Management of Small Business' Recovery

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Abstract
The present paper is a systematization of small business' recovery management through the scientific modelling of the phenomenon and the estimation of its inertia to the strategic adaptation measures. Strategic modelling in recovery management aims to achieve a scientific justification in favour of the CEO's decision to start a recovery business plan. The method used in evaluation is the criterion type with parameter weighting based on their potential on business recovery based on a diagnosis personalized model containing technical and economic domains, criteria and indicators. Starting from a specific model, personalized model results by eliminating the criteria that are irrelevant from the point of view of the enterprise's activity, the objectives of business recovery or those whose cost exceeds the value of the information obtained. According to the proposed method, each domain is weighted by the resistance to change generated, through a coefficient r_i. Also, each criterion is weighted considers its potential for recovery over the domain it belongs to, through a coefficient p_i. A significance score of criteria are calculated by multiplying the criterion status (P_i) with these two coefficients establishing a hierarchy of criteria in the recovery plan. Finally, the paper provides an interpretation of the criteria contribution to the recovery plan, based on the calculated score. A case study is presented for how to apply the method.

1. Introduction

The recovery of a business means, most often, the implementation of a plan of measures meant to cancel out a certain condition of difficulty in the activity of the enterprise and to restore it to the initial state of strategic comfort. In this absence, business can depreciate to the maximum level of bankruptcy.

Condition of difficulty is the consequence of some malfunctions in the normal activity of the enterprise and is characterized by specific economic and financial symptoms such as [1]: difficulties in paying current debts (suppliers, salaries, credits), increasing the debt collection period, lowering orders, reduced capacity for new product assimilation, high production costs, low competitive capacity and so on. This leads to a deviation from the enterprise's normal strategic line of growth and development (strategic comfort), evidenced by the depreciation of some economic and financial indicators.

In enterprises monitored through performance-specific indicators, depreciation is limited, and the recovery plan is limited to point measures that allow for correction without significant changes in the company's operational management. Recovery is done so slowly, without organizational turbulence. As the moment of notification of deviation is more delayed, depreciations are higher and possibility to correct them by point measures decreases. Thus, more radical measures are needed which affects more and more activities and organizational structures sometime causing turbulence or adversity reactions in enterprise and its external environment.

Small businesses are usually found in the latter situation, their administration relying more on the "flair" of owners than on specific elements of scientific management. Under these circumstances, business recovery management is tactical, operative, and requires radical measures to quickly lift down the state of difficulty and rebuild the business on the initial strategic coordinates.

On the other hand, it is known that when business leaders know how to choose the best recovery measures available, they manage to save businesses in 95% of cases. In this sense, the first two measures recommended for business recovery are [1]:

1. Creating a team of consultants made up of specialists (accountants, lawyers, management consultants) to complement managers' vision of the situation;
2. Performing a flash diagnostic analysis to understand the nature and origin of problems and to determine the level of depreciation of the financial statement.

A scheduling of recovery measures needed, after the deprecation stage is presented in Table 1.

Table 1. Recovery measures on depreciation stage

Depreciation stage	Recovery measures needed	Structure affected
Early (the first age of depreciation)	Reduced administration costs, credits refinancing, renegotiation of customers and supplier's contracts, personnel improvement	Employees
Medium (two years of continuous depreciation)	In addition to the above mentioned: product range review, technical restructuring, administrative and personnel reorganization, infusion of financial capital	Employees, departments, managers, owners
Advanced (three years of continuous depreciation	In addition to the above mentioned: activities shrinkage, change of activities and markets, technical and technological investments, rebranding	Departments, managers, owners, customers, suppliers, collaborators
Very advanced (over three years of continuous depreciation)	In addition to the above mentioned: dividing enterprise, stopping unprofitable activities and isolating profitable ones, selling or preserving unusable assets, declaring insolvency	Departments, managers, owners, customers, suppliers, collaborators, banks

Some specialists [2] link the business's recovery process to a "strategy of adaptation" meant to fit enterprise's behaviour to the competitive environment, but this concept is not exclusive to this process, most companies applying it continuously, more or less intensively, depending on the level of deviation established by diagnosis analysis. Thus, the level of changes is reduced in the case of temporary inadequacies to market conditions or conjunctural shocks that have affected the balance of a sector and is significant in case of strategic errors or the occurrence of breaks in the competitive environment [3].

The present paper is a systematization of small business' recovery management through the scientific modelling of the phenomenon and the estimation of its inertia to the strategic adaptation measures among which [2]:

- mental inertia, consisting of difficulties in changing their own vision of the competitive environment, internal forces and weaknesses [4];
- economic inertia, consisting in the inclination towards returning old investments, which could be compromised by strategic change [5];
- commercial inertia, which makes the company captive of the image created over time in front of its customers. Changing strategy, company cannot make profit on the current portfolio of clients, and it is necessary to expand the market [4];
- inertia of competence, which is the more powerful as what need to do in the future depends on what it is doing (path dependency). As Levinthal argues, "experience can be the antithesis of adaptation" [5];
- organizational inertia, which may reduce the company's ability to adapt strategically to measures that disturb internal balances and cause defensive reactions at different hierarchical levels.

Depending on the degree of change required and the estimated level of imbalances due to inertia, the recovery plan may be triggered at the request of management, by identifying the causes and establishing measures to compensate for these imbalances, before external entities with interests in these companies (investors, creditors, collaborators, public administration bodies, etc.) to be aware of, thus avoiding turbulences in the external environment.

If management decides not to implement the recovery plan, degradation of the situation may lead to business bankruptcy.

The process diagram of small business recovery management is presented in Figure 1.

Our research is about creating a practical management tool that can be used by decision-makers in small businesses (CEO) to allow for the choice of recovery measures to ensure a return to the conditions of strategic comfort in the shortest possible time.
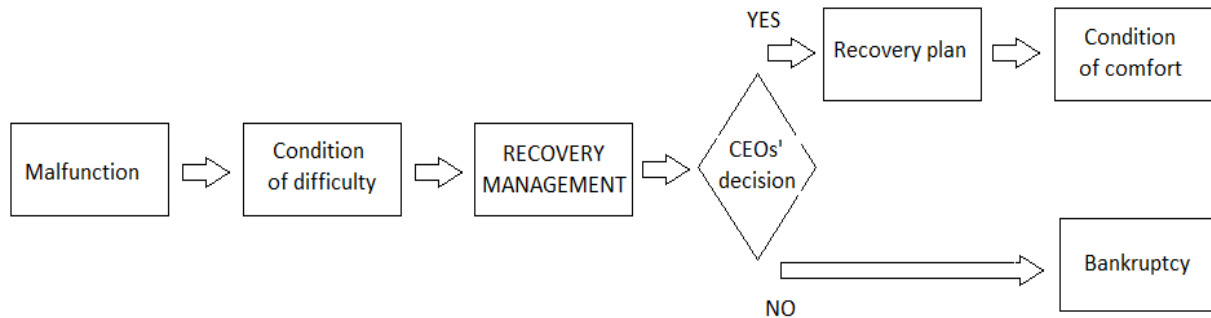

Fig. 1. Process diagram of small business recovery management

2. Strategic Modelling

In its first part, recovery management aims to achieve a set of arguments, in favour of the CEO's decision to start or not a recovery business plan. Scientific justification is important because once implemented, the recovery plan causes changes in the normal course of business and, implicitly, a resistance to change from the internal and external environment which can generate a waste of resources and a further depreciation of the enterprise's economic situation.

Thus, a recovery plan, to be accepted by business leaders, must have the following qualities:
- to be open and to have a great support, that mean to involve as many decision-makers as possible in the enterprise, with tasks, work schedules and monitoring charts;
- to generate a minimum number of changes in the structure and activity of the enterprise;
- to limit, as much as possible, the measures to structures in the internal environment and to avoid the involvement of entities from the near external environment (suppliers, client banks);
- to affect those parameters with high potentials in business recovery (products, prices, costs) and avoid changing parameters with major impact on personnel (working time, layoffs, wage cuts);
- to exploit the multiplier potential of some parameters on the overall business (rising prices, salary bonuses, brand acquisition);
- to use mainly internal resources (assets, staff) and only in the last instance, external resources (loans, capital injections, refinancing);
- have a limited duration of time and a minimum period until the first positive results are visible;
- contain a portfolio of monitoring indicators, periods and target values for them;

To achieve as many of these qualities, recovery management supposed to include the following steps:
1) performing a technical-economic diagnosis aimed at establishing the parameters that determine the malfunction and their potential to recover the business;
2) establishing the parameters to be included in the recovery plan, measures to improve them and the estimated progress in their evolution, complemented by the evaluation of necessary resources and duration of the measures;
3) graphical monitoring of progress and secondary plans in case of deviations.

3. The Method of Technical-Analysis Diagnose

The method of diagnosis analysis is the criterion type with parameter weighting based on their multiplier potential on business recovery based on a personalized model containing technical and economic domains, criteria and indicators.

The method involves the following steps:
1. Configuring the diagnostic model containing significant domains, criteria and indicators;
2. Evaluating of domains in terms of impact on business activity and inertia to change;
3. Weighing the importance of the criteria in terms of its potential for the recovery of domain;
4. Calculating the criteria's significance score and interpreting the results.

3.1. Personalized diagnosis model

The personalized model results from a complex process of enterprise analysis in the phases of modelling and diagnostic analysis. Starting from a specific recovery model, personalized model results by eliminating the criteria that are irrelevant from the point of view of the enterprise's activity, the objectives of the analysis or those whose cost exceeds the value of the information obtained on the entire mission [6]. The main factors of personalization are: business activity type, the level of concentration of authority and decision, activities complementary to the core one, key persons, level of specialization and influence, available internal and external resources, special circumstances such as market placement (collaborator of a large enterprise, sub-contractor, etc.) or localization (commercially, in areas of economic interest). The personalized diagnostic analysis model is sometimes defined only in the final stages of analysis if, as it goes through, there is a need to widen or stretching the flow of works.

3.2. Evaluating the importance of domains

From the point of view of inertia to change, six domains of diagnostic analysis are highlighted, out of which three of strategic character: market, internal potential, management and three with financial character: performance, balance, risk. Each of these, comprising one or more sectors of activity, has a higher or lower inertia at change.

According to the proposed method, the assessment of inertia to change is done by weighting each domain, inversely proportional to the resistance to change generated. Under recovery plan, recommended weighted of domains are shown in Table 2.

Table 2. Coefficients of resistance to change

Domain	Coefficient of resistance, r_i	Justification
Market	0-0.3	Changing the product offer generate resistance in proportion to its incidence on technical, technological and personnel resources.
Internal potential	0-0.1	Changes in human resources generate a resistance proportionate to the staff's skill level or rarity, while changing financial resources generates low resistance. Changes in manufacturing and technical resources generate strengths that are directly proportional to their technological and technical level. Changes in the trade area generate resilience only if they are major and involve changes in the staff structure (closure of a store, automated customer relationship).
Management	0-0.2	Changes in the organizational and control structure usually generate high resistance, involving qualified staffing structures.
Financial performances	0.2-0.6	Changes in financial performance are generally well received by the system and generate low resistance.
Financial balance	0.1-0.5	The resistance generated by a potential financial imbalance, is inversely proportional to the duration of the plan. Strengths can be significant if changes affect investors' interest, like not granting dividends.
Financial risk	0.3-0.6	The decline in bankruptcy risk is generally well received by the system that is willing to mobilize in this respect.

3.3. Weighing the importance of the criteria

According to the specific diagnostic analysis model (Figure 2), fourteen criteria are identified in the six targeted domains. The weighting of criteria is done by influencing it with a coefficient that considers its potential for recovery over the domain it belongs to. The value of these coefficients is established according to Table 3.

Table 3. Values of coefficients of importance of the criteria

Potential for recovery	Consequences of non-fulfilment of the criterion	Coefficient p_i
Very high	The failure of the recovery plan	5
Medium	Reducing the level of recovery of some indicators or increasing the time needed to recover them	2
Low	Reduced but not neglected. Meeting the criterion may speed up the success of the recovery	1

3.4. Calculating the criterion's significance score

For each criterion, a value of significance (R_i) is calculated, thus establishing a hierarchy in order to include criterion in the recovery plan. Significance score is calculated by multiplying the criterion status (P_i) with the weighting coefficients of resistance to change (r_i) and the coefficients of importance of the criteria (p_i) according to the formula:

$$R_i = P_i \cdot r_i \cdot p_i \qquad (1)$$

The criterion status is assessed by a conventional score (P_i), given according to a 5-steps scale, depending on the current situation and the prospects for one year's evolution. Usually, steps reflect the state of the criterion between total inadequacy to business requirements (five points) and total satisfaction (one point). To justify the criteria 'scoring, assessments of the dynamics and perspectives of specific indicators, are requested.

According to the method, the significance value will be in the range 1-5. The higher this is, the more appropriate is to include the criterion in the recovery plan.

The recommendation for interpreting the results is summarized in Table 4.

Table 4. The interpretation of the results

R_i	State of criterion	Recommendation
>5	Total inadequacy	The criterion must be included in the Recovery Plan
4...5	Critical	The criterion should be included in the Recovery Plan if there is no other criterion of higher value of significance.
3...4	Difficult balance	The criterion may be included in the recovery plan if the coefficient of resistance to change is high
1...3	Good	The criterion may be included in the recovery plan if the value of coefficients of importance of the criteria is high
<1	Total satisfaction	It is not necessary to include the criterion in the Recovery Plan

4. Case Study

Enterprise of case study is a resort operating in the balneary and recovery tourism, containing three hotels, a restaurant and a treatment base. The main activities are accommodation and food, the treatment being included in the accommodation.

4.1. Diagnosis model

The depreciation factors, reported at the analysis date, are:
- financial loss, in the third consecutive year;
- decrease in turnover in 2015, followed by a slight recovery in 2016;
- systematic increase of receivables and decrease of cash resources;
- systematic decrease in equity.

Diagnostic analysis model is built considering that:
- diversifying offer is one of the strategies recommended in modern tourism;
- the activities carried out (accommodation, treatment and food) are mainly dependent on the technical basis and the human resource;
- production is the main decline factor found;
- operational recovery measures are required without strategic changes or reorganizations;
- the depreciation level of financial balance and risk is not known.

In these conditions the following domains and criteria are included in the model of recovery: market with the offer, internal potential with technical resources, human resources and manufacturing, financial performances with turnover, added value and liquidity, financial balance with the financial balance sheet and the nett value and risk with the bankruptcy risk criterion.

4.2. Evaluating the weighting of domains

Considering the contribution in the business recovery, the coefficients of resistance to change are established as in the Table 5.

Table 5. Coefficients of resistance to change

Domain	Coefficient of resistance, r_i	Justification
Market	0.1	The big impact of changing offer on technical and human resources that need to be adapted.
Internal potential	0.15	Changes in human resources generate a low resilience, as long the most of the personnel is at an average level of qualification. Changes in technical resources generate significant resistance forces, requiring high investments.
Financial performances	0.3	Changes in financial performance generate a low resistance.
Financial balance	0.05	Rebalancing measures such as debt reduction or non-payment of dividends are hard to be accepted by shareholders and are expected to high resistance.
Financial risk	0.4	Bankruptcy risk is low due to high capitalization in real estate assets.

4.3 Weighting the importance of the criteria

Coefficients of importance of criteria are presented in Table 6.

Table 6. Coefficients of importance of criteria

Criterion	Coefficient of importance, p_i	Justification
Offer	1	The change of the offer is difficult in the conditions of the two basic products: accommodation and food, due to its determination by fixed assets. An eventual change in the bid could speed up the recovery plan.
Technical resources	1	The low status and low asset utilization are identified as possible causes of decline. Though hard to rectify in the short term, their improvement could catalyse the recovery plan.
Human resources	2	Personnel involvement can be a good solution to recover the situation. If it does not, the recovery plan the recovery plan has a low chance of success or it can be prolonged for a long time.
Manufacturing	2	Increasing production is one of the most affordable short-term solutions. In its absence, the objectives of the recovery plan will be difficult to achieve.
Turnover	5	Increasing turnover is essential to redress the situation. Failure to do so, even in the context of increased production, will lead to a diminishing financial performance situation assimilated to the failure of the recovery plan.
Value added	2	Value-added growth is a major factor in the recovery plan as it can favourably influence the performance of an enterprise even under conditions of production limitation due to diminishing market demand. Failure to do so would have a negative effect on the financial result but can be offset by increasing turnover.

Liquidity and solvability	1	The depreciation of liquidity is the result of the financial downturn. Improving it can be a leverage in recovering the financial situation, allowing for cost savings.
Financial balance sheet	2	The criterion is rated as medium potential, its depreciation having a negative impact on the external financing of the recovery plan, leading to a reduction in the pace of progress and the increase of recovery period.
Nett value	1	Improving the net value has a catalytic effect on the recovery plan through increased shareholders' interest. Although unlikely due to the large capital invested by the majority shareholder, the withdrawal of its support could lead to delays in the recovery of the company.
Bankruptcy	1	Low potential criterion due to the high capitalization of business that diminishes this risk. However, a high risk would pose significant barriers to the recovery plan.

4.4. Calculating the criterion's significance score

For each of the criteria included in the model, the evolution over the last three years of specific indicators is analysed, the results being summarized in Table 7.

Table 7. Calculated values of the criteria

Criterion	Criterion status, P_i	Coefficient of resistance, r_i	Coefficient of importance, p_i	Calculated value of significance, R_i
Offer	4	0.1	1	0.4
Technical resources	4	0.15	1	0.6
Human resources	3	0.15	2	0.9
Manufacturing	3	0.15	2	0.9
Turnover	4	0.3	5	6.0
Value added	3	0.3	2	1.8
Liquidity and solvability	3	0.3	1	0.9
Financial balance sheet	2	0.05	2	0.2
Nett value	4	0.05	1	0.2
Bankruptcy	1	0.4	1	0.4

4.5. Interpretation of the results

As shown in Table 4, the turnover criterion must be included in the recovery plan. Also, the value-added, the human resources and the manufacturing may be included in the recovery plan because the coefficients of importance of the criteria is high.

Under these conditions, the recovery plan, phased in two stages over three years, comprises:

Stage I over one-year period, with the overall goal of stopping the financial downturn and crossing the critical 1.00 threshold of the safety factor to turnover, includes the following measures:

1. Increasing the turnover by 13% by increasing the production, as follows:
    a). Increase the use of accommodation capacity by 5%, trough:
        - keeping the prices at the level of 2016;
        - improving the quality of services (raising by 12% the personnel's salaries and by 5% in spending on unit accommodation).
    b). Increase the use of food capacity by 28%, trough:
        - keeping the prices at the level of 2016;
        - improving the quality of services (raising by 12% the personnel's salaries and by 20% in spending on unit menu).
    c.) Increase the turnover from other activities by 25%, trough:
        - renting available or low-potential spaces or collaboration for their superior use;

- sale of unused or low-use assets.
2. Reducing and monitoring costs to third parties, as follows:
a.) Reducing fuel costs by 5%;
b.) Reducing honour fees and protocol by 25%;
c.) Reducing travel expenses by 12%;
d.) Reducing bank charges by 7%.

Stage II, over the next two years, with the overall goal of improving the performance of the organization, comprises the following measures:
3. Increasing in average sales prices by 5% to accommodation and 15% to menu;
4. Improving medium-term liquidity by reducing with 5% the client's receivables;
5. Increasing the personnel's skills, trough:
a.) Increasing spending on staff training;
b.) Implementation of selection, payroll and promotion system based on results.

5. Conclusions

Business recovery is a process that affects organizational activities and organizational structures, sometimes causing turbulence or adversity reactions in the system and the external environment. Under these circumstances, the business recovery plan aims to cancel the state of difficulty in the shortest possible time and to put the enterprise on the initial strategic coordinates under minimal rejection's reaction.

The paper is a synthesis of research in the field of small business recovery and sets the basis for a recovery management method, based on a customized model containing technical, economic, domains, criteria and indicators. The novelty of the research consists in the use of the criterial type assessments that allow, for each parameter susceptible to be changed, the calculation of a score considering its potential for business recovery and the resistance of the organization to its change.

Using this method allows the management to carry out a recovery plan including those objectives and measures that lead to maximum performance effects and be as easily assimilated by the enterprise.

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