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## Preventive crisis management for small business

**Summary:** Most of the national economies of the world, involved in international economic relations, experience crisis at present. For this reason enterprises of the countries, including the Republic of Belarus, are forced to work in a constantly changing environment. In this situation, there is a need of implementation of preventive crisis management system in the organization, the main objectives of which are anticipation of a crisis situation and its prevention.

**Keywords:** preventive management, crisis management, small business.

### Introduction

In modern world of globalization and economic interdependence of countries the world economy is becoming more and more vulnerable to recessions and crises. Whereas national economies constantly enter and exit recession the management of particular organizations in these ever-changing environment is becoming more complex. And when large organizations have a sufficient stock of resources to overcome the crisis for small businesses these shocks can be devastating dangerous.

The constant fluctuation of internal and external environment factors, the limited reliable information leads to the need for enterprise of continuous monitoring, analysis and forecasting of the market functioning prospects and the place of business in this market. These processes form the basis of preventive crisis management, which main purpose is crisis avoidance. The system mentioned above is a priori necessary for the organization, but there are a number of factors and issues that limit the possibilities of its implementation in small enterprises of the republic.

The main aim of the work is definition of the principles of preventive crisis management and rationale of necessity of its implementation on small enterprises. The hypothesis of the article is suggestion that the proposed approach pro-

motes the development of effective crisis strategy for small business, which substantially eliminates the negative effects of the economic crisis on small business and increases its stability.

## 1. Financial crises and crisis management

Financial crises act as a system of negative exogenous factors that influence economic entities and are the momentum towards progressive institutional changes.

J.M. Keynes characterized crises as “the fact that the substitution of a downward for an upward tendency often takes place suddenly and violently, whereas there is, as a rule, no such sharp turning-point when an upward is substituted for a downward tendency” [6].

In ancient Greek “crisis” (κρίσις) is “judgment”, “dispute”, “a separating”, the other meaning of this word is “decision” [16].

Different sources give the following definitions of crisis:

Crisis is a fracture, a coup, a determined time to transition state [14].

Crisis is the condition when the existing means of objectives achievement become inadequate, resulting in unpredictable situations and problems [5].

Within the framework of crisis management there is no precise definition of this concept, but most researchers agree that the crisis exerts a negative influence on the viability of the organization and achievement of its main objectives.

According to C.F. Hermann crisis is the situation that (1) threatens high-priority values of the organization, (2) presents a restricted amount of time in which a response can be made, and (3) is unexpected or unanticipated by the organization [4].

Studying of essential provisions of crisis theory, developed by L. Abalkin [1], A. Bogdanov [2], J. Schumpeter [12] N. Kondratiev [7] and other scientists makes it possible to determine that crises culminate in either transition of the system to a new qualitative state or its disintegration and replacement by another system. Applying this argument to the level of small business it is possible to conclude that the culmination of crisis is either recovery of payment capacity and financial stability of the company, ensuring its normal functioning, or bankruptcy.

The main external indication of bankruptcy is insolvency, which in turn is almost always the result of payments crisis. However, the origins of insolvency are hidden in other (underlying) forms of crisis: production (with reduced labor productivity), commercial (with a decrease of merchantability, reducing revenue), management (with the absence of qualified personnel), financial (with poor structure of assets and liabilities, reducing the profitability of business activity), and others.

All types of crises interact and multiply the total negative result, contributing to the emergence of a general (systemic) crisis, thereby creating a risk of losing

financial stability, occurrence of insolvency and enhancing the probability of bankruptcy.

As a rule financial crisis on the enterprises emerges in stages, and it can be diagnosed and prevented in the early stages.

The first stage of the financial crisis is the unprofitability of production. The stage is characterized by a reduction in sales volumes, decrease in transactions income, changes in the range and quality of products, reduction of production capacity, lack of capital investment. At this stage the measures of crisis management should be applied.

At the second stage occurs the deterioration of the company financial condition and increase in accounts receivable and payable. Low values of liquidity ratio and deficit of negotiable instruments are recorded.

The third stage is characterized by the company insolvency. There is a disruption of receivables and payables balance, increase in unmarketed finished products in stock, the salary falls to a low level. It would be more appropriately in this case to apply the liquidation of the company.

There is a concept in the economic literature of quick detection of financial crisis and radical actions. However, this theory does not account for the fact that company in crisis does not have enough time for a detailed study of the causes of this situation and the development of an optimal strategy.

## 2. Enterprise crisis readiness

The subject of enterprise crisis readiness is often used in the scientific literature by a number of scientists [17], [11] [8]. Although, in particular, the term “readiness” is associated with the military term, i.e. with the ability to respond appropriately to the threat in the absence of any warning signals, in general, the term “readiness” can also be used in the framework of preventive crisis management as the company’s ability to confront a sudden threat.

The term “crisis readiness” was introduced in the late 1980s by A. Reilly, who defined the term as “the readiness to cope with the uncertainty and change engendered by a crisis” [11].

However to the authors’ opinion crisis readiness is referred not only to the ability to cope with a crisis situation already occurred, but also the ability to prevent the crisis on the enterprise.

Crisis readiness is closely linked to business continuity planning, where the planning process at the enterprise is carried out continuously, plans continuously come to replace one another and are adjusted on the basis of existing conditions. Business continuity planning is an integral part of management, one of its functions, in addition to determination of the further scenario of the organization, is to identify potential means to minimize possible threats.

However, the availability of business continuity planning at the enterprise, including the prevention and crisis management functions is not sufficient for an effective response to the manifestation of a crisis situation. Crisis readiness is rather one of the enterprise characteristics, which is determined by a number of factors than a set of the organization functions.

Factors characterizing crisis readiness can be broadly classified into 5 groups:

1. External relationships
2. Internal structure
3. Management system
4. Leadership
5. Productivity

### **External relationships**

Analysis of the external environment is one of the main components of the organization management. The external environment can be divided into three interrelated categories: remote environment, industry environment and operating environment of the organization [9].

Remote environment includes economic, social, political, technological and ecological factors that are beyond the control of the organization.

Industry environment of the organization is characterized by the conditions of competition between companies offering similar products and services.

The operating environment of the organization includes components that directly affect its activity and that in certain limits can be affected by the organization itself. Among these components can be distinguished competitive position, structure of its main customers, the reputation of the company's suppliers, as well as the reputation of the company's employees.

In the framework of organization crisis readiness there is the need for effective analysis and development of appropriate solutions to all three levels of the external environment of the company.

The main components of external relationships factor are the following:

1. Monitoring of organizational environment. The main purpose of monitoring is to anticipate the possibility of a crisis before it begins to affect the organization. Foreign researchers have suggested the introduction of system of early detection of threats ("early warning system") [8], which is based mainly on experience and intuition of managerial staff of the enterprise.
2. Implementation of scenario planning system which is a rational method of presenting possible options for the future, where the decisions taken by the organization can be realized. Scenario planning is "in essence, concerned with developing innovative but plausible 'what if' detailed and rigorous narratives and subsequently designing strategic measures to meet eventualities" [10].

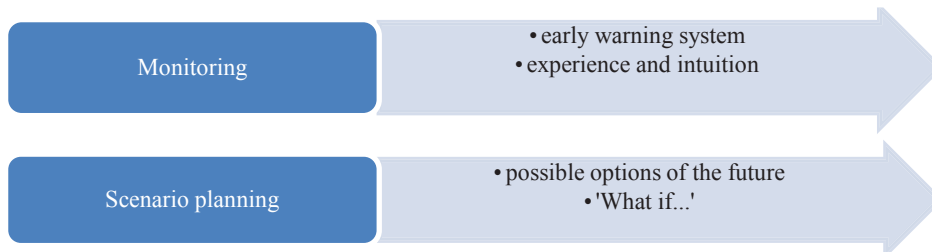


Fig. 1. Components of external relationships in the framework of crisis readiness

### Internal structure

The internal structure is a formal relationship between tasks, people and resources, and allocation of responsibilities with regard to these tasks, people and resources between members of the organization.

The allocation of responsibilities within the organization is one of the most important components of crisis readiness. At the same time excessive delegation of authority may result in a violation of the subordination order in the organization. Thus, it is important to build an internal structure, where would be established clear responsibility of each employee, without violation of subordination order in the organization.

In the framework of crisis readiness there can be created in the organization a certain team of employees, whose task is to prepare the company for crisis. However, the establishment of such a team is possible generally only in large enterprises, in the case of a small business enterprise preparedness for the crisis is one of the main functions of the organization leader.

American researcher K. Weick among the factors of internal structure determining crisis readiness mentioned “bricolage” [15]. Bricolage can be defined as transformation of meaning of symbol or object resulting uncommon use. D. Coudu defines it as “ability to improvise a solution to a problem without proper or obvious tools or materials” [3]. Bricolage naturally does not replace the need for organizational rules, but the internal structure should be built so that in emergency situations the organization (or personnel) could quickly adapt and improvise.

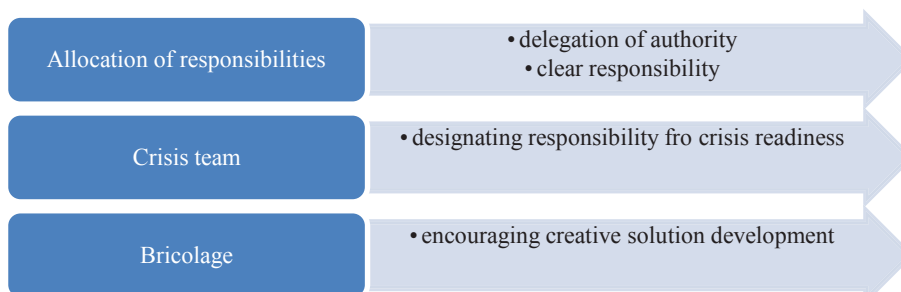


Fig. 2. Components of internal structure in the framework of crisis readiness

### Management system

Crisis management is an integral part of strategic management at the enterprise. The system of crisis preparedness, according to some researchers [13] must be necessarily included in the business plan and strategic plan of the company.

In addition to the integration of crisis management in the strategic plan of the company, some authors point out the need for continuous training and development of competencies of the company staff. This training should involve not only management personnel, but also ordinary employees. Highly qualified staff is more likely to react appropriately to a potential crisis, and adapt easier to possible changes.

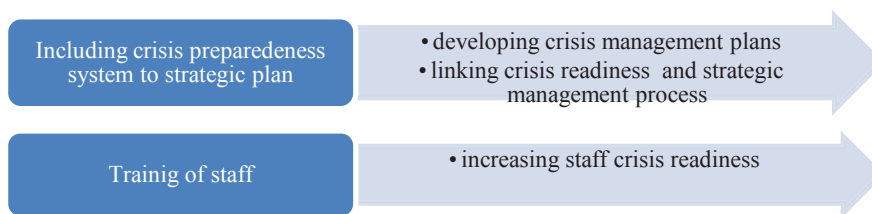


Fig. 3. Components of management system in the framework of crisis readiness

### Leadership

Organizational leadership is a process and a practice, used by the heads of organization that guide actions of people in the organization according to their vision and form the organizational culture [9].

Leadership in crisis management is the most important part of it. The main purpose of a leader within the crisis readiness is to encourage people within the organization to prevent a crisis, and if it occurs, deal with it and accept the need for change that will contribute to its further development.

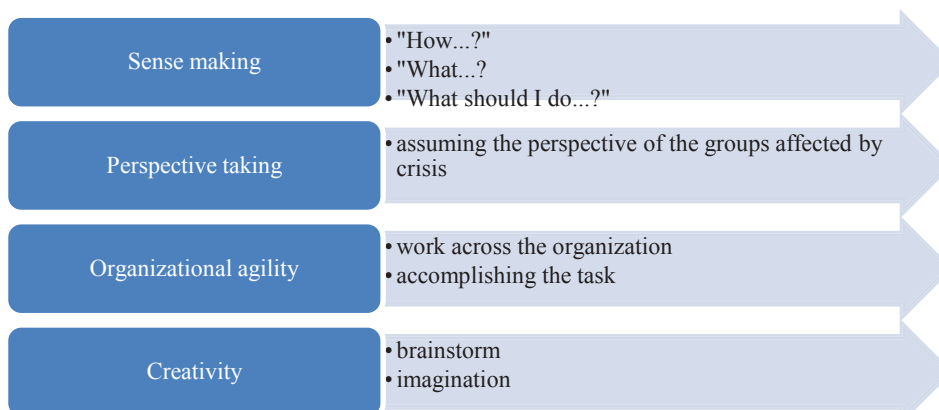


Fig. 4. Leadership competencies necessary for crisis readiness

L. Wooten and E. James allocate the following competence the leader needs to prepare for the crisis [17]:

1. **Sense making** that involves turning circumstances into a situation that is comprehended explicitly in words and that serves as a springboard into action. The process of sense making addresses three fundamental questions: How does something come to be an event? What does the event mean? What should I do relative to the event? The ability to be attuned to each of these questions and organize the answers is one of the main leadership competencies at the pre-crisis stage.
2. **Perspective taking** – the ability to entertain or assume the perspective of another. During the crisis, one of the main responsibilities of a leader is to ensure the well-being of groups affected by crisis.
3. **Organizational agility** – the ability of a leader to work across organizational functions, departments, or silos to accomplish a task. The ability to be organizationally agile is critical because although a crisis event may initially affect one aspect of the business, ultimately the entire organization may be at stake.
4. **Creativity** – the ability to think creatively about how a firm is vulnerable to a crisis and then plan for multiple contingencies requires an ability to brainstorm and imagine in ways that go beyond the traditional thinking about corporate concerns.

### Productivity

The productivity of the organization is reflected in the return of the organization's activity. It should be noted that the use of productivity as one of the factors that reflect the crisis readiness is indirect, as the productivity results crisis readiness of the organization along with its other characteristics.

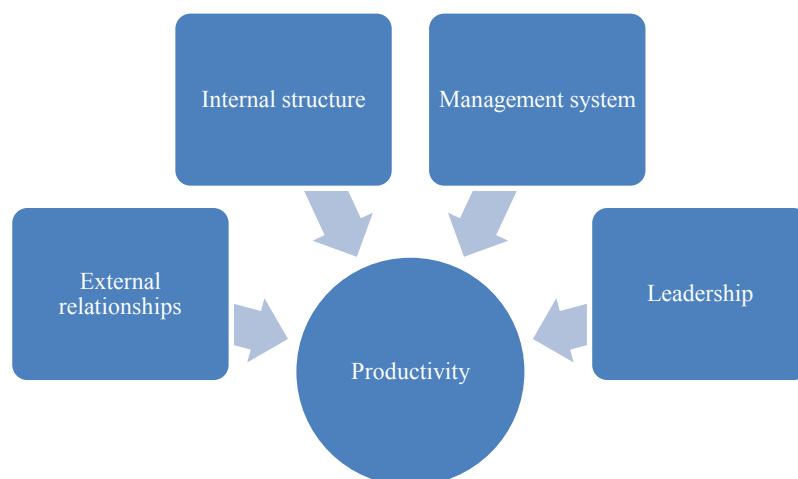


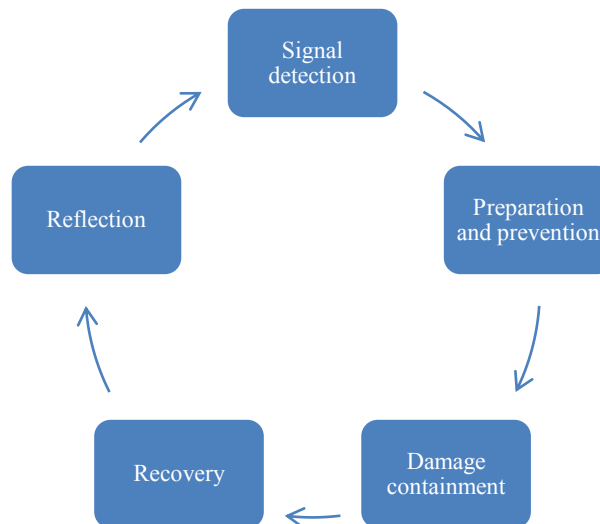
Fig. 5. System of the factors characterizing crisis readiness of the organization

Thus, there are five main factors characterizing crisis readiness of the organization. As it was mentioned before, crisis readiness is not so much the activity of the organization, as its characteristics. It determines the survival of the organization in the case of the crisis negative impact, as well as the ability to prevent the crisis in the organization, the ability to neutralize the crisis and adapt to new conditions.

### 3. Program-oriented approach in crisis management

Foreign authors usually distinguish the following five stages of crisis management [8]:

1. Signal detection – management of the organization identify early signs that warn of the possibility of a crisis situation.
2. Preparation and prevention – measures taken by the top management to prevent the crisis, as well as to prepare for it.
3. Damage containment – involves measures to limit the spread of the crisis to other units and business processes of the organization and its environment.
4. Recovery – includes implementation of the short and long term plans developed for the regeneration of business operations.
5. Learning/Reflection – issuance of critical lessons from crisis situation.



**Fig. 6.** Stages of crisis management

According to these stages, crisis management can be divided into the following types:

- reactive;
- preventive (anticipatory).



The first type is realized with the manifestation with of crisis negative effects and is aimed at stabilizing the situation (first and second stage of crisis management), the second type is aimed at the early recognition of the crisis indicators and its prevention (the third and fourth stages). The last stage of the crisis management (reflection) comes from reactive crisis management, but also is an information basis for the development of preventive measures.

The implementation of crisis management should be based on program-oriented approach. The target linking major programs horizontally (between the programs themselves) and vertically (between the stages of their implementation) provides a solution to a number of interrelated problems of a single process of crisis management. They can be considered in the following directions.

1. Special crisis monitoring and situational analysis related to the identification of possible sources and areas of risk. There should be identified the main risk factors, determining their relationships with each other and their impact on the overall condition of the enterprise. Then it is important to reasonably determine what influencing factors the company is able to withstand, and the factors the impact of which should be reduced. Models and forecasts of possible crisis situation development, implemented in the enterprise, can play there an important role.
2. Development and implementation of measures aimed at crisis prevention and beforehand elimination of possible causes of the crisis (early rejection of the products that are not in demand, closing energy-intensive industries, etc.).
3. Preparations for actions under the inevitable or possible crisis conditions when it is impossible to eliminate their causes (risk reduction and mitigation through compensatory measures, including the creation of reserves and provisions, retraining, etc.).
4. The immediate response to a crisis situation, including actions to prevent damage and crisis liquidation (ensuring the minimum of necessary vital activity of the enterprise critical systems).
5. Mitigation and elimination of crisis complications through the implementation of compensation and remediation measures.
6. Implementation of stabilization measures.

#### **4. Features of preventive crisis management in small business**

The ability to implement preventive crisis management mechanism in a small business often depends on the stage of the life cycle of the latter. The early stages are characterized by the accumulation of capital, introduction of the product on the market, struggle for competitiveness. At these stages, most of leaders make quick decisions and are not always able to build long-term plans due to instability of the enterprise position in the market and the existence of a variety of unknown factors affecting its operation. However, at the very beginning of enterprise existence there should be developed preventive measures necessary to ensure the viability of small businesses.

The implementation of a well-defined mechanism of crisis management in a small business should be carried out in a stage of growth and maturity of the enterprise. Preventive measures at the stage of development should concern the possibility of sudden changes in market conditions. This stage is characterized by an increase in the scope of the enterprise activities, the growth of revenues and profits, however, it can be deadly affected by change in market conditions, so there is the need for reserve accumulation, as well as consideration of possible directions of the company differentiation.

Stage of maturity is characterized by the decline of entrepreneurial, at the same time, the position of the enterprise in the market is quite stable. The main threat to the enterprise at the time is the possible loss of competitive advantages, reduction of recognizability of production due to the inert functioning on the market. Ignoring this condition can lead to aging of the organization, loss of stability and, eventually, to the end of its activity.

Thus, at each stage of a small business life cycle there are a number of threats neutralization of which depends most often on the leader's skills to analyze the situation and provide forward-looking opportunities of market changes.

Compared with larger players preventive crisis management of small business takes place under conditions of greater uncertainty, because small companies have lower stocks of resources that could threaten their stability and survival in the market.

**Table 1.** Comparison of initial conditions for the implementation of preventive crisis management system in small and large enterprises

<b>Large enterprises</b>	<b>Small enterprises</b>
High volume of accumulated reserves	Low volume of accumulated reserves
Awareness of the condition and market conjuncture, as well as of the forecasted directions of its development	In most cases, a much smaller volume of information is available
The ability to attract more qualified external consultants and experts for the analysis of the company activity and formulation of scenarios of its development	In the analysis and planning of future activities, the head of the company usually relies on his own abilities and qualification of internal personnel
The company does not have enough maneuverability to convert to a different type of activity, even with the threat of the crisis on the market	Small enterprises are quite maneuverable and can easily adapt to market changes, and even change their main activity
In the case of a crisis threat there is a possibility of financial assistance from the state and investors	Access to external financial resources is often quite limited

Table data shows that while small business entities as opposed to the large have no stock of financial strength, their advantage in offensive threat of the crisis is their maneuverability and the ability to adapt quickly to the changing situation.

The main components of preventive crisis management system are:

- analysis of the external environment of the enterprise, drawing the general forecast of its development;
- monitoring of internal factors in the organization in order to identify the threats to its further functioning;
- comprehensive diagnosis of each business process;
- determination of the current stage of the company life cycle and preparing for potential threats;
- development of preventive crisis measures aimed at avoiding the causes of potential threats;
- implementation of the mentioned measures;
- evaluation of the effectiveness of the changes made;
- preparation of scenarios for further development of the organization after the implementation of crisis measures.

## 5. Development of small business in the Republic of Belarus

In Belarus, there is a difficult ambiguous situation with the development of small business and the attitude of the authorities to it. There are visible and invisible factors deterring the growth of small businesses, as well as the causes of bankruptcy. However, despite the difficult conditions of existence and development of small business in the Republic of Belarus, the number of small businesses in the country grows steadily.

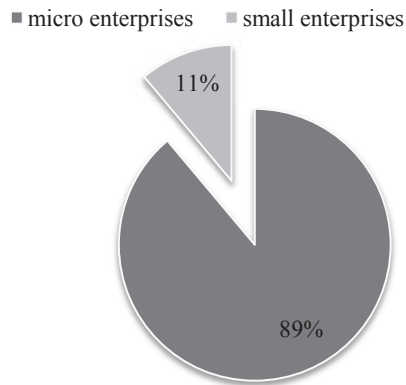
**Table 2.** Number of small enterprises of the Republic of Belarus

Year	Number of small enterprises
2009	77402
2010	84164
2011	88673
2012	97444
2013	108689
2014	111792

Small businesses in the Republic of Belarus include:

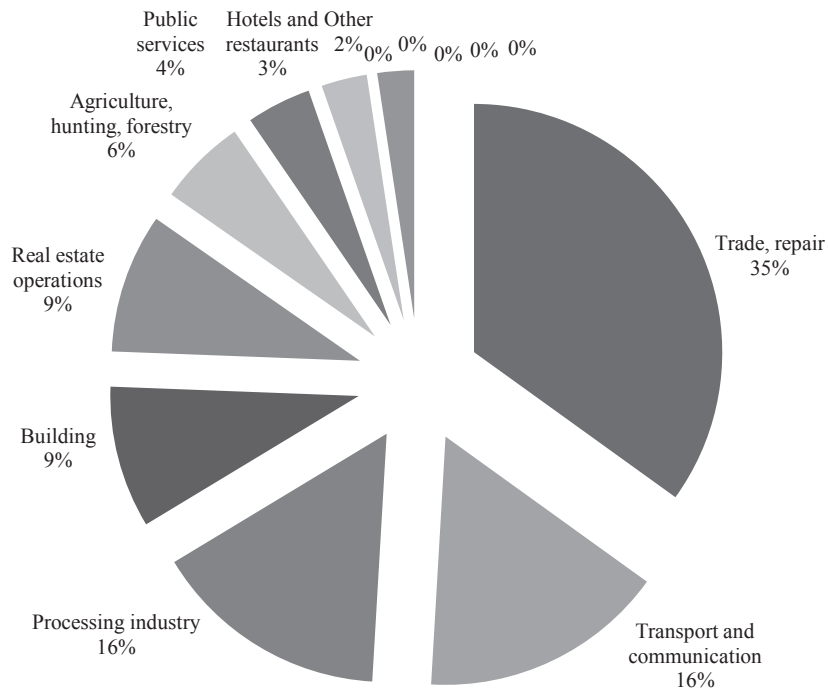
- micro enterprises – registered in the Republic of Belarus commercial organizations with an average number of employees during the calendar year to 15 inclusive;
- small enterprises – registered in the Republic of Belarus commercial organizations with an average number of employees during the calendar year from 16 to 100, inclusive.

At the same time micro enterprises hold the major share in the number of small business entities.



**Fig. 7.** Sharing of the number of small business entities by size, 2014

Fig. 8 shows branch identity of small enterprises of the Republic of Belarus. This sharing as associated with the existing conditions of doing business in various industries, as well as the level of profitability of various activities.



**Fig. 8.** Sharing of the number of small business entities by industry, 2014

It should be admitted that the model of small business functioning in the Republic of Belarus is underdeveloped. It is caused by the number of factors:

1. Historical patterns. The feature of entrepreneurship development in the Republic of Belarus is the short period of its formation. Pre-Soviet tradition of entrepreneurship is almost lost and do not comply with the terms of the current functioning of the economy, so it is impossible to ensure the continuity of entrepreneurship development. The economy of the Soviet period, virtually excluded entrepreneurship, which led to the stagnation of this social phenomenon.
2. Institutional environment. Development of entrepreneurship as a specific socio-economic institution depends on several factors, including government support, tax system, public opinion, the state of the economy, etc. Currently, the system of interaction between the state, society and business in the Republic of Belarus is not fully formed. On the one hand, in the country there is a transition to a market economy, on the other hand, the long-term phase of the economy within the framework of administrative and planning system cannot but imprints the future of the economy and entrepreneurship as the most important institution of the market economy.
3. The archetypal thoughts and genetic features. Establishment of the entrepreneurship in the post-Soviet period is limited by certain prevailing social and cultural values. According to the stereotypes of Soviet culture, an entrepreneur is a private owner who exploits hired labor for his own benefit. Thus, at the level of the archetypes there is formed a negative attitude towards entrepreneurship, the effects of which are felt in our time. In addition, it should be noted that for more than 70 years during the Soviet era, there was interrupted the genetic chain of entrepreneurs.

## **6. Problems of implementation of preventive crisis management in the Republic of Belarus**

The term “crisis management” appeared in Belarus relatively recently. Its appearance is caused, above all, by transition of the Republic to a market economic system, expansion of foreign relations and, as a consequence, certain dependence on the development of the neighboring countries. In Belarusian legislation this term is associated primarily with the activities of the crisis manager, conducive to the procedure of bankruptcy (reorganization or liquidation). However, the enterprise resorts to the services of such a specialist in lost situations, while the current crisis management system is carried out by managers of the enterprise. With regard to the implementation of preventive measures, it is associated with a number of problems related to limitations of environmental factors changes, among which are the following:

- Exchange rate risks. The activity of economic entities in the Republic of Belarus is strongly reflected by foreign currency rates, so their large fluctuations in the country have a negative impact on the enterprises functioning. Recently, however, government takes steps to minimize the use of foreign currency in the internal calculations.
- Dependence of the efficiency of Belarusian companies on foreign counterparts. Most of Belarusian companies are involved in international economic relations. Since major partner of Belarus is Russian Federation (it accounts for about half of the foreign trade turnover of the Republic of Belarus), the negative trends in the Russian economy also has a negative impact on domestic subjects.
- Abrupt changes in national legislation, which at micro level is rather difficult to predict, may adversely affect the activity of entrepreneurs in almost all regions of the country.
- The main challenge for preventive crisis management is the lack of a clear group of workers whose functions include monitoring, controlling and planning in the organization. Usually the enterprise has departments of accounting, planning and forecasting. However, they do not always work together. In fact, preventive crisis management is carried out by each manager, but in fact none of them is responsible for the analysis of all the data on the internal and external factors and prediction of the future development, so the crisis is found at the stage of obvious manifestations of its negative consequences.

Thus, preventive crisis management is accompanied by a number of problems related to the external and internal environment of the company, so the Belarusian companies often resort to reactive crisis management.

In order to help small enterprises there can be implemented external support both at the state level and at the level of social and business associations.

At the level of social and business associations it is possible to finance small businesses through non-bank financial institutions. These include venture capital funds, finance companies, consumer associations, financial mutual society.

## **Conclusion**

Financial crises act as a system of negative exogenous factors of economic entities development and are the momentum of progressive institutional changes. At the macro level it is required the development of crisis management, however, not by direct intervention of the state, but through the development of anti-crisis program. The essence of crisis management should be reoriented from the institution of bankruptcy and liquidation of enterprises to their reorganization and restructuring.

Crisis processes at the micro level of the economy result from the interaction of internal and external factors that can have evolutionary (cyclic) and situation-

al (conjuncture) character. The financial crisis of the enterprise is a form of financial disequilibrium, reflecting under variety of circumstances the contradictions between the actual state of the enterprise financial capacity and financial requirements, bearing the most dangerous potential threats to its functioning.

In recent years, there is a trend of increase in the number of small businesses in Belarus. However, for their successful functioning in a changing environment it is necessary to introduce a continuous preventive crisis management system. Small businesses often do not have sufficient financial resources to overcome the manifestations of the crisis, but have insufficient flexibility to neutralize them or avoid them.

Thus, it is necessary to have a science-based and articulated crisis strategy, based on:

- Qualitative improvement and insurance of integrated formation of effective mechanisms of small enterprises restructuring and bankruptcy prevention;
- Transition from carrying out urgent measures to development of effective tools to prevent or smooth the sharp manifestation of the financial crisis (development of methods of program-oriented and strategic planning, assessment of socio-economic efficiency of operational crisis management various measures);
- The balance of small business state support and the enterprises responsibility for management systems quality, including those intended to prevent crises;
- The development of intellectual potential of crisis management at macro, meso and micro levels, in conjunction with public-private partnership in the field of corporate social responsibility.

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### **Prewencyjne zarządzanie kryzysowe w małych przedsiębiorstwach**

**Synopsis:** Większość krajowych gospodarek świata, uczestniczących w międzynarodowych stosunkach gospodarczych, w chwili obecnej doświadcza kryzysu. Z tego powodu przedsiębiorcy w tych krajach, w tym w Republice Białorusi, są zmuszani do pracy w stale zmieniającym się środowisku. W tej sytuacji istnieje potrzeba realizacji zapobiegawczego systemu zarządzania kryzysowego w organizacji, którego głównym celem jest przewidywanie sytuacji kryzysowej i jej zapobiegania.

**Słowa kluczowe:** prewencyjne zarządzanie, zarządzanie kryzysowe, małe przedsiębiorstwo.