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Teacher view

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- The big picture
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 5. Operations management / 5.7 Crisis management and contingency planning (HL)

Notebook

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The big picture

In September 2015, car manufacturer Volkswagen (VW) found itself in a crisis when it was forced to admit it had been cheating US emissions tests for certain polluting gases.

VW had developed a technology that could determine when a car's emissions were being tested. When a test was detected, the engine would run at a slower pace, producing less pollution, so that it passed the strict US testing standards. Once the car was back on the road, the engine would return to normal. As a result, the engines emitted nitrogen oxide pollutants up to 40 times the level allowed in the US.

VW has admitted that the technology had been fitted to about 11 million cars worldwide. 'We've totally screwed up', said VW America boss, Michael Horn. The group's chief executive at the time, Martin Winterkorn, said his company had 'broken the trust of our customers and the public'. Mr Winterkorn resigned as a result of the scandal.

In March 2017, the company pleaded guilty to conspiracy and obstruction. Summing up the scandal, assistant US attorney John Neal said it was a 'calculated offence', not a 'momentary lapse of judgement'. The total cost to VW of the scandal is estimated at \$30 billion, including a pledge to repair or buy back vehicles.

To reclaim its brand name after the scandal, VW replaced the company's leadership, restructured the organisation and made a move towards electric vehicles while remarketing its diesel cars. The company was able to recover from the crisis and its sales continued to increase.

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Figure 1. Volkswagen was able to recover after its crisis and sales increased in the following years.

Credit: ChrisHepburn, Getty Images

This crisis at VW could and should have been avoided with appropriate oversight from managers. Some crises, however, are completely unpredictable. These include natural disasters such as earthquakes or a flash floods, and businesses need to plan for when such crises might occur.

A crisis is an unpredicted event that can have large negative consequences by causing major disruption to normal business operations. A crisis can range from a fire to disruptions in the supply chain, which you have learned about in previous subtopics. A crisis will affect every business at some point. This subtopic considers how to deal with crises and how to plan for potential disruptions. This type of planning is called contingency planning.



Figure 2. Contingency planning happens before a crisis; crisis management happens during a crisis.

Concept

Creativity

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Student view



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Did you know that duct tape save the lives of the Apollo 13 astronauts?

The crew members of the 1970 Apollo 13 space mission faced the ultimate crisis: they were going to run out of oxygen before they could return to Earth. The situation called for a creative solution. The astronauts had to create a filter using only what was available on board the spacecraft. They managed to do this, using duct tape to ensure that the filter they created had air-tight seals.

- Think of ways that you — or a business with which you are familiar — have had to use creativity during a crisis.

Learning objectives from the IBDP Business Management guide with assessment objective level:

- **Distinguish** between crisis management and contingency planning (AO2)
- **Analyse** the factors that affect effective crisis management, including:
 - transparency
 - communication
 - speed
 - control
- **Examine** the impact of contingency planning for a given organisation or situation in terms of: (AO3)
 - cost
 - time
 - risk
 - safety

5. Operations management / 5.7 Crisis management and contingency planning (HL)

Crisis management versus contingency planning

Crisis management and contingency planning (HL)

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

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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/business-hl/sid-351-cid-762729/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.

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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

Section

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Feedback



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Assign



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.

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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) 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).

2 section questions ^

Question 1

What is the aim of crisis management?

- 1 To return to normal business operations as swiftly as possible.
- 2 To predict a crisis
- 3 To stop a crisis from occurring
- 4 To plan major business disruptions

Explanation

The aim of any crisis management situation is to return to normal business operations as swiftly as possible. As is the case with contingency planning, details of crisis management will vary depending on the situation.

Crisis management can never predict or prevent a problem from occurring. Its aim is to allow a company to deal with these problems as they happen.



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**Question 2**

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Which of the following is an advantage of contingency planning?

- 1 It gives companies an opportunity to think of worst-case scenarios. ✓
- 2 A poorly thought-out plan could lead to poor decision making.
- 3 Specific crises are impossible to predict.
- 4 The plan takes time to write and update but may never be used.

Explanation

Contingency plans are about asking ‘What if?’ questions. They should be designed with the worst possible situations in mind. Planning what to do in these situations can help reduce their impact.

The other choices are all disadvantages of contingency planning.

5. Operations management / 5.7 Crisis management and contingency planning (HL)

Effective crisis management

The factors of crisis management (HL)

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

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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/business-hl/sid-351-cid-762729/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 Section 5.7.0 (/study/app/business-hl/sid-351-cid-762729/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

Overview

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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 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39045/\)](#), 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 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39353/\)](#), 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 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39392/\)](#)). 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.



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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/), ↗ (<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:

Student view



- 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]

Question 1

Cash flow refers to payments received by a business and payments made by a business, or inflows and outflows of cash.

Define is an AO1 level command term, requiring the precise meaning of a term.

- One mark is given for a vague definition.
- Two marks are given for a complete definition.
- Definitions do not require application to the stimulus material.

Question 2

Crisis management involves the steps that a business or any organisation can take to limit the damage caused by an unpredicted event or crisis. Effective crisis management involves communication, transparency, speed and control. In the case of Boeing's 737 MAX crisis, the company probably could have

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improved external communication. The text mentions that Boeing 'did not pursue a media campaign to re-establish confidence, which left many flyers unsure'. This may make customers less willing to fly with airlines or on routes where the 737 MAX is used.

Explain is an AO2 level command term, requiring a detailed account including reasons or causes. Explain *why*, explain *how*.

- Other responses are possible and would be rewarded if appropriate. The responses should be related to the factors that affect effective crisis management.
- To achieve full marks, you must always include theory and application to the case study in your responses to the **explain** command term.

3 section questions ^

Question 1

Which type of leader may be most effective in times of crisis when it comes to the speed of decision-making?

- 1 Autocratic leader
- 2 Democratic leader
- 3 Laissez-faire leader
- 4 Paternalistic leader



Explanation

An autocratic leader does not need to seek input into their decision-making and so may be the fastest to make and communicate decisions.

A democratic leader generally seeks input and may take longer to make decisions in a crisis. A laissez-faire leader does not generally have the capacity to make most decisions, as their subordinates hold a lot of decision-making power. A paternalistic leader is a type of leader that acts as a father figure.

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Question 2



What is the role of a contingency plan in a crisis?

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- 1 It can allow managers to make rapid decisions in response to the unfolding crisis. ✓
- 2 It allows the business to hire the most competent employees.
- 3 It does not need to be updated regularly.
- 4 It does not need to be updated regularly.

Explanation

An updated and relevant contingency plan will tell members of an organisation how to proceed in case of a crisis. It is not used in the hiring process and it should be updated regularly. The entire purpose of a contingency plan is to support appropriate action in a crisis.

Question 3

Which of the following is **not** a factor that affects effective crisis management?

- 1 Number of shareholders ✓
- 2 Speed
- 3 Transparency
- 4 Control

Explanation

Speed, transparency and control are all factors that affect effective crisis management. The number of shareholders does **not** affect effective crisis management.

5. Operations management / 5.7 Crisis management and contingency planning (HL)

The impact of contingency planning

The impact of contingency planning (HL)

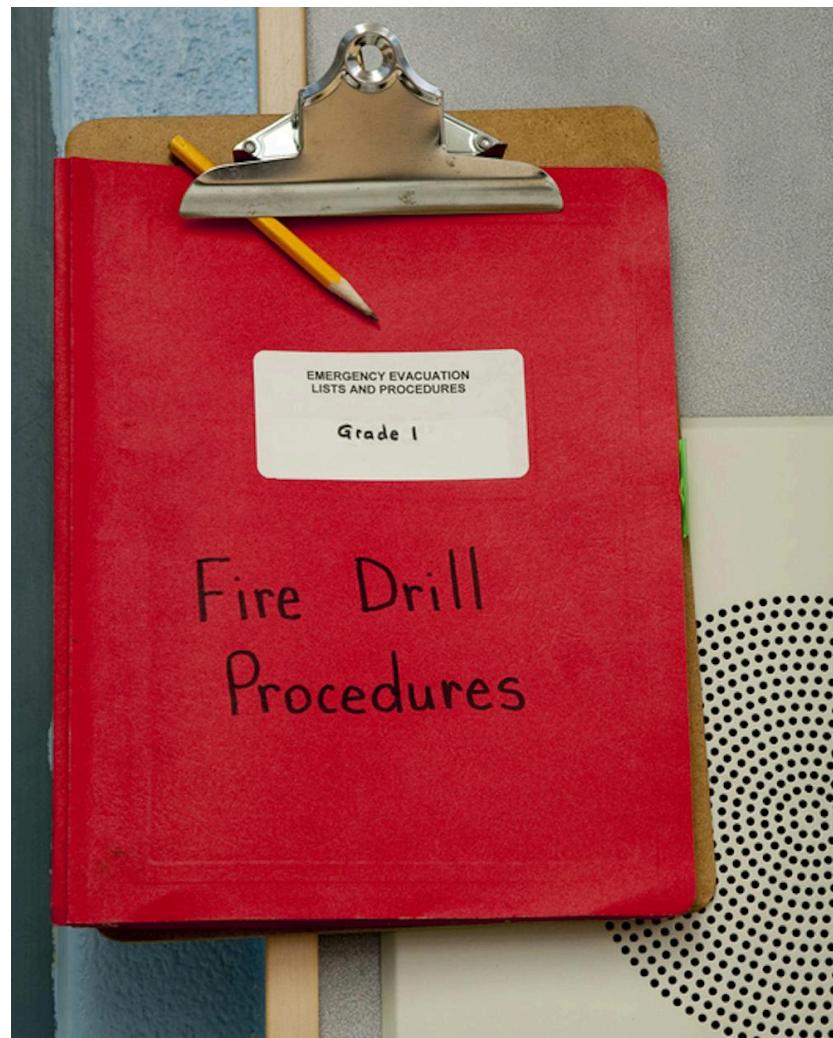


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view

- Contingency planning is all about asking ‘What if?’ questions about the future. If the worst does happen, a contingency plan can be indispensable.
- Many diverse organisations use contingency plans. Theatre companies have understudies in case lead actors fall ill. Schools practise drills so that students know what to do in the event of an emergency such as a fire. Governments even prepare national contingency plans that may be needed in the case of a national crisis.

In the event of a major incident, contingency plans can make the situation less chaotic. With a detailed contingency plan, people know what to do, where to go and from whom to seek help if they need it.

Next time your school holds an emergency drill, keep an eye on your teachers. If things go smoothly, you will see them going through the steps of the school’s contingency plan. If it is a fire drill, for example, students will be gathered together in a safe place. Next, a register will be taken to make sure everyone is accounted for. While this is going on, it is likely that additional members of staff will be going from room to room, checking that no one has been left behind. It is very unlikely that a real emergency will ever occur at your school, but if it did, drills ensure that everyone knows what to do.



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Figure 1. A fire drill procedure is an example of a contingency plan.

Credit: Gail Shotlander, Getty Images

There are some downsides to contingency planning; the planning takes time and resources. But not having a plan may leave a company in a terrible situation after a crisis.

In this section you will look at the impact of contingency planning on an organisation in terms of:

- cost
- time
- risk
- safety

Cost

If a crisis does occur, contingency plans are designed to help managers make rapid, well-judged decisions and minimise the cost of a crisis, such as paying out damages, or losing staff, machinery and customers. Having a plan minimises the chance of managers making costly mistakes in a high-pressure environment.

For plans to be relevant, they need to be reviewed and updated regularly. This has an opportunity cost in terms of resources. Consider how effective it is to develop a range of different plans for diverse situations. The actions that need to be taken in the event of a computer failure, for example, will be different from those needed for a product recall. For small businesses, it may be too costly to allocate staff resources to develop contingency plans that may never be used. A larger business may have teams of employees who only work on contingency planning.

When planning for contingencies, businesses often purchase insurance that covers costs resulting from things like severe weather events or employee injury. While insurance may be worthwhile, it carries a monthly cost that needs to become part of the budget and would divert funds from other activities.

🔗 Making connections

Banks are generally required by the government to be ready for a crisis. They are required to have an 'emergency reserve', which is a percentage of their overall deposits, to ensure that depositors can be paid if there is a run on the bank. The trade-off of this policy is that not all of the clients' money can be invested, reducing

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Time

‘It takes 20 years to build a reputation and five minutes to ruin it.’ (Warren Buffett, CEO of Berkshire Hathaway Inc)

At times of crisis, a detailed plan should aid swift decision-making. This can be invaluable. If solutions to potential problems are evaluated in advance, then rapid implementation should be possible. The business should be able to return to normal quickly and minimise losses.

Actions that are swift and well thought out help to reassure all stakeholders that the crisis is being dealt with and is under control. This is why it is common for contingency plans to include a detailed communications strategy that outlines how customers, staff and potentially the media will be contacted in the event of a crisis.

The time involved in creating and regularly updating a contingency plan needs to be considered in relation to the time or speed needed to act in times of crisis. Time spent now could increase speed later, which will be a critical factor in the effectiveness of crisis management.



Figure 2. Swift action allows leaders to bring a crisis under control and may prevent significant human and financial loss.

Credit: Sofiya Salonko, Getty Images



Student view



Risk

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An effective plan can help to minimise the risk of potential accidents or loss of life. For example, in a large chemical plant, a chemical spill could have fatal consequences. Specific contingency plans will therefore need to be in place to contain the spill while protecting employees, equipment, machinery and the general public.

Safety

Your school probably has a contingency plan for dealing with extreme weather conditions or a student being seriously injured on the sports field. These plans exist to keep everyone as safe as possible. They try to ensure staff (and students) know what to do without having to think it through from scratch at the time of the emergency. If a snowstorm means students might all be stranded at school before the end of the day, it would be a good idea to have a plan in place that smoothly arranges to get everyone home before that. Some organisations have emergency messaging trees, where it is outlined who is expected to message whom in case of a school closure or an emergency. Having an additional layer of peer-to-peer communication can be helpful to ensure safety.

If a crisis did occur, how similar would the actions be to those written in the contingency plan? Consider the example of a school fire drill again. In reality, everyone knows it is a drill and not everyone will take it that seriously. In the event of a real fire, however, panic and confusion might set in. People can react in unpredictable ways and events may develop rapidly. If a contingency plan does not take these factors into account, its use is limited.

To be useful, contingency plans need an investment of both time and money. If they are not updated regularly, they may even become outdated and do more harm than good.

A contingency plan will never hold all the answers, however. The plan is an initial guide to rely on when disaster strikes. In times of crisis, situations may develop quickly and plans may need to be adapted to the situation.



Theory of Knowledge

The nature of crises can be unpredictable and difficult to plan for. Contingency plans help, but they are limited.

- To what extent can the human sciences provide accurate predictions? (IBDP Business Management guide)





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Activity

Learner profile: Inquirers

Approaches to learning: Thinking skills (transfer)

Emergency plans may include fire drills, lockdown drills, and/or earthquake drills, amongst other things.

- Interview an administrator at your school. Find out what emergency plans and procedures they have in place.



Figure 3. Chilean schoolchildren, teachers and staff are regularly given training on earthquake safety.

Credit: Plan Shoot / Imazins, Getty Images

3 section questions ^

Question 1

Insurance, which can be a part of an effective contingency plan:

- 1 Carries a cost ✓
- 2 Requires an investment of time
- 3 Increases risk ✗

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- 4 Addresses any safety issues

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Explanation

Insurance can be very helpful in case of an accident or a natural disaster. However, a business would need to make monthly premiums which carry a cost.

Insurance does not require a sufficient investment of time. It is aimed to decrease risk, not to increase it. Insurance does not help address safety issues, and insurance providers may not cover a business if there is a safety issue that was not addressed.

Question 2

An advantage of contingency planning is that it can decrease:

- 1 Risk ✓
- 2 Safety
- 3 The probability of a natural disaster
- 4 The time devoted to it

Explanation

Contingency planning can decrease some, but not all, risks.

Contingency planning carries a cost, and generally having a plan increases costs, as the plan needs to be prepared and maintained. The probability of a natural disaster is not decreased by planning. Contingency planning is time-consuming therefore 'time' is the incorrect choice.

Question 3

Without being updated, a contingency plan can quickly become:

- 1 Outdated ✓
- 2 Current
- 3 Relevant
- 4 Illegible ✖

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Explanation

Without regular updating, a contingency plan may quickly become outdated. This is because new construction, systems and employees may render old plans obsolete. Without being kept up-to-date, the plan would not be current or relevant. It is unlikely that the plan will become illegible.

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Terminology exercise

Section

Student... (0/0)

Feedback



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Assign

Check that you understand the terminology used in this subtopic by dragging the correct word into each space.

A _____ is an unpredicted event that poses a risk to a business. It may involve internal or external events.

The response to a crisis requires crisis _____ – the steps a business or any organisation can take to limit the damage caused by an unpredicted event or crisis. A well organised response can help an organisation to recover quickly from the crisis and suffer minimal losses.

Businesses often create _____ plans, which are plans of action in case of an unexpected event. These plans take time and have a cost to create. But they can save time and costs during a crisis, lowering risk and improving safety.

crisis

contingency

management

Check

Interactive 1. Understanding Crisis Management and Contingency Planning.

5. Operations management / 5.7 Crisis management and contingency planning (HL)

Checklist



Student view

What you should know

By the end of this subtopic, you should be able to:

- define the following terms: (AO1)
 - crisis management
 - contingency plan
- distinguish between crisis management and contingency planning (AO2)
- analyse the factors that affect effective crisis management, including:
 - transparency
 - communication
 - speed
 - control(AO2)
- examine the impact of contingency planning for a given organisation or situation in terms of: (AO3)
 - cost
 - time
 - risk
 - safety(AO3)

5. Operations management / 5.7 Crisis management and contingency planning (HL)

Reflection

Teacher instructions

The goal of this section is to encourage students to pause at the end of the subtopic and to reflect on their learning. Students can use the questions provided below to guide their reflection. The questions encourage students to look at the bigger picture and to consider how the subtopic's contents might have impacted the way they view the subject.



The following table shows you how each prompt aligns to the DP *Business management guide*:

Prompt #	Syllabus alignment
1	Concept: Change
2	Learner profile: Thinkers
3	Learner profile: Open-minded

Students can submit their reflections to you by clicking on ‘Submit’. You will then see their answers in the ‘Insights’ part of the Kognity platform.



Reflection

In this subtopic you learned about crisis management and contingency planning.

Take a moment to reflect on your learning so far. You can use the following questions to guide your reflection. If you click ‘Submit’, your answers will be shared with your teacher.

1. With advances in technology, crisis management and contingency planning are changing. For example, today's businesses can be vulnerable to cyber attacks or deep fakes. What kind of threats do you predict businesses should be ready for in 10 or 20 years from now?
2. How does your school or your family carry out contingency planning? To what extent are they appropriate for the potential risks?
3. Is it possible for a business to do too much contingency planning? What would that look like?

Section

Student... (0/0)

Feedback

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Assign

Once you submit your response, you won't be able to edit it.



 Submit

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Rate subtopic 5.7 Crisis management and contingency planning (HL)

Help us improve the content and user experience.



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