an awareness of the subtleties of meaning of the data"*.

An extensive review of the existing literature into a phenomena helps in building theory (Carson, Gilmore, Perry and Gronhaug, 2001). These authors state that, for a researcher to gain true empirical insight, the theory-building phase of the research project should be given *"explicit and careful attention"*. In this study, the collection of prior theory via an extensive literature search has been undertaken as the foundation for framing the issues of this study. However, it should be understood that prior theory only guides and loosely frames future research.

The review of the theory undertaken showed that there was little or no research undertaken on the management of a crisis in an SME, with past research concentrating predominately on large organisations. This study addresses this shortfall by concentrating on SMEs. As will be seen later in this section, while the literature search has been the basis of the study, the research questions have been tailored to address both the theoretical issues and to allow a detailed understanding and analysis of the case studies.

While prior theory may be said to only guide and loosely frame future research, researchers such as Pole and Burgess (2000) stress the need for literature in the early stages of a study. According to them, in preparing an analytic framework, the analyst needs a wider perspective than the observations themselves. At the start of any study, it is critical in the formulation of the problem statement to have a rough overview of the field under study, extracted from literature surveying the field. This enables the researcher to become more specific, and it is at this stage that the researcher needs specific literature related to the field. Obtaining specific literature will provide the possibility of investigating the relevance of the substantive concepts outside one's own observations, and of solving problems with concept definitions. Moreover, literature may suggest concepts, which help to formulate relevant distinctions found in the data.

The background literature that has been reviewed in detail in the Chapter 2 titled 'Literature Review', has been used as the analytical framework for this study. The variables that have been used were taken from the extensive research of literature that was undertaken as part of this study. The theoretical framework utilised in this research has incorporated the following:

- Competitive Forces Approach (Porter, 1980) – Section 2.2.2
- Resource Based Perspective Model (Grant, 1993) – Section 2.2.4
- Dynamic Capabilities Theory (Schoemaker and Amit, 1997) – Section 2.2.5
- Benchmarking (Bogan and English, 1994) – Section 2.2.7
- Stakeholder Theory (Nogiec, 1998) – Section 2.2.8
- Business Continuity Planning (Doherty, 1998) – Section 2.2.9
- Risk Diversification and Insurance (Pretty, 1997) – Section 2.2.12

Whether a business utilised a business plan was originally under consideration as a variable. However, the research of Pretty (1997) found that while formal planning did affect the speed of growth of a business, there was no correlation between formal business plans and business failure. As such, this variable was not considered in this research. The logic behind this decision is that a strategic plan would not have incorporated any reference to the crisis/catastrophe. It is more appropriate in this study to examine the frequency and appropriateness of any Business Continuity Plan that the businessperson has in place at the time of the event.

The aim of the study was to determine a model of strategic management for SMEs to utilise in order to minimise the risk associated with a crisis/catastrophe such as a fire. Variables that may be able to be used to predict the survival of a business following a major loss have been drawn from several models, and a detailed case study of one major loss. The variables under each of these major headings were modified and/or expanded during the research process, to reflect knowledge gained during that time. For ease of reference, the variables have been grouped at this time under five major headings:

- Business History
- Adequacy of Insurance Cover
- Timing Issues
- Financial Variables
- Crisis Management

The major variables that were examined in this study are listed in **Table 8** overleaf.

Table 8
The Major Variables Examined in this Study

Variable A: Business History
• Industry • Corporate structure • Ownership • Life stage of business • Level of competitiveness • Length of time in business • Training and experience of management • Ownership of building(s) • Prior level of technology • Number of locations • Exit costs

Variable B: Adequacy of Insurance Cover
Material Damage • Building • Stock • Machinery and plant • Customers goods • Extra cost of reinstatement • Removal of debris **Business Interruption** • Indemnity period • Gross profit • Additional increased cost of wages • Wages • Claims preparation costs

Variable C: Timing Issues
• Speed of settlement • Type/cause of loss • Delay in accepting • Length of time not trading • Assistance from competitors • Time to repair/replace equipment

Variable D: Financial Variables
• Ability to borrow funds • Lease vs ownership • Level of profitability

Variable E: Crisis Management	
• Existence of pre-loss Business Continuity Plan • Creation of post-loss Business Recovery Plan • Technology backup • Management expertise	• Performance of loss adjuster • Stakeholder involvement • Experience with large losses • Use of claims consultant • Increased management hours

With this study, it was confirmed that there is a relationship between certain of the identified variables (see overleaf) and the survival of the business. While many businesses survive a crisis, the ownership of the firm may change to finance this survival. This would typically disadvantage the original owners who may have been forced to relinquish their equity in the business at a ‘fire sale’ price.

The mere continuation of the trading name is not considered an adequate indicator of business survival. For the purposes of this study, the following criteria have been selected to demonstrate business survival:

- Still in business after 2 years
- Pre-loss growth in business resumed within 2 years
- Market share returned to pre-crisis level or higher within 2 years
- Level of debt returned to pre-crisis level or lower within 2 years
- Resumption of payment of interest within 12 months
- Resumption of payment of declared dividends within 12 months
- Resumption of payment of undeclared dividends with 2 years
- Retain same ownership (at least 75%)

It is anticipated that the Crisis Management variable (Variable E in **Table 8** on the previous page) will be found to be a moderating variable.

3.1 Definition of the Variables

> *"A classification is a definition comprising a system of definitions."*
>
> Friedrich Von Schlegel (1798)

The variables that were identified as of significance to the survival of a business following a crisis are set out in **Table 8** on the previous page, they can be broadly grouped into five categories, namely:

A. Business History
B. Adequacy of Insurance Cover
C. Timing Issues
D. Financial Variables
E. Crisis Management

The research questions explored whether each of the variables identified were indeed critically important to the survival of the business. The area of questioning and the reasoning behind the research questions are discussed in more detail under the appropriate broad category in the following subsections.

3.1.1 Variable A: Business History

> *"History...is, indeed, little more than the register of the crimes, follies, and misfortunes of mankind. But what experience and history teach is this - that peoples and governments have never learned anything from history, or acted on principles deduced from it."*
>
> Georg Wilhelm Friedrich Hegel (1807)

The first section of the survey questionnaire asked the business managers about the background and history of the company. Areas of particular interest were the age of the business, whether the owners described it as a 'family business', and the number of locations. The number of operating locations was considered important in determining whether the risk diversification did assist the SME at the time of a major crisis.

This was followed by obtaining data on the management team and their training. Besides the level of training and the experience of the business, the researcher was also interested in the enthusiasm or sheer determination to succeed that the business owner displayed. This was not a question on the questionnaire as such but a subjective measure, undertaken by the researcher during the interview. The reasoning behind these questions was to determine whether survival of the business could be taught, or if it was something that was either 'in built' in a business owner or not.

Still looking at the background of the business, the questionnaire examined the use, by the company, of external consultants. The reason for exploring this aspect was to see if business owners were comfortable seeking business advice, and whether they would turn to an expert at a time of crisis, or try to manage their way through it themselves.

Similarly, the research looked at the business owner's use of business continuity planning. As the response here was expected to be low, the questionnaire enquired about the use of any pre planning for Y2K. The reasoning behind this was to determine whether the business owners took any time to consider the impact of a crisis on their business pre-loss, or if they took a 'it won't happen to me' approach.

The reliance on information technology was the next topic covered by the research. The reason being, to determine if the message of backups was now being followed. Further, the level of record loss that occurred, and what impact this had on business survival. Particular interest was given to the company's debtors records, which would impact on the immediate cash flow of the business. Having said this, the impact of any lost records was considered to be a potential threat to the survival of the business, and this area was closely examined.

Another question in this category was whether or not the business rented or owned its own building. Not being tied to a rental lease was thought to be an advantage, as it gave the business owner more flexibility. To determine whether this train of thought had merit and was a genuine variable to the survival of the business, the questions were asked.

The theory (see Section 2.2.12 - Insurance) suggested that having more than one location reduced the risk for a business. Those companies that had more than one location were specifically questioned as to whether the additional location assisted in the recovery process.

Also under this broad category, details of the history of any previous large losses were examined. The reason for this was that the owners and/or management of the business would have gained experience from a previous event, which they could use to their benefit during a future crisis. The details of the crisis were included in the study for several reasons. The first was to ensure that the crisis fell within the criterion of the study. This included whether the business failed or survived according to the criteria set by this study (see Chapter 3 titled 'Theoretical Framework' for full details of the measurement criteria). A second reason was to take the business owner back to review the crisis itself, the recovery process, and the parts of the business that were permanently affected.

While a crisis such as a fire, poses a great threat to the business, it also may give rise to opportunities. The benefits that arose for the businesses that were the subject of this study, were included in the research particularly as a business owner typically only concentrates on the negative issues immediately after the loss. The lessons the business owner and manager believe they learnt from the experience were also explored as part of this study, to determine if there were any other important variables or issues that had been overlooked in the research.

3.1.2 Variable B: Adequacy of Insurance Cover

> *"You don't need to pray to God any more when there are storms in the sky, but you do have to be insured."*
>
> Bertolt Brecht (1957)

The adequacy of the business's insurance program when the crisis hit was thought to be a major variable in the survival of the business. All the areas of coverage available to a business were examined for adequacy. These included both the adequacy and type of property cover, as well as business interruption coverage. The questions covered the following major areas (as per Variable B in **Table 8**):

- **Material Damage**
  - Building
  - Stock
  - Machinery and plant
  - Customers Goods
  - Extra Cost of Reinstatement
  - Removal of Debris

- **Business Interruption**
  - Indemnity period
  - Gross Profit
  - Additional Increased Cost of Wages
  - Wages
  - Claims Preparation Costs

The research compared the loss suffered to the amount received from the insurance, to determine exactly what the shortfall was in dollar and percentage terms. It was expected that any major shortfall between the loss amount and the proceeds of insurance would cause a significant burden to the business and, dependent upon the financial strength of the business and the business owners, may well lead to the failure of the business. Besides the physical loss of the wealth in the business, it was considered that such loss may have a psychological effect on whether the business owner would recover his/her business or cut his/her losses.

3.1.3 Variable C: Timing Issues

"A great man always considers the timing before he acts."
Chinese Proverb

This was considered one of the most important variables. With the introduction of relatively recent Federal Government regulations[11] on the collection and payment of Goods & Services Tax ("GST") and employee superannuation contributions, in addition to ongoing obligations in respect to employees' Pay As You Earn ("PAYE") Tax and the business's own Pay As You Go ("PAYG") Tax, many businesses are experiencing cash flow pressure (Manning, 2004).

It was considered that when a crisis hit, the cash flow position of the business would be very difficult to manage. On the one hand, the business would have lost at least some of its ability to earn revenue, at least in the short term. On the other hand, additional unexpected costs to the business may arise, such as investigation costs, removal of debris/clean-up costs, as well as the cost of replacing the assets destroyed.

While some costs, such as rent, may cease if the building is unable to be tenanted, other costs such as wages continue. Even if a business owner decides to reduce probably the business's biggest ongoing expense (ie. wages) by making staff redundant, there is a significant immediate cash flow issue of meeting accumulated annual and long service leave, not to mention whatever redundancy pay (number of weeks paid in lieu of notice) needs to be made. Therefore, the length of time the business experiences disruption as a result of the crisis, the speed with which the insurer accepts the claim, and the timelines of progress payments, are all considered crucial variables to the survival of the business, and were therefore researched as part of this study.

Further, the research questioned the speed of the repair/replacement process, and the speed with which any temporary measures to maintain revenue and/or obtain alternative financing, was achieved.

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[11] Examples: (i) A Goods & Services Tax was introduced by Australia's Commonwealth Government as from 1 July 2000, and (ii) A New Tax System (Australian Business Number) Bill 1998 Bills 98 1998-99.

Finally, the research into timing also addressed the timing of notification of the crisis to stakeholders in the business, and the regularity and formality of the communication process, were also examined.

3.1.4 Variable D: Financial Variables

> *"The same surgeon general who required cigarette packages to say: 'Warning this product may be dangerous to your health' ought to require that 99 out of 100 books written on personal finance carry the same label."*
>
> Paul A. Samuelson (1994)

Linked closely with the adequacy of the insurance program, the extent and timelines of the disruption, resumption of business turnover, and loss of debtor records, is the overall strength of the business. It was felt that if a business was borderline as to whether it was profitable on a day-to-day basis anyway, with little or no prospect of change, then the effect of a crisis would simply speed up the inevitable. Businesses in this category were felt to be of no value to the study, and any in this state were politely overlooked.

What this research concentrated on, were businesses that were profitable with positive cash flows, and likely to remain this way in the long term, but for the crisis. This did not mean that if a business was in a temporary period of decline or had short-term cash flow problems, they were precluded from the study. It was considered that most, if not all, businesses have such periods and 'Murphy's Law' being what it is, the research should consider such a company. In these cases, it was felt that the speed of progress payments by the company's insurer would be even more crucial unless the business was able to secure some alternative short-term finance.

At the same time, this research was not designed to be purely driven by just financial considerations. The research therefore took a macro view of the company's finances and looked at the company's ability to raise funds, rather than be buried in the minutiae of financing arrangements and detailed debt/equity ratios. The main focus of the research in respect of the financial issues was what could be done post-loss to maintain adequate positive cash flow to the business throughout the period of the disruption. The theory behind this was that a business owner cannot (unless he/she deliberately causes it) know when a crisis is going to strike. It is what can be done to minimise the effect of the disruption that is of greater importance, rather than the financial position of the firm pre-loss.

3.1.5 Variable E: Crisis Management

> *"More than any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness. The other, to total extinction. Let us pray we have the wisdom to choose correctly."*
>
> Woody Allen (1975)

The theory behind this research is that the management of the crisis post-loss would increase the likelihood of the business survival. Some of the processes, such as the development of a well researched and tested Business Continuity Plan and good backup procedures, could be carried out pre-loss, but much could be achieved post-loss with a thorough Business Recovery Plan.

One of the factors considered variable was the attitude and/or approach taken by the insurer's claims handling agent - the loss adjuster. If the loss adjuster was proactive, empathetic and worked with the insured as a team, it was thought that the recovery chances of the business would improve. No research in this area could be found, and so this research question would be of great interest to the loss adjusting profession.

For just on a century, insurance companies have engaged the services of claims experts to protect their interests. Much more recently, perhaps over the past 15 years, business owners have started to engage their own expert to prepare the claim and ensure that the business receives a fair and equitable settlement under the terms of the contract of insurance (Manning, 2004). This has now gone one step further, with the claims preparer moving towards loss management, bringing the experience of other loss situations and crisis management skills to the business after the crisis. Again, the effectiveness in the terms of customer satisfaction has not been tested in any Australian study.

Another variable that was considered as a possible moderating variable that was researched, was the assistance provided to the business by competitors. The theory here is that if the business suffering the crisis is subjected to predatory behaviour by a competitor 'sensing the kill' of a weakened competitor, it may increase the likelihood of business failure on the part of the business that has sustained the crisis. Whereas, if the affected business is offered and accepts genuine assistance from the competitor, business survival increases. The research sought to test this theory.

The number of hours worked by management pre- and post-crisis event, was measured to determine the additional time that was required by management to cope with the additional management responsibilities brought on by the crisis. How the crisis management variables are seen as moderating factors is shown in **Figure 7** overleaf.

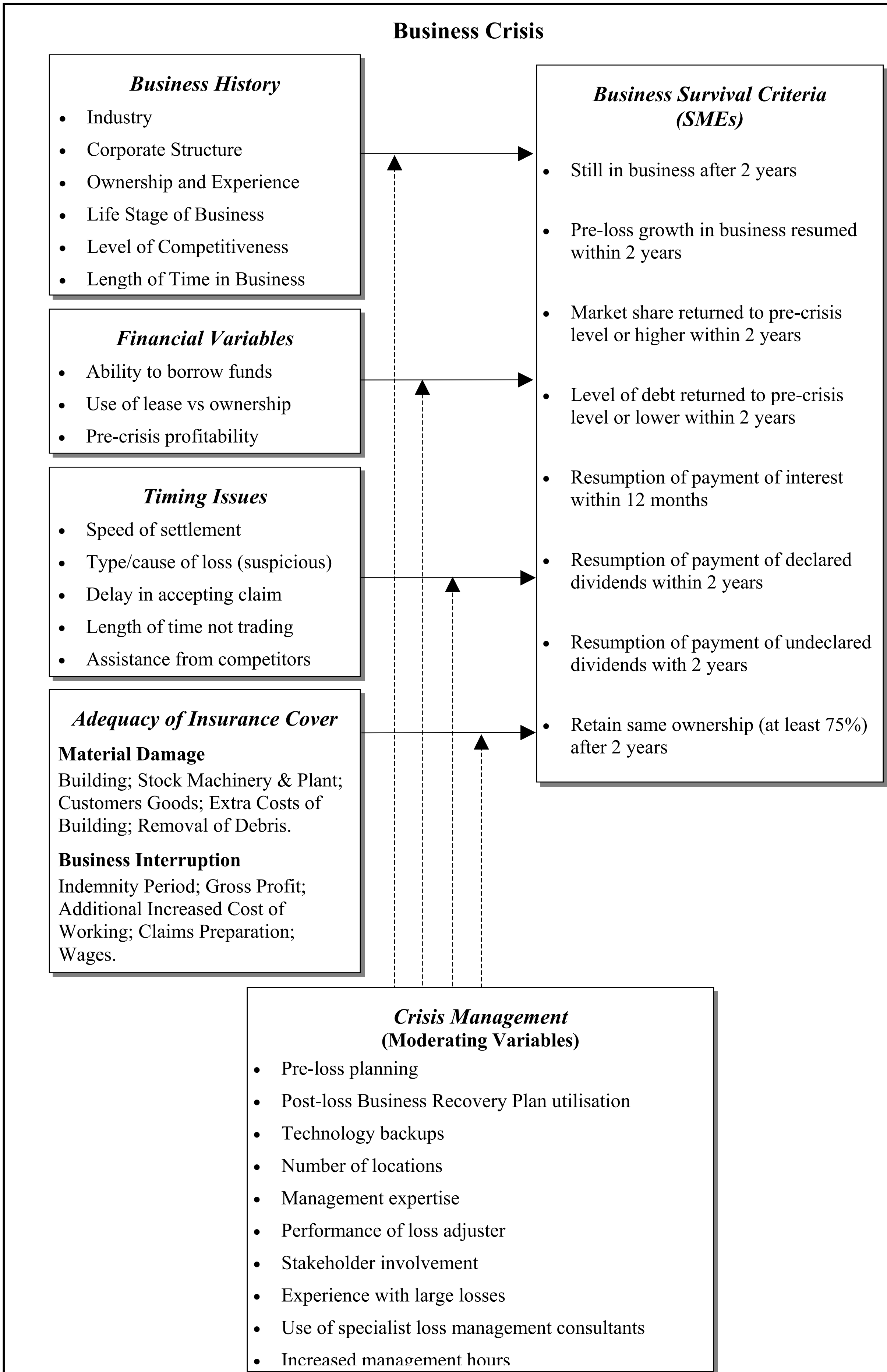

Figure 7: Variables influencing Business Survival following a Crisis

3.2 Research Questions

> *"Research is an organized method of finding out what you are going to do when you can't keep on doing what you're doing now."*
>
> J. Robert Oppenheimer (1954)

As described earlier, the literature search has been the basis of this research project. Research questions were developed in response to the primary aim of the study. The aim of this study, was described in Section 1.6 as *"to develop a Crisis Management Model that can be utilised by small and medium business enterprises to minimise the risk associated with losses caused by disasters such as fire"*.

This aim was broken down into three areas of specific research, as follows:

- Determine if a Business Recovery Plan is an important moderating variable to the survival of an SME following a crisis.
- Employ a Crisis Management Model for the development of a Business Recovery Plan for use by SMEs following a crisis.
- Develop an extension of the Crisis Management Model for the Communication & Agreement, Implementation, and Completion phases of the Business Recovery Plan by the SME.

The research questions that were developed in response to each of these three specific areas of research are discussed below.

3.2.1 Is a Business Recovery Plan an Important Moderating Variable?

> *"Test yourself on mankind. It is something that makes the doubter doubt, the believer believe."*
>
> Franz Kafka (1918)

The basic premise of Montgomery and Porter (1991), is that major operating policies, at the functional level of the firm, should be an explicit part of a firm's strategy. It makes sense that the policies in all the various functional areas, such as finance, marketing, should be coordinated and be in line with the overall goals of the firm's strategy (Donaldson, 1991). Four imperatives were identified by Norgiec (1998) as assisting the fundamental financial processes. Those being: conducting value-added business analysis, managing business risks and opportunities, and developing company-wide performance measurement systems.

The first question of the research was to determine whether this basic premise held up during a crisis, or if it was more important than ever. In other words:

- Is a Business Recovery Plan an important moderating variable to the survival of an SME following a crisis?

The research question examined:

(1) Whether SMEs that were confronted with a major crisis, developed a Business Recovery Plan?

(2) If so, was having a Business Recovery Plan beneficial?

(3) Finally, why was/was not having the Business Recovery Plan beneficial?

To some, this line of questioning may appear to have been pointless. However, it was deemed appropriate to ensure that having a Business Recovery Plan would indeed help an SME. There was no point proceeding with a study such as this, if the SME deemed it was of no benefit to them to have a Business Recovery Plan.

The 'Dynamic Capabilities Theory' (Robson, 1997) de-emphasises planning, and focuses on organisational competence and learning, adaptability and implementation. This led to the question as to whether it was possible that the manager/owner of an SME may simply work on the crisis on a day-to-day basis, using his intuition and adaptability to meet the ever-changing situation, rather than develop a short to medium term plan for recovery. Experience and educational qualifications were also considered as factors, which may influence the owner and/or manager's decision to use a plan and, even on a more basic level, whether higher formal education and minimum experience levels in management guarantee success.

To address these issues two further research questions were examined. Those being:

- Does the level of experience or education of the SME's management team influence the chances of survival?
- What factors led to the use or non-use of a Business Recovery Plan?

3.2.2 Employ a Crisis Management Model to develop a Business Recovery Plan

"In preparing for battle, I have always found that plans are useless, but planning is indispensable."
Dwight D. Eisenhower (1890–1969)

As a Business Recovery Plan was found to be of great use to management, the primary aim of the study could go ahead. That was, to develop a model specifically for SMEs to develop a Business Recovery Plan. Bearing in mind that it is estimated that over 93% of all businesses in Australia fall within the definition of an SME, this research was considered very important.

The development of the Business Recovery Plan was seen to have three initial phases:

(1) Crisis Impact Analysis

(2) Gather Data & Analyse

(3) Evaluate Options & Select from Alternatives

To develop such a model, many components of earlier models of strategic management were tested for relevance. The research questions that were developed to address the aim of the study are discussed in the 3.2.2 subsections below.

3.2.2.1 Porter's Five Forces Model

Porter (1980) recommended that in formulating competitive strategy, management should consider five competitive forces, namely:

- Competitors
- Suppliers
- Substitute Products
- Potential Entrants
- Customers

Porter argued that management must select a strategy that will give the organisation a competitive advantage via one of three generic strategies, that is, Cost Leadership, Differentiation, and Focus (Porter 1980).

The research questions that arose from this model were:

- What competitive forces are most important to the manager during a major crisis in the business?
- Is it correct to presume that 'focus'[12] is the only strategy open to the crisis manager?
- Does 'Porter's Five Forces Model' (Porter, 1980) have any relevance in the face of a crisis, bearing in mind that the emphasis of this model is on the industry and the firm's external environment?

3.2.2.2 Resource-Based Perspective Model

Grant's (1993) resource-based perspective model looks at, firstly, the role of resources in defining the identity of the firm in terms of what it is capable of and, secondly, that profits are ultimately a return to the resources owned/controlled by the firm. The research questions that arose from this model were:

- Is the resource-based perspective model (Grant, 1993) too inwardly focused, as it concentrates on the firm's internal environment?
- Is it more appropriate to incorporate both internal and external influences on the firm?
- What gaps in the SME's resources does the crisis create?
- Who are the key stakeholders during a crisis?

3.2.2.3 Strategic Capabilities Theory

Lewis (1993) stated that a firm's strategic capabilities can be classified into:

a) *Economic Capabilities:* Physical assets, share of market, geographical location, financial resources, economies of scale and scope, patents, proprietary processes, and brand franchises or reputation.

b) *Technological Capabilities:* The know-how implicit in products, processes, system physical plant and facilities, and people's skills and experience.

---

[12] Porter's (1985) other two generic strategies are Cost Leadership and Differentiation.

c) *Human Capabilities:* The skills, attitudes, and behaviour of organisational members.

d) *Organisational Capabilities:* The structures, systems, and style that guide and coordinate the behaviour of organisational members towards the achievement of goals.

e) *Management & Leadership Capabilities:* The ability to allocate, coordinate change, and build economic, technological, human, and organisational capabilities.

The research questions that arose from this model were:

- Does the breakdown of a firm's strategic capabilities occur during a crisis?
- If so, can the capabilities identified as being lost or impaired, be used as the basis of a model for the survival of an SME after a crisis?

3.2.2.4 Stakeholder Theory

The theory, which is said to have started with Freeman in 1984, shows how every corporation has relationships with a great many groups that are, in reality, stakeholders in the organisation. The theory goes further and explores the nature of the relationship between the stakeholders and the organisation in terms of processes and outcome (Kuncoro, 1998).

Fredrick, Davis and Davis (1988) have developed a 7-step method of stakeholder analysis (refer subsection 2.2.10). While it appears a sound method for developing a stakeholder analysis, it also appears to be quite complicated, possibly too much so for an SME.

The research questions that arose from these models were:

- Do stakeholders outside the firm have any influence over the survival of the firm?
- Can the stakeholders be ranked?
- Should some stakeholders receive more attention than others during the management of the crisis?
- Does Frederick's *et al* use of a 7-step model of stakeholders have relevance to a model of survival for an SME after a crisis?

3.2.2.5 Insurance/Risk Transfer

The research undertaken shows that in mainstream strategic management, the importance of insurance and risk transfer is poorly treated. Pretty's research (1997) detailed the concerns of CFOs of large firms as to the competence and responsiveness of the insurance market.

The research questions that arose from this area of research were:

- Is the apparent lack of inclusion of insurance in crisis management studies, a weakness in the theory?
- Are SMEs fully insured?
- If not, why not?
- What effect to business survival does the insurance program have?
- Are the concerns of CFOs in large firms, as identified by Pretty (1997) as to the competence and responsiveness of the insurance market, shared by the owners/managers of SMEs who have suffered a major loss?
- What was the SME's rating of the empathy and performance of insurers, insurance brokers, loss adjusters and claims preparers during the crisis?
- Does separation of the risk, ie. having more than one location, improve chances of business survival for an SME?

3.2.2.6 Business Continuity Planning

The theory behind Business Continuity Planning ("BCP") is that it should aim to preserve:

- Essential Customer Services
- Revenue Generation
- Essential Support Service
- Customer Confidence
- Shareholder Confidence
- Employee Confidence
- Public Image of the Company

The research questions that arose from this model were:

- Are there any areas of current BCP theory that need to be added to the Crisis Management Model for SMEs.
- What other areas is BCP not addressing (possible example: insurance)?

3.2.2.7 Combination of Earlier Theories

The theories that were considered relevant from the review of the literature, identified a number of variables in the success of the business, particularly during normal business life. To develop a plan, the important moderating variables, ie. the ones that the owners and/or managers could influence, need to be identified.

The research question that arose from this issue was:

- What are the important moderating variables to the survival of the business?

3.2.3 Develop an Extension of the Crisis Management Model for the Business Recovery Plan

The third and final group of research questions was designed to allow the extension of the model to incorporate three further phases, being:

(1) Communication & Agreement

(2) Implementation

(3) Completion & Transfer to Long Range Strategic Plan

The proponents of benchmarking believe that benchmarking ensures organisations are able to gain competitiveness, but only if it is correctly adopted. Benchmarking is a useful tool that will arguably improve cost, quality, time, and performance (Camp, 1989).

The review of the literature indicated that a good starting base for this second stage of the *Crisis Management Model for Small Businesses* was the Xerox 12-Step Benchmarking Process (Bogan and English, 1994).

The research question that arose from this issue was:

- Is benchmarking an appropriate method of implementing the plan?
- If so, what modifications to Bogan and English's (1994) Xerox 12-Step Benchmarking Process are considered necessary?

3.3 Summary

"A first rate theory predicts, a second rate theory forbids, and a third rate theory explains after the event."

A.I. Kitaigorodskii (1967)

Before moving on to the methodology used in this study, it is timely to recap the theoretical framework on which this research was based.

The framework is based on the following theories:

- Competitive Forces Approach, (Porter, 1980) – Section 2.2.2
- Resource Based Perspective Model (Grant, 1993) – Section 2.2.4
- Dynamic Capabilities Theory (Schoemaker and Amit, 1997) – Section 2.2.5
- Benchmarking (Bogan and English, 1994) – Section 2.2.7
- Stakeholders Theory (Nogiec, 1998) – Section 2.2.8
- Business Continuity Planning (Doherty, 1998) – Section 2.2.9
- Risk Diversification and Insurance (Pretty, 1997) – Section 2.2.12

With the aim of the study being the development of a model of strategic management for SMEs facing a crisis, a number of variables that may affect a business's survival of a crisis were identified. These variables were conveniently grouped into 5 categories, being:

- Business History
- Adequacy of Insurance
- Timing Issues
- Financial Variables
- Crisis Management

For a full list of the variables, the reader is directed to **Table 8** on page 44.

This study wished to examine companies that survived a crisis, as well as companies that were not able to survive. To differentiate between the two categories, a set of criteria to define business survival was required.

The criteria used in this study to determine business survival is listed below:

- Still in business after 2 years
- Pre-loss growth in business resumed within 2 years
- Market share returned to pre-crisis level or higher within 2 years
- Level of debt returned to pre-crisis level or lower within 2 years
- Resumption of payment of interest within 12 months
- Resumption of payment of declared dividends within 12 months
- Resumption of payment of undeclared dividends with 2 years
- Retain same ownership (at least 75%)

Having completed the literature review, selected existing models to review, identified the variables to be studied and determined the criteria for business survival, the final step discussed in this chapter was the development of a research question with the possibility of developing a model for use by SMEs facing a crisis.

Chapter 4.
Methodology

"The more technique you have, the less you have to worry about it. The more technique there is, the less there is."
Pablo Picasso (1963)

The initial steps taken to complete this study were:

- Literature Review
- Selection of the Appropriate Approach to the Study
- Construction of the Interview Questions
- Selection of the Sample
- Justification Process of the Sample Selection
- Selection of the Sample Size
- Approval from the Ethics Committee to Conduct the Research

Having reached the approval stage, the procedures adopted to conduct the study were:

- Sample Contact
- Data Collection
- Data Analysis
- Data Reduction
- Data Display
- Conclusion Drawing and Verification

4.1 Literature Review

"Twice and thrice over, as they say, good is it to repeat and review what is good."
Plato (c. 427–347 BC)

The literature research phase started many years prior to the study itself. The survival of businesses following a crisis was of interest to the researcher for over 20 years, and copies of articles appearing in insurance industry journals in both Australia and the United Kingdom on the topic, were retained. Similarly, papers delivered at insurance, loss adjusting, management and accounting conferences relating to the topic, were collected from a wide and diverse number of sources.

When the formal, academic study was commenced, an official literature review process was initiated, which continued right through the 6 years of the research study. Searches were conducted using the following databases:

- Anbar (now Emerald Reviews)
- AusStats
- Australian Bureau of Statistics
- Emerald Full Text Database
- Emerald Reviews
- Digital Dissertations
- ECO (Electronic Collections Online)
- Oxford University Press Journals
- Victoria University's Electronic Library
- World Magazine Bank - EBSCOhost

In addition, manual searches of the Australian & New Zealand Institute of Insurance & Finance (Melbourne), Chartered Insurance Institute (London), Chartered Institute of Loss Adjusters (London), and the Australian Institute of Management (Melbourne), were undertaken.

The results of the literature research have already been provided at Chapter 2.

4.2 Selection of a Qualitative Approach

> *"Almost all men are intelligent. It is method that they lack."*
>
> W. Nichol (1944)

A qualitative approach has been used in this study. This type of approach is *"more intrusive and less structured than quantitative research techniques"* (Michael, 2003). It has been suggested that qualitative methods are appropriate when the research is exploratory in nature (Darlington and Scott, 2003).

The primary aim of this research project is to gain a close insight into how small and medium business owners prepare for and manage a crisis in their business.

The goal of this study is to determine the deeper structures of business owners' ideas, feelings and behaviour during a time of crisis. This is consistent with a qualitative type of research, which attempts to understand management behaviour in terms of subjective contexts of meanings.

Patton (1987) stresses that in qualitative research, researchers engage in naturalistic inquiry study of naturally occurring activities and processes; these activities are 'natural' in the sense that they are not planned and manipulated by the evaluator as would be the case in an experiment. Through the use of the interviews, the researcher enters another person's world, to understand the person's perspective. It is difficult to observe how people have organised their world and the meanings they attach to it without asking them questions about it. Hence, according to Patton (1987), *"The purpose of interviewing, then, is to allow us to enter the other person's perspective"*.

According to Strauss and Corbin (1998), the term 'qualitative research', means any type of research that produces findings not arrived at by statistical procedures or other means of quantification. It can refer to research about people's lives, lived experiences, behaviours, emotions and feelings, as well as about organisational functioning, social movements, cultural phenomena, and interactions between nations. Further, they suggest that some of the data may be quantified, as with census or background information, about the persons or objects studied, but the bulk of the analysis is interpretative.

Qualitative research provides an in-depth insight. It is flexible, typically small-scale and exploratory, and the results obtained are concrete, real-life like and full of ideas (Ruyter and Scholl, 1998), all of which are key aims of this research. Ruyter and Scholl, (1998) found that qualitative research is widely used by management consultants and public policy makers, as it provides answers to questions in consumer and/or management decision-making processes.

Ueltzhöffer and Ascheberg (1999) suggest that the principal aim behind qualitative methods in sociological and psychological research is to elucidate the individual's subjective interpretative patterns, his/her personal experiences, viewpoints and motives, and thus his/her creative potential as well.

Denzin and Lincoln (2003) stress the need for naturalness in qualitative research methods. According to these authors, the qualitative researcher stresses the socially constructed nature of reality, the intimate relationship between the researcher and what is studied, and the situational constraints that shape the inquiry. To them, the word 'qualitative' implies an emphasis on the qualities of entities, and on processes and meanings that are not experimentally examined or measured (if measured at all) in terms of quantity, amount, intensity, or frequency.

As such, researchers emphasise the value-laden nature of the inquiry. They seek answers to questions that stress how management experience is created and given meaning. These authors and others (Darlington and Scott, 2003; Michael, 2003) stress the need for maintaining this natural element during the entire research process; as part of it, they suggest that the interview and/or observation be held in the most natural setting. In this research study, all the interviews were held at the business owner's place of work.

In a debate on the two schools of research, ie. quantitative vs qualitative, Hyde (2000) states that the traditional view in research methods is that quantitative researchers subscribe to a *"positivist"* paradigm of science, while qualitative researchers subscribe to a *"relativist"* paradigm. Further, Michael (2003) stresses that in doing research using a qualitative approach, it allows the respondents to *"speak for themselves"* and to define, not only through their words but also in their actions, the social worlds in which they live their lives and make their decisions. He discovered that new insights into organisational practices had emerged from his studies using a qualitative method. This is what was planned for this research.

This study utilised the tradition of 'Reality Testing' to investigate the study of business success or failure following a major catastrophe, and key variables associated with it. Patton (2002) described that the tradition of *"reality testing"* is slanted towards the positivist end of qualitative methods, and requires a realist-type approach.

This study's research philosophy has its disciplinary roots in philosophy, social sciences, and evaluation approaches. According to Patton (1987, 1990, 2002) when a researcher investigates phenomena using this philosophical stand, she/he conducts research based on some central questions, these questions should aim to establish the following:

- *"What is really going on in the real world?*
- *What can we establish with some degree of certainty?*
- *What are the plausible explanations for verifiable patterns?*
- *What is the truth insofar as we can get at it?*
- *How can we study a phenomenon so that our findings correspond, as much as possible, to the real world?"*

(Patton, 2002, p.132)

Another often-cited author (Patton, 2002) in terms of philosophical stance, methods, and analysis of qualitative inquiry is Renata Tesch (1990). According to Tesch, there are specific terms that describe the perspectives qualitative researchers adopt, for instance, *"naturalistic", "interpretive"*, *"experiential"*, and *"clinical"*, and the traditional field on which they base their stance, such as *"ethnography"*, *"phenomenology"*, *"symbolic"*, *"interactionism"*, or *"ethnomethodology"* (Tesch, 1990). Other terms that refer to the research approach used, are terms such as *"discourse analysis"*, *"case study"*, *"action research"* or merely the *"type of data, method, or research location"*, *"document study"*, *"participant observation"*, *"field research"*, and *"oral history"*. In Tesch's view, it is impossible to sort the labels listed, neatly into categories according to *"types"* of qualitative research.

Tesch (1994) further constructs a qualitative research map that distinguishes qualitative research into four types. They are:

- The characteristics of language.
- The discovery of regularities.
- The comprehension of the meaning of text/action.
- Reflection.

Using the qualitative models proposed by Tesch (1990), this study is at the *"interpretive"* end of the scale, and its aim is to discover regularities. The study has utilised the *"field research"* approach by conducting in-depth interviews with the *"actors or participants"* who have lived through the business crisis.

Many researchers consider interviewing as a principal methodology of social science (Broadfoot, 2000). To Broadfoot, along with questionnaires, observation, documentary study and discourse analysis, it is a major means of establishing participants' perspectives in a particular social setting. Though capable of varying considerably in form and purpose, all interviews share the fundamental rationale of seeking to represent with integrity the perspective of the actor or actors under study. To conduct an interview is to make the assumption that there are aspects of a phenomenon that cannot be appreciated without recourse to the personal perspective of one or more actors involved in it.

Others stress the need for in-depth interviewing as a key qualitative technique given the fact that this type of inquiry looks at the whole picture, and begins with a search for understanding of the whole (Denzin and Lincoln, 2003). To Denzin and Lincoln (2003), qualitative inquiry is not constructed to prove something or to control people, but looks at relationships within systems or cultures. This type of research is concerned with the personal, face-to-face, and immediate. It is designed to focus on understanding, given social settings, not necessarily making predictions about those settings.

Tesch (1994) stresses the importance for researchers to discover a structure in the analysis stage, which should either be shown as a pattern or as a network of relationships among parts. This could lead to results that may include tentative hypotheses or propositions, and hence will disclose meaning in the data. On the other hand, a researcher may be interested in only looking for 'themes', some of which might not be directly expressed in the data, but emerge from them upon intensive analysis.

In this instance, rather than seeking relationships, this research looks for commonalities across and uniqueness within the themes. The result is usually a succinct description on a somewhat abstracted and therefore more 'general' level, which highlights the essential constituents of the incident(s) studied. As can be seen, the selection of methods and approaches offer numerous 'traditions' within qualitative research. The approaches range from case studies and action research, to grounded theory. The much-cited Tesch (1990) goes as far as offering as many as 20 types of qualitative methods, while Creswell (1994) suggests that qualitative research can follow one of five routes which are: ethnography, grounded theory, case study, phenomenological studies, and biographical. Patton (1987) also presents various methods for consideration. The array of methods available within the qualitative paradigm is extensive (Manning, 1997).

The aim of this study is to investigate key themes in business success or failure following a significant insured loss. It further proposed tentative hypothesis and theory construction in the field of business recovery, which will be discussed in later chapters such as those titled 'Results - Data Reduction & Display' and 'Discussion & Verification'.

The objective was to gain an understanding into some key variables that constitute how and why a business survives a major crisis. On a broader level, by determining the important variables, this study will provide a framework for future theory building and hypothesis testing and, at a practical level, will assist the eight stakeholders previously listed (**Table 1** at Section 2.4) in this research.

An outcome for this study is to investigate in detail, variables that may constitute the key factors in business survival. It is not the intention of this study to prove how well the generated data conformed to some specific model or other. After investigating various models and approaches, it was decided very early in this study to take a research stand largely based on Patton's (2002) 'reality testing', which is a positivist and realist type, and Tesch's (1990) method that encourages "*the discovery of regularities approach*" using an interpretative approach. The final outcome of this study is to propose a theory on the basis of determining what really happens after a crisis occurs in a business and what can be done to ease the situation.

In line with Carson, Gilmore, Perry and Grornhaug (2001) and their interpretation of the interpretivist research methodology, this research method will also follow their prescription in qualitative research, which is as follows:

- Seek to build theory as a result of empirical insight so the theory-building phase of the research project is given explicit and careful attention.
- Prior theory is used as a foundation and is to be introduced at appropriate stages throughout the research study.
- Prior theory guides and loosely frames the research, but the research is not about testing this prior theory; instead it is about seeking an actual reality in instances where a crisis has affected a business.
- If, during the analysis phase, this research can confirm, or otherwise, a theoretical construct of actual marketing planning processes in a number of cases, then theory building is said to be occurring.

- The main purpose is to achieve substantive meaning and understanding of the variables that influenced the survival or failure of the business under investigation.
- The research is often predominantly semi-structured.
- The research will involve the researcher as an integral component of the study, where he guides and develops the research.

Qualitative design should help the researcher in developing a model of what occurred in the social setting. Denzin and Lincoln (2003) encourage this as they suggest that developing a model comes close to choreographic work or artistic work, and serves as a heuristic tool. Their research suggests that qualitative researchers feel that they do not need or value model developments. However, the authors advocate that like the scene designer or architect who builds a model, the choreographer or dancer who captures dance on film, or the artist who creates a drawing or series of drawings, the researcher should develop a model which can then be used as a tool for further work or it can serve as a simple historical record.

4.3 Interviews

> *"History is more or less bunk. It's tradition. We don't want tradition. We want to live in the present and the only history that is worth a tinker's damn is the history we made today."*
>
> Henry Ford (1916)[13]

This phase, like each step in the research process, is very important. The process of constructing the interview schedule, selecting the sample, and deciding on the sample size, is discussed under the following subheadings.

[13] As an aside, Henry Ford later sued the paper for libel after an editorial had described him as an "anarchist" and "ignorant idealist"; in the course of the action, the motor magnate was cross-examined for 8 days, during which he was forced to defend his views on history. The Tribune was found guilty and fined 6 cents. Source: The Columbia World of Quotations, 1996, Columbia University Press

4.3.1 Construction of the Interview Schedule

"A wise man's question contains half the answer."
Solomon Ibn Gabirol (1042)

As recommended by Patton (1987, 2002), this study utilised a 'standardised open-ended interview' ("SOEI") conducted with twelve participants (refer Appendix A).

Questions were carefully worded and arranged for the purpose of taking each respondent through the same sequence, and asking each respondent the same questions with essentially the same words. In using this approach, flexibility in probing is more or less limited, and is largely dependent on the nature of each interview along with the skills of the interviewer/researcher.

The SOEI is very useful when it is important to minimise variation in the questions posed to interviewees, hence reducing the bias that can occur from having different interviews for different people. By using a SOEI approach, the problem of obtaining a great deal of data from certain persons while getting less systematic information from others is eradicated. It was desirable to have the same information from each person interviewed, as it assisted in the construction of themes and, in the process, the development of a new theory in the area of crisis management.

Patton (2002, p.346) states that there are four major reasons for using a SOEI:

(1) The exact instrument used in the evaluation is available for inspection by those who will use the findings of the study.

(2) Variation among interviewers can be minimised where a number of different interviewers must be used.

(3) The interview is highly focused so that the interview time is used efficiently.

(4) Analysis is facilitated by making responses easy to find and compare.

In this study, only one interviewer (the researcher) was utilised, to ensure consistency.

Ueltzhöffer and Ascheberg (1999) stress that using in-depth interviews in qualitative research creates an authentic dialogue between the researcher and respondents. According to them, this method is the best and most effective approach.

The interview schedule contained 123 questions (see Appendix A). The questions that were included in this research were constructed based on the literature that was collected on issues pertaining to managing a crisis in a business, and the theory that had been generated from this literature. Some of the key theoretical concepts that emerged in the literature and which formed part of the questions, were grouped under the following headings:

A. Basic Business Details (15 questions)
B. Management Team and Training (5 questions plus Training & Experience Matrix)
C. Use of External Consultants (5 questions)
D. Business Continuity Planning (14 questions)
E. Information Technology (10 questions)
F. Building Ownership and Use (5 questions)
G. Insurance (2 questions)
H. Adequacy of Insurance (4 questions including matrix on Adequacy & Type of Coverage)
I. Stakeholders (6 questions including matrix on Stakeholder Involvement)
J. Financial Variables (7 questions including matrix on Timeliness of Insurance Proceeds)
K. Timing Issues (10 questions including matrix on Timing of Notice to Stakeholders)
L. Previous Losses (11 questions)
M. Details of Crisis (17 questions)
N. Post-Crisis Analysis (12 questions including matrix on Major Variables on Survival/Failure)

The core questions of the interviews were derived only after an exhaustive review of the literature on strategy and crisis management. Participants were allowed, in some instances, to range broadly but coverage of key topics was ensured. Patton (1987) suggests that by using interviewing, it allows the evaluator to enter another person's world, in order to understand the person's perspective. This research observed how the interviewees have organised their world, and the meanings they attach to what goes on in their world.

In preparation for the interviews, the researcher attended post-graduate training on qualitative inquiry, and was taught by an accomplished qualitative researcher how to undertake in-depth interviews. According to Denzin and Lincoln (2003), a qualitative research design requires the researcher to become the research instrument. This in turn means the researcher must have the ability to observe behaviour and must sharpen the skills that are needed for observation and face-to-face interview. They compare the qualitative researcher with a dancer and choreographer, where the researcher must be in tune with the body: "*The eyes must be taught to see, the ears must be taught to hear*".

It has been suggested that before researchers devote themselves to the arduous and significant time commitments of qualitative studies, it is a good idea for them to do some background work, or what some authors refer to as 'stretching exercises'. These stretching exercises allow prospective qualitative researchers to practise interview, observation, writing, reflection, and artistic skills to refine their research instruments, which are the researchers themselves. In addition, the researcher may use pre-interviews to test certain questions (Denzin and Lincoln, 1998).

Initially, as part of the study, two interviews were conducted to pre-test the interview format and determine the relevance and depth of the data obtained in the interview. These interviews revealed that the semi-structured interview style format and topic guide allowed participants to comfortably provide a great deal of detail concerning the business ownership and history, and the effects of the crisis on the business.

In line with conventional methodology founded and proposed by various authors (Carson *et al*. 2001; Miles and Huberman 1987; Patton 1987, 2002; Tesch 1990; Wolcott 1994), the final interview questions were created after a careful collection and analysis of literature in the field, and testing on two case studies. This process took more than one year to complete.

There was careful consideration given to the wording of each question in relation to its development and appropriateness. The basic purpose of using SOEI is to minimise interviewer effects. The approach makes the interview more systematic and helps reduce interviewer judgement (Tesch 1990).

The SOEI also makes data analysis easier because it is possible to locate each respondent's answer to the same question rather quickly, and to organise questions and answers that are similar (Patton, 1987). Although the data obtained using this approach is still open-ended in the sense that the respondent supplies his or her own words, thoughts, and insights in answering the questions, the precise wording of the questions is predetermined. There are some constraints placed on the use of different lines of questioning with different people based on their unique experiences. Hence, a SOEI approach reduced the extent to which individual differences and circumstances can be taken into account (Patton 1987, 2002). This was achieved in this research by allowing the interviewee the opportunity of adding any additional issues that they wanted to raise once all questioning using the SOEI approach had been completed.

4.3.2 Selection of the Sample

> *"The tendency of the casual mind is to pick out or stumble upon a sample, which supports or defies its prejudices, and then to make it the representative of a whole class."*
>
> Walter Lippmann (1929)

The sample of companies to be surveyed was drawn from enterprises that have suffered a major fire or similar event. A fire was chosen as the crisis event, as it can strike at any business enterprise at any time. One subject had not sustained a fire, but a building collapse which, as it had a similar effect as a fire on the business, was included.

The research concentrated on SMEs where the fire or similar crisis occurred at their sole or major operational site. This was to ensure the crisis was major and significantly disrupted the business to the point where it had the potential not to survive. Four companies were included that had a second location, to allow research on diversification and risk transfer.

The crisis had to have occurred within the preceding 18 months to 5 years of the survey. Businesses that have suffered a more recent loss may not have completed the recovery process, while it may be too difficult to examine losses that occurred more than 5 years ago.

In view of the depth of the research interview, coupled with the limitations on the number of businesses that fall within the criteria for selection, the sample size of the companies researched was twelve (12). The research dealt with losses arising in both Melbourne (7) and Sydney (1), as well as businesses that suffered a fire in Victorian provincial towns (4).

It was considered possible that businesses suffering a severe loss as part of a major catastrophe or natural disaster such as Ash Wednesday or the Sydney/Canberra Bush Fires, may have different issues to address than a stand-alone loss. To eliminate any possible bias that this may create, the business losses that were studied in this research were all affected by stand-alone events. Additional research could be carried out after this thesis, to examine any possible differences between these singular losses and 'group' or 'community' losses. To eliminate another possible area of bias, a wide cross-section of industries in which the SMEs operated, was chosen to ensure that the industry itself was not a contributing factor in the survival of the business.

To provide the opportunity for comparison between businesses within the broad industry groups, and to examine non-industry common variables, businesses falling within the criteria from three industries were studied, these industries being:

- Service
- Manufacturing
- Retail

The target sample studied included 12 interviews of business owners with 4 from the service sector, 4 from manufacturing, and 4 from retail. Locating businesses that fell within the criteria of this study proved not to be easy. To overcome the difficulty, 10 insurers and 10 loss adjusters were approached, and a request made for a referral to any business owner that met the criteria of this study. The possibility of locating businesses on a more random basis, perhaps using fire brigade records, was considered, but the name and address of the business are not available from this source. Therefore, this study utilised the referral sampling technique, where participants were requested to provide the researcher with another businessperson who could be contacted as a participant for this study, or where a party had access to the identity of suitable subjects. It was made clear in all cases that the person being referred would need to be a senior manager or business owner whose business had sustained a major loss by fire or the like.

Of the 12 interviewees, the size of their business, as measured by turnover, was as follows:

- 4 businesses with turnover ranging from $250,000 to $1,000,000
- 4 businesses with turnover ranging from $1,000,001 to $2,000,000
- 4 businesses with turnover ranging from $2,000,001 to $35,000,000[14]

[14] At the time the sample businesses were selected, no meaningful definition of a small or medium business was available. When the data gathering stage had been completed, the Australian Bureau of Statistics brought out a publication 8127.0 *'Characteristics of Small Business, Australia'* which provided a definition of a small business as one with a turnover of less than $3 million. This study covers both small and medium business and, with the largest business having a turnover of no more than $35 million, it is felt that all the companies sampled fall within the parameters of a small to medium sized enterprise.

This was purposefully done to create cross-comparisons based on the size of small and medium businesses in order to obtain a good cross-reference between different sized businesses based on turnover, thereby ensuring that turnover itself was not a variable to failure or success.

Six of the companies that were involved in the study survived the crisis, as defined by the researcher in Section 3, titled 'Theoretical Framework', while the other six businesses failed.

Other than these internal comparisons, the study does not try to make any further internal comparisons across cases within the sample.

The possibility of making internal comparisons becomes more difficult than would be the case were the sample larger and more diverse (Pole and Burgess, 2000). However, the difficulty in locating suitable research subjects for this study, together with the depth of the research questions, limited this study, but the results were considered to be more relevant to the study.

4.3.3 Justification of the Sample Selection

> *"The weapons laboratory of Los Alamos stands as a reminder that our very power as pattern finders can work against us, that it is possible to discern enough of the universe's underlying order to tap energy so powerful that it can destroy its discoverers or slowly poison them with its waste."*
>
> George Johnson (1996)

A referral sampling technique is appropriate when research is concerned with a small, specialised population of people who are knowledgeable about the topic (Aaker and Day 1990; Patton 1990). A key issue in the referral sampling technique is to be careful in the selection process of those who are able to refer an interviewee.

Miles and Huberman (1994) stress that opportunistic referral and other kinds of intensity-type sampling commonly used in qualitative research, are extremely beneficial to inductive research and help in theory building and analysis.

Referral sampling typically identifies cases of interest from people who know people who know what cases are information-rich. Others (Tesch, 1990; Patton, 2002) suggest that samples in qualitative studies are usually not wholly pre-specified, but can evolve once fieldwork begins. Initial choices of informants lead you to similar and different ones; observing one class of events invites comparison with another; and understanding one key relationship in the setting reveals facets to be studied in others. This type of sampling is an approach for locating information-rich key informants or critical cases. As mentioned above the process usually begins by asking well-suited people *"who have access to potential research subjects"* (Tesch, 1990, p.8). By asking a number of people who else to talk with, the known population gets bigger and bigger as you accumulate knowledge on new information-rich cases.

Patton (1987, 2002) cites seminal work conducted by various business gurus that utilised this sampling technique. The best known ones were the (i) Peters and Waterman (1992) study *In Search of Excellence*, which used this technique, asking a broad group of knowledgeable people to identify well-run companies; and (ii) Rosabeth Moss Kanter's (1983) study of innovation reported in *The Change Masters*, which focused on 10 core case studies of the *"most innovative"* companies. Kanter began by asking corporate experts for candidate companies to study. These nominations then snowballed as she broadened her inquiry, and then converged into a small number of different expert informants. Further, Paton (2002) highlights the advantages of purposeful sampling as the respondents selected are based on their being *"information rich"* and *"illuminative"*. Hence, these respondents offer useful manifestations of the phenomenon of interest. Unlike quantitative methods, sampling then is aimed at insight about the phenomenon, not empirical generalisation from a sample of the population.

The logic and the power of purposeful sampling derives its greatest strength from the emphasis of it leading to an in-depth understanding. Hence, as qualitative research is information-rich, one can glean a great deal of information about issues of central importance to the purpose of the research.

4.3.4 Sample Size in Qualitative Research

> *"...man will occasionally stumble over the truth, but usually manages to pick himself up, walk over or around it, and carry on."*
>
> Winston Spencer Churchill (1938)

Strauss and Corbin (1998) make a point that qualitative researchers usually work with small samples of people, nested in their context and studied in-depth; unlike quantitative researchers, who aim for larger numbers of context-stripped cases and seek statistical significance. In that research of Strauss and Corbin (1998), 20 in-depth interviews were conducted for the study of online consumer behaviour. The selection of the optimal sample size is a question that most researchers are perplexed about, and this is cited in the writings of most authors in qualitative research methods (Patton, 1990). According to Patton (1990), selecting the optimal sample size for the interviews depends on what is to be found and why, and how the findings are to be applied.

Further on this topic, Dick (1990) suggested that the sample size should be 1% of a target population of up to 200 and, as a minimum, the sample size should not be less than 12. Other authors have argued that the sample size is determined when the stability is reached, that is, when agreement among interviewees is achieved and disagreement among them is explained on all the issues raised (Patton, 1990).

According to Strauss and Corbin (1998), their second position has been found to be more useful and appropriate for marketing research. Some researchers have found that stability can occur after just 6 interviews, while some have found convergence among interviewees after only 5 interviews (Rao, Perry and Fraser, 2003). In this research study, it was found that after 6 to 8 interviews, stability was being experienced. Silverman (2001) also supports the view that interviews are best suited for small samples, as in-depth questioning of the samples is the offset.

What comes through with the research is that there are no rules for sample size in a qualitative inquiry. It all depends on what you want to know, the purpose of the inquiry, what is at stake, what will be useful, what will have the credibility, and what can be done with the available time and resources (Patton 2002).

As Patton (2002) points out, Piaget (1924) contributed a major breakthrough to the understanding of how children think by observing his own two children at length and in great depth. Freud (1940) established the field of psychoanalysis based originally on fewer than 10 client cases.

Patton (2002) goes on to explain that in their landmark study, Peters and Waterman (1982) formulated the widely followed 8 principles for organisation excellence by studying 62 companies; a very small sample of the thousands of companies one might study. Further, he refers to Sands (2000) who *"did a fine dissertation studying a single school principal, describing the leadership of a female leader who entered the challenging school situation and brought about constructive change"* (Patton 2002, p.23).

Most often, qualitative market research is often characterised as involving intensive research with small samples, with emphasis on the possibility of generalising from sample findings to the population as a whole (Christy and Wood, 1999). According to these authors, the focus of qualitative inquiry is typically on the depth of understanding attained within the confines of the project sample. Unlike quantitative methods, statistical techniques available for estimating a population mean, with stated levels of precision and confidence, are of no relevance for qualitative market research. The focus of qualitative research is on the depth of understanding achieved within the confines of the sample. Therefore, data obtained from a qualitative inquiry will include a detailed description of situations, events, people interactions and observed behaviours. The data will also include direct quotations from people about their experiences, attitudes, beliefs, and thoughts (Christy and Wood, 1999).

4.4 Confidentiality

> *"If I were to make public these tapes, containing blunt and candid remarks on many different subjects, the confidentiality of the office of the president would always be suspect."*
>
> Richard Milhous Nixon (1973)

This study was approved by the Victoria University's Human Ethics Committee. A copy of the approval can be found at Appendix B.

The individual answers to many of the questions asked, needed to be provided to allow the reader to understand the unique situation of each business and the themes within each. To protect confidentiality, neither the name nor the location of any business, has been provided.

To identify the type of industry, the location, and the size of the business, codes have been utilised, as set out in **Table 9**, overleaf.

Table 9
Questionnaire Respondent Codes

Differentiating Criteria	*Sample Stratum*	*Code*
Industry Grouping	Manufacturing	M
	Retail	R
	Service	S
Size of Firm *(based on Annual Turnover)*	$1,000,000 or less	1
	$1,000,001 to $3,000,000	2
	Greater than $3,000,000	3
Geographical Location	Greater Melbourne City	A
	Greater Sydney City	B
	Provincial Victorian City/Town	C

4.5 Procedure

"The magic of procedure: do this after that and thus before so; then your wish will be granted."

Mason Cooley(1987)

Having done a great deal of background work, the next phase was to start the interview process. How the sample was contacted, and how the data was collected, analysed and displayed, is explained below under appropriate subheadings.

4.5.1 How the Sample was Contacted

"Dr. Livingstone, I presume?"

Sir Henry Morton Stanley (1872)

This study used the referral sampling technique, where the initial contacts were insurance brokers who were contacted and asked to provide the details of persons who fitted the criteria of this study. It was found that typically an insurance broker had had only one or two clients who had had a major crisis during the past 10 years. The initial contact usually phoned back the researcher after a few days with a contact name, after speaking to the business owner to ensure they were happy to participate and have their details provided to the researcher. No one who declined the opportunity to participate was contacted by the researcher, and no pressure whatsoever was placed on the business owner to take part in the study.

As part of the selection process, every referred person was contacted initially by telephone to introduce them to the research study and to ensure that they fitted the criteria of the study. In 8 cases it was found that the referred person did not meet the criteria and, hence, was not included in the study. In each of these cases, the person was thanked for their time and cooperation.

In all instances, the researcher provided the interviewee with a copy of the questionnaire beforehand, in order for the person to familiarise themselves with the types of questions. Prior to the onset of the fieldwork, the researcher obtained the necessary approvals from the ethics committee, and made sure this was stated clearly to each interviewee at the beginning of the interview. All interviewees and the interviews that they provided, have been and will continue to be treated with the strictest confidence, and this was advised to each interviewee before the interview. It was explained to each and every participant that only anonymous information would be used in the analysis of the data, and their identities will never be revealed.

As part of the interview process, the study followed the steps recommended by Carson *et al.* (2001) and Dick (1990), which included:

- Contacting the respondent.
- Explaining the research being undertaken.
- Establishing rapport and neutrality.
- Agreeing a time, date and setting for the interview.

At the interview, the first step would be to again explain the purpose of the research and for all prospective interviewees to read through a prepared letter (refer page 1 of Appendix A). This document confirmed that the information provided would be kept confidential. Special mention was made that the study was approved by the Victoria University of Technology's Faculty of Business & Law, Human Ethics Research Committee.

If it was mutually agreed by the prospective interviewee and the researcher that the interview should go ahead, the following steps were taken:

- Introducing opening question.
- Record response.
- Introduce subsequent questions in order and record responses.
- Obtain copies of supporting documentation (eg. organisational chart).
- Probing questions.
- Inviting a summary.
- Conclusion of the interview with the researcher/interviewer thanking the interviewee for their time and cooperation.

4.5.2 How the Data was Collected

> *"Journalism is the art of collecting varying kinds of information (commonly called 'news') which a few people possess, and of transmitting it to a much larger number of people who are supposed to desire to share it."*
>
> Henry R. Luce (1965)

The questions that were included in this research were constructed based on the literature that generated models, incorporating:

- Competitive Forces Approach (Porter, 1980) – Section 2.2.2
- Resource Based Perspective Model (Grant, 1993) – Section 2.2.4
- Dynamic Capabilities Theory (Schoemaker and Amit, 1997) – Section 2.2.5
- Benchmarking (Bogan and English, 1994) – Section 2.2.7
- Stakeholder Theory (Nogiec, 1998) – Section 2.2.8
- Business Continuity Planning (Doherty, 1998) – Section 2.2.9
- Risk Diversification and Insurance (Pretty, 1997) – Section 2.2.12

In-depth interviews were used to gather data relating to business history and how the crisis affected the business. The 12 interviews were conducted over a period of 15 months. The first interview was held on 17 November 2002, with the last occurring on 15 February 2004.

Each of the in-depth interviews lasted between 4 to 5 hours. In all but one case, the interview was conducted in one sitting. In that one case, the interviewee received a telephone call requesting his urgent attention away from his office, and this session was halted then and there, but picked up with no apparent ill effect, 5 days later. The responses of each interviewee were recorded in the prepared Interview Questionnaire (see Appendix A).

Patton (1990) highlights the importance of capturing the data, in mentioning that no matter what style of interviewing is used, and no matter how carefully one words interview questions, it all comes to naught if the interviewer fails to capture the actual words of the person being interviewed.

Accordingly, it must be stressed that various authors have mentioned that the purpose of qualitative interviewing is to understand the perspectives and experiences of people being interviewed. The raw data of interviews are the actual words spoken by interviewees, and there is no substitute for this data. With this in mind, the answers for each question were repeated back to the interviewee to make sure that the words, particularly with the open-ended questions, were correct.

Probes were used at varying intervals in order to deepen the response to a question. It was also noticed that probe questions increased the richness and depth of responses, and gave cues to the interviewee about the level of response that was desired.

The flexible interview format that was used in this study enabled the interviewer to use follow-up questions whenever needed to ensure that participants' meanings were understood clearly and recorded accurately. Patton (1987) emphasises that a researcher needs to understand that interviewing in a qualitative methodology is a technique to understand any major themes that are involved. He proposes four guiding principles, when using interviewing as a research instrument. They are:

(1) The qualitative evaluator must have sufficient direct personal contact with the people and program being evaluated, in order to understand what is happening in depth and detail.

(2) The qualitative evaluator must be able to provide a meaningful context for what takes place and what people actually say.

(3) The qualitative interviewer will report a great deal of pure description of people, activities, and interactions.

(4) The researcher will capture and report direct quotations from people, both what they say and what they write down.

Jarratt (1996) advocates a semi-structured approach to in-depth interviews that enables the researcher to cover a specific list of topic areas, with the time allocated to each topic area being left to the discretion of the interviewer. The open structure ensured that unexpected facts or attitudes were fully explored.

Based on Patton's (2002) definitions, the questions in this study can be classified as:

- Behaviour questions
- Opinion/belief questions
- Feeling questions
- Knowledge questions
- Sensory questions
- Background demographic questions

The questions early in the interview were non-controversial and asked participants about the background and history of the business. The interviewer sensed that the question in relation to the level of education and management training did cause two interviewees some slight initial discomfort, but the question was considered relevant and, to maintain a consistent approach to all interviews, the question and its position in the schedule of questions was left unaltered.

In the design of the questionnaire, some of the questions that had relatively straightforward descriptions or required minimal recall and interpretation where placed at the commencement of the interview, as they were fairly easy to answer and eased the interviewee into the interview process. These were basic business questions.

From the start, the interviewee was encouraged to take their time and to talk descriptively. Depending on the personality of the interviewee, the researcher experienced having to use probe-type questions with a focus on eliciting greater detail, filling out the descriptive picture.

Soon after each interview (usually the same evening), the researcher reviewed the interviewee's answers to the questionnaire and, in the process, began to conduct a form of analysis on the interview. Patton (1987) advises that this period after the interview is a critical time of reflection and elaboration. It is a time of quality control to guarantee that the data obtained will be useful, reliable, and valid. This aspect was found to have a profound effect on every consequent interview that the researcher conducted.

Certainly, the process of examining each interview after it was completed was the beginning of analysis. With the situation and data fresh in the researcher's mind, insights can occur that might otherwise have been lost. An example to illustrate this is, initially, the questionnaire did provide a split of employees between location when the business operated from more than one site. While there was no literature on this aspect, it was deemed important as a guide to show the relevant size of the site compared to the overall operation. Thus, ideas and interpretations that emerged during or following an interview or observation were written down and clearly marked, then explored further (Patton, 1987).

4.5.3 Analysis of the Data

> *"No delusion is greater than the notion that method and industry can make up for lack of mother-wit, either in science or in practical life."*
>
> Thomas Henry Huxley (1866)

According to Ely, Vinz, Anzul, and Downing (1997, p.2), the New Webster's Dictionary meaning of 'to analyse' is *"breaking down in constituents parts, to resolve in elements"*. The Random House Dictionary of the English Language, as referred to by these same authors, defines 'analysis' as *"the separating of material into its constituent elements…studying the nature of something or its essential features and their relations"* (Ely *et al*., 1997, p.2). This interpretation of 'analysis' clearly explains the key role of the researcher's framework during the analysis phase.

The authors (Ely *et al*., 1997) stress that at this stage of the research, the construction of concepts, indicators, variables, categories, and classifications play an important part, because they allow the researcher to unfold and specify the research problem. The researcher later begins to unfold the collected data into components to be separated, defined, ordered and classified.

The publication *On Writing Qualitative Research – Living By Words* (Ely, Vinz, Anzul, and Downing, 1997) quotes Tesch, providing the following list of ten characteristics of qualitative analysis:

(1) Analysis is not the last phase in the research process; it is concurrent with data collection, and is cyclic.

(2) The analysis process is systematic and comprehensive, but not rigid.

(3) Attending to data includes a reflective activity that results in a set of analytical notes that guide the process.

(4) Data is 'segmented,' ie. divided into relevant meaningful 'units,' yet the connection to the whole is maintained.

(5) The data segments are categorised according to an organising system that is predominantly derived from the data itself.

(6) The main intellectual tool is comparison.

(7) Categories for sorting segments are tentative and preliminary in the beginning; they remain flexible.

(8) Manipulating qualitative data during analysis is an eclectic activity; there is no one right way.

(9) The procedures are neither *"scientific nor mechanistic"*; qualitative analysis is *"intellectual craftsmanship"*.

(10) The result of the analysis is some type of higher-level synthesis.

Patton (1987) stresses that when a qualitative researcher analyses, the researcher stops the flow of the 'sequential presentation' and lifts an element out from the whole to inspect it more closely. In analysis for qualitative research, the researcher tries to discern the smallest elements into which something can be reduced and still retain meaning if lifted out of immediate context, and then to discover relationships between those elements.

Miles and Huberman (1994) define data analysis as three linked sub-processes that involve:

- Data reduction
- Data display
- Conclusion drawing and verification

These researchers describe data reduction in terms of data selection and condensation. Within this stage, data is reduced in anticipatory ways as conceptual frameworks are chosen and as instruments, cases and questions are refined. Miles and Huberman's analytical approach was utilised for this study.

The interview data content was analysed using NVIVO. The researcher attended a three-day course on the use of the software. The different strategic decisions in each case were mapped, as were the stakeholders/issues that were found to be important in achieving the successful management of the crisis or which contributed to the failure of the process. The factors identified were rank ordered, and non-parametric tests of significance were applied.

4.5.4 Data Reduction Phase

> *"By always thinking unto them, I keep the subject constantly before me and wait till the first dawnings open little by little into the full light."*
>
> Sir Isaac Newton (1705)

The interview data was summarised, coded, and broken down into themes, clusters, and categories based on the key building blocks of the study, as part of the data reduction phase. With the analysis phase in mind, a semi-structured in-depth questionnaire was created, centred on the key building blocks (or variables) of the study; from these themes came the construction of theory. Creswell (1994) talks about *"winnowing"* the data here as not all information is used in a qualitative study, and some may be discarded. That certainly was the case in this research study.

The data collected was then coded and analysed, to allow for the themes to emerge. These themes, their interrelationships and alternatives were then sorted out and will be discussed in detail in the later chapters of this dissertation. Hence, it can be certain that any resultant theoretical implications that are suggested in this study are grounded in data obtained from the in-depth interviews undertaken as part of this research.

Miles and Huberman (1994, pg.83) describe coding as *"tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study"*. According to them, codes are usually attached to *"chunks"* of varying size words, phrases, sentences or whole paragraphs, connected or unconnected to a specific setting. They can take the form of a straightforward category label or a more complex one like a metaphor.

Seidel and Kelle (1995) stress that coding is undertaken to achieve three kinds of operations, being: (a) noticing relevant phenomena, (b) collecting examples of those phenomena, and (c) analysing those phenomena in order to find commonalties, differences, patterns, and structures. They suggest that coding an instrument used to reduce data makes it a heuristic or discovery device. In this sense, coding qualitative data differs from quantitative analysis, for the researcher is not merely counting, but rather the researcher attaches codes as a way of identifying and reordering data, which in turn, allows the data to be thought about in new and different ways.

Coding is the mechanics of a more subtle process of having ideas and developing concepts about the data. It can be viewed as *"nothing more than a preparation for this process which is based on a careful inspection and analysis of raw data (that is segments of text) and on their comparison for the sake of identifying patterns and structure"* (Seidel and Kelle, 1995, p.30).

In practice, coding usually is a mixture of data reduction and compilation. Coding is generally used to break up and segment the data into simpler, general categories, in order to expand and tease out the data, to formulate new questions and levels of interpretation. In the process, it is important to ensure that the coding does not lose more than it can gain. It is especially important to avoid the use of coding merely to apply simple and deterministic labels to the data. Data reduction or simplification of that sort is not the main analytic purpose of qualitative coding. Coding should be thought of as essentially heuristic, providing ways of interacting with and thinking about the data. Those processes of reflection are more important ultimately than the precise procedures and representations that are employed (MacQueen, McLellan, Kay and Milstein, 1998).

The segmenting and coding of data are often taken-for-granted parts of the qualitative research process. All researchers need to be able to organise, manage, and retrieve the most meaningful bits of data. The usual way of going about this is by assigning tags or labels to the data, based on our concepts (Seidel and Kelle, 1995).

Patton (1987, 2002) proposes the usefulness of utilising content analysis to identifying coherent and important examples, themes, and patterns in the data. In doing so, the analyst looks for quotations or observations that go together, that are examples of the same underlying idea, issue, or concept. Sometimes this involves pulling together all the data that addresses a particular evaluation question. The researcher then writes comments in the margins of the field notes. This approach is extremely useful too and was utilised in the analysis phase of this research.

Once the coding was completed, key themes and patterns began to emerge from the interview data. Many analyses of qualitative data begin with the identification of key themes and patterns and assigning codes to these. Tesch (1987, p.206) phrases it as, *"In dealing with their data, qualitative researchers 'search for themes', and they 'find themes', or they 'extract, recognise, or identify them'"*. She goes on to point out that an analysis for themes is one of the most frequently mentioned analytic approaches used by qualitative researchers.

Ely, Vinz, Anzul, and Downing (1997, p.18) state that a theme can be defined as a statement of meaning that *"(i) runs through all or most of the pertinent data, or (ii) one in the minority that carries heavy emotional or factual impact"*. Tesch (1990, p.67) states that by 'themes' she means *"brief statements that describe the content of individual units of data text"*. Themes, then, are most commonly stated for particular categories of data.

This study followed Bussis, Chittenden, Amarel and Canni (1978) in Ely, Vinz, Anzul, and Downing (1997), who provided the following advice for researchers when developing themes:

Step 1. Study and re-study the raw data to develop detailed, intimate knowledge.

Step 2. Note initial impressions.

Step 3. List tentative categories.

Step 4. Refine categories by examining the results of Steps 2 and 3, and returning to the entire database of Step 1.

Step 5. Group data under the still-tentative categories, and revise categories if needed.

Step 6. Select verbatim narrative to link the raw data to the categories.

Step 7. Study results of Step 6, and revise if needed.

Step 8. Write theme statements from each participant from the researcher's best attempt to speak from her/his point of view by linking data in and across categories.

Step 9. Integrate findings about each person.

Step 10. Compare findings for all persons for commonalities or patterns, differences, and unique happenings.

It was envisaged that the key building blocks of this study, as listed hereunder, would form most of the themes of this study:

- Pre-existing ability to raise funds
- Number of locations
- Availability of temporary/replacement site
- Use of a Crisis Recovery Plan
- Speed of claim acceptance

- Speed of progress payments
- Adequacy of insurance coverage
- Leadership quality of business manager
- Lack of business continuity planning in SMEs
- Level of assistance provided by stakeholders
- Use of external consultants
- Relationship between loss adjuster and business manager/owner

It needs to be mentioned here that keeping to the philosophy of qualitative research, the analysis strictly followed an inductive approach. Inductive analysis means that the patterns, themes, and categories of analysis come from the data; they emerge out of the data rather than being decided prior to data collection and analysis (Bryman and Burgess, 1994).

4.5.5 Data Display

> *"Many works have been written, the subjects of which especially at first sight and taken in the abstract, would appear to offer little or no scope for pleasure or profit. ...Do not be afraid, patient reader, to peruse these pages. The bird imperceptibly builds a soft and elegant nest of the most unconsidered trifles, and makes each one serve an admirable purpose."*
>
> George Morgan (1993)

After the data reduction phase was completed, the reduced data was displayed and clustered around various themes. This phase was done in order to simplify and show what the data implied. As Miles and Huberman (1994) explained, data display should be viewed as an *"organised, compressed assembly of information that permits conclusion drawing and/or action taking"*.

4.5.6 Conclusion Drawing & Verification

> *"The shrewd guess, the fertile hypothesis, the courageous leap to a tentative conclusion - these are the most valuable coin of the thinker at work."*
>
> Jerome Seymour Bruner (1960)

Miles and Huberman's (1994) third analytical sub-process was used to draw conclusions and verify the themes, returning to the existing literature. This is the stage where the displayed data is interpreted and meaning is drawn. The authors suggest that this can be done by employing a variety of different tactics; for example, looking for comparative and contrasting cases; noting and exploring themes, patterns, and regularities; and using metaphors. In this case, the different strategic decisions in each case were mapped, as were the stakeholders/issues that were found to be important in achieving the successful management of the crisis. The factors identified were rank-ordered, with non-parametric tests of significance applied.

Creswell (1994) suggests that analysis and interpretation are conceptually separate processes. To his mind, 'analysis' is the process of bringing order to the data, organising what is there into patterns, categories, and basic descriptive units. 'Interpretation' on the other hand, is similar to conclusion-drawing and verification in Miles and Huberman's (1994) approach. This involves attaching meaning and significance to the analysis, explaining descriptive patterns, and looking for relationships and linkages among descriptive dimensions.

Patton (1987) suggests that in the write-up stage, where conclusions are drawn, detailed description and in-depth quotations are needed, being essential qualities of qualitative reports. Sufficient description and direct quotations should be included to allow readers to understand fully the program and the thoughts of the people represented in the report. However, Patton cautions that these descriptions should stop short of them becoming trivial and mundane.

4.5.7 Other Authors' Views

> *"If one had to worry about one's actions in respect of other people's ideas, one might as well be buried alive in an ant heap or married to an ambitious violinist. Whether that man is the prime minister, modifying his opinions to catch votes, or a bourgeois in terror lest some harmless act should be misunderstood and outrage some petty convention, that man is an inferior man and I do not want to have anything to do with him any more than I want to eat canned salmon."*
>
> Aleister Crowley (1929)

Similar to Miles and Huberman (1994), Dey (1993) suggests that the primary task of data analysis in qualitative studies is to identify and link categories. The analysis stage is a process of resolving data into its constituent components to reveal their characteristic themes and patterns. The author deconstructs qualitative data analysis into three related processes:

- Describing
- Classifying
- Connecting

In Dey's model, the analysis must first offer thorough and comprehensive descriptions that include (where appropriate) the context of action, the intentions of the social actor, and the processes in which social action is embedded. Dey (1993) suggests that data should be classified in order to "*give meaning*", referring to categorisation of data and the assigning of data bits into themes and codes. Finally, with connecting, Dey suggests that categorisation or coded data can be analysed in terms of the patterns and connections that emerge. This is where the pieces are put back together again. In Dey's terms (1993, p.47), *"connecting concepts is the analytic equivalent of putting mortar between building blocks"*. Like Miles and Huberman (1994), Dey (1993) defines the analysis of qualitative data in terms of clear, distinct, and identifiable sub-processes.

Tesch (1990) identifies several key characteristics of qualitative data analysis that can be viewed as commonalties of the analytical process. She cautions that no characteristics are common to all types of qualitative analysis, but suggests that there are a number of regular features.

These regular characteristics, according to Tesch (1990), are:

- Analysis is a cyclical process and a reflective activity.
- The analytic process should be comprehensive and systematic, but not rigid.
- The data is to be segmented and divided into meaningful units.
- Though it is segmented, a connection to the whole should be maintained.
- Data is to be organised according to a system derived from the data itself.
- Analysis is, on the whole, an inductive, data-led activity.

Tesch (1990) also points to the flexibility of analysis in qualitative methods, and to the absence of rules as to how it should best be done. According to Tesch, analysis implies being *"artful and playful"*.

Tesch maintains that this does not mean that analysis is a structureless process, nor that it should be done without sufficient attention or sloppily. Qualitative data analysis requires methodological knowledge and intellectual competence. Analysis is not about adhering to any one correct approach or set of right techniques; it is imaginative, artful, flexible, and reflexive, while being methodical, scholarly, and intellectually rigorous.

Wolcott's (1994) description of what analysis means, presents a rather different way of thinking about how we explore and interpret qualitative data. Wolcott uses the term *"transformation"* to describe a variety of strategies. He restricts the term *"analysis"* to a more specialised meaning than do other writers. Wolcott (1994) argues that qualitative data can be transformed in different ways and to different ends. He also breaks up the process into three types:

- Description
- Analysis
- Interpretation

Description follows from an underlying assumption that data should speak for itself. The analytical account of data should stay as close to the data as it was originally recorded. Wolcott suggests that the question here is *"What is going on?"*. He does recognise that there is no such thing as pure description, as it takes a human observer to accomplish description. Nevertheless, the goal of description in Wolcott's terms is to tell a story of the data in as descriptive a way as possible.

According to Wolcott (1994), analysis is the process by which the researcher expands and extends data beyond a descriptive account. The analysis activity is also structured, formal, bounded, systematic, grounded, methodical, particular, carefully documented, and impassive. The emphasis is on the search for themes and patterns from the data. Analysis involves systematic procedures to identify essential features and relationships.

In this transformation of qualitative data, Wolcott (1994) is of the view that the researcher should attempt to offer his or her own interpretation of what is going on. In contrast to 'analysis' in Wolcott's terms, 'interpretation' is freewheeling, casual, unbounded, aesthetically satisfying, idealistic, generative, and impassioned.

Wolcott's triad of approaches to the analysis or transformation of qualitative data at first glance appears similar to the sets of procedures offered by Miles and Huberman (1994) and by Dey (1993). Unlike these authors, however, Wolcott does not envisage that description, analysis, and interpretation necessarily will be part of one overall schema, to be applied in its totality in all cases.

Wolcott (1994) also does not see description, analysis, and interpretation as being mutually exclusive. The transformation of qualitative data can be done at any of the three levels, or in some combination of them. He argues that description, analysis, and interpretation are the three primary ingredients of qualitative research, from which different balances can be struck.

Where appropriate, this research has adopted a descriptive approach to assist the reader in understanding the background to the crisis that the business under review experienced, and the strategy that the owner or manager of the business used to address the crisis.

Chapter 5.
Results – Who Formed the Sample

> *"You can only have two things in life, reasons and results. Reasons don't count."*
>
> Robert Anthony (1984)

5.1 Introduction

> *"Let us watch well our beginnings, and results will manage themselves".*
>
> Alexander Clark (1860)

This chapter presents the results of the interview questionnaires that form the basis of this study. It begins with the response rate of the survey (Section 5.2), which details the industry group in which the business surveyed operated, and the number in each industry that survived the crisis. This is followed by a short narrative, describing each case study (Section 5.3), and a summary of the characteristics of the sample (Section 5.4).

The Data Reduction and Data Display phases are detailed in Chapter 6. The answers pertaining to the research questions can be found at Chapter 7, which is titled 'Discussion & Verification', with the developed Crisis Management Model provided at Section 7.5.

5.2 Response Rate

> *"Hearts are the strongest when they beat in response to noble ideals."*
>
> Ralph Bunche (1989)

In all, twelve SMEs were studied as part of this research. Another five companies were approached, but they did not fall within the parameters of the study as set out in Chapter 3.

An initial breakdown of the 12 businesses is set out in **Table 10** overleaf, showing the industries in which the companies operated and whether the business survived the crisis (fire or similar event).

Table 10
Breakdown of Companies Surveyed by Industry Type & Success/Failure

Industry Type	*Survived Crisis*	*Did not Survive*	*Total*
Manufacturing	3	1	4
Retail	1	3	4
Service	2	2	4
Totals	**6**	**6**	**12**

On page 45, prior to Section 3.1, the definition of whether a business survived was set as:

- Still in business after 2 years.
- Pre-loss growth in business resumed within 2 years.
- Market share returned to pre-crisis level or higher within 2 years.
- Level of debt returned to pre-crisis level or lower within 2 years.
- Resumption of payment of interest within 12 months.
- Resumption of payment of declared dividends within 12 months.
- Resumption of payment of undeclared dividends with 2 years.
- Retain same ownership (at least 75%).

5.3 Background of Companies Surveyed

> *"Place yourself in the background. Write in a way that draws the reader's attention to the sense and substance of the writing, rather than to the mood and temper of the author."*
>
> E.B. White (1949)

This section of the paper provides a brief background to each business, and is designed to explain just some of the difficulties that the businesses experienced arising from the crisis. Basic information relating to the company's industry grouping, size and geographical location (as outlined in **Table 9** at Section 4.4), is provided. While the names have been withheld for the sake of confidentiality, the information now provided is an accurate synopsis of each subject.

Company A

"The finest steel has to go through the hottest fire."

Richard M. Nixon (1973)

Company A has been coded as a manufacturing business, with a turnover exceeding \$3 million, and being located in Greater Melbourne. It survived the crisis.

The company manufactures electronic componentry for two or three major customers. The fire occurred in the final assembly area and storage facilities, with a great deal of their finished goods being damaged or destroyed. The business is cyclical, with peaks in sales every 2½ to 3 years. The fire occurred in one of the non-peak periods and, as such, management were able to devote a great deal of time to the management of the rebuilding process and the task of recovering the proceeds of the insurance cover.

The cost of rebuilding the physical building was in the vicinity of \$1 million. The builder recommended by the insurance company ran months over time and, at the time they requested final payment, the business owner had identified 729 defects in the repaired building. It is fair to say that the owner was a fastidious person and that while many of these defects would have been let go by other building owners, at least half were serious defects. The insurer's loss adjuster did not wish to become involved in the dispute resolution, pointing out that it was the insured as the building owner/business operator who signed the contract for the rebuilding works with the builder.

In an effort to minimise the loss, the loss adjuster instructed that the electronic parts, which had sustained smoke or soot damage, but not heat damage, were to be cleaned. The owners of Company A were not happy about this, as they would have to carry the warranty risk on the parts should any fail after the cleaning. A contractor was engaged to do the work nonetheless, and near the end of the process, the loss adjuster agreed that the stock should not be sold as new.

The cleaning contractor who did the cleaning in good faith, has not been paid his sizeable account by either the business owner or the insurer, showing that the business immediately affected by the fire is not the only company to go through a crisis as a result.

Company B

> *"It takes very little fire to make a great deal of smoke nowadays, and notoriety is not real glory."*
>
> Louisa May Alcott (1886)

Company B has been coded as a manufacturing business, with a turnover of between $1,000,001 and $3 million, and being located in Greater Melbourne. It survived the crisis. It is one of those companies that is a mixture of manufacturing, service and retail, and was coded as manufacturing as this was the largest component of the business.

The fire started when material around a flush-mounted light fitting in the ground floor ceiling, ignited after it became overheated. The fire was detected by the burglar alarm system within the building, but nonetheless the fire spread so rapidly that the entire three floors of the building, including all plant and machinery, stock and customers goods, as well as the roof, were seriously affected.

One of two directors of the business received a call from the alarm company at around 3.00am on a Sunday morning, advising him that the premises was on fire. He immediately drove to the premises in record time, only to sit there helpless for hours until first the fire was extinguished, and then the police completed their enquires into the cause of the fire. It was not possible for this business owner to adequately describe his thoughts during that period as he witnessed not only his, but his family's, life's work go up in smoke. In his case, his great grandfather had started the business in the early 1900s, and he had only recently taken over management of the business from his father, who was still in the business providing much valuable advice.

The owners reported the fire to their insurance broker who, in turn, reported the incident to an after hours emergency service provided by the insurer. This service appointed a fire investigator and two loss adjusters, who all attended that same morning. At this time of great stress, having had little sleep the night before, the owners had to deal with the fire investigators from the fire brigade, police, State Forensic Laboratory, and insurance company. They also met with and fielded questions put to them by the loss adjusters and the media. Print, radio and television media were involved.

The business provided specialist cleaning services to customers, and usually opens on a Sunday. As such, the owners and their staff were also inundated by customers looking to pick up their goods. Some customers were most understanding, however, many more were not. Some blamed the owners for the damage to their goods, and were seeking immediate compensation.

The owners of this business both stated during their interview that this early investigation process greatly added to the stress and, as a result, incorrect decisions could easily be made during this initial period, which could adversely affect the recovery of the business, such as *"A sharp word to a demanding customer, a snappy answer to the media or investigator can take some getting over"*. In this business's case, they kept their composure and handled the first day very well.

The fire received a great deal of exposure being reported on all the television network news services and the daily papers, as well as the community papers. All the press concentrated on the loss of one class of customer's goods in the fire. One television news bulletin had a tearful customer explaining what the loss meant to her. It was good sensational journalism, but failed to make mention of the fact that the customer had left the item at the business 4 years ago. The customer either was avoiding paying the cleaning charge or was saving on storage charges; either way it was hardly the business owner's fault that she lost the item. It was an accidental fire and she should have collected her property long before the fire occurred. Nonetheless, years later, the only part of this business that has not completely recovered is that part that received the adverse publicity. So much for *"all publicity is good publicity"*.

This business received enormous assistance from their competitors, much more than any other business surveyed. This was not forgotten and, when one of these competitors suffered a relatively minor crisis, the owner here repaid the favour many times over.

The crisis was not confined to the initial fire. Two weeks after the new equipment had been installed and commissioned, one of the machines developed a fault, which meant that the machine had to be taken off-site for repair. A large shop front window had to be removed, and then a crane used to lift the machine out of the shop onto a truck. Once the machine was repaired, the process had to be reversed. This type of added disruption to an already tight reinstatement schedule was quite frustrating, but cannot be overlooked.

At about the same time, the entire shop was flooded when a council stormwater pipe became blocked, and a break-in occurred and the day's takings were stolen. Again, great patience was called on not to overreact to this spate of annoying inconveniences, which would be bad enough during normal times.

One of the most important components to the management of this crisis was the careful handling of claims by customers for their goods lost in the fire. The legal position was that as the fire was accidental in origin as far as the business owners were concerned, they had no legal responsibility to reimburse any customer for their loss. Any businessperson must take reasonable care of their customers' goods. This does not create a strict liability at law. Having said this, commercial reality needs to be kept in mind. Most businesses rely heavily on a great many repeat customers. Had this business owner simply applied the letter of the law to all the customers' claims they would have alienated a wide cross-section of their customer-base, which would no doubt have meant a downturn in turnover for many years; in fact, the business may not have recovered.

On the flipside, it was unlike Company A, with this loss occurring during a peak period. Over 1,000 customers had property in the store at the time of the fire. The estimated value of the goods was set at over $2.5 million.

The owners had a complete backup of their computer records. This was restored onto a loan machine the day after the fire. As such, a complete list of customers was available, as was a count and a brief description of each item. Over 85% of the items were so badly damaged, they were not identifiable. Of the over 1,000 plus possible claims, approximately 150 people never made a claim. Some explained that the business owners had looked after them for many years and they would not add to their burden. On the other hand, 144 people, many of whom had never been a customer of the business, attempted to claim for goods that they never had in the store. Of those that claimed, approximately 30% claimed for higher quality or more items than were in the store; a sad reflection on values in today's society? Fortunately, the owners' records were such that the non-genuine claims could be dealt with quickly and efficiently, leaving the person in no doubt that they did not have any goods in the store.

The loss adjuster who processed all the claims, reported that the knowledge of the business owners and their staff was invaluable in this process. Weekly meetings were held in which claims were discussed and, relying on their memory of their customers, their garments and their habits, confirmation was provided as to those claims that were fair. In cases where doubt existed, a visit to the customer's home was undertaken to ascertain that the rest of the home was in keeping with the items claimed. The approach taken by the business owners was to ask customers to make a claim against their own insurer, and the business owners met any genuine claims for insurance excesses or where there was no other insurance in place. The claim was ultimately settled for just on the sum insured for customers' goods.

The enormity of this task cannot be underestimated. It was over 8 months before the process was completed, and required the equivalent of one person full-time for that whole period. Neither the business owners, nor their staff had the training or time to handle this project. The use of external consultants in the form of a full-time claims handler and an accountant to calculate the business interruption loss, was necessary in this situation.

Company C

> *"If you have the will to win, you have achieved half of your success. If you don't, you have achieved half of your failure."*
>
> David Ambrose (2002)

Company C has been coded as a retail business, with a turnover under $1 million, and was located in a provincial city/town in Victoria. It did not survive the crisis. As with Company B, this company could have been classified under more than one industry classification. However, the owners regarded the business as a retailer, and this sample was coded accordingly.

There are several similarities in respect to the cause of fire and type of business between Company B and Company C. The fire was an accidental fire caused by faulty wiring in the building which, in this case, the owners of the business did not own. While it was not their fault in any way, a great deal of customers' goods were lost in the fire.

In this instance, the business had neither business interruption insurance nor any cover for customers' goods where they were not legally liable for the damage. On top of this, the landlord decided not to put back a retail shop, but rather rebuilt the building as commercial offices as the return was better for the landlord.

No other retail premises were available in the provincial town. The four business partners decided very early that the uninsured cost of trying to resurrect the business was simply too great for the returns they could hope to make out of it and, within 2 weeks, had decided to wind the company up. Even with this decision taken, it took a great deal of work to have the insurance claim for insured assets paid, and the demands from customers successfully denied.

While two of the four business partners could meet the net loss that the winding up of the business caused, two could not. One, who worked in the business, had to find alternative employment, and the other, who was a retired person and had invested in the business with his superannuation payment, was forced back to work. Without the will of all of the partners, nor sufficient insurance coverage, the decision to close the business early was no doubt the correct course of action to take.

Company D

"Every survival kit should include a sense of humour."
Anonymous

Company D has been coded as a service company, with a turnover between $1,000,001 and $3 million, being located in Greater Metropolitan Melbourne. It did survive the crisis.

This business, in the food service and function area, had been operating for many years. However, it had become rundown. The current owner immigrated to Australia from the Middle East in the early 1970s. He worked with two of his brothers in a number of businesses, before deciding to purchase Company D as a business for himself and his family to operate. The business employs the owner, his wife, his two brothers, their wives, and friends and relatives of the three brothers.

The owner of the business is in charge of marketing and sales. A long-standing female employee, who had worked for the company for 7 years before the current owner acquired the business, assists him. This employee brings a feminine touch to the business, which the potential customers, in particular brides, appreciate. She is also very good at the day-to-day paperwork.

The younger of the owner's brothers is the chef, and is in charge of the kitchen. The third brother is in charge of operations and organises purchasing and the staff required for duty.

While none of the brothers had a very high level of education, the highest being to Grade 7, they are all extremely competent in their roles and work well together. The men own other businesses together or individually, but the family supports each other financially and otherwise, where required. In discussions with the three men, they advised that they place the relationship between themselves higher than the relationship with their wives, when it comes to business.

The owner of Company D realised that he must continue to upgrade the facilities, and not let it tire. He also saw the opportunity to provide a value-added service to his customers, and subsequently invested in additional buildings and equipment on the site. Clearly, all members of the family, while not shown as owners of the business, treat themselves as part-owners, work diligently and with pride in the business, and receive adequate compensation from the profits of the business.

At the end of a seasonal peak period, the building was engulfed by fire. It was found that the fire started in a piece of electrical equipment. The fire spread rapidly, destroying much of the building, including the kitchen, which is the lifeblood of the business. Only the office and a small dwelling occupied by one of the brothers were saved. However, for safety reasons, the building was deemed uninhabitable during the rebuilding process.

A site hut was hired, to be used as an office for the business, while the builders went about the task of rebuilding the premises. A caravan was also hired, and one staff member stayed onsite to offer security to the premises 24 hours a day.

The immediate concern was for functions, which had been booked up to six months from the date of the fire. There were 132 functions booked between the date of the fire and when the business was able to be restarted. Each function customer had to be contacted and advised as to whether it was likely that the building would be rebuilt. All 132 customers were offered alternative premises at other locations, with no profit going to Company D. Very few people took this offer up, choosing to find their own alternative. In all, nearly $100,000 of deposits was refunded, which placed a substantial cash flow drain on the business.

By the time building permits were approved, it was not until 7 months after the fire that the building was rebuilt and the first function was able to be held. This was considered a fast reinstatement, and the owner places much of the credit with a project manager employed to supervise the subcontract trades and the building company itself. One of the few links between companies surveyed, was that this was the same builder as that used by Company A. In this instance, with constant supervision, the building owner was happy with the service and quality of the work.

Customers book functions many months in advance, with some one-off functions such as weddings, often booked more than 12 months in advance. It was difficult for Company D to convince potential customers that the premises would be rebuilt within the timeframe proposed, until such time as the roof had been fitted and all evidence of the fire damage had been removed - this was not until 6 months after the fire. Although some bookings were made, turnover was down for just over 12 months from the date of the fire.

The loss adjuster appointed was a little slow to respond on a number of occasions due to having too large a caseload. As a result, the owner had to borrow funds from his family to tide him over. The building and loss of profits were adequately insured. However, stock was slightly under-insured, as were fixtures and fittings. Further, fixtures and fittings and other contents including tables, chairs, kitchen appliances, were under-insured to the value of approximately $30,000. However, the owner was able to negotiate extremely well, and the effect of co-insurance was only relatively minor.

The owner of Company D believes that his attitude to life and his sense of humour helped him through the process.

Company E

"An hour may destroy what an age was building".
English Proverb

Company E has been coded as a manufacturing business, with a turnover exceeding $3 million, and is located in Greater Melbourne. It failed to survive the crisis.

In the mid 1990s, after nearly 40 years in the industry, the principal owner of Company E, was looking to move this business forward in two ways. The first was in a physical sense, and the second was to make better use of technology. We start with the first of these two issues.

The business was located across six separate buildings in an old industrial suburb of Melbourne, including the first one in which he had started the business as a young man in the 1950s. In fact, the owner of Company E owned only one of these buildings. Further, having the business located across different buildings meant inefficiencies, quality problems, increased management time and duplicated resources.

In addition to the Melbourne business, only a few years before, Company E had acquired a business in Sydney, which performed very similar work to the Melbourne operation, but was a smaller concern in turnover and staff.

The first step of the process was to locate and purchase land large enough to house the national office, the manufacturing plant, as well as parking facilities for our 60 plus staff. Off-street container loading and unloading was an essential part of the equation. The site was ultimately located in a new industrial suburb of Melbourne.

The next step was to draw up plans with an architect, who was referred to the principal owner by his financier. The architect prepared the plans in consultation with a committee of directors and senior management of Company E. With the plans drawn, the principal owner of Company E took over day-to-day management of the project, and started with obtaining pricing. This was 2 years before the crisis under review.

The building was built, and it was designed and constructed as a state of the art building. To give some idea of the design features, the construction materials and design were such that Company E saved $500,000 in mechanical services, with an ongoing saving in operating costs.

The principal owner of Company E allowed his own private company to be registered as the principal builder. This company engaged a site supervisor. His role was the day-to-day monitoring of subcontractors and the scheduling of the project in conjunction with the principal owner, who took a great deal of interest in the project.

During the construction phase, the principal owner of Company E noticed what he thought was a defect in the building design. He contacted the engineers, but was assured all was as it should be. The building was completed 2 years after it was started, and the government official that presided at the official opening congratulated Company E's directors for their innovation and state of the art factory.

Less than one month after the official opening, much of the building simply collapsed. One of Company E's directors telephoned their insurance brokers, and insurers appointed a loss adjusting firm. This firm did not have accounting expertise, and the insurers later appointed a major accounting firm to handle the business interruption section of the claim.

The principal owner of Company E stated during his interview that he first met the loss adjuster early on the morning following the loss. After the loss adjuster had introduced himself and inspected the damage, he went to great lengths to reassure the principal owner of Company E that his role was to reinstate the building as quickly as possible, oversee the relocation of the plant to temporary premises and *"not lose one customer in the process"*. According to the principal owner, the loss adjuster proceeded in an efficient manner, which the principal owner described as *"military like"*, to achieve these aims.

The loss adjuster asked the principal owner of Company E if he could source new premises in the area. The stress of the loss was too much for the principal owner, and the loss adjuster took him aside and assured him that the building would be completely reinstated as it was at 4.00pm on the day before the loss. The directors of Company E became aware almost immediately of a warehouse/factory that was empty and, on enquiry, confirmed that a short-term sublease was available. This property was very attractive due to its size and proximity (right next door) to their existing plant and head office.

The loss adjuster impressed upon the directors of Company E, the need to act swiftly to negotiate a suitable arrangement for the lease of these premises. Within 2 days of the loss, the principal owner had negotiated a lease of the next door premises for a period of 6 months at the rate $8,000, which was down from the original asking price of $10,000. The loss adjuster was delighted, and stated he would pay them 2 months' rent in advance.

Following this, the loss adjuster held discussions with an electrical firm, and instructed them to supply temporary power and switchboard to the new premises. The contractor acted swiftly, working all weekend and, as a result, the temporary factory was able to recommence production albeit with some reduction in efficiency.

The loss adjuster also arranged make-safe work to the building, engaging builders to carry out this work. Under the loss adjuster's instructions, Company E commenced moving out the plant 4 days after the loss. On this same day, Company E was able to lease one of their original buildings back at their old address, which was still vacant. Again, the directors of Company E understood that the loss adjuster would attend to the first period's rent. According to the principal owner, the loss adjuster stressed that Company E was to mitigate their loss, and congratulated the management team on their efforts.

At the end of first week, the principal owner was reassured that Company E would have their building completely reinstated, that they would not lose any customers and, in fact, had received instructions to outsource any work that they could not handle. They had received a blanket assurance that life would be returned to normal as quickly as possible, with the loss adjuster estimating it would take 6 to 8 months.

The principal owner of Company E stated that he recalled that the loss adjuster paid $1,000 to the removalists to have some rubbish removed from the temporary warehouse. Before they moved in and, it was assumed (correctly, as it turned out) on the instructions of the loss adjuster, a team of cleaners arrived and proceeded to clean the walls, ceiling and floor of the temporary factory. The loss adjuster was concerned at the state of the floor, and he instructed the principal owner to obtain a quotation to resurface the floor. The loss adjuster also called for quotations to insulate the building and air-condition it.

By the end of the first week, the principal owner was feeling much relieved and reassured by the loss adjuster. The principal owner stated, *"He [the Loss Adjuster] really took the decision-making process off me"*. Further, the principal owner reflected, *"I was working for the loss adjuster, and not the other way around"*. As the loss adjuster was acting for the insurance company who would be meeting all the costs, the principal owner was happy to go along. The principal owner stated that the loss adjuster also told him that the process was in place for the building to be rebuilt as was.

The first concern over the insurance coverage was raised when the loss adjuster advised that the costs of relocating to the alternative premises and back again would be limited to $250,000. The loss adjuster advised the directors of Company E that he had already spent $500,000 making the building safe. The principal owner suggested that surely this was not part of the relocation. Later, the loss adjuster advised that the $250,000 was not correct, and that they had full cover for all reasonable costs.

To keep the costs of the temporary premises under control, Company E's management team agreed to try and manufacture efficiently without having to insulate and air-condition the temporary building. Clearly, the floor would be a problem, and a quotation to repair the worst of it was commissioned.

On the day after the event, the principal owner recalls meeting the Claims Manager of the insurance company. According to the principal owner, this person too gave him great comfort that all would be okay and that the policy would respond. This person appeared much more relaxed in themselves, once they understood that a right of recovery appeared likely from whoever was responsible for the collapse. The comment was made by either the loss adjuster or the Claims Manager that *"Roofs do not fall down and someone was responsible"*. At no time during that week did anyone suggest that the loss would not be covered by the policy.

On Day 7 following the loss, the loss adjuster requested the most up-to-date financials of the business, which were provided that day. The directors understood that they were to be given to the major accounting firm that the insurer had appointed.

On Day 8, the loss adjuster contacted the principal owner to advise that in fact liability had not been admitted for the claim, pending an enquiry into the cause of the collapse. This came as a complete surprise to the directors of Company E as everything that the loss adjuster had said and done in the days of furious activity since the collapse, led them to believe the insurer was meeting the claim and doing all they could to mitigate their loss. The principal owner stated that the team had been working with him to do this. The loss adjuster's statement, now, was completely contrary to all he or the insurer had said before.

The principal owner claims to have asked the loss adjuster where this left him, and the loss adjuster advised him that he was on the principal owner's side and *"would fight to have the claim paid"*. The principal owner also stated that the loss adjuster's words were *"you have had your heart ripped out and it was unjust"*. The principal owner took this to mean that the loss adjuster would be speaking with the insurer to have the claim paid.

The reason for the possibility that the claim would not be honoured was given to the directors as an exclusion applying, which involved losses arising from faulty design.

On Day 11, the loss adjuster again visited Company E and advised the principal owner that the claim for stock, machinery and plant, and loss of profits including relocation costs would be covered. The only area unresolved was the building, and this was pending the investigation into cause.

On a subsequent visit, the loss adjuster again changed his view and stated that there was still a chance that the claim would not be paid at all. The principal owner stated, *"This was after we had relocated into two factories, $250,000 had been incurred by the loss adjuster by appointing the electrical, removalists, rent for temporary premises, and engaging builders to carry out the make-safe works"*. The directors of Company E were naturally horrified that cover could be denied when, at first, they had been led to believe everything was covered, and then that the claim for loss of profits, stock, and machinery and plant would be paid. The insurer issued a letter warning that liability was not admitted, pending the investigation into cause. The principal owner was told by the loss adjuster that this was a standard response from the insurer under the circumstances.

On Day 14, the loss adjuster rang and advised that the insurer was prepared to accept the claim for stock, machinery and plant, and loss of profits including relocation costs. He went on to say that the principal owner could relax over the weekend, and that he would receive a letter to that effect in a day or two.

On the advice of their insurance broker, a specialist claims preparer and a solicitor were appointed. After several letters and meetings, culminating with an interstate visit by the principal owner to meet the Managing Director of the insurance company, and a meeting at which the insurer (including the National Claims Manager), the insurance broker, loss adjusters, engineers, claims preparer, solicitors for both sides, and three directors from Company E attended, and legal action was threatened, the insurer then accepted liability for the entire claim. This was 70 days after the roof collapse. The problems facing Company E as a result of, firstly, the roof collapse, and then the insurer's stance on accepting liability, were enormous.

At this point, it would be appropriate to recall the position the business was in at the time of the roof collapse. The principal owner, who was the real driving force of the business, had been distracted by the initial building project for 2 years. He had taken a very 'hands on' approach to overseeing all aspects of the new building, and this had taken his attention away from the business. While many of his duties were delegated to other directors, marketing and production were not as well managed as they had been when he oversaw this aspect himself. Even those beneath him, in charge of production, were more concerned about relocating all the delicate printing equipment rather than ongoing customer orders. As a result, increased quality and timing issues arose during the period leading up to the move.

During the actual 6-week period required to move from the old factories to the new, delays in meeting customer deadlines caused tension between Company E and several of their customers and/or agents. The other major stress on the business during this time was cash flow. With every available cent being directed to the new building and relocating at a time when production was down due to the move, the situation was very tight. So, just after the collapse, Company E found themselves in a position where:

- Customers were not forgiving, as they felt that they had been let down for too long.
- Company E had no available cash and no avenue left to obtain additional funding.
- Damaged equipment was causing ongoing quality and timing problems.
- Staff morale was at an all time low having to work in such poor conditions.
- Competitors were extremely predatory.
- An insurer who would not assist them.

To give a couple of examples of just how tough the competitors were, one competitor took photographs of the damaged building and displayed them to Company E's customers, suggesting that they should change suppliers, asking *"Would you like your work done here?"*. In another case, a competitor visited the staff at the temporary premises and offered all the staff employment. With no insurance cover guaranteed in the early days, Company E's directors could not, in good faith, assure their staff that employment was guaranteed and several staff defected.

The attention of the directors should have been directed to addressing each of the issues listed above. However, all was pointless if the insurer would not meet their claim on the building and, as such, no matter what advice they received the directors' attention kept returning to having the claim accepted. While this was finally achieved after 70 days, as stated earlier, the business was significantly affected during that time. Even after the claim was accepted, the insurer refused to make a progress payment which would have taken the pressure off the directors considerably.

Again, the concept of turning a crisis into an opportunity was used, this time strongly advocated by the principal owner. Two things came of this. Firstly, a technology development that the principal owner and a research and development team had been working on, was brought forward to try and generate some cash. The second was that rather than relying on agents, who no longer added any real value as they had done in the past, the agents were abandoned and the company only worked directly for clients. Through these initiatives and a refocusing on their quality, Company E survived for just on 2 years, but an unpaid supplier lost their patience and sent the company into liquidation.

A lifetime's work for the principal owner and the legacy he wished to leave, were all lost as a result.

Company F

> *"As the hat said to the necktie: 'You hang around and I'll go on ahead'."*
>
> Anonymous

Company F has been coded as a retail business, with a turnover over of less than $1 million, and is located in Greater Sydney. Under the strict definition of this study, this business did not survive the crisis.

Company F operates a retail clothing store from a strip shop near one of Sydney's surf beaches. It was in its first year of operation when a fire started in a nearby shop. The fire spread across several shops, causing extensive damage to the building, stock, fixtures and fittings. The owners of Company F did not own the building, and the tenant that caused the fire simply abandoned their fire-damaged premises, and it is believed that they left Australia.

Going through the formalities of investigating the cause of the fire, seeking authority to remove the fire damaged property of the tenant that caused the fire, so that repairs to the building could commence, and then going to tender, took an inordinate amount of time. In the minds of the owners of Company F, the loss adjuster showed no imagination and did everything sequentially rather than doing two or three things concurrently. The landlord also took some time to finally agree to repair the premises, for he was considering taking the opportunity to redevelop the whole site.

In this case, the business was little more than a hobby for the two owners who had full-time jobs elsewhere. One was not in the industry, and the other owned a manufacturing company that sold some stock through the retail store.

The fire occurred at the start of the winter season, during which the business, being a clothing outlet targeting the beach culture, was heading into its low period. The delays in repairs meant that repairs which should have only taken 4 months to complete, took 9 months and, as a result, most of the peak summer season was lost as well as the low winter season. Had either or both of these owners been reliant on the income from this shop to provide their principal source of income, the business may not have survived. It only did by cutting all costs until the building was once again able to be occupied, and then by having all fixtures, fittings and stock ready to move straight back in and, finally, by some promotion regaining their lost customer-base.

While the business survived, the two partners admit that their relationship suffered, and the one who was not in the trade decided to sell out as a result of the stress due to the fire and, more importantly, the stress of the rebuild and the insurance claim. Not being in the business nor the industry, both partners admit that their involvement in the business may have been short-term in any event.

Company G

> *"While a calculator is now equipped with 18,000 vacuum tubes and weighs 30 tons, computers in the future may have only 1,000 vacuum tubes and weigh only 1½ tons."*
>
> Anonymous, Popular Mechanics (1949)

Company G has been coded as a service company, with a turnover over of between \$1,000,001 and \$3 million, being located in Greater Melbourne. It survived the crisis.

This in fact involves two private companies; one owning the business, and the other the building in which the business operates. As they are so closely related and have some cross shareholding, the businesses were treated as one for this study.

The operating part is the private company, with three directors who started a computer company in the early 1980s. Originally, the business sold both hardware and developed software. However, the introduction of cloned machines and a proliferation of hardware suppliers eroded profit margins so much so that the company was considering withdrawing from computer hardware to concentrate on software development.

The company had developed a niche in software programming for two target markets. Originally, the company supplied the hardware to run their software. However, as mentioned above, this was proving to be uneconomic and they were considering withdrawing from this area.

By the late 1990s, with the year 2000 approaching with all that meant for the computer industry, both software applications that had been developed by the company were still being sold and service agreements managed in DOS format. It was imperative for the company to migrate either one or both their systems to Microsoft Windows, and to ensure that the software was Y2K and GST[15] compliant. The company was struggling to upgrade their software, while at the same time servicing their existing customers. Cash flows and profitability were both going in the wrong direction.

To reduce operating expenses, the computer company moved into premises owned by one of the directors of the computer company. The main tenant in the building was an international company who sold and serviced mechanical engines manufactured by the overseas parent company. This company had outgrown the offices within the building, and had leased an entire office building next door, but wished to retain the engineering workshop and warehouse where it was. This suited the computer company, who only had need for the office area. Rather than allow the offices, which would otherwise be very hard to rent, to remain empty, the computer company moved in at a much-reduced rent, plus outgoings.

Early one morning, an electrical power board supplying power to a computer, ignited and the fire spread both throughout the office section and to the workshop and warehouse areas, completely destroying the entire building and the vast majority of the contents.

While the research concentrates on the computer company as a business in the service sector, it is of interest to examine what transpired with the building company. As the result proved to be a major windfall for the major shareholder of the computer company, its fate did influence the direction of the computer company as well.

[15] A Goods & Services Tax was introduced by Australia's Commonwealth Government as from 1 July 2000.

Initially, the director who owned the building was going to rebuild exactly the same building as was previously on the site. Plans and specifications were drawn up, and negotiations were underway with the tenant to make some minor modifications to the building to meet their future requirements. Two events then occurred that made the owner consider alternative strategies.

The first was that as the insurance on the building was arranged by the tenant and he needed to devote additional time to the computer business, he felt that working on his private affairs was not fair to his partners. He therefore engaged a specialist claims preparer. The claims preparer explained that under the terms of the policy, the owner did not have to rebuild on the same site, in the same manner, nor did the company have to rebuild at all. The property was a prime piece of real estate, backing onto a beautiful park that ran down to a river. This land had far greater value for home units than it did for an industrial building. It was suggested that either the owner use the proceeds from the insurance to build 24 home units or the owner could purchase cheaper land in a new industrial suburb. Either way, he would be better off financially.

The owner nonetheless felt he owed his long-standing tenant some loyalty, and enquired as to whether they would prefer to relocate closer to either the port or to the aerodrome. It was at this time that the tenant advised him that they may in fact be cutting back their operations in Australia further, and that they may not require premises at all. This is the second event.

No longer having to consider the tenant, the owner then took a closer look at a summary of the returns the various investment strategies were expected to yield. While building the units had some appeal, it was felt by the owner that this was not his area of expertise and would be a major distraction from his contribution to the computer company. In the end, the owner decided to sell the land to a property developer. The amount the owner was paid for the vacant block of land was in excess of $250,000 more than the owner would have achieved had the original pre-fire damaged building still been in place. The claims preparer was commissioned to negotiate with the insurer for a cash settlement and, in view of their expertise in the area, achieved a result 30% higher than the owner expected. The settlement achieved was just over 80% of the reinstatement and replacement value of the building, which coincidentally was the value of the land and building prior to the fire.

As a result of a very favourable set of circumstances, by obtaining expert advice on the entitlements under the policy and without any dishonesty whatsoever, the property owner achieved a result 2¼ times greater than if the company had sold the land and buildings on the day before the fire. The owner invested the money in other income-earning assets, which now yield a much higher rate of return on a much greater capital base. The end result is that this particular owner of the computer business was able to concentrate on the computer business, and had some excess funds that he could reinvest in the computer business.

During the entire claim process, only one director of Company G met the loss adjuster, and that was only for 30 minutes on the morning of the fire. Everything else was carried out by correspondence, which the owners found uncaring and far from helpful. The fire caused them to move to temporary premises which, in hindsight, were too large and wrongly located.

In the case of both companies, the claims preparer did much more than simply prepare the claim; they carried out a SWOT[16] analysis on each business and then concentrated on the strengths of each business. Out of this came the need for regular progress payments to fund a rising cash flow crisis. The business owners were able to obtain the necessary regular progress payments, which allowed them to fund the development work of the software upgrade.

The SWOT analysis showed that it was better for the business owners to just concentrate on the development of one software package rather than two, as the second one was being targeted by off-the-shelf solutions and internet-based solutions. The need to completely get out of the hardware area was also highlighted. These last two points were certainly hard decisions for the partners to take, and they admit that if the claims preparer had not had the success that they had with the building claim, the partners would not have taken the advice. As it turned out, by just concentrating on one segment, they made the deadlines and produced a superior product.

To assist with the development, better premises at reasonable rental rates were located, and the business relocated for a second but final time following the fire. The company's customers were also very loyal after the fire, and stayed with the company. All this combined to arrive at the successful launch of the product, and survival of the business.

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[16] The original designer is unknown, but SWOT was used by the Harvard Business School as early as the 1960s (Harberberg and Rieple, 2003).

The major shareholder (the owner of the building) advised that on the second anniversary of the fire, he visited the claims preparer to advise that as at the date of the fire they were into their small overdraft, but now, 2 years later, they had strong positive cash flows and the future looked very bright. Although he had sufficient funds to now retire, he was enjoying work again, and would continue to grow the computer business, comforted by the investment portfolio the sale of the land had provided.

Company H

> *"One of the most common causes of failure is the habit of quitting when one is overtaken by temporary defeat."*
>
> Napoleon Hill (1937)

Company H has been coded as a service company, with a turnover of less than $1 million. It is located in a provincial Victorian city/town. It failed to survive the crisis.

This company was a newly started courier business. It was operated by a husband and wife team, although the wife had little to do with the day-to-day running of the business. Just over 3 months after the business commenced operations, a fire started which caused significant damage to the building, but the business was still able to operate from within the building. The fire was caused by a heater being left on when the business owner departed the building late one evening after completing the paperwork for the business. The fact that he was personally responsible for the fire, albeit a non-intentional accident, weighed very heavily on the mind of the husband. The wife did not place any blame on her husband.

At the time of the fire, the business was running well above the projections originally forecast. The owners had engaged the services of a business coach who provided valuable assistance to them. The owners of Company H were in the process of purchasing the building from which they operated and, at the time of the loss, the building was insured by both the tenant and the building owner.

Repairs to the building were delayed greatly because of the fact the building had asbestos in the roof, and the statutory authorities insisted on its replacement. The extra cost of reinstatement was not covered by the tenant's policy, and only limited cover was provided by the landlord's policy. As a result, the new business had to find the cash difference between the insurance proceeds and the cost of a new roof. This would be difficult for any business, let alone one that had only been operating for 3 months.

The business attempted to operate from the fire damaged premises during this period. However, they found that there was a significant downturn in their turnover because people were reluctant to leave their goods in a business that was so badly affected by fire. There were no temporary premises available and, despite initial clean-up, the premises smelled and had a dirty appearance.

Repairs were finally completed 8 months after the fire. However, by this time, the owners of the business felt the strain of running the business, particularly through a period of disruption, which was more than they could bear. As such, they decided to sell the business to the business advisor who had been assisting them from the time of the acquisition of the business. The original owners still own the building, which has increased in value during the recent property boom in Victoria, while the business itself has grown and is a going concern under the new owner.

Company I

> *"The deeper the carpet you're called upon, the deeper the trouble you're in."*
>
> Jim Kenworthy (1988)

Company I has been coded as a manufacturing business, with a turnover exceeding $3 million, being located in a provincial city/town in Victoria. It survived the crisis.

Company I manufactures carpet, with the final product being manufactured (tufted) at its factory located in another part of Victoria to that factory that suffered the fire.

While Australia produces some of the finest wool in the world, it produces very little wool for carpets. The wool from merinos is not suitable, as the fibre is too fine and short. The wool from sheep breeds such as Tukidale are ideal for carpets. New Zealand produces a great deal of this wool for the Australian market. Woollen mills in New Zealand card the wool, dye it and then spin it into yarn.

The difficulty for Company I was that they wished to develop their own colour range and improve the overall quality of the yarn. By producing their own yarn, Company I would also increase their profit margin, which had been eroded in Australia with the arrival of new players bringing with them cheap synthetic products.

A woollen mill, located in a provincial town in Victoria, which had been used for the manufacture of wool yarn for the clothing industry, went into receivership in the early 1990s. The liquidators put the entire mill, including land, buildings, dye equipment, carding and spinning equipment and a truck, on the market. Company I purchased the mill 'lock, stock and barrel' for a fraction of its replacement value. The amount paid was under $1 million.

The mill employed over 80 staff, and Company I quickly went about converting the mill from yarn for clothing, to carpet yarn. In a short while, and for a very reasonable amount which included purchasing some new equipment, Company I was able to spin approximately 50% of the yarn it required each year from its newly acquired mill. A third shift was planned, and this would take production up to around 75% of their requirements. Wool was still purchased from New Zealand, but the processing was now done in Australia under the direct control of Company I. Improved quality, a wider range of product, and increased profit margins all followed. The plan was to increase the production capability of the mill so that it eventually produced all the yarn required by the tufting plant.

One of the physical dangers associated with woollen mills is fire. In particular, wool from sheep contains lanolin, a flammable oil, which over time coats and indeed impregnates all the timber within the mill. Once a fire starts, the fire load is increased by the presence of the lanolin. Such fires can start easily, spread rapidly, and are difficult to bring under control. The mill had sustained a major fire early in its life, destroying it completely in the mid-1890s. It was rebuilt in brick, with a dividing wall between the front and rear sections of the mill in the late 1890s. Unfortunately, the entire front section of the building, mill and ballroom was destroyed in a huge fire midway through the 20th Century. That section of the building was never rebuilt. The area was simply bulldozed and converted into a car park. The mill continued on, using the rear section of the mill, which was still quite large, covering approximately 10,000m^2. It was the 7-brick thick dividing wall between the two sections that was built after the fire in the 1890s that saved the rear two thirds of the building from the fire that destroyed the front section.

Besides the mill, the dye house and some storage facilities were also on the site. These were housed separately, again as a safety measure against fire. Separation is one of the oldest and best risk management measures against complete loss by fire.

After the fire that destroyed the front part of the building, offices were built in the front section of what was left of the mill building. These were still in use when, at about 3.30am one morning, a fire started within one of these offices. It is believed that a power board used to make up for a shortage of power points, ignited. The fire was not visible from the street, as the building's front wall was the original 7-brick thick dividing wall, which had no windows. It was only when the fire broke through the roof that a passing police car saw the fire and called the brigade. The fire was so large that 11 Country Fire Authority units from 10 towns around the area were called. With a strong hold before the fire was noticed, coupled with a century of lanolin build-up, the fire brigade could do little but let the fire burn itself out, while ensuring that the fire did not spread to the adjacent buildings. The fire was still burning 12 hours later. The entire mill building, 5 carding machines and 7 spinning machines were all destroyed.

The fire brigade did manage to stop the fire spreading to other buildings that belonged to both Company I and some neighbours. As a result, the dye house, finished stock and some unprocessed wool were saved.

The Managing Director was overseas on the night of the fire. He arrived back on the following afternoon, and was collected and taken straight to the fire by the company's Chief Financial Controller. Fire brigade officers, police, the State Forensic Laboratory, two loss adjusters, and an insurance investigator were already on the scene. Within an hour of arriving, the two men became aware of a major problem in under-insurance.

Having purchased the site for a bargain price, coupled with the a desire to keep expenses to a minimum while cash was required for the upgrading of the mill, and the belief that the entire mill would not be lost in a single event, had culminated in the decision to under-insure. On the most conservative measure, the building alone would cost nearly twice the value that they had insured the whole complex, including stock, machinery and plant for. When everything was taken into account at reinstatement and replacement values, the business was only insured for around 10% of what it should have been.

Fortunately, gross profit was adequately insured. However, wages were not. As with many businesses, the rate of wages as a percentage of turnover was greater than the rate of gross profit. As such, being under insured on wages was yet another major problem to the business. On a positive note, they had insured for 18 months' loss of profits, and not the typical 12 months.

Faced with the harsh reality of under-insurance, the company had to make some quick decisions. The first and perhaps most difficult was to retrench the vast majority of the workers at the mill. The mill was one of the largest employers in the region and, being a specialist skill, coupled with the fact that few other mills were still operating in Australia, meant it was a very bleak future for these people. The incidence of domestic disputes increased dramatically in the town over the next 12 months. The social implications of not insuring correctly, particularly in rural communities, cannot be over-emphasised.

A worldwide search was begun for replacement equipment, while an alternative site for the factory was explored. A major part of the mill's process is the dyeing stage. It is not environmentally friendly, with the use of water, and it was only due to the fact that the mill had been operating for a century at the site and was a large employer in the rural community that it was allowed to continue. The Environmental Protection Authority made it quite clear that it would not allow Company I to purchase another old building and start manufacturing from there. The possibility of leaving the unaffected dye house where it was and carrying out the scouring, carding and spinning elsewhere was considered briefly, but decided against as it was simply impracticable and completely uneconomic.

Two other woollen mills had recently gone into liquidation or were for sale in Australia; one in Queensland, at Arundel, and the other in Albany, Western Australia. The Queensland mill turned out to be a carpet tufting plant and, as such, the equipment was not what was required. Albany was a suitable site, and the equipment was in fact superior to what had been at the fire destroyed mill. As fate would have it, an Indonesian company had signed a contract only a few days before the fire, with the Western Australian-based liquidators. To add insult to injury, the company was purchasing the mill with the help of a grant from the Western Australian State Government.

Despite a reduction in spinning capacity around the world, and extensive searching throughout the United Kingdom, Europe and the United States, not one suitable second hand piece of equipment was able to be located. Management decided that they would have to go on with what they could purchase with the proceeds of the insurance policy. It was decided that they did not have the resources to manage the insurance claim, as well as their normal business, and manage the re-establishment of their spinning capacity, so they opted for a cash settlement on the claim, including the loss of profits claim. As a result of this and the reasonable approach taken by the insurer, the claim was settled with the final cheque in Company I's bank account exactly 12 weeks after the fire.

A new building has been built, but is of iron-on-steel construction rather than the better insulated brick. Two new spinning machines with matched carding capacity were purchased and installed. Some of the retrenched workers have been re-employed, and it is hoped that over time, all that want to will be employed as well.

While spun yarn production was being re-established, Company I had to purchase processed yarn or subcontract out the spinning process. One of the mills commissioned to do this was the mill in Albany, Western Australia. However, this mill had constant quality problems and had been invariably late in delivery. With the introduction of new competitors, particularly from the United States, with cheap synthetic carpets, Company I has moved out of the low margin market, and has concentrated on 100% wool and high percentage wool blends for both the industrial and commercial markets. Quality problems caused by not owning their own mill hampered and slowed this move, but Company I did survive according to the pre-set criteria, and continues to grow.

Having said this, what a completely different future the company would have today had it been fully insured at the time of the fire. There would have been some delay in the business, but with new machines of equal size and the improvements in technology, the business would have been producing all its own yarn within 2 years of the fire, and the crisis would have presented much greater opportunities for the business than it did. As a result of the under-insurance, many of the choices available to the company were taken away, with only the choice of abandoning spinning or going back in a much reduced capacity, being open to them. In dollar terms, the claim was settled for approximately 25% of their true loss on a reinstatement and replacement basis.

Company J

> *"The greatest advantage of a hotel is that it is a refuge from home life."*
>
> George Bernard Shaw (1893)

Company J has been coded as a retail business, with a turnover in excess of $3 million, and is located in Greater Melbourne. It survived the crisis.

This sample involved a hotel that from around 7.00pm each day, operated more as a nightclub than a typical hotel. Two partners with equal shares in the business operated the business. One was a trained and qualified accountant, who ran the business day-to-day and looked after the books and statutory reporting, while the other had an artistic flair and organised the promotions and shows that drew in the crowds. One of the partners lived in accommodation above the hotel.

The loss occurred one evening, when it is believed that a patron left a burning cigarette on a lounge chair in one of three bar areas within the hotel. The fire was significant, causing considerable damage to all three bars, and structural damage to the building between two of the bars. The upstairs area had minor fire damage, but was affected by soot and water.

With the assistance of the loss adjuster, the least of the three damaged bars was able to be reopened within 2 weeks, and some trade commenced. Small shows were able to be held in the bar, and the hotel's regulars were satisfied in the short term.

The owners decided to take the opportunity to remodel the entire hotel to fit in with their long-term strategy for the business. This meant significant additional work to the building to allow a flow around the entire venue, from the show areas to the more intimate area, and back again. Additional toilets and improved air conditioning/filtering were required by the licensing authority.

In this case, the two owners struggled with the additional burden of supervising the rebuild to a tight budget, running the business, and managing the insurance claim. On top of this, first the sister of the accountant partner called for assistance from him to assist her in running her family business, as her husband had just had a heart attack. This took the partner out of the hotel business for nearly 6 months. He had just returned, when he became seriously ill himself, no doubt from the stress of his own business and his sister's.

The rebuilding works ran overtime and, as they were not worrying about the insurance claim, progress payments were slow in coming. This meant that the partners did not have the funds to meet builder's progress payments and this, in turn, caused further delays in the rebuilding program. An added complication was that the 'artistic' partner and the builder did not get on. The partner kept changing his mind on design, colours, textures, which the builder simply could not cope with.

The hotel reopened at least 3 months later than planned. The insurer was not sympathetic to the owner's problems, and argued that the delays were not fire-related, and subsequently reduced the claim payment by the 3 months' overrun.

Like Company B, the company had two other insurance events to contend with during the recovery phase. One was an embezzlement matter, where the staff member promoted to look after banking and the day-to-day running of the business while the accountant partner was assisting his sister, stole from the business. The time taken to prove this and prepare for trial was significant. The second incident was a public liability claim that arose when a patron lodged a writ for damages caused during a brawl at the hotel. The owners were able to successfully defend this action, but again it was an enormous strain on their already stretched time, and was much more than the annoyance that Company B felt.

The partner who lived on the premises did not get around to lodging his own claim for his contents until well over 2 years after the fire. He was simply so busy working 7 days a week, keeping the business going, that he had no personal life at all.

Despite all the issues, the business survived the fire, the remodelling was a success and allowed more patrons to attend, and both partners have had well-earned extended holidays. The business has a bright future.

Company K

> *"What is success? It is a toy balloon among children armed with pins."*
>
> Eugene Fowler (1923)

Company K has been coded as a retail business, with a turnover between $1,000,001 and $3 million. It was located in a provincial town in Victoria. It did not survive the crisis.

The business in this case was a toyshop, and was purchased by a husband and wife team who ran the business, and a friend who was a silent partner. The business was acquired in the early 1990s, at a time when the goodwill on toyshops commanded a premium. The business was purchased after the owner/manager took a package from a government department.

The business operated from a rented strip shop in the main street of a provincial town in Victoria. Over the years, the business had been built up with a combination of new families moving to the town and improvements in marketing and displays by owners.

On the flipside, toy retailing had been under pressure for a number of years, with children moving away from traditional toys at a younger age. The introduction of GST also had a negative effect on the whole industry for at least 12 months. The vast majority of sales and the most profitable time of year are the 3 months leading up to Christmas. For the 9 months after Christmas, the business broke even, at best.

One night in early winter, two local youths set fire to three premises in the town. The fires in two of the premises were quickly extinguished. However, the fire that was set in the rubbish piled up against the rear door of the shop, caught hold and completely destroyed the building and its contents, and spread to adjoining shops. The husband and wife team sat on the sidewalk for 2 hours, watching 10 years of work literally go up in smoke.

Unfortunately, the landlord had not adequately insured the building, and found that he did not have the funds to reinstate the building. He was an elderly gentleman, and found that it was all too much for him, and eventually decided to sell the building in an 'as was' condition. The process of making the decision not to be rebuild, then the decision to sell the premises, and finally the actual sale of the premises, took over 12 months. During this time, there were no suitable premises from which the toyshop could operate within the town. There was, in fact, one vacant store in a shopping centre nearby. However, the rent that was asked for these premises was three times the rate that the toyshop had been paying at the time of the fire. This made the business unviable.

After 5 months of searching for alternative premises, the owners of the business realised that it was not possible for them to recommence trading, and a request was put to the insurer to cash settle the claim for stock, fixtures and fittings, and business interruption up to the end of the calendar year. They advised the insurer that they were abandoning all hope of restarting the business. The insurer accepted the offer, and the claim was settled.

There was a financial advantage to the owners of Company K; there was low turnover after Christmas and, in some months, a net loss. The settlement meant that these losses were not factored into the claim settlement. The owners had engaged a claims consultant who worked through the various options, and advised them on this course of action. It was difficult for the owners to walk away from the business, particularly as they were not compensated in any way for the loss of goodwill - an intangible asset, which they had paid a substantial amount for. It was explained to them that this was a sunk cost that should not influence their future decision.

On the positive side, the owners had started a bicycle shop from a small warehouse on the outskirts of the provincial town, one month before the fire. They concentrated their efforts in developing this business, along with an internet-based shop, selling toys. With their management time freed from their original toy business, these two new businesses blossomed and, in fact, the owners are now working less hours, and making more profit than they were before.

Company L

> *"No man, not even a doctor, ever gives any other definition of what a nurse should be than this: 'devoted and obedient'. This definition would do just as well for a porter. It might even do for a horse. It would not do for a policeman."*
>
> Florence Nightingale (1859)

Company L has been coded as a service business, with a turnover under $1 million, and was located in Greater Melbourne. It did not survive the crisis.

This business involved a nursing home, which was operated by a husband and wife team. The wife is a trained nurse and operated the business on a day-to-day basis, looking after the needs of the residents. The husband operated an accounting practice, and had shares in several other businesses. The building was owned by another party, who had no interest in the nursing home business.

A fire was deliberately lit in the attic of the building, which quickly spread through the old building, causing considerable damage throughout. The owners of Company L were able to have the residents moved on a 1-year basis, to alternative accommodation. They expected that the building would be rebuilt in this timeframe.

Two issues delayed the start of the rebuilding. The first was that as it was a deliberately lit fire, the insurer wanted to make sure that neither the landlord nor tenant were involved in the lighting of the fire. The person or persons responsible were never determined, although suspicion fell on an ex-employee of Company L, whose services had only recently been terminated. This process took an inordinate amount of time. The insurer appointed a loss adjuster, an investigator and a lawyer, and each of these blamed the others for the delays.

Rather than work at preparing a scope of works and agreeing the extent of damage with the owner of the building and the owners of the contents on a 'without prejudice' basis while the investigation into cause took place, nothing happened for nearly a year, until the insurer finally accepted liability of the claim. Even then, they attempted to deny part of the claim for the landlord on a technicality. This was ultimately righted by the appointment of a claims preparer.

The second issue was that the landlord would not do anything until she knew if the claim was going to be paid. The tenant, on several occasions, tried to purchase the building from the landlord. However, for personal reasons, the landlord would not sell for any price[17]. Having said this, the landlord was an elderly woman who did not have the strength or will to manage the insurance claim and left it all to the tenant.

By the time the claim was accepted, all government approvals received, it was 15 months before repairs were even started. Delays in the rebuilding and changes to the requirements for aged care facilities further delayed the rebuild. In fact, it took over 2 years before the rebuild was completed.

Meanwhile, the 12-month temporary accommodation found for the residents ran out, and the residents were offered full-time positions with a competitor. Given the continued uncertainty on the rebuilding, they all accepted. This meant that the business lost their entire client-base.

Two and half years after the event, the owners are in the final stages of settling the claim with their insurers. They then intend issuing proceedings against the insurer and the loss adjuster, claiming the losses that they sustained as a result of the rebuilding not being completed within a reasonable period. The business failed based on the criteria set at the outset of this study, but in reality may be able to be built up again from scratch now that the building has finally been rebuilt.

[17] The landlord's daughter works with intellectually handicapped children in third world countries. The landlord wishes to retain the building in case her daughter ever wants to return to Australia and start a centre of her own here. In any event it is willed to the daughter upon the death of the landlord.

5.4 Characteristics of Sample

> *"Curiosity is one of the permanent and certain characteristics of a vigorous mind."*
>
> Samuel Johnson (1754)

5.4.1 Characteristics Common to all Subjects

None of the businesses involved in this study were insolvent prior to the crisis. None of the directors or owners of any of the businesses was an undischarged bankrupt at the time of the crisis.

The researcher was satisfied that as far as the owner of the business was concerned, the crisis was completely fortuitous in nature.

Every business had a turnover of at least $50,000, being registered correctly for GST and having a current Australian Business Number at the time of the crisis.

No deaths or serious injury to any person occurred during any of the crises.

5.4.2 Size of Company (Turnover in Dollar Value)

The study was made in respect of SMEs. There is a wide range of business sizes in the definition of a small to medium business (under 500 employees). The turnover of each business was grouped into three strata:

- Small SME – turnover under $1 million
- Medium SME – turnover between $1,000,001 and $3 million
- Large SME – turnover over $3 million

The split of the sample between these three size groups, by industry group, is set out in **Table 11** overleaf.

Table 11
Breakdown of Companies Surveyed by Industry Type & Size in Dollar Value

Industry Type	***Small Sized SME***	***Medium Sized SME***	***Large Sized SME***	***Totals***
Manufacturing	0	1	3	4
Retail	2	1	1	4
Service	3	1	0	4
Totals	**5**	**3**	**4**	**12**

Small = <$1 million   *Medium = $1 million to $3 million*   *Large = >$3 million*

5.4.3 Size of Company (Turnover by Staff Numbers)

Using the definition of an SME as one that employs less than 500 people (Perry, 2001), all of the companies in this study fall with this definition. The staff numbers of each business were grouped into three strata:

- Small SME – up to 9 staff
- Medium SME – 10 to 20 staff
- Large SME – 20 to 500 staff

The split of the sample businesses between these three size groups, by industry group, is set out in **Table 12** below.

Table 12
Breakdown of Companies Surveyed by Industry Type & Size in Staff Numbers

Industry Type	***Small Sized SME***	***Medium Sized SME***	***Large Sized SME***	***Totals***
Manufacturing	0	1	3	4
Retail	2	2	0	4
Service	2	2	0	4
Totals	**4**	**5**	**3**	**12**

Small = up to 9 staff   Medium = 10 to 20 staff [18]   Large = 21 to 500 staff

[18] There was no clear definition of an SME at the time this research project was commenced or the case studies completed. On 28 April 2004, the Australian Bureau of Statistics in *8127.0 Characteristics of Small Business, Australia*, suggested a definition of a 'small business' as *"one which employees up to 20 staff"*. This slight difference in definition is not regarded as being detrimental to the findings of this study.

Using this method of grouping, what is regarded as the large SME retailer drops back to a medium sized one, while one of the two small retailers moves up to a medium. As such, 10 out of the 12 companies do not alter their group.

5.4.4 Corporate Structure

There are four types of structure used to operate a business in Australia. They are:

- Sole Trader
- Partnership
- Company
- Trust (Farrar, 2002)

There are subsets of some, such as public company and private company, family trust or unit trust (Farrar, 2002). The structure of the companies involved in this study is set out in **Table 13** below.

Table 13
Breakdown of Companies Surveyed by Industry Type & Corporate Structure

Industry Type	***Sole Trader***	***Partnership***	***Private Company***	***Trust***	***Totals***
Manufacturing	0	0	4	0	4
Retail	0	1	3	0	4
Service	0	0	4	0	4
Totals	**0**	**1**	**11**	**0**	**12**

Clearly, the use of a company is the preferred method of structure among this sample. The structure utilised in this study was not considered a factor in this research, as it was not mentioned by any respondent as a factor in their management of the crisis or their decision to continue or not.

5.4.5 Geographical Location

The sample was drawn from 3 geographical regions, as follows:

- Melbourne (greater metropolitan area)
- Sydney (greater metropolitan area)
- Country Victoria (provincial cities and towns)

The split of the sample between these locations is set out in **Table 14** below.

Table 14
Breakdown of Companies Surveyed by Industry Type & Location

Industry Type	*Melbourne (Greater Metropolitan Area)*	*Sydney (Greater Metropolitan Area)*	*Victorian Country (Provincial cities and towns)*	*Totals*
Manufacturing	3	0	1	4
Retail	1	1	2	4
Service	2	0	1	4
Totals	**6**	**1**	**5**	**12**

It was considered important to obtain at least one sample in each industry class from a provincial city or town to determine if that was a variable in itself for success. As it was, 41.7% of the sample was taken from businesses outside a State capital.

5.4.6 Age of Business

The age of each business was classified into the following categories:

- Under 2 years
- From 2 years to under 5 years
- From 5 years to under 10 years
- 10 years plus

The age of the business at the time of the crisis involved in this study is set out in **Table 15** below.

Table 15
Breakdown of Age of Companies Surveyed by Industry

Industry Type	*Under 2 Years*	*2 Years to Under 5 years*	*5 Years to Under 10 years*	*10 Years or more*	*Totals*
Manufacturing	0	0	0	4	4
Retail	1	2	0	1	4
Service	1	0	1	2	4
Totals	**2**	**2**	**1**	**7**	**12**

5.4.7 Family vs Non Family Business

The respondents were asked if their business was a family business and, if so, what generation was currently the most senior manager of the business. The results by industry type are set out in **Table 16** below.

Table 16
Family (by Generation) or Non-Family Business by Industry

Industry Type	*Non Family Business*	*Family Business 1st Generation*	*Family Business 2nd Generation*	*Family Business 3rd Plus Generation*	*Totals*
Manufacturing	1	1	1	1	4
Retail	2	2	0	0	4
Service	2	2	0	0	4
Totals	**5**	**5**	**1**	**1**	**12**

58% of the companies surveyed regarded themselves as a family business.

5.4.8 Gender of Directors/Management of Sample

The gender mix of business owners/directors of the sample is set out in **Table 17** below. In each case of the three companies, the business was operated on a day-to-day basis with a husband and wife team, although one of the retail companies did have a third shareholder/director (male), but he did not have any involvement in either the normal operation of the business or the management of the crisis.

Table 17
Breakdown of Gender of Directors/Management of Companies Surveyed by Industry

Industry Type	*Solely Male*	*Solely Female*	*Mix Male & Female*	*Totals*
Manufacturing	4	0	0	4
Retail	2	1	1	4
Service	2	0	2	4
Totals	**8**	**1**	**3**	**12**

Chapter 6.
Results - Data Reduction & Display

> *"The difficulty lies, not in the new ideas, but in escaping the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds."*
>
> John Maynard Keynes (1919)

6.1 Introduction

> *"To write it, it took 3 months; to conceive it -- 3 minutes; to collect the data in it -- all my life."*
>
> F. Scott Fitzgerald (1921)

Figure 7 (Chapter 3, subsection 3.1.5) listed the variables that were considered important to the success or failure of a business following a major crisis in an SME. These were categorised under the following headings:

(1) Business History

(2) Financial Variables

(3) Timing Issues

(4) Adequacy of Insurance

(5) Crisis Management Issues

The results on each item are set out below in separate headings.

6.2 Business History

> *"History does not unfold; it piles up."*
>
> Robert M. Adams (1989)

As set out in **Figure 2.6**, the broad terms that were examined under this heading were:

- Industry
- Corporate Structure

- Ownership
- Life Stage of Business
- Level of Competitiveness
- Length of Time in Business
- Prior Level of Technology
- Number of Locations
- Exit Costs

The breakdown of the sample by industry is set out in **Table 18** below.

Table 18
Business History of Companies Surveyed

Company	***A***	***B***	***C***	***D***	***E***	***F***
Industry	Manufacturing	Manufacturing	Service	Service	Manufacturing	Retail
Corporate Structure	Company	Company	Company	Company	Company	Partnership
Life Stage of Business	Mature	Mature	Mature	Mature	Mature	Early Development
Length of Time in Business	40+	70+	5	14	40+	1
Prior Level of Technology	High	High	Medium	High	Medium	High
Number of Locations	2	2	1	1	2	1
Exit Costs	High	Low	Low	Low	High	Low

Company	***G***	***H***	***I***	***J***	***K***	***L***
Industry	Service	Service	Manufacturing	Retail	Retail	Service
Corporate Structure	Company	Company	Company	Company	Company	Company
Life Stage of Business	Competitive Shakeout	Early Development	Mature	Mature	Industry Decline	Rapid Growth
Length of Time in Business	8	0.25	40+	2	8	5
Prior Level of Technology	High	High	Medium	High	High	Medium
Number of Locations	1	1	2	1	1	1
Exit Costs	Low	Low	High	Low	Low	Low

When considering **Table 18**, please note that:

a) In all cases where the corporate structure is shown as 'Company', the company was a privately owned company.

b) The lifecycle stages used are from Thompson and Strickland (1996). The authors split the stages into: Early Development; Takeoff; Rapid Growth; Competition; Shakeout; Maturity; Market Saturation; and Stagnation.

Source: Thompson and Strickland (1996, p.229)

c) The age of the business has been measured from the date of incorporation to the date of crisis.

d) Level of technology is categorised between:

High	=	State of the art (most modern available for industry)
Medium	=	Not causing strategic disadvantage
Low	=	Causing business strategic disadvantage

e) Exit costs: This was measured as at the date of the crisis, and took into consideration the value of the cash settlement payment the company would have received from the insurer had they decided to not to replace the damaged property and go back into the business.

None of the criteria measured in this section of the study were in themselves regarded as critical factors in the survival of the businesses in this study.

The age of the business, the exit costs and the life stage of the business did influence the decision in three cases but, as stated above, they were not regarded as primary considerations in the owners' decision-making process.

With the benefits of reinstatement and replacement conditions, which were discussed in Section 2.2.12, titled 'Insurance', with full insurance the prior level of technology was found not to be a factor in a business success or failure, as the business had the opportunity of the policy to replace any damaged property with the nearest modern equivalent.

6.3 Financial Variables

> *"The Law of Triviality…briefly stated, it means that the time spent on any item of the agenda will be in inverse proportion to the sum involved."*
>
> C. Northcote Parkinson (1957)

The financial variables of the subject firms considered in this study were:

- Ability to borrow funds
- Use of lease vs ownership
- Pre-crisis level of profitability

6.3.1 Ability to Borrow Funds

While the financial position of a company is naturally important as to whether the business will survive a loss, it was outside the scope of this research to carry out a full financial analysis of each company that took part in the study.

What has been found in this study is that traditional measures may in fact be misleading. As an example, the debt/equity ratio is a common measure of the level of debt a business holds. This measure of a company's financial leverage is calculated by dividing long-term debt by shareholders equity. It indicates what proportion of equity and debt the company is using to finance its assets. Financial markets tend to punish over-extended firms at the start of a recession (McLure, 2003) or during a crisis (Manning, 2004). The reason is simple: debt-leveraged companies have the hard task of paying their interest obligations out of a flat or declining level of income. The harsh reality is that those firms that are unable to pay for their debt, go bankrupt (Jackling, Rarr, Wigg, Williams and Wines, 2004).

The difficulty is that two businesses which are fundamentally the same, could have significantly different ratios. For example, if we took two service companies, say accounting practices, and they both use cash generated from accumulated profits to fund business growth, replace assets, but one has borrowed to buy the building that they occupy and the other rents a building, these two businesses would have significantly different debt/equity ratios.

The business that rented their building may appear to be a stronger company with no debt. However, the company that has bought their own building with the help of debt may in fact be much better off financially, particularly if the property has appreciated in value as so much has over the past few years in Victoria, and indeed much of the developed world.

A ratio that indicates what proportion of debt a company has relative to assets is the Debt Ratio. It is calculated by dividing total debts by total assets. A Debt Ratio greater than 1 indicates that a company has more debt in relation to assets, and a debt ratio less than 1 indicates a company has more assets relative to debt. It does not show the company's ability to finance the debt (Jackling *et al.,* 2004).

The Current Ratio is an indicator of the company's ability to pay short-term obligations. It is calculated by dividing current assets by current liabilities. Current Ratio is useful for comparing companies within the same industry. The higher the ratio, the more liquid the company (Jackling *et al.,* 2004). It is not as useful when looking at companies in different industries, as we have in this study (Cars, 2002).

As stated above, the formula for Current Ratio is:

$$\text{Current Ratio} = \text{Current assets} \div \text{Current liabilities}$$

When including all current assets and current liabilities, this becomes:

$$\text{Current Ratio} = \frac{\text{Inventory} + \text{Accounts Receivable} + \text{Cash Equivalents} + \text{Cash}}{\text{Accruals} + \text{Accounts Payable} + \text{Notes Payable}}$$

Source: Jackling, Rarr, Wigg, Williams and Wines (2004)

The weakness with the current ratio is that the researcher does not know how liquid inventory and accounts receivable really are. This means that a company with a very large part of its current assets tied up as inventory could show a relatively high current ratio but still exhibit a rather low level of liquidity (Cars, 2002). Researchers have been trying to find a single ratio that will demonstrate their ability to meet debts (Jackling *et al.,* 2004). Another test used is the Quick Ratio. The formula for the Quick Ratio is:

$$\text{Quick Ratio} = \frac{\text{Accounts Receivable} + \text{Cash Equivalents} + \text{Cash}}{\text{Accruals} + \text{Accounts Payable} + \text{Notes Payable}}$$

Source: Jackling, Rarr, Wigg, Williams and Wines (2004)

As we can see, the Quick Ratio does not contain any inventory. Accounts receivable are included, but still without any indication as to how easily these receivables can be turned into cash (Jackling *et al.,* 2004).

Yet another formula is the Cash Ratio. The formula for the Cash Ratio is:

$$\text{Cash Ratio} = \frac{\text{Cash Equivalents} + \text{Cash}}{\text{Accruals} + \text{Accounts Payable} + \text{Notes Payable}}$$

Source: Jackling, Rarr, Wigg, Williams and Wines (2004)

Since the Cash Ratio measures only the most liquid of all assets against current liabilities, it is seen as the most conservative of the three mentioned liquidity ratios. The Cash Ratio is generally accepted in the accounting literature to maintain a high degree of prudence in both the preparation and analysis of financial statements. The cash ratio may not seem as such a bad idea (Jackling *et al.,* 2004), however, many writers argue that it is a bad idea as it lacks accuracy (Cars, 2002). The Cash Ratio does not provide a true and fair picture of a company's short-term liquidity. No ratio does, and no ratio in isolation will ever be able to do this (Jackling *et al.,* 2004).

In this study, the level of debt in itself was not considered of paramount importance. What was of more interest was the company's ability to service the debt and/or obtain more debt, particularly in the short-term, should a crisis strike the business. In an SME, this brings in the personal equity of the owners. It was found that if there was an insurance program in place, the company had a good 'track record' with the bank, and the business or its owners had sufficient net equity, then financing the financial effects of the disruption was not an issue.

The test used was to rate the company's ability to borrow further funds at the time of the loss. The rankings and the meaning of the ranking used are set out below.

- *Significant funds available*
  More than enough to finance the crisis was available even if the insurer failed to pay.
- *Limited funds available*
  Short-term funds were available until insurer payments received.
- *At limit – no further funds available*
  Banks and other sources of finance would not provide any further funds.

The information on which the rating was made, was provided by the company's management, based on the financial position of the company at the time of the crisis. No check with the bank was made, nor was it deemed necessary for this study as the honesty/correctness of the respondent was not tested in this way in any other area, and the financial information provided would have shown up any glaring errors in what was reported during the interview.

6.3.2 Use of Lease vs Ownership

Leasing is a way of masking the level of debt that a company has by keeping the debt off the balance sheet. Just about any business asset from a computer, to office partitions and fit-outs, to motor vehicles and mobile plant and equipment can be leased. While the level of leasing should be taken into consideration by a lending institution in arriving at a company's ability to borrow, the study examined this area for two reasons.

The first is to ensure that this form of borrowing was included in the internal check on the company's ability to borrow, and also to determine whether the company had been prejudiced in any way by having a lease(s) during the crisis. For example, some lease companies have been known to insist that the company payout the lease with penalty interest rates upon the destruction of the leased asset (Manning, 2004).

The amount of leasing was measured by determining the percentage of physical business assets that were leased (excluding property rental leases). This was done in ranges as set out below.

- Less than 10%
- Between 10% and 25%
- Between 26% and 50%
- Greater than 50%

The question of being penalised was a simple 'yes/no' answer, with the financial penalty expressed in dollar terms should there have been one.

6.3.3 Pre-Crisis Level of Profitability

Profitability also proved to be difficult to measure with any degree of accuracy. Some SMEs can and do manipulate net taxable profit to minimise their taxation liability. For example, in one company, an owner may draw a conventional salary or wage, which is shown as an expense of the business. In others, the owners may not draw a salary but rather take dividends, which have tax imputation credits (Manning, 2002).

This being the case, the study looked at the level of fixed costs, including wages, that the business had at the time of the loss. Fixed costs included wages, electricity and freight, which may have a fixed and variable component. What this study was interested in was the costs that are truly variable to sales, and which would cease instantly if sales slowed or stopped. By deducting these truly variable costs, such as purchases, commissions and discounts given, we arrived at the level of Gross Profit that the business achieved, out of which they paid all of their expenses, including wages and interest expense. For this study, this was treated as Insurable Gross Profit. The formula used was:

Insurable Gross Profit	=	(Sales plus Closing Stock) less (Opening Stock plus Purchases, Commissions Paid, Discounts Given and Other Truly Variable Costs)
Insurable Rate of Gross Profit	=	(Insurable Gross Profit ÷ Sales) x 100

This is not traditional accounting Gross Profit, which takes into consideration production wages and factory overheads. Some of these costs are not variable in the medium- to long-term, and would continue should a recession or crisis strike. It is Insurable Gross Profit as calculated above, that a business should, in the simplest[19] terms, use as the sum insured or declared value for business interruption insurance (Manning, 2004).

A great deal of work has been undertaken by Mr Harry Dickinson, the founder of Interruption Underwriting Agencies, which is a specialist insurer that only insures businesses for their business interruption exposure. He has spent many years analysing the gross profit of some 1,800 classifications of businesses, using the formula shown above (Dickinson, 2000). Mr Dickinson's work, which forms the Underwriting Guidelines 2002 of his company, have been used with his kind permission to ensure that the companies that took part in this study were no more than 2% below the average of companies in that industry. Companies with a lower rate of Insured Gross Profit were excluded from the study, as it was felt that such companies may well be going to fail whether or not a crisis hits. The cut-off point was set at 2% below Mr Dickinson's stipulated rate.

[19] As the turnover of an SME grows, there are more sophisticated methods of calculating an adequate level of business interruption insurance. For example, wages may be taken out of the calculation and insured as a separate item, say using the Dual Wages method, which has the ability to reduce the required sum insured and therefore the premium paid, but the cover is not as complete as with full insurance (Manning, 2002).

The results of the questions on financial variables are set out in **Table 19**, below.

Table 19
Record of Results - Other Factors

Company	***A***	***B***	***C***	***D***
Ability to borrow funds	Significant	Significant	Limited	Limited
Percentage of physical assets leased	<10%	<10%	10%-25%	<10%
Were you penalised post-loss by having any Lease Agreements?	No	No	Yes	No
If penalised by a lease, what was the total dollar penalty	Nil	Nil	$3,890	Nil
Pre-crisis Percentage Insurable Gross Profit	46.7%	86.2%	74.1%	58.3%
Interruption Underwriting Agencies' Insured Gross Profit	45%	85%	75%	50%
Company	***E***	***F***	***G***	***H***
Ability to borrow funds	Nil at Limit	Limited	Limited	Nil at Limit
Percentage of physical assets leased	10%-25%	<10%	<10%	<10%
Were you penalised post-loss by having any Lease Agreements?	No	Yes	No	No
If penalised by a lease, what was the total dollar penalty?	Nil	$2,347	Nil	Nil
Pre-crisis Percentage Insurable Gross Profit	58.6%	50.2%	88.1%	85.4%
Interruption Underwriting Agencies' Insured Gross Profit	60%	48%	90%	85%
Company	***I***	***J***	***K***	***L***
Ability to borrow funds	Significant	Limited	Limited	Limited
Percentage of physical assets leased	<10%	10%-25%	<10%	10%-25%
Were you penalised post-loss by having any Lease Agreements?	No	Yes	No	No
If penalised by a lease, what was the total dollar penalty?	Nil	$4,404	Nil	Nil
Pre-crisis Percentage Insurable Gross Profit	42.3%	67.4%	34.5%	83.1%
Interruption Underwriting Agencies' Insured Gross Profit	40%	65%	35%	80%

A summary of the results are summarised in **Table 20** overleaf.

Table 20
Summary of Record of Results - Other Factors

Issue	***Significant***	***Limited***	***Nil***	***Total***
Ability to borrow funds?	3	7	2	12
Percentage of physical assets leased?	***<10%***	***10%-25%***	***>25%***	***Total***
	8	4	0	12
Were you penalised post-loss by having any Lease Agreements?	***Yes***	***No***		***Total***
	3	9		12
If penalised by a lease, what was the total dollar penalty?	Ranged between $2,347 to $4,404			
Gross Profit greater or lower than Interruption Underwriting Agencies for business of same type?	***Higher***	***Lower***		***Total***
	8	4		12

This shows that of the 12 SMEs surveyed, three (3) had more than adequate funding to ride out the crisis, seven (7) had enough for short-term funds to cover outlays between reasonably timed progress payments from an insurer, while two (2) companies were at their limit; one being a very new company, and the other extended to fund a new building.

No company had more than 18% of their assets on lease. Where leased assets were destroyed and had to be paid out, the maximum financial penalty was only $4,404.

All the companies surveyed had a Rate of Gross Profit within a range that suggests they were profitable and could meet reasonable levels of debt servicing for their industry.

6.4 Timing Issues

"Time is Money"(Advice given to a young tradesman)
Benjamin Franklin (1784)

The following timing issues were examined as part of this study.

- Speed of Settlement
- Initial Payment, Progress Payments, Final Payment
- Type of Loss (was it a suspicious loss or possibly not covered by the policy)
- Time to accept claim

- Time to finalise claim
- Length of time not trading
- Assistance from competitors
- Time to repair or replace building/equipment

In the following table, **Table 21**, the results of the timing issues researched in this study are recorded.

Table 21
Record of Results – Timing Issues

Company	***A***	***B***	***C***	***D***	***E***	***F***
Speed of settlement (months)	24	15	3	15	15	13
Initial payment - reasonable timing?	Yes	Yes	Yes	No	No	Yes
Progress payments - reasonable timing?	No	Yes	Nil	No	No	Yes
Final payment - reasonable timing?	No	Yes	Yes	Yes	Yes	No
Type of loss (suspicious/cover issues)	No	Yes	No	Yes	Yes	No
Time to accept claim (days)	3	3	14	70	70	12
Time to accept claim - reasonable?	No	Yes	Yes	No	No	Yes
Time to finalise claim - reasonable?	No	Yes	Yes	No	No	No
Length of time of disruption	12	15	Total	18	18	10
Assistance from competitors	Nil	Much	Nil	Nil	Nil	Nil
Time to repair/replace (months)	12	10	Not	12	12	10
Company	***G***	***H***	***I***	***J***	***K***	***L***
Speed of settlement (months)	10	8	3	20	5.5	24
Initial payment - reasonable timing?	Yes	Yes	Yes	Yes	Yes	Yes
Progress payments - reasonable timing?	No	Yes	Yes	Yes	Yes	No
Final payment - reasonable timing?	No	No	Yes	No	Yes	No
Type of loss (suspicious/cover issues)	Yes	No	No	No	No	Yes
Time to accept claim (days)	14	30	3	2	17	No
Time to accept claim - reasonable?	Yes	No	Yes	Yes	Yes	No
Time to finalise claim - reasonable?	No	No	Yes	No	Yes	No
Length of time of disruption	15	10	36	11	Total	18
Assistance from competitors	Nil	Nil	Nil	Nil	Nil	Yes
Time to repair/replace (months)	3	10	15	10	Not	15

The responses as to whether or not the timing issue was reasonable was from the business owner's perspective, being a measure of the insurer's performance. This was of particular relevance to Company J where the company itself delayed the settlement by not providing the necessary documentation to the insurer. The company could accept that only they themselves were to blame. Whatever the reason, speed of any payment from an insurer obviously has an effect on the cash flow of the business.

Not all payments were found to be made by an insurer direct to a company. In some cases, at the request of the company or because the loss adjuster authorised the repair or replacement, the insurer has made payments to repairers or suppliers. These payments were nonetheless included in the analysis, as the insured would have had to make this payment in any event and, therefore, this would have affected their cash flow. The data was obtained from the release form and/or documentation supplied to the company via the loss adjuster and/or insurer.

The data from this section of the study is summarised in **Table 22** below.

Table 22
Summary of Results - Timing Issues

Company	***Average Time***	***Yes***	***No***	***Nil***
Speed of settlement (months)	12.96 months			
Initial payment - reasonable timing?		83.33%	16.67%	
Progress payments - reasonable timing?		50.00%	41.67%	8.33%
Final payment - reasonable timing?		50.00%	50.00%	
Type of loss (suspicious/cover issues)		41.67%	58.33%	
Time to accept claim (days)	21.64 days			
Time to accept claim - reasonable?		58.33%	41.67%	
Time to finalise claim - reasonable?		33.33%	66.67%	
Length of time of disruption	16.3 months			
Assistance from competitors		16.67%	83.33%	
Time to repair/replace (months)	10.9 months			

Several points came out of this research. While every company surveyed only had 12 months' cover for business interruption, the average length of time that the SMEs were affected by the crisis was 16.3 months. The average time to repair the damaged structure was 10.9 months[20].

Further, the average length of time to have a claim accepted was 21.63 days. The period taken was longer in cases where the cause was suspicious or there were insurance coverage issues. Slightly over 40% of respondents felt the time taken by the insurer to accept the claim was too long. The claims typically took just on 13 months from the date of the fire to settle. Only a third of those surveyed considered this period reasonable. While over 80% of businesses surveyed were satisfied with the length of time to receive the first progress payment, this dropped down to only half being satisfied by the length of time it took to receive subsequent and the final payments.

6.5 Adequacy of Insurance

> *"People who do things exceed my endurance;*
> *God, for a man that solicits insurance!"*
>
> Dorothy Parker (1927)

The adequacy of insurance for each company was examined under the following headings and specific areas of insurance:

- <u>Material Damage</u>
  Building, Stock, Machinery & Plant, Customers Goods, Extra Costs of Reinstatement, and Removal of Debris
- <u>Business Interruption</u>
  Indemnity Period, Gross Profit, Additional Increased Cost of Working, Claims Preparation, and Wages

[20] The advice of builders specialising in fire rebuilding work is that this period is growing longer due to planning approval issues.

Table 23 below, records the results of the study in relation to the adequacy of insurance of each company. For the sake of understanding, the percentage shown indicates the percentage that the item was insured, eg. 100% means that it was fully insured, 50% means it was only half-insured, and 0% means it was not insured. It should also be noted that while something may have been under-insured, it does not mean that the company suffered any loss as a result. It may be that there was no loss in that area. To show the impact of any under-insurance, the uninsured loss not paid by insurers is also shown in **Table 23** as a monetary amount. The dollar amount does not include the financial loss suffered by the business due to the fact that they did not insure loss of profits or that the period of cover was inadequate. The adequacy of the period is shown, as a percentage, as the last item in the schedule.

Table 23
Record of Results – Adequacy of Insurance

Company	***A***	***B***	***C***	***D***	***E***	***F***
Building	100%	100%	0%	100%	100%	0%
Removal of Debris	100%	100%	50%	81%	100%	100%
Stock	100%	100%	100%	100%	100%	80%
Machinery & Plant	100%	93%	50%	85%	95%	100%
Other Contents	100%	100%	50%	0%	100%	100%
Customers' Goods	0%	91%	0%	0%	100%	0%
Extra Costs of Reinstatement	100%	100%	0%	30%	100%	0%
Gross Profit	100%	100%	0%	100%	90%	90%
Additional Increased Cost of Working	100%	100%	0%	25%	50%	50%
Wages	50%	100%	0%	100%	100%	80%
Claims Preparation	50%	50%	10%	50%	30%	100%
Cost of Under-Insurance	$20,000	$0	$320,000	$100,000	$200,000	$30,000
Adequacy of Indemnity Period	50%	67%	0%	80%	50%	100%
Company	***G***	***H***	***I***	***J***	***K***	***L***
Building	100%	100%	25%	100%	0%	90%
Removal of Debris	100%	100%	100%	100%	50%	100%
Stock	100%	100%	98%	80%	90%	100%
Machinery & Plant	80%	100%	7%	80%	70%	80%
Other Contents	80%	100%	80%	80%	100%	100%
Customers' Goods	100%	100%	0%	0%	100%	100%
Extra Costs of Reinstatement	100%	10%	0%	100%	0%	50%
Gross Profit	90%	100%	67%	90%	100%	70%
Additional Increased Cost of Working	80%	100%	100%	50%	65%	20%
Wages	100%	100%	50%	100%	100%	50%
Claims Preparation	50%	60%	100%	80%	100%	0%
Cost of Under-Insurance	$10,000	$24,000	$20m	$50,000	$25,000	$50,000
Adequacy of Indemnity Period	67%	100%	33%	80%	50%	50%

The results are summarised in **Table 24** below.

Table 24
Summary of Results - Adequacy of Insurance

Item	*Yes*	*No*	*Not Required*	*Total*
Building	7	2	3	12
Removal of Debris	9	3	0	12
Stock	9	3	0	12
Machinery & Plant	3	9	0	12
Other Contents	8	4	0	12
Customers' Goods	5	5	2	12
Extra Cost of Reinstatement	5	5	2	12
Gross Profit	5	7	0	12
Additional Increased Cost of Working	4	8	0	12
Wages	7	5	0	12
Claims Preparation	3	9	0	12
Fully Insured	1	11	0	12
Adequacy of Indemnity Period	2	10	0	12

Only one company (Company B) did not sustain a monetary loss due to under-insurance in the traditional sense, that is, the sum insured was too low. However, a company can be under-insured in other ways; a common example is not having a long enough indemnity period insured. Again, only two out of the 12 companies surveyed had a sufficient indemnity period (Companies F and H).

By adding the two forms of under-insurance together, every firm surveyed found themselves under-insured in at least one form, many in several ways. Only two of the business owners accepted that this was their own error based on a wish to save on premium (Companies C and I). In all other cases, the respondent indicated that they believed that they had received inappropriate advice from their insurance broker or agent.

The most common areas of under-insurance were Adequacy (length) of the Indemnity Period (10 out of 12), Machinery & Plant (9 out of 12), Claims Preparation Fees (9 out of 12), and Additional Increased Cost of Working (8 out of 12).

6.6 Crisis Management (Moderating Variables)

> *"A crisis unmasks everyone."*
>
> Mason Cooley (1990)

The moderating variables that were considered in this research were:

- Pre-loss planning
- Post-loss Business Recovery Plan utilisation
- Technology backups
- Management expertise
- Stakeholder involvement
- Ownership of the building
- More than one location
- Performance of loss adjuster
- Experience with large losses
- Use of specialist loss management consultants
- Increased management hours

The results of these variables have been split into 5 sections:

- Pre- and Post-Loss Planning
- Management Expertise
- Number of Locations & Ownership
- Stakeholder Involvement
- Other

6.6.1 Pre- and Post-Loss Planning

> *"Put in hours and hours of planning, figure everything down to the last detail, then what? Burglar alarms start going off all over the place for no sensible reason. A gun fires of its own accord, and a man is shot. And a broken-down old horse, no good for anything but chasing kids, has to trip over us. Blind accidents. What can you do against blind accidents?"*
>
> Ben Maddow (1950)

Table 25 below, records the use of pre- and post-loss planning, whether the companies felt that any pre-loss planning helped or would have, and finally what data was lost in both hardcopy and electronic form.

Table 25
Record of Results – Pre- and Post-Loss Planning

Company	***A***	***B***	***C***	***D***	***E***	***F***
Did the company have a Business Continuity Plan ("BCP")?	No	No	No	No	No	No
Would a BCP have assisted?	No	Yes	Yes	No	Yes	Yes
Post-loss Business Recovery Plan utilisation	Yes	Yes	Yes	Yes	Yes	No
Did a post-loss Business Recovery Plan assist?	Yes	Yes	Yes	Yes	Yes	Yes
Was any electronic data lost?	No	No	No	No	No	No
Was any vital hardcopy records lost?	No	No	Yes	No	No	No
Company	***G***	***H***	***I***	***J***	***K***	***L***
Did the company have a Business Continuity Plan ("BCP")?	No	No	No	No	No	No
Would a BCP have assisted?	Yes	Yes	Yes	No	No	Yes
Post-loss Business Recovery Plan utilisation	Yes	Yes	Yes	Yes	Yes	Yes
Did a post-loss Business Recovery Plan assist?	Yes	Yes	Yes	Yes	Yes	Yes
Was any electronic data lost?	Yes	No	No	No	No	No
Was any vital hardcopy records lost?	Yes	Yes	Yes	No	Yes	No

A summary of the results is contained in **Table 26** below.

Table 26
Summary of Results – Pre- & Post-Loss Planning

Item	***Yes***	***No***
Pre-loss Business Continuity Plan (BCP)	0	12
Would a BCP have assisted	8	4
Post Loss Business Recovery Plan Utilisation	11	1
Did Post Loss Business Recovery Plan Assist	12	0
Was Any Electronic Data Lost	1	11
Was Any Vital Hardcopy Records Lost	5	7

Four companies stated that they did not believe that a Business Continuity Plan ("BCP") would have been of benefit. The reason given in each case was that the loss was just so big it could not have been predicted nor could anything have been done before the loss to mitigate the effect of the loss. Having said this, all companies developed a plan, even if it was to wind the company up, and all believed that developing a plan was of benefit. These two statements appear at first glance to contradict each other. However, on further questioning two themes became apparent.

The first is that some management felt that for an SME, there is no real benefit in spending time preparing for a total loss in advance. Three respondents (Companies A, D and J) gave as a reason that the external environment changes all the time, eg. the availability of temporary premises in the area. As such, these three respondents' view was that the management of an SME must face the crisis and, after it has happened, then prepare a suitable plan with all the facts before them, rather than trying to predict every possible scenario for a BCP. The respondents explained that this does not mean that the business can ignore risk management completely. A company should still look at risk minimisation strategies. The issue for some (Companies A, D and J) was that they would never have accepted that the loss would have been so big and, even if they did prepare a plan, it would not have included a total or almost total loss.

When a brief explanation of the planning process was explained to the interviewees, and taking the example above of the availability of temporary accommodation, and explaining that a BCP could hold the telephone numbers of all local real estate agents dealing with commercial property, the contact numbers of machinery brokers, they all agreed that some pre-planning would have made the process easier.

While not all firms agreed (4 out of 12 did not agree) that the time and expense of a BCP is warranted before a crisis, 11 out of the 12 respondents agreed (all but Company F, who did not use a plan) that the development and implementation of a post-loss Business Recovery Plan was most beneficial. When the concept of a Business Recovery Plan was explained to the respondent from Company F, she agreed with those that did use a plan, that there would be considerable benefits. Those that did use a Business Recovery Plan reported that it was not only good business practice but, as individuals, it aided their mental state and assisted them in focusing their minds on the future rather than the past and, in particular, the blame/guilt/denial/frustration/anger that all felt to varying degrees after the crisis hit.

With the backup of electronic records, 11 out of the 12 companies lost no electronic records. Surprisingly, the only company that did was a company developing software applications.

On the other hand, none of the companies involved in this study had fireproof or off-site secure storage for vital hardcopy records. In the case of Company C, all their records of customers' goods, which were in hardcopy form, were destroyed in the fire. Worse still, they had developed a practice of having the customer leave their copy onsite as well, so that a spouse or another member of the family could pick up the goods. As such, no one had any proof of what was in the premises at the time of the loss.

6.6.2 Management Expertise

> *"Experience is not a matter of having actually swum the Hellespont, or danced with the dervishes, or slept in a doss-house. It is a matter of sensibility and intuition, of seeing and hearing the significant things, of paying attention at the right moments, of understanding and co-ordinating. Experience is not what happens to a man; it is what a man does with what happens to him."*
>
> Aldous Huxley (1932)

The level of education and years of experience of each of the senior management team of all companies in this study is set out in **Tables 27 to 38**. All results are recorded as at the date of the crisis. Also recorded and considered in conjunction with the management's expertise is the individual company's use of consultants. This study ignored one-off legal advice and tax accounting, which was common to all companies surveyed.

Company A

Table 27
Company A - Management Education & Experience

Position	***Highest Level of Education Attained***	***Other Courses***	***Years with Company***	***Years in Current Position***	***Years in Similar Position***
CEO/General Manager	High School Certificate	Leadership and Management	7	5.5	Nil
Chief Accountant	High School Certificate	Bookkeeping	3	3	4
Sales Manager	High School Certificate	None	7	7	6
Production Manager	Trade Certificate	Supervisors	1	1	7

At the time of the crisis, Company A used consultants on a regular basis in the areas of financial planning, information technology, quality assurance, marketing, and technical engineering.

Company B

Table 28
Company B - Management Education & Experience

Position	***Highest Level of Education Attained***	***Other Courses***	***Years with Company***	***Years in Current Position***	***Years in Similar Position***
Chairman	Grade 8	Technical Courses and Business Administration	42	5	Nil
Managing Director	Post Grad Degree (Science)	Business Administration	10	7	Nil
Chief Accountant	Batchelor Degree (Commerce)	Certified Practising Accountant	40	40	Nil

Company B also used external consultants a great deal. This covered occupational health and safety, quality assurance, marketing, and information technology.

Company C

Table 29
Company C - Management Education & Experience

Position	***Highest Level of Education Attained***	***Other Courses***	***Years with Company***	***Years in Current Position***	***Years in Similar Position***
CEO/General Manager	High School Certificate	Technical Courses	5	5	Nil
Chief Accountant	Bachelor Degree (Commerce)	Certified Practicing Accountant	5	5	32
Sales Manager	High School Certificate	None	5	5	10

Company C did not use any external consultants on a day-to-day basis.

Company D

Table 30
Company D - Management Education & Experience

Position	*Highest Level of Education Attained*	*Other Courses*	*Years with Company*	*Years in Current Position*	*Years in Similar Position*
CEO/General Manager	Grade 7	Nil	14	14	Nil
Sales Manager	High School Certificate	Nil	7	7	Nil
Operations Manager	Grade 5	Nil	14	14	Nil

Company D did not use any external consultants prior to the loss.

Company E

Table 31
Company E - Management Education & Experience

Position	*Highest Level of Education Attained*	*Other Courses*	*Years with Company*	*Years in Current Position*	*Years in Similar Position*
Managing Director	Year 9	4 Year Apprenticeship	43	41	Nil
Chief Accountant	Bachelor Degree (Commerce)	Certified Practicing Accountant	8	7	Nil
Production Manager	Year 10	Nil	29	14	Nil
Human Resources Manager	Bachelor Degree (Education)	Technical Industry Courses	6	5	16
Operations Manager	Year 10	Apprenticeship Fitter & Turner	6	5	Nil

Company E used the services of external consultants for systems design and marketing. During their lead up to attaining ISO 9002 quality accreditation, they also used a consultant in this area, but with the accreditation, the contract ceased.

Company F

Table 32
Company F - Management Education & Experience

Position	*Highest Level of Education Attained*	*Other Courses*	*Years with Company*	*Years in Current Position*	*Years in Similar Position*
CEO/General Manager	Bachelor Degree (Science)	Buyer; Merchandising; Tax; Accounting	1	1	1.5

Company F did not use any external consultants prior to the loss.

Company G

Table 33
Company G - Management Education & Experience

Position	*Highest Level of Education Attained*	*Other Courses*	*Years with Company*	*Years in Current Position*	*Years in Similar Position*
Managing Director	Bachelor Degree (Arts)	Diploma of Education; Post Graduate Courses in IT	8	3.5	Nil
Chief Accountant	Bachelor Degree (Commerce)	Post Graduate Textiles; Post Graduate Computer Science	8	8	14
Sales Manager	High School Certificate	None	8	8	Nil

Company G had engaged a management-consulting firm to advise on marketing, strategy and new product development. This was to be a short-term contract, and was the first consultants the company had engaged. The decision was taken to engage the consulting firm as the business was not as profitable as the directors would have liked.

Company H

Table 34
Company H - Management Education & Experience

Position	*Highest Level of Education Attained*	*Other Courses*	*Years with Company*	*Years in Current Position*	*Years in Similar Position*
Managing Director	Year 10	Property Investment Course	.25	.25	Nil
Operations Manager	Year 10	Nil	.25	.25	Nil

Company H employed a business coach, who assisted them in finding the 'right' business for them and then advised them on marketing, quality assurance and time management.

Company I

Table 35
Company I - Management Education & Experience

Position	*Highest Level of Education Attained*	*Other Courses*	*Years with Company*	*Years in Current Position*	*Years in Similar Position*
Chairman	Bachelor Degree (Commerce)	Management	10	10	Nil
Managing Director	High School Certificate	Management Courses	16	16	Nil
Chief Accountant	Bachelor Degree (Business)	Certified Practicing Accountant	.25	.25	20
Operations Manager	Year 11	Technical Courses	1	1	10

The only consultant that Company I utilised at the time of the loss was for information technology.

Company J

Table 36
Company J - Management Education & Experience

Position	*Highest Level of Education Attained*	*Other Courses*	*Years with Company*	*Years in Current Position*	*Years in Similar Position*
Managing Director	Grade 10	Management; Sales	2	2	12
Chief Controller	Bachelor Degree (Business)	Business; Language	2	2	11

Company J engaged external consultants to assist with workplace safety and with recruitment.

Company K

Table 37
Company K - Management Education & Experience

Position	*Highest Level of Education Attained*	*Other Courses*	*Years with Company*	*Years in Current Position*	*Years in Similar Position*
Managing Director	Associate Diploma of Accountancy	Customer Relations; IT; other short courses	8	8	10
Sales Manager	Grade 10	Nil	8	8	0

Company K used an information technology consultant to develop a website for the business. This proved invaluable after the loss, as they moved the entire business to an internet-based one, as they had to give up their store frontage.

<u>Company L</u>

Table 38
Company L - Management Education & Experience

Position	***Highest Level of Education Attained***	***Other Courses***	***Years with Company***	***Years in Current Position***	***Years in Similar Position***
Operations Manager	Bachelor Degree (Nursing)	Aged Care	5	5	Nil
Chief Accountant	Bachelor Degree (Business)	Certified Practicing Accountant	5	5	15

Company L used consultants in respect to the licensing requirements for their industry.

With the companies surveyed, only the titles used by management were recorded. With the other positions, the management team did these tasks as well. The education levels varied greatly and, depending on the personality type of the management and the complexity of an issue, external consultants were engaged to assist the business. No relationship between the formal qualification of the management team and survival, was found in this study.

6.6.3 <u>Number of Locations & Ownership</u>

> *"Denouement to denouement, he took a personal pride in the certain way he lived his own, private life, but nevertheless, they shut off his gas; nevertheless, the bank foreclosed; nevertheless, the landlord called…"*
>
> Kenneth Fearing (1954)

This section of the study examined the following issues:

(1) How many locations did the business operate from and did the additional location(s) assist the recovery process?

(2) Did the company own the building? Either way, was ownership deemed important to business recovery?

The results of the study are set out in **Table 39** overleaf.

Table 39
Number of Locations & Ownership of Building

Company	***A***	***B***	***C***	***D***	***E***	***F***
Number of locations	2	2	1	1	2	1
Did second location assist?	Greatly	Moderately	Not Applicable	Not Applicable	Greatly	Not Applicable
Did company own building?	Yes	Related	No	Yes	Yes	No
Did/would have owning the building speed up or improved recovery of business?	Greatly	Greatly	Greatly	Greatly	Moderately	Greatly
Company	***G***	***H***	***I***	***J***	***K***	***L***
Number of locations	1	1	2	1	1	1
Did second location assist?	Not Applicable	Not Applicable	Greatly	Not Applicable	Not Applicable	Not Applicable
Did company own building?	Related	Purchasing	Yes	No	No	No
Did/would have owning the building speed up or improved recovery of business?	No	Greatly	Greatly	No	Greatly	Greatly

Company H was purchasing the business at the time of the loss.

The results of **Table 39** above, are summarised in **Table 40** below.

Table 40
Summary of Number of Locations & Ownership of Building

Number			***1***	***2***
Number of locations			8	4
Response		***Greatly***	***Moderately***	***Not Applicable***
Did second location assist?		3	1	8
Response	***Yes***	***Related***	***Purchasing***	***No***
Did company own building?	4	2	1	5
Response		***Greatly***	***Moderately***	***No***
Did/would have owning the building speed up or improved recovery of the business?		9	1	2

All those that operated from more than one location advised that the second location assisted in the recovery of the business. Three of the four in the position of having a second location (none of the respondents had more than two), advised that the assistance was great, with the fourth saying it was of only moderate advantage. On examination it was found that in the case of Company B, the second location was only a sub-agent of the main location which was destroyed, and hence it was only of limited value. Having said this, it did continue to sell the services of the company and, as a result, much needed cash flow was generated throughout the period of the crisis.

Turning now to building ownership, in the main, those that owned the building found that it was an advantage as it gave them control over the timing and scope of the rebuilding. Those that did not own their building found the lack of control a disadvantage, particularly Company C and Company K where the landlord did not rebuild at all. It was not a major issue for Company J as the landlord entrusted the tenant to do what they pleased within the budget of the insurance proceeds. Similarly, for Company G, they simply moved out of the building as their lease allowed it.

On this point, tenancy leases in the past allowed either party to the lease to terminate the lease on the destruction of, or significant damage to, the building. In modern times, most commercial leases state that if the landlord commences repairs within 3 months and completes the repairs within 6 months, then the tenant is bound to continue on with the lease. This study suggests that this change can penalise the tenant. Either they have to move out to temporary premises for a short term and then move back in, or just wait while the landlord completes repairs.

In the case of Company K, this company had this new style lease. The company felt that it was simply not cost-effective to source and setup temporary premises. The landlord procrastinated for months and then just before the 3-month milestone, the tenant was advised that the landlord had decided not to rebuild. Had the owners of Company K known this, they would have been actively looking for a permanent new location and may have found one before the Christmas peak period. On the other hand, the owners of Company F and Company K were seriously disadvantaged by the slowness of the building owners to carry out repairs.

In summary, both the ownership of the building and operating from more than one location were seen to be advantageous in the event of a crisis.

6.6.4 Stakeholder Involvement

"I'm not interested in who suffered the most.
I'm interested in people getting over it."

Naomi Shihab Nye (1994)

The results detailing the importance of stakeholder involvement, the level of empathy shown by the stakeholder during the crisis, and the performance of the stakeholder, as rated by the business owner is set out in **Tables 41 to 52**. Please note that only the stakeholders rated by the respondents surveyed are included in the tables.

Company A

Table 41
Record of Results for Company A – Stakeholder Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*	*Empathy of Stakeholder to Crisis*	*Performance of Stakeholder*
Employees	Imperative	Moderate	Good
Management	Imperative	Moderate/Great	Good
Shareholders	Minor/Imperative	Nil/Great	Not Satisfactory/ Excellent
Banker	Minor	Great	Excellent
Accountant	Minor	Great	Excellent
Other Consultants - Tax Accountant	Very Important	Moderate	Excellent
Suppliers of Goods and Services	Imperative	Moderate	Good
Customers	Very Important	Moderate	Good
Fire Brigade	Imperative	Great	Excellent
Police	Imperative	Moderate	Excellent
Insurance Brokers	Imperative	Great	Good
Insurer	Imperative	Great	Good
Claims Preparer	Imperative	Great	Good
Loss Adjuster	Imperative	Minor	Not Satisfactory
Repairer	Imperative	Minor	Poor
Restoration Company	Very Important	Great	Poor

With Company A, the business had two shareholders. The answers provided reflect the respondents' ratings of each one.

Company B

Table 42
Record of Results for Company B – Stakeholder Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*	*Empathy of Stakeholder to Crisis*	*Performance of Stakeholder*
Employees	Imperative	Great	Excellent
Management	Imperative	Great	Excellent
Shareholders	Imperative	Great	Excellent
Banker	Very Important	Great	Excellent
Accountant	Very Important	Great	Excellent
Other Consultants	Very Important	Great	Excellent
Landlord	Imperative	Great	Excellent
Other tenants	Important	Great	Excellent
Physical Neighbours	Very Important	Great	Excellent
Suppliers of Goods and Services	Very Important	Great	Excellent
Customers	Very Important	From Nil to Great	From Poor to Excellent
Competitors	Imperative	Great	Excellent
Trade Association	Imperative	Great	Excellent
Council	Imperative	Moderate	Excellent
WorkCover Authority	Imperative	Nil	Not Satisfactory
Fire Brigade	Imperative	Great	Good
Police	Imperative	Great	Good
Insurance Brokers	Minor	Great	Good
Insurer	Imperative	Great	Excellent
Loss Adjuster	Imperative	Great	Excellent
Repairer	Imperative	Great	Excellent
Restoration Company	Not important	Moderate	Poor

Company B were perhaps more reliant on the attitude of their customers than any of the other businesses surveyed. They found a wide range of attitudes shown by their customers, particularly over the large quantity of customers' goods destroyed.

Company C

Table 43
Record of Results for Company C – Stakeholder Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***	***Empathy of Stakeholder to Crisis***	***Performance of Stakeholder***
Employees	Very Important	Great	Excellent
Management	Imperative	Great	Excellent
Shareholders	Imperative	Great	Excellent
Banker	Very Important	Great	Excellent
Accountant	Very Important	Great	Excellent
Suppliers of Goods and Services	Important	Great	Excellent
Customers	Very Important	Moderate	Poor
Fire Brigade	Imperative	Great	Excellent
Police	Important	Great	Excellent
Insurance Brokers	Very Important	Moderate	Moderate
Insurer	Imperative	Nil	Poor
Claims Preparer	Imperative	Great	Excellent
Loss Adjuster	Imperative	Good	Good

Company C's management decided quite quickly after the fire destroyed the building that they occupied, that the business could not continue. As such, their list of stakeholders is much shorter than that for the other businesses.

Company D

Table 44
Record of Results for Company D – Stakeholder Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*	*Empathy of Stakeholder to Crisis*	*Performance of Stakeholder*
Employees	Very Important	Great	Excellent
Management	Imperative	Great	Excellent
Shareholders	Imperative	Great	Excellent
Banker	Very Important	Great	Excellent
Accountant	Very Important	Great	Excellent
Suppliers of Goods and Services	Important	Great	Excellent
Customers	Very Important	Moderate	Excellent
Council	Important	Great	Excellent
Fire Brigade	Imperative	Great	Excellent
Police	Important	Great	Excellent
Insurance Brokers	Very Important	Moderate	Moderate
Insurer	Imperative	Nil	Poor
Claims Preparer	Imperative Imperative	1) None 2) Great	1) Not Satisfactory 2) Excellent
Loss Adjuster	Imperative	Minor	Poor
Repairer	Imperative	Great	Good
Restoration Company	Minor	Nil	Poor
Project Manager	Imperative	Great	Excellent

Company D had two claims preparers. The insured did not like the first one that was recommended to him by his insurance broker. He dismissed this one, and appointed a second one, locating him through the Yellow Pages, and was very pleased with the service provided.

Company E

Table 45
Record of Results for Company E – Stakeholder Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*	*Empathy of Stakeholder to Crisis*	*Performance of Stakeholder*
Employees	Very Important	Great	Excellent
Union	Not Important	None	Not Satisfactory
Management	Imperative	Great	Excellent
Shareholders	Imperative	Great	Excellent
Banker	Very Important	Great	Excellent
Other Financiers	Very Important	Moderate	Good
Accountant	Very Important	Great	Excellent
Solicitor	Imperative	Great	Excellent
Landlord	Very Important	Great	Excellent
Suppliers of Goods and Services	Imperative	Great but reduced over time	Excellent
Customers	Very Important	Minor	Not Satisfactory
Competitors	Hindrance	Nil	Not Satisfactory
Trade Association	Not Important	Nil	Poor
Australian Taxation Office	Imperative	Great	Excellent
Council	Not Important	Nil	Poor
WorkCover Authority	Minor	Moderate	Good
Fire Brigade	Imperative	Great	Excellent
Police	Important	Great	Excellent
State Emergency Services	Imperative	Great	Excellent
Insurance Brokers	Very Important	Great	Excellent
Insurer	Imperative	Minor	Not Satisfactory
Claims Preparer	Imperative	Great	Excellent
Loss Adjuster	Imperative	Great/Nil	Not Satisfactory
Repairer	Imperative	Great	Excellent
Restoration Company	Imperative	Great	Excellent
Project Manager	Imperative	Great	Excellent

Company E was the only company to include a Federal Government Department in their ranking. The company was at its lending limit at the time of the crisis, due to its recent investment in a new building and the cost of moving. A significant sum was owed to the Australian Taxation Office ("ATO") and, contrary to what many may think, the ATO showed great empathy to the company's position in view of the crisis and worked with them to assist.

Company F

Table 46
Record of Results for Company F – Stakeholder Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*	*Empathy of Stakeholder to Crisis*	*Performance of Stakeholder*
Employees	Very Important	Great	Excellent
Management	Imperative	Great	Excellent
Shareholders	Imperative	Great	Excellent
Banker	Very Important	Great	Excellent
Accountant	Very Important	Great	Excellent
Suppliers of Goods and Services	Important	Great	Excellent
Customers	Very Important	Moderate	Good
Council	Important	Minor	Not satisfactory
Fire Brigade	Imperative	Great	Excellent
Police	Important	Great	Excellent
Insurance Brokers	Very Important	Moderate	Good
Insurer	Imperative	Nil	Poor
Claims Preparer	Imperative	Great	Excellent
Loss Adjuster	Imperative	1) Minor 2) None	1) Good 2) Not satisfactory
Repairer	Imperative	Great	Good
Restoration Company	Minor	Nil	Poor
Project Manager	Imperative	Great	Excellent

In the case of Company F, they had to deal with two loss adjusters. The one appointed by their own insurer showed some empathy and did try to assist where he could. The loss adjuster appointed by the building owner's insurer was very slow, and his performance was rated not satisfactory by the respondent. According to the respondent, the building insurer's loss adjuster showed no empathy to their position at all. While the owners of Company F wanted the building repaired as quickly as possible so that they could resume trading, the loss adjuster took months to arrange quotations, then when he finally authorised repairs, the builder ordered prefabricated trusses to save money, but this delayed the repair period by a minimum of 8 weeks. The council also hindered the project by delaying approvals and the granting of occupancy permits.

Company G

Table 47
Record of Results for Company G – Stakeholder Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*	*Empathy of Stakeholder to Crisis*	*Performance of Stakeholder*
Employees	Imperative	Great	Excellent
Management	Imperative	Great	Excellent
Shareholders	Imperative	Great	Excellent
Banker	Important	Moderate	Good
Landlord	Important	Great	Excellent
Other tenants	Not Important	Moderate	Excellent
Physical Neighbours	Minor Importance	Great	Excellent
Suppliers of Goods and Services	Very Important	Great	Excellent
Customers	Imperative	Great	Excellent
Fire Brigade	Minor	Great	Good
Police	Minor	Great	Good
Insurance Brokers	Importance	Great	Good
Insurer	Imperative	Nil	Not Satisfactory
Claims Preparer	Imperative	Great	Excellent
Loss Adjuster	Imperative	Nil	Not Satisfactory
Restoration Company	Minor importance	Nil	Not Satisfactory

Company G rated the police and fire brigade of minor importance, whereas many of the other respondents rated them 'Imperative'. On questioning the business owner of Company G, he advised that the building and all contents were destroyed in the fire and, once this had occurred, the importance of the fire brigade and police were of little moment to the survival of the business. This line of thought was mirrored by the other respondents who rated the two emergency services as low.

Company H

Table 48
Record of Results for Company H - Stakeholder Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*	*Empathy of Stakeholder to Crisis*	*Performance of Stakeholder*
Employees	Imperative	Moderate	Good
Management	Imperative	Great	Excellent
Shareholders	Imperative	Great	Excellent
Solicitor	Very Important	Great	Excellent
Other Consultants – Business Consultant	Not Important	Great	Moderate
Landlord	Very Important	Minor	Moderate
Other tenants	Minor Importance	Moderate	Moderate
Physical Neighbours	Minor Importance	Moderate	Excellent
Suppliers of Goods and Services	Very Important	Great	Excellent
Customers	Very Important	Moderate	Good
Council	Minor	Minor	Moderate
WorkCover Authority	Minor	Nil	Moderate
Fire Brigade	Very Important	Great	Excellent
Police	Minor	Moderate	Excellent
Insurance Brokers	Important	Great	Moderate
Insurer	Imperative	Nil	Moderate
Claims Preparer	Imperative	Great	Excellent
Loss Adjuster	Imperative	Nil	Poor
Repairer	Very Important	Moderate	Good
Restoration Company	Very Important	Moderate	Good

Company H included the Victorian WorkCover Authority in their listing. This agency was called in as the roof of the building had sustained damage to a small area, and the roof was sheeted in asbestos cement sheeting. The regulations to safely remove and dispose of the potentially dangerous material were quite daunting to the owners, and the loss adjuster offered no assistance in this area. The respondent for Company H was particularly disappointed at the attitude of the loss adjuster. The respondent understands that when the fire was notified to the insurer, the insurer called the State head office of the loss adjusting firm. A senior adjuster, thinking it was a very large fire, attended rather than redirect the instruction to the local office of the same firm, which was located within 2 kilometres of the fire. When the loss adjuster attended the fire and found that it was not a multi-million-dollar fire, he attempted to pass it on to the local office.

The local office refused the instruction stating that if they were not 'good enough' to attend from day one, they were not going to handle the matter at all. Clearly, the first loss adjuster was interested in the fee potential of the job, rather than the position of the insured company.

Being only a relatively small loss, the cost of administrating the claim in time and expenses made it uneconomical for the first adjuster and, on learning of the background from a third person involved in the loss adjusting firm, this only strengthened the owner of Company H's poor regard for the loss adjuster and the claims process.

Company I

Table 49
Record of Results for Company I – Stakeholder Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***	***Empathy of Stakeholder to Crisis***	***Performance of Stakeholder***
Employees	Imperative	Moderate	Good
Union	Not Important	Minor	Moderate
Management	Imperative	Great	Excellent
Shareholders	Minor Importance	Great	Excellent
Banker	Imperative	Great	Excellent
Other Consultants - Tax Consultant	Very Important	Minor	Good
Suppliers of Goods and Services	Imperative	Great	Excellent
Customers	Imperative	Moderate but reduced over time	Good
Competitors	Not Important	Minor	Not Applicable
State Government	Minor Importance	Great in words but nil in action	Not Satisfactory
Council	Very Important	Great	Good
Environmental Protection Authority	Minor Importance	Great	Moderate
Fire Brigade	Important	Great	Good
Police	Minor	Moderate	Good
Insurance Brokers	Important	Great	Good
Insurer	Imperative	Minor	Moderate
Claims Preparer	Minor Importance	Minor	Moderate
Loss Adjuster	Imperative	Great	Good
Repairer	Impetrative	Moderate	Good
Restoration Company	Very Important	Moderate	Good

Company I was significantly under-insured on a reinstatement and replacement basis, but on a market value basis, they received more than the written-down value of the assets. The management of the Company engaged the services of a tax consultant to advise them on the tax implications of the claims settlement.

The claim payout was many millions of dollars, and involved the destruction of assets that had been completely written-down in the Company's taxation accounting records. The claim payment had the potential to create a significant taxation liability at a time when the Company needed all the cash it could spare to replace the destroyed building and contents.

This is the only Company to rate the involvement of the State Government. After the fire, the owners found that they were significantly under-insured, and would need to retrench over 70 employees in a town where the Company was the second biggest employer. The local member appeared to show great empathy to the Company's situation, but the Victorian State Government was not prepared to provide any assistance by way of grants, low interest loans or tax relief from items such as payroll tax. At the same time, the Western Australian Government provided a grant to an Indonesian firm to allow them to buy a similar business in Albany in Western Australia, that had recently gone into liquidation. This sale went through only days before the fire in Company I's mill, and precluded them, an Australian company, from buying the existing business to replace the one destroyed.

This company's business involved a chemical process, ie. a dye house, which was not environmentally friendly. The site had been carrying out this type of process for over 100 years and this, coupled with the number of employees involved and the fact that the dye house itself was not affected in the fire, combined for the statutory authority to allow the company to reinstate the rest of the process on the site. They would not allow the site to be relocated anywhere else in the State.

The ranking of the importance of the shareholders was lowest for this firm, but they were not directly involved in the business and were based overseas. It was the local management who pulled the company through.

One final comment on Company I's responses involves the low rating of the claims preparer. Their rating of the service was the lowest of any of the companies surveyed. On questioning, the respondent explained that while they appreciated the importance of the role, they were not happy with the individual they had engaged. This same company had sustained another business interruption loss following the gas outage caused by the explosion at Longford in September 1998, and had used another firm on that occasion and rated that service much higher.

Company J

Table 50
Record of Results for Company J – Stakeholder Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*	*Empathy of Stakeholder to Crisis*	*Performance of Stakeholder*
Employees	Imperative	Great	Excellent
Management	Imperative	Great	Excellent
Shareholders	Imperative	Great	Excellent
Banker	Imperative	Moderate	Excellent
Accountant	Very Important	Great	Good
Landlord	Minor Importance	Nil	Poor
Suppliers of Goods and Services	Imperative	Great	Excellent
Customers	Very Important	Great	Excellent
Competitors	Minor Importance	Moderate	Good
Council	Minor Importance	Minor	Moderate
Fire Brigade	Very Important	Great	Excellent
Insurance Brokers	Minor Importance	Minor	Moderate
Insurer	Very Important	Nil	Not Satisfactory
Claims Preparer	Imperative	Great	Excellent
Loss Adjuster	Minor Importance	Nil	Not Satisfactory
Repairer	Imperative	Nil	Poor
Restoration Company	Imperative	Great	Moderate

Company J rated the importance of the loss adjuster to the business survival as of minor importance, whereas all of the other respondents rated them of higher importance. The business manager here did not appreciate the attitude or approach of the loss adjuster, and insisted on dealing with the insurer direct. In the end, the insurer's senior claims official travelled from interstate to settle the claim.

Company K

Table 51
Record of Results for Company K – Stakeholder Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*	*Empathy of Stakeholder to Crisis*	*Performance of Stakeholder*
Employees	Imperative	Moderate	Good
Management	Imperative	Great	Excellent
Shareholders	Imperative/ Not Important	Moderate/Great	Not Satisfactory/ Excellent
Banker	Hindrance	Nil	Not Satisfactory
Accountant	Not Important	Minor	Poor
Solicitor	Not Important	Minor	Not Applicable
Landlord	Hindrance	Moderate	Poor
Other Tenants	Not Important	Moderate	Not applicable
Physical Neighbours	Not Important	Great	Excellent
Suppliers of Goods and Services	Minor Importance	Nil	Poor
Secondary Suppliers of Goods	Very Important	Great	Excellent
Customers	Not Important	Varied across all ratings	Varied across all ratings
Fire Brigade	Imperative	Great	Excellent
Police	Minor	Moderate	Good
Insurer	Imperative	Great	Excellent except in timing
Claims Preparer	Imperative	Great	Excellent
Loss Adjuster	Imperative	Nil	Not Satisfactory
Repairer	Minor	Moderate	Good

Company K did not use an insurance broker, but rather dealt directly with the insurer. The owner of the business rated the performance of the loss adjuster much lower than that of the insurer, whose account manager stepped in several times to speed up the process and direct the loss adjuster on policy coverage.

The owners were particularly scathing of the landlord who was under-insured, would not communicate his plans, and who simply sold the building and walked away from the crisis, leaving the owners of Company K without anywhere from which to operate.

The solicitors for the owners of Company K were also affected by the fire, being located in an adjoining building. The owners of Company K felt that the solicitor showed only minor empathy to their plight and, as a result, changed firms after the crisis had passed.

Company K's owners were most angry about the performance of their bank. A new business account manager had recently taken over the account from a local long-term country branch manager. On the advice of the claims preparer, the owners notified the bank of the fire and advised that the assets were fully insured, seeking some assistance in the short-term while the insurance funds came through. Rather than offer any assistance, the new manager put a complete hold on the owner's bank accounts, freezing all their funds. It took weeks of explaining and negotiation before commonsense prevailed. While an apology was requested, it was never received from the bank.

Company L

Table 52
Record of Results for Company L – Stakeholder Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***	***Empathy of Stakeholder to Crisis***	***Performance of Stakeholder***
Employees	Not Important	Great	Good
Management	Imperative	Great	Excellent
Shareholders	Imperative	Great	Excellent
Banker	Minor Importance	Minor	Good
Accountant	Very Important	Great	Excellent
Landlord	Imperative	Nil	Not Satisfactory
Suppliers of Goods and Services	Minor	Moderate	Good
Customers	Imperative	Moderate but reduced over time	Good
Council	Imperative	Minor	Poor
Department of Human Services	Imperative	Minor	Poor
Fire Brigade	Very Important	Great	Good
Insurance Brokers	Not Important	Nil	Not Satisfactory
Insurer	Imperative	Great	Good
Claims Preparer	Imperative	Great	Excellent
Loss Adjuster	Imperative	Nil	Not Satisfactory
Repairer	Very Important	Great	Moderate
Restoration Company	Very Important	Moderate	Poor

Company L operated a nursing home from rented premises. They were very heavily dependent on the local council, the Department of Human Services, and the landlord. The landlord was a very old woman who really abrogated her responsibility to Company L, but she would not confirm that she would renew the lease, while refusing all offers to sell.

This is another case where the owners of the business have become so disillusioned with the loss adjuster that they have gone straight to the insurer, and have rated the empathy and performance of the insurer higher than the loss adjuster.

6.6.5 Summary of Results of Shareholder Analysis

The results of the questions on the involvement of 38 stakeholders are shown in **Tables 53 to 90**, covering:

- The importance of the stakeholder to the recovery process.
- The level of empathy of the stakeholder to the crisis.
- The level of performance of the stakeholder during the crisis.

For the convenience of the reader, the type of the stakeholder appears as a subheading before a table and brief commentary.

6.6.5.1 Employees

Table 53
Summary of Results – Employees' Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Employees	Not Important	1	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	4	Moderate	0
	Very Important	4	Great	8	Good	5
	Imperative	7	No Involvement	0	Excellent	7
	Hindrance	0			No Involvement	0
	No Involvement	0				
	Total	**12**	**Total**	**12**	**Total**	**12**

The only firm to rate the employees as unimportant was Company C. The business owners had made a decision within days of the crisis to wind up the business, and they did not involve the staff, all of whom were casuals, in the decision-making process. While most employees showed great empathy, some only showed moderate empathy, but yet every business owner rated the performance of their employees during the crisis as either good or excellent.

6.6.5.2 Union

Table 54
Summary of Results – Union's Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Union	Not Important	2	Nil	1	Not Satisfactory	1
	Minor Importance	0	Minor	1	Poor	0
	Important	0	Moderate	0	Moderate	1
	Very Important	0	Great	0	Good	0
	Imperative	0	No Involvement	10	Excellent	0
	Hindrance	0			No Involvement	10
	No Involvement	10				
	Total	**12**	**Total**	**12**	**Total**	**12**

A union was only involved in two companies: Company E and Company I. Both companies were large manufacturing concerns[21]. In the smaller businesses, unions did not feature at all in the recovery process.

From the business owners' perspective, none regarded the union's involvement as important. Further research into the rating of the union's performance from the employees' point of view would be of interest, but was outside the scope of this study.

In the case of Company I, where there was a large number of employees retrenched, the performance of the union was rated as 'Moderate'. In the case of Company E, which did not retrench any staff, the performance of the union was ranked by the business owner as 'Not Satisfactory'.

[21] As defined in this study.

6.6.5.3 Management

Table 55
Summary of Results – Management's Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Management	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Moderate/Great	1	Good	0
	Imperative	12	Great	11	Good/Excellent	1
	Hindrance	0	No Involvement	0	Excellent	11
	No Involvement	0			No Involvement	0
	Total	**12**	**Total**	**12**	**Total**	**12**

In all cases, the respondent rated the importance of the Company's management team as 'Imperative'. In all but one case the respondent rated the empathy of the management as 'Great'. In one case (Company A), the respondent rated one of the management team as having only 'Moderate' empathy and only 'Good performance', while the rest of the team he rated as 'Great' for empathy and 'Excellent' for performance.

As many of the managers were in fact the business owners, it may be said that the management had more financially at stake than say the manager of a large publicly-listed company. However, with incentive schemes as part of the remuneration package these days, this may not be as correct as it once was.

6.6.5.4 Shareholders

Table 56
Summary of Results – Shareholders' Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Shareholders	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	1	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Moderate/Great	1	Good	0
	Imperative	10	Great	11	Good/Excellent	1
	Hindrance	1	No Involvement	0	Excellent	11
	No Involvement	0			No Involvement	0
	Total	**12**	**Total**	**12**	**Total**	**12**

In this case, it was Company K that did not follow the bulk of the surveyed companies. The business owner here had one silent partner who did nothing to assist during the process. He claimed to have empathy, but did not even visit the scene of the fire until weeks after the event. The respondent rated the importance of this stakeholder as 'Not Important' as he simply made all the decisions on behalf of the company. He rated this shareholder's empathy as 'Moderate', given that he did have a financial interest in the business and has therefore sustained a monetary loss as a result. Finally, the business owner interviewed from Company K rated the shareholders' performance as 'Not Satisfactory' as he felt he did nothing to assist in the day-to-day management of the crisis. An attempt was made to interview the shareholder to obtain his views on the crisis, but he declined to be interviewed stating that he had little to do with it and referred us back to the shareholder/manager we had already interviewed.

Company I was the only other company that did not rate the importance of the shareholders as high. In this case, the shareholder was domiciled in the United Kingdom and the management felt they were left to manage the crisis alone. They did rate the empathy and performance of the shareholder at the highest levels despite the fact that they felt that their importance to the management of the crisis was only of 'Minor Importance'.

As stated above, all the other companies rated the importance, empathy and level of performance at the highest level.

6.6.5.5 Banker

Table 57
Summary of Results – Banker's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Banker	Not Important	0	Nil	1	Not Satisfactory	1
	Minor Importance	2	Minor	1	Poor	0
	Important	1	Moderate	1	Moderate	0
	Very Important	5	Great	8	Good	2
	Imperative	2	No Involvement	1	Excellent	8
	Hindrance	1			No Involvement	1
	No Involvement	1				
	Total	**12**	**Total**	**12**	**Total**	**12**

Company H did not notify the bank of the loss, fearing the fact that the fire had occurred while the building they were in the process of purchasing with a loan from the bank, was involved. They considered the damage relatively minor, it was insured by both the landlord and themselves and, as the value of the building was rapidly rising due to the recent real estate boom, they did not want anything to prejudice the sale.

Most of the companies that involved their bank rated quite highly their importance, empathy and performance.

6.6.5.6 Other Financiers

Table 58
Summary of Results – Other Financiers' Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Other Financiers	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	1	Moderate	0
	Very Important	1	Great	0	Good	1
	Imperative	0	No Involvement	11	Excellent	0
	Hindrance	0			No Involvement	11
	No Involvement	11				
	Total	**12**	**Total**	**12**	**Total**	**12**

Only one company had to involve other financiers. This was Company C, which was heavily in debt at the time due to the construction of a new building, relocation, and a temporary slowing of production caused by the move.

6.6.5.7 Accountant

Table 59
Summary of Results – Accountant's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Accountant	Not Important	1	Nil	0	Not Satisfactory	1
	Minor Importance	1	Minor	1	Poor	0
	Important	0	Moderate	1	Moderate	0
	Very Important	7	Great	7	Good	1
	Imperative	0	No Involvement	3	Excellent	7
	Hindrance	0			No Involvement	3
	No Involvement	3				
	Total	**12**	**Total**	**12**	**Total**	**12**

While 7 companies felt the advice of their accountant in a wide range of areas was very important, 3 companies did not consult their accountant, while 2 rated the importance as 'Minor Importance' or 'No Importance'.

The majority of companies rated the empathy and performance of their accountant quite high, although Company K was very disappointed by their accountant, who they felt was only interested in earning fees from their misfortune.

6.6.5.8 Solicitor

Table 60
Summary of Results – Solicitor's Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Solicitor	Not Important	1	Nil	0	Not applicable	1
	Minor Importance	0	Minor	1	Not Satisfactory	0
	Important	0	Moderate	0	Poor	0
	Very Important	2	Great	2	Moderate	0
	Imperative	0	No Involvement	9	Good	0
	Hindrance	0			Excellent	2
	No Involvement	9			No Involvement	9
	Total	**12**	**Total**	**12**	**Total**	**12**

Only three firms involved their solicitor at all during the crisis. The first was Company C, whose insurer initially denied liability. They, along with the claims preparer, were able to have the insurer reverse their decision and accept the claim. As such, the importance and performance of the law firm were rated highly. Further, the business owners felt the lawyers showed great empathy.

The second firm was Company H who was in the process of purchasing the building, which the business occupied, from the landlord. This was achieved smoothly despite all the potential issues that the fire unexpectedly brought. Again, the law firm rated highly in all areas.

The final firm was Company K. Here the company's solicitor was also affected by the fire, but the lawyer showed no sympathy to the insured and provided no worthwhile advice or service. If it were not for the disappointment the owners of Company K felt, they would have recorded their response to this question as 'No Involvement'.

6.6.5.9 Tax Consultant

Table 61
Summary of Results – Tax Consultant's Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Other Consultant: Tax Consultant	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	2	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	2	Great	0	Good	1
	Imperative	0	No Involvement	10	Excellent	1
	Hindrance	0			No Involvement	10
	No Involvement	10				
	Total	**12**	**Total**	**12**	**Total**	**12**

Two firms needed to engage the services of a tax consultant. The major issue was the treatment of the insurance proceeds. In both cases, the payout was quite significant in monetary terms, and the business owners needed to obtain advice as to how to best treat the money so as not to have to pay out large Capital Gains Tax when all they were in effect doing was replacing the destroyed assets with new ones.

In both cases, the respondent did not feel that the stakeholder had very much empathy, but this did not bother either respondent, as they only had to do one task and do it well. Both companies' managements valued quite highly the advice provided.

6.6.5.10 Landlord

Table 62
Summary of Results – Landlord's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Landlord	Not Important	1	Nil	2	Not Satisfactory	1
	Minor Importance	1	Minor	2	Poor	2
	Important	0	Moderate	0	Moderate	1
	Very Important	2	Moderate/Great	3	Good	0
	Imperative	2	Great	5	Excellent	3
	Hindrance	1	No Involvement	0	No Involvement	5
	No Involvement	5				
	Total	**12**	**Total**	**12**	**Total**	**12**

The survey showed that only two companies regarded the importance of the landlord as 'Minor' or 'No Importance'. In these cases, the business owners/managers made the decision to move out of the premises to new premises to keep the business operating. Where the ranking of the importance increases is where the location of the business is important and the company being surveyed did not have the control they would have liked over their future. In one case, Company K's respondent regarded this as a real hindrance to the survival of the business.

In three cases - Companies B, E and G - the business and the landlord worked well together for their mutual benefit. Having said this, on deeper study, it was found that the landlord and tenant had a financial relationship of some type before the crisis. In the other cases where there was no such relationship, the rating of the landlord's empathy and performance was at the low end of the range.

6.6.5.11 Other Tenants

Table 63
Summary of Results – Other Tenants' Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Other Tenants	Not Important	2	Nil	0	Not Satisfactory	0
	Minor Importance	1	Minor	0	Poor	0
	Important	0	Moderate	3	Moderate	1
	Very Important	0	Great	1	Good	0
	Imperative	1	No Involvement	8	Excellent	2
	Hindrance	0			No Involvement	8
	No Involvement	8	**Total**	**12**	Not Applicable	1
	Total	**12**			**Total**	**12**

In only one case were other tenants in the same building complex, seen as important ('Imperative') to the survival of the business.

In that case, Company B required the space occupied by two other tenants to continue to operate their own business. As one of the shareholders of Company B also owned the building, he was able to have the tenants relocate temporarily. The management of Company B found the temporary space for them and, in fairness to Company B, the location was much more important to them than their tenants, and the tenants had much more comfortable premises to operate from than the fire damaged building which soon became a construction site for several months.

The other tenants really played no part in the survival of the business in the other three cases who responded to this question.

6.6.5.12 Physical Neighbours

Table 64
Summary of Results – Physical Neighbours' Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Physical Neighbours	Not Important	2	Nil	0	Not Satisfactory	0
	Minor Importance	2	Minor	0	Poor	0
	Important	0	Moderate	1	Moderate	0
	Very Important	0	Great	3	Good	0
	Imperative	0	No Involvement	8	Excellent	4
	Hindrance	0			No Involvement	8
	No Involvement	8				
	Total	**12**	**Total**	**12**	**Total**	**12**

No physical neighbour was seen to be critical to the survival of the businesses, although in four cases, they did provide some assistance. This ranged from the supply of temporary power to access to the site down to a *"much needed cup of coffee or simply moral support"*[22].

Most were said to have shown 'Great Empathy' (75%), and all rated the performance of their neighbours as 'Excellent'. This was in fact a higher rating than the companies generally gave their fellow tenants in the building. It may be that the fellow tenants were facing their own crisis and it was *"each man for himself"*[23].

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[22] Direct quote from respondent representing Company G.
[23] Direct quote from respondent representing Company F.

6.6.5.13 Suppliers of Goods & Services

Table 65
Summary of Results – Suppliers of Goods & Services' Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Suppliers of Goods & Services	Not Important	0	Nil	1	Not Satisfactory	0
	Minor Importance	2	Minor	0	Poor	1
	Important	5	Moderate	2	Moderate	0
	Very Important	3	Great	8	Good	1
	Imperative	2	Great but reduced with time	1	Excellent	10
	Hindrance	0	No Involvement	0	No Involvement	0
	No Involvement	0				
	Total	**12**	**Total**	**12**	**Total**	**12**

Only two companies, Company K and Company L, rated the suppliers of goods and services to their business as being of 'Minor Importance', whereas 83% rated it either 'Important', 'Very Important' or 'Imperative'. Company K was part of a franchise group that supplied the goods to their franchisees on credit terms. Company K's management felt that the franchiser showed no empathy when they placed restrictions on further credit, even though Company K showed that they had adequate insurance on stock. Not being satisfied with the attitude or performance of the franchiser, they stopped dealing with them, and worked with other suppliers and manufacturers, finding these parties to be much better and more empathetic than the franchiser with whom they had a long and what the company thought (up until the crisis) was a good relationship. By being able to side step them, the primary supplier was found not to be important, although early in the life of the crisis they were thought to be much more important than they proved to be.

Company L was the second company not to rate the importance of suppliers highly. This was a service company who ceased to trade in the short term. As such, their suppliers of goods and services were not important in the survival of the business.

The vast majority of the companies surveyed rated the performance of the suppliers of goods and services as 'Excellent'. When questioned as to what that meant, the respondents invariably stated that it increased their loyalty to the supplier in the future.

6.6.5.14 Secondary Suppliers of Goods & Services

Table 66
Summary of Results – Secondary Suppliers of Goods & Services' Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Secondary Suppliers of Goods & Services	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	1	Great	1	Good	0
	Imperative	0	No Involvement	11	Excellent	1
	Hindrance	0			No Involvement	11
	No Involvement	11				
	Total	**12**	**Total**	**12**	**Total**	**12**

This stakeholder was created to accommodate the situation described above, involving Company K, who had the bad experience with their franchiser. They found that other suppliers were quite prepared to step in and help them over the problem. While Company K, failed under the terms of this study, with the partnership between the silent partner and the owner/manager terminating, the business survived in a different format as an-internet based supplier and the secondary suppliers that helped Company K are now the primary suppliers of the new business.

6.6.5.15 Customers

Table 67
Summary of Results – Customers' Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Customers	Not Important	1	Nil	1	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	1
	Important	0	Moderate	4	Moderate	0
	Very Important	8	Great	2	Good	5
	Imperative	3	No Involvement	0	Excellent	4
	Hindrance	0	Nil to Great varied over time	5	No Involvement	0
	No Involvement	0			Varied over range	2
	Total	**12**	**Total**	**12**	**Total**	**12**

The ranking of customers lower than ‘Imperative’ by 75% of the respondent companies was not what was expected. In the case of Company C, the company was forced to wind up very quickly, and the position of the customers did not feature at all in the decision-making process. Having said this, the owners realised that without adequate insurance on their customers’ goods, they would be unlikely to support the business even if it could continue. Most businesses (66.7%) rated customers as being ‘Very Important’, with 25% rating them as ‘Imperative’.

What many businesses found was that customers were empathetic and understanding for a while, but if the problems of supply, quality and service were not rectified or did not resume relatively quickly after the incident giving rise to the crisis, the patience of the customer waned.

In the cases where customers had their goods at the respondent’s company at the time of the fire, the high number of customers that attempted to profit from the loss was very surprising to the business owners. In the case of Company B, it was 14.4% and was able to be managed by excellent computer records. With Company C, it was closer to 25% but they could not be certain as all customers’ records were destroyed. Finally with Company E, the number of customers was relatively small, but the amount that customers tried to claim was significantly more than their losses. It was only those companies with a relatively small customer-base that were well known to the business, and showed great loyalty and understanding.

On the other hand, Company E operated in a highly competitive market with brokers that stood between the company and the end user. These brokers showed no loyalty despite the fact that the business had been dealing with them for many years, in some cases for 40 years. As such the Company decided to reduce their dependence on these brokers and market/deal with the end users direct. This was a strategy that the business was contemplating prior to the crisis, but the crisis fast-tracked the change of direction.

6.6.5.16 Competitors

Table 68
Summary of Results – Competitors' Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Competitors	Not Important	1	Nil	1	Not Satisfactory	1
	Minor Importance	1	Minor	1	Poor	0
	Important	1	Moderate	1	Moderate	0
	Very Important	0	Great	1	Good	1
	Imperative	1	No Involvement	8	Excellent	1
	Hindrance	0			No Involvement	9
	No Involvement	8				
	Total	**12**	**Total**	**12**	**Total**	**12**

While four companies responded to the question of competitors as a stakeholder, for Company I, it was just a courtesy on the part of the suppliers that they contacted them to see if they could help. The company did not trust their motives and, as such, no benefit or threat to the business was recorded by the company.

Company B and Company E are good examples of the two extremes of how competitors can and do behave. With Company B, the senior owner was well known to his competitors and over a lifetime had provided assistance, particularly in the area of business advice and technical assistance, to a great many within the industry. When the crisis struck on a Sunday morning, over 10 competitors contacted each other and, without prior discussion with the management of Company B, travelled to the scene of the fire that Sunday at lunchtime and offered every assistance to the management. They provided loan equipment, and carried out the work of Company B on a subcontract basis until replacement equipment could be sourced, installed and commissioned. This formed a major part of the business recovery strategy, that resulted in the long-term survival of Company B.

Company E on the other hand, had competitors show photographs of the damaged premises to customers and brokers to demonstrate just how bad the business was affected by the crisis. Further, competitors actively sought to poach the staff of Company E at a time when they were concerned about their future. These predatory actions of the competitors certainly caused a great deal of stress to the management of Company E, and possibly contributed to the failure of the business.

Company J received some help from competitors who loaned them old equipment to get them through the early stages of the crisis until replacement equipment could be sourced.

What is clear from the study is that if competitors do enter into assistance arrangements with each other prior to a crisis, as part of a risk management/business continuity strategy, and this agreement is honoured both in spirit and action, then the business suffering the crisis does have a far better chance of survival.

6.6.5.17 Trade Associations

Table 69
Summary of Results – Trade Associations' Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Trade Associations	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Great	1	Good	0
	Imperative	1	No Involvement	11	Excellent	1
	Hindrance	0			No Involvement	11
	No Involvement	11				
	Total	**12**	**Total**	**12**	**Total**	**12**

The only company that included their industry's trade association was Company B. This follows on from the very kind treatment the company received from its competitors. The senior owner supported the trade association for much of his business life, and it was through this vehicle he offered assistance to others within the industry. He had been the Victorian President on four occasions and National President twice.

No other company regarded their industry's trade association as being of any benefit to them during the crisis.

6.6.5.18 Activist Groups

Table 70
Summary of Results – Activist Groups' Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Activist Groups	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Great	0	Good	0
	Imperative	0	No Involvement	12	Excellent	0
	Hindrance	0			No Involvement	12
	No Involvement	12				
	Total	**12**	**Total**	**12**	**Total**	**12**

None of the companies participating in the survey regarded any activist group as being of importance to their business survival before, during or after the crisis. Naturally the position may be different for other companies/crises.

6.6.5.19 Political Groups

Table 71
Summary of Results – Political Groups' Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Political Groups	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Great	0	Good	0
	Imperative	0	No Involvement	12	Excellent	0
	Hindrance	0			No Involvement	12
	No Involvement	12				
	Total	**12**	**Total**	**12**	**Total**	**12**

As with activist groups, no political groups were seen to have had an effect, either positive or negative with any of the companies surveyed.

6.6.5.20 State Government

Table 72
Summary of Results – State Government's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
State Government	Not Important	0	Nil	0	Not Satisfactory	1
	Minor Importance	1	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Great	0	Good	0
	Imperative	0	No Involvement	11	Excellent	0
	Hindrance	0	Great in words but nil in action	1	No Involvement	11
	No Involvement	11				
	Total	**12**	**Total**	**12**	**Total**	**12**

As explained earlier, Company I was the only company to include a State Government (Victorian) in their survey response. After the fire, the owners found that they were significantly under-insured and would need to retrench over 70 employees in the regional town where Company I was the second biggest employer. The local State Member for Parliament appeared to show great empathy to the company's situation *"in words at least"*[24] but the Victorian State Government (Kennett Government) was not prepared to provide any assistance by way of grants, low interest loans or tax relief from issues such as payroll tax.

At the same time, the Western Australian Government provided a grant to an Indonesian firm to allow them to buy a similar business in Albany, Western Australia, which had recently gone into liquidation. This sale went through only days before the fire in Company I's mill and subsequently precluded them, an Australian company, from buying the existing business in Albany to replace the one destroyed. In view of the foregoing, Company I naturally rated the State Government's empathy and performance as low.

The Victorian State Government's position was that they were not in a position to provide any funding for private enterprise when the business itself could easily have protected themselves from the full effects of the crisis, with adequate insurance. Some would argue that the then State Government's position was well founded.

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[24] Direct quote of respondent from Company I.

6.6.5.21 Federal Government

Table 73
Summary of Results – Federal Government's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Federal Government	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Great		Good	0
	Imperative	0	No Involvement	12	Excellent	0
	Hindrance	0			No Involvement	12
	No Involvement	12				
	Total	**12**	**Total**	**12**	**Total**	**12**

None of the companies surveyed included the Australian Government as a stakeholder that was important to the survival of their business during the crisis.

6.6.5.22 Australian Taxation Office

Table 74
Summary of Results – Australian Taxation Office's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Australian Taxation Office	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Great	1	Good	0
	Imperative	1	No Involvement	11	Excellent	1
	Hindrance	0			No Involvement	11
	No Involvement	11				
	Total	**12**	**Total**	**12**	**Total**	**12**

Company E was quite stretched financially at the time the crisis hit their business, and found that they could not meet a significant taxation liability in the short-term. This was a combination of Employee Group Tax, as well as Goods & Services Tax.

They approached the Australian Taxation Office, explained exactly their position and sought relief in the short-term for the payment of the debt. The Australian Taxation Office agreed to a repayment program and, while Company E eventually went into liquidation when another creditor commenced proceedings against the firm, the owners of Company E have a very high regard for the Australian Taxation Office in the way they attempted to assist the business.

6.6.5.23 Local Council

Table 75
Summary of Results – Local Council's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Local Council	Not Important	0	Nil	1	Not Satisfactory	1
	Minor Importance	2	Minor	4	Poor	2
	Important	3	Moderate	0	Moderate	2
	Very Important	1	Great	2	Good	1
	Imperative	1	No Involvement	5	Excellent	1
	Hindrance	0			No Involvement	5
	No Involvement	5				
	Total	**12**	**Total**	**12**	**Total**	**12**

More than half the companies surveyed had an involvement with their local council as a result of the crisis. Of those that did, 71.4% stated that the issue was 'Important', 'Very Important' or 'Imperative'. On the other hand, most rated the empathy and performance of the local council as quite low.

The reason for this was the delay and bureaucracy that confronted the business managers when they were anxious to get things moving quickly. The councils appeared not to appreciate the business owners' position at all, and treated the applications the same as all others. Whether or not this is reasonable is of course open for debate.

The survey suggests that councils in regional areas are more proactive in the event of a crisis, particularly where it involves the future job prospects of employees. A good example of this is Company I, where the council assisted greatly in agreeing to allow the dye works to remain on the site, thereby ensuring the business stayed within the town and that it survived.

6.6.5.24 WorkCover Authority

Table 76
Summary of Results – WorkCover Authority's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
WorkCover Authority	Not Important	0	Nil	1	Not Satisfactory	1
	Minor Importance	2	Minor	0	Poor	0
	Important	0	Moderate	2	Moderate	0
	Very Important	0	Great	0	Good	1
	Imperative	1	No Involvement	9	Excellent	1
	Hindrance	0			No Involvement	9
	No Involvement	9				
	Total	**12**	**Total**	**12**	**Total**	**12**

Three companies had an involvement with the Victorian WorkCover Authority. Company B installed a great deal of new equipment, and the WorkCover Authority was interested in safety rails to ensure the ongoing safety of the workers. While the owners of Company B worked well with most stakeholders, they rated the Victorian WorkCover Authority officers as lacking in empathy, and felt their overall performance was not satisfactory.

Company E's involvement with the WorkCover Authority was for exactly the same reasons as Company B, but they rated the Authority's involvement as of lower importance, and the empathy and performance as higher. This would suggest that the importance of a stakeholder, particularly one that can delay or frustrate the recovery process, is directly opposite to the empathy and performance of the stakeholder.

The reason the final company came to have an involvement with the Victorian WorkCover Authority was due to damage to an asbestos cement roof. The hole in the roof was about the size of an A4 page, but the Victorian WorkCover Authority insisted that the entire roof be replaced. This was despite the fact that several options to repair the roof without dislodging any further asbestos fibres, were put forward. Further, the WorkCover Authority insisted that the roof be removed using mobile scaffolding from the inside of the building. In all, the cost of replacing the roof was over $28,000, whereas it could have been repaired for $800. The insurance cover only provided cover for 25% of the difference between these two figures under the Extra Cost of Reinstatement Cover.

6.6.5.25 Department of Human Services

Table 77
Summary of Results – Department of Human Services' Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Department of Human Services	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	1	Poor	1
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Great	0	Good	0
	Imperative	1	No Involvement	11	Excellent	0
	Hindrance	0			No Involvement	11
	No Involvement	11				
	Total	**12**	**Total**	**12**	**Total**	**12**

Only one company had an involvement with this State Government Department. This was Company L, which traded as a nursing home. They found the permits to operate 'Imperative' to the survival of the business, but like Company B with the WorkCover Authority and several of the companies surveyed regarding local councils, Company L quickly became frustrated with the perceived lack of empathy and poor performance of the stakeholder. Again, this boiled down to speed of service and bureaucratic red tape.

6.6.5.26 Environmental Protection Authority

Table 78
Summary of Results – Environmental Protection Authority's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Environmental Protection Authority	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	1	Minor	0	Poor	0
	Important	0	Moderate	1	Moderate	1
	Very Important	0	Great	0	Good	0
	Imperative	0	No Involvement	11	Excellent	0
	Hindrance	0			No Involvement	11
	No Involvement	11				
	Total	**12**	**Total**	**12**	**Total**	**12**

The only company that had an involvement with the Environmental Protection Authority ("EPA") was Company I. They needed approval to continue with a dyeing process that had been taking place on the land for over 100 years. Initially, it was thought that the EPA may not grant the approval. However, after a meeting, the EPA agreed to grant the approval, and the EPA's importance to the recovery process fell accordingly. Similarly, the rating for the empathy and the performance of the stakeholder increased as they found in favour of Company I.

6.6.5.27 Other Statutory Authorities

Table 79
Summary of Results – Other Statutory Authorities' Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Other Statutory Authorities	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important		Great	0	Good	0
	Imperative	0	No Involvement	12	Excellent	0
	Hindrance	0			No Involvement	12
	No Involvement	12				
	Total	**12**	**Total**	**12**	**Total**	**12**

There were no other Statutory Authorities identified as having influenced the survival of the surveyed businesses, other than those captured by name in the survey.

6.6.5.28 Fire Brigade

Table 80
Summary of Results – Fire Brigade's Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Fire Brigade	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	1	Minor	0	Poor	0
	Important	1	Moderate	0	Moderate	0
	Very Important	3	Great	12	Good	2
	Imperative	7	No Involvement	0	Excellent	10
	Hindrance	0			No Involvement	0
	No Involvement	0				
	Total	**12**	**Total**	**12**	**Total**	**12**

The Fire Brigade rated highest for empathy, with a perfect 12 out of 12 'Great'. They also scored very well in performance, although the Country Fire Authority, in two very large fires, scored 'Good' rather than 'Excellent', as not all went as well as it could have. The owners appreciated that the Country Fire Authority are volunteer and appreciated their efforts nonetheless.

A couple of companies surveyed, Company G and Company I in particular, did not rate the importance of the Fire Brigade as high as the other business owners. On exploring this point, the owners explained that once the building and/or contents were destroyed in the fire, the Fire Brigade was of little importance to the survival of the business. This was taken as a sign of the logical thinking of these respondents rather than any ill feeling towards the Brigade.

6.6.5.29 Police

Table 81
Summary of Results – Police Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Police	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	4	Minor	0	Poor	0
	Important	4	Moderate	4	Moderate	0
	Very Important	0	Great	6	Good	4
	Imperative	2	No Involvement	2	Excellent	6
	Hindrance	0			No Involvement	2
	No Involvement	2				
	Total	**12**	**Total**	**12**	**Total**	**12**

The Police rated well in respect of empathy and performance, but not quite as well as the Fire Brigade. The business owners did not in the main tend to regard them as important to the recovery of their business, but bearing in mind that 11 out of the 12 crises involved fire, the result of the survey should not be a surprise.

What was a surprise was that two of the business owners did not or could not recall meeting the Police on or after the event leading to the crisis.

6.6.5.30 State Emergency Service

Table 82
Summary of Results – State Emergency Service's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
State Emergency Service	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Great	1	Good	0
	Imperative	1	No Involvement	11	Excellent	1
	Hindrance	0			No Involvement	11
	No Involvement	11				
	Total	**12**	**Total**	**12**	**Total**	**12**

The only event that the State Emergency Service attended was the roof collapse for Company E; the Fire Brigade attended this fire as well. The State Emergency Service do attend some fire scenes, particularly in rural communities, but their role here is in a support capacity, and the business owners may be forgiven for not realising they were in attendance.

In the case they did attend, they were rated highly by Company E. After the event and despite its weak financial position, the company made a $10,000 donation to the local branch of the State Emergency Service in appreciation. On questioning, the managing director confirmed that there was no pressure put on him, and that he wished to make the donation in view of the *"fantastic work of the crews on the night to protect our valuable equipment from getting wet in the rain"*[25].

6.6.5.31 Insurance Broker

Table 83
Summary of Results – Insurance Broker's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Insurance Broker	Not Important	1	Nil	1	Not Satisfactory	1
	Minor Importance	2	Minor	1	Poor	0
	Important	3	Moderate	4	Moderate	4
	Very Important	4	Great	5	Good	4
	Imperative	1	No Involvement	1	Excellent	2
	Hindrance	0			No Involvement	1
	No Involvement	1				
	Total	**12**	**Total**	**12**	**Total**	**12**

The insurance broker, who works or should work with the business owner on a day-to-day basis, did not fare as well in the survey as was expected. Many business owners felt that the cover was inadequate *"when it came to the crunch"*[26].

[25] Direct quote, respondent on behalf of Company E.
[26] Direct quote, respondent on behalf of Company D.

Only two (2) out of eleven (11) possible brokers were rated as excellent, with one (1) rated as not satisfactory and four (4) as only moderate. The issues of availability, genuine assistance and explanation of the process were the major criticisms. It appeared from this very small study that the larger international insurance broking firms fared much worse than the smaller boutique insurance broker. While it was an observation on the part of the researcher, further testing needs to be done on a much larger sample to determine if there is a direct correlation between the size of the insurance broking firm and the dissatisfaction level of the insured after the crisis.

Brokers who introduced a loss manager shortly after the crisis event were seen by their clients to be providing a value-added service. On the other hand, where the broker did not introduce the service, and the company's management found out about it from some other source, the broker was regarded as not fulfilling his duty to his/her client to the fullest.

6.6.5.32 Insurer

Table 84
Summary of Results – Insurer's Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Insurer	Not Important	0	Nil	6	Not Satisfactory	3
	Minor Importance	0	Minor	2	Poor	3
	Important	0	Moderate	0	Moderate	3
	Very Important	1	Great	4	Good	2
	Imperative	11	No Involvement	0	Excellent	1
	Hindrance	0			Excellent except timing	1
	No Involvement	0				
	Total	**12**	**Total**	**12**	**Total**	**12**

Of the twelve (12) companies surveyed, 11 rated the insurer as 'Imperative' to the recovery process with the twelfth rating it as 'Very Important', yet half (6) of the respondents rated their insurer with 'Nil' empathy, and a further two (2) with 'Minor' empathy.

Similarly, the performance of the insurer was seen to be less than 'good' in 75% (9) of the cases. Only one insurer scored 'Excellent', although a second did except in the area of the timing of payments, which Company I considered to be too slow.

This would appear to be an area in which insurers may need to work in order to raise the performance and empathy of their claims departments.

6.6.5.33 Claims Preparer/Loss Manager

Table 85
Summary of Results – Claims Preparer/Loss Manager's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Claims Preparer/Loss Manager	Not Important	0	Nil	1	Not Satisfactory	1
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	1	Moderate	1
	Very Important	0	Great	10	Good	0
	Imperative	12	No Involvement	1	Excellent	10
	Hindrance	0			No Involvement	1
	No Involvement	1				
	Total	**13**	**Total**	**13**	**Total**	**13**

The totals here add up to thirteen as the owners of Company D engaged two claims preparers over the life of the claim. They were far from satisfied with the one that was recommended to them by their insurance broker. This consultant showed no empathy and did not offer any advice on the management of the crisis; they only appeared to be capable of quantifying the loss in accordance with the policy. The owner of Company D wanted more than this, and therefore engaged a loss management firm. They found this second firm via a recommendation, and were very happy with the result, as this firm provided the full service crisis management and claims preparation service.

In all but one other case where the Insured felt that the claims preparer, an ex-insurance broker did not have the skills, the respondents rated the empathy as 'Great' and the performance as 'Excellent'. The number of companies that had used the services of a claims preparer was a surprise in view of the apparent lack of knowledge by the respondents to the service prior to the crisis, but through word of mouth from competitors, friends and a recommendation from their insurance broker most companies (11) used the services of a claims preparer.

The fact that the claims preparer was engaged by the companies' management to assist in the crisis and was working for them when the insurers, loss adjusters and, to a lesser extent, their insurance brokers did not appear to be, was a great comfort to the business operators.

Most appreciated that the cost of the claims preparation service was covered, at least in part depending on the level of cover, by the insurance program. This was seen to be a great benefit of the insurance program, and they blamed the insurance broker if the level of claims preparation cover proved to be inadequate.

6.6.5.34 Loss Adjuster

Table 86
Summary of Results – Loss Adjuster's Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Loss Adjuster	Not Important	0	Nil	7	Not Satisfactory	7
	Minor Importance	1	Minor	3	Poor	3
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Great	4	Good	3
	Imperative	13	No Involvement	0	Excellent	1
	Hindrance	0			No Involvement	0
	No Involvement	0				
	Total	**14**	**Total**	**14**	**Total**	**14**

The responses to this question total 14 as, in two cases, Company E and Company F, the business owners had to deal with two adjusters; one handling the property loss, and the other, the business interruption loss. In both cases, the business interruption loss adjuster rated lower than the property adjuster.

In every case, the insurer appointed a loss adjuster to adjust the claim on its behalf. Overall, the loss adjusters rated very poorly in respect of empathy and performance. It is interesting to note that these specialist claims professionals rated lower than the insurer for whom they were working.

What particularly upset the respondents was when they provided answers in good faith early on in the claim process, when they were under great stress and were not aware of all the facts, and this answer was used in some way as an excuse to slow down or reduce the claim entitlement.

It is certainly an area of the insurance product/service where both the insurers themselves and the loss adjusting profession should carry out further research with a view to improving the service to companies, particularly SMEs, which have sustained a genuine large, loss threatening the survival of the business.

6.6.5.35 Repairer/Builder

Table 87
Summary of Results – Repairer/Builder's Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Repairer/Builder	Not Important	0	Nil	1	Not Satisfactory	0
	Minor Importance	1	Minor	1	Poor	2
	Important	0	Moderate	3	Moderate	1
	Very Important	2	Great	5	Good	6
	Imperative	7	No Involvement	2	Excellent	1
	Hindrance	0			No Involvement	2
	No Involvement	2				
	Total	**12**	**Total**	**12**	**Total**	**12**

In the majority of cases, the repairer/builder was seen to be 'Very Important' (2) or 'Imperative' (7) to the business recovery process. Again, in the majority of cases, the builder appears to have risen to the challenge and provided a 'Good' (6) or 'Excellent' (1) level of service and displayed a 'Great' (5) deal of empathy. In two (2) cases, the respondents were very disappointed by the performance and level of empathy of the builder.

In each and every case of those companies that used a builder, the builder used was one recommended by the insurance loss adjuster. In fact, only four different building companies were involved and, in 2 cases, the same companies that rated 'Poor' with one respondent, rated very well with another.

6.6.5.36 Restoration Companies

Table 88
Summary of Results – Restoration Company's Importance to Recovery Process

Stakeholder	***Importance to Recovery Process***		***Empathy of Stakeholder to Crisis***		***Performance of Stakeholder***	
Restoration Companies	Not Important	1	Nil	3	Not Satisfactory	1
	Minor Importance	3	Minor	1	Poor	5
	Important	1	Moderate	3	Moderate	1
	Very Important	4	Great	3	Good	2
	Imperative	1	No Involvement	2	Excellent	1
	Hindrance	0			No Involvement	2
	No Involvement	2				
	Total	**12**	**Total**	**12**	**Total**	**12**

The restoration companies rated much lower in the areas of importance, empathy and performance, than repairers.

Two respondents, representing Companies J and L, questioned whether the loss adjusters received a commission or 'kick back' for the referral. When queried as to why they asked such a question, the response given was that the work was so poor, the cost so high, and the treatment in respect of preferential payment so blatant. The owners of these companies felt that they, the company that paid the premium, were expected to prove their claim to the smallest amount and yet the restoration companies, a mere service company, were being given preferential treatment. It particularly upset these businessmen that the loss adjuster made requests for progress payments to these contractors before allocating funds to the insured companies.

The expertise of the restoration companies was also questioned. It appeared to these two respondents that the restoration companies could not keep permanent employees on staff for emergencies. When an emergency hit, they used unskilled casual staff to carry out the restoration work, without adequate training and supervision. This is another area that the insurance industry would be wise to research in greater detail to minimise a potential area of claims leakage and improve their clients' perception of the service provided when a claim occurs.

6.6.5.37 Project Managers

Table 89
Summary of Results – Project Manager's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Project Managers	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Great	3	Good	0
	Imperative	3	No Involvement	9	Excellent	3
	Hindrance	0			No Involvement	9
	No Involvement	9				
	Total	**12**	**Total**	**12**	**Total**	**12**

Three of the companies surveyed (Companies D, E, and F), that is 25% of the survey group, used the services of a project manager to assist them with the rebuilding and physical recovery process. All three companies rated the importance, empathy shown, and performance of the project manager at the highest rating.

6.6.5.38 Third Party

Table 90
Summary of Results – Third Party's Importance to Recovery Process

Stakeholder	*Importance to Recovery Process*		*Empathy of Stakeholder to Crisis*		*Performance of Stakeholder*	
Third Party	Not Important	0	Nil	0	Not Satisfactory	0
	Minor Importance	0	Minor	0	Poor	0
	Important	0	Moderate	0	Moderate	0
	Very Important	0	Great	0	Good	0
	Imperative	0	No Involvement	12	Excellent	0
	Hindrance	0			No Involvement	12
	No Involvement	12				
	Total	**12**	**Total**	**12**	**Total**	**12**

None of the respondent companies added any other stakeholder to the list that was provided to them, as being important to the recovery process. Third parties, that is, someone who caused the crisis, were considered as a possible stakeholder as this did occur in the case of Company E, where the engineers appear to have under-designed the roof framework and the truss manufacturer appeared to have provided finished product with either faulty materials and/or faulty workmanship. In both cases, the third party offered no assistance to the recovery process.

6.6.6 Other

> *"Each crisis brings its word and deed."*
>
> John Greenleaf Whittier (1807–1892)

The basic results detailing the companies' experience with a previous loss, their satisfaction with the insurance process, the performance of the loss adjuster, the use of claims preparers and project managers, and the additional hours worked during the crisis, are set out in **Table 91** overleaf.

Table 91
Record of Results - Other Factors

Company	***A***	***B***	***C***	***D***
Any experience with previous loss?	No	Yes	No	No
Were you satisfied with the insurance claim process?	Very Dissatisfied	Satisfied	Satisfied	Very Dissatisfied
How do you rate the performance of the loss adjuster?	Very Poor	Excellent	Satisfactory	Poor
Did you engage a claims preparer?	Yes	No	Yes	Yes
Would you recommend the use of a claims preparer?	Yes	Yes	Yes	Yes
Did you engage a project manager?	No	No	No	Yes
Would you recommend the use of a project manager?	Yes	Yes	Yes	Yes
Average hours at work pre-crisis?	60	60-65	55	75-80
Additional hours worked during recovery phase?	10	5-15	-15	0
Company	***E***	***F***	***G***	***H***
Any experience with previous loss?	No	No	No	No
Were you satisfied with the insurance claim process?	Very Dissatisfied	Dissatisfied	Dissatisfied	Very Dissatisfied
How do you rate the performance of the loss adjuster?	Very Poor	Poor	Very Poor	Very Poor
Did you engage a claims preparer?	Yes	Yes	Yes	Yes
Would you recommend the use of a claims preparer?	Yes	Yes	Yes	Yes
Did you engage a project manager?	Yes	No	No	No
Would you recommend the use of a project manager?	Yes	Yes	Yes	Yes
Average hours at work pre-crisis?	60-65	60-65	50	70
Additional hours worked during recovery phase?	10-15	5-10	10	5-10
Company	***I***	***J***	***K***	***L***
Any experience with previous loss?	No	No	No	No
Were you satisfied with the insurance claim process?	Very Dissatisfied	Very Dissatisfied	Satisfied	Very Dissatisfied
How do you rate the performance of the loss adjuster?	Satisfactory	Very Poor	Satisfactory	Very Poor
Did you engage a claims preparer?	No	Yes	Yes	Yes
Would you recommend the use of a claims preparer?	Yes	Yes	Yes	Yes
Did you engage a project manager?	No	Yes	No	No
Would you recommend the use of a project manager?	Yes	Yes	Yes	Yes
Average hours at work pre-crisis?	50-65	60-70	50	60
Additional hours worked during recovery phase?	10-15	10-15	-10	10

The results of the above table are summarised in **Table 92** overleaf.

Table 92
Summary of Results - Other Factors

Item	***Yes***	***No***			***Total***
Any experience with previous loss?	1	11			12
Were you satisfied with the insurance claim process?	***Very Dissatisfied***	***Dissatisfied***	***Satisfied***	***Very Satisfied***	***Total***
	7	2	3	0	12
How do you rate the performance of the Loss Adjuster?	***Excellent***	***Satisfactory***	***Poor***	***Very Poor***	***Total***
	1	3	2	6	12
	Yes	***No***			***Total***
Did you engage a Claims Preparer?	10	2			12
Would you recommend the use of a Claims Preparer?	12	0			12
Did you engage a Project Manager?	3	9			12
Would you recommend the use of a Project Manager?	12	0			12
Average hours at work pre-crisis	61.04				
Additional hours worked during recovery phase	5.23*			* 7.5 hours for businesses that continued	

Only one of the businesses surveyed had had any experience with a previous loss. The principal owner of that business believed that the past experience did greatly assist them with the crisis under review. He believed that being familiar with the claim process was beneficial, and he did not make the same mistakes he did the first time.

Having said this, his view was certainly, that having a crisis is not recommended. If a company does, then they should engage the services of a loss management consultant who the business owners can have confidence is working for them and can bring with them the experience of many previous losses and the qualifications and experience of the insurance contract and claim process.

None of the business owners were satisfied with the claim process. Overall 58% of those surveyed were 'Very Dissatisfied' with 75% 'Dissatisfied' or 'Very Dissatisfied'. Even where the company had full insurance, the business owners felt the process was *"stacked against them"*[27]. One of the greatest criticisms was the issue of timing. Neither the insurer nor the loss adjuster, in all but one case, considered the business owners' position with respect to cash flow. The aspect of timing is certainly one that the insurance industry needs to address in respect to large claims for SMEs.

The loss adjusters acting on behalf of the Insurers fared only slightly better than the insurers. Only one was rated as 'Excellent', and 3 as 'Satisfactory'. Fifty percent were rated as 'very poor'. The general view of the loss adjusters was that they appeared early as *"someone generally interested in them and someone with compassion"* [28]. However, during the course of the claim, most felt that this early friendly attitude of the adjuster was simply a ruse to win over their confidence so that the business owner would lower his guard. Having gained all the information that they wanted, the loss adjuster would then use it back against the business owner, often misconstruing, either intentionally or unintentionally, what was said to minimise the claim payout.

Another common observation was that loss adjusters *"enjoyed the rush"*[29] of a new claim case, but lost interest in it as time went on. Few had the discipline to *"stick with the claim to the end to ensure a fair and prompt settlement"*.[30] The feeling was that the loss adjuster lost interest in the more mundane paperwork once the excitement of the investigation into cause, motive was completed.

The respondents tended to spend considerable time considering and answering this and the previous question. Some felt that the claims process was done sequentially rather than concurrently. For example, the investigation phase was done, then the removal of debris, then the building, then the stock and then the contents. This order may vary, but in all but one case the loss of profits, perhaps the most complex part, was left until last.

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[27] Direct quote of survey respondent from Company H
[28] Direct quote of survey respondent from Company G.
[29] Direct quote of survey respondent from Company B.
[30] Ibid.

In many cases a completely new loss adjuster was involved in the calculation of the loss of profits claim. This new loss adjuster may come onto the scene months after the fire or the like, have no understanding of the business or the disruption that had been experienced and then try and determine the financial loss simply from the figures. This caused great resentment by business owners, particularly as many of the accounting loss adjusters did not appear to have the same level of compassion or understanding as the property adjuster. Four respondents stated that they felt that the business interruption loss adjuster was simply too busy to give their claim due time to understand the case or to even handle their claim in a timely manner.

Some of those interviewed (3) felt that the loss adjusters/insurers may deliberately slow down the claims process forcing the business owner to accept the claim settlement offered as they simply do not have the financial strength or mental will after months of managing the crisis to *"take the insurer on"*[31].

The Australasian Institute of Chartered Loss Adjusters, in their 2004 Diary, record only 34 loss adjusters with accounting qualifications across Australia, of which 7 are claims preparers, leaving 27 out of a qualified membership of 623 in Australia. From this research it is clear that some loss adjusters without accounting qualifications, do handle loss of profits claims, however, it would seem necessary that the industry should recruit additional qualified/experienced accountants/loss adjusters to handle what can be sizeable and complex claims.

On the other hand, this was one of only two questions on the questionnaire that received a 100% agreement, that is, the business owners advice to others to engage a component claims preparer/loss manager. This was all the more surprising when only 10 out of the 12 companies had used the services of a claims preparer or loss manager in their crisis. The consensus was that it is simply too much for a business owner to manage what is left of their business, organise and oversee the rebuild, replacement process and manage the insurance claim. Trusting the day-to-day management of the insurance claim to an expert who has their best interests at heart, was seen as a great advantage in respect of time management, maintaining cash flow and ensuring the claim was maximised within the terms of the policy.

[31] Direct quote of survey respondent from Company L. He is *"taking the insurer on"* and has commenced an action against the insurer and the loss adjuster for a failure in their duty of care towards him by unnecessarily delaying the repair process of the building which took over 12 months to commence and resulted in his losing his entire customer-base.

Those that had used a claims preparer felt that the advantages went beyond this by bringing in tried and proven restoration experts, repairers that tended to speed up the reinstatement process.

On the other hand, a common criticism (9 of the respondents) was that they did not know that the services of a claims preparer/loss manager were available before the crisis. The fact that the cost of this service could be insured was seen as a distinct advantage.

Three of the companies surveyed had also engaged a project manager to assist in the physical property restoration process. As with the use of a claims preparer/loss manager, the business owners who had gone through a major crisis all agreed that they would use a project manager should a loss occur again. This was confirmed in the case of Company B who had been through a fire before and used a project manager on the more recent event.

What came through was that a crisis is *"just like having a new baby. You do not know what lies ahead of you particularly in respect of the time and commitment necessary to see it to maturity"*[32]. As a result, most business owners think that they can manage their way through the crisis by themselves. Having done so, they realised it would have been better and far less stressful on them, had they used the services of competent advisers such as project managers and claims preparers.

The average hours worked by the respondents before the loss was 61.04 hours, while the average additional hours worked during the crisis recovery period was 5.23 hours. This average was pulled pack by the fact that two businesses (Companies C and K) worked less hours as their business premises were destroyed and, very early in the crisis, they accepted the business could not be saved. When the results of these two firms are taken out of the calculation the extra hours was 7.5 hours per week or just over an extra hour a day.

6.7 Summary

> *"A really interesting life has embraced everything from the most magnificent exultation to the depths of tragedy. I would say that's tremendous experience. But I wouldn't say enjoyment is an accurate summary of it."*
>
> Marcia Davenport (1968)

[32] Direct quote of survey respondent from Company B.

In this chapter, the history to the 12 companies that were examined as part of this study, was outlined. In addition, the background of the crisis and the steps the individual companies took to overcome the crisis, were discussed.

The 12 companies were from 3 different sectors, namely service, retail and manufacturing, with 4 companies coming from each sector. This was done to provide a good cross-section of companies operating in the Australian economy.

Of the 12 companies that took part in the study, 6 survived the crisis and 6 failed, using the following criteria for survival:

- Still in business after 2 years
- Pre-loss growth in business resumed within 2 years
- Market share returned to pre-crisis level or higher within 2 years
- Level of debt returned to pre-crisis level or lower within 2 years
- Resumption of payment of interest within 12 months
- Resumption of payment of declared dividends within 12 months
- Resumption of payment of undeclared dividends with 2 years
- Retain same ownership (at least 75%)

The results of the interview questions were summarised in this chapter with a brief analysis of each. The following chapter, Chapter 7, contains, a discussion and verification of the results, which starts with the process of bringing the fruit of this research together.

Chapter 7.
Discussion & Verification

"Don't tell me about the labour pains; show me the baby."
Jeanne Robertson (1969)

7.1 Introduction

The research questions that were developed to fulfil the aims of this study were outlined in Chapter 3 (Section 3.2). The research questions were grouped under three headings, namely:

- Determine if a Business Recovery Plan is an important moderating variable to the survival of an SME following a crisis.
- Develop a Crisis Management Model for the development of a Business Recovery Plan for use by SMEs following a crisis.
- Develop an extension of the Crisis Management Model for the Communication & Agreement, Implementation, and Completion phases of the Business Recovery Plan by the SME.

This Chapter addresses the answers to each research question, which has been reproduced under the appropriate headings shown above. While the research questions are simply listed here to avoid unnecessary repetition, the reader is encouraged to revisit Chapter 4 for further detail on the theoretical basis behind any or all of the research questions.

7.2 Determine if a Business Recovery Plan is an important moderating variable to the Survival of an SME following a Crisis

"What we call results are beginnings."
Ralph Waldo Emerson (1860)

There were three research questions developed to address this topic, namely:

- Is a Business Recovery Plan an important moderating variable to the survival of an SME following a crisis?
- Does the level of experience or education of the SME's management team influence the chances of survival?
- What factors led to the use or non-use of a Business Recovery Plan?

The answers to these research questions are addressed hereunder.

7.2.1 Is a Business Recovery Plan an important moderating variable to the survival of an SME following a crisis?

> *"No steam or gas ever drives anything until it is confined. No Niagara Falls is ever turned into light and power until it is funnelled."*
>
> John Noe (1999)

The research showed that not one of the companies had a Business Continuity Plan prepared in advance of the crisis. Interestingly, none of the businesses have taken the time to prepare one now that they have been through the event. Although one advised they would do it, on checking 12 months later, they still had not started the process.

Half the businesses thought that having a Business Continuity Plan would have been beneficial, with the most common reason being that they could have moved their initial stress and sorrow into positive action quicker. In contrast, only one firm did not prepare a post-loss Business Recovery Plan; that was Company F. The management of this firm felt that it would have been a benefit had she had one, and would certainly develop one if she was confronted with a similar crisis.

What a Business Recovery Plan achieved for the companies that went down this path was that it set out the medium to long term position that the business wanted to be in after 1, 3 or 5 years. A plan involving the five P's - Product, Place, Promotion, Price and People - was then typically formulated.

Having arrived at the plan, the owners and management of the companies made sure that all their decisions that were then made were done so in line with that long-term plan. This meant that short-term, 'seat of the pants' decisions made on the run, were stopped. This was of particular benefit where an insurance loss adjuster was pushing a line of action that may have been beneficial in the short-term for the business, and therefore minimise the loss for the insurer, but which may not have been in the best long-term interest of the business. Examples of this were to move to new premises that were not suitable for the business in the long term; accept a second hand machine available now, rather than wait a little longer to obtain the modern day equivalent that would be more economical to run in the long term. Companies A, B, D, E, G, I and L all placed high value on this approach.

Even the company that did not use a Business Recovery Plan as it was designed, such as Company J, accepts that in hindsight, it would have been smarter for them to do so. What they found was that in some areas they stumbled along thinking that what they were doing day-to-day was best for the business. However, they found that so much of it had to be undone and redone. A perfect example here would have been to stop and agree the plans for the remodelling in advance rather than trying to do it on the fly, with some quite wasteful and time consuming consequences.

Even companies that failed (according to this research's criteria) argue that it was beneficial to them to go through the process. With Companies C and K, it was determined quite quickly that the business, as it was, could not be saved. Having reached that decision, management developed a plan to wind up the company, thereby minimising the impact on the shareholders, staff and customers.

With Company A, it showed one shareholder that the effort required to save the business was simply going to be too great and they stood back rather than do a half-hearted effort which may have caused more difficulties. On the other hand, it was a great tool to allow the remaining partner to concentrate on the important issues and let those non-critical ones go.

Similarly with Company H, where the partners decided to sell the business, it allowed them to prioritise and set short-term goals to have the repairs carried out as quickly as possible and determine at what point it was best for them to exit, rather than simply walk away from the enterprise soon after the fire happened, when they realised they were not coping. This strategy greatly increased the sale price of the business for the owners.

Companies E and L pointed out that while they had a plan, others were not working to the plan and this caused them great stress. In the case of Company E, failure of the business forced it into liquidation. With Company L, it took more than twice the time to have the building reinstated than the realistic plan allowed. In both cases, those that let the business down were not fully informed of the plan. In the case of Company E, it was the business interruption loss adjuster and insurer who caused the problems. With Company L, it was the landlord and loss adjuster. This clearly shows that while it is beneficial to have a plan, it is important to communicate and have buy-in of the plan by the key stakeholders.

Again, in both cases the respondents indicated that they should have had the insurer/loss adjuster buy into the plan and work with them on a pre-agreed outcome. This would certainly assisted when it came to a critical factor discussed later: cash flow.

The conclusion reached by this research is that a Business Recovery Plan is of great benefit to the owners and management of SMEs post-crisis, and did contribute significantly to the survival of the businesses.

7.2.2 Does the level of experience or education of the SME's management team influence the chances of survival?

> *"How little you know about the age you live in, if you think that honey is sweeter than cash in hand."*
>
> Ovid (43 BCE – 17 or 18 AD)

One of the most obvious points to come out of this study was that the will or determination for the business to succeed, no matter what, is a crucial factor in survival or failure of the business. Experience and formal qualifications are far less relevant.

Where fierce determination was present, in all but one case the business succeeded. The case where it simply was not enough was that of Company E, but here the following factors conspired against management:

- The company was heavily in debt before the crisis.
- The crisis came on the heels of what could be described as a crisis that had not been overcome completely, ie. management's diversion/distraction in the new construction and moving into the new building.
- The insurer delayed settlement and starved the business of much needed cash.
- A loss adjuster and insurer showed no empathy and no regard for the recovery of the business, only the minimisation of their loss exposure.
- An abnormally fierce competitive environment.

Even with this against them, part of the business succeeded. Despite all the other pressures on him, the principal owner developed a new product which he used to save a part of the business. This individual simply refused to fail, and has obtained the personal satisfaction and financial security that he had spent a lifetime working to achieve.

In the case of Company F, one of the two shareholders had the drive, while for the other shareholder, the business was simply a 'fun' investment. When the crisis hit and the 'fun' turned to stress and financial strain, the second shareholder wanted out.

The determined one bought the other out, on delayed terms and at a discounted price. While this left the now sole business shareholder to take on all the tasks by herself, she found that she only needed the old partner to compensate for a lack of her own self-confidence. Having started the business and doing most of the management and hard work anyway, she realised that the crisis was able to be overcome. She employed a claims preparer/loss manager to take over the management of the claim and, by concentrating herself on the business reopening, recreated a successful business which is now considerably larger and more profitable than pre-crisis. Rather than only having 50% of the business, she now owns 100%.

Company B is an interesting case study. The father, who was near the end of his career and had been through two similar sized crises before, first thought to walk away and accept a cash settlement from the insurers. The son, who was fresh and keen and had not had the bad experiences in the past, was determined to go on. The two men sat down and clearly expressed their concerns, fears and desires to each other. Having seen the determination of his son, the father, rather than adopt a 'defeatist attitude', worked very hard to support the son, with sound counsel and extended his working life by 12 months. With the combined determination of both men, the business survived.

The owners of Company G also questioned whether they should go on. In fact, it was touch and go for a few weeks, with a great deal of soul searching. The business had been only marginally profitable since it started, and the crisis appeared as an opportunity to exit. When the major shareholder was able to obtain a very satisfactory conclusion to his insurance claim on the building, he became reinvigorated and his enthusiasm was contagious. As a result, the other two partners too became committed to the survival of the business. They agreed a strategy to recover, and worked tirelessly towards it. The end result was that the crisis opened opportunities to refocus the business and, by concentrating on their niche market and abandoning the less profitable parts, they were able to cut costs and develop a sound profitable, cash-positive business.

On the other hand, with Company C, three of the four directors (as with Company F, the ones not working in the business day-to-day) did not have the stomach to resurrect the business when they found that they were well under-insured and that no suitable premises were available in their town. The fourth director could not afford to buy the others out and, in fact, the net value of the business after the fire was a negative figure. Perhaps as he had no skills in any other occupation and did not wish to work for anyone else, he immediately started up a similar business from the nearest town, purchasing second hand equipment and salvaging what he could of the customer-base of the abandoned business. His ex-partners were not upset by this and, in fact, were quite supportive. The director, now a sole trader, is making a reasonable living out of the business and is working to pay off the debt he entered into to start the new business.

With Company H, the business was only 3 months old when the crisis hit. The husband had worked out of doors his whole working life, and operating a business that involved a lot of paperwork was not to his liking. Both husband and wife found the stress of the fire and the insurance claims process on top of the normal running of the business, more than they could handle. Whether the crisis simply brought a decision that would have been reached in any event is not certain. However, in any event, the couple decided they would sell the business. They realised that with full insurance, the ownership of the building now coming to them, and with the assistance of a specialist insurance claims preparer/loss adjuster to take some of the pressure off, it was better to obtain the insurance recovery, reinstate the damaged building and then sell the business as a going concern rather than try and sell it in a distressed state. The new owners have built the business up further with a view of ultimately selling again at a profit.

Another excellent example of the sheer drive of the owners to get things done is Company J. Here one of the partners had to reduce his workload through a crisis in his family and his business partner just let nothing get in his way in achieving the dream he had for a remodelled venue, as well as a popular and profitable business. The cost was great with the health of both partners affected by the long hours, but they did achieve their desired result.

The job could have been easier for them if they had obtained more assistance in the management of their claim, but being self-confessed control freaks, they could not abrogate this. The fact that they left the day-to-day accounting and banking functions to a trusted staff member who breached that trust no doubt only reinforced in their mind that they did it the best way. Having said this, there is clear evidence, that with the additional cash flow that could have been obtained with regular progress payments from the insurer, the process would not have been such a stressful burden on them.

In summary, the management and shareholders of the surveyed business all indicated that, when the crisis came, it was not their qualifications and experience that mattered. These attributes helped understand the benefits in planning and assisting in the decision-making process, but these amounted to naught without the drive to *"tackle the crisis head on"*[33].

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[33] Direct quote of respondent from Company E.

The conclusion drawn from the research is that for a company to survive the crisis, the management must be committed and almost single-minded, particularly in the short-term, and have the physical drive to achieve it.

7.2.3 What factors led to the use or non-use of a Business Recovery Plan?

> *"There are thousands of causes for stress, and one antidote to stress is self-expression. That's what happens to me every day. My thoughts get off my chest, down my sleeves and onto my pad."*
>
> Garson Kanin (1978)

Eleven of the twelve firms surveyed used a Business Recovery Plan or an Exit Plan to manage the business after the crisis. The most common reason for developing the plan was that the business owner could have moved their initial stress and sorrow into positive action quicker. It was as if the documenting of the plan was therapeutic.

All respondents interviewed commented on the stress that they experienced and the lack of understanding or appreciation of the level of stress that they were going through. This was from their friends and family, but more importantly from the insurance industry.

Most respondents (10 out of 12) felt that insurers and loss adjusters who see the effects of fires and other personal catastrophes in their daily life, demonstrated the least empathy of all. It appears to these respondents that they, the loss adjusters in particular, have a job to do and want to do it with as little personal contact with them, the customer, as possible.

To emphasise the level of stress, one respondent explained that she had been through two crises in her life shortly after each other. One, the attempted suicide of her son, and the other, the fire in their business. Her son survived, but it was a near thing with doctors initially explaining that it would be 'touch and go', and even if he survived he would undoubtedly have permanent brain damage. Fortunately the son came through and made a full recovery. It was a great surprise to me, as the researcher, that this respondent explained somewhat shamefully that the fire in their business was more stressful on her. She explained that her son was from her first marriage and her husband, the youth's stepfather, was able to provide enormous emotional support. Friends and family too were of great emotional support. However, with the fire, her husband was equally emotionally affected by the crisis and was not able to help her as much. Most friends and family showed far less sympathy and support for the fire, explaining it away as nothing too bad as it was fully insured and no one was hurt.

On the other hand, while the respondent explained somewhat embarrassed that she did love her son dearly, the business was also like a child. Her husband and herself had put all their financial resources into it and its success or failure meant a great deal to the family's financial security leading forward. The respondent explained that she had very mixed emotions when she tried to justify this position to herself and that before the crises hit, if she had been asked to pick then, she is certain she and her husband[34] would have chosen the son over the business. However, having lived through both crises, the stress of losing the business was greater.

As a researcher, I have no training in psychology and cannot offer any worthwhile comment on this apparent conflict of emotions experienced by this respondent's very honest and open account of her feelings after the crisis. Three other respondents provided moving accounts of the mixed emotions they experienced, all similar to the one just documented. It is reported here to emphasise the stress that business owners experience at the time of the crisis and to argue that any model that deals with crises in SMEs needs to be mindful of this aspect. It is an area that appropriate research should be carried out in, with insurers and loss adjusters in particular, taking an interest in it.

Of the four cases in which the respondents developed the idea of a Business Recovery Plan themselves, one case was based on the concept of business continuity planning. In the other seven cases, where a plan was developed by the respondent, the idea was planted and, in some cases, assistance was given by the loss manager in preparing the plan. The respondent that did not use a plan, states that she wished she had. She was advised to prepare one by her loss management consultant, but she thought that the steps were quite simple and tried to do it *"on the fly"*[35].

As stated above, one of the major benefits of a post-loss Business Recovery Plan was that it allowed the business owner to focus their energies into something positive. The second benefit was that it allowed the owner(s) and manager(s) of the business to make decisions with the long-term strategy of their business uppermost in their minds. On the other hand, a prepared Business Continuity Plan, developed in advance of a crisis, was not completed by any SME surveyed, and its benefit could not be measured.

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[34] The husband nodded agreement.
[35] Direct quote of respondent from Company J.

7.3 Develop a Crisis Management Model for the development of a Business Recovery Plan for use by SMEs following a Crisis

> *"People seldom improve when they have no model but themselves to copy after."*
>
> John Goldsmith (1954)

There were a number of research questions developed to address this primary aim. It is simply too complex an issue without addressing the answers to each of the research questions. With this in mind, each question is reproduced below as a sub-heading with commentary on the research findings.

7.3.1 What competitive forces are most important to the manager during a major crisis in the business?

Porter (1980) recommended that in formulating a competitive strategy, management should consider five components: "*Competitors, Suppliers, Substitute Products, Potential Entrants and Customers"*.

The study showed that four of the five components ranked in the business recovery process. The only one that did not was Potential Entrants. Having said this, with only the odd contradiction, none of the components rated as 'Imperative' to the survival of the business. Customers and suppliers ranked as 'Very Important' while competitors ranked as 'Important'. Substitute products were considered by some businesses as an alternative way to supply or market, as in the case of Company E and Company K. Company E moved from general printing, to a specialised wide-format that allowed a great deal of flexibility in multi-sheet tasks such as multi-page consignment notes. Company K moved from a physical retail shop to e-commerce. Both were successful.

Interestingly this is not what Porter meant by substitute products. Porter (1980) was referring to substitute products being a threat to the business and affecting the competitive advantage of the business. In the context of this study, substitute products were considered as a way of providing a product or service to existing customers, either in the long or short term as a way of overcoming the crisis.

7.3.2 Is it correct to presume that 'focus' is the only strategy open to the crisis manager?

In Porter's model, he argues that management must select a strategy that will give the organisation a competitive advantage via one of three generic strategies, namely cost leadership, differentiation, and focus (Porter, 1980).

When a crisis in the form of a fire or other physical catastrophe such as flood, earthquake, power outage occurs, typically any strategy based on cost leadership or differentiation disappears. In fact when the crisis hits, the crisis, depending on its size has the potential to overshadow any existing strategy the business has in place. The strategy that then emerges turns to the survival of the business by overcoming the effects of the crisis.

What emerges is that while a Business Recovery Plan is developed to manage the business in the short to medium term, this plan should transfer and move across to a traditional long-term strategic plan. This may be the original plan of the business such as in the case of Company B, or a modified strategy to take into consideration the improvement in the business that the replacement equipment provided as in the case of Company J, or a completely new plan due to the completely changed circumstances brought about by the crisis as with Company K.

In summary, the research showed that in the short term, the strategy is on focus. Focus on the survival of the business, but then as the crisis passes, the emphasis changes to meet the new long term strategy of the business.

7.3.3 Does Porter's Five Forces Model (Porter, 1980) have any relevance in the face of a crisis, bearing in mind that the emphasis of this model is on the industry and the firm's external environment?

As was seen in the response above, the study showed that only four of the five components ranked in the business recovery process.

What the research showed is that while the Competitive Forces Approach (Porter, 1980) does have some relevance, it is not an ideal model on which to base a model for the development of a Business Recovery Plan. It has proved to be too externally focused and does not address other stakeholders such as insurers, loss adjusters, which although may be considered 'suppliers' in the broadest sense of the term, are not normally considered as such in the application of the model.

7.3.4 Is the research-based perspective model (Grant, 1993) too inwardly focused as it concentrates on the firm's internal environment?

The research shows that companies tended to be very inwardly focused during the business recovery process. This is understandable as the physical assets of the business are affected and a great deal of management time is required to manage the reinstatement process and, depending on the consultants used, the management of the insurance claim. Unless management was very disciplined, this inward focus, temporarily taking their focus off customers, suppliers, competitors and the external environment in general, the recovery process was slowed.

This was certainly the case with Company H. The shareholders concentrated on:

- Ensuring the purchase of the building went through without any issues caused by the fire impeding the sale.
- The replacement of the fire damaged asbestos roof. This entailed lengthy negotiations with the Victorian WorkCover Authority, the local councils, contractors and neighbours.
- The reinstatement of the fire damaged building, other than the roof. This entailed redesigning the office area, and staff amenities area.

The result was that customers were not treated as they should, and many were lost to competitors.

An almost identical situation occurred with Company L, but it was the Department of Human Services rather than Victorian WorkCover with whom the major focus centred. Again this was to the detriment of the business as customers felt that they were no longer important and moved away.

Other companies (Companies A, B, D, E, F, G, I, and J), reported that if they had not been so disciplined that they too could have easily become too inwardly focused and not concentrated on customers and suppliers in particular, as much as they should. They accept that had they done this, it could have seriously affected the recovery of the business and, at best, it would have delayed the recovery.

7.3.5 Is it more appropriate to incorporate both internal and external influences on the business?

Following on from above, it was found that this model is too inwardly focused, and a hybrid model, taking aspects of both the Five Forces Model (Porter, 1980) and Research Based Perspective Model (Grant, 1993), was necessary to arrive at a model for crisis management in SMEs.

7.3.6 What resource gaps does the crisis create?

The research found a crisis can potentially create any number of resource gaps in the business. In the study, it ranged from the loss of plant and equipment, stock, key personnel, adequate management time, to cash flow. To overcome the gap(s) created, the business requires short-term cash in the form of progress insurance payments, use of existing reserves, or additional equity or borrowings.

Some gaps such as project management skills, the management of the claim, and even production capability, can be outsourced in the short-term. For some resource gaps, particularly short-term ones such as project management, on a cost-benefit approach, the investment is typically warranted.

With outsourcing of production, however, there is a risk that customers will move across to the alternate supplier. Further, the cost premium is typically only manageable for the firm in the short-term even with full insurance.

7.3.7 Who are the key stakeholders during a crisis?

The importance of the stakeholders to the recovery process was deemed important. Based on the findings in Section 6.6.4, the stakeholders were ranked according to their importance to the recovery process as set out in **Table 93**, overleaf.

Table 93
Ranking of Stakeholders on Importance by Respondents

Ranking	*Stakeholder*
Imperative	• Employees • Management • Shareholder(s) • Landlord • Fire Brigade* • Insurer* • Claims Preparer/Loss Manager* • Loss Adjuster(s)* • Repairer/Builders*
Imperative *(when involved)*	• Tax Office • WorkCover Authority • Department of Human Services • Environmental Protection Authority • State Emergency Service* • Project Managers* • Trade Association
Very Important	• Bank • Accountant • Customers • Suppliers • Local Council • Insurance Broker • Fire/Flood Restoration Company*
Very Important *(when involved)*	• Tax Consultant • Solicitor • Other Financiers
Important	• Competitors • Police
Minor Importance	• Physical Neighbours • State Government
Not Important	• Union • Other Tenants
No Involvement	• Activist Groups • Political Groups • Federal Government • Other Statutory Authorities • Third Party

These rankings were made based on the average ranking given to the particular stakeholder by the respondents. It should be noted that some stakeholders did not feature in very many cases and, where this occurred, they have been listed separately under the subheading *"(when involved)"*. It must be stressed that the ranking of a particular stakeholder may change depending on the circumstance of the particular crisis, and that the ranking should be considered as a guide only.

What does come out of the ranking that is of importance is the number of stakeholders who are deemed 'Imperative' to the survival of the business following the crisis that the business owners and/or managers may never have met. These have been marked in **Table 93** with an asterisk (*). As in the case of the claims preparer or loss adjuster, they may not even know the service exists. Yet the business owners and/or managers obviously have to rely upon them so greatly.

Without a trust, understanding and agreement to the Business Recovery Plan being developed early between these strangers, the recovery of the business may suffer. It is to reduce this issue that major corporations tend to have their Risk and Insurance Managers meet with the insurer(s) at the time the insurance is placed, and to agree a nominated loss adjuster in advance of any claim. By having some input into the selection of the loss adjuster, the large corporation exercises greater control. This option is not open to an SME.

7.3.8 Does the breakdown of a firm's strategic capabilities hold up in a crisis?

To recap, Lewis (1993) stated, in his Dynamic Capabilities approach, that a firm focuses on exploiting existing internal and external firm-specific capabilities to address changing environments. To be maintaining a competitive advantage, a firm's capabilities must be distinctive. In this approach, a firm's strategic capabilities can be classified into:

- *Economic Capabilities*: Physical assets, share of market, geographical location, financial resources, economies of scale and scope, patents, proprietary processes, and brand franchises or reputation.
- *Technological Capabilities*: The know-how implicit in products, processes, system physical plant and facilities, and people's skills and experience.
- *Human Capabilities:* The skills, attitudes, and behaviour of organisational members.

- *Organisational Capabilities:* The structures, systems, and style that guide and coordinate the behaviour of organisational member towards the achievement of goals.
- *Management & Leadership Capabilities:* The ability to allocate, coordinate change, and build economic, technological, human, and organisational capabilities.

Source: Lewis (1993)

The research showed that all these capabilities can be affected and, in the short-term, move from being the strengths of the firm to being a disadvantage. Examples of this are:

- Economic capabilities such as the physical assets, geographical location, economies of scale (every company surveyed was an example of this).
- Technological capabilities such as processes, plant, and facilities (examples of this were found in Companies A, B, C, E and I).
- Human capabilities such as staff (example Company I which had to retrench staff due to inadequate insurance cover on wages).
- While not always immediately obvious, changes in organisational capabilities such as a change of management style brought about by the changed circumstances and stress of the crisis (a good example being Company E where the crisis significantly changed the approach management took towards their staff. It went from almost participative to autocratic).
- Management and leadership capabilities where management failed to cope where they had been able to in the past (a good example here being Company H).

What the research showed is that while these strategic capabilities are affected, the business needs to compensate for the changes. This may mean requiring a cash injection by way of a progress payment from insurers, and by increasing the level of communication between the stakeholders to keep them fully informed of the recovery process.

The cash flow allows the company to reinstate the organisational capabilities as promptly as possible, while the increased communication tends to increase the patience of the stakeholders as they learn that things will/are getting better and that the inconvenience is only short term.

What also came out of the research is that if the business has been deficient in any area in the past, the crisis may be the catalyst for customers, suppliers, financiers or the like to move away from the enterprise, to the long term detriment of the company. On the other hand, if the company has had a good track record in the past, the external and internal stakeholders tend to have more patience and empathy for the problem, and stick with the company.

In summary, the research showed that gaps can and do regularly arise in all five of a firm's capabilities when a physical crisis such as a fire strikes.

7.3.9 If so, can they be used as the basis of a model for the survival of an SME after a crisis?

While the Capabilities Model does identify the internal aspects of the firm that have been affected by the crisis, the research found that by itself, this model could not be used as a basis for a model for the Business Recovery Plan for SMEs. A hybrid form, taking components of several models, was considered to deliver a more robust model.

One of reasons for arriving at this solution includes the fact that this model does not address the importance that stakeholders, particularly short-term stakeholders, have to the survival of the business.

7.3.10 Do stakeholders outside the firm have any influence over the survival of the firm?

As can be seen in **Table 93** in Section 7.3.7, many of the stakeholders influencing the survival of the firm are external to the business. An abridged list showing only the external stakeholders that were found to have influence over the survival of the firm, is provided in **Table 94** overleaf.

Table 94
Ranking of External Stakeholders on Importance by Respondents

Ranking	*Stakeholder*
Imperative	Landlord
	Fire Brigade
	Insurer
	Claims Preparer/Loss Manager
	Loss Adjuster(s)
	Repairer/Builders
Imperative *(when involved)*	Tax Office
	WorkCover Authority
	Department of Human Services
	Environmental Protection Authority
	State Emergency Service
	Project Managers
	Trade Association
Very Important	Bank
	Accountant
	Customers
	Suppliers
	Local Council
	Insurance Broker
	Fire/Flood Restoration Company
Very Important *(when involved)*	Tax Consultant
	Solicitor
	Other Financiers
Important	Competitors
	Police
Minor Importance	Physical Neighbours
	State Government
Not Important	Union
	Other Tenants
No Involvement	Activist Groups
	Political Groups
	Federal Government
	Other Statutory Authorities
	Third Party

7.3.11 Can the stakeholders be ranked?

The research carried out in this study showed that the stakeholders can be ranked but only to a degree. The ranking of the stakeholders involved in the companies surveyed in this study are ranked by order of importance in **Table 93** in Section 7.3.7.

What was found was that crises create very different issues depending on the type of crisis, the type of industry and a large number of other variables. As such while the ranking at **Table 93** can be taken as a guide, it should not be taken as being accurate for every business regardless of the crisis involved.

7.3.12 Should some stakeholders receive more attention than others during the management of the crisis?

The study highlights the fact, that just as in normal periods of operation, that is, when no crisis is threatening the firm, the business should not ignore any stakeholder completely. Having completed a stakeholder analysis, the management of the firm need to spread their limited time across all the stakeholders. This should be done on the basis of the stakeholder's importance to the business.

Stakeholders that pre-crisis are considered to be of little importance to the business (such as the insurer and, to a lesser degree, the insurance broker) suddenly shoot up in importance after a crisis, assuming the crisis was caused by an insured peril. Further, some new stakeholders that the respondents to the survey advised that they did not know of prior to the crisis and, in some cases, were not even aware that their service even existed (such as loss managers, fire restoration experts) also became 'Imperative' to the survival of the business.

In **Table 95** over, the ranking of stakeholders to the business are shown both pre- and post-loss to show the change in ranking after the crisis has struck.

Table 95
Ranking of Stakeholders on Importance Pre- & Post-Crisis by Respondents

Ranking Prior to Crisis	
Ranking	***Stakeholder***
Imperative	Employees Management Shareholder(s) Customers Suppliers Competitors
Very Important	Bank Other Financiers (if present) Accountant
Important	Solicitor Insurance Broker Union Landlord Local Council Tax Office Tax Consultant
Minor Importance	Physical Neighbours WorkCover Authority Department of Human Services Environmental Protection Auth. Police Fire Brigade Insurer Other Tenants State Emergency Service Trade Association
Not Important	State Government
No Involvement	Activist Groups Political Groups Federal Government Other Statutory Authorities Third Party
Not Known *(Often)*	Project Managers Claims Preparer/Loss Manager Loss Adjuster(s) Repairer/Builders Fire/Flood Restoration Company

Ranking After Crisis	
Ranking	***Stakeholder***
Imperative	Employees Management Shareholder(s) Landlord Fire Brigade Insurer Claims Preparer/Loss Manager Loss Adjuster(s) Repairer/Builders
Imperative *(When Involved)*	Tax Office WorkCover Authority Department of Human Services Environmental Protection Auth. State Emergency Service Project Managers Trade Association
Very Important	Bank Accountant Customers Suppliers Local Council Insurance Broker Restoration Company
Very Important *(When Involved)*	Tax Consultant Solicitor Other Financiers
Important	Competitors Police
Minor Importance	Physical Neighbours State Government
Not Important	Union Other Tenants
No Involvement	Activist Groups Political Groups Federal Government Other Statutory Authorities Third Party

While the respondents ranked the stakeholders that could assist them over the crisis higher than the stakeholders who are normally 'Imperative' to the success of the business, I would argue that this is not, in reality, good business.

I would argue, based on the research of Porter (1980), Grant (1993) and others, that customers and suppliers are just as important, if not more so after the crisis than before. If customers and suppliers remove their support for the business, then even if other stakeholders such as an insurer puts the assets of the business back just as they were or even better, ie. new for old replacement, then the business may well fail. The insurer's support is for a limited amount of time. For the long term good of the business, it needs to retain its customers, suppliers.

If this logic follows, it points to one of the fundamental errors that SMEs face when confronted with a crisis. That is, they move their emphasis away from the stakeholders that are 'Imperative' to the long-term success of the business, such as their customers and suppliers, to new ones that are by their very nature short-term. Having said this, the importance to the business of the insurer, loss adjuster, the 'Crisis Recovery Stakeholders', in the period immediately after the crisis, is unquestionable.

Based on this research, the period of importance for the Crisis Recovery Stakeholders is from the date of the crisis until the assets are repaired and/or replaced and the business receives final settlement from the insurer. This averaged 12.96 months (refer **Table 22** under Section 6.4).

If you add to this mix the fact that the business owner/manager is unlikely to have any pre-existing relationship with these new 'Imperative' stakeholders, it is understandable that the business owner(s) and manager(s) spend more time with these new stakeholders. The business owners and/or management get swept up in the 'insurance[36] process' to the detriment of their relationship with the long-term 'Imperative' stakeholders.

Going back a step, most business owner(s)/manager(s) were working long hours[37] in their businesses before the loss occurred. When the crisis strikes they find that they now have to run their business as before, manage the reinstatement process of the assets destroyed, minimise the disruption to the business, which may well entail relocating, and manage the insurance claim and cash flow in general.

[36] By 'insurance process', I mean the claim adjustment process, with the builder, restoration companies and salvage merchants typically being organised by the insurance loss adjuster to minimise the loss for the insurer, and rebuild, replacement or repair of the damaged or destroyed assets.
[37] Respondents stated between 50 and 70 hours per week (refer Table 91).

Despite working additional hours[38], it is natural that the day-to-day running of the business, which includes managing the expectations of key stakeholders such as customers and suppliers, often takes second place to the new roles of rebuilding and claim management. As mentioned above, the consequence of this is that it may lead to a breakdown between the company and it key long-term stakeholders. Companies E, H and, to a lesser extent, J are examples of this situation occurring during the crisis recovery stage.

What the business in crisis tends to overlook is that their long-term stakeholders' own businesses will have been disrupted. Depending on the extent of the crisis in the SME and the importance of that business to the supplier, customer or other stakeholder, the primary crisis has the potential to be a crisis albeit a mini-crisis in the stakeholder's life. The stakeholders therefore may expect more time in consultation and communication with them than pre-loss; not less time.

If follows then, that these normally 'Imperative' stakeholders would expect to go up in ranking not down.

Adequately managing these long-term stakeholders, while at the same time managing the crisis recovery, was found to be a critical success factor to the survival of the business. The respondents from Companies A, B, D, F, G, H, I, J, and K attest to this.

A more appropriate way of ranking the stakeholders pre- and post-loss is set out in **Table 96**, overleaf.

[38] On average an additional 7.5 hours per week for the businesses that continued after crisis. (Table 92)

Table 96
Ranking of Stakeholders on Importance Pre- & Post-Crisis by Researcher

Ranking Prior to Crisis

Ranking	*Stakeholder*
Imperative	Employees
	Management
	Customers
	Suppliers
	Competitors
Very Important	Bank
	Other Financiers (if present)
	Accountant
Important	Solicitor
	Insurance Broker
	Union
	Landlord
	Local Council
	Tax Office
	Tax Consultant
Minor Importance	Physical Neighbours
	WorkCover Authority
	Department of Human Services
	Environmental Protection Auth.
	Police
	Fire Brigade
	Insurer
	Other Tenants
	State Emergency Service
	Trade Association
Not Important	State Government
No Involvement	Activist Groups
	Political Groups
	Federal Government
	Other Statutory Authorities
	Third Party
Not Known *(Often)*	Project Managers
	Claims Preparer/Loss Manager
	Loss Adjuster(s)
	Repairer/Builders
	Fire/Flood Restoration Company

Ranking After Crisis

Ranking	*Stakeholder*
Imperative	Employees
	Management
	Shareholder(s)
	Customers
	Suppliers
	Competitors
Short Term Imperative	Landlord
	Fire Brigade
	Insurer
	Claims Preparer/Loss Manager
	Loss Adjuster(s)
	Repairer/Builders
Short Term Imperative *(When Involved)*	Tax Office*
	WorkCover Authority*
	Department of Human Services*
	Environmental Protection Auth.*
	State Emergency Service*
	Project Managers*
	Trade Association*
Very Important	Bank
	Accountant
	Local Council
Short Term Very Important	Insurance Broker
	Restoration Company
Very Important (When Involved)	Tax Consultant*
	Solicitor*
	Other Financiers*
Important	Solicitor
	Insurance Broker
	Union
	Landlord
	Local Council
	Tax Office
	Tax Consultant
Minor Importance	Physical Neighbours
	WorkCover Authority
	Department of Human Services
	Environmental Protection Auth.
	Police
	Fire Brigade
	Insurer
	Other Tenants
	State Emergency Service
	Trade Association

* Note in 'Rating After Fire', some stakeholders appear twice where importance could move up during crisis.

The benefit of considering the ranking of stakeholders as set out in **Table 96** is that the original ranking of the stakeholders pre-crisis is maintained, and the fact that the new 'Imperative' stakeholders are only of short term importance is clearly demonstrated. This is in line with Jones and Wilks (1999) findings that influential stakeholders should not be permitted to dominate the firm.

7.3.13 Does Frederick's use of a 7-step model of stakeholder have relevance to a model of survival for an SME after a crisis?

While this model is very thorough in its approach, this research found that it was too lengthy and complicated for the respondents. An attempt was made to walk each of the respondents through the 7-step model but even the most patient and polite respondents did not wish to complete the exercise.

Nonetheless, the model does have relevance but a streamlined, less sophisticated one is required post crisis for SMEs.

7.3.14 Is the apparent lack of inclusion of insurance in crisis management studies, a weakness in the theory?

This research clearly shows that SMEs require insurance to fund their business recovery plan. Not only is the funding important in itself, the timing of payments is crucial.

All respondents take insurance much more seriously now they have been through a crisis. They do this by taking greater care on extent of coverage and on ensuring that they have adequate sum insured in all areas. Company B had the best level of cover before the crisis under study, and this was clearly due to the fact the business had been through two previous fires.

Three respondents, (Companies E, G and L) advised that they felt that the loss adjuster fully appreciated the importance of cash flow to the business. However, rather than work to assist the SME, the adjuster used the withholding of payments as a weapon in an attempt to force them into accepting a lower settlement. This research could not test whether this was in fact a tactic on the part of the insurer or loss adjuster, but it is certainly an issue of perception that flows to the satisfaction rating of the customer following a major insured loss.

With insurance proving to be so important ('Imperative) to the survival of the business, any model for Crisis Recovery or Business Continuity Planning that ignores insurance is flawed.

On the subject of business continuity planning, when a company prepares a detailed plan, it sets out the steps that the enterprise plans to take in the event of the crisis. If these steps are costed and estimates established on timing, then this information would be of vital importance to the person charged with the insurance program. The period of business interruption insurance cover and the sub-limit for additional increased cost of working cover should match or exceed the estimates in the plan. As no company surveyed had a Business Continuity Plan, this research could not test whether this simple crosscheck was made.

7.3.15 Are most businesses fully insured?

While each of the 12 businesses had some form of insurance, none were fully insured in respect to both the length of the business interruption cover and/or monetary limits. The company that came closest to being fully insured was Company B; that company's management having been through two previous fires. Even then, they found that they were under-insured on customers' goods and the length of business interruption coverage[39].

7.3.16 If not fully insured why not?

Three reasons were found for this under-insurance situation.

The first was the *"it will never happen to me"*[40] effect. It appears illogical that people buy a lottery ticket each week to make a quick fortune when the odds are so slim, and yet ignore insurance as 'it will never happen' to them. When you consider the number of natural disasters[41] in Australia, statistically the business owner is much more likely to experience a crisis than a lottery win. Notwithstanding this, many business owners simply treat insurance as a *"necessary evil"*[42] or grudge purchase.

[39] Fortunately, they were able to settle the customers' goods claims within the policy limit, by encouraging customers to claim from their own insurer with Company B only paying excesses or where customers had no insurance.
[40] Direct quote from the respondent from Company K.
[41] Cyclones, hail storms, floods, bushfires, earthquakes, plus one-off fires and burglaries.
[42] Direct quote from the respondent from Company K.

The second reason is poor advice. Insurance is a complex area and even very experienced insurance brokers do not know all aspects. This may be linked to the first point noted on the previous page. Also in this category is the under-estimation by the business owner as to how long it would take to recover. All the respondents surveyed advised that they under-estimated the timeframe. The high rate of companies with too short an indemnity period supports this.

For 10 of the insurance brokers who arranged the cover for a respondent, this was the first major loss that a customer of theirs had sustained, and they did not have the firsthand experience to adequately advise on the period of cover required. Only 2 business owners (Companies C and L) accepted that it was their own fault for the under-insurance. In the other 10 cases, the respondent blamed their insurance broker. Four of the companies changed insurance brokers after the loss.

The third reason could be considered a combination of the first two, and that is an emphasis on price not cover. This may be driven by the business owner, such as in Company L, to reduce *"unnecessary waste"*[43] in expenses. Alternatively, as with Company G, the insurance representative considered that price saving was his sole role; when the representative approached the owners of Company G on renewal, with exactly the same levels of cover as the year before, when his customer had advised him of the problems they were facing with under-insurance, Company G's management moved brokers.

With greater emphasis on corporate governance, education of insurance brokers and business owners, the issue of under-insurance should reduce but the 'it will never happen to me' factor appears very much ingrained.

7.3.17 What effect to business survival does the insurance program have?

While the determination of the owner was rated as the highest criteria for business survival, the level of insurance coverage was certainly a major variable. In the case of Companies C, E, K and L, the failure of the business can be directly linked to an inadequate insurance cover. The most obvious being Company C.

[43] Direct quote of respondent from Company L, which was said sarcastically to emphasise the foolishness of his decision.

This firm had no business interruption cover, no cover for customers' goods, and the owners were under-insured for plant and machinery. As such, they had insufficient cover to reinstate the business. The cover available to them was insufficient to repay borrowings, and each of the four owners had a carry over loss of $80,000. This precluded two of the four shareholders from raising fresh capital.

7.3.18 Are the concerns of CFO's in large firms, as identified by Pretty (1997) on the competence and responsiveness of the insurance market, shared by the owners/managers of SME who have suffered a major loss?

Clearly the response of the respondents was a resounding *"Yes"*. Two companies (Companies F and G) were 'Dissatisfied' with the claim process, with a further 7 (Companies A, D, E, H, I, J and L) being 'Very Dissatisfied'.

Two of the companies surveyed (Companies F and L) questioned the competence of the loss adjuster, while all 9 of the companies that were dissatisfied with the insurance claim process[44] were upset with the responsiveness of the insurance industry when the business needed them most.

7.3.19 What was the SME's rating of the empathy and performance of insurers, insurance brokers, loss adjusters and claims preparers during the crisis?

Overall, the rating of the empathy and performance of the insurers and loss adjusters was low, with half of the respondents rating the performance of the loss adjuster as 'Poor', being the lowest rating. Only in two cases did the loss adjuster achieve a 'High' level of empathy. One of the two loss adjusters has since left the profession, claiming the pressure on fees and a change of emphasis from assisting the insured to minimising the loss for the insurers, as the reason.

[44] Refer Table 91 in Section 6.6.6.

Insurers were rated higher on performance and empathy than loss adjusters. On the face of it, this does not appear logical. It was expected that the respondent would have had much more dealings with the loss adjuster, and the insurer would have been in the background. The reason for the higher rating came about when 2 of the respondents (Companies K and L) complained to the insurer regarding the service they were receiving from the appointed loss adjuster, and the insurer moved things along. In the case of Company L, the insurer took over conduct of the claim completely.

Insurance brokers rated higher than insurers, but rated lower on performance and empathy than expected overall.

The main complaints centred around not being physically present enough after the loss to provide support and explain the process. Where there was a coverage issue, some brokers tended to distance themselves from the claim and their client. The larger international brokers (2) scored lower in performance and empathy than brokers from smaller firms (10).

Claims preparers scored the highest. They were seen to be on the side of the SME. Those that scored higher did more than quantify the loss and present it to the insurer (a traditional claims preparation role), but rather provided management advice, emotional support and introduced trusted contractors. This was regarded as loss management.

7.3.20 Does separation of the risk, ie. having more than one location improve chances of business survival for an SME?

Pretty's (1997) research showing that large businesses are able to reduce risk, and thereby their level of insurance, through diversification geographically and in business sectors does appear to flow through to SMEs. Four businesses surveyed had a second location, and each advised that it assisted in the ongoing supply of goods and services to customers. Perhaps more importantly it provided an ongoing source of cash flow.

7.3.21 Are there any areas of current Business Continuity Planning theory that need to be added to the crisis management model for SMEs.

Most of the theory naturally has a place in a model for crisis management. As suggested by Fink (1986) the first step is an impact analysis. From here, several of the stages suggested by Vogler and Perkins (1991) have application, albeit slightly modified; these being determine options, evaluate and select alternatives, and document the plan.

The difference with a Business Continuity Plan and a Business Recovery Plan is that the crisis is not here and the decision-making is made under stress. Further, the communication of the plan, which in a Business Continuity Plan is kept in-house, now has to be opened up to a wider audience of stakeholders, including financiers, insurers and loss adjusters. Selected parts of the plan may also need to be communicated to other stakeholders such as suppliers, customers, or even competitors.

Finally while the Business Continuity Models call for testing and maintaining the plan the Crisis Management Model needs to have review stages to ensure that the plan is delivering the desired outcomes of the SME's owners and managers.

7.3.22 What other areas is BCP not addressing (possible example: insurance)?

The fact that insurance is not adequately addressed in the theory has already been confirmed earlier in addressing of the research questions. Two other areas that are not adequately addressed by BCP theory are the short-term nature of the plan and cash flow.

7.3.22.1 Short Term Nature of the Plan

The Business Recovery Plan should only be a short-term blueprint to overcome the crisis and get the business back on track with its pre-crisis long-term strategic plan. In some cases the opportunities or threats of the crisis may call for a new long-term plan. The acceptance of the original long-term strategy or the development of a new long-term strategic plan really needs to take place very early after the crisis hits. This way, the Business Recovery Plan that is developed dovetails into the longer term plan to allow a smooth transition from the Recovery Stage to the Recovered Stage.

7.3.22.2 Cash Flow

Ongoing cash flow proved to be a major issue for all businesses during the crisis. SMEs overcame it in a number of ways or in the case of Companies E, and F the business failed.

7.4 Develop an extension of the Crisis Management Model for the, Communication, Implementation and Completion phases of the Business Recovery Plan by the SME.

"Results? Why man, I have gotten a lot of results. I know 10,000 things that won't work."

Thomas Edison (1882)

Developing a Business Recovery Plan was considered only part of the overall aim of this research. Clearly the communication of the plan and its acceptance by stakeholders as an appropriate blueprint to overcome the crisis is also important. The implementation and finally the completion of the Business Recovery Plan are considered equally important to the development of an overall model of Crisis Management.

With this in mind, the following research questions were addressed.

7.4.1 Is benchmarking an appropriate method of implementing the plan?

If it is accepted that the crisis is one of the most difficult challenges facing the business during its life, then it follows that the business should use international best practice to achieve recovery.

During the past 25 years, the theories and concepts have continued to develop in scope and focus and, based on the results of the literature review and discussions with the respondents, it is considered appropriate to use a modified strategic benchmarking process to implement, communicate and achieve closure on the Business Recovery Plan.

7.4.2 If so, what modifications to Bogan & English's (1994) Xerox 12-Step Benchmarking Process are considered necessary?

The initial Xerox 12-Step Plan was designed to benchmark a particular aspect of the business, such as cost reduction or staff turnover. It was the forerunner of many modified models developed for specific purposes.

With a Business Recovery Plan, the aim of the business is first survival and then typically recovery to a position equal to if not better than pre-crisis. The model to develop and implement the plan needs to be strategic, and strategic benchmarking is considered appropriate.

This study has shown that such a model is required to address the business as a whole and address six phases of the recovery process. Those being:

- Crisis Impact Analysis
- Data Gathering and Data Analysis
- Evaluate Options and Select From Alternatives
- Communication and Agreement
- Implementation
- Completion and Transfer to Long Range Strategic Plan

The following section brings all the research together and sets out a *Crisis Management Model for Small and Medium Enterprises* that encounter a crisis in their business.

7.5 Crisis Management Model for Small & Medium Enterprises

> *"In theory there is nothing to hinder our following what we are taught; but in life there are many things to draw us aside."*
>
> Epictetus (A.D. c.50–c.138)

Drawing on the literature research and the analysis of the 12 case studies conducted, and in keeping with the primary aim of this study, a model for Crisis Management by Small and Medium Enterprises has been developed. This model is reproduced in **Figure 8**, overleaf.

Crisis Management Model for Small and Medium Enterprises	
Step	***Detail***
Phase 1 – Crisis Impact Analysis	
1	Appoint a loss manager
2	Investigation into cause
3	Make safe
4	Internal assessment of the extent of the crisis
5	Assessment of crisis on external environment
6	Assess actual/potential media coverage
Phase 2 – Data Gathering & Data Analysis	
7	Consider appropriateness of pre-crisis business strategy
8	Review adequacy of insurance program
9	Evaluate mental and physical condition of business owner(s)/management
Phase 3 - Evaluate Options & Select from Alternatives	
10	Availability, lead times and cost of repair/replacement options
11	Identification of potential mitigation strategies
12	Development of Business Recovery Plan or Exit Strategy
Phase 4 – Communication & Agreement	
13	Communicate plan to relevant stakeholders
14	Obtain acceptance
Phase 5 - Implementation	
15	Action Business Recovery Plan
16	Monitor and review performance of stakeholders
Phase 6 – Completion & Transfer to Long Range Strategic Plan	
17	Sign off each completed action plan and communicate progress
18	Communicate end of crisis to key stakeholders

Figure 8: Crisis Management Model for Small & Medium Enterprises

Each step of the *Crisis Management Model for Small and Medium Enterprises* is set out as follows:

7.5.1 Phase 1 – Crisis Impact Analysis

There are six steps in this first phase. They are:

- Appoint a loss manager
- Investigation into cause
- Make safe
- Internal assessment of the extent of the crisis
- Assessment of crisis on external environment
- Assess actual/potential media coverage

It is important for the owner(s)/management of the business to understand that this is an information gathering stage to allow a considered opinion to be reached on the future of the business. In cases of a significant event such as a major fire, care must be taken in the answers given to questions from staff, customers, suppliers, media and insurance representatives about the future of the business. While portraying a positive and business-like approach to the problem, an explanation that a careful assessment of the impact of the event on the business is being undertaken and that the future plans will be communicated shortly, is considered the best approach.

The consequences of comments made without a full understanding of all the facts, particularly at a time of great stress, can be difficult to undo. At no stage should liability for the cause of the crisis be admitted to any third party.

A brief comment on each step in Phase 1, the Crisis Impact Analysis, follows.

***Step 1:* Appoint a Loss Manager**

The first step for the SME's owners and/or managers is to appoint an experienced loss manager to assist with the crisis recovery. The earlier the appointment the better as it is easier to set the business recovery and insurance claim process up from the start than to try and correct early unnecessary mistakes. While the SME may be unlucky enough to encounter one or two crises of this type in their working life, such an expert has the experience and training of many years and this will prove invaluable to the recovery process.

Step 2: **Investigation into Cause**

In the case of some crises, the cause is quite obvious. An example here is a violent storm. Others, such as a fire, may appear more important to investigate.

Police, fire brigade, coroner, authorities such as WorkCover and environmental protection, unions and/or a host of statutory bodies may carry out an investigation into cause. The insurer carries out an investigation to determine three main issues:

a) Does the loss fall within the scope of the policy?

b) Is there a right of recovery from any third party?

c) If any changes are required to either risk protection strategies or premium rates for particular risks (ie. a risk management/rating issue).

In most jurisdictions, the fire brigade has control of the site until the fire is extinguished. They then hand it over to the police, who may involve other government authorities if they feel it appropriate.

Typically, at this point, the insurer's loss adjusters, investigators or forensic scientists move in. To obtain the benefit of the policy, a policyholder is required to provide all reasonable assistance and allow access to documentation and the scene. This does not preclude the owner of the property from carrying out their own investigation if they wish. In most cases, the insurer's investigators will work together with any appointed by the business owner; the exception being if the fire is considered deliberately lit or suspicious.

While the insurer's investigators have a right to examine the scene if the business owner wishes to make a claim, neighbours and third parties (including the media) do not have authority, and they can and should be prevented from entering the site. The fact that they or any unauthorised person is onsite can create liability issues, and the business owner is advised to carefully limit who has access to the site. Temporary fencing and/or screening may be appropriate, and the employment of a security firm may be required.

Most SMEs rely on the findings of the government and insurance investigators. However, the business owner should insist on a copy of the findings. If the business owner disagrees with the findings or feels a second opinion is warranted, then the additional investigation should be conducted as soon as possible by qualified experts, before the physical evidence has been completely destroyed, eg. clearing of the site. The loss manager should be able to recommend expert investigators, engineers or forensic scientists, as the case may be.

The loss manager should also be able to obtain the preliminary findings of the investigators, particularly the insurance appointed investigators, to see if there is any cause for alarm or if a second opinion should be called for.

Witnesses to the incident, including management, staff, neighbours, or passers-by, should be identified and interviewed if necessary.

The reasons for requiring a copy of the reports on cause is that they assist in the following:

a) Determining if the business owner's insurance policy will respond.

b) Establish if there is a right of recovery from any third party (this is particularly important where there are uninsured losses, say through under-insurance).

c) Establish if the business owner will be found legally liable for any injuries or damage to third parties or their property.

d) Establish if there are likely to be any penalties for breaches of government regulations.

e) Reducing the likelihood of the same event causing damage in the future; in other words, a risk management tool.

Step 3: Make Safe

Once the investigation is complete, and sometimes to allow the investigation to be conducted safely, make safe work is necessary. This may be authorised by the local council authority, the police or the owner of the property.

If liability is accepted by the insurer, the reasonable costs of make safe are covered. Costs can easily get away at this time as there is typically no tendering phase and controls on costs. The extent of the make safe and the method of make safe should be managed if possible.

Typically this phase is very early in the crisis management process and the owner(s)/management of the SME may not be thinking clearly due to the stress. Damage can be done during this stage by untrained contractors.

Step 4: Internal Assessment of the Extent of the Crisis

This stage involves a careful check of all of the physical assets of the business. Careful documentation with photographs or video is recommended. Examples of each class of asset are provided under appropriate headings. The lists are not exhaustive, but provide insight to the issues that may need to be considered.

A) Human Resources

- Determination of any casualties
- Counselling and/or support requirements
- Notification of staff not aware of event
- Establish ongoing communication process
- Determine WorkCover issues
- Union notification
- Determine personal property losses of staff members
- Need for legal or other expert advice

B) Building

- Damage minimisation – boarding, tarpaulins, propping
- Extent of damage
- If repairable or need rebuilding completely
- If rebuild is required, whether the current location is optimum for business
- Estimated costs of repair/rebuild
- Length of time required to repair/rebuild
- Choice of builder(s) to repair
- Method of appointment – tender or 'cost plus'
- Upgrades required to comply with current standards

- Need for temporary premises – availability and minimum/maximum requirements, costs of relocation and setup
- Are temporary repairs or modifications to allow continued use of existing building, feasible
- Legal obligations on lease – rent abatement clause, termination provisions, length of time on existing lease, sub-leases
- Value of buildings at risk of loss (insurance requirement to test for adequacy of insurance)
- Future rental costs, whatever is decided

C) Stock

- Damage minimisation and prevention of further damage (eg. theft after a fire)
- What is salvageable and can still be sold as new; protect this stock
- Identify and safeguard damaged stock that has salvage value
- Contractual obligations to customers/suppliers on salvaging branded goods
- Brand reputation on sale of damaged goods
- Quantification of quantity and value of stock destroyed, damaged and salvaged
- Customers' goods – extent of damage, quantification of loss
- Lead times on replacement stock
- Credit terms on replacement

D) Contents other than Stock

- Damage minimisation
- Cost of repair/replacement
- Repair/replacement timeframes
- Repair contractors' guarantees on reliability of repairs
- Effect of repair on existing warranties
- Technological improvements in new equipment
- Identification and costing of nearest modern equivalent items
- Extra costs of upgrade vs benefits
- Salvage value
- Choice of contractors/suppliers

E) Data & Records

- Protect backups and salvageable records even if they are wet or damaged
- Locate and test backups
- Methods of recovery/rewriting of records
- Costs of recovery

Ongoing insurance arrangements need to be put in place to insure the undamaged portions of the SME's assets.

***Step 5:* Assessment of Crisis on External Environment**

As was done with the internal environment, a check on the external environment needs to be carried out. While not exhaustive, a summary of potential areas and the type of questioning/analysis is provided.

A) Impact on Customers

- Notification
- Determine immediate, medium and long term needs
- Availability of ongoing supply to customers
- Alternative means of supply (eg. importing, relocation, subcontracting, use of competitors)

B) Suppliers

- Availability
- Alternatives

C) Other Stakeholders

- Identify other stakeholders of the business impacted/likely to be impacted by the crisis and the type of impact likely

D) Environment Issues

- Asbestos
- Toxic Waste
- Water run-off

Step 6: **Assess Actual/Potential Media Coverage**

Media management during the recovery process is considered essential and hence has its own step in the Crisis Management Model. The crisis management should focus on what the military like to call 'hearts and minds' operations, where the company tries to maintain its public standing.

The following should be included in the assessment:

- Interest of media
- Message given or potentially given by media
- Potential damage to business from media
- Whether there is a need for professional media management advice

7.5.2 Phase 2 – Data Gathering & Data Analysis

Step 7: **Consider the appropriateness of the Pre-Crisis Business Strategy**

A crisis creates threats as well as opportunities. Before determining what the Business Recovery Plan is going to achieve, it is important to have a stated end goal. If the decision is taken that the business will survive, the goal of the plan should be to take the business to a point where the long-term strategic plan of the business takes over. If the Business Recovery Plan is to wind up, sell or otherwise dispose of the business, then obviously the Business Recovery Plan will reflect this goal.

The crisis may allow the business to speed up parts of the long-term strategic plan such as relocating or upgrading equipment - there are a myriad of possibilities. What is important about this step is that it requires the business owner(s)/management to consider where they want to be long-term, set the goals, and then the Business Recovery Plan will compliment that long-term plan.

Step 8: **Review Adequacy of Insurance Program**

The funding of the recovery of the business from the crisis will be expected to be met by the business's insurance program. An assessment of just how the program will respond needs to be undertaken. It is an extremely complex area, and the use of a highly qualified and experienced claims expert, either a claims preparer or loss manager, is recommended. The insurance broker can typically provide an overview, but the claims expert may provide a much more detailed explanation of the various options available.

This review should be in respect of the property (material damage) cover as well as business interruption, other possible covers[45] and, in cases of damage or injury to third parties, the liability policies. Just as important as what is covered, is what is not covered.

The various conditions of the policies, such as those attaching to the reinstatement and replacement extension, increased cost of working and savings, also need to be understood in advance.

An understanding of the claim process, including the role of the insurer's experts and the timing of acceptance of the claim and progress payments, needs to be gained.

While reviewing the insurance program, the insurance requirements on the assets that remain and on the replacement assets, needs to be considered, including the cost for inclusion in the cash flow analysis.

***Step 9:* Evaluate Mental & Physical Condition of Business Owner(s)/Management**

Just as an assessment was made on the physical assets of the business, it is time for the owners and management to assess their own mental and physical condition. The recovery process will be demanding, and this should be factored into the Business Recovery Plan.

7.5.3 Phase 3 – Evaluate Options & Select from Alternatives

With the Crisis Impact Analysis completed and other necessary data gathered and analysed, including the insurance program, decisions on the future of the business can be made, and the draft Business Recovery Plan formulated.

***Step 10:* Availability, Lead Times & Cost of Repair/Replacement Options**

At Step 4, which is the internal assessment of the extent of the crisis, data should have been requested as to whether the building, machinery and plant, office furniture and equipment can be repaired or needs to be replaced. Further information on the costs and timing of each option should have been sought. Finally, the expected reliability and effect on any existing warranties of any repaired items needs to be considered. This data, required to analyse the options open to the business, may take several weeks to gather. Suppliers, particularly ones from overseas can delay the process.

[45] Examples here are marine, general property, contract works, computer policies and the like.

Once the information is to hand, decisions can be made on whether to repair or replace and how the replacement will need to be funded, and a time schedule can be produced.

Step 11: **Identification of Potential Mitigation Strategies**

The assessment of the external environment at Step 5 will have identified the requirements of customers and alternative means of supply. The following issues should be considered:

- The cost and benefit of options such as hiring equipment, outsourcing, importing, and using competitors.
- The likely response of the business interruption policy.
- Quality of service or product from this alternative method of supply.

Step 12: **Development of Business Recovery Plan or Exit Strategy**

Having gathered all the data and analysed the various options, the owners and/or management will then be in a position to draft the appropriate plan.

If the decision is taken not to try and recover, then the plan will set out the business exit strategy, considering all the stakeholders to the business, including staff and financiers, as well as the owners themselves. This is a Business Exit Plan.

Alternatively, if the decision is taken to recover the business, then a plan for the recovery of the business can be prepared. This should include a timetable, costed budget and cash flow analysis. It should be in considerable detail with action plans, responsibilities and review dates.

Expert advice should be obtained in areas such as taxation implications, financial planning, leases and other legal issues, as well as insurance as required on the various alternatives, regardless of whether the plan is documenting an exit scheme or business recovery strategy.

Tentative approval from the insurer may be required, as may agreement in principle from a bank or financier for additional funding requirements.

This model accommodates the fact that not all businesses will survive, for a multitude of reasons. The steps of this Crisis Management Model are equally important for an exit strategy as they are for a Business Recovery Plan. To avoid unnecessary repetition, the term Business Recovery Plan can be substituted with Business Exit Plan for the remainder of this Chapter.

7.5.4 Phase 4 – Communication & Agreement

Step 13: **Communicate Plan to Relevant Stakeholders**

Once prepared, the plan or sections of it need to be communicated to the various stakeholders. Examples of the communication

- Customers need to be advised when supply of the goods and services of the business will return to normal, and what temporary measures will be/have been put in place.
- Builders, suppliers and repairers need to be advised, and the formal instruction process completed.
- Staff need to be advised of their short- and long-term position with the company.
- Insurers need to be advised so that they appreciate that the business will be continuing (an underlying condition of the business interruption policy), together with the expected timing requirements and amounts of progress payments.
- Similarly, banks or other institutions providing additional finance, need to accept the plan and the plan's requirements of them.

Step 14: **Obtain Acceptance**

To improve the chances of success for the Business Recovery Plan, the plan needs acceptance from the key stakeholders. This includes the traditional key stakeholders of employees, customers and suppliers, but also the new key stakeholders to the survival of the firm, eg. the insurer, loss adjusters, builders.

For example, the insurer needs to agree to the timing and size of progress payments, while builders and repairers need to understand the timing of payments and the documentation needed to fulfil the requirements of the loss adjuster/insurer.

At this point, if the insurer is satisfied that the business is going to attempt recovery, the loss can be quantified and reinstatement of damaged/destroyed assets will take place. An offer for full and final settlement of the claim may then be made. This has the advantage of allowing the business owner(s) and/or management to concentrate on the balance of the plan without having to continually worry about the claim management process. The downside is that insurers may be seeking a discount for early payment, and the costs/losses may blow out during the reinstatement phase. There is no right answer for every business and/or crisis. A judgement needs to be made by the business owner(s) and/or management based on the size of the offer.

7.5.5 Phase 5 – Implementation

Step 15: **Action Business Recovery Plan**

The specific action plans are implemented, from the placing of orders for new equipment to the implementation of any loss mitigation strategies.

Step 16: **Monitor & Review Performance of Stakeholders**

The regular monitoring of the performance of the stakeholders to the timetable and desired quality standards set out in the specific action plans, is required. Stakeholders working together or soon after each other, builders and suppliers of equipment, need to be coordinated to minimise delays and misunderstandings.

Similarly, the performance and quality of the existing resources, including outsourced work of the company to meet the demands of customers, will need ongoing monitoring.

Formal review meetings at regular intervals and/or pre-agreed milestones can both assess the performance of the stakeholders and allow early intervention to avoid or diminish the impact of the issues which will delay the recovery process.

7.5.6 Phase 6 - Completion & Transfer to Long Range Strategic Plan

Step 17: **Sign off each Completed Action Plan & Communicate Progress**

As each component of the Business Recovery Plan is completed, it needs to be signed off and all loose ends of the item, including documentation, completed and passed to the relevant parties/stakeholders.

Communication of the completion of major components of the Business Recovery Plan needs to occur.

Step 18: **Communicate End of Crisis to Key Stakeholders**

To reinforce that the crisis was just a short-term event in the life of the business, a formal notification and/or celebration of the survival of the business is required. The ongoing strategy of the business should be restated to move the focus from what has been, to what is yet to occur.

7.5.7 Phase vs Stage

The term 'Phase' was used in the model for, as Nudell (1996) suggests with business continuity planning, the Business Recovery Plan will be a living document. The steps will not commence and be completed by all sections of the business at the same time. The business will move through the six phases, perhaps working on different steps for separate aspects of the recovery process, at the same time. The term 'Phase' was chosen to reflect the fluid nature of the recovery process.

7.5.8 Further Research

At the very beginning of this study, the first step was to examine the definition of crisis management. Fink (1986) suggests that crisis management "*is the art of removing much of the risk and uncertainty to allow you to achieve more control over your destiny*".

Whether the Crisis Management Model developed in this study meets Fink's (1986) definition, is recommended as the subject of future research in this important area.

Chapter 8.
Conclusion

> *"I think and think for months and years. Ninety-nine times, the conclusion is false. The hundredth time I am right."*
>
> Albert Einstein (1955)

The main purpose of this study was to analyse what strategies small and medium businesses adopt when confronted with a major crisis such as a fire, flood or similar catastrophe and determine what factors proved vital to the survival of the business.

Up until this study, the research in the area has been focused on large public companies. This study extends the earlier research in a number of areas including, the Resource Based Perspective Model, Dynamic Capabilities Theory, Business Continuity Planning, Benchmarking, Stakeholder Theory, as well as Risk Diversification and Insurance, but with a strong focus on small and medium enterprises.

The primary aim of the research was to develop a complete crisis management model that can be utilised by small and medium enterprises to minimise the risk associated with losses caused by disasters such as fire.

According to Australian Bureau of Statistics figures, 93% of all businesses in Australia would be classified as a small business. While there are no realisable statistics available at this stage for the number of small and medium enterprises, logically over 93% of all businesses in Australia fall within the definition of a small or medium enterprise. With such a large number of enterprises making up this segment, the study is considered important, as it adds to the existing body of knowledge on this important sector of the national economy.

In the development of the model, many components of earlier models of strategic management were tested for relevance to the manager during a major crisis in the business. This extended to identifying the key stakeholders and the critical variables to business survival.

Data was gathered from twelve small or medium enterprises that had experienced a major fire or similar crisis no greater than five years before the company was studied.

A qualitative approach was taken, which involved interviews and in depth analysis of twelve case studies.

Based on the research, which included a comprehensive literature review, a new strategic benchmarking model, the *Crisis Management Model for Small and Medium Enterprises*, has been developed for the management of a significant business crisis, particularly one resulting from an insured peril. As such, the primary aim of the research was achieved.

The model is an 18-step process that encompasses the following 6 phases:

- Crisis Impact Analysis
- Data Gathering and Data Analysis
- Evaluate Options and Select From Alternatives
- Communication and Agreement
- Implementation
- Completion and Transfer to Long Range Strategic Plan

At the commencement of this research, eight stakeholders were identified as being interested in the research.

The first of these stakeholders is the owners and management of the small or medium enterprise. This research provides them with a tool for the strategic management of the crisis. It provides valuable insight into how similar sized businesses have coped with such a crisis, describing what went wrong and what worked well; the lessons learnt by the companies studied may not have to be learnt again, the hard way, by future business owners and managers. One of the lessons for businesses is to seek the assistance of a competent loss management consultant early, to assist in the management of the crisis.

Insurance companies are naturally interested in improving the cost of claims. If insurance personnel learn nothing else from this study, the fact that the business operator who has sustained a genuine insured loss, is a real person, needs to be remembered. It should not just be the money aspect (looking at ways to reduce the payout), which is the focus. This research suggests that by focusing on savings in claims handling costs, as appears to be the current attitude, insurers may in fact be increasing the overall cost of the claim by not managing the claim adequately to the benefit of their client and their own company. Whatever the current driver, the study clearly demonstrates that their clients are looking for a better way for their large claims to be managed.

For larger losses, a shift to working with the business owner and/or their consultants in a cooperative way to minimise the loss and ensure the company's recovery as quickly as possible, should be considered. The need to provide timely progress payments to ease the pressure of cash flow during the recovery phase, cannot be overrated. The benefits to insurers would not only be an overall reduction in the cost of large losses, but greater client satisfaction and increased client retention.

For insurance brokers, the study shows that brokering is not just arranging the cover, but also assisting their clients when a major loss occurs. If they do not have the skills or resources in-house, they should guide their clients to engage a suitable expert. If the insurance has been arranged correctly, then cover will be in place to cover the cost. As this study clearly shows, their clients will value the loss management service. Further, being an emotional support to the client during this stressful period will be highly valued by the client, as will assistance in having the insurer(s) make timely progress payments.

Two groups came out of this research as being seen to be providing a very poor service to the small and medium business operator after a loss; that is, the loss adjusters and the restoration companies.

The restoration companies are typically engaged by the loss adjuster and, in some cases, it was obvious that the loss adjuster was abrogating some of his or her responsibilities to the restoration company. The restoration companies need to be better controlled/managed by the insurance industry.

For loss adjusters, improvements are required in a number of areas including, but not limited to, empathy, timeliness, loss management, and general customer care. The profession needs to redefine its role, with consideration given even to its name. The general public see the name ‘loss adjuster’ as adversarial, with adjustments only ever going to be made one way, downwards. From the very start, unless the individual is skilled and demonstrates genuine empathy, he or she is generally not trusted and seen as yet another hurdle to be overcome on the road to business recovery. That road is already treacherous, and the owners’ or management’s time used to manage the loss adjuster, is time that they are not using to recover from the crisis.

The study demonstrates that there is a genuine need in the business community for a specialist loss manager. He or she should not be a historian and just calculate the loss sustained by the business, presenting it to the insurer or responsible third party, but someone skilled in guiding the owners and managers on how best to minimise the loss and ensure business survival – a ‘loss manager’. The model developed by this research will assist the loss manager in delivering meaningful results for their clients.

Business consultants will provide a better understanding of the issues facing small and medium enterprises following a loss. This study strongly supports the need for businesses to develop a Business Continuity Plan prior to the event, but even if they do not have one, a documented Business Recovery Plan should be developed after a crisis to set out a blueprint of how the business will recover and ultimately survive the crisis. This research will have identified a number of areas that require consideration in the development of a Business Continuity Plan or Business Recovery Plan. If a business does prepare a Business Continuity Plan, it should be used by those developing the insurance program to match the protection for expected increased costs of working and periods of disruption that have been identified as part of the planning process.

The importance of the insurance industry to the economy was clearly demonstrated during the liability insurance crisis that occurred in Australia since 11 September 2001 and the collapse of HIH Insurance. The industry is a very important and indeed vital component to the Australian economy. The greatest advocates to the industry should be those who have had to call on it for a major crisis. This study shows that customers who sustain a major material damage and/or business interruption loss are far from satisfied with the assistance they received. Interestingly, the insurers' agents, the loss adjusters, are rated lower in performance and empathy that the insurers themselves. Much can be learnt from this study for all aspects of the insurance industry.

The final stakeholder group that this study will be of interest to, is researchers. The research will provide greater understanding of the problems facing small and medium enterprises after a major loss. The variables that will lead to a reduction in the number of business failures following a loss, such as timely progress payments, adequate insurance cover, the attitude of customers, suppliers, and staff, as well as the sheer drive and determination of the business owner, have been identified and discussed.

While the model was developed specifically for small and medium business, it is expected to be pertinent for an operational unit of a large corporation faced with a business unit crisis. Further, while the model was primarily developed to assist in business survival, it has equal application in the situation of business failure as a methodology of implementing an exit strategy, following a crisis.

8.1 Further Research

> *"...research is never completed... Around the corner lurks another possibility of interview, another book to read, a courthouse to explore, a document to verify."*
>
> Catherine Drinker Bowen (1959)

While this research will provide greater understanding of the problems facing small and medium enterprises after a major loss, further research is encouraged. The *Crisis Management Model for Small and Medium Enterprises*, developed in this study, should be tested further and continuing improvements made for the best outcome possible for a business facing a crisis.

Glossary of Terms

ABS	Australian Bureau of Statistics
AICOW	Additional Increased Cost of Working
ATO	Australian Taxation Office
BRP	Business Recovery Plan
Business Exit Plan	A documented exit strategy
CBCP	Certified Business Continuity Planner (United States Qualification)
CDRP	Certified Disaster Recovery Planner (United States Qualification)
Cost Plus	A contract between a contractor and building owner based on the accrued cost of labour and materials plus a pre-agreed percentage for profit and overhead. Also known as a 'time and materials' contract.
BCP	Business Continuity Plan
Exit Strategy	The way in which a business investor/owner plans to close out of an investment or business with the best possible financial outcome for the investor.
GNP	Gross National Product
Indemnity Period	The maximum period of cover a business interruption policy provides indemnity for. It starts from the date of the disruption and is recorded as a time period, (eg. 12 months) in the insurance policy schedule.
ISR	Industrial Special Risks insurance policy. Typically a combined material damage and business interruption cover.
IT	Information Technology
SOEI	Standardised Open-Ended Interview
SME	Small and medium-sized enterprise/business

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