



## **ADDITIONAL KNOWLEDGE NEEDED IN CRISIS MANAGEMENT**

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### **Abstract:**

*For the successful resolution of a crisis it is of key importance that the crisis is tackled by managers which along with a desirable knowledge of the company's activities are familiarized with the special characteristics of the crisis management and general creative (intuitive) approach. For their work crisis management will require strategic, as well as fully operational formal and empirical knowledge, possessing at least the minimum amount of knowledge from every business field, including basic knowledge of economic psychology. Additionally, some special knowledge and skills are demanded. In view of the complexity of the management of a company undergoing serious difficulties, crisis management is therefore denoted as a "composite" discipline, because a multi-disciplinary approach to problem solving is required in order to achieve the objectives of managing a company undergoing a crisis.*

*Keywords: crisis, crisis management, competences, style.*

## 1. INTRODUCTION

The growing intensity and dynamic of events and situations in the company (or other for profit or non-profit organizations), as well as its surroundings, – which was particularly “brought to our attention” by the global financial crisis that began in October 2008 – results in increased difficulty and complexity with ensuring sufficient competitiveness and thus continuing existence and development of the companies (organizations). Therefore the fact that different forms of crisis are becoming a constituent part of modern business is not at all surprising. However, the resolution of a crisis situation and its prevention thus demand company reorganization which can often be achieved only by radical modification methods. All of the above has a huge effect on the theory and practice behind modern management.

A company crisis can be defined as a short-term, undesired, unfavourable and critical state in the company (organization) which has derived from both internal and external causes and which directly endangers the further existence and growth of the company (Dubrovski, 2009; cf. also Barnett & Pratt, 2000; Barton, 1993; Fink, 1986; Heath, 1998; Kraus & Becker-Kolle, 2004; Lerbinger, 1997; Neubauer, 1999; Roux-Dufort, 2003; Slatter, 1987). From a company management point of view, that is the point of view of business decision makers, a crisis brings about a state of emergency which due to its acuteness requires prompt decision making which must be as proper as possible, since corrections are usually not possible. The pressure of timing and decision making is opposed to causes and the course of the crisis formation, which is usually a longer period. The management in the company consequently faces directly the following characteristics of the state of emergency, which requires a different approach to company management in comparison with “business as usual”:

- heavily limited available time for decision making,
- deciding under circumstances which have previously caused surprise or even shock, what increases the complexity of decision decisions,
- there is little or no space for wrong decisions, what increases the riskiness of decision making,
- the whole process is hastened,
- costs (price) of assets and time are increased – only limited and more expensive possibilities are available,
- particular decisions are multi-spherical and multi-directional,
- material and non-material assets which can be relied upon are limited,
- limited usefulness of previous information on operational status in present decision making,
- limited availability of adequate existing sources of information for decision-making,
- constant and unsuspecting reappearance of new signs and proportions of the crisis,
- the increase of internal and external conflicts, demanding immediate solutions,
- intensified internal and external supervision over decisions, when interests of different media are emphasized,
- possibility of obstruction by those who are responsible for the crisis,
- constant psychological pressure on decision-makers with few opportunities for relaxation and ease.

The result of the mentioned characteristics is that the functioning and behaviour of the company in the state of crisis differs from the one that is present during a period of planned growth, therefore, the techniques and methods used by management need to be different.

Crisis management comprises planning, organizing, leading and monitoring companies (organizations) experiencing difficulties that directly endanger their existence (crisis elimination) and further development (crisis acceleration) and its purpose is to stop negative trends by achieving a drastic change and providing the foundation for redevelopment.

Even if the company is operating under normal conditions, natural conflicts exist among expressed interests of stakeholders (e.g. employees and owners, secured creditors and ordinary creditors, owners and creditors) which under normal circumstances are well-balanced (in equilibrium), and the company realizes the interests of all the participants. In an acute crisis, the balance is disrupted since every participant takes all the measures necessary to protect his/her own interests that can only be achieved by interfering within the area of interest of another participant. Conflicts of interests thus are aggravated in an acute crisis, and so the different orientation of interests becomes more pronounced. According to their role and position in the company not all participants that share the same interests have the same power or influence. Since specific participants strive to achieve different advantages, their management of interests inside and outside the company also differs. The field of balancing divergent interests or “stakeholder management” must be a consistent part of crisis management when not only exceptional well-known general but also special competencies of management are needed.

## **2. PECULIARITIES OF MANAGING A COMPANY IN CRISIS**

Activities of managing a company in acute crisis, the basic task of which is to stop negative trends and to ensure foundations for new development (revitalization), are namely crisis management, which also characterizes the performers of these activities. As aforementioned, a company facing a possibility of a rapid winding-up requires a different approach to its managing in comparison with one permitted or possible under normal circumstances of operations. Due to timing and decision making pressure, limited available assets and tendencies towards short-term solutions of operational problems, the crisis manager must use adequate methods and techniques of company and employees management.

Crisis management follows two basic directions – objectives:

- stopping adverse trends and handling the crisis situation (survival);
- reaching turning-point (redirectioning) and insuring the foundations for new development.

Mastering the crisis situation by itself has no meaning, since the crisis situation is mastered only when the turning-point of adverse trends has been passed. Only by doing this the company can insure its survival and possibilities to develop.

Crisis management in literature has repeatedly been characterized as a reactive activity aimed at problems, which are already increasing, but this is a simplified and limited definition (Weick, 2006, p. 214). Regarding the situation in a company in acute crisis where the crisis manager must reach business decisions under constant threatening danger of company winding-up, the crisis management means solving problems of the highest level of demand. Mastering the acute crisis significantly varies in quality from preventing a latent crisis depending on difficulty of problems, timing pressure and radicalism while carrying out measures and also from common management tasks which are repetitive and consequently routine. Therefore, it is very important that crisis management is assigned to such managers who are, besides being experienced in the company’s branch, familiar with the peculiarities of crisis management, as there are not many possibilities, if any, to learn during a crisis situation.

Tasks and activities which have to be addressed by the crisis manager when being appointed to a position in a company in the acute crisis can be:

- gaining control over operations in the company (business processes and systems) as quickly as possible,
- centralization of the financial function,
- assessing the capabilities of the existing management and choosing the closest associates,
- centralization of decision-making and introduction of autocratic management,
- ensuring at least minimal liquidity (restoring appropriate cash flow),
- drafting the first action plan and guidelines for the improvement plan,
- composing a method of key staff motivation,
- setting up or modifying the informational system in accordance with the needs of decision-making,
- executing introductory interviews with the most significant creditors, business partners and representatives of employees and defining principles of future communications,
- thoroughly analyzing the company as a whole and particular functions and defining a diagnoses of the present situation,
- preparation of a proposal for appointment of the crisis team, compound both of inside and outside staff,
- preparation of a detailed action plan of short-term measures,
- preparation of a strategic crisis solving plan.

At appointment the crisis manager must acquire, as much as possible, the correct feeling i.e. the first impression regarding possibilities for crisis solving and also form a strategy for acting out simulated outcomes. A clear vision of exiting the crisis which is supported by calculations must spread from the top manager onto other crucial associates and as much as possible other employees, since, by this method, it will be possible to motivate which is important mostly at the beginning of the crisis solving (everyone moves in the right direction). If such a strategy (vision) is found to be not sufficient or well-thought out and its outcome is a failure, it can have a underscored, multiplicative adverse effect and result in despair, disappointment and submission to destiny, whereby the mostly needed “action charge” remains lacking.

### **3. GENERAL AND SPECIAL KNOWLEDGE OF CRISIS MANAGEMENT NEEDED**

For the successful resolution of a crisis it is of key importance that the crisis is tackled by managers which along with a desirable knowledge of the company’s activities are familiarized with the special characteristics of the crisis management and general creative (intuitive) approach, because there are few opportunities to learn during a crisis, if any. For their work crisis management will require strategic, as well as fully operational formal and empirical knowledge, possessing at least the minimum amount of knowledge from every business field (e.g. financial, accounting, human resources, information, production, commercial, marketing, legal function, etc.). For the crisis management project to be successful, key competencies possessed by the expert are required.

All the listed competencies should also apply to crisis management; however, some special knowledge and skills are more important. The special competencies that should be possessed by a perfect crisis manager along with general professional, methodological, social, personal and executive knowledge, expertise and skills are as follows:

- a business sense with professional management skills, confrontational skills and the ability to cope under extraordinary circumstances with a clear understanding of the situation he/she is dealing with;
- a broad business experience and experience with rehabilitation projects for heuristic and empirical decision making;
- knowledge he/she may employ in judging the possible reaction of individual participants of the organisation or interest groups and estimates the results after the rehabilitation process (knowing that it could be foreseen);
- skills and experience with local and international negotiations, particularly in extraordinary conditions;
- readiness to assume the function of moderator or mediator;
- expert communication skills.

In view of the complexity of the management of a company undergoing serious difficulties, crisis management is therefore denoted as a “composite” discipline, because a multi-disciplinary approach to problem solving is required in order to achieve the objectives of managing a company undergoing a crisis.

Fast changes in the environment with unforeseen consequences call for a redirection of crisis management that has been traditionally focused on plans and procedures, the learning and development of flexible options for recovery in unforeseen crises (Acquier, Gand & Szpirglas, 2008). During a crisis the members of the organization must create new mental models in order to adapt themselves to a crisis situation and at the same time find new ways for the integration of their individual mental models that will allow coordinated activities (Roberts, Madsen & Desai, 2007, p. 112).

The crisis manager cannot only carry out a consultancy function (act as a consultant), but must carry out an executive or decision-making function (act as a decision maker) otherwise the measures decided on cannot be fully implemented. Such a manager must have a strong, strict and quick character, since he/she usually assumes such a function only for the duration of the crisis and the turnaround of the negative trends. Many managers are only successful in crisis, critical and stressful situations; while they are neither interested nor attracted by further development and so they search for new opportunities. In addition a specific management approach that has proved to be successful in one specific phase can be totally unsuccessful for another phase. Few managers successfully manage the company in the rehabilitation phase or crisis elimination phase as well as in the phase of further development of a company.

After the crisis, a period of settling in is desired (consolidation, stabilisation) that would facilitate, based on different analyses, a search for suitable further development paths and opportunities and the much needed energy. Crisis managers that have successfully managed the company under acute crisis have difficulty in changing their method of operation and management during the settling in period and remain more susceptible to short-term results and high-risk decisions. The latter can do more harm than good when negative trends have been stopped and the company is in need of a strong foundation for further development.

#### **4. COOPERATION WITH EXTERNAL EXPERTS**

In crisis management, the leading manager rarely involves a person who was already working at the company during the period that led to the acute crisis. Therefore, the company almost as

a rule engages external managers, experts and consultants to tackle the crisis. However, the overall crisis team usually covers external and internal members.

The crisis manager who assumes the role of crisis resolution within a company does not enter into a full-time employment agreement for an indefinite period of time, but acts according to the principle of the so-called interim management that can designate hiring an individual or an entire team for a definite period of time (interim executive management; Ger. Interimsmanagement, Sanierungspraktiker). Which functions, along with the managerial, will this interim management assume, will depend on the availability of adequate experts and managers in the company and the most deficient functions. Notwithstanding that the interim (crisis) management can be perceived as the highest and most complex form of consultancy service where the crisis manager himself/herself implements the “advice” and assumes the responsibility for results, the standard interim management essentially differs from the restructuring consultant (Ger. Sanierungsberater).

The interim management that carries out their project activities for a definite period of time must not be engaged by the company with the purpose of searching for a “responsible guilty person” for the unpopular measures implemented by the existing management that wishes to remain hidden. Experienced external managers will as a rule identify such intent and will refuse to take over the project. Even though such events should not be underestimated, such events are less common with acute crisis resolution, since the standard crisis manager who is usually an external expert fully assumes the management role in the company.

The interim management is suitable for assuming tasks in the company which is undergoing a crisis and is on the verge of collapse and in desperate need of a turnaround. After the crisis, the realization of a turnaround and the establishment of a fundamental basis for further development, new management with long-term orientation goals must be appointed which will be engaged on a full-time basis (not on a temporary basis). After the crisis, the dictatorial, coercive and authoritative management style must be replaced by a democratic, pacesetting, coaching or any other style that is more suitable for developmentally oriented results.

We can draw the attention to the following (cf. Tavčar, 1996, p. 532):

- crisis management is foremost a temporary and not permanent solution;
- the work of the crisis management team is expensive and uneconomic for the company in the long run;
- the members of the crisis management team are not necessarily best for managing companies in normal conditions;
- the crisis management team must as soon as possible be replaced by a new, ordinary management team which is still supported by the crisis team that steps aside soon after that;
- the crisis team has short-term objectives and if it is not replaced by the ordinary management, that short-term success will have been achieved at the expense of the long-term success and the company’s business security.

The engagement of a crisis management team can be initiated by the company itself (existing management or supervisory body), but can also be initiated by the owners or creditors (e.g. banks or state supervisory bodies) who can demand the appointment of the so-called compulsory administration. The external management or consultants can on account of previous experience with similar events quickly identify the causes and propose measures accordingly, and since they possess the knowledge and professional know-how they can

provide an unbiased insight into the internal conflicts, thus raising the necessary trust of the banks, since many companies have a very damaged relationship with the banks, and similar.

There are a lot of companies that offer the option of hiring a team of crisis management experts, even though it is common knowledge that individuals who attract workers from other environments who were already successfully tackling similar situations are most often engaged as interim managers. Successful crisis managers are usually continuously engaged in specific (crisis) projects; therefore, it is necessary for us as the contracting authority to be careful, selective and consistent when verifying references and analysing various offers provided by companies and individuals promising outstanding results and immediate availability.

One of the most serious problems in past and contemporary (negative) business practice is an appointment of general managers on the basis of political choices who have no enough necessary competences to manage the company in acute crisis or growing-problem situations. Instead of preventing and solving the crisis such companies will remain underperformed from all aspects, requesting new and new financial injections what is actually a consequence of limited capable management.

## **5. CONCLUSION**

Intensive and extensive, radical and dynamic changes in the environment require adjusted, creative and innovative managerial developmental solutions, based also on fuzzy logic, needed for strategic decision-making in today's business conditions, otherwise the management cannot be able to successfully ensure further existence and development to the organisations.

A crisis, characterized for contemporary business, can be defined as a short-term, undesired, unfavourable and critical state in the company (organization) which directly endangers the further existence and growth of the company and which has derived from both internal and external causes. Managing the company in acute crisis is the most demanding task of management we can imagine. For crisis management, which is broader concept than just risk management, it is characterized by the aggravated conflicts of interests, so the different orientation of interests become more pronounced. The pronounced divergence of interests, characteristic of the period of the emergence of a serious (acute) crisis in the company, even more complicates the already complicated internal and external relations of the company.

Therefore, it is self-understandable that besides general knowledge, skills and experiences in such highly complex projects of preventing or solving the crisis in any type of organization, special competences of crisis management are additionally needed, such are a business sense with professional management skills, confrontational skills and the ability to cope under extraordinary circumstances, a broad business experience and experience with rehabilitation projects for heuristic and empirical decision making, knowledge in judging the possible reaction of individual participants of the organisation or interest groups, skills and experience with local and international negotiations, readiness to assume the function of moderator or mediator, and expert communication skills. Only under mentioned conditions crisis management, as a "composite" discipline, can be denoted as knowledge (-based) management when we are talking about crisis prevention and crisis solving.

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