**CRISIS MANAGEMENT - Tools for Restructuring of Companies as a Response to Global Crisis Situations**

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**ABSTRACT**

**Events in the past, e.g. 11 September 2001, revolutions in Arabic Countries, and other events in past two years around the world shook the world economy, affected the happening on stock market and at most changed the opinions of the biggest companies regarding the expansion and strategic planning. International crises situations affected the most economically developed countries and also less developed countries all around the world. It is practically impossible to avoid the crisis, because companies do not operate in a fixed environment but inside strongly dynamical influential factors to which companies need to respond and adapt. As a consequence, the company is constantly in a crisis situation; however, it can be controlled with suitable management processes and company changes. This article presents one possible approach for solving the crisis. Basic idea of this article is to consider the crisis as a basis for company changes in a company or in other words to see an opportunity for a complete operating restructuring and successful growth of the company in company’s business problems.**

**Keywords:** crisis, management, company, process, company

**1. INTRODUCTION**

The main intention of this paper is to present that a crisis situation does not only have a negative aspect but it can be a useful starting point for restructuring of a company. A crisis of a company and business problems are often a good opportunity for a complete business restructuring and successful growth of an company.

Following crisis management model will not provide instructions for increasing the competitiveness of companies and their survival but it is a good basis for restructuring, existence and further development of companies dealing with global crisis situations.

**2. FORMS OF CRISES SITUATIONS**

**2.1 No company is immune to catastrophes and crises**

All companies face risks in their actions and even the best businesses can go wrong. Crisis unpreparedness and response to it can cause catastrophic damage and can be very expensive for the companies. Unpreparedness for responding to a crisis situation is reflected in the form of a business crisis. The solving of a business crisis falls within the competence of a crisis management. But aspects on solving the crisis can be various, because causes for creating a business crisis are also various. As a consequence, some experts believe that a crisis is urgent for a company and that it is a cyclical recurrent phase in the development of every company. In contrast, some experts define the crisis as a sudden and unexpected disturbance in the process caused by different endogenous or/and exogenous factors.
In spite of all different definitions, each business crisis is:

- a time-limited process,
- an unplanned and unwanted process,
- a process which endangers basic objectives of a company,
- a situation which is or seem to be without prospects,
- a unique process.

When developing a process for solving a business crisis from above starting points, then it means that the process:

- is limited in time,
- is accurately planned (beginning, ending, activities),
- has a clear objective (long-term growth and development of a company),
- is cost-limited (limited financial sources),
- is highly risky and is non-recurring.

If we compare the process’ characteristics of solving a crisis with the characteristics of the project, we find out that they have many common points. From that reason, a program of projects with its characteristics is the most appropriate method of solving a business crisis.

2.2 Unexpected or latent crisis

Latent crisis is an internal business problem or discrepancy that can be resolved by the management responsible to take actions in such situations.

Unexpected crisis is an extremely serious situation and the public needs to be informed about it in the very near future. The public’s reaction will have permanent negative impact on the company. In such case, top management and their consultants are solving the problem and leaving regular activities behind. Financial effect can have direct or indirect impact on working results.

2.3 Crises at a company

Strategic crisis occurs if long-term possibilities for a company’s success are seriously endangered or if all possibilities have already been utilized and new ones that could be possible to utilize on long-term have not been created yet. That means that preparation and implementation of necessary strategic changes regarding the changes in the environment or inside the company were realized too late.

Examples for strategic crisis are too slow technological development and inadequate marketing strategy for evolving market requirements.

Success crisis is being reflected in insufficient effectiveness of the operative sector and management, in wrong investments or inadequate sales policy. Management of such crisis is primarily oriented toward operative measures to improve the performance and effectiveness (cost reduction, increase in the sales volume).

Liquid crisis occurs when the financial solvency of a company is endangered and the company can end up heavily in debt. It also occurs because of unexpected downturn in sales, sudden changes in prices, etc.

Management of such crisis is oriented toward financial measures, e.g. toward changing the liquidity of funds and/or changing the capital’s structure.

3. ELEMENTS OF A CRISIS

Basic reason for a crisis in a company is wrong strategy or incorrectly executed strategy which was designed correctly. Main problem of crises situations is that a crisis situation is
often undetected or overlooked and unrecognized until a success crisis or even a liquid crisis arises. If we consider today’s conditions, we are practically constantly in a strategic crisis because the changes happen so fast that the strategy needs to be adapted continually. Each crisis comes with two elements: time pressure and threats. Examples of latent crises situations which can turn into an unexpected crisis.

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<tr>
<td>5. Unfavorable operations from the authority</td>
<td>6. Discriminatory accusations</td>
<td>7. Wrong informing</td>
<td>8. Unauthorized system and computer changes</td>
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<td>25. Legally binding accusations</td>
<td>26. Involvement of the employees in scandals</td>
<td>27. Terrorist actions</td>
<td>28. Uncompromising atmospheric influences</td>
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<tr>
<td>29. Inactivity of the employees, strikes, protests of the employees</td>
<td>30. Small thefts</td>
<td>31. Disagreements with the local community</td>
<td>32. Industrial espionage</td>
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Table 1: Examples of latent crises situation

3.1 Potential causes of a crisis and crises factors

The most common potential causes for a crisis situation:

- a) existing statement of account does not give a clear picture of the company’s situation and is not connected to long-term forecasting,
- b) operating elements are compared to national companies and not to similar foreign companies,
- c) analysis of company’s growth is not performed regularly,
- d) methodology for forecasting the company’s growth is not developed,
- e) concealment of true situation regarding the company’s growth, partial rescue operations give “positive zero” solutions which only conceal the true situation.

All this caused that also relatively successful companies sank into a success or even a liquid crisis and the consequences of such happening are these crises factors:

- i. loss of control
- ii. panic
- iii. surprise
- iv. state of siege
- v. insufficient information and data
- vi. strong public attention
- vii. intensification of individual events
- viii. causes of the events
- ix. distinction between facts and presumptions
- x. extent of damage
3.2 Breakdown of a company

Crisis can cause a breakdown of an company:

i) collapse of sales network, decrease of property
ii) decrease of incomes, share price decrease
iii) fall of reputation and “goodwill”

3.3 Basic reasons for a crisis of a company

a) force majeure: earthquakes, storms, volcanic eruption...
b) mechanical problems: damaged pipes, materials...
c) human error: entry irregularities...
d) decisions and non-decisions of management: problems are not taken into consideration or are overlooked.

4. PHILOSOPHY OF CRISIS MANAGEMENT

Companies are always exposed to potential crises situations; therefore it is important that companies are prepared to such situations from different viewpoints.

When developing a process for solving a business crisis from starting points under paragraph 2.1, then it means that the process:

a) is limited in time (minimum duration),
b) is accurately planed (beginning, ending, activities),
c) has a clear objective (long-term growth and development of the company),
d) is cost limited (limited financial sources),
e) is highly risky,
f) is non-recurring.

Picture 1: Elements of responding to a crisis

4.1 The importance of crisis management policy

The process of solving a business crisis can be initiated when the crisis is detected and when the company shows actual interest in solving the crisis. Each crisis is a complex phenomenon; therefore, a complete approach for solving the crisis is extremely important. Managing the crisis is a long process defined by the program of crisis management projects. It depends on the stage of development of a crisis which projects need to be realized.

The basis of crisis management policy is to prevent the influence of a crisis. The company can claim to have formal and structural crisis management but without any orientation it is useless.

Crisis management policy contains:

i. an complete approach
ii. a classification and definition of a crisis
iii. procedures necessary if the crisis intensifies
iv. responsibilities
v. a plan of communicating
vi. a plan of reporting
vii. a plan of exploring the resources
viii. a plan of exercising the activities

4.2 Strategy of solving a crisis

It is essential to have a well-conceived response strategy when it comes to a crisis situation. This strategy will enable the company:

- operating continuity
- positive image
- business reputation
- integrity which assures good managing of business processes

4.3 The role of management

Basic actions that management must carry out in order to confirm its ability to control a crisis situation are:

i. introducing a crisis management policy,
ii. identifying the causes of crisis happening; these causes can affect the organizing ability of achieving the objectives, and maintaining a continuity of operating,
iii. defining a crisis profile in the company,
iv. developing operating plans in the most critical areas in the company,
v. defining internal controlling points in the most critical areas in the company,
vi. respecting the consistent implementation of actions,
vii. monitoring the progress of changes regarding the set measures and assessing their suitability.

4.4 Basic starting points of responding to a business crisis

i. stay on the market,
ii. do not respond to strongly,
iii. be prepare to renounce a part of the market share,
iv. do not allow hostile environment,
v. stay competitive,
vi. develop a suitable plan that predicts unlikely events.

ACTIONS
- introduction of crisis procedures
- employees and operating insurance
- operations review
- informing

↑ MANAGEMENT RESPONSE
- mobilization of crisis teams
- confirmation of seriousness of the situation
- consultation to the superior
- supplementation and introduction of crisis plans
- preparation for external communication

COMMUNICATION RESPONSE
- informing all employees
- informing the employees’ families
- informing the consultants
- informing the media

↓

Picture 2: Elements of responding to a crisis
5. BASIC PRINCIPLES OF CRISIS MANAGEMENT

a) the crisis becomes more manageable when you slow down the happening
b) crisis management can be carried out by an unburdened person
c) avoid strong responses
d) check the consequences before you take actions
e) fear the manager who copes the crisis well because he can create conditions for a continual crisis

When dealing with crisis conditions you must also consider these activities:

- forming a team for restructuring (a shakeout in the top management, outer management consultant),
- gaining people’s confidence and motivating them,
- operations review and forming a plan for restructuring,
- acquiring approval for the realization of the actions which will help solving the crisis (banks, creditors, unions, employees, team for restructuring),
- financial restructuring of a company (direct financial control, reduction of necessary current assets, disinvestments, blockage of investments, capital injection, etc.).

After the implementation of these projects a company needs to have a new management, a new agreement with the creditors regarding continuation of proceedings for solving the crisis and a healthy financial base.

5.1 The importance of planning

Every crisis requires:

a) understanding, identification and appraisal of the crisis or risk,
b) definition of the activities necessary for the alleviation of the crisis,
c) definition of the causes,
d) outset of suitable managing actions,
e) continual control of the situation.

5.2 Forming a plan for continuation of management actions

To stop the continuation of the damage, we need:

a) to identify those functions and processes that are critical for management,
b) to come up with an operating and communicating plan at eventual problems enhancement,
c) to identify the standpoints of the participants of the business process.

Activities of these projects are:

- company rationalization,
- cutting of fixed and variable costs,
- shelving of unprofitable activities,
- cutting of labor costs,
- a shift in production and marketing (based on the analysis product-market/yield).

5.3 Key factors of success at crisis communication

a) stress the facts
b) speak the truth
c) be the first to address and speak open
d) act concerned and not defensive
e) keep cool and cooperative
f) avoid speculations
g) prevent conflicts with media  
h) avoid off record statements

**5.2 Transient crisis periods in the company cycle**

**Periods:**

- a) the birth and childhood  
- b) growing up  
- c) middle age  
- d) ripe age

**Disagreements:**

- i. crisis/disagreement of management  
- ii. crisis/disagreement of supervision  
- iii. crisis/disagreement of complexity  
- iv. crisis/disagreement of consolidation

<table>
<thead>
<tr>
<th><strong>Administrative system</strong></th>
<th><strong>Basic starting points, priorities</strong></th>
<th><strong>Structure of reporting</strong></th>
<th><strong>Form of management</strong></th>
<th><strong>Potential disagreement or crisis regarding the transition into the next company form</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. The birth and childhood</strong></td>
<td>Unstructured administration</td>
<td>Survival, creativeness</td>
<td>Powerful centralization (one man band)</td>
<td>Entrepreneurial style</td>
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<td><strong>II. Growing up</strong></td>
<td>The stress is on the control and on the administrative procedures</td>
<td>Innovation, organic growth</td>
<td>Informal joint management, forming of new departments, central management</td>
<td>Team management</td>
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<tr>
<td><strong>III. Middle age</strong></td>
<td>Structured administration</td>
<td>3E - Efficiency, Effectiveness, Economics of control</td>
<td>Formal controlling processes, regulations and procedures, more departments, decentralization</td>
<td>Control delegating</td>
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<td><strong>IV. Ripe age</strong></td>
<td>Very structured administration</td>
<td>Re-engineering, development of the culture of the company, re-defining, visions</td>
<td>Clear decentralization, powerful financial consolidation</td>
<td>Team work, attempting to stop bureaucractic approach, cooperation of the management</td>
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*Picture 3: Life cycles of the company crisis*
In its life cycle the company transits through different situations of development where different culmination points are typical. After the culmination, the company transits in its growth to a stage of degeneration and regarding to the economic situation its existence can be seriously endangered. If the company do not adapt its strategy in time, the stage of degeneration urgently appears in the company’s growth. The strategy of development of a company needs to prevent the degeneration to set in with its developmental actions – projects.

Therefore, to prevent the culmination to set in we must continually perform:

- analysis of the company’s environment as it relates to the growth of business system and prevention of external growth of the company,
- analysis of the environment as it relates to the company’s possibility to extend its operating,
- analysis of the company itself as it relates to the development of all efficient potentials or to the efficiencies for the needs of strategic development.

6 CONCLUSION

All over the world, in economically more developed and also in less developed countries the companies deal with problems that are a consequence of international crisis situations. For this reason only few companies in the world are older than 100 years. It is practically impossible to avoid the crisis in a company because companies operate in an environment of strongly dynamical influential factors to which companies need to respond and adapt. Referring to that, the company is constantly in a crisis situation; however it can be controlled with suitable processes.

This article presents one possible approach for solving the crisis. Basic idea of this article is to consider the crisis as a basis for company changes in a company or in other words to see an opportunity for a complete operating restructuring and successful growth of the company in company’s business problems.

The division of business crises is dealt with from a temporal aspect and regarding to that the solving of individual developmental stages of a crisis suggests and requires a preparation and implementation of different activities and programs.

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