

5.7 Crisis management and contingency planning (HL)

Effective crisis management

The aim of any crisis management situation is to return to normal business operations as quickly as possible. As with contingency planning, details of crisis management will vary according to the situation. Effective crisis management depends on the following:

- communication
- transparency
- speed
- control

Communication

Effective communication with both external and internal stakeholders is essential in times of crisis. Initially, internal one-way communication with employees ensures that everyone understands the problem, the plan and their responsibilities. After this, two-way communication may also be necessary. Listening to the viewpoints of employees can help managers fully understand a problem, find potential solutions and increase motivation levels. You learned about the importance of employee participation and empowerment in [Subtopic 2.4 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39054\)](https://study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39054) on motivation.

External communication is equally as important. Keeping an ongoing dialogue with suppliers, customers and the public can earn goodwill when it is needed most. This contrasts with the view that a company crisis should be kept secret for fear of upsetting stakeholders. Deciding not to communicate is a risky strategy; trust may be damaged beyond repair if it is subsequently discovered that there was a cover up.

Transparency

Transparency and full disclosure of the seriousness of the situation may be the best option in a crisis. When disaster strikes, people are generally sympathetic. However, if they later discover that information has been hidden, this sympathy will disappear. In the Volkswagen (VW) case described in the [\(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39527\)](https://study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39527) [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), the company initially tried to suppress evidence of its

wrongdoings. It was only when irrefutable evidence was collected that VW began to communicate transparently. Coming clean and paying for damages, along with restructuring, allowed the company to move forward and restore its image.

Businesses in crisis should be transparent with employees too. The team will most likely be on board with the decisions if it is clear to them how and why certain decisions are taken.

Further, when it comes to environmental damage, communication and timely action is often mandated by the local and national governments, and keeping stakeholders informed can limit potential liability in the future. It is also the ethical thing to do.



Figure 1. Communication and transparency allow for a team to work together in a crisis.

Speed

The goal of crisis management is to return to normal business operations as soon as possible. Rapid decision-making and effective implementation of those decisions will help achieve this aim. The use of a contingency plan can help. If plans are relevant and are followed, they can allow managers to make rapid decisions in response to the unfolding crisis.

Making connections

In [Subtopic 3.4 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39045\)](/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39045), you learned about the working capital cycle and how important it is to maintain enough current assets to cover current liabilities. Sufficient working capital will also allow the business to adjust quickly in a crisis. It makes a business more resilient.

Control

In [Subtopic 2.2 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39353\)](/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39353), you considered organisational structure. An organisational structure that is well understood by all members of an organisation may be helpful in times of crisis because it makes the chain of command and responsibilities clearer. The ability to delegate to competent middle managers may enable the business to be resilient in the face of a crisis. Having a narrow span of control and a well-defined hierarchy may be helpful to mobilise and control a response to a crisis, with orders moving down the chain of command quickly. However, this only applies if effective leaders are in place and the crisis does not involve the leaders themselves.

Making connections

A crisis is one of the few situations where an autocratic leadership style might be the most effective ([Subtopic 2.3 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39392\)](/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39392)). Autocratic leaders make quick decisions and ensure that actions are carried out, which can lead to an effective response in a crisis. In addition, people may be motivated by strong, decisive leadership in times of crisis.



Figure 2. Some employees may be motivated by autocratic leaders in a crisis.

Activity

Learner profile: Inquirers

Approaches to learning: Thinking skills (critical thinking)

Crisis management and public relations services are businesses in themselves. There are companies that specialise in supporting businesses through a crisis and helping to restore reputations afterwards.

- Access the website of the UK company, Only Crisis, (<https://www.onlycrisis.com/services/>), which specialises in crisis management.
- Select one of the services provided by the company and read the brief card about the service.
- Identify some skills that would be needed by a crisis management specialist to deliver this crisis management and public relations service to businesses.

Case study

After two Boeing 737 MAX aeroplane crashes in 2018 and 2019, most airlines grounded their MAXs. It turned out that Boeing had included a computer override feature that tilted the plane downwards, but had failed to train the pilots on the system. In the year of the second crash (2019), Boeing experienced the largest quarterly loss and had to pay settlements to victims and families.

The crisis hit the company hard financially. The 737 MAX was forecast to provide 33% of Boeing's revenues into the mid-2020s. Not only were existing planes grounded, but construction and delivery of new planes was stopped. This negatively affected the cash flow of the company.

Boeing's response consisted of the following steps:

- The chief executive of the business, Dennis Muilenburg, was fired.
- Extensive training was conducted for the pilots.
- US Federal Aviation Administration (FAA) regulators were closely involved in the reauthorisation process.

However, Boeing did not pursue a media campaign to re-establish confidence, which left many flyers unsure of the steps they were taking.

After almost two years after the first crash and extensive tests, the FAA lifted the grounding order for the Boeing 737 MAX aeroplane model.



Figure 3. Crisis management may be necessary for an airline.

Credit: Aaron Foster, Getty Images

Questions

1. Define cash flow. [2 marks]
2. Explain **one** way that Boeing could have improved its crisis management during the 737 MAX crisis. [2 marks]