

# **STRATEGIES FOR SUCCESSFUL CRISIS MANAGEMENT**

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## **Abstract**

The recent Enron scandal and the September 11<sup>th</sup> terrorist attacks on U.S. citizens have demonstrated the vulnerability of people and organizations when crises occur. While these are extreme examples, both cases illustrate how managers used reactive strategies for dealing with rapidly evolving crises. In our complex and turbulent world, organizations will continue to confront a variety of threats and crises stemming from many separate internal and external sources. As the environment grows more technologically complex, the potential for crises will dramatically increase, and the crises confronting organizations will also occur more frequently. Historically, business crises were usually thought of as important but isolated events affecting primarily large organizations. Strategies need to be developed for proper decision making before, during and after a crisis occurs.

## **STRATEGIES FOR SUCCESSFUL CRISIS MANAGEMENT**

The recent Enron scandal and the September 11<sup>th</sup> terrorist attacks on U.S. citizens have demonstrated the vulnerability of people and organizations when crises occur. While these are extreme examples, both cases illustrate how managers used reactive strategies for dealing with rapidly evolving crises because they were not prepared with a crisis management plan.

We live in a very dynamic and turbulent global environment where the potential for crises has dramatically increased. Unfortunately, too many organizations wait for a crisis to occur before developing a crisis management plan. Research studies indicate that 80% of companies failing to develop a crisis management plan go out of business within two years of experiencing a major disaster. Although businesses deal with crises and disasters daily, less than 60% of the Fortune 500 industrial companies have established operational crisis management plans (Brown, 1993).

Some managers of this group believe the issue of preparing for a crisis event is not a priority. These managers present the following arguments:

- They believe that, in their business/industry, a crisis won't happen.
- They believe that a well-managed business does not require a crisis management plan.
- They reason their insurance is protection against a crisis.
- They assert that crisis readiness requirements exceed their business resources.
- They state that their business current problems are their main concern not unforeseen crisis situations.

While these arguments are understandable they do not provide the real preparation necessary to manage a crisis.

Too frequently managers believe that the chances of a crisis occurring are so slim that the extra effort to plan for them is unnecessary. The truth is that crisis management has always been a critical activity in organizations, one that is often ignored. In our complex world, organizations will continue to confront a variety of threats and crises stemming from many separate internal and external sources. As the environment grows more technologically complex, the crises confronting organizations will also occur more frequently. In effect, the coping ability of managers is of vital importance. Crises are a way of life in business, and no industry is immune. Historically, business crises were usually thought of as important but isolated events affecting primarily large organizations. However, experience has demonstrated that, eventually, all organizations will in some way be affected by a crisis situation, and no one is excluded.

### **PERSPECTIVES ON CRISIS**

Understanding the makeup of a crisis is crucial to the development of any proper and timely response. In business, as in life, there are many varieties of crises. Some of them may present opportunities for the business to change directions and achieve new goals. Other crises may present very ugly and difficult circumstances that require quick responses. Such crises can be viewed from two perspectives: the "festering" view and the "abrupt" view.

The festering crisis may be best described as an evolving episode arising from incremental decisions, neglect, or denial. An unresolved disagreement or a decision causing anger or protest often inflames this type of crisis

The abrupt crisis, on the other hand, is best described as an event that takes management by total surprise, such as episodes of workplace violence, or the recent anthrax scare are examples of an abrupt crisis.

### **CRISIS IDENTIFICATION**

Organizational crisis management is a process by which managers try to identify, assess and predict potential crises in order to prevent or minimize the effects of their occurrence. Businesses are confronted with many types of crises. Major crisis events can be classified into five categories – organizational, internal threats, external threats, natural disasters, and technological. All of them have festering and abrupt characteristics. Table #1 summarizes the crisis types, definitions, and the possible events.

Table # 1 – Crisis classification and definition framework summary

Categories	Definitions	Crisis Events
1. Organizational	These types of events have the potential to disrupt an organization's day-to-day operations.	Serious industrial accidents, product malfunctions, loss of key records due to fire, systems breakdowns, or terrorist attacks
2. Internal Threats	These crises often originate from operational crises and can result in negative public perceptions.	These consist of corporate espionage, management corruption, embezzlement, and theft. Some examples are employee, and product recalls, and employee violence in the work place.
3. External Threats	These events refer to wrongful acts committed by an individual or organization	Government investigation resulting in is an example. Miscommunication can create other problems. Consumer lawsuits, terrorists attacks, poor publicity about events such as boycotts, product sabotage, and negative media coverage can affect a company's profitability
4. Natural Disasters	These are caused by an act of God.	They include floods, tornadoes and earthquakes.
5. Technology	These are events that have potential impact on the company's technology system and operations.	Computer systems breakdowns, invasion by hacker, Virus or computer systems invasion by intruder

Table #1 is not all-inclusive; nevertheless, the perspective it provides can guide decision-making. Contained in each of these categories are more complex problems that managers may fail to recognize even though they may see the crisis itself. Probing the content of the definitions in Table #1 reveals four fundamental problems that form the foundation for each of the five categories. Before any crisis planning can be completed, managers must understand how these problems influence the crisis management planning and execution process. Figure # 1 illustrates the interrelationships among the four problems facing managers.

This understanding provides a framework for developing better alternatives and solutions to the crisis. The four fundamental problems include political, organizational, communication, and business. Each one of these problems has a systemic impact on the development and implementation of crisis management planning. Understanding the characteristics of the four and how they interface with the planning process are essential. The following discussion provides this understanding:

- **Political problems:** These refer to large differences in the ideological understanding among employees regarding what is a significant crisis threat and how it can alter business operations. These differences also involve winning acceptance of those affected by the crisis planning itself and management decisions that negatively affect their available resources as a result of the commitment to crisis preparation. Political problems force managers to persuade, negotiate, and influence different groups in the organization regarding the need to identify crisis problems and establish appropriate plans to respond if a crisis occurs.
- **Organizational problems:** The ability of an organization to respond quickly in a crisis, as a function of its culture, configuration, and communication strategies, is critical. Organizing the management structure so that it can respond to a crisis is not an easy task. The structural flexibility of an organization provides opportunities to fashion crisis management planning strategies that are in its best interest. It involves identifying the possible vulnerabilities and developing appropriate management structures that can quickly address the impending or existing crisis. Establishing a planning and communication structure that gives managers a blueprint and the tools to deal with potential crises is essential. This requires allocating the proper resources, such as people, materials, money, and logistical support, to meet the potential needs of a crisis. Building systems that identify potential and an impending crisis or crises is a defensive maneuver

that will also help managers deal with other organizational issues. This is often exemplified in the establishment of internal control systems that address financial and information control issues. The internal control system should be structured so that it will automatically notify managers of vulnerabilities. For example, festering crises can be identified by the appearance of accounting irregularities. Early detection can lead to intervention and resolution, avoiding a full crisis.

- **Communication problems:** Dealing with various audiences such as employees, customers, suppliers, and other publics is important to sustaining any organization. However, in many cases, the immediacy of a crisis event has been either lost or misrepresented by many managers. Careful analysis and construction of the proper messages to the various publics are crucially important to the successful management of a crisis. When communicating, timing is everything. It has been proven that communication about a crisis ultimately determines the organization's future success or failure. An organization must create a communication strategy for information and designate appropriate staff. Those charged with handling the crisis communication tasks need to be knowledgeable about the various methods that are available to best convey timely messages to the appropriate publics. For example, employees and customers are special audiences that must be notified at the very first opportunity. The approach must be honest and candid, yet not careless with classified or confidential information. Proper timely information allows publics to remain loyal to the organization. The time to begin crisis communication is when there is no crisis. This will allow organizational managers to establish the proper connection frameworks and procedures. Furthermore, this helps to create a reservoir of goodwill. Managers must have appropriate communication systems to respond quickly, truthfully, and to make it right.
- **Business problems:** All efforts in an organization should be focused on realizing a continuous program or strategy to satisfy customers, even if a crisis occurs. Organizations that become paralyzed due to a crisis, face serious management problems. Managers must develop viable business strategies to prevent, manage, or turn a crisis into an opportunity. The business of an organization is continuity in its operations and therefore, managers must establish continuity planning as part of their normal management process. The business continuity planning designates key people to function in critical roles. It also determines both financial and human resources necessary to carry out the plans authorized by the key crisis management leaders. During many crisis situations many activities, such as bill paying, resources acquisition and day-to-day business operations, must continue in order to sustain the survival of the business. This is just one component of crisis management, which itself is part of the organization's strategic management process.

These four problems require managers to adopt a coordinated and integrated effort that harnesses all the necessary resources and appropriate competencies to develop a plan of action. The resulting crisis management portfolio will help prepare the organization for potential incidents.

### **CRISIS PREPARATION AND MANAGEMENT FUNCTIONS**

There are two major ways for managers to view the resolution of a crisis. They can 1.) ignore the warning signs and react to the crisis or 2.) they can prepare themselves to prevent or manage a crisis. The decision path of the first choice has undefined outcomes while the second decision path provides many more opportunities to manage the crisis. Taking a pro-active approach may even avert the crisis completely. Figure # 1 illustrates and compares the stages that exist in crisis management process.

## Figure # 1 - CRISIS MANAGEMENT PROCESS – TWO MODELS

Figure # 1 – Crisis Management Process – Two Models

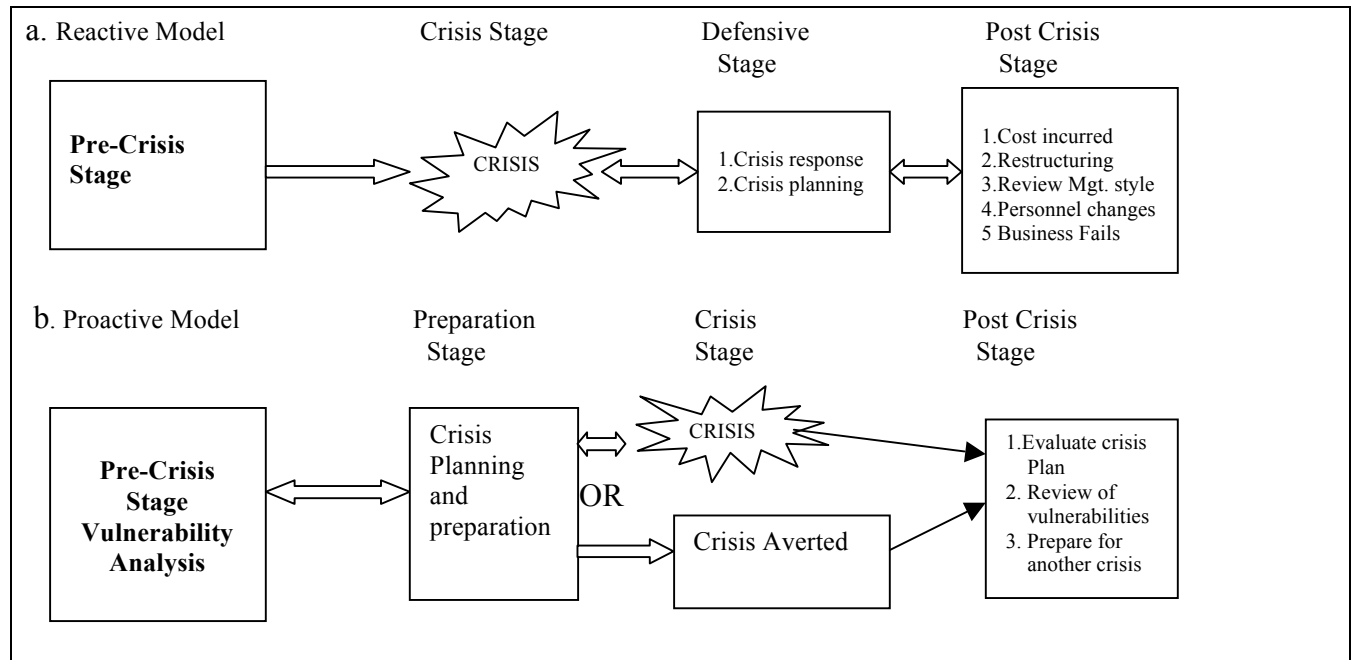


Figure # 1 illustrates and summarizes the stages that exist in crisis situations. In the reactive model the decisions about planning occur during and after the event(s) have already occurred. In the proactive model the managers have already anticipated some form of crises. They have completed a vulnerability analysis, which has helped them develop a plan to deal with crises eventually. The consequences of each management decision are significant. The managers have to weigh the difference between the investments in planning for a crisis versus the losses that result from failure to plan for a crisis. This decision is integrally linked to an understanding of the types of crisis that exist.

Figure # 1 shows the decision path managers can take when dealing with crises. The first path is a reactive model where the decisions about planning occur during and after the event(s) have already occurred. The second path traces the pro-active model where managers have already anticipated some form of crises events. Under this scenario managers complete a risk assessment, which helps in developing a plan and contingencies to deal with the crises. The consequences of choosing one of these paths are significant. Managers have to weigh the difference between the investments in planning for a crisis versus the potential costs that result from failure to plan. This choice is integrally linked to an understanding of the types of crisis that exist.

### ***Crisis Management Functions***

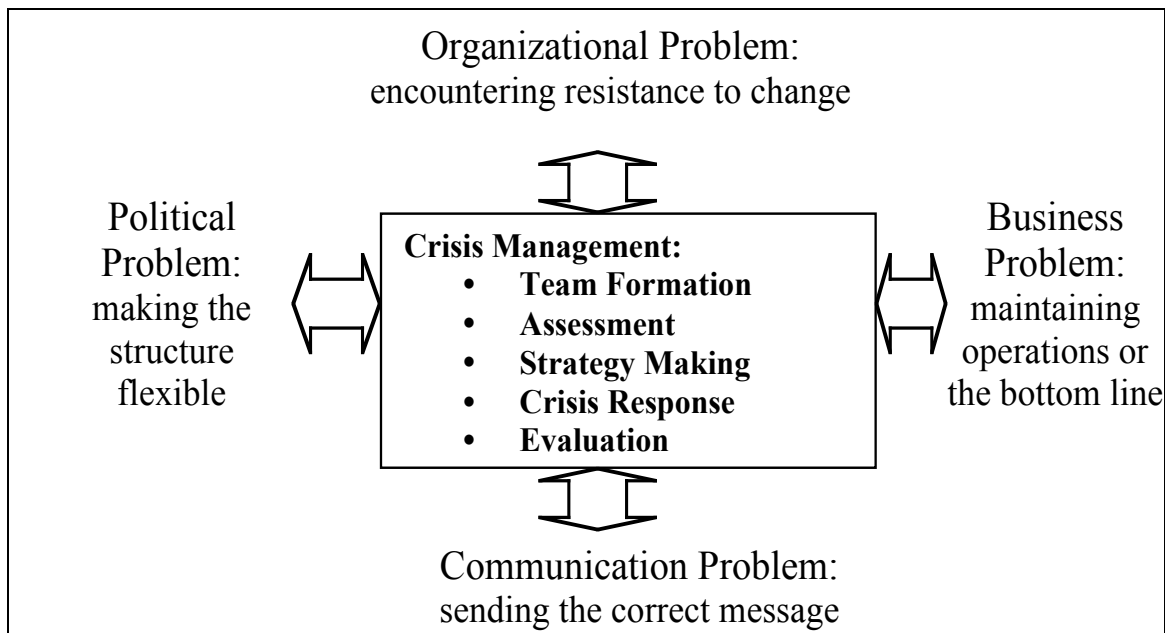
Crisis management encompasses five functions: team formation, assessment, strategy making, crisis response and evaluation. Understanding how the four problems interface and affect the business operation provides the knowledge base for proper direction and leadership.

Crisis management requires managers to engage in active leadership that gives employees the proper direction and resources to complete their jobs.

An effective crisis management plan establishes protocols for addressing the logistics needed to deal with a crisis. Typically these are the elements and resources that are commonly needed in all situations. Examples include supplies and emergency back up equipment. Having these resources in place leaves managers better able to supervise the content aspect of the crisis.

The four functions discussed above operate within each of the systemic problems faced by an organization. The four problems that were discussed earlier affect all levels of the organization. To address their impact, managers should have a perspective on when, how, and to what extent the problems alter the organization. Figure # 2 summarizes the relationships that exist among the four problems and the planning process.

Figure # 2 – Organizational Problems Influencing Crisis Management  
The Managerial Response



An organization can have all the resources, plans, and contingency arrangements; however, if it does not promote a crisis management culture and attitude, all the efforts to prevent and manage a potential crisis are wasted. It is a continuous process of persuading stakeholders to recognize the vulnerabilities that exist and identify alternatives that will best resolve the issues.

Management must address the politics of denial or partial remission through insurance policies or other quick fix remedies. An organization should plan on how to use limited resources to achieve multiple goals. For example, efficient planning and coordination of human and physical resources contribute significantly to producing the desired results, instead of blindly following the “reactive path,” as shown in Figure # 1.

#### **IMPLICATIONS FOR MANAGEMENT**

While there is no absolute panacea for crisis prevention, concentrating on the following areas will go a long way in helping prevent crises before they emerge: 1) forming a crisis management team, 2) knowing how to detect pre-crisis symptoms and conduct vulnerability analysis, 3) developing a very good communication mechanism within the organization, 4) training personnel to be vigilant, prepared, and responsive, 5) remaining flexible to meet the changing environments, as well as 6) having a continuous evaluation process.

1. **Form a crisis management team:** The purpose of the crisis management team is to plan for potential crisis events and to manage those events should they occur. As strategy makers the team develops alternatives and appropriate decisions for dealing with crisis situations. These processes must be a very fluid process as external and internal environments change rapidly. The team should consist of key representatives of the organization, such as operations, marketing, and accounting. In addition, the top executive or business owner should be a part of this team. If the team is new, it may be worthwhile to consult with experts who can provide the team with a framework for operation. This planning may be done through consultants who can schedule training sessions for the core members of the team. While the size of the team depends on the particular type of organization, any more than ten members can become onerous. The crisis management team should meet at least twice a year. This schedule will help them work on developing a crisis management plan. This plan outlines how the organization will respond to crisis events and who will be in charge of managing various aspects of the crisis.
2. **Vulnerability analysis:** This analysis is one of the most important steps in developing the crisis management plan. It is a process of identifying and gathering information about the most significant vulnerabilities in the business. It also requires prioritizing them to ensure that management is addressing their potentiality. For example, all commercial watercraft and airlines are prepared and equipped to respond to emergencies. A business that plans for crisis unique to its industry becomes better prepared to manage the crisis should it occur. Crisis preparation and planning should be an ongoing activity requiring management and employees always be vigilant.
3. **Communication system:** Communicating during and after a crisis is crucial to successful crisis management. Regardless of the efforts that an organization makes to prevent a crisis, eventually it will have to face a crisis. The strategy on how to communicate during and after a crisis is an extremely important decision and setting and agreeing on a strategy for communication is essential to successful management of the crisis. An indispensable element of the communication process is the selection of a proper spokesperson. This person should be well trained in communicating the correct message at the correct time and to the correct audience. In some cases, hiring a consultant to assist in developing a proper responsive communication system may be necessary.
4. **Training of employees:** Offering both formal and informal training to management and employees is an important ingredient in the crisis management. The more knowledge an employee has about the warning signs of a potential crisis, the easier it will be to identify the crisis and deal with it immediately. It must be remembered that it is much less costly to deal with a problem before it occurs than to have to address a full-blown crisis and its aftermath. Appropriate training is part of proper planning and preparedness.
5. **Flexibility:** In managing a crisis, the decision-makers must not be locked into rigid plans. Responding to a crisis requires managers to be flexible and capable of making competent impromptu decisions as events emerge.
6. **Establish an evaluation mechanism:** Crises are not enjoyable situations; thus, everything possible needs to be done to prevent their recurrence or the occurrence of another type of crisis. Questions in the pre-crisis stage include what could happen and how it can be prevented? If the organization has already experienced a crisis, then there is an opportunity to assess what occurred and compare it to what was planned for in the crisis management portfolio. If a crisis has not yet occurred, then it is imperative that specific evaluative criteria be included in the crisis management plan. Feedback from proper analysis is essential. Along with activating the crisis management team, accurate and timely communication is critical. Questions in the



post-crisis stage include what happened, why it happened, and what could have been done to prevent it? The recovery stage consists of getting operations back to normal, as well as preparing for the next crisis. Efforts should be devoted to reexamine vulnerabilities or threats and to repeat a SWOT analysis. It is a process of continual improvement. This strategy does not guarantee prevention of future crisis, but it presents management alternatives and incremental improvements in dealing with crises.

### **CONCLUSION**

A crisis becomes a very visible turning point in the life of an organization. The manner in which the crisis is handled can make or break a business. The political, organizational, communication, and business problems that confront an organization before, during, and after a crisis all pose major challenges for the managers. How they analyze and respond to these issues may determine the outcome of the crisis. Having a well thought out crisis management plan with trained staff that knows how to implement it will be one major step towards bringing crisis situations to a successful conclusion. Every organization may encounter a problem that can turn into a crisis. Unfortunately, many organizations do not perceive the need to plan for a crisis. The best-prepared managers will survive and may even prosper during a crisis. Managers must change their thinking about crises. Having a crisis management plan in place that involves every function and every employee of the organization will pay major dividends when the inevitable crisis hits. While all crises cannot be prevented, they can certainly be better managed.

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