



*Original Contribution*

## CONTEMPORARY PROBLEMS RELATED TO CRISIS MANAGEMENT OF ORGANIZATIONS

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### ABSTRACT

The paper discusses important issues related to crisis management of organizations. Organizations' rebalancing and maintenance of upward growth face a number of challenges such as: continuous monitoring of the environment and vulnerability analysis of organizations to crisis, stimulation of innovation and expansion of the possibilities in terms of scarce resources, shortening the time for response and maximum use of the internal potential for development, etc. Crisis management assists the organization in solving the most important tasks related to its successful operation under crisis conditions - determination of first alerts, analysis of the areas that deserve a stronger focus. Change stimulation, balance in the organization and continuous learning within the organization are of great importance as far as crisis management is concerned.

**Key words:** crisis, crisis management, organization, change management

### INTRODUCTION

Crisis management is complex and requires the integration of activities within the individual functional subsystems of organizations, which opens up more opportunities for the timely identification of the symptoms and working towards successfully overcoming them. Organizations nowadays face huge challenges related to handling crisis processes, considering the persistent trends over the past years towards an increase in the number and the duration of crises. Furthermore, globalization facilitates the spread of crisis processes at faster rates affecting entire industries, countries and regions.

### ESSENCE AND CHARACTERISTICS OF CRISIS MANAGEMENT AND CRISIS

In recent years, issues related to crisis management, have become increasingly relevant and important for the survival and progressive development of organizations. There are various definitions of the concept in specialized literature. Some researchers connect crisis management only with the action taken during times of crisis. [1]

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According to I. A. Blank crisis management is a system of principles and methods applied for the development and implementation of a set of specific managerial decisions aiming to raise the awareness about the occurrence of organizational crises and their management while minimizing their adverse consequences [2]. Therefore crisis management encompasses a number of actions targeted at predicting the risk of crisis, the analysis of its symptoms, and taking measures to reduce its possible adverse implications and to utilize all possible opportunities with regard to the organization's further development.

The analysis of the business operations of the contemporary organizations provides for drawing the conclusion that many of them make mistakes in the area of crisis management. Among these mistakes are the following:

- Underestimating risks related to the symptoms of an imminent crisis.
- The decision-making process is slowed down, despite the unfolding crisis processes.
- Underestimating the damage inflicted by the crisis on the various groups of stakeholders and as a result on the organization's reputation.

- Insufficient analysis of the key business processes in the organization affected by the crisis.
- The organization underestimates the lessons from the acquired negative experience based on crisis-related decisions.
- There is lack of reserve resources which can facilitate the process of tackling the crisis, among other problems.

Therefore, the mistakes made in crisis management result in grave problems that jeopardize the existence of the organization: difficulties related to overcoming the crisis processes, development of full-scale crisis, decline in sales and labour productivity, tarnished company reputation, among other problems.

Organizations undergo continual changes related to both internal and external environment. This calls for changes in the management methods. This is a reason why crisis management also undergoes changes and makes it possible for organizations to adapt adequately to the new conditions.

The following stages in the evolution of understanding crisis management can be outlined [3]:

- *First stage*: emergence of an unexpected crisis situation. The manager's organizational skills and his stress resistance are of key importance in this situation. Practice shows, however, that the aim of crisis management cannot be limited only to the survival of the organization.
- *Second stage*: crisis management entails coordinating activities aiming at preventing crisis, cushioning the severity of the crisis and eliminating its negative consequences.
- *Third stage*: the prevalent argument is that the efficiency of crisis management depends primarily on identifying the crisis on time and the prompt response of the organization. Therefore, crisis management has to identify the crisis, plan the anti-crisis actions and conduct anti-crisis measures.
- *Fourth stage*: enhancing crisis management at the expense of forecasting and preemptive functions, development of crisis strategies, which include eliminating the negative socio-economic consequences of the crisis.

A crisis marks a turning point in the performance of an organization based on internal and external factors. There is need for urgent changes in the management model and the decision-making practices. The crisis is: "a low-probability, high-impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effect, and means of resolution, as well as by a belief that decisions must be made swiftly" [4]. According to Hermann, a given situation can be considered a crisis when it is seen as unexpected by the people affected, poses a threat to them and has to be overcome in due time [5].

Different characteristics of crises can be outlined:

- A crisis presents both a threat to the performance of the organization and an opportunity for its further development. (Treating a crisis solely as a threat is a narrow-minded and simplistic approach.)
- Ambivalence of the outcome: survival or end of the organization. According to Krystek, a crisis is an unplanned, unwanted process of a limited duration and the possibility to have impact with ambivalent outcome [6].
- In general, crises are difficult to forecast and present high risk.
- A key factor to the successful handling of crisis phenomena and processes is the effective management of the relationships of the organization with its stakeholders.
- Crises quickly spread out of the unit where they originate.
- Crises generate surprises for the organization since time is limited and there is deficit of other resources.
- A crisis quickly limits the possibilities to take actions etc.

The causes of a crisis can be both objective and subjective: the economic situation and the market conditions, inefficient investment decisions, employers' actions, inadequate managerial decisions etc.

Therefore the factors (reasons) for the crisis are endogenous and exogenous with regard to the business organizations.

The development of a crisis as a process undergoes several stages [7]:

- *Potential crisis*: the performance of the organization is endangered by the occurrence of a threat that requires adequate managerial actions; the genesis of a crisis process in the organization – the crisis is not actual, but just possible

(the quasi-normal state of the organization: no reliable symptoms of the crisis are evident); there is still time before a crisis in the organization occurs.

- *Covert (latent crisis)*: in case no adequate actions are undertaken during the potential crisis; temporary difficulties in the attempts to achieve the organizational goals and resource allocation; the early warning system and the potential of the organization are not fully utilized to overcome the crisis; efforts should be aimed at the early identification of the latent crisis.
- *Overt (evident crisis)*: if measures taken to overcome the covert crisis prove inefficient; explicitly evident threat to the efficient performance of the organization, which could be:
  - *controllable* (acute controllable crisis): the actual adverse impact of the crisis starts; the intensity of the real destructive factors intensifies; lack of time, which requires immediate and urgent managerial decisions; the organization's potential should be pulled together in order to overcome the crisis; the organization is still in a position to overcome the crisis successfully;
  - *uncontrollable* (acute uncontrollable crisis): final stage of the crisis process; the organization's potential needed to overcome the crisis is insufficient; the crisis should be resolved.

## BUILDING CRISIS-MANAGEMENT TEAMS

Depending on the size of the organization, the organizational and management structure, the form of ownership, the specificity of the industry, the organization environment and other factors, the individual organizations have different structures in terms of the departments engaged in crisis management.

The crisis management departments carry out the following key tasks [8]:

- Facilitating the active inclusion of all partners and managers of the organization in the crisis-management activities.
- Stimulating employees' qualification to solve problems resulting from the crisis, which might involve their willingness to sacrifice their own interests.
- Providing additional resources needed to determine the weaknesses of the organization and resolve them.
- Supporting the drafting of documents, procedures and other materials necessary

for the effective communication with the mass media and the stakeholders during the crisis.

- Attracting consultants and organizing training and qualification courses for managers and specialists to act adequately in times of crisis.

Generally, the crisis management team performs operational and coordinating functions: establishing relations between the departments in the organization; drafting and updating the anti-crisis plans; conducting and supervising the crisis-management decisions; conducting anti-crisis training, among other tasks. The team comprises from 3 to 5 people and the team leader is member of the crisis-management commission. Team members can be: directors of departments (production, finance, marketing etc), director of public relations department and other people holding other positions. The team's good performance largely depends on the qualities of its members: flexibility and adaptability to the changing environment; modern attitude to the possible consequences; organizational skills; communication skills necessary in the interaction with representatives of various groups of interested parties in the organization (associates, creditors, representatives of the mass media and others); good knowledge of the organizational and management structure of the organization and the levels of subordination.

*The crisis-management committee* includes representatives of the top management of the organization, as well as the leader of the crisis management team. In some organizations only one crisis management body is created. In this case a representative of the top management is included in the crisis-management team.

The committee approves the crisis plans, developed by the team, including the distribution of responsibilities within the crisis management tasks. Representatives of the team attend committee meetings and take part (sometimes only in their advisory capacity) in the activities of the committee. The committee issues a protocol outlining the decisions made. Effective crisis management requires that all members of the organization be included in its activities relevant to the different levels of responsibility. Usually there are three *levels of responsibility* outlined in the organizations (there can also be two levels). In the event of crisis the coordinating body (the crisis management team) defines its *level of importance*. The levels of responsibility are connected to the levels of importance of the

crisis situation and activities which are handled by the respective level to help the organization bottom out of the crisis. To this effect the crisis-related events are positioned in a pyramid. The events determined as slightly unfavourable for the organization are placed at the base of the pyramid. They present a low risk, can be quickly dealt with and thus they require few resources and incur low costs. The more complex problems, which are believed to present crisis situations, are positioned up the pyramid. Generally, they require coordination because they are related to several units in the organizational structure and/or their intervention is needed. The top of the pyramid includes crisis situations that belong to the third level and they concern the entire organization and present a high-degree risk for its regular performance.

The information about the crisis situation can be received from different sources: organization's associates, mass media, clients and other sources. In all three cases of crisis situations, anti-crisis plans are implemented in order to preserve the viability and sustainability of the organization. The steps of notification followed by the crisis-management team are specified in the anti-crisis plans. Each structural unit has an operational anti-crisis plan valid throughout the year and updated on regular basis (at least once a year) depending on the changed conditions or the occurrence of crisis situation. The operational anti-crisis plans are developed on the basis of the strategic anti-crisis plan of the organization which is active for a period of 3 to 5 years and is subject to annual 'sliding' update (at the end of the first year the plan is updated and the sixth year as of its initial start is included etc.). The strategic plan leads to attaining strategic goals within the framework of the anti-crisis planning: maintaining the reputation of the organization, enhancing its crisis sustainability, among other goals.

The crisis-management team should constantly conduct explanatory (awareness raising) activities and organize training courses for its employees so that all associates should be convinced in the need for crisis management and their commitment to the process. This is why the team members organize the anti-crisis training sessions during which the employees acquire knowledge and skills related to organizational crises and learn how to overcome them. Along with that, the managers and experts take part in defining the weaknesses of the organization. It should be pointed out that this analysis is to be carried

out at least once a year. It is advisable that pessimistic scenarios describing the unfolding of several probable crises that might hit the organization be developed. The results from the monitoring of the environment and the possible solutions to overcome the crisis situations are presented to the top managers. In such cases information about organizations that have experienced crisis and the methods they have implemented to manage them can be used.

### **ENHANCING THE ORGANIZATIONS' RESISTANCE TO CRISIS**

In times of financial and economic crisis the issue concerning the improved resistance of the organization to crises becomes even more topical. In this respect the desire to assess the future changes in the business environment relevant to efficient crisis decision-making come to the fore. In this way preemptive measures become one of the underlying strategic factors for success related to defining the latent (covert) opportunities and threats of the environment.

Strategic forecasting as an essential element of the strategic approach for organizational management allows for:

- Timely identification of crisis situations relevant to the organization's own business and that of its competitors;
- Utilizing to the full the opportunities presented by the markets in which the organization operates or intends to enter;
- Timely introduction of new technical norms and standards;
- Timely assessment of sociopolitical changes critical to the organization, such as the legal and regulatory framework, changes in consumer needs and other factors;
- Creating additional opportunities for the efficient operation of the organization.

These advantages of strategic forecasting make operational intelligence and its results seem less important within the system of the organization's strategic management. The key difference between the two types of forecasting is related to the set of indices, the changes (dynamics) of which is subject to examination. As a rule, operational forecasting addresses liquidity indicators and the evaluation of the results from the performance of the organization, while the strategic intelligence places the focus on the strategic potential for success (a portfolio of activities, technological innovation etc.) The essential difference between the two types of forecasting is based

on the type of collected information. With operational forecasting the information used is mainly well-structured, mostly in terms of quantity with limited opportunities for interpretation, whereas in strategic forecasting, badly structured information prevails and it is to a very great extent contradictory, thus broadening the range of its interpretation. Considering that, diverse skills are needed in the two types of forecasting. Operational forecasting requires analytical skills, expert evaluation of the development regularities and evidence analysis. Strategic forecasting focuses on persuasiveness, though contradictory conclusions are quite likely because of the extensive use of discretionary evaluation. Operational forecasting aims to determine the possible deviations in the forecasting indicators relevant to the expected dynamics of their change, while in strategic forecasting the assessments arrived at are in most cases in an inappropriate form, these are the so called weak signals. [9]

Considering the specifics of the two types of forecasting, what becomes relevant is the need to combine them effectively in order to collate the results and facilitate the answer to the following [10]:

- What is the strength of the impact that certain “weak signals” of strategic forecasting have on the results from the operational forecasting?
- Is it possible that the established regularities are better interpreted through operational forecasting with regard to the knowledge about the respective phenomena acquired in the process of strategic forecasting?
- Where the line should be drawn to determine certain changes in the environment as “weak signals” or as indicators of operational forecasting?
- Could strategic and operational forecasting be treated as equivalent and complementary methods and as informational foundation for the strategic management of the organization?

Igor Ansoff was the first to use the notion "weak signals" in scientific discussions [11]. He believed that in general there is no phenomenon that can occur unexpectedly, though it can cause overall great surprise. Each phenomenon is characterized with its own development accompanied by symptoms of possible manifestation. Ansoff defines these accompanying symptoms as “weak signals”. Their timely assessment considerably increases the chances for the organization to maneuver,

which tend to decrease considerably with time and the accumulation of the respective signals. The cyclical nature of the development of the organization is always accompanied by crisis situations. It is therefore hard to imagine that modern organizations can enjoy success in their development without the continual monitoring of the environment and the crisis diagnosis in the process of the strategic decision-making. The crisis as an element of the cyclical development of the organization and rendering it as a deviation from the equilibrium is inevitable.

## CONCLUSIONS

The following conclusions can be drawn:

First, continual monitoring of the internal and external environment implemented as a means to analyze the crisis vulnerability of the organization would minimize the adverse consequences of the crises.

Second, it is imperative that anti-crisis plans be prepared in order to minimize, and possibly avoid risks related to the occurrence and development of crises.

Third, a crisis-management team, trained to deal with crises, should be set up.

Fourth, top management should be prepared to tackle a possible crisis and see such a crisis as a phenomenon that may possibly jeopardize the achievement of the organization's goals and that requires immediate response.

Fifth, training the employees to act in times of crises is mandatory.

Sixth, a modern information system should be developed to facilitate the process of making efficient crisis decisions etc.

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