Crisis Management and Planning in given Company

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Abstract: - The article deals with the issue of crisis management in a given organization and it is focused on the creation of crisis scenarios and plans. Crisis scenarios and plans are the way how to prevent, prepare and resolve a potential crisis before it occurs. The first part of the article deals with theoretical background and literature research focused on crisis and crisis management. The second part of this article focuses on a specific company, its description, problems, threats, and weaknesses. The rest of the article comes with a reaction and solution for all mentioned threats that were determined and consulted by the company management. Created process of crisis management can be used also by other companies that have the same work plan. This article aims to emphasize the importance of crisis management to propose solutions to crises in the selected organization.

Key-Words: - Crisis, Crisis Management, Crisis Scenario, Crisis Plan, Management, Company Management.

Received: October 21, 2021. Revised: August 1, 2022. Accepted: August 23, 2022. Published: September 8, 2022.

1 Introduction

Crisis management is an essential function in many organizations. Each of them will overcome the crisis at some point in its existence. Today, it is very important for society to achieve its goals, which include economic efficiency, financial stability, sustainable development, and its overall value. However, each company has a different level of risk perception, techniques, and approaches to managing a given situation. It is important to be prepared for a crisis and be able to respond in time. A well-timed and thorough solution can have a positive benefit for the company.

Business results, stakeholders, the public image of the company, and failure to manage crisis can have catastrophic consequences and damage if an organization does not respond fundamentally to a given problem. The tool for solving crises is called crisis management, from the phase of crisis recognition to its solution.

Crisis management is an asset for society in times before and after a crisis. It is a set of principles and resources that the company's management uses to prevent crises. It can be also used for the preparation for a crisis to manage the company in times of crisis and eliminate the consequences.

1.1 Crisis in the Companies

A crisis in a company is a situation of various lengths of time when a company decides to either return to the time before the crisis or if its existence is threatened. A crisis can affect an individual, organization, political party, society, or even an entire country. The effects of the crisis can be expressed in different units like the number of killed, injured, damage, percentage of the population affected, etc. The crisis can be perceived differently, based on the situation. If a crisis occurs, a company reaches a turning point where it either comes up with a new production program and launches a new product, or the turning point will be a disaster for the organization. The crisis can be caused artificially, which means that it can be part of strategy tactics, serve as a tool for solving internal companies or it can be in a competitive environment. [1] The common features of the crisis in the company are the following:

- it is destructive and it prevents the normal operation of the organization,
- it is negative and can slow down activities leading to the fulfillment of the organization's goals,
- it divides the organization and it can create misconceptions due to the spread of misinformation,

- the crisis is surprising even though the organization's management takes into account the risks, which can be surprising. [2]

The company's management must respond to the crisis in time to prevent catastrophic consequences. The organization often notices the problem until it deteriorates in the income statement. Attention must be paid to crisis management, which is often part of the company's management and control mechanisms. [3]

1.2 Causes of the Crisis in the Companies

External causes are associated with the business environment, which is chaotic, unpredictable, and turbulent. Changes are rapid, and signals of these changes can be weak, and unpredictable, and organizations often fail to respond. These changes, together with an inadequate response from corporate management, can escalate into a corporate crisis. Moreover, the loss of market position can take the crisis into the acute phase of the crisis. [4]

Internal causes can form from a new solution or internal problems of the individual subsystem of the company. The problems are transferred to the relationships of the company and its surroundings. Moreover, reducing competitiveness and the consequences are similar to those of external causes like product quality, organizational problems, or high costs. [5] The most common causes of the crisis, combined with other aspects, include:

- failure of the human factor,
- failure of an organizational, technical, or technological factor,
- ignorance and non-use of strategic management and methods,
- insufficient own financial resources, loans, and associated high-interest rates,
- the inability of management combined with optimism and exaggerated self-confidence,
- completely avoiding risk or accepting high risk because management is unable to identify high risk,
- Inappropriate payment morale and the associated board. [6]

2 Crisis Management

The tool used for resolving crises is called crisis management. The process involves the phase of crisis recognition, crisis management, and the elimination of the consequences which has been caused. Crisis management is a set of principles and it means that owners and business managers use it to manage the crisis in the company and bring it back to normal development. There are three different approaches to crisis management. These approaches are recognized in the areas of socio-political, economic crisis, and crisis due to accidents and natural disasters. Crisis management is applied in two cases. The first one is a normal state and the second can be used in crises. Normally, it is part of the company's management in the area of prevention and detection of crises, and it serves as a given management procedure to manage a crisis. [7]

The crisis management process is listed in Figure 1, and it is based on interconnected activities, which are the basic functions of crisis management. Moreover, it is a function of prevention, correction, anti-crisis intervention, reduction, and recovery. [8]

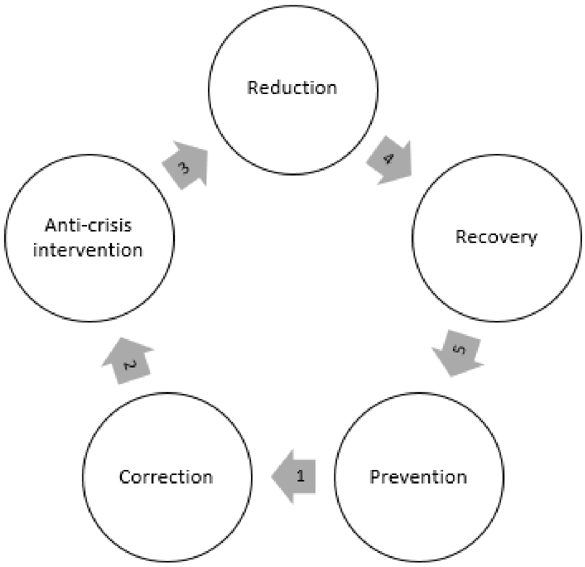

Fig. 1: Crisis management process

The prevention phase is based on the organization and preparation of the organization for activities that serve to prevent the escalation of threats to crises. [6] The correction phase is based on the adaption of standards like legal, economic, etc., which aim to create conditions for minimizing the sources of crises and ensure readiness to deal with crises. [4] The prevention and correction phase is carried out in the entire continuum of the crisis environment. Part of the anti-crisis intervention is proactive measures that lead to the prevention of a crisis. Subsequently, it also can lead to the stabilization of the situation and a gradual return to normalcy.

The reduction phase includes the active implementation of contingency plan measures to reduce damage and losses caused by a crisis. It is applied in times of crisis and the post-crisis period. [9]

The recovery phase involves eliminating the consequences of the destructive factors of the crisis. This phase is implemented in the period after the crisis and the goal of recovery is to return the system to a new normal state in which the organization can be functional.

2.1 Approaches to Crisis Management

Crisis management, in the widest meaning, is important as a preventive measure, which means that an ongoing process leads to reducing the crisis. A system for early identification of crisis developments and a system for reducing the impact of the crisis can be established. The goal is to quickly and successfully manage a crisis. In common meaning, the task of crisis management is:

- Recognize in time non-standard negative situations in the company and reveal their causes.
- Properly set up preventive processes that lead to crisis prevention.
- Successfully resolve the crisis that has arisen.
- Eliminate the consequences of a crisis. [10]

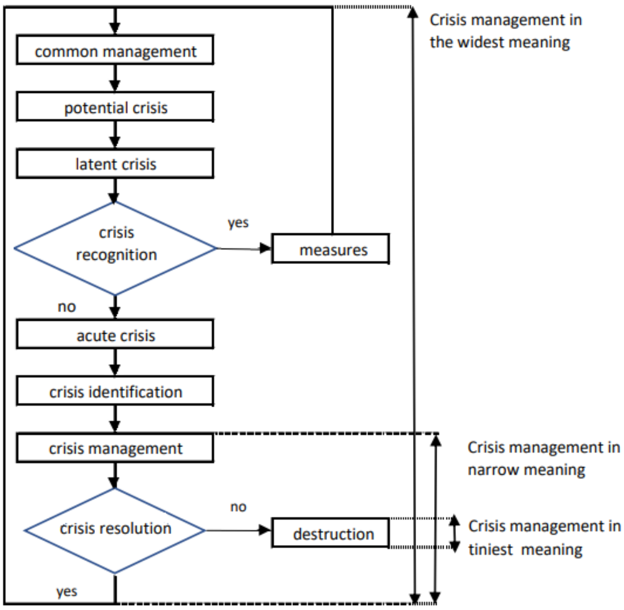

Fig. 2: Crisis management process

Previous Figure 2 shows the concept of crisis management. In a narrow meaning, crisis management is a system of principles and tools that are aimed at resolving an existing crisis in the company and mitigating the damage that may arise as a result of the crisis. The approach to crisis management is based on the situation when the company is affected by the crisis. It can be described as an acute phase and the symptoms of the crisis are manifested in the financial area. [7] The tiniest meaning, crisis management is focused on the phase of liquidation of the company, because it is in a state where its recovery and re-launch cannot be carried out. The signals of the coming crisis can be overlooked, which can lead to liquidation and demise.

2.2 Crisis Scenarios and Plans for Possible Crisis Situations

It is neither practical nor possible for crisis scenarios and plans to be developed for all risks. The most serious risks are based on risk analysis, which is fundamental for creating a crisis scenario and plan. The identification and assessment of risks can be part of the company's management process. The disadvantage of crisis scenarios describes the possible direction of a future crisis. This means that the situation may develop differently than described. [11] Crisis scenarios should answer the following questions:

- What crises does the company have to prepare for?
- What is the probability of their occurrence?
- What could be the consequences?
- What could be the course in terms of time?
- What are the options for implementing anti-crisis measures?
- What approach to crisis management will we take?

It is necessary to analyze the risks of the selected business entity to create a crisis plan. Risk analysis is part of the risk management process in the selected company with the identification and assessment of risks. The parts of the risk management process are creating crisis scenarios and plans. The process for creating crisis scenarios and a plan is following:

1. Risk identification.
2. Risk analysis.
3. Identification of crises.
4. Creating a crisis scenario.
5. Creating a crisis plan. [4]

3 Crisis Management in a Distribution Company

The company has been operating on the market for 30 years as a distributor in the field of information and communication technologies. The following

Table 1 shows the most serious and current risks for the company.

Table 1. Most Serious and Current Risks for the Company

Risk categorization	**Risk**	**Risk Level**
Market risk	Competition	Medium
	Damage to the company's reputation	Medium
Supplier risk	Loss of the distribution contract	High
	Loss of supply of goods	High
Financial risk	Inflation	Medium
	Exchange rate risk	Medium
Personnel risk	High sickness High fluctuation	High
Technical risk	Risk of power failure	Medium
	Data loss	Low
	Data leak	Medium

There are some shortcomings in the area of crisis management in the selected company. It does not have a certified management system following ISO 31000. It also does not follow crisis scenarios and it does not have contingency plans. The company's management emphasizes is on the creation of a crisis team, which consists of members of the company's top management. To prevent crises, meetings were introduced to monitor the area of turnover and profit against the plan, specifically the market situation, the area of customers, their turnover, and payment morale. In the event of a risk, the company's management meets operatively.

4 Results and Discussion

The loss of a distribution contract, failure to supply goods, and personnel crisis represents the greatest current risks for the company to achieve its goals, economic efficiency, sustainable growth, financial stability, and overall value of the company. To maintain the distribution contract, it is necessary to meet the set of conditions of the distribution contract. It is important for the maintenance of the contract that the company moves in the evaluation of the fulfillment of the supplier's conditions among other distributors at the highest possible level if the supplier decides to reduce the number of distributors. The company must evaluate business results, market shares, and marketing - planning new ones and evaluating past events at each regular meeting. It is a crisis if the company loses a supplier with an annual turnover of more than 0.5 million USD. Two options have been proposed if this crisis occurs.

1. Acquisition by a strong company that has a distribution contract.
2. Termination of distribution and offer of products of similar type from another supplier.

The 80 % of turnover is generated by selling products of the ten most important suppliers. Five of them supply similar types of goods based on the same basic components. A delivery failure of the goods on time can cause problems for the company's partners with the fulfillment of obligations to its customers. In some cases, the delivery of complete solutions may be conditioned by various sanctions.

The other possible risk for the company is the shortage of supplies from the supplier. The causes can be on the part of one supplier and also on the part of several suppliers, which is a latent, difficult-to-predict risk. There is a risk of customers leaving the competing distributor in the event of a delay in the goods delivery due to a shortage on the required date. The departure of customers can cause financial losses in turnover, and profit of the company, and will also affect other factors determining the value of the company such as damage to the reputation. Regular communication with the supplier and information on stocks is important to prevent this crisis. It is important to act quickly on the part of the company and to make quick decisions on the part of the company's business partners and customers because there are rapid changes in the availability of the goods offered. When this crisis occurred, the following solutions were proposed:

1. Purchase of goods from the 3rd party, which has the goods in stock.
2. Substitute offer.
3. In case of a worldwide outage of goods - inform customers.

The primary factor influencing employee satisfaction is a properly set wage policy for the company to prevent high employee turnover. A secondary factor is the benefits system, which contributes to employee satisfaction and motivation. A crisis occurs if employee turnover significantly exceeds disproportionate limits, which would threaten the operation of a section of the company. More specifically, this limit for the current company was evaluated to 10 % of all employees which is more than 30 people in total. The biggest problem can occur when the sales department of the company has a lack of working force. The mentioned sector is responsible for the main tasks like ordering goods, sales, and communication with the customers. Regular verification of employee satisfaction must be done to prevent the emergence of a personnel crisis, which can be caused by high morbidity or employee departure.

Previous Table 1 represents the common and current risks that can be applied to similar companies dealing with distribution in general. The designed process of risk management should be done periodically several times a year, because the environment outside and inside of the company is changing very rapidly, and the risk manager must be prepared and react to new threats quickly.

5 Conclusion

The article aimed to point out the issue of crisis management in a given company. Moreover, the presented process of crisis prevention can be also used for other companies dealing with the same intention. The first part described the issue of the crisis in the company, including the causes and sources of its origin. Subsequently, crisis management was described as a tool for solving crises, from the recognition of an impending crisis to the final elimination of consequences. The second part was focused on crisis scenarios and crisis plans, which are one way to prepare for a potential crisis. The current state of crisis management of the company was evaluated, and the results showed that the selected company has shortcomings in the area of crisis management.

This research can be used as a guideline for mentioned threats in a given company that is focused on distribution. Evaluated threats with the highest risk level are listed in Table 1. The most significant and destructive threat for a given company is the loss of the distribution contract with other companies which can lead to a fatal situation. The other less significant threats were loss of supply of goods and personnel risk in general. All listed threats listed in Table 1. come with several solutions which are described in detail. This research represents a current threat to society that can have an impact on the achievement of their goals, economic efficiency, financial stability, sustainable growth, and overall value.

Acknowledgment:
This work was supported by the Internal Grant Agency of Tomas Bata University under project No. IGA/FAI/2022/005.

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