The three phase model of crisis

' Prevention is better than cure' is a saying around the globe. This saying applies very well in a crisis which occurs to the organisation from nowhere. The organisational environment is often described as more hostile, uncertain, changeable and complex then it has been in the past (Borman, Ilgen, & Klimoski, 2003). The complexity and the capriciousness of the current business environments are liable to stimulate numerous crisis events for organisations and their subunits (Choi & Kim, 1999) (Lampel, Shamsie, & Shapira, 2009) (Moynihan, 2009). Recently, crises have become a regular or even normal event for many organisations. (Ashby & Diacon, 2000). Therefore it is very important and appropriate that managers should focus not only on whether a crisis will happen but also when and how it will occur. Crisis by their nature are unexpected and brief with few managers possessing either firsthand knowledge or practical experience (Guth, 1995). A basic definition as said by Clark (1995) is " A crisis, is defined as any unplanned event that can cause death or significant injuries to employees, customers, or the public; shut down the business; disrupt operations; cause physical or environmental damage; or threaten the facility's financial standing or public image." It is also important to know the types and causes of crisis and the damage which can be caused to cope with the crisis and effective crisis management in the organisation (Drach-Zahavy & Freund, 2007) (Mitroff, Shrivastava, & Udwadia, 1987). In today's world organisations operate in an environment which is characterised by high uncertainty, risk, and turbulence due to different events such as natural disasters, terrorist attacks, corporate scandals, and major product defects. These unforeseen crisis events, be they small or large scale, naturally occurred or humanly induced, have far-reaching and deep impact on organizations and individuals

within (Mitroff, 1988)(Pearson & Clair, 1998). To avoid or reduce such unanticipated impact requires effective crisis management practice. By that time, as the environment grows in complexity and uncertainty, it not only requires significant learning efforts on the part of organizations (Lagadec, 1997), but also makes the pace at which organisations learn a determining factor in its ability to survive or adapt (Schwandt & Marquardt, 2000). With such difficult environment, constant and continuous learning has become a necessity for the survival of any organisation, adaptability, competitiveness and long term viability (Barnett & Pratt, 2000). To cope with such environment and handle such events, crisis management is necessary for any organisation. Like crisis, crisis management is also defined differently by different people by their own perspective. One of the definition of crisis management as said by Darling et. al. (1996) " Crisis management is defined as a series of functions or processes to identify, study and forecast crisis issues, and set forth specific ways that would enable an organization to prevent or cope with a crisis." The definition given above fills the purpose of this paper of describing crisis management. Many authors have developed different models or process to describe methods to deal with the crisis such as five phases model of crisis management (Mitroff I. I., 1993), some authors has taken different elements of the organisation to deal with to show crisis management such as Mitroff in (1989) used Hofstede's Onion diagram to show culture as a part of crisis management to show the different cultural profiles of organisations. Similarly Smith (1992) explained 7 C's of crisis management which demonstrates the cultural web and other important elements of the organisation to be handle to prevent the crisis which is one of the crisis management model. Smith in (1990) also came up with another

crisis model which is known as ' Three Phases of Crisis.' This model describes about the different phases of the crisis event occurring in organisation. This paper focuses on this model of Denis Smith describing the model in particular and focusing on which part of the model or which phase of the crisis is most challenging for an organisation to handle with the relevant examples from the organisation and other major events. The next section discusses about the three phase crisis model in brief particularly what does the model means. Followed by the discussion on most challenging phase of the model for an organisation to handle with relevant examples. Then summing up the whole model and describing the reason behind the challenging phase of the model to the organisation in conclusions.

Three Phases of Crisis.

Crisis management is relatively new field that has only received research attention in recent years (Pearson & Mitroff, 1993). Denis smith in (1990) came after a proper research and study about the topic came up with a conclusion that in any crisis situation there are three distinct phases. He developed a model which is now known as three phases of crisis. Smith says that the crisis in any organisation is basically in three stages, the first stage is known as Crisis of Management, the second stage is Operational Crisis and the final stage of the model is Crisis of Legitimation.

The Crisis of Management.

This phase is the phase in which the " situation appears to imperil the firm's survival and places the firm under severe time pressure." (Ansoff, 1984). The first phase of this framework, the crisis of management represents that period in which the potential for a crisis becomes ' incubated'. This phase

addresses the strategic and system-level issues that can generate problems for organisations at the more functional and operational levels of activity. The first period is when the organisation fails to take account of imminent situation is about to occur which can be catastrophic for firm's survival. The important elements here can be seen to be around communication, culture and decision-making processes and the ways in which these factors generate vulnerability. It is in this phase that the potential is developed that would allow an incident or an accident to escalate into a more serious event. This process has been termed ' tight coupling' and ' interactive complexity' by Perrow and reflects the speed of interaction between elements and the complex emergence of failure (Perrow, 1994). Perrow argues that such failures are designed into the system and often represents the ' normal' way of working. Most of this potential for failure arises as a function of attempts at making the organisation more efficient or by the extended nature of its supply chains. In the same way, the failure of management to respond to incidents in an effective manner could allow an initial level to develop quickly into a crisis. This is the phase where decisions taken or not taken by the management or the shareholders or stakeholders in the organisation can proclaim the growth of the organisational culture. The processes through which this escalation can occur can occur are deal with at several points in this collection. The main issues for consideration within this initial phase of the process includes, role of management in the generation of errors lower down the organisation, weaknesses in the management structure, constrained decision-making and communication, and the problems that arise as a result of the interaction between the organisation and its environment. In this culture and climate within which a relatively minor

initiative event can intensify the whole system and can result in catastrophic failure. These issues will ultimately be reflected in the failure of contingency planning to address the scope and scale of the problems that face the organisation in the operational phase of crisis.

The Operational Crisis.

The Second Phase of the model is Operational Crisis it occurs when the event escalates to such a point that damage is caused or the reputation of the organisation becomes threatened. This phase comes when the organisation is in violent pangs of suffering from the operational crisis. David (1990) in Smith's research said " This is the phase in which the human face of management is an important element in reducing the organizational impact of the event." In some larger organisations, this phase is often formally triggered when a senior manager determines that the event has the potential to damage the reputation of the group or the main parent company of the various business units (Smith D., 2004). This phase of a crisis is also unavoidably the most visible, due to the damage that it can cause. By the large, this damage requires that an additional level of resource is brought to bear in order to contain the demands of the events, and, eventually, to return them to normal. This phase is also defined by the role of external agencies usually acting in the role of rescuers who will often take short term control of the damaging event until such time as the demands return to a level that can be handled by more routine management processes. Nevertheless, where there is loss of life associated with the crisis then there will also be a requirement for the collection of evidence. This requirement may remain with external agencies for a considerable period of time after

the operational phase. There is considerable potential for this process to escalate the crisis still further as media coverage of any investigation will have an impact upon reputation, share price and sometimes even to an extent of, legal status. Thus a crisis does not end at the point at which the minor problem is brought under control, but may escalate still further as the crisis moves to more of a reputational problem in the next phase which is ' legitimation' phase.

The Crisis of Legitimation.

The final phase of this framework raises the issues of turnaround management, reputation recovery, and a range of processes aimed at securing the organisation's legitimacy with its internal and external stakeholders. These are all issues that need to be considered by managers in the Crisis of Management phase rather than in the Operational and Legitimation phase. This final phase also includes the processes of organisational learning which is as generating many of the conditions necessary to deal with future problems of crisis incubation within the crisis of management (Elliott, Smith, & McGuinness, 2000). In the ensuing post-crisis period there is often an attempt to search for scapegoat to blame on in an attempt to legitimise organisational operating procedures and different managerial styles. In this phase the organisation tries to restore external confidence in both its managerial structure and operating systems. Government normally tries to intervene in this phase of crisis as they search for both to secure legitimacy and to take preventive measures.

Many a times we see that the management responsible for the crisis is being transferred from one organisation to another or to dedicated crisis

management unit or team. This usually occurs in the second phase of the model, as seen by the role of exigency services which comes into picture during the crisis situation in an attempt to resolve the crisis or reduce the damage which is being caused. We can also see such blame games or transfer in the third phase which is crisis of legitimation phase as in this phase attempts are made to apportion blame outside the organisation that played host to the crisis event. Normally, we see such transfers during transport accidents. Resulting in other organisations operating in same sector being affected may be due to close association with the crisis hit organisation or through more tight legislation coming into force during legitimation phase. We see here the impact of crisis being passed from one organisation to another which has to forcefully change modify their pattern to meet the changes in regulation (Smith D. , Beyond contingency planning: towards a model of crisis management, 1990).

From the model we can also see that there is a phase of ' Organisational Learning' or what Smith said as ' Feedback Loop'. Environmental factors such as a crisis can stimulate learning within an organisation (Dodgson, 1993) (Fiol & Lyles, 1985). Learning has become an increasingly primary concern to many crisis management researchers (Elliott, Smith, & McGuinness, 2000) (Stern, 1997). Smith in his model suggested that organisational learning is an integral part of the crisis. Organisations should learn the mistakes which they made during the crisis which let it occur, or the way they handled the crisis. Sundelis and Stern (2002) noted that members of organisation often use lesson from past crisis experiences as a guide for current action. In the same way, they may respond to positive or

negative feedback on performances during a crisis experiences as a guide for current action (Sundelis & Stern, 2002).

The most challenging phase

Looking at the whole model all the three phase of crisis are linked to each other. It is not easy to say which phase out of the model is most challenging phase for the organisation. But, if we compare all the three separately phase three which is Legitimation Phase can be the most challenging phase for the organisation. Many a times the post crisis phase runs along to the breeding of another crisis. A thought should be given to the structure and culture of the organisation in order to assure that learning occurs within the organisation. When putting this model in Smith's 7 C model we see that two major part of the organisation which is culture and configuration falls under this phase. Describing this by Smith and Sipika (1993) they showed five major points in this phase by saying to restructure for a responsive structure, the management style of the organisation to be reviewed to avoid such crisis again, sometimes even the personnel of the organisations is being changed or removed, proper marketing if the crisis is caused due to the product fault, sometimes it even results in the acquisition of the crisis struck organisation by other organisation. The impact of crisis after it has stricken is very lethal some organisations sometimes are not able to handle the blow of crisis depends upon the size and nature of organisation. The biggest example recently which can be given is the fall of Lehman Brothers Bank during financial crisis. In September 2008 one of the world's biggest bank, Lehman Brothers filed bankruptcy after hitting badly by the worst post world war financial crisis in 2008. Lehman Brothers which was once said as " too big to

fall" was shut after the strong blow of sub-prime mortgage crisis (Baba & Packer, 2009). Out here the working of the organisation in sub-prime mortgages pushed organisation to fall when the markets started to fall. This working was being incubated by the culture of the organisation. The fall of Lehman Brothers started one of the worst global financial crises. The effect here was passed to other organisations not only in the same sector but all over the world due to the size of the organisation. The involvement of government in this phase plays a very vital role as well, this can even save an organisation once the crisis is hit, structure or the working of an organisation can even change completely for example American International Group (AIG) was being rescued by the government of USA after hitting badly by recent financial crisis in2008. AIG was very much in the insurance of Credit Default Swaps(CDS) which turned to toxic assets later on during market crash. The nature of the organisation was very much in risk taking which caused a crisis for them as well. The government bailout given to the organisation helped them to stand back after the harsh blow of the financial crisis (Bernake, 2009). The first point discussed by Smith and Sipika proves the point out in the above given example which was restructuring for a responsive structure. Post Crisis phase or Legititmation Phase has always been proved challenging for the organisation in every way one more example of this phase was step down or change of CEO, Tony Hayward of the British Petroleum of USA branch due to worst oil spill in the history of USA (Bergin, 2010).

The Chairman of BP Mr. Carl-Henric Svanberg said in one of the press release on 27th July 2010.

" The BP board is deeply saddened to lose a CEO whose success over some three years in driving the performance of the company was so widely and deservedly admired."

The oil spill in Gulf of Mexico by BP was caused by deepwater horizon rig explosion, as of 9th August 2010 the cost to BP for the oil spill was $6. 1bn (£3. 8bn) which caused crisis to the organisation. Out here the fault was technical but the effect of the crisis (oil spill) not only changed the working of BP as in organisation, it affected in every way to the environment and also to the share prices of the company (Zangari, 2010) (BBC, 2010). The oil spill is almost shut now but the effect of the oil spill is still there to the environment and to the organisation, BP is being sued by the environmentalist and other people, along with BP even other companies involved in the oil spill are also being affected (Pael, 2010). Now-a-days due to globalisation there is always a chain effect of crisis from one organisation to another, as described by the Legitimation phase. Another recent due to faulty product was Cadbury Plc recall of its product made in China, Australia, Taiwan and India. The organisation has to recall its product after revealing tests which said may contain melamine-laced milk which killed four children in China and made many ill. Cadbury was under scrutiny after the revelation. It lost its major markets due to this event, the aftermath of this event caused Cadbury in major loses in the above mentioned region. The contamination was caused by leak of waste water. Around 1million bars of chocolate were recall which damaged the image of the organisation to the core and were almost unable to get back to their feet in one of the major markets around the globe (Hickley, 2008). It was after 2 years due their marketing practices they get

back into the market of China and made profits. Similar was the case with Coca-Cola and Pepsi in Indian market which fell under a controversy of having pesticides in their product in 2006. It was then the CEO of PepsiCo. INC Indra Nooyi made a press release about the procedures followed in making of the product and safe to drink. This press release was also used as a marketing technique in Indian market to reduce the aftermath of the crisis. Many such crisis have spoiled the image of many organisations, the practices by organisation have also been changed. These examples show why Legitimation phase is one of the most challenging phase of the crisis model. The government intervention, impact of crisis, competition from the competitors, handling the image of the organisation, health & safety and many such things makes the organisation difficult to comeback after the crisis has hit.

Conclusion

The paper has reviewed some of the issues relating to crisis management and detailed model which focuses on Smith (1990) the three main phases of Crisis and determining the effectiveness of management intervention in containing and preventing crisis escalation to see the various stages through which crises go. Most of the focus is shown on the post-crisis phase as organisations have attempted to manage the negative impact of the event. The phase also points out issues such as culture of the organisation that can increase or reduce the impact of the crisis. Paper also describes briefly about Legitimation phase, as the most challenging phase of the organisation in the crisis model with relevant live examples. Which focuses more on aftermath of crisis and Culture of the organisation, As culture is considered to be a '

soul of the organisation' during the time of crises (Witoszek & Tragardh, 2002).