CONSIDERATIONS ON BUSINESS MANAGEMENT IN TIMES OF CRISIS

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ABSTRACT: *Pandemics, alongside various crises, present novel challenges to businesses. Within the realm of startups, accustomed to navigating dynamic and unforeseen scenarios from their inception, these emerging challenges are viewed as routine and expected. Startups inherently embody characteristics such as agility, tolerance, and adaptability, enabling them to naturally pivot and adjust internal processes more effectively compared to counterparts in different business sectors. However, the onset of the COVID-19 pandemic introduced a dynamic that posed unprecedented challenges for startup founders, necessitating a comprehensive reassessment to discern, define, and strategically plan their management. These challenges encompassed the reassessment of market needs, incorporating considerations such as marketing and purchasing strategies during shutdowns; realigning market expectations to include swift delivery of goods and enhanced, personalized services; and addressing established habits, such as the need for businesses relying on physical interactions to reorganize their processes and activities. Changes in values also emerged, compelling startups to incorporate or reinforce new models of 'doing good' or community values. While startups were able to transform some of these profound changes into opportunities, each potential avenue, fraught with the risk of failure, mandated a restructuring of internal business processes and the judicious reallocation of resources to effectively navigate the ensuing transformations.*

KEY WORDS: *crisis, management, strategy.*

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1. INTRODUCTION

Crisis events manifest in diverse dimensions, often transitioning unexpectedly into singular crises or evolving into a series of sequential or multiple crises. Precision in delineating the confines of these crisis events emerges as a potent methodology for unraveling the intricacies of the crisis phenomenon. Historical precedent underscores instances where catastrophic events with significant ramifications for a sizable populace

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went relatively unnoticed, juxtaposed with ostensibly less severe occurrences that escalated into consequential crises.

This study introduces the concept of a crisis portfolio, marking its boundaries through a nuanced distinction between disruptive events and crises. Particular emphasis is placed on three pivotal components crucial for an event's metamorphosis into a crisis: disruption, the presence of a substantial threat, and a time-sensitive contingency.

Illustrations of disruptive event indicators include considerations such as the subject matter of the event, the affected stakeholders, the influence wielded by affected individuals, concurrent manifestation of multiple crises, and temporal factors. A comprehensive enumeration of core crisis topics, spanning health, education, environment, finance-related issues, and conflicts, is presented. The intricate interrelationships among these topics, their subtopics, and the direct and indirect ramifications on a startup's modus operandi are scrutinized to elucidate how startups navigate and undergo crisis episodes, examining both the pragmatic and perceptual aftermath of crises.

Sequential and multiple crises are delineated to underscore the complexity inherent in these 'crisis packages' for startups. Lastly, crisis indicators derived from research are synthesized into a cohesive 'package of indicators. Although these indicators may initially appear generalized and unrelated, embedding them within the crisis dimensions can give rise to diverse crisis portfolios. This approach has the potential to convert disruptive events into crises while mitigating the impact of crises in alternative scenarios. The encompassed indicators include considerations of duration, timing, recurrence, location, dynamics, the extent of hardship on affected individuals, and various forms of damage.

2. PREPARATION FOR CRISIS

Crises are broadly characterized as unforeseen and impactful incidents posing significant threats to a large population, marked by disorderly conditions and inherent uncertainty. However, the transformation of events into crises is not a universal outcome, and hinges on three critical components: the event's actual or perceived disruption, characterized by unexpected and uncontrollable features; its classification as a major threat, involving harm to individuals, property damage, or disruption of normal life; and its association with time pressure.

Objective elements alone, even within definitively catastrophic events, may not necessarily evolve into crises. For example, despite impacting various aspects of people's lives, forest fires are not universally regarded as crises. Conversely, a political incident involving a small group may escalate into international conflicts and regional violence. Objective characteristics are complemented by subjective perceptions held by individuals in comprehending the event. Psychological research underscores the significance of subjective indicators, such as sensing a threat, perceiving the probability of loss or harm, or experiencing insecurity, particularly when expressed by a substantial number of individuals exposed to the same situation.

Understanding the factors contributing to the transformation of an event into a crisis involves examining historical examples where similar events, triggered by different catalysts, either evolved into crises or were perceived as merely troublesome. Interconnected measures within the same or different events can catalyze the emergence of a crisis. Alterations in one or more of these measures can engender distinct types of crises, each with unique effects, scopes, and associated impacts. For instance, Sudan, facing conflict, violence, high inflation, a refugee crisis, and the COVID-19 pandemic, has witnessed multiple crises marked by consequences such as food insecurity, displacement, and financial hardships affecting millions. To comprehend the dynamic evolution of events into a crisis, envisioning changes in some measures of Sudan's events, placing them in a different geographical context (e.g., a European country), or adjusting their timing can significantly reshape the profile of Sudan's crises despite being triggered by similar events.

3. MANAGING THROUGH CRISIS

The formulation of a crisis management strategy for a startup necessitates a comprehensive consideration of both the existing regular strategy and its associated projects and activities, which are integral to the startup's daily operations. Additionally, it requires the development of a corresponding strategy aligned with the startup's original and leading strategy, alongside a novel approach specifically addressing crisis response practices. As an illustration, a leading strategy aimed at averting crisis effects may involve the establishment and training of a specialized team equipped to handle worst-case scenarios. However, these undertakings demand time, financial resources, and the reassignment of team members from their initially designated projects. The decision to employ such a strategy is contingent upon contextual factors, including timing (e.g., critical stages of the startup, advancements of competitors), costs (e.g., the startup's financial status, potential revenues, cash flow), and employee engagement (e.g., potential dissatisfaction or task conflict resulting from redirecting employees to a special team).

Furthermore, the designed crisis management strategy, while primarily focused on crisis mitigation, should seamlessly align with the original strategy, functioning to support and advance the startup's core objectives rather than solely addressing the negative outcomes of the crisis.

This integrated design necessitates strategies that:

- Effectively mitigate the damaging effects of the crisis on the startup;
- Endure prolonged crisis scenarios;
- Tailor activities to each of the startup's projects, departments, or functions;
- Facilitate the maintenance and support of routine projects and activities without diverting resources for new strategy development;
- Ground decisions on a well-founded business and financial plan;
- Foster acceptance, minimizing resistance or reluctance in adopting the strategies;
- Leverage existing expertise within the startup, such as employees' specialties and technology;
- Encourage both opportunity exploitation and exploration;
- Promote innovation.

Preparations for designing coping strategies include restructuring startup functions such as technology, production, finance, and HR during a crisis event. For example, periods of crisis often lead to reduced sales, impacting the startup's cash flow, which, in turn, influences financial operations, production, and technology. Rather than implementing crisis-related strategies after the startup functions have been altered by the crisis, proactive management can pre-design alternative strategies for each function. This proactive approach facilitates control and crisis management while preserving the resilience of each function during challenging times.

Strategies formulated for crisis management encompass streamlining bureaucratic procedures, bolstering business marketing efforts in target markets, fostering networking, and providing training for emerging trends, among other initiatives. Notably, not all strategies are universally applicable to a startup's functions. Specific crisis episodes may trigger strategies, such as training or recruitment, that are pertinent to various functions, while others may necessitate unique strategies tailored to each department or function. Certain events may prompt dynamic strategies for each department or function, evolving in response to the ongoing crisis. The diversity, customization, and management of these crisis management strategies are reflected in the temporal and financial investments required. A comprehensive general strategy applicable across all departments or functions is likely to be more cost-effective than employing a variety of customized strategies for each function.

The process of designing these strategies demands adept decision-making capabilities, particularly during crisis events. Decision-making must be swift, accurate, cohesive to avoid improvisation and randomness, and effectively communicated to ensure adherence by relevant stakeholders.

In the daily operations of a startup, employees typically exhibit confidence and trust in management decisions. However, during crisis events, a significant gap emerges between employees' expectations that management decisions will provide optimal solutions to crisis management and the actual ability of management to formulate such solutions. Time constraints, lack of information, and emotional stress hinder management's efficacy in crisis decision-making. Consequently, this situation impacts employees' confidence in the startup's management, and this decline in confidence can persist even after the resolution of the crisis.

Research categorizes the approaches employed by startups to address crises into several main categories:

- Prevention: Measures aimed at averting the occurrence of a crisis or mitigating its specific effects on the startup.
- Mitigation: Measures designed to diminish potential crisis damage to the startup's operations.
- Preparedness: Measures aimed at developing a collective ability to respond effectively to emerging needs when a crisis occurs.
- Response: Immediate actions taken before, during, and immediately after a hazard's impact, involving the activation of emergency operations.
- Recovery: Measures to restore operations to normalcy.

The startup's management devises crisis management strategies by selecting measures from these categories based on the startup's critical needs, focusing on protecting its most valuable assets. However, the capacity to design strategies for multiple scenarios across all projects and addressing all response categories is typically feasible only for developed, prosperous startups. Such an endeavor represents a considerable investment in terms of time and resources, with potential scenarios that may not materialize or manifest differently. The decision to design crisis strategies hinges on the perceptual balance of startup management, weighing the potential damage against the anticipated profit. Anticipated damage may result from the negative effects of a crisis, particularly for startups without a designed crisis management tool. Alternatively, it may stem from the adverse impacts introduced by developing specialized crisis management activities, diverting resources from their original mission. For instance, reallocating resources from the marketing department to establish a crisis mitigation task team may adversely affect concurrent marketing efforts.

The efficacy of a crisis management plan is contingent upon the willingness of entrepreneurs, teams, and stakeholders to embrace it, as plans do not autonomously navigate disruptive situations. Even a meticulously crafted plan, encompassing all facets of the business's needs under potential crises, may prove less effective or entirely ineffective if entrepreneurs exhibit hesitancy towards its implementation or outcomes. A primary factor contributing to reluctance in preparing and implementing crisis management plans is the fear of change. Change, inherent in crisis management, permeates various aspects as crises alter conditions, businesses, and the people involved, consequently introducing uncertainty and insecurity into all facets of the startup.

Facing a crisis or disaster is inherently unexpected, even if accurately predicted, evoking initial reactions of uncertainty, urgency, and immense pressure. The initial approach involves combatting the damage by attempting to halt the direct disruptive source, attending to those affected, and recuperating the damage. For instance, repairing internet-related damage during the 9/11 catastrophe or safeguarding employees and their families injured by floods in Chennai, India, in 2015.

The second approach, retrenchment, is a more calculated response, aiming to cope immediately and in the short term by reducing costs while retaining essential elements. The third approach, endurance, is more strategic, aiming to maintain operations, projects, personnel, collaborations, etc., by allocating resources to fruitful operations that will not jeopardize the business.

The ability to more accurately address and control disruptive situations can be achieved by involving internal stakeholders; however, the impact may be limited and temporary. To enhance impact, foster new opportunities of mutual interest, and take a leadership role in managing the crisis, joint action with the ecosystem and external stakeholders is crucial. For instance, during the COVID-19 pandemic, startup founders had to decide on enabling employees to work from home (internal stakeholders), coordinate with strategic partners for remote work (external stakeholders), and align coping activities with the ecosystem to achieve a higher impact.

Studies reveal that startups adopt either externally directed or internally directed strategies. Externally directed strategies involve market-oriented approaches, pricing strategies, and international orientation. Internally directed strategies pertain to the startup's structures, processes, systems, and resources. Key strategies include:

- Restructuring strategies: Internally directed actions focused on cost-cutting to improve efficiency, often related to traditional product/market combinations. These strategies are defensive.
- Resizing strategies: Externally directed defensive actions involving refocusing the core business, avoiding investments in non-core processes, and may include divesting from products or markets.
- Downsizing strategies: Actions to improve efficiency and reduce costs by optimizing asset utilization and divesting marginal and less profitable activities. These may compromise immediate competitiveness and hinder recovery from crisis effects.
- Innovation and development strategies: Planning and investing in technological, process, and product innovation, as well as recruiting experts for increased innovation. Startups favoring these strategies often consider the risks of innovation during disruptive times as less than resizing or downsizing.
- Reorganization strategies: Internally directed offensive actions aimed at improving organizational aspects, requalifying the firm, and strengthening its business-based structure. Manifestations include redefining responsibilities, enhancing information system controls, and investing in human resources. Such strategies contribute to maintaining commitment, engagement, and a sense of concern and care within the business.

4. EMBRACING THE POST CRISIS ENVIRONMENT

Crises, along with their consequences, exhibit inherent dissimilarities, even when seemingly belonging to the same category such as health-related crises, environmental crises, terror attacks, or financial recessions. Numerous components influence how a crisis impacts a startup, encompassing external factors like ecosystem support, crisis severity and duration, the performance of other market businesses, as well as internal factors reflecting the startup's existing stability, financial state, liabilities (e.g., to investors, service providers, employees), and preparedness for crisis situations. Due to the inherent uncertainty and perceived threats associated with crises, startup founders may adopt a defensive and largely reactive operational mode when addressing the crisis. The threatening nature of crises often leads entrepreneurs to consolidate both business and personal assets in response. While some startups may be prepared to face crises, the sudden shock of a crisis outbreak can shift their actions towards spontaneous reactions rather than executing the prepared strategies. Such reactive responses are typically defensive and protective, limiting the startup's ability to identify opportunities inherent in the crisis.

The outcomes, whether losses or gains, resulting from a crisis for a given startup are contingent upon perceptions of the startup's capabilities and resilience. Navigating through times of crisis necessitates a comprehensive perspective. Startups must assess their surroundings, analyze the situation, identify changes, and stay attuned to market dynamics by scrutinizing statistics and trends, such as new business creation or bankruptcy rates, while gauging the overall atmosphere within their startups and among their stakeholders. Subsequently, startups can make informed decisions, balancing the protection of existing resources with the exploitation of new opportunities that may emerge through the disruptions caused by a crisis.

5. CONCLUSIONS

There exist various approaches to address the effects of a crisis, each carrying inherent risks and opportunities. The strategies and practices employed to respond to and manage the effects of a crisis should be seamlessly integrated into the systematic trajectory of the startup's operations. A well-defined crisis management strategy should undergo periodic adjustments to align with changes in the business's capacity, the founders' approach—considering their dilemma in choosing defensive or offensive approaches—and the ecosystem's receptiveness to the startup's offerings. These adjustments ensure that the startup can execute any crisis management approach more fluidly, with the blueprint consistently reflecting the most current situation of the startup.

Ideally, crisis management strategies and practices should not deviate significantly from regular ones, allowing for their 'natural' activation when needed. The activation framework varies based on the crisis's nature and the severity of its impact on the startup, such as combating damage, allocating resources to avoid stressors, retrenchment through cost or complexity reduction, endurance by maintaining regular operations, personnel, and strategy, or innovation by boldly challenging the business model. While innovation presents a promising yet risky avenue for addressing crises, it includes both defensive and offensive innovation, with the latter closely linked to opportunities arising from the crisis.

Failing to seize opportunities during crises can be detrimental, as the escalating severity of crisis effects may foreclose future possibilities that may not resurface. The map of crisis management strategies and practices, anchored in business model pillars, illustrates the diversity of potential responses by focusing on specific pillars or even individual components within a pillar or bundling several components from different pillars. Ultimately, effective crisis response demands the entrepreneur's full dedication, self-awareness, an open mind, intuition, and agility.

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