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Crisis Management and the Public Sector: Key Trends and Perspectives

Christos Lemonakis and Antonios Zairis

Abstract

A crisis is a situation approaching a dangerous phase, which requires urgent intervention to avoid harmful effects on the body of an organization in order to return to normal situation. It is a decisive and critical time for the organization, where the wrong decision can even cost its viability. This situation can shape political, legal, economic, and governmental impact on its activities. From different definitions of crisis, we seek to underscore key elements of a crisis that may threaten a public organization and, also, to highlight both the elements of management responsiveness resulting in the loss of control in the organization, regarding the short time demand for decision-making. The key purpose of this chapter is to illustrate the basis available in the international literature, upon which public risk mechanisms can be reviewed and chosen in public sector organizations under the scope of their applicability.

Keywords: public sector management, crisis management, organizations' management

1. Introduction

In the everyday life, the concept of crisis can encompass the whole range of activities and relationships, at an individual, social, and political level. But its interpretation varies, depending on the perspective of the crisis, regarding personality, experience, and professional level. In the context of organizations and systems, the crisis and its response have become particularly important nowadays, due to the unforeseen forms in which it can occur, the degree of damage it can cause to their structures and operations, the dimensions that it can realize in a short time, the modern environment of globalization, and the fast dissemination of information through enhanced communication networks. The crisis may manifest itself on the horizon as a result of a wrong decision, or it may occur without warning, anywhere, anytime. It can affect all sectors of society, businesses, government, and nongovernmental organizations. In order to safeguard the viability of organisms in critical situations, there is a need for constant monitoring and analysis and an academically sound approach to documentation of actions needed.

Therefore, managing the crisis by public bodies and governments is a prerequisite for their smooth operation and survival. According to Porter's theory of resources and capabilities, the main mechanism for the survival of the organisms in the environment in which they operate is the dimension of competitive advantage,

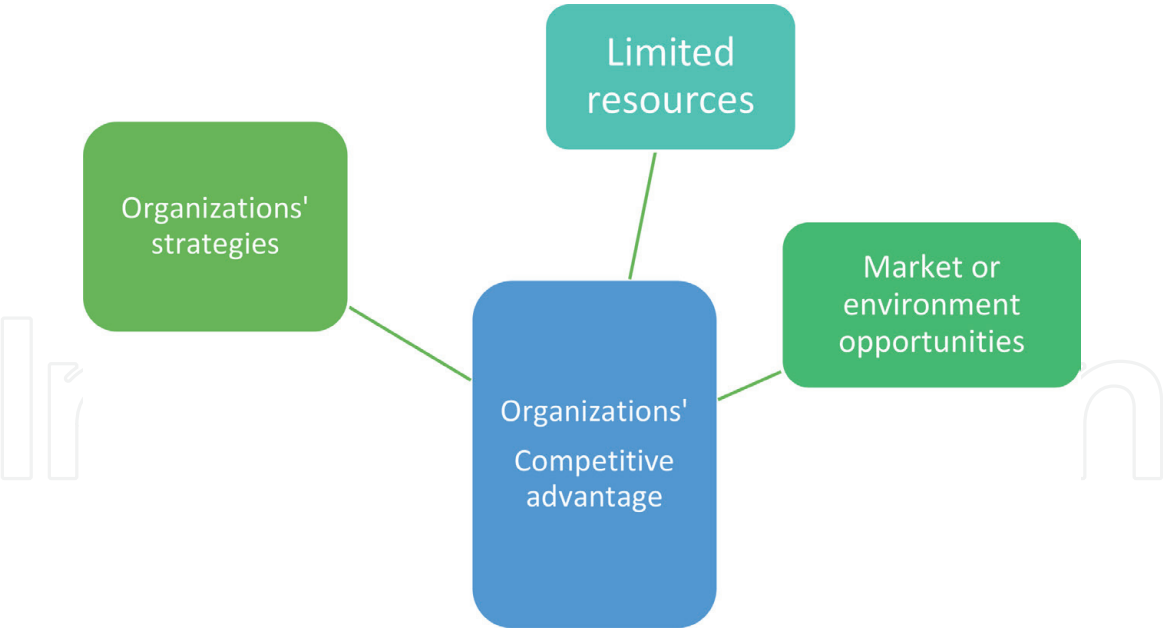


Figure 1.
Crisis in the real-world environment.

in which organizations must face threats and seize opportunities, given their adopted strategies, occasional choices, and actions they decided to take, regarding the limited resources available (see also **Figure 1**).

And while organizations are taking precautionary measures to deal with exceptional critical events, the degree of achievement of the intended results remains low.

But how can we define crisis? According to the Greek language [1], the term crisis refers to the mental process of the human being to reason deeply and to arrive at sensible conclusions and judgments, by choice, but also to disturb the smooth course of a process, malfunctioning or improperly challenging structures, values, and institutions. In Chinese, judgment is pronounced *gei-zi* and is a compound word that denotes “danger” and “opportunity” at the same time. In the context of organizations, a crisis is a low-probability event with major implications, which threatens the viability of an organization and is characterized by unclear causes and effects and ways of finding a solution as well as the belief that decisions must be made within a short time. According to Robert [2], the crisis is an incident that threatens to be harming the people’s safety, the environment, the reputation of an organization, and its stakeholders involved.

2. Crisis management and the public sector

According to [3], a definition of crisis management is the “careful study and anticipation of the risks that a business/organization may pose to reduce uncertainty and take all necessary measures”—actions, processes, and processes before, during, and after the crisis to protect people, the environment, employees and the financial position of the business.” A public body is in crisis when its institutional status is challenged as well as basic structures, principles, and values are also threatened. For the public administration, the crisis may concern the whole or a large part of the population. Although crises are unpredictable, they are not unexpected and can affect all areas of society and are caused by many different causes. The authors of [4] believe that “the crisis relates to situations characterized by severe threat, uncertainty and a sense of urgency.” Crises also reach a critical point where change, for better or worse, is inevitable and the experience can be proven beneficial to

people and organizations [5]. Also, in [6], the crisis is defined as: “a big, sudden event, which is likely to have negative effects. The fact and its consequences can seriously damage an organization and its employees, as well as its products and services, its financial status and reputation.” This approach reinforces the need to manage the organization’s communication and image.

A crisis is a situation that is approaching a “dangerous” phase, which requires urgent intervention to avoid harmful and potentially harmful effects on the structure of an organization and return to normality. It is a decisive and critical time for the organization, where the wrong decision can, as mentioned above, even cost its viability. According to the Institute for Crisis Management [7], the crisis is a situation of significant business (see also “operations”) disintegration, which has resulted in negative reactions from all stakeholders, probably extensive media coverage, and public scrutiny. This situation may have a political, legal, economic, and governmental impact on its activities.

In the context of the crisis definition, we can conclude that the common elements contained in a crisis are the potential threat, which may be posed to all resources of an organization, the state of absolute surprise resulting in loss of control, and finally the short time remaining for decision-making. From the definitions above, we can easily understand the importance of the public sector crisis management, as unexpected events can affect the public and therefore the citizens of this sector, through the central government. A crisis may consist of four distinct stages, i.e., (a) the pre-crisis phase, (b) the acute phase of the crisis, (c) the time course of the crisis, and finally (d) the crisis resolution stage.

According to [8], every crisis, regardless of its form and the organization in which it is created, has the following characteristics: (a) It escalates in tension, (b) it causes a high sense of insecurity and danger, and (c) those involved are overwhelmed by stress, affecting the usual operability of the organization, while it changes the operational structure, and affecting also the “image” of the organization or of the government itself, arousing the interest of the competent bodies and especially the media to get involved in the situation. The increased demand for information that needs to be monitored by a specific group of the organization’s staff may cause moral effects, not only in terms of “image” but also in material terms, which potentially may encompass to the power of the organization in real life, or even to the profile of the body, while causing a malfunction in its operational activity.

Crises are unforeseen events that have the potential to produce undesirable effects [9]. Also, they described crisis as a product of a risk or opportunity arising from internal or external issues that can affect an organization on a massive scale. In [10] they describe crises as a result of human intervention rather than natural disasters in order to separate the scope of crisis management from that of risk and emergency management. The participants are surprised and have very little time to make difficult decisions in an atmosphere full of tension and volatility. A crisis is a large-scale unpredictable event that threatens to hurt an organization and its stakeholders. An incorrect management decision can be a cause for serious operational risk.

Each crisis, regardless of the category to which it belongs, goes through different phases depending on the time of occurrence, and each phase affects the body differently (see also **Figure 2**).

The phases are (a) pre-crisis (condition or precursor), (b) acute phase (manifestation-peak crisis), (c) response (impact) phase, and (d) recovery or resolution phase (resolution-normalization) [11].

Each crisis is characterized by the factors that cause it. The main categories of critical situations are four depending on the causes of the crisis, which may come from internal or external factors of the organization and may be characterized as “technical-economic” or “human-organizational-social” factors (see also **Table 1**).

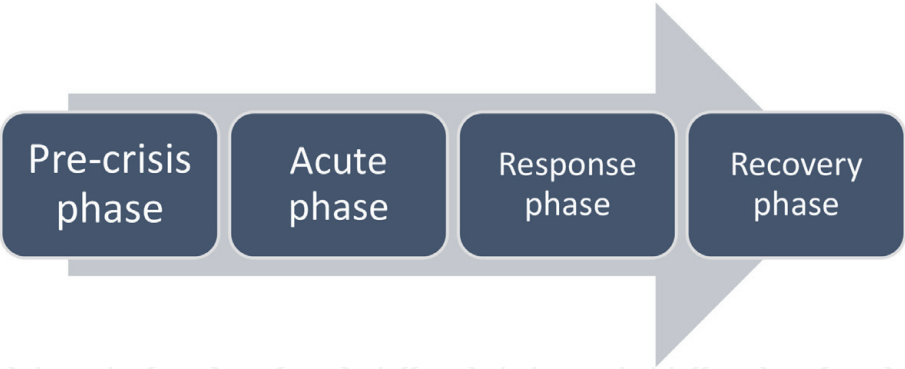


Figure 2.
Key phases of a crisis event.

Technical-economic factors	Human-organizational-social factors
Internal factors	
• Incomplete information • Collapse of electronic systems • Accidents due to defective products • Industrial accidents	• Inability to adapt to changes • Organization’s communication crash • Intentional damage (i.e., a product of sabotage from internal factors) • Occupational issues
External factors	
• Environmental disaster • Sabotage by external factors • Natural disasters • Terrorism actions • Mergers and acquisitions • Scams • Social crises	• Sabotage by external factors • Terrorist actions • Scams

Source: Mitroff [12].

Table 1.
Separation of crises.

The “technical-economic factors” mainly consist of natural disasters, earthquakes, floods, fires, hurricanes, H1N1 virus, mad cow disease, etc., while the “human-organizational-social” factors may include, among others, political and/or economic crises or even political instability in countries.

They may also include characteristic cases regarding information leakage and loss of human lives.

In the case of the “technical-financial factors,” issues are raised from defective products that drive companies to withdraw them from the market, defective machinery that can be hazardous to human use or may result in injuries to personnel or other stakeholders (i.e., customers, partners), or in extreme cases even in an accident.

3. Definition of the “reorganization” or “redesign” factor

The determinant effect of the “reorganization” factor is the response of public sector organizations to critical situations. This section defines the factor

“reorganization,” which illustrates the need for the factor, its contribution to the operational context of public administration through a bibliographic review, and a case study of the reorganization and the crisis of public sector organizations.

The “business process reengineering” (“BPR”), to the service of the reorganization or redesign [13], corresponds to a radical and “fundamental” redesign of business processes, so that substantial changes can be made to key areas that determine operational performance, such as production cost (better “cost of development”), productivity, service and product costs (better “delivery cost”), quality provided, customer service, and speed. The concept of redesign was originally designed for private sector businesses and then extended to bureaucratic processes of public administration. The term fundamental redesign means that the body/organization decides to completely abolish the process it is currently applying and is intending to accept another, new process. Radical redesign also refers to fundamentally changing all processes, while redesigning is about applying a new business process rather than improving or modifying an existing one. Spectacular improvements relate to the product of the business and not to the marginal improvements that can be made by improving the management of the processes applied. According to the above, in case that a company seeks to modernize itself by changing its processes, it should ask itself why it applies these processes and why it does so.

In [14], the authors also argue that reorganization can be defined as the analysis and planning of in-company and inter-company workflows and processes. According to the same researchers [15], the concept of business reorganization is an integral part of a larger “idea” and therefore introduces the term business innovation process which implies the creation of a strategic vision and the engagement of human resources, technology, and other critical resources in planning and implementing change.

In [11] they argue that the concept of reorganization is fundamentally related to the re-examination and redesign of a company’s business processes and organizational structure, with the aim of achieving clear improvement in key areas such as quality, productivity, customer satisfaction, and the time it takes for a product to reach the market.

In [14] it reports that BPR is the analysis and planning from the beginning of intra-business workflows and processes.

The term “process innovation” encompasses the consideration of a broader strategy, the design of the process, and its application to all complex technological and organizational structures [16]. Other authors focus on reviewing, restructuring, and redesigning the business structure, processes, working methods, management systems, and external relationships through which value is created and disseminated. For [17], BPR involves the simultaneous redesign of business processes and their support systems in order to achieve a radical improvement in time, cost, quality, and customer perception of the company’s products/services.

In summary, a business restructuring can be regarded as a critical analysis, reassessment, and radical redesign of existing business processes to achieve significant improvements in performance metrics, from the perspective of relocating and changing the overall business strategy.

4. Factors of “reorganization”

Through reorganization, the company sets goals, such as improving productivity, in order to increase product output, rationalizing the management of production costs and resources, making the most of the available human resources, optimizing

financial performance and cash flow, and improving existing processes and operations. The strategic goal of reorganization is to increase the value of the business.

Looking at the business from a financial point of view, internal considerations can “force” a firm to restructure itself, such as the dire prospects of liquidity performance indicators, thus requiring active strategies in the structural characteristics of businesses. In addition, the inefficient functioning of internal structures is based on human resources and processes, which act as a barrier to critical administrative decision-making.

Another factor contributing to the reorganization is the repositioning of the overall business strategy implemented by changing the goals and direction of the organization, activities, redeployment, or layout of resources, adapting to the environment, and responding to market needs and to the satisfaction of shareholders and stakeholders.

Thus, the reasons for deciding whether or not to restructure may be either in the internal operating area of the business or in the external environment (micro–macro environment). With the use of SWOT [18] analysis of a business, where the strengths and weaknesses of the business are identified and compared with opportunities, and threats to the external environment are avoided, an organization running under a specific framework can be reorganized. The redesign procedural framework requires careful study and structured procedures so that the actions taken will enable the business or organization to achieve the desired result for the target product or customer. Criteria for implementing these processes are the company’s new strategy and its goal of providing customer-oriented services. The other areas of redesign relate to more efficient operation of the production process, which adds a comparative advantage to the finished product. Elements of a restructuring or redesign program are the benchmarking of a firm’s performance based on measurable parameters of strategic importance with performance indicators over other competing companies operating in the same area. Another element of the reorganization of organizations is the upgrading of human resources, which need to be equipped with appropriate tools for more efficient work and better and complete information. In this case, information systems are of particular importance throughout the reorganization process, as they dramatically change the efficiency and effectiveness of the business.

In general, we argue that key steps to be taken in business reorganization are as follow: (i) to reorder strategic goals, (ii) to create a leadership team to execute the strategic plan, (iii) to study and adopt best business practices, (iv) to develop technology networks, (v) to identify opportunities, potential problems, and threats, (vi) to use appropriate performance indicators, (vii) to implement a modern financial management model, and (viii) to implement an effective measurement results’ system.

In general, the process of implementing the restructuring plan can be divided into four main stages (see also **Figure 3**):

- a. Assessing the current state of the business such as products, various financial data, organization chart, competition, customers, suppliers, and banks
- b. Identifying reorganization goals and preparing the work plan by defining the reorganization goal; planning the action plan; discussing, accepting, and adopting the plan from executives and employees; communicating the vision; and preparing executives and staff for the change process
- c. Implementation of the work plan with precise action schedules, identifying important milestones for the project, accurate task allocation, project monitoring process, and correcting any divergences from expected results

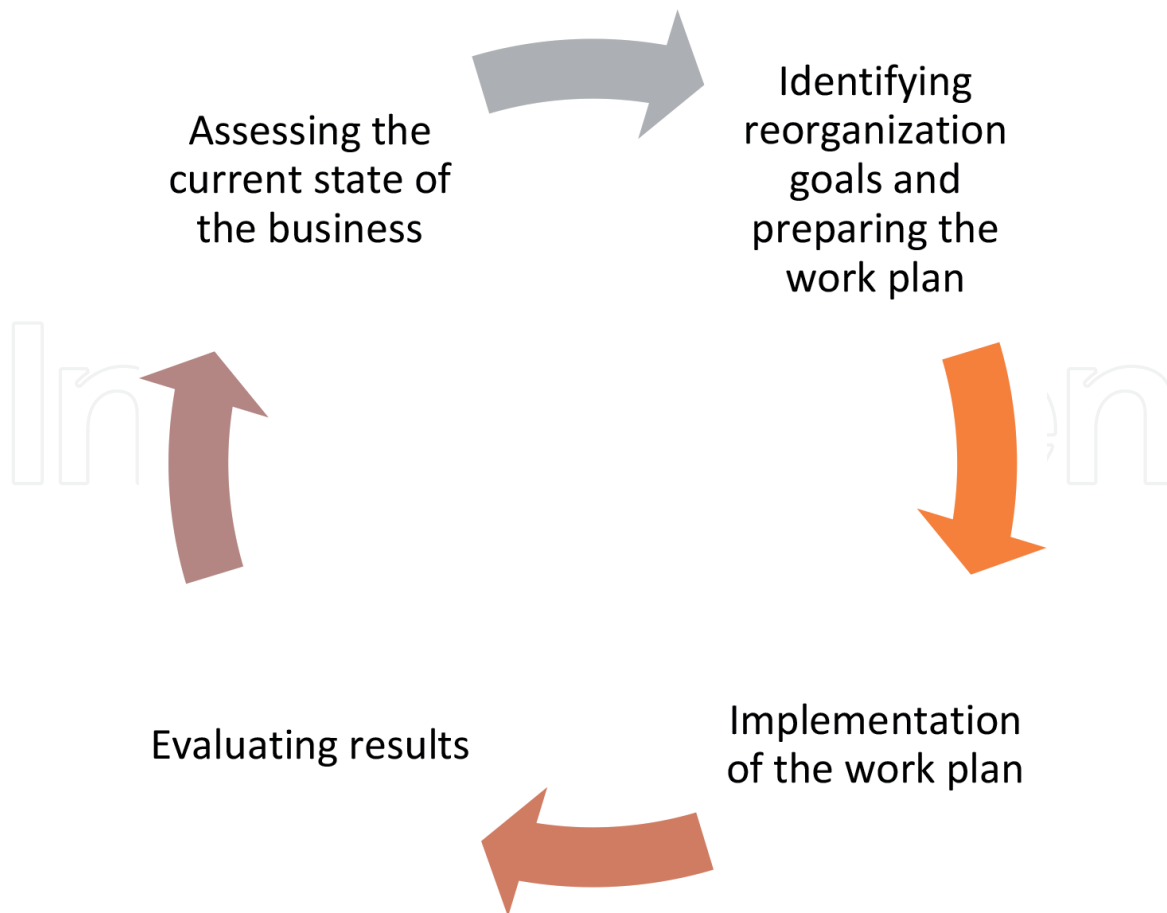


Figure 3.
Steps of a public organization's restructuring plan.

- d. Evaluating results by establishing a reliable benchmarking mechanism, before and after a reorganization, and recording results and experiences for future use by the company

5. Necessity of redesign in public organizations

The necessity of having the factor of redesign in critical situations in public organizations arises from the work of a number of researchers in the field of “public administration.”

According to [6, 19], restructuring of public administration refers to reforming its operational processes to achieve its strategic goals, while reforming its organizational structure and institutional framework to support new processes. The reasons for implementing redesign programs in public administration are summarized as follows [20, 21]:

- I. **Public sector lags the private sector:** The public sector has not been reformed at the same time as the private sector, still causing deficits and budget crises.
- II. **The crisis of legitimacy of the modern state:** This phenomenon stems from the inability of the modern state to effectively tackle rather complicated social phenomena, due to lack of transparency in public administration mechanisms and from the increased criticism originated from the people toward the political system. The consequence is the depreciation of the authority of the state and its establishment toward its constituencies, the citizens, being considered as an anachronistic and declining institution.

III. The need to limit public administration costs imposed by fiscal consolidation programs: The reduction of expenditure is not accompanied by a simultaneous reduction of administrative responsibilities. On the contrary, it is necessary to increase the effectiveness of public organizations since they have to achieve the same results with fewer resources, with minimal results.

The benefits of redesigning public administration can be summarized as follows [22–24]:

- a. Improving the efficiency of public procedures by reducing the administrative costs of executing them.
- b. Improving the quality of services provided to citizens.
- c. Increasing public satisfaction with public administration.
- d. The modernization of the institutional framework and organizational structure of public administration to support its new way of functioning. This reduces bureaucracy and simplifies administrative procedures.
- e. Outcome management through indicators and objectives of different categories. This, in turn, leads to more efficient public budgets, based on efficiency and more effective control of public spending.
- f. Increase the transparency of the state mechanism by keeping and publishing indicators and results. The consequence is the development of a stable business environment conducive to investment and growth.
- g. Increasing public interest in public procedures. A well-organized public administration that operates efficiently and with full transparency increases citizens' interest in public participation and strengthens their faith in the political system.

According to Decenzo and Robbins [25], redesigning public administration is a particularly difficult task due to the particular characteristics that differentiate public from private organizations.

Redesign programs should be tailored to the specific characteristics of the public sector and include the following actions [12, 26, 27]: defining a vision and a strategy for the organization. Most public agencies lack a clear strategy and focus. Without targeting it is impossible to design redesign programs.

IV. Detailed description of the procedures performed by the public administration: Redesigning a process requires defining it in detail: its execution steps, its inputs, and its outputs. Great many public agencies do not have a documented description of the procedures that follow, which makes it quite difficult to improve the process through performance indicators.

- i. Measuring public satisfaction with public services

Customers' satisfaction with the outcome of a process and suggestions for improving it are one of the key parameters of process redesign in the private sector. On the contrary, in the public sector this factor is not considered at all.

ii. Study of the legislation that defines the operational process

Public sector procedures are executed on the basis of a strict legislative framework. During the redesign process, the relevant framework should be studied in order to identify the constraints in the redesign process.

iii. Examine the transparency obligations of the public sector

The law is obliged to keep a large number of data on all its acts and decisions, so that their legality can be subsequently checked. This introduces restrictions on redesign, since activities that add no value to the end result should also be foreseen.

iv. Contribution of the operational managerial framework in public sector organizations

Businesses today, both in the private and public sectors, are called upon to operate and adapt in a complex new environment, characterized by the globalization of the age, complexity, uncertainty, competitiveness, and modern technology. As a result, there is pressure on businesses and organizations as well as public authorities to adapt and respond promptly to change, rational use of resources, high value for money, and excellent customer/customer service.

In other words, in order to succeed in any business venture, special attention should be given to planning or restructuring the organization of the business in order to achieve all of the above. Traditional forms of business organization, in our time, are no longer able to cope with the pressures and demands that are created.

This weakness has led to the need for redesign—restructuring of business processes—processes, so that the new structure of any organization/business is flexible, readily adaptable to new conditions, simple, fast, and horizontal, in order to meet the objective of each business.

v. The effectiveness

New business processes should be governed by:

1. Integrated and horizontal processes
2. Define flexible and simple internal procedures
3. Horizontal structures that touch the whole organism
4. Aim for the correct customer service
5. Employees to participate, responsibly
6. Having a single responsibility center

The methodology for implementing the restructuring of the company's internal operations is based on the diagnosis, thematic problematic processes, and then the planning and implementation of new ones, based on the needs and objectives of each business organization.

6. Conclusions

The redesign of the organization of the business brings about wider organizational and administrative changes, which are necessary for its proper and effective functioning. The most important changes are: operational structures are becoming horizontal, that is, we are replacing the classic operating segments with project teams that deal with a process from start to finish. Job descriptions become more interesting and less specialized, with no unnecessary duplication of work, with a greater variety of jobs, and with more freedom of initiative. Employees' values and beliefs are changing to support new internal processes. The roles of supervisors are transformed from supervisors to bureaucrats to managers to mentors. Performance indicators and remuneration focus on the successful outcome and achievement of the corporate goals that are set. From the above it becomes clear that the effective operation of any business goes through the process of redesigning or restructuring internal processes. It is our view that the business in question should be evaluated in relation to its internal processes, at regular intervals, by an external partner, in order to ensure objectivity.

In this way, the organization will be properly organized to achieve its goals and to gain comparatively competitive advantages over the market. Finally, it should be noted that the process of redesigning the internal processes of the company concerned is de facto carried out at the design and implementation stage of the ISO 9001 [28] quality management standard, as ensuring standard internal procedures ensure measurable, correct, and orderly operation of the business.

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