



# HL IB Business Management



Your notes

## 5.7 Crisis Management & Contingency Planning

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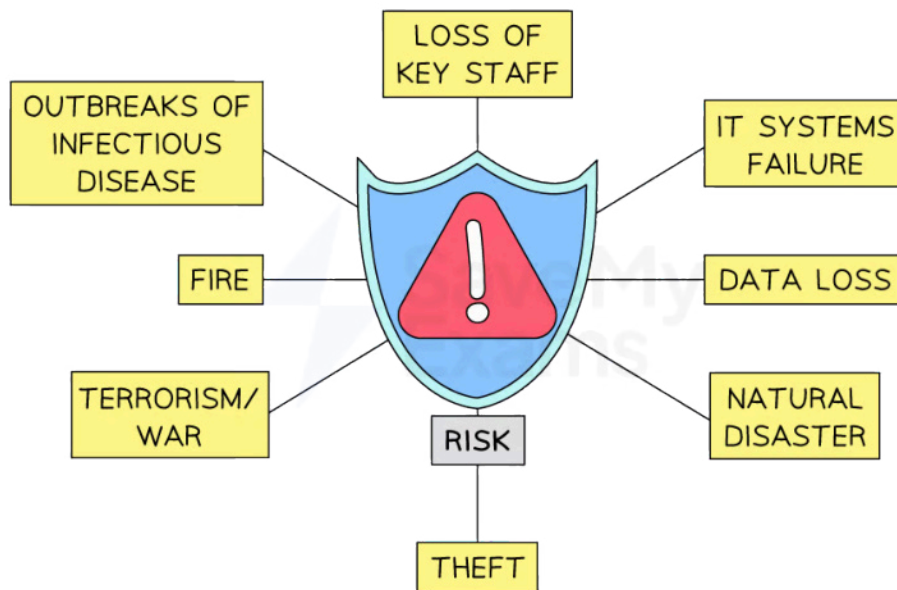
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## Crisis Management

### Crisis Management Versus Contingency Planning

- **Contingency planning** is the process that occurs when a business tries to predict risky or unwanted events, and then develops a process for how the business will respond to the occurrence of any such event
- **Crisis management** refers to the **immediate** handling of a **disruptive and unexpected event**
  - It includes communication, coordination, resource mobilisation and decision-making under pressure
    - Short-term **significant disruption** is likely and long-term business **survival** affected
    - **Radical solutions** such as **autocratic leadership** and **centralised decision-making** could ensure **business continuity**
    - Work activity may need **rapid reorganisation**
      - For example, many businesses swiftly implemented remote working for staff during the Covid-19 pandemic

### Diagram: Examples of Crisis Situations



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**Businesses face threats from a range of sources including IT systems failure, natural disasters and theft**

- If a business were to lose all of its customers data, this would be **classed as a crisis** and require an immediate response from management

 **Examiner Tip**

Crisis management and contingency planning **cannot eliminate the risk of business disruption** - and even the best plans can go wrong when a crisis hits

The fact that businesses engage in this kind of planning does provide significant benefits

- Business **resilience** can be improved
- Negative impacts may be reduced
- Stakeholders are likely to have greater **confidence** in the business



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## Factors that Influence Effective Crisis Management

- The effectiveness of crisis management depends on a range of factors

### Factors Affecting Crisis Management

Speed	Transparency
<ul style="list-style-type: none"> <li>A rapid response can <b>contain or reduce damage</b></li> <li><b>Procter and Gamble's</b> crisis team responded rapidly when a viral challenge encouraged teenagers to film themselves eating <i>Tide Pods</i> detergent                             <ul style="list-style-type: none"> <li>It quickly created a commercial featuring a well-known sports personality, immediately published warnings and updated disclaimers on its website</li> <li>This quick response protected P&amp;G from legal action</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Keeping customers informed and telling the truth can <b>protect reputation</b></li> <li>Supply issues in 2018 caused <b>KFC</b> to run out of chicken leading to the temporary closure of half of its UK outlets                             <ul style="list-style-type: none"> <li>KFC used humour on social media to keep their customers informed at every stage</li> <li>They apologised and quickly addressed customer concerns, turning the negative story into positive PR</li> </ul> </li> </ul>
Control	Communication
<ul style="list-style-type: none"> <li>Ensuring that leaders have the <b>authority</b> and <b>resources</b> to perform at the highest level in a crisis</li> <li><b>Walmart's</b> Emergency Operation Center operates 24 hours a day                             <ul style="list-style-type: none"> <li>It manages the company's response to events that could affect operations</li> <li>Coordinated by senior Walmart leaders it can assemble support teams immediately</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Rapid issue of communications such as press releases can <b>reassure stakeholders</b> and <b>reduce recovery time</b></li> <li><b>Scandinavia Airlines (SAS)</b> used social media effectively during the 2010 Icelandic Eyjafjallajökull ash cloud crisis                             <ul style="list-style-type: none"> <li>Customers were directed to SAS's <i>Facebook</i> page</li> <li>Staff responded to every message, comment and wall post</li> <li>Problems were solved immediately and regular updates kept customers satisfied</li> </ul> </li> </ul>

### Examiner Tip

Crises do not have to be large-scale

The unexpected loss of a CEO, a warehouse fire or an outbreak of infection within a business can cause a significant crisis that requires a prompt, transparent and well-communicated response



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## Contingency Planning

### The Impact of Contingency Planning

- Ongoing **contingency planning** is a proactive **process** where a **set of procedures** to be followed if **specific events or situations occur** is developed
  - Regular **risk assessments** of potential disruptions and their impacts are carried out
  - Procedures commonly cover risks such as fire or weather-related emergencies
    - Evacuation plans are communicated and practised regularly
    - Key staff are given emergency responsibilities
    - Alarm systems are tested
  - Preventative measures protect stock and equipment - for example, the installation of fireproof doors
  
- Contingency planning can **help a business to survive and recover** from a period of crisis
- However drawing up detailed contingency plans **requires time and investment**

#### Evaluating Contingency Planning

Factor	Benefits	Limitations
Time	<ul style="list-style-type: none"> <li>▪ Helps businesses to <b>respond immediately</b> <ul style="list-style-type: none"> <li>▪ Clear staff roles &amp; responsibilities</li> <li>▪ Resources are identified and available</li> <li>▪ Procedures are shared in advance</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ A <b>time-consuming</b> process                     <ul style="list-style-type: none"> <li>▪ Risk assessment takes valuable management time</li> <li>▪ Plans need to be revisited regularly</li> <li>▪ Staff require training</li> </ul> </li> </ul>
Cost	<ul style="list-style-type: none"> <li>▪ Can <b>reduce costs</b> <ul style="list-style-type: none"> <li>▪ Emergency equipment/resources are <b>purchased in advance</b></li> <li>▪ Financial losses are likely to be lower</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Spending on resources needed in a crisis may be <b>wasted if not needed</b></li> <li>▪ <b>Difficult to budget</b> for unknown crisis situations</li> </ul>
Safety	<ul style="list-style-type: none"> <li>▪ <b>Procedures</b> keep stakeholders such as staff and customers safe                     <ul style="list-style-type: none"> <li>▪ Training increases awareness</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Bureaucratic and difficult to implement swiftly</li> <li>▪ <b>Leadership and compliance</b> from staff or other stakeholders is needed</li> </ul>



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	<ul style="list-style-type: none"> <li>Legal obligations should be met (e.g. fire regulations)</li> </ul>	
<p><b>Risk</b></p>	<ul style="list-style-type: none"> <li><b>Most likely threats</b> are considered in detail             <ul style="list-style-type: none"> <li>Reduces <b>legal risks</b> if procedures are followed</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Requires <b>up to date</b> and <b>complete information</b> to be effective</li> <li><b>Human reactions</b> such as fear and panic cannot be fully mitigated</li> </ul>

 **Examiner Tip**

Despite the drawbacks, it is difficult to argue that businesses shouldn't engage in contingency planning to some extent

At the very least evacuation plans and some structures to allow for business continuity in case of, for example, poor weather can be put in place with relative ease