

## CONTEMPORARY TRENDS IN CRISIS MANAGEMENT

**Anna Zabłocka-Kluczka** \*)

### **ABSTRACT**

The most important stages in the evolution of crisis management were presented. New trends in crisis management, focusing primarily on system solutions, instruments and new directions of research in this area were described. Presented issues were discussed in the context of the organizational crises.

### **Key words:**

organizational crisis, crisis management, new trends

### **ABSTRACT**

Przedstawiono najważniejsze etapy ewolucji zarządzania kryzysowego. Omówiono nowe trendy w zakresie zarządzania kryzysowego, koncentrując się przede wszystkim na rozwiązaniach systemowych, instrumentach oraz nowych kierunkach badań w tym zakresie. Prezentowane zagadnienia omawiane były w kontekście kryzysów świata organizacji.

### **Key words:**

kryzys w organizacji, zarządzanie kryzysowe, nowe trendy

## **1 INTRODUCTION**

The changing characteristics and increasing frequency of crises poses new challenges for the field of crisis management. Just as wars are a catalyst for industrial development, the cases of crisis – especially the spectacular ones – verify the existing methods and procedures of crisis management, accelerate the development of instruments, methods and techniques, as well as legislation in this area. This applies both to the crises affecting the sphere of public safety and to the business crises. Usually economic crises imply the development of the field of crisis management in

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\*) Anna Zabłocka-Kluczka, Ph.D. Eng, Institute of Organization and Management, Wrocław University of Technology, ul. Smoluchowskiego 25, 50-372 Wrocław, [anna.zablocka-kluczka@pwr.wroc.pl](mailto:anna.zablocka-kluczka@pwr.wroc.pl), +48 (71) 320 42 41.

relation to the world of business, and crises of a political nature or caused by natural phenomena (ie. flood, volcanic eruption or earthquake) are a contribution to the improvement of solutions in the area of public safety. However, some events with equal force affect these two spheres. For example, the terrorist attack on 11/09/2001 has contributed to the outbreak of many years' armed conflict in the Middle East, to undertaking co-ordinated counter-terrorism action on an international scale (resolution in this case (No. 1373) was adopted by the UN Security Council already on 28 September 2001), to tightened safety standards, eg . the procedures used by the airlines, but also became a contributory factor to starting work on the regulations concerning the business continuity. Once again it turned out that the existing solutions in crisis management field are ineffective and inefficient and inadequate to the growing crisis. The turn of the twentieth and twenty-first century is a time of dynamic changes in both instruments, the regulations and directions of scientific research in the field of crisis management. They would not be possible without the earlier achievements in this regard. The present article traces, therefore, the development of the crisis management field, including in particular the presentation of new trends in this area. It should be emphasized that the issue will be referred only to the world of organization.

## **2 EVOLUTION OF THE CRISIS MANAGEMENT**

The development of crisis management field is inextricably linked with the occurrence of economic crises. Such crises, usually of a local nature, have occurred in pre-industrial period and were usually caused by natural disasters (ie. scarcity or plague) and wars. Their basic feature was the decline in agricultural production and prices increase [3] and the basic way of overcoming these difficulties - local politics. The firstwidespread industrial crisis occurred in England around 1825 and its impact saw the emerging cotton industry of the United States and certain French industries [12, s. 236]. However, only a dynamic economic development of the nineteenth century and the accompanying social, economic and technological changes - in particular the industrialization and development of the business sector - and the first mass cases of crises in the organizations world have become "... a contribution to reflection on the possibility of such events in future, and as a consequence gradually led to the development of certain defence mechanisms and instruments" [2, s. 28-29]. This led to the creation of specific management issues - crisis management, which, however, only in the late 60's of the twentieth century has been moved as a term from politics to the field of management science. The key stages in the development of crisis management field in relation to the business world and also directions of research and instruments used in subsequent periods are presented in Tab. 1, while the wider development of the concept of crisis management has been presented in the papers: [2, s. 25 – 32; 14, s. 313-322].

Table 1. Stages of crisis management development. Source: own studies (based on: [2, s. 25 – 32; 14, s. 313-322]).

Time interval	Important events	Instruments applied	Research fields
First half of the twentieth century	1929 – 1933 (Great Depression)	-ratio analysis; - simple univariate models of bankruptcy prediction using the techniques of financial analysis;	- interest in the issue of management "in difficult times" - research into the causes of crises;
<b>60s of the twentieth century</b>			
First half of the 60s	1962 (Cuban missile crisis - political crisis)	as above	- the term "crisis management" arises (applicable to the threat to public safety)
End of the 60s	-	- first multivariate statistical model of the bankruptcy prediction (the Altman model – 1968)	- the concept of "crisis management" to the field of management science transfer - research into the causes of crises, the classification of the causes of crises
<b>70s of the twentieth century</b>			
First half of the 70s	The oil crisis of 1973-1974	- multivariate statistical models of bankruptcy prediction development (eg linear probability model - 1970)	- rapid growth of popularity of the crisis management - searching for a reliable - and possibly easy to use - instrument that sufficiently in advance would allow the anticipation of the company's difficulties - first typology of crises
End of the 70s	2nd oil crisis 1979-1980	- "recipe for crisis"; - quantitative methods for predicting the crisis using qualitative variables (eg, logit and probit analysis - the first use 1977)	- creation of a research stream Crisis Management / Management in Crisis - searching for methods of the crises detection based on indicators others than financial and attempt to incorporation into the crisis prediction methods of qualitative variables; - analysis of the crises in the organizations and their leadership behavior in specific conditions posed by the crisis
<b>80s of the twentieth century</b>			
80s	banking crisis of 80s in USA	- early warning systems aimed at detecting "weak signals" about the upcoming changes; - development of methods for predicting the crisis, based on linear programming and knowledge of experts (expert systems - 1988), and multicriteria methods (1987)	- strategic management as the domain of crisis management; - assessing the possibility of adapting the strategic management tools (eg SWOT analysis); - searching for qualitative crisis prediction methods
<b>90s of the twentieth century</b>			
First half of the 90s	Japanese crisis of the 90s (1990...)	- development of qualitative methods (risk assessment of the crisis using the SWOT method, evaluation of the organization preparedness on the crisis, etc.)	- dichotomy of crisis management (active and reactive); - reputation of the organization and the crisis (the relationship between behavior in crisis and reputation of organizations and the impact of reputation on perceptions of the organization in crisis)
End of the 90s	Asian financial crisis (1997-1998)	- development of bankruptcy prediction methods using the latest achievements of science, such as neural networks (1991), the fuzzy logic (1995), genetic algorithms, etc.	- change as the paradigm and the condition of survival (success) of the organization; - a shift of focus from crisis management activities necessary to overcome the situation threatening the existence of the organization on the need to renew the organization
<b>Twenty first century – untill now</b>			
First decade of the twenty first century	- terrorist attack on the World Trade Center - 09/11/2001 - global economic crisis of 2007 - ...	- Business Continuity Management Standard (BS 25999:2006) - Recommendations PAS 200:2011	- emphasis on prevention - two dimensions of crisis management - regulation (search for systemic solutions) - various research areas (learning from the crisis, the vulnerability to the crisis, factors affecting organizations resistance, communication with stakeholders, the leadership in a crisis, etc.)

The field of crisis management in relation to the organization's world has been growing until the middle of the twentieth century actually, but the first significant impulse for the interest in the issues of organizational crisis is the wave of

bankruptcies that are derived from the Great Depression of the years 1929 – 1933. At about 70s of the twentieth century crises are mainly of raw materials, ie. the crises of monetary, banking and state treasury are only the result of production collapses. Since the early 80s of the twentieth century, the characteristics of the crisis are changing - economic crises are mainly due to financial management (such as liberalization of the financial rules, freeing of exchange rates, maintaining high interest rates), in the banking sector (eg. through the creation of excessive quantity of money, giving the "bad", uncollectable loans), and from there they spread to the world of particular organizations. This becomes an impulse for seeking new instruments of preventing and coping with the crisis. Especially the turn of the twentieth and the twenty first century brings a very dynamic changes in both the instrumental solutions, undertaken research directions and law regulations. Their description will be the subject of this work.

### **3 TOOLS OF CRISIS MANAGEMENT**

Practically from the beginning of interest in the topic of the organizational crisis, researchers strive to find reliable - and possibly easy to use - instruments that sufficiently in advance would allow the anticipation of the company's difficulties. Hence in the 30s of the twentieth century they propose first simple univariate models of bankruptcy prediction using the techniques of financial analysis (PJ Fitzpatrick (1932), RF Smith and AH Winakor (1935), CL Merwin (1942)) [13, p. 111 ]. From the very beginning, however, they are the subject of criticism due to the fact that the indicators are considered separately, "... as to the often ambiguous trends resulted in difficulties in their interpretation," [7, p. 438]. This becomes a contributing factor to starting the work on the formulation of econometric multifactorial risk of bankruptcy forecasting models, from which the most famous and to this day probably the most commonly used is proposed in 1968 by E. Altman model constructed using discriminant analysis. Its construction can be considered as a milestone in the development of the discussed field.

In the 70's, with the increased levels of worldwide organizational crises occurrence with very diverse characteristics, the disadvantages of the use of only financial ratios for bankruptcy prediction are being noticed. Despite the fairly high accuracy of prediction, they do not provide detailed explanations as to why the organization is considered to be close to insolvency or of a bankruptcy risk-free [13, p. 109], which makes them not very useful for the prevention of such incidents. Although the Altman model still enjoys a boom of interest, o increasingly strong emphasize is put on the need to include in crisis prediction models the qualitative variables, and – in later years – the need for constructing qualitative methods, based mostly on experts knowledge. At the same time for the first time in history, an increasing attention is placed on the ability to deal with a crisis. Also, learning from others is postulated, hence in the late 70's and 80's of the twentieth century the major interest areas are the analysis of the crises in the particular organizations and observing their leaders behavior in specific conditions created by the crisis [10, p. 54-55]. On the basis of these analyzes specific practical directives (prescriptions for the crisis) are formulated, that one with more or less success can attempt to use in the case of crises in thier organizations [2, p. 30]. 80's is also the time of the first early warning systems

formation, aimed at detecting "weak signals" about the upcoming changes, and the development of methods for crisis prediction based on expert systems as well.

Very dynamic instruments of crisis management development is seen at the end of the twentieth century. On the one hand the field noticed intense development of bankruptcy prediction methods using the latest achievements of science, such as neural networks, fuzzy logic, genetic algorithms, etc., on the other there are proposed instruments that - using the achievements of strategic management - not only make possible to estimate the risk the crisis occurrence (such as crisis barometer method), but also to assess the degree of organization's preparedness to the crisis, and at the same time thanks to application of qualitative variables gives guidance to the development and construction of anti-crisis programs and crisis scenarios on how to cope with the crisis. For the first time we have to deal with the integration of the instruments used for detecting and overcoming the crisis phenomena.

Beginning of the twenty-first century brings the development of systemic instruments whose purpose is to minimize the disruption caused by the crisis and to maximize effectiveness of the efficiency recovery by the organization after crisis [15, p 99], incorporated into the enterprise management system. Such an instrument is published in 2006, two-part standard BS 25999, dedicated to problems of the business continuity management (its counterparts are the Australian-New Zealand standard AS / NZS 4360:2004 and AS / NZS 5050:2010, American Standard ASIS SPC.1-2009 and standard ISO 31000:2009). Despite the focus on the phase of overcoming crisis, a major organizational effort is focused on the preparation phase, where starting from an analysis of the organization activity through the lens of the risks of potential hazards one is trying to build a business continuity management strategies for the organization. It should be emphasized that a very important part of the building of such a system in an organization is to embed business continuity management issues in the culture of the organization, and in effect to build the culture of maintaining continuity. Cultural factors play a crucial role in building the crisis resistance in organizations. When building a business continuity management system within the organization the approach should be holistic, but more individual and in accordance to the needs of the organization, its size or sector. The set of control mechanisms (audits, inspections of the system), plans, manuals, scripts, procedures, organizational solutions should enable to avoid these crises, which can be avoided and to deal better with those that are unavoidable.

The most recent achievement in the crisis management instruments development area is the recommendation of the British Standards Institute PAS 200 ("Crisis management - Guidance and good practice") of September 2011. It is a kind of guide, directed primarily to business managers, explaining the possibility of taking practical steps to improve crisis management capabilities of their organizations. PAS 200:2011 presents a set of good practices in shaping the organization preparedness for crisis, information management, crisis communication, assessing the potential of the organization in crisis management, etc. The BS 25999:2006-1 indicates the importance of cultural aspects in the process of crisis management, in particular emphasizes the role of good leadership, a process of continuous improvement and verification of crisis competence of the organization. The guide points also the barriers and restrictions limiting the organizations ability of crisis managent.It is significant that most of these

restrictions refer precisely to the so-called "soft" elements of the management sphere (culture, organizational competence, etc.).

#### 4 CONTEMPORARY RESEARCH DIRECTIONS IN CRISIS MANAGEMENT FIELD

From the onset, the identified problems of crisis management and factors affecting its efficiency are the subject of research. Activities in this field are aimed mainly to clarify:

- „... **why** crises occur in the organizations world (*crisis management operation-oriented framework*) and in this context the focus is on the explanation of the links between crisis and the way of doing business activity, ie. the search for causes of crises connected with the daily, routine activities of the organization;
- **how** the crisis affects the organization (*crisis management process-oriented framework*) - this approach stresses the need to analyze and eliminate the factors influencing the organizations susceptibility to the crisis in the context of various developmental stages of the crisis" [8, p. 447 for: 14, p. 315];
- **how** the organization in a crisis **behaves** - carries out the analysis of the crises in the organizations and their leaders behavior in specific conditions posed by the crisis as well;
- **how** the organization can **avoid** crises, **prepare** for and **deal with** them - this approach stresses the need of searching for the tools (procedures, methods, etc.) that enable the organization to react according to the state in which it currently is;
- **what** builds organizational resistance to the crisis and what factors shape the crisis competency of the organization.

In the first period of the crisis management field development the research focuses mainly on identifying the causes of the crisis, or - in substance very closely related to them – attempts to construct a typology of organizational crises. For example, U. Krystek describes in a comprehensive manner German authors study on the causes of organizational crises [5, p. 34-72]. In fact, research into the causes of organizational crises in the theory and practice of crisis management has received far more attention than any other issue in discussed field. Other research approaches adopted by different researchers led mostly to:

- consideration of the organizational crisis phenomena in the context of the economic and political crises (eg. [5, p. 1; 8, p. 52; 11, p. 54]);
- searching for quantitative and qualitative methods of the crisis prediction ( the second most common research area, dominant especially in the 80's and 90's of the twentieth century);
- focusing on implemented restructuring strategies and their effectiveness [9, p. 60-69];
- focusing on selected, specific aspects of the organizational crisis issues (eg. discussion of selected types of organization in the context of crisis response efficiency on their occurrence and change of the organizational image on the market [6, p. 17-29], studies of the impact of the crisis management group heterogeneity on organization's ability to reduce the "sharpness" of the crisis [4,

pp. 334-362], the impact of crisis situation type (crisis = danger versus chance) on the level of participation of top management in solving them [1, pp. 31-45], etc.).

The end of the 90s and the beginning of the twenty first century brings new, very diverse directions of research in the field of crisis management. Invariably, a very popular still is searching for ever better instruments to predict the crisis. In the 90s of the twentieth century the latest achievements of science are applied to their construction (compare Tab. 1). With the transfer of the emphasis in crisis management from the activity necessary to overcome the situation threatening the existence of the organization to prevention and the necessity of organizational renewal the shift towards searching the factors that shape effectiveness of crisis management and crisis competency of the organization as well as its resistance is observed. Also is stressed the importance of proper crisis communication with all stakeholder groups (starting from the private investors, the media, customers to the employees and the end). The subject of research there are hence the crisis communication strategies in the context of existing and expected organization's reputation (the relationship between the behavior of the organization in crisis and its reputation and the impact on the reputation of the organization perception in the crisis). Another eagerly explored - at the turn of the twentieth and twenty-first century - research field is learning from the crisis and by the crisis. The subject of discussion in this regard is especially the ability of absorbing knowledge from others and limitations binding to it, and the "timing", that means the attempts to identify the optimal time for learning, ie. such one in which the process of knowledge acquiring is the most intense and most efficient. Very popular is also the issue of organizational preparedness to crisis and the leadership in a crisis.

## **5 SUMMARY**

All activities relating to the avoidance of crises, preparing the organization for crisis, dealing with the crisis and organizations' renewal after the crisis, including also the learning from the crisis to improve the future ability to cope with the phenomena of organizational crisis is called crisis management (more on this subject in [2, p. 25 – 32; 14, p. 313-322]). The term of crisis management and scope of issues considered in the framework of crisis management gradually evolved with the changes of the nature of the crises itself and needs of the organization in regard to dealing with them. Practically from the very beginning the development of this area is accompanied by scientific research that attempts to seek answers to current problems troubling organizations. In the result there is a growing number of both different instruments of crisis predictions and the instruments for allowing the organization to respond according to the state in which it currently is. The latest achievement in this area should certainly be considered an attempt to build systemic instruments as a basis for constructing a system of crisis management in the organization, such as standards relating to business continuity management and the recommendation of PAS 200:2011.

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Článok recenzoval:  
Ing. Katarína Bugánová PhD.