

## A REVIEW OF APPROACHES TO UNDERSTANDING CORPORATE CRISIS

*In the article, the main academic approaches to understanding corporate crisis are reviewed. Following the outline of crisis definitions by the crisis management field researchers, reasoning regarding the essence of crises, their impact on enterprises, and guidelines on how to manage them are presented. Conclusions are made regarding the further organizational crisis concept research.*

**Keywords:** organization, corporate crisis, crisis management, decision making, process view.

Considerable attention has been drawn recently to the notion of crisis. The fluid and changing conditions on local, regional, and world arenas make the existence and functioning of households, organizations, and even states to some extent unpredictable. The measures that the economic actors take to assure their future performance allow them to limit such unpredictability, yet the areas which appeared to have escaped the scope of managerial consideration often give rise to the development of detrimental corporate crises. Such crises are deemed to have damaging effects not only on the corporations themselves but also on the wide range of connected stakeholders. Therefore, the study of crisis remains topical in the today's variable environment.

The aim of this article is to systemize the existing knowledge on understanding the notion corporate crisis and present the peculiar views of management field researchers on the subject.

The definition of crisis has raised considerable debate in the academic literature and it appears there is still no agreed collective acceptance of the precise meaning of crises [7, p. 9–10]. Yet, many scholars and practitioners support a broad concept of crisis as a low probability and highly subversive occurrence citing the descriptive definition of Pearson and Clair: “An organizational crisis is a high impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effect and means of resolution, as well as by a belief that decisions must be made swiftly” [12, p. 60].

Müller also follows such a definition, regarding corporate crisis as an unwanted event which always seriously threatens the future existence of the firm. According to him crisis can have several distinct features. It can occur from the failure of a firm to gain or sustain its foundations in the market, for example its market share, product differentiation, know-how or cost advantage, which is called a strategic crisis. A crisis can also arise when a firm

continuously fails to meet its goals, such as sales growth or profitability resulting in a performance crisis. Finally a crisis can also occur when a firm can no longer meet its obligations; the result is a liquidity crisis [11, p. 39].

Hermann [6] defined a crisis as a situation in which the principal goal of decision makers is under threat, the time to respond is limited, and the emergence of crisis is out of expectation of the decision makers. Rosental and Pijenburg [15] considered it as a context where severe threat, uncertainty and a feeling of danger are present. Barton [1] suggested that a crisis is an uncertain great event because of which potential negative effects may occur, and such an event with its aftereffects are considered to result in significant damage to a company, its employees, products, services, assets and reputation. Lerbinger [9] perceives a crisis as an event that brings or can bring a company into disrepute and threatens its future profitability, growth, and its existence. Fishman [4] states that enterprise crises are changes in which unpredictable events emerge, the company has very little time for response actions, and communication context involves many kinds of relationships. Ray [13] tends to view a crisis as an event with a low-probability of occurring, has a high-impact effect which threatens the viability of the organization, as well as may be characterized by ambiguity of cause, effect, and means of resolution, and by a belief that decisions must be made very quickly.

Hamblin, Holsti, as well as Robinson also have defined the term “crisis” focusing on the threat to key organizational values, and short response time available to the decision-makers. Unawareness of the problem and rarity is also a feature of all crisis events [3, p. 182].

It worth noting that a crisis can be interpreted as a crisis only in relation to other non-crisis events, periods, stages, or states. This means it cannot be understood as a single isolated phenomenon because

of its relative nature. A crisis may highlight weaknesses, blind spots, interests, stakes, or values that were neglected before and must be addressed currently. Hence, a crisis is worth attention as a driver of organization processes before, during and after a crisis [19, p. 17].

Boodman's [2] reasoning about corporate accidents can be viewed in line with the abovementioned definitions of crises. He assumes that accidents are one of the main sources of business loss and advises not to regard them as any kind of a mysterious occurrence. He states that based on an abrupt occurrence or an accumulated series of events, losses can have a rational explanation in terms of the laws of nature as well as their sources can be revealed. However, he sees accidents as random events, thus their timing and their magnitude are hard to anticipate. Yet, they can be prevented or their consequences lessened without knowing when they will occur or how they will occur [2, p. 92–93].

King, III stresses that a crisis has the potential of dismantling the internal and external structure of an organization, can occur in any organization and may compromise the legitimacy of an organization [8, p. 237].

Fearn-Banks defines a crisis as “a major occurrence with potentially negative outcome affecting an organization, company, or industry, as well as its publics, products, services, or good name” [8, p. 236]. Hamblin argues a crisis is “...an urgent situation in which all group members face a common threat” [8, p. 236]. Pauchant and Mitroff perceive a crisis as “a disruption that physically affects a system as a whole and threatens its basic assumptions, its subjective sense of self, its existential core” [8, p. 237]. Fink (1986) claims a crisis is any event that may become a crisis and interfere with normal business operations, and affect the image and sustainability of a company [8, p. 237].

These definitions are different but they do share a common emphasis on certain essential characters of crisis, such as threat, limited time to react, and uncertainty of the results [20, p. 1–2]. All of them also regard crisis as a discrete event. Yet, many contemporary scholars have been shifting their views towards understanding crisis as a process spread in time.

The current trend in crisis research is to view crisis as part of an on-going process rather than as a demarcated event. The dynamic focus of modern crisis research means that more challenging prospects of studying long-run processes have to be addressed. Crises are becoming catalysts of continuity and change.

Topper and Lagadec draw attention to the fact that crises appear to have taken on a completely new dimension and lost their status of being isolated

accidents capable of threatening large subsystems [18, p. 5]. The researchers conclude this might have changed the core of the existing theoretical ground of crisis theory in use [18]. Shrivastava also emphasizes that crises are not events, but processes that are extended in time and place [17]. Hart, Heise, and Boin also disagree with the discrete understanding of crises, calling them “high intensity nodes” and “on-going streams of social interactions” [5].

Some adversities take a very long time to develop into full-scale crises. So-called creeping crises are a particularly important category [15, p. 5–6].

In the process understanding of crises, there is more emphasis on the pre- and post-crisis stages, and not only the important crisis response. It is necessary to explain how crises build up, that is, how organizational environment develops into a favorable ground for the crisis to be triggered. The occurrence of the crisis appears to be a cumulative process of organizational failures, a process of cumulating imperfections, a process of cumulating managerial ignorance, or a process of weakening, or it can be simultaneously portrayed as an opportunity to become stronger [18, p. 22].

Most researchers agree that crises bring negative effects like physical damage, uncertainties of further economic growth and development, employment figures and international and domestic competitiveness [14, p. 2]. Large-scale corporate crises often gave serious implications for the public sector and may arouse considerable collective stress [14, p. 9]. Most crisis situations seem to reduce the quality and quantity of performance as they generate above-moderate levels of stress and anxiety on the part of organizational members [3, p. 183]. Corporate crises may be viewed as disasters generated by people, organizational structures, economics, or technology that cause extensive damage to human life and natural and social environments. Some authors argue that they inevitably debilitate both the financial structure and the reputation of a large organization [10, p. 283]. A crisis situation is also characterized by information delays, overload, and distortion [3, p. 189].

However, organizational crises remain to be highly ambiguous, where causes and effects are unknown and an important question is present whether the crisis decisions will result in change for better or worse [12, p. 60]. Depending upon the nature and seriousness of the crisis situation, the abilities and characteristics of the decision-maker, and other situational variables, the crisis may have beneficial or dysfunctional outcomes [3, p. 182]. Müller argue that crisis situations offer better pre-conditions for process and product innovation than

good profitability does [11, p. 47]. Snyder points out that a crisis can either lead to closer integration of the organization, emergence of necessary innovations for meeting the crisis, re-assessment of accepted organizational values, or it may induce destructive behaviour which threatens the organization's effectiveness and viability [8, p. 183].

The main task of investigating crises is not to evaluate the existing situation, but rather to analyse the dynamics of the situation both retrospectively and prospectively. Focus on a long-term horizon may serve not only to prevent managers from seeking short-run success while jeopardizing future perspectives, but also to ease the search for better alternatives and business possibilities [14, p. 5].

Van Laer states that neither the event nor the process view can fully address the study of the boundaries between crisis and non-crisis, which are extremely fluid on interpretive, temporal and organizational dimensions, especially with regard to the fact that different actors simultaneously can have different perceptions on whether the issue at stake is crisis or non-crisis, on who is part of the organizational handling this issue and on when it started and ended. Crisis is still a subjective interpretation by involved actors as it is based on the contrast with past and current expectations, actions, attentiveness, stakes and interests, and becomes urgent, essential and difficult to cope with, due to a clear acknowledgement of numerous unexpected and unwanted consequences and the uncertainty and ambiguity about its identification and effects of mitigating actions [19, p. 22–23].

Topper and Lagadec argue that to study a crisis is to study the exception of to the rule, meaning there are a lot of unanswered "how?" questions. Dealing with crisis is dealing with irrational. The authors argue that in such a sense, the very idea of a 'theory' of crisis appeared and still appears quite contradictory. They also stress the urgency of establishing as a founding principle the fact that crisis studies cannot satisfy the requirements of classical theoretical models [18, p. 7].

The non-uniformity of crisis theory and the cross-disciplinary nature of organizational crises have contributed to lack of integration [16]. As organizational crises inherently are phenomena for which psychological, social-political, and technological-structural issues act as important forces in their creation and management, researchers believe that crises must be studied and managed using a systems approach [12, p. 59].

Crisis is an inevitable part of enterprise functioning. They can be described as rare occurrences to which organizations are usually ill-prepared. Most researchers define crises through a prism of depicting their negative influence on enterprise activities; however, views exist that crises can lead also to positive outcomes if they are adequately managed.

Moreover, it appears that corporate crisis research is multifaceted as it exists on the disciplinary border. Therefore, broadening the approaches to studying crises should allow for a more full understanding of the key concepts, as well as promote more effective decision making practice in the crisis management field.

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## ОГЛЯД ПІДХОДІВ ДО РОЗУМІННЯ КРИЗИ НА ПІДПРИЄМСТВІ

*У статті розглянуто основні академічні підходи до визначення організаційних криз. Разом із оглядом визначень поняття «криза» дослідниками сфери антикризового управління, наведено міркування щодо суті криз, їхнього впливу на підприємства та настанов управління ними. Зроблено висновки щодо розвитку подальших досліджень у сфері криз на підприємствах.*

**Ключові слова:** організація, криза на підприємстві, антикризове управління, прийняття рішень, процесний підхід.

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## МЕТОД ПОБУДОВИ МОДЕЛІ БІЗНЕС-ПРОЦЕСІВ НА БАЗІ ФІНАНСОВОЇ ЗВІТНОСТІ ПІДПРИЄМСТВА

*Аналіз бізнес-процесів є важливим елементом для розуміння діяльності організації, її стану та перспективи розвитку. Такий аналіз, як правило, проводиться на базі загальнодоступної інформації, а також деяких внутрішніх джерел. Однак для інвесторів іноді внутрішні джерела є недоступними, а тому постає питання, як саме можна здійснити побудову моделі бізнес-процесів на базі фінансової звітності підприємства. У цій роботі показано шляхи побудови такої моделі та виокремлено основні функціональні центри процесів бізнес-одиниці, що формують основу функціонування підприємства.*

**Ключові слова:** бізнес-процеси, фінансова звітність, моделювання, інвестування, менеджмент.

На сьогодні існує низка методів оцінки стану підприємства. Більшість з них базується на фінансовій звітності, оскільки доступ до внутрішньої документації може бути відсутнім, а звітність має бути у вільному доступі. Одним із найбільш вживаних серед таких прийомів є оцінка фінансових показників. Однак хоча він і є досить хорошим способом аналізу, все ж іноді не може дати комплексного уявлення про стан підприємства у довготерміновій перспективі, для чого потрібно розуміти суть процесів. Від-

повідно, логічним є питання про розробку моделей на базі фінансової звітності, які могли б дати комплексне уявлення про роботу підприємства загалом.

**Огляд досліджень і публікацій.** Моделі підприємства будуються провідними дослідниками в рамках системної динаміки, серед яких варто відзначити Кіма Уорена. Також низка дослідників визначають основні департаменти, які повинно включати підприємство, зокрема Т. Давенпорт, П. Берtrand, В. Абрамович, А. Філіповська