Overview of proactive and reactive activities in corporate crisis management

Abstract

Introduction. A theoretical framework which is proposed is based on different directions of corporate crisis management implementation. There is still a disputable question about the role and place of reactive and proactive activities and their effect on improving financial, economic and organizational state of a company.

Purpose. This paper focuses on two directions of crisis management, which involve preventive measures to avoid crisis and reactive measures to counter or mitigate it.

Methodology. The paper explores scholarship regarding the developing concept of pre-crisis management (proactive activities), as well as reactive activities of crisis management as an integrated process which is more commonly used in critical crisis situations.

Results. This study traces the development of measures and activities which are used in corporate management. While crisis anticipation and prevention have become almost established as integral components of organizational crisis management, there is no agreement about their role in countering crisis and specific situations where they can become the most valuable. The concept of crisis management gives a broad perspective of managerial activities within it. It enables to discuss important directions of crisis management as proactive and reactive enterprise activities, as well as the differences between crisis detection, crisis planning, mitigation of a crisis, etc. It also reveals some misunderstanding about terms of corporate crisis management, risk management, preventive crisis management and anticipating crisis management which in real time situations can be confused while making crucial decisions in running a company. It is possible, for example, to apply different activities of corporate management by adopting a flexible localization strategy, preventive strategy or a strategy of minimizing influence of a potential crisis or an already existing one.

Conclusion. The given framework proved to be useful in improving the distinction of different directions of crisis management activities. Overall understanding of corporate crisis management, its elements, criteria and its tool of implementation against crisis also increases the efficiency of countering crisis in all its implications. A set of criteria which help distinguish such elements of corporate management as preventive management, crisis management and risk management enable to determine the most appropriate decisions in order to surmount crisis.

Keywords: Corporate Management; Crisis Management; Preventive Management; Proactive Activities; Reactive Activities; Risk Management

JEL Classification: G39; M29

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Introduction. It was commonly assumed that the milestone of crisis management was always the problem of withdrawing from a crisis state, but there was hardly paid attention to the nuances which become prevailing. A crisis emergence identification of potential crisis situations is now becoming more critical in the system of their prevention or at least reduction of their aftermath. Nowadays still unclear lines separating corporate crisis management from preventive crisis management are getting even blurrier as more companies introduce a set of proactive measures to counter crisis confusing them with the tools of resistance to reactive crisis which should be implemented at different stages of crisis emergence considering the depth of crisis phenomena.


The purpose is to reveal the features of proactive crisis prevention at an enterprise as well as to find out the conceptual essence of the measures, which can be taken in crisis management at the stage of reactive response to crisis occurrence.

Results. A system of crisis management is very complicated not only because it reveals many peculiarities in taking proper measures to solve a specific problem, but also because the whole crisis management process is leveled and the main task of all crisis managers is to distinguish stages of crisis, actions to be taken (which also depend on the situation and its severity) and to be responsible not to mess feasible counter-crisis decisions with non-crisis decisions of operational management. That is why it is very important to understand the difference between proactive and reactive measures which can be taken whether at the preventive stage of crisis management or at the post-crisis stage. For example, R. Mittelestad (2005) [16] advises the organizations to learn how to recognize the pattern of mistakes. He guides to «prepare an organization and its employees to recognize these patterns before a disaster happens. Damage from a crisis tends to grow exponentially. It can take the form of lost customers, lost sales, lower employee morale and higher costs and lost companies, so taking action to eliminate the threat early one can help avoid full-blown crisis management down the road». It refers more to preventive crisis management, though all the correction of mistakes is considered to be the last stage in carrying on a crisis management process. Also, the necessity to emphasize on preventive measures is proven in [2; 4; 5; 7; 8; 17; 18]. The authors M. Bychkova and Y. Verebova (2008 [18] propose to consider «preventive management of a crisis» as a part of corporate crisis management which includes diagnosis of a crisis in order to rate a pre-crisis phase, the preconditions of which can be revealed only by experts. In this situation, there can be estimated all the resources, which are available to counter crisis, as well as can be created a specific strategy and a further model of behavior of managerial staff. Indeed, such measures should be taken at the pre-crisis stage, not when a crisis is already at the stage of its aggravation as it often happens.

Moreover, together with setting goals, creating strategies and choosing a correct model of managerial behavior in a crisis situation, there should be organized and put into force certain stabilization measures. We mean that in conditions of reactive decision-making measures should be aimed at mitigation crisis and leveling up consequences; in conditions of proactive decision-making the most useful thing is to apply a «crisis therapy» [12] or a «crisis prophylaxis» [6] which responds to implementation of a wide range of preventive measures in order to achieve the same result.

A scientist O. Skibitskyi (2009) [12] also shares our opinion that in a critical crisis situation the main task of managers of a company is to implement measures which relate exclusively to reactive crisis management while in the other, less acute situation, preventive crisis management can introduce controlling measures and be still the same efficient. In this connection, we can cite the idea of the scholars C. Pearson and J. Clair (2008 [11] who introduce a term «effective crisis management», which they define as «minimizing potential risk before a triggering event». In our opinion, such a definition of this notion makes it closely related to the term «preventive crisis management» because it shows a proactive element of crisis management. M. Berest (2014) [1] determines two simple principles of crisis management which show the approaches to the distinguishing different (proactive and reactive) vectors of reviewing crisis management measures and their specific tasks:

1) a principle of preventive effect presupposes it is easier to avoid risk of a financial or any other type of crisis rather than localize it and neutralize its negative consequences;

2) a principle of reactive effect assumes that crisis phenomena can emerge spontaneously, extend with different pace and originate new negative trends in a company activity; that is why an early detection of crisis phenomena and a consequent elaboration of counter-crisis measures gives a company more chances to liquidate crisis, to «shed hardly any blood».

A concept of optimization of an enterprise anti-crisis tactics and strategy should be considered in a wide sense and use both short-term and long-term measures. Thus, forecasting, planning and introduction of the ways to keep all financial and economic indicators stable should be a competent direction of corporate crisis management. This author also expresses his position about the forms of reactive and proactive crisis management which we disagree with. He labels liquidity, solvency and capital maintenance, fac-
tors of production retention as reactive forms and he labels reorganization of an enterprise and strategy revision as proactive ones. The author A. Limanski (2011) [19] also refers such managerial restructuring as merger and amalgamation of enterprises or proactive measures but he states that operational and financial restructuring is a typical measure of reactive crisis management. Taking into consideration the realities of enterprise performance in Ukraine and practical measures which are taken there, we think that reorganization in all its forms is applied as one of the last resorts to save a company from taking a legal bankruptcy action (this measure is also directly taken in the Law of Ukraine «About the Reimbursement of the Debtor's Solvency or His Bankruptcy Admission» as the only alternative before an enterprise goes bankrupt), also revision of the strategy is made only when the current strategy of an enterprise shows its inconsistency, though in many foreign sources [2; 3] it is really advisable to revise the strategy at each stage of implementing crisis management. As to maintaining liquidity, solvency, keeping capital safe, etc., it is evident that these measures can be taken at all stages of crisis development in spite of financial state of a company and strategic attitude of its management which are: monitoring of a bankruptcy risk, risk management, a system of informational support, a procedure of a bankruptcy prevention. In our opinion, all these methods are involved in crisis management but the vision of the author is not structured in terms of drawing distinction between proactive and reactive crisis management and the situations which require one or another type of decision-making.

I. I. Mitroff (2001) gives a more detailed explanation of elements of proactive crisis management. He states that «there are various mechanisms that a company needs to handle in order to be prepared, sort out and to be able to learn from a crisis. These different mechanisms are: anticipating for-, sensing, reacting to-, controlling-, learning from- and redesign after crisis. In other words, it means that a prepared company should calculate with and expect that a crisis will happen and be able to suspect the tail of it before it occurs» [9]. He continues to explain that a company should react quickly to a crisis when it occurs and strive towards commanding the situation as fast as possible.

A researcher T. Jaques (2010) [5] states that there emerges a significant trend in crisis management which has a potential to reshape the discipline with substantial implications for the development of organizational structure and design. This trend is the advance to proactive crisis prevention as opposed to reactive crisis response, which reveals more comprehensive parameters of what should be recognized as integral elements of crisis management within a broader continuum of management activities. Thus, proactive crisis management can be described as crisis avoidance which has a potential to reshape the discipline with substantial implications for the development of organizational structure and design. This trend is the advance to proactive crisis prevention as opposed to reactive crisis response, which reveals more comprehensive parameters of what should be recognized as integral elements of crisis management within a broader continuum of management activities. However, the main difference in their essence and the spheres of application is that proactive crisis management is a component of a corporate management system that is aimed to apply a range of strategies for avoiding or averting crisis situations. On the other hand, anticipating crisis management also belongs to proactive activity of crisis management but it is considered more as a kind of risk-assessment to identify or to forestall current and potential areas of weakness and system flaws that could exacerbate crisis [21]. It is also important to match a key difference between risk management and any type of crisis management. According to T. Skoglund (2002) [13], this difference is that risk management is calculated with probability theories, meaning that a specific event (in this case a threat of a crisis) will happen; crisis management is planned upon the worst thinkable scenario that can appear and does not take into account probability of that event happening.

The researcher U. Krystek (1981) [8] mentions that the notion of «risk management refers to the symptoms of a latent crisis». We can argue about this statement because in this case risk management and preventive crisis management can be identified. Thus, we can compare some of such management conceptual points or items and see that they show differences in many areas of their application. We classified these areas of application according to certain criteria which trace the difference between the notions «crisis management», «crisis prevention» and «risk management» which form a significant part of corporate management (see Table). From the scientific point of view, it makes sense to mention such a criterion as «a type of approach» which can be applied to the investigated notions. We distinguish such a criterion on the basis of the works of a researcher T. Jaques (2010) [5] who introduces the term «event approach», which he considers more adequate for the system crisis management. A key disadvantage of the «event approach» is that it has a potential to inhibit examination of trends and incidents which lead to triggering a crisis. By contrast, the conceptualization of preventive crisis management as a continuum of activity promotes to analysis of the process extending back before the triggering event and deeper into the preceding phases [5]. Thus, such a continuum activity can be expressed in a system approach of preventive management.

Considering the terms of preventive management and anticipating management in the system of crisis management we can address to the works of several authors [7; 8; 10; 21] and we can conclude that the main difference in their essence and the spheres of application is that preventive management is a component of a corporate management system that is aimed to apply a range of strategies for avoiding or averting crisis situations. On the other hand, anticipating crisis management also belongs to proactive activity of crisis management but it is considered more as a kind of risk-assessment to identify or to forestall current and potential areas of weakness and system flaws that could exacerbate crisis [21]. It is also important to match a key difference between risk management and any type of crisis management. According to T. Skoglund (2002) [13], this difference is that risk management is calculated with probability theories, meaning that a specific event (in this case a threat of a crisis) will happen; crisis management is planned upon the worst thinkable scenario that can appear and does not take into account probability of that event happening.

### Table: Criteria for the Corporate Management Elements Distinction

<table>
<thead>
<tr>
<th>No.</th>
<th>Criteria for distinction</th>
<th>Crisis Management</th>
<th>Crisis Prevention</th>
<th>Risk Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>variety of explanations</td>
<td>Leveling crisis; mitigation of a crisis</td>
<td>Pre-emption or avoidance of a crisis</td>
<td>Venture of a crisis; reduction of the exposure to danger</td>
</tr>
<tr>
<td>2</td>
<td>adaptation to business environment</td>
<td>A reactive crisis response</td>
<td>A proactive crisis prevention</td>
<td>Crisis forecasting</td>
</tr>
<tr>
<td>3</td>
<td>direction</td>
<td>Aims at improving the situation which already worsened and does not have a back stroke</td>
<td>Aims at avoiding or nullifying crisis before retroaction comes</td>
<td>Aims at minimizing influence of crisis by evaluating danger of crisis occurrence in advance</td>
</tr>
<tr>
<td>4</td>
<td>a trigger to take measures</td>
<td>A critical situation</td>
<td>A developing situation</td>
<td>A probable situation</td>
</tr>
<tr>
<td>5</td>
<td>a type of activity</td>
<td>An emergency activity</td>
<td>A planned activity</td>
<td>A preliminary evaluation activity</td>
</tr>
<tr>
<td>6</td>
<td>a type of approach</td>
<td>An event approach</td>
<td>A process approach</td>
<td>A probability approach</td>
</tr>
<tr>
<td>7</td>
<td>time consumption</td>
<td>Consumes time depending on the situation</td>
<td>Is a time consuming process</td>
<td>Is a time consuming process which includes analytical processing of information</td>
</tr>
<tr>
<td>8</td>
<td>a subordination criterion</td>
<td>An element of the total system of corporate management</td>
<td>An element of crisis management which is called &quot;preventive crisis management&quot;</td>
<td>An element of the total system of corporate management</td>
</tr>
<tr>
<td>9</td>
<td>aftermath of a crisis</td>
<td>Teaches how to avoid mistakes in the future</td>
<td>Provides with simulations which show how to avoid mistakes</td>
<td>Provides an organization with a warning signal, to which extent an organization should be prepared for a crisis</td>
</tr>
</tbody>
</table>

Source: Developed by the Authors according to [3; 5]
According to the description of the other given criteria, we can understand the difference which follows more clearly. Based on theoretical description of these criteria, we make a supposition that as far as preventive crisis management was set to differ from anticipating crisis management and corporate crisis management was assumed to differ from risk management, risk management still has some elements which make it closely related to those of anticipating management. Such elements are:

- both risk management and anticipating management are designed to be implemented into a company’s performance at the very beginning, even before a pre-crisis stage comes and before we can speak of such terms as «warning signs», «a developing crisis situation», etc.;
- risk management and anticipating management should be applied far more often than preventive crisis management and corporate crisis management because they may anticipate and then assess the situation rather than take the measures that demand introduction of «a plan in place»;

In crisis management, there are comprehensively overviewed the concepts and techniques for effective assessing, analyzing, managing and resolving crises. The above mentioned shows a approach to the concept of crisis management which reveals a specific methodological strategy which is oriented to multidisciplinary and complicated approaches and their causality. Such an approach explains the essence of preventive crisis management in comparison with a more wide term of corporate crisis management which implies universal managerial activity of a company which is aimed to transform an unstable situation which has already emerged into a balanced performance of all its functional subdivisions.

Conclusions. The matter of distinguishing reactive and proactive elements in a process of corporate crisis management is now urgent because it enables to manage all the processes at an enterprise more efficiently and understand how to react properly to crisis phenomena. The term of reactive crisis management can be characterized as planning and introduction of measures, which are based on certain set of the above criteria, the purpose of which is to restore a pre-crisis level or just level up a crisis situation.

Preventive (or proactive) crisis management is aimed at predicting and avoiding a crisis state in a company. There is still a disputable question about subordination of the measures which refer to proactive and reactive crisis management as it is rather difficult in practice to elaborate specific counter-crisis measures in a proactive phase of managing a crisis with the purpose to classify properly preventive measures as common, long-term and wide-range ones in spite of the fact that preventive crisis management is considered as a part of corporate crisis management which involves both proactive and reactive decisions.

References