

5.7 Crisis management and contingency planning (HL)

Crisis management versus contingency planning

Crisis management involves the steps a business or any organisation can take to limit the damage caused by an unpredicted event or crisis.

The aim of crisis management is to return to normal business operations as swiftly as possible. One way to achieve this is to use a contingency plan that was prepared in case the crisis arose. Alongside this, crisis management would also focus on communication, transparency, speed and control of the situation.

Crises may come in many forms, for example:

- a cyber attack
- a product recall due to defects
- war/conflict
- employee conflict, misbehaviour or mistreatment
- a natural disaster or environmental damage
- a lawsuit or a public accusation

As you can see, the sources of crises can be quite different. The main feature of a crisis is that it is often (somewhat) unpredictable and requires quick action. A crisis can come from an internal source (as in the Volkswagen case in [Section 5.7.0 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39527\)\)](https://study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39527) or from an external source.

International Mindedness

Unfortunately, a crisis can often hit more than one business or more than one country. Crises can have a global nature, for example:

- The eruption of the Eyjafjallajökull volcano in Iceland in 2010 affected flights between Europe and North America.
- The financial crisis of 2007–2009 affected more than just the United States (where it started) and had consequences for many other countries.
- Even small disruptions such as the WhatsApp outage in October 2021 can have a significant impact on businesses' ability to communicate.

Although many crises are difficult to predict, businesses need to keep up with global events to ensure they can plan ahead.

Contingency planning

Contingency planning is the process of creating an action plan, which an organisation would follow in the event that a crisis or an unexpected event occurs. In contrast to crisis management, which is reactive, contingency planning is more proactive. Companies try to predict potential issues and address them before they arise.

A contingency plan is sometimes referred to as ‘a plan B if plan A goes wrong’. At the centre of every contingency plan is the question, ‘What if?’ A business is likely to have a range of different contingency plans for different types of events. For example, the actions required in the event of a major strike in a factory will be very different from those needed if the computer systems are hacked.

Many businesses have departments that specialise in risk management or safety. In addition to having certain people focused on contingency planning, a business must prepare all employees for the crises that may arise. Below are some types of departments that mainly focus on crisis prevention and contingency planning:

- risk management at an investment bank
- safety management at a factory
- compliance department in a financial institution



Figure 1. The job of the safety manager at a factory is to ensure workers comply with safety measures to prevent accidents, such as chemical spills and injuries.

Credit: sinology, Getty Images

Contingency planning is necessary for many businesses and is often required by law. An example is when a business needs to comply with laws regarding employee safety. Whether mandated or voluntary, contingency planning is a wise business precaution.

Exam tip

Students sometimes confuse crisis management and contingency planning, so this section is meant to help you clearly understand the difference between the two processes.

Activity

Learner profile: Inquirers

Approaches to learning: Thinking skills (transfer)

Global warming, extreme weather and access to energy are all challenges of current times and require adaptation strategies. Businesses should proactively plan for these events when designing projects and products.

- Look at the [Top 10 sustainable buildings](https://sustainabilitymag.com/top10/top-10-sustainable-buildings-0) (<https://sustainabilitymag.com/top10/top-10-sustainable-buildings-0>) according to Sustainability Magazine.

- Write down which features of the buildings could be considered contingency planning features for climate change (extreme climates, high temperatures, water shortages, etc).