Research

CHALLENGING THE MULTILAYERED CRISES WITHIN ORGANIZATIONS THROUGH APPLICATION OF EFFECTIVE HUMAN RESOURCE STRATEGIES
(A CRISES MANAGEMENT PERSPECTIVE FOR ORGANIZATION'S EFFECTIVENESS)

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Abstract

Crises in organizations are not only multilayered but deeply rooted thus compromising their effectiveness. To sustain and compete in the global world, strategic approaches to manage these crises become inevitable. This study explores the existing body of theories on both organisational crises (operational, fraudulent and publicity), and the role of Human Resource practices in managing crises with an intent to develop a framework of application for utilising effective HRM practices in crisis management. We find that it is essential to assess the degree of change and complexity that a crisis might bring into work setting and a high level of awareness of the nature of crises management among employees enhances the chances of better management performance. By comprehending the nature of various crises, and uncertainty factors useful measures can be created to avoid and mitigate organisational crises.

Keywords: Strategic management, Crises management, HR practices, Employee perception.

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Introduction

All segments of society, from shops to businesses, religious places to schools, individuals to families and non-governmental to governmental organizations are affected by crisis. A situation of crisis is a test of planning and decision making for an organization's management. Individuals in the management have to deal with the situation with their intelligence or bear the loss, as crisis is never planned and has an undesirable result. Thus, the management has to deal with problematic situations caused by manmade mistakes or natural disasters in which flow of information to the effect is crucial to reduce anxiety and to avoid further loss. The fear and anxiety cannot be avoided if precautionary measures are not taken or preplanning has not been done.

In 1984, in India, at the Union Cabide factory, an environmental accident occurred by leakage of poisonous gas – killed thousands of people. The incident made organizations think about how to tackle a crisis on a large scale. Similarly, in 1989, Exxon Valdez oil spill is remembered as a worst managed crisis – gave a lesson to the organizations, globally. In Pakistan the cases of Bhoja Air and Air blue are the recent examples of operational and publicity crises.

By reviewing the literature, this study is conducted to combine different theories into one framework to demonstrate how organizational crises affect organizational performance and how the process of crises management works by taking HR practices into consideration. The research is an attempt to create awareness about the role strategic crisis management can play in avoiding the loss of resources, which can be time, money, asset or credibility. The research brings forward the handling of crisis by effectively using human resource management which practices can reduce, if not extinguish, the effects of crisis on the performance of management and employees. All work is done by assuming the three types of organizational crises, operational, fraudulent and publicity crises. In Pakistan, this is a new area of research having a lot of misunderstandings. Human resource management scholars can contribute their efforts to reduce misunderstandings. This study is a gateway to realize the potential of

crisis management for organizations in order to retain their organizational values and integrity in times of crisis.

Rationale of the Study

Strategic Management and Crises Management have been viewed as two imperative yet dissimilar dimensions of organizational life. Where Strategic Management is viewed as a management process involving long term approaches and abiding tactics, Crises Management is seen to be an abrupt and transient event, unable to be foreseen and pre-planned. The risk and uncertainty factors associated with crisis keep organizations speculating about the preemptive and reactive strategies for confronting it. Here, organizations tend to take position on either the proactive side, where they prepare for the worst, or the reactive side, where they wait for the worse to come. In any situation, every organization is prone to utilize its available resources to overcome the threat and safeguard itself from loss and damage. One of these important resources is the Human Resource, which can effectively play a vital role in preventing crises, defending crises and even recovering from crises. A generous amount of literature ascertains the significance of Human Resource Management practices in the Strategic Management of organizations for tackling various organizational scenarios and events. However, the significance of these functions regarding Crises Management has scarcely been discussed.

Methodology

The present study is purely exploratory research in nature and strives to critically review the previously available literature on both of the crucial management processes i.e. Human Resource Management and Crises Management. Literature reviews are conducted with the intention to identify trends and patterns emerging within the literature that will eventually guide towards the development of a framework for establishing the role of Strategic Human Resource Management practices in before crisis, during crises, and after crisis situations in order to improve organizational performance. Grounding itself on a supporting premise, the study tends to follow the premise through a logical path of reported research, previous literature and clear reasoning to develop a principal theory involving HRM practices

in Crises Management and depicts it through a theoretical framework and ends up with the assumptions as outcomes for future research perspectives. Furthermore, through the evaluation and analysis of past management studies and theories, the present study attempted to identify an overarching approach of utilizing effective Human Resource Management practices in both the Proactive and Reactive approaches to Crises Management.

Crises: Threat to organizations

A crisis is the a main volatile and unpredictable event, having threat for organization and its stakeholders. The study of Coombs (1999) reveals that we cannot predict crises but we can't deny its anticipation. Different experts have defined crisis in different ways; however, three characteristics are common to the majority of definitions of crisis: (a) organizational threat (b) the factor of surprise, and (c) the availability of very limited time for decision making (Seeger, Sellnow & Ulmer, 1998). A wide ranging and distinctive definition of crises is given by Pauchant and Mitroff (1992), which states that a problem starts with an incident which becomes an accident, by getting the form of conflict; it ends up as crisis, a disruption for organization. It shows that a crisis affects the whole system not a single function.

According to Ramee (1987) some negative consequences of crises are (1) reduction in profit (2) interference of Government (3) negative impression of corporate reliability and name, and (4) distraction of workers. Burnett (1998) has concluded that crises have some similar characteristics (1) these are based on perception instead of objective facts, (2) short time period is available for decision making (3) limited control and (4) it affects the whole organization not a single function. According to The United Kingdom's Department for Business, Enterprise and Regulatory Reform (2008), crises are unusual situations, apart from everyday business and have the element of threat for organizational operations security and repute. Organizational crises are defined by Pearson & Clair (1998) as low-probable, but having high effects events.

Types of Crises

Different types of crises are the result of factors under different conditions, so different strategies are required for effective response (Wei-Tsong & Salvatore, 2005). A crises topology proposed

by Shrivastava and Mitroff (1987) classified crisis into four categories. There are two dimensions of the structure defined by them. One dimension is internal-external and the other one is technical-social. The following framework includes crisis of four types and some sample crises:

Table 1
Different types of corporate crises triggering events

	Internal	**External**
Technical/ Economic	**Cell 1** - Major industrial accidents - Product injuries - Computer breakdown	**Cell 2** - Widespread environmental destruction - Natural disasters - Hostile takeover
Human/ Organizational/ Social	**Cell 3** - Failure to adopt/change - Sabotage by insiders - Organizational breakdown	**Cell 4** Symbolic projection Sabotage by outsiders Terrorism, executive kidnapping

Myers and Holusha (1986) have discussed nine types of crises including: Abrupt shift in market, nationalization or privatization of the industry, and cash drain etc. Smith & Millar (2002), however, have classified crises into four types (1) sudden crises (2) smoldering crises (3) perceptual crises and (4) Bizarre. Our focus, in this study, is on the following three types of crises:

Operational Crises are the crises which have the impact on routine operations and working of the organization e.g. computers system breakdown, faulty product, loss of data because of system failure. Contingency planning has utmost significance here to recover such types of crises.

Publicity Crisis is somehow linked with operational crisis because an accident which results in death of people can bring publicity problems for the organization. Otherwise, boycott of a product by the public and negative media coverage of an organizations service can affect the publicity of the organization, which can directly affect its profitability. In such scenarios, if the communication department does not take appropriate steps then significant problems can arise. Such problems can create a negative impression of the organization on the public and this may damage its reputation.

Fraudulent Crisis results because of unlawful/wrongful actions of an individual or an organization. Actions like theft of company assets, violence among employees in the vicinity of the organization, fraudulently using employees for own work, corruption of management or spying on organizations internal affairs, etc. These crises are often derived from operational crises (John E. Spillan, 2003).

One of the above crises can become a cause of another crisis. According to Susskind & Field   (1996), during crisis, an organization's access to stakeholders decreases because of a sensitive sense of limited time and intensified publicity which can create further problems and crises. Publicity crisis spoils the image of the organization.

Crises Management: An opportunity to potential competitive edge

Different crises have a direct negative effect on organization's performance. One crisis can become a cause of other crises. There is a need to manage the crises in such a way so the negative consequences can be reduced.

Crisis management is the mitigation of the effects of crises faced by organizations. Caponigro (2000) defines crisis management as a process to decrease the negative outcomes of a crisis on organization by gaining control of the situation. It is also helpful to identify and to get the benefit which a crises may possess. Burnett (1998) has the opinion that crises if managed properly can be a cause of gain for organization in the following ways: (1) leaders are born and identified (2) acceleration in changes (3) problems are faced and solutions are found (4) development of new strategies (5) warning systems are developed, and even (6) organization can get a new competitive edge. Darling (1994) has also the same opinion that, if managed and handled properly, organization can find the opportunities gifted by crises. Brockner & James (2008) have concluded that if decision makers start learning from their crises experiences, instead of threats these crises can serve as opportunities.

Crisis Prone and Crisis Prepared Organizations

Many organizations are working on crises management by making crises management strategies, plans and teams. However, some organizations do not consider crises management as an important

function of the management. According to Caponigro (2000), some of these organizations have the mentality that crises are not related to their field and some of them are quite confident that they can handle the risk without any specific planning. Mitroff (1989) has the same findings about the organizations' perception about crises and crises management. According to him, organizations are confident about their security and safety from crises and they think crises are related to some other specific organizations. Another argument of organization for not having proper crises management, discussed by Barton (1993), is the lack of resources which are required for such process. Some organizations consider it as wastage of time. These establishments argue that the complicated and time consuming present problems do not allow them to entertain future problems and uncertainties in limited time frame (Caponigro, 2000). Here again, according to our literature review, they are compromising potential benefits which can be associated with effective crises management.

Mitroff et al. (1989) have concluded that the activities performed and structures designed to reduce the impact of crises in crisis-prepared and crisis-prone organizations are not similar. Structures of crises prepared firms are characterized by effective audits, formal Crises Management actions, and effective policies to forecast the occurrence of crises (Shrivastava, 1993). Mitroff (1988) has discussed some more distinguishing features of crisis prepared firms, these include sound and flexible Crises Management design, based on information and resource sharing, and clearly unidentifiable work roles.

Crises Management Process

Crisis management is a continuous process that begins before the break down of crises and continues even after its conclusion. It is based on three phases: proactive, reactive, and reflective. Each phase of this process is full of challenges which are faced by managers and demand different approaches. Occurrence of crises is not always associated with unforeseen events, so sometimes it is possible to anticipate the crises situation to preplan.

The process of crises management depicted in the model presented by Boisvert & Moore (2003 & 2004) is as follows:

Figure 2:
Crisis Management: The Process
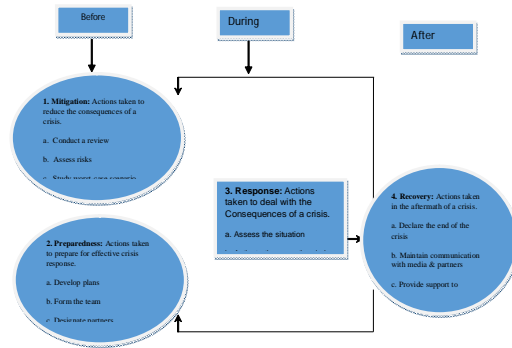
Boisvert & Moore, 2003 & 2004

Applying Strategic Management Process

Gonzalez-Herres and Pratt (1995) have explained the crises management process based on four phases, which are (1) Issues management - including Environmental scanning, data gathering, and development of communication strategy (2) Planning prevention - consisting of observing the environment, developing the systems of warning and information and also developing the procedures for internal communication (3) The third phase or step is Crises which is followed by assessing the response of organization, off-putting publicity and (4) The post-crisis—stage is followed by concentrating on public, examine the problem, information sharing with the media, and evaluation of the crises management plans. We can see that these steps are performed in strategic management model, so the understanding of strategic management process is very significant in crises management.

According to the literature, crises have the characteristic to disrupt the whole system of organization. Consequently, Capinigro (1998) suggests for organizations to have plans for crises management and prepared teams to reduce the threat of discontinuation to get smooth business operations. Every crisis in an organization requires crisis management that should be at least equal to the magnitude of that crisis. The magnitude of the crises tells about the changes brought by crises, the third law of motion by Newton says that every action is

followed by a reaction. And in this case the crisis is action and crises management is reaction.

According to Mitroff and Pearson (1993, p. 31), in an unstable environment, crises that have the potential to affect organizations are beyond the controlling capacity of even the well prepared with best-budgeted firms. Accordingly, Lerbinger (1997) concludes that some of all organizations can effectively prepare for, let alone cope with, the wide range of potential crises that comes into view in strategic moves, or organizational routines. Implementation of crisis management strategy depends on the best tradeoff between the degree of complexity and the degree of change.

On the basis of the above literature review, the following model to measure the degree of magnitude of crisis is made. In the model, on the occurrence of crisis, by measuring degree of complexity of crisis and degree of change that might occur, the level of uncertainty can be estimated. Like, if the crisis that occurred is complex and the change is dynamic then there will be high uncertainty in the circumstances, and crises management with proactive approach will be required to deal with such huge crises.

*Figure 3*

Measure *Magnitude* of Crisis
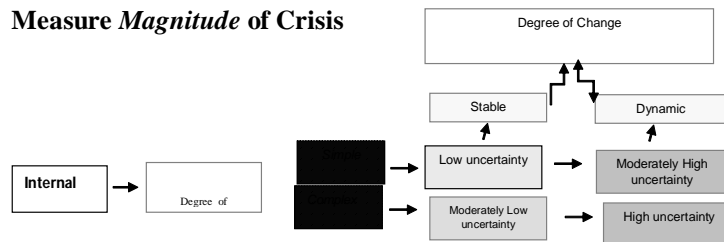
Approaches of Crises Management

In a reactive approach, organizations apply the Just in Time rule. They start work and handle crises, after facing it. Glaesser (2006) defined a reactive approach to crisis as waiting for the crises to respond. This is an approach usually followed by crises prone organizations and it is not an appropriate approach to be followed in an uncertain environment.

In a proactive approach, organizations pre-plan and get themselves prepared for crises. In this way crises can even be averted. Previous relevant works by Fink, Beak and Taddeo (1971) and Turner (1976) have revealed diverse models for the development of crises (Fink, 1986a; Smith, 1990a). Mitroff, Shrivastava and Udwadia (1987) have suggested that crisis management efforts should be proactive as well as reactive i.e. preventive in nature, and reactive as they have to work in the different phases of a crisis.

Some of the authors have suggested many proactive efforts which can be used for the prevention of crises development and also for the preparation in cases where the risk cannot be averted even after applying a proactive approach. These authors have insisted to scan the potential future threats (Fink, 1986b, Sethi, 1987). Some other authors have focused on training and simulation of potential crises to develop proactive skills, (Otway, 1990) to decrease potential risks and contamination related to the past (Kohl, Miller and Barton, 1990); and as per Sethi (1987), the process is named as Issues Management or Risk Assessment. Below is the model by John E. Spillan, which illustrates two approaches with different stages that exist in crisis situations. One is reactive in which the organization responds after the occurrence of crises. The other approach is proactive in which all homework is completed before the occurrence of crises, and then the organization waits for crises, just to check the soundness of their strategies and plans. The model depicts that through proper planning and implementation, risk can be avoided.

Figure 4:
**Crisis management process – two models**
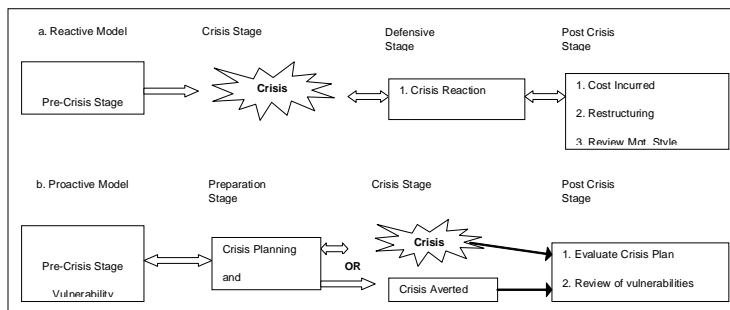
Source: Created by John E.Spillan

Crises Management and HR Practices

Organizations are driven by Human Resource (HR) and their success depends on human potential. Operations and HR are the foundations of an organization, which generate the success. In Human Resource Management (HRM), job analysis is a major activity by which work processes - job descriptions are defined and issues related to these are identified. If in job descriptions, work processes are well defined, chances of crisis decrease as occurrence of crisis depends on operations and/or HR of an organization. Similarly, if HR is motivated, committed and loyal, the probability of occurrence of crises reduces. And even if crises occur, the positive perception of employees and their involvement can play an effective role in crises management. As discussed by (Dutton &Jackson, 1987; Wooten & James, 2004) successful crises management depends upon the involvement of employees in the crises management.

Figure 5:
Crises Management through Effective HR practices
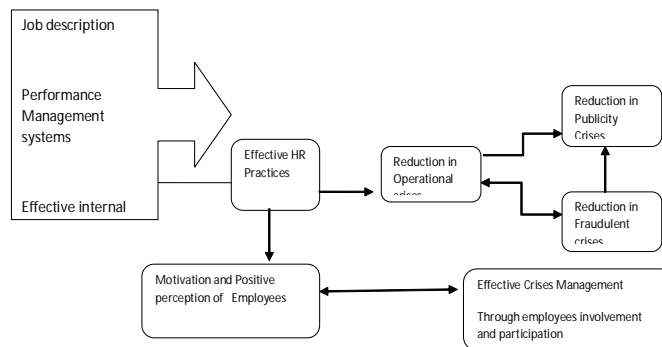
Conclusion

The literature related to crises management has contributed a lot towards managing crises. Fink (2000), Barton (2001), and Mitroff (1989) have established the opinion that many organizations react in response to crises after its occurrence, which is not a healthy approach. Vulnerability is the characteristic of crisis. A deep understanding of proactive approach and effective short run and long run strategic planning is necessary to overcome this vulnerability.

Those organizations which are less concerned about crisis events should take their employees in confidence, so that they can come up with new ideas towards changing management perception about crisis. It is concluded that different crises negatively affect the performance of organizations. In an uncertain environment, Crisis Management is the necessity of the organization. In order to implement a crisis management strategy, it is essential to assess the degree of change that crisis might bring and its degree of complexity is also to be judged. Whereas, in applying different strategies, sometimes the strategy is to be reevaluated. If averted or defensive strategies are efficiently made and applied, crisis can be effectively controlled; whereas different strategies are required to handle different crises. In an organization, higher the perception of employees towards crisis management, higher is the chance of better management performance (in crisis). Today, crisis management in Pakistan is an emerging concept, as it is an important and necessary step towards controlling and maintaining organizational activities in order to overcome greater loss or damages. By measuring the magnitude of the crisis, effect of crisis on organizational performance can be assessed. Referring to the model of *magnitude*, by measuring degree of complexity and degree of change, the level of uncertainty due to the crisis can be assessed. Implying, if degree of complexity of crisis is simple and the change it causes is stable, then there is *low uncertainty*. This is associated with organizational performance because if there is low uncertainty, there will not be much fear of calamity or catastrophe. It is concluded that by measuring magnitude of crisis, the change caused by crisis can be assessed by which the uncertainty factor can be evaluated and certain precautions can be taken to avoid disruption in organizational performance. Perception of employees about crisis management also plays an important role in dealing with crisis management. Whether reactive approach is followed or proactive, perception of employees is of utmost importance in dealing with crisis. In the *pre-crisis stage* of 'proactive approach', perception of crisis management is required so that employees can use their wisdom and skills to tackle any kind of ambiguous situation. Whereas in *post crisis stage* of 'proactive approach' (that is when the pre-plan to face crisis fails), perception of crisis management is required to reevaluate the crisis management plan for future. In the 'proactive approach', if by planning, crisis is averted; perception of employees is helpful in reviewing crisis management plan in finding loopholes for future precautions. And in

the *post crisis stage* of 'reactive approach' (when no preplanning was done and faced crisis), perception of crisis management is required in crisis planning to deal with aftermath of crisis. Hence, this implies that by applying effective HR practices, positive perception and effective involvement of employees can be developed in organizations.

The following model illustrates the theory discussed.

Figure 6:
Final Model: Crisis Management Process
Two approaches with measure of magnitude of the crisis in context of Human Resource Management
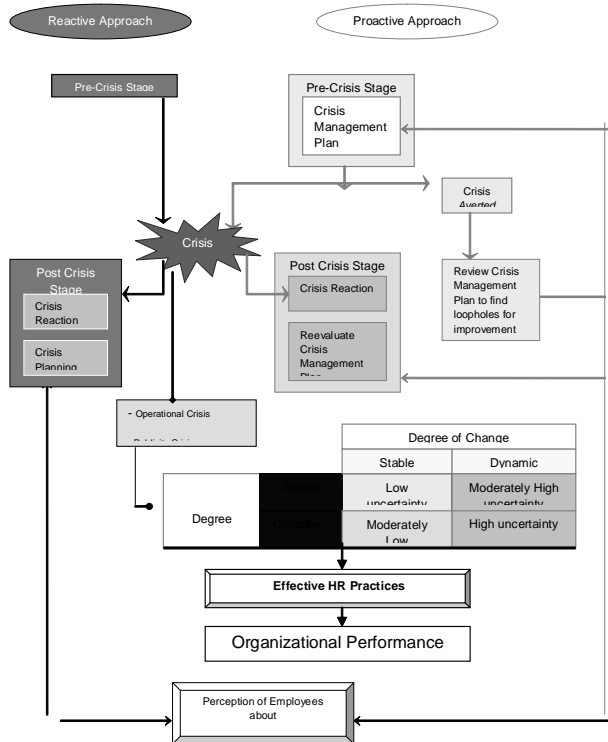
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