

Crisis Management



**SLEZSKÁ
UNIVERZITA**

**OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ**

Ing. Šárka Zapletalová, Ph.D.

Katedra Podnikové ekonomiky a managementu

KRIZOVÝ MANAGEMENT

Crisis Management



- Crisis management can be defined as one of the disciplines of business management. It is designed to manage an extraordinary negative (crisis) situation of a business entity.
- Crisis management can definitely not be considered a set of mechanical measures - individual procedures and activities. We should see its essence especially in the system of thoughtful, interconnected processes and gradual steps, the aim of which is both to recognize the complex nature of the company's crisis situation and to find a way to successfully solve it.

In a broader sense, the task of crisis management is:

- recognize in time the possibility of non-standard negative situation of the company and reveal its possible causes (crisis potential of the company);
- set preventive processes, preventing the crisis;
- effectively resolve the crisis;
- eliminate the consequences of the past crisis situation of the company.

In the narrower sense, crisis management can be considered a set of measures aimed at resolving the company's crisis and reducing the amount of damage that may arise as a result.

Crisis Management



Crisis management activities take place in specific conditions. These are very often the result of a crisis situation, in some cases they may even be among its causes:

- time pressure;
- surprise;
- lack of information that may be inaccurate or incorrect (false);
- non-standard management procedures;
- lack of suitable people;
- inappropriate and insufficient composition of capital resources.

The work of members of crisis management is hampered by the small possibility of predicting future developments, the speed of adverse influences and especially their negative impact on the functioning of the organization.

The company's managers are confronted not only with reduced work ethic, tension and expressions of resistance among employees, but also face critical attention from business partners, creditors, the media and the public in general.

Crisis Management



Based on the experience of a number of business entities that have more or less successfully dealt with crisis situations in their history, we can formulate factors for the success of crisis management. We can include in them mainly:

- rapid formulation of the objectives of the crisis procedure as a starting point for a crisis strategy;
- stopping all investments to clarify the situation;
- concentrating forces on key tasks;
- performance-based and crisis-oriented remuneration;
- internal and external communication as a basis for trust and information.

Crisis management should ensure the consistency of remediation goals with the company's strategy. A key success factor is the timely "switching" of the strategy to a crisis scenario.

Crisis Management



Crisis management-initiated activities that can get the company back on its feet:

- redefinition of the business plan;
- revision of the marketing plan;
- customer strain analysis;
- more precise determination of the market segment;
- price policy adjustment;
- selection of specific marketing tools to address customers more effectively;
- introduction of an effective debt collection system; reduction of workers;
- earmarking of secondary (service) processes; sale of company property;
- drastic cost savings;
- acquisition of a strategic partner and effective use of its capital support;
- slimming of organizational structure, etc.

Ten Principles of Crisis Management



**SLEZSKÁ
UNIVERZITA**
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

- The crisis is part of our lives and will be even more common in a world of increasingly complicated relationships.
- It is necessary to constantly prepare for crises and their management.
- Perception of weak signals from the environment allows early identification of changes that could escalate into a crisis.
- The crisis must be responded to immediately, because time is becoming the biggest enemy.
- Covering up the crisis from the environment is just a waste of time and energy, because it will come to light anyway.
- No one is alone in the crisis, so it is necessary to communicate about it and look for allies to solve it.
- All reserves must be used to resolve the crisis; it is only in crisis that it is discovered that there are many of them.
- The crisis is an opportunity for new and higher goals, and only stereotypes and rigidity prevent the formulation of new goals and their achievement.
- The crisis must be resolved vigorously, but always with prudence.
- They are not hopeless situations, but only people without hope, faith and goals.

Planning

The company's crisis management is based on two pillars, each of which has its own specific goals:

- The company's contingency plan, the main goals of which include reducing tensions during a crisis situation, demonstrating organizational commitments and expertise, and effectively managing the company's resources. It answers the questions “What are we going to do? How are we going to proceed?”
- Crisis communication plan, the main goal of which is to manage the flow of information towards interest groups inside the company (unions, employees, shareholders / partners, other levels of management) and outside the company (suppliers, customers, banking institutions, the public, etc.) and ensure their accuracy. It answers the questions "When, how, whom and what will we inform about?"

Organizing

- The implementation of changes, the result of which is to eliminate the crisis situation of the company, usually requires interventions in the organizational structure of the company. In some cases, these may be partial changes (merging of two departments, outsourcing of a certain operation, etc.), in other cases there may be a comprehensive restructuring of the entire company. Classic hierarchical arrangements, such as line structure or line-staff structure, bring a system (order, organization) into the operation of the company - they provide clear links of superiority and subordination, clearly demonstrate the responsibility of managerial positions and also record discipline and bureaucracy. On the other hand, they do not provide space for the initiative and creativity of employees, flexibility and adaptability of the company as a whole to the necessary changes.

Crisis Management



Organizing

At the moment of solving the crisis situation of the company, when it is necessary to implement a number of changes, it can be temporarily applied as a flexible organizational format "chaos management". The order in it derives from the seemingly chaotic but purposeful, highly productive and initiating cooperation of people.

According to Tóth (2011), **chaos management** is based on several premises:

- sets clear, promising and challenging goals, which it consistently projects into the operation of the company;
- implements value-creating processes (avoids unnecessary, meaningless and harmful activities);
- requires the performance of activities in the best possible way - rationally, economically, with maximum productivity of people;
- works with maximum use of "self-governing", "self-organizing" and "learning" mechanisms;
- creates conditions and space for high commitment of individuals and groups of employees, for their identification with the company, group and with work, for work sharing, creativity and responsibility;
- resolves conflicts and contradictions fundamentally and immediately.

Leadership

- A crisis atmosphere usually causes a reduction in work performance. Employee loyalty weakens, their own interests take precedence over organizational ones, and the "struggle" to stay in employment (and secure income in the family budget) suppresses moral values. At this time, employees turn to their managers to ask what will happen next.
- Communication with employees will only be credible if employees are acquainted with the exact steps of the recovery process and if they are presented with a vision at meetings that they are willing to identify with and believe in.
- In times of crisis, more than ever, creative versions of "leadership" should be used in connection with the management of subordinates, the basic building blocks of which are integrity (clear values and goals) and consistency (cohesion of managers and subordinates).

Crisis Management



- Despite this generalized finding, crisis managers and subsequently other subordinate managers in a crisis situation very often prefer centralized management and a directive management style. They are convinced that in conditions in which the speed and accuracy of the performance of the task by subordinates is important, it is not possible to succeed with a different approach to management.
- Managers should encourage their subordinates to think constructively and proactively about what they can do for the business. Crisis management should, of course, be an example in everything. Managers have the greatest responsibility and should therefore bear the greatest sacrifices as well.
- However, even in times of crisis, a company should not forget that in the long run, it can only be successful if it builds a key personnel base and is able to attract talented employees. The goal of key employee programs is to identify and retain the most important and difficult-to-replace employees. Talent management programs should focus on developing and retaining those new employees who have the greatest potential and can represent future management capital for the company.

Crisis Management



Control

Control is a management function aimed at comparing the plan with the new reality. Thanks to it, managers find out whether the achieved results correspond to the planned results.

Functional crisis management of a company therefore presupposes:

- expression of the actual initial state;
- determining the target value to be reached;
- determination of the method for measuring and evaluating the deviation.

Operational controlling tools are used in crisis planning and control. Operational controlling is a measurement system that can even warn managers in time about the negative development of reality. In contrast, the control is solely a retrospective consideration, as it is carried out only after the objectives set by the plan have been achieved.

Crisis Management



Controlling fulfills its purpose when it can rely on:

- goals and plans (sales plan, cost calculation, short-term profit calculation, process cost calculation, financial plan, personnel plan, etc.);
- statements, or also reporting (submission of reports on the current status in various levels of detail according to current needs and depending on the recipient of the resulting information);
- analysis of deviations and their causes (for example using Ishikawa diagram, Pareto principle, etc.);
- measures against deviations (description of measures, expression of expected result, quantification of additional costs, determination of the deadline for rectification of the situation, etc.).

Decision making

- By decision-making, we name the act of choosing one of several possible variants (alternatives). The criterion for choosing a variant is usually to maximize future benefits.
- However, evaluating the usefulness of the manager's decision is not an easy task: Contexts (contexts) are a complication in assessing utility. We can evaluate the result of the decision positively in certain contexts, but negatively in another context.
- The assessment of utility may also differ over time. What seems to be beneficial in the short term may be a mistake in the long term (or vice versa). It should be noted here that achieving the long-term effect should always take precedence over the short-term effect.

Crisis Management



- The manager's thoughts on the future benefits of the outcome of his decision are a sign of rational decision-making, ie. conscious process, thanks to which we draw logical conclusions from all known information, knowledge of the context or rules. Rational decision-making is very often considered to be the only correct decision-making, as the manager is able to explain his decision with the help of specific arguments. It gives the impression that he has the situation completely under control.
- However, even in managers, emotional decisions should not be completely suppressed. We do this quite often, but we can't explain exactly why. Something simply tells us that this variant of solving a decision-making situation could be the right one - we let ourselves be influenced by intuition and past experiences. We cannot justify the result of our emotional decision well enough. Convincing someone else of the correctness of our decision is not an easy task.

Crisis Manager



- The crisis manager should be a strong personality who can negotiate, sensitively enforce change and find resources within the company for greater process efficiency.
- His character traits should definitely include diligence, concentration and consistency. All its decisions and actions must be in the context of the company's long-term strategy and support future long-term prosperity.
- The crisis manager proceeds systematically, systematically considers possible solutions and is determined to face all sudden obstacles. His actions must be thoughtful and, given the time constraints, radical.
- The crisis manager is responsible for meeting the set goals.

Crisis Manager

Quality fulfillment of the managerial role presupposes equipping the manager's personality (hence also the crisis manager) with a certain potential - knowledge, skills, experience, abilities and qualities.

- The basic knowledge of a crisis manager includes, in addition to knowledge from the field of management, mainly partial field knowledge, especially law, accounting, tax agenda, finance and given material issues according to the focus of the company's operation.
- Skills are considered to be the practical habits of the manager, ie the knowledge used in managerial activities. An acute crisis is an extraordinary situation, so the crisis manager must choose methods and procedures that are adequate for this situation.
- The crisis manager is probably most appreciated by the knowledge and skills of methods or techniques, especially in the following areas of management: strategic management; change management; project management; process management; time management; measuring and increasing business performance; conflict resolution, etc.



Crisis Manager



The skills of a manager represent an innate potential, thanks to which the manager is somehow naturally prepared to perform his activity. The skills of a crisis manager should undoubtedly include:

- intellectual (intellectual) abilities - analytical thinking, creativity, quick decision-making, systematic approach, focus on results, acumen, etc .;
- mental and intellectual disposition - resistance to stress, emotional balance, acting with a positive target content, self-control, assertive behavior, the ability to withstand pressures and influences (thus successfully resolving conflicts in the workplace, making very unpleasant decisions and unpopular measures).

The manager's characteristics are the source of a relatively stable way of behaving. For example, the correctness of the crisis manager's actions determines his success, credibility and efficiency. Serious, honest and ethical conduct in all circumstances can help to gain prestige and authority. A sensitive approach to employees is definitely not a manager's weakness.

Crisis Manager



In connection with the crisis, stress arises as a manager's reaction to the possibility of losing not only the managerial position in the company, but employment in general, which can lead to social insecurity. The crisis also brings with it the disruption of stereotypes, as its solution requires a change in the manager's behavior.

- In this context, we are talking about **situational stress**, which is not a specific feature of crisis managers, as it affects every employee of the company.
- **Anticipatory stress** can also be reflected in the behavior of crisis managers. This is usually caused by a feeling of anxiety about probable problems that may occur in connection with the business crisis, which the manager will consider a test of his skills and knowledge.
- Crisis management also includes **time stress**, which manifests itself similarly to situational stress on the work of both the crisis manager and his subordinates.

Interim Manager



- Interim managers are mainly successful managers with long-term experience in managing organizations.
- They are hired or hired for a short time by management or business owners to help them get out of the crisis, or solve a given project. They complete short-term missions at various companies, in cases of crisis management full of adrenaline.
- For a company in a critical situation that cannot predict its future development, it should be more advantageous to seek the services of an interim manager who will essentially provide a regular supply service than to find a suitable employee who represents a long-term commitment to the company.
- In addition, the interim manager is a cheaper solution than working with a consulting company, which, thanks to its overhead costs, will provide services at a significantly higher price.

Interim Manager - Crisis Manager



- The interim manager has no personal relationship with the company's employees. The interim manager's decision-making about the company's employees (their transfer to another job, retraining, dismissal, etc.) is not complicated by emotions.
- It does not suffer from operational blindness, and therefore can better identify and name the weaknesses of the company. He is able to find creative solutions, in the promotion of which he can use his experience in solving similar problems that he encountered in other organizations.
- In many cases, one of the main causes of the existential problems of companies is a poor management system. A person who is an unknown ("foreign") personality to the company's staff has a better bargaining position in enforcing changes to the established rules. He often has more authority and quickly gains the respect of existing managers.
- The company does not have to deal with how to deal with the manager when the task is completed. The interim manager leaves the company or may become an occasional external consultant. An employee of a company who, in addition, has proven himself in a privileged managerial position, usually also holds one of the managerial positions at the top management level.

Crisis Team



- One of the conditions for the success of resolving the crisis situation of the company is the establishment of a crisis team (crisis staff). The crisis manager creates it himself. When filling a crisis team, it is usually based on job positions and expertise, which it considers to be key to resolving a crisis situation. Due to the large time pressure in which the crisis manager works, he often does not have the opportunity to think about the sympathies or antipathies of his or her team members when building a crisis team, he may not always have the opportunity to build a team of his proven co-workers whom he trusts and has positive informal relationships.
- It is important that the crisis team works effectively. A demanding team working in a tense and stressful climate of threat cannot be a disorganized group of managers and professionals with individual abilities and skills, but a group of people in which each individual's behavior fits into and adds value.

Crisis Team



Important elements for connecting the members of the crisis team are in particular:

- the common goal to be achieved, trust and loyalty to it;
- respecting the personality of the crisis manager and complying with his regulations;
- discipline of team members;
- willingness to work hard;
- 100% fulfillment of assigned work tasks in very short time intervals;
- mutual tolerance of team members and ability to communicate.