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Services managers' awareness of crisis management: attitudes and preparation

Abstract

All organizations, regardless of their success, will potentially face some kind of business crisis. The purpose of the current study was to explore managers' awareness, attitudes, and implementation strategies with respect to crisis management (CM) in the service sector in Greece. The research was exploratory in nature and data was collected by carrying out semi-structured in-depth interviews with key managers in 26 companies. The open ended questions were content analyzed. Respondents identified the intangible nature of services, the service encounters, as well as the "front line employees' performance" and the "recovery strategy responses to service failures" as the major reasons for business crisis in services organizations. Additionally, the results revealed that a limited number of companies realize the importance of crises and, rather than apply a proactive strategy, mainly depend on their managers' experience.

Keywords: crisis management, awareness, attitudes, services industry, services marketing, depth interviews, Greece.

Introduction

The terrorist attacks on the World Trade Center in New York not only damaged the airline companies severely but also the airline sector as a whole (Anderson and Shah, 2004; Fall, 2004). In today's increasingly turbulent business environment any company regardless its size is likely to face some type of crisis.

Brewton (1987), while researching business crises in services, especially in the hotel industry, pointed out that a crisis exists when two criteria exist: 1) potentiality for injury to guests or employees and damages to company's assets, and 2) the speed of events and how rapidly major decisions have to be made. If these criteria are not present, then it is a bad situation and not a crisis. Barton (1993, p. 2) defined crisis as "*a major unpredictable event that has potentially negative results. The event and its aftermath may significantly damage an organization and its employees, products, services, financial condition and reputation*".

Hermann (1963) set the basis for research on crisis management, while considerable work has been done by Mitroff and colleagues in this field (1987; 2004; Mitroff and Anagnos, 2001; Mitroff et al., 1998; Mitroff et al., 1996; Mitroff and Pauchant, 1990; Mitroff et al., 1988). Past research on business crisis in services industries has been conducted in the hotel industry (Henderson and Ng, 2004; Stafford et al., 2002; Brewton, 1987), hospitals (Mostafa et al., 2004), tourism (Evans and Elphick, 2005; Ritchie, 2004), and in a theoretical context (Smith, 2005; Martin, 2005; Elliot et al., 2005).

The purpose of this paper is to specifically focus on the service sector. Martin (2005) argues that in some ways service enterprises may be more crisis prone

than businesses dealing with tangible goods. In addition, there is a shift from a traditional manufacturing economy to a service economy (Hays and Riggs, 2002). Services constitute the major pole for economic development in 21st century (Clark and Rajaratnam, 1999) and especially for the economies of the developed countries and thus crisis management in the service sector is a very important issue (Smith, 2005).

In light of the fact that crisis management is generally a new research area at international level (Mostafa et al., 2004) and on a national basis in Greece constitutes a desirable research topic. In addition, Greece hosted the Olympic Games of 2004, three years after 9/11 and spent billions of Euros on crises preparedness (especially for terrorism prevention, etc). The service sector contributes about 70% to Greek GNP.

This study was designed to explore how familiar Greek service companies are with the concept of crisis management and to what extent they have implemented crisis management programs. The prime focus was to obtain preliminary insights rather than test theory. The rest of the paper is organized as follows: first, the research methodology is presented, followed by the discussion of the main findings highlighting their exploratory nature. Lastly, the conclusions, the limitations and future research avenues are presented.

1. Literature review

Crises occur suddenly and cannot always be anticipated or projected, even when some early warning signs are detectable (Stafford et al., 2002). These crises are caused either by internal influences or by external forces and have taken many forms, such as: natural disasters (i.e., earthquakes, fire), technology failure, labor strikes, terrorism, product tampering and corporate espionage. Although, organizational

crises by definition are unique, there are common features present in terms of cause, locus, source of threat, and consequences (Seeger et al., 2003). The literature (Curtin et al., 2005; Seymour and Moore, 2000; Parsons, 1996; Booth, 1993) offered useful typologies of crisis based on the scale, the magnitude and the period of their development.

Parsons (1996) states that crises always erupt in the most unexpected and unprepared places and thus managers must prepare for uncertainty (Chong, 2004). Buchholtz (2003) argues that nowadays more companies may be prepared for crisis but their degree of preparedness varies widely. Besides that, each crisis is unique and managers adjust and respond differently to each crisis situation (Darling, 1994) due to the great pressure that they face in making rapid decisions with incomplete information (Smits and Ezzat, 2003; Stafford et al., 2002).

The need for a crisis management approach by an organization can be demonstrated by the fact that: 1) factors such as disasters, accidents and mishaps have increased in the last 25 years, and 2) investment in crisis preparation may be justified by the significant costs to organizations in terms of financial losses, fatalities and missed market opportunities, and ultimately to damaged reputation (Elliott et al., 2005).

Based on the literature, CM has three distinct phases. Table 1 describes these phases.

Table 1. Crisis management phases

| Runyan (2006), Elliott, Harris & Baron (2005) | Ritchie (2004) | Heath (1998) |
|---|--|---|
| Crisis prevention: includes the concepts of mitigation and planning. | Development: encompasses proactive scanning and planning. | Pre-crisis stage: to plan and provide for possible crisis events which may occur. |
| Response phase: includes the decisions and efforts of minimizing the crisis effects. | Implementation: applies strategies when crises or disasters occur. | The crisis: to reduce or mitigate the impacts of a crisis by improving the response management. |
| Recovery phase: the organization seeks to minimize the impact of the crisis and also to learn from the event. | Evaluation: the effectiveness of these strategies in order to ensure continual refinement of crisis management strategies. | Post-crisis stage: to swiftly and effectively determine the damage caused by the crisis. |

Source: Adapted by the authors from the sources cited.

Crisis Management defined as a “*set of factors designed to combat crises and to lessen the actual damage inflicted by a crisis*” (Coombs, 2006, p. 5). Seeger et al. (2003) state that crisis management involves three fundamental strategic goals: 1) to reduce the frequency of crises, usually by more careful monitoring and information collection as

well as recognizing, evaluating and responding effectively to warning signs (pre-crisis stage); 2) to limit the consequences, severity, and intensity of a crisis (crisis stage); and 3) to identify ways to use the crisis as a learning opportunities and as a force in system renewal (post-crisis).

Crisis management is a critical part of contemporary strategy. Authors such as Preble (1997); Clarke and Varma (1999), suggest that crisis management should be viewed as an important issue in the strategic management process, and therefore it should be a major consideration for senior management. Therefore, it is an essential part of ensuring an organizations stability and viability in the future (Chong, 2004). Companies must continually update their crisis management policies so as to ensure that they reflect changing industry dynamics (Carter, 1997). In this context, several models have been developed in order to help companies to successfully manage crisis situations (Elsubbaugh et al., 2004; Seymour and Moore, 2000; Booth, 1993).

However, Heath (1998) identified two fundamental crisis management approaches, the traditional one and the risk management approach. The first one involves no initial (pre-crisis) planning or management as the approach begins when the crisis starts. The risk management approach is to respond to the crisis by managing the impacts effectively and efficiently. The evaluation, risk assessment and crisis planning do not occur until after the crisis event (post-crisis) and the findings are then kept for future reference. The risk management approach follows on from the traditional crisis management approach as it starts where the other finishes and is concerned with assessing and managing risk before a crisis begins (pre-crisis). It is then in the position to implement appropriate response and recovery plans as the crisis emerges. Again, similar to the first approach, learning and feedback are crucial requirements for the development of future crisis management planning.

Fink (2000) states that one of the best ways to identify possible threats or vulnerabilities is to observe what is happening in the specific sector. Information about the kind of events which have tended to occur and have raised significant concern among management in their respective industries gives service managers the information needed to evaluate their own organizational vulnerabilities (Spillan, 2003).

2. Methodology

Taking into consideration the exploratory nature of the study (Creswell, 2003) and the lack of previous research on CM in Greece, we opted for qualitative research (Priporas et al., 2005). Many researchers

argue that qualitative research is essential in the early stages of the research. It provides richer details for exploring viewpoints, allowing the researchers to gain a better initial understanding of the problem and to identify phenomena attitude influences (Healy and Perry, 2000; Maxwell, 1996). Further, as Malhotra (1996) points out qualitative research should be conducted when the exploration of a theme is considered a new research problem, while Gilmore and Carson (1996) state that qualitative research methodology is well suited to the characteristics and the nature of services.

For the purpose of this study face to face in-depth interviews with 26 executives from various services companies were carried out because it was considered that, in this way, better and more information would be acquired. In-depth interviews reduce the “distance” between interviewer and interviewee (Johns and Lee-Ross, 1998). A non-probability convenience sample of 26 companies for this study was utilized. The interviewee-executives were known personally to the researchers from previous business and academic cooperation. All expressed their opinions about the issues under investigation. The sample is considered sufficient for the purpose of the current study, since other researchers studying similar crisis management themes also employed small samples. Chong and Nyaw (2002) employed a usable sample of 21 companies in Hong-Kong and Lee and Harrald (1999) 46 companies in USA. In addition, De Ruyter and Scholl (1998) suggest that sample sizes in qualitative research are most commonly between 15 and 40 respondents.

For the discussion in the in-depth interviews a simple semi-structured questionnaire was designed to assess the knowledge and use of CM as a strategic tool and the ways that the companies face the crises. The questionnaire developed was based on the literature review and it was pre-tested for readability and content relevancy in relation to study objectives.

The interviews took place in the period May-September 2004 in Greece (Thessaloniki city) and the sessions’ duration ranged from 40 to 55 minutes approximately and they were carried out at the working places of the executives after telephone communication with them. The researchers contacted the companies in order to get the permission to set the actual appointments with the executives. During the discussions a professional tape recorder was used in order to record the discussion, with the authorization of the interviewee-executive. The interviews were recorded to increase the accuracy of data collection since it permits the interviewer to be more attentive to the interviewee (Patton, 1987). It also allowed the authors to transcribe each interview completely to facilitate the process of content analysis. The researchers also took

hand-written notes during the sessions. After all the interviews were completed the discussions were transcribed, and a copy of their analyzed data was forwarded to interviewees to confirm their authenticity. The analysis was carried by using an interpretation method to allow the researchers to acquire a more complete and in depth understanding of the data. The open ended comments were content analyzed.

3. Sample profile

In order to get a general picture of the services providers the team searched the subject in companies from the spectrum of the services industry (i.e., lodging and tourism, banking, accounting, consulting, education, health care). These companies varied in terms of size, earnings and management philosophy and all were very well known firms. In particular, given the predominance of small sized firms in services (Martin, 2005), 2 of the sampled companies were very large scale firms (7.7%) and the rest 24 were small and medium sized companies (92.3%). From the 26 companies that participated in the research, 25 were Greek owned enterprises, one was foreign-owned. Table 2 illustrates several major demographic and organization information.

Table 2. Demographic and organizational background

| | Frequency | Percentage (%) |
|------------------------|-----------|----------------|
| Demographic | | |
| Age (years) | | |
| -30 | 4 | 15.4 |
| 31-40 | 9 | 34.6 |
| 41-50 | 7 | 26.9 |
| 50+ | 6 | 23.1 |
| Education | | |
| Bachelor Degree | 12 | 46.1 |
| Masters Degree | 13 | 50.0 |
| PhD | 1 | 3.9 |
| Years in the company | | |
| 1-5 | 8 | 30.8 |
| 6-10 | 9 | 34.6 |
| 11-15 | 5 | 19.2 |
| 15+ | 4 | 15.4 |
| Rank | | |
| Top management | 13 | 50.0 |
| Senior management | 7 | 26.9 |
| Middle management | 6 | 23.1 |
| Ownership | | |
| Foreign | 1 | 3.9 |
| Greek | 25 | 96.1 |
| Annual turnover in € | | |
| -1.000.000 | 11 | 42.3 |
| 1.000.001-10.000.000 | 9 | 34.6 |
| 10.000.001-100.000.000 | 4 | 15.4 |
| 101.000.000+ | 2 | 7.7 |

4. Findings

4.1. Business crisis reasons and knowledge. Smith (2005) reported that the literature had identified several common features of service industries including labor intensive operations, high level integration and engagement with their customer groups; displaying and increasing scale of operations overtime, a range of internal and external cultural factors that are important in shaping the nature of the sector. Among them, the content analysis of the current study highlighted that the “intangible nature” of the services and the “service encounters” were the most important reasons for business crises in the service sectors. These findings are consistent with the literature (Elliott et al., 2005). Additional significant reason for potential crisis reported the “front line employees’ performance” and “recovery strategy responses to service failures”. Table 3 offers a synopsis of the main reasons for potential crisis in service organizations based on managers’ responses.

Table 3. Reasons for crisis

| Reasons for crisis | Managers' responses | % |
|--|---------------------|------|
| Intangible nature | 22 | 84.6 |
| Service encounters | 22 | 84.6 |
| Frontline employee performance to service problems | 14 | 53.8 |
| Non suitable recovery policies | 12 | 46.1 |
| Complex service processes | 10 | 38.4 |
| Service quality | 10 | 38.4 |
| External influences | 5 | 19.2 |
| Physical facilities | 5 | 19.2 |
| Other customers | 4 | 15.3 |

Typical of the executives’ comments on service crises referred to immaterial attributes of the services and the consumer’s role in the service process. The following statement is very characteristic:

“The intangible aspects of the service make it difficult to control it 100%, in comparison with the tangible products. Consumers try to evaluate the quality of the service and make comparisons so an error by us the service provider, especially in the quality of the service we are offering, i.e., a slow service, can easily create a crisis event” (executive 3).

The literature on services marketing emphasizes that services tend to be more intangible since they are performances or actions that cannot be sensed in the same way that consumers see, taste, feel or touch physical goods (Zeithmal et al., 2006; Kotler and Keller, 2006; Lovelock and Wirtz, 2006). Kotler and Keller (2006) stress that consumers in their effort to reduce uncertainty, look for evidence of quality from the things that they see; such as price, place,

people, etc. However, it is very difficult for services consumers to measure and assess service quality and value until after they have purchased it (Martin, 2005). As Grönroos (1978) points out, the quality of a service as perceived by customers has two dimensions, a technical or outcome dimension (visible or physical tangibles used or experienced by the customer during the service delivery process) and a function or process related dimension (how customers experienced the human interactions during the service delivery process).

In addition, Smith (2005) stresses that, service providers by their very nature involve extensive interactions with various public groups and have, as a consequence, greater potential for emergent properties that can trigger the potential for crises. Therefore, service providers must deliver a consistent service that meets customers’ expectations, otherwise a service failure can occur with various consequences such as customer dissatisfaction, negative word-of-mouth, and loss of revenues. Martin (2005) argues that service based organizations may face crises when they fail to predict, diagnose and manage mismatches between demand and capacity constitutes.

Another executive with emphasis commented:

“The customer is an integral part of service production and if s/he experiences a negative personal interaction (service encounter) then s/he might switch service firm. This could become a major crisis for us, in terms of lost market share” (executive 5).

Unfortunately, service based firms can not deliver a “zero defects” service all of the time. Although, effective service design and management play a significant role in minimizing the risk of poor service delivery, in practice few service based organizations can hope to wholly avoid service failures (Schoefer and Ennew, 2004). During the service encounter many things could go wrong such as unprompted and unsolicited employee actions (i.e., rudeness), failure to respond to specific customer needs or core service failures, i.e., unavailable or unreasonably slow service (Bitner et al., 1990). However, the crucial point is the service recovery strategy after the service failure which can improve or compound the situation (Berry et al., 1994). It is therefore important for both practitioners and academics to understand which service recovery strategy is the most effective in a given situation (Levesque and McDougall, 2000).

As executive from a medium sized company commented:

“Mistakes in service delivery do happen and I believe that if we respond properly by offering a suc-

successful action (recovery strategy) then we can prevent any potential crisis” (executive 13).

Although, many studies have documented the importance of firms’ response (Bamford and Xystouri, 2005; Michel, 2001; Levesque and McDougall, 2000; Bitner et al., 1990) in service satisfaction and retention, in reality many service firms do not invest in suitable and well-executed recovery strategies and this consequently has a negative impact on their relationships with customers and can lead to negative word of mouth (Zeithmal et al., 2006; Lovelock and Wirtz, 2006). Further, a recent study showed that 50% of the customers who experienced a serious problem did not receive any response from the firm (Zeithmal et al., 2006). A remark from an executive from a medium sized corporation, illustrates the importance of customer interaction and also the training issues in terms of employees conduct:

“According to an old saying the customer is a king. However, there are uncooperative customers and sometimes they do not behave in acceptable ways, something that can cause a problem since the frontline employees can react spontaneously, even if we try to provide our employees with appropriate training in handling such problematic customers” (executive 19).

Frequent contact employees’ training can enhance their ability to provide a greater level of customer care and prepare them for handling the differing demands of customers. A successful example of training and improved customer service quality is that of SAS in 1981-1983. Carlzon, the SAS president, in his effort to ensure successful customer service quality put all 27,000 employees, from front-line employees to company’s vice presidents, through a company wide training program. Within two years, this initiative became a success story since the company moved from making a loss to making profits in an industry which as a whole suffered losses (Bamford and Xystouri, 2005).

Further, the interview data demonstrates that the executives know, in a general theoretical context, what constitutes a business crisis. The degree of knowledge varies according to the level of education and experience. From the sampled executives, 15 (57.7%) expressed the belief that their experience is sufficient enough in enabling them to successfully handle the crises. It is characteristic shown in the following statements:

“I will face the crisis the moment it appears since my experience is enough to enable me to respond in the right way” (executive 1).

Another top ranked manager emphasized:

“Crises are handled primarily based on our experience and by our marketing department, who scan the external environment” (executive 7).

These opinions support the belief of Kash and Darling (1998) that although enterprises face crises many managers do not undertake proactive strategy. The dependence on senior executives or owners “experience” is fundamental in the Greek business culture. Several studies (Elsabbagh et al., 2004; Pearson and Clair, 1998) have shown that “experience” is a vital factor in crisis preparation.

Also, it became apparent that learning from previous service problematic events is a significant factor in crisis preparation. The following statement from a senior level manager illustrates this:

“Service problems (failures) can occur at any time, either in the process, or in the delivery of any service. In the past we experienced some small service failures and we tried to learn from our mistakes in order to prevent or to eliminate them without problems (before they escalated into a crisis). This is the real situation for every manager or corporation” (executive 8).

Shrivastava et al. (1988) emphasize the importance of learning from failures and the implications for organizational learning. A review examination and analysis of past crises and the lessons learned are vital in considering how to take effective steps to help prevent their occurrence in the first place.

4.2. Existence of crisis programs. Only 2 of the sampled companies reported that they had an official and organized crisis management department. However, these are large sized and are “leaders” in the market in their sectors and have the available resources to organize it. Both executives declared that their companies are satisfied with the operation of their CM departments. A manager from the foreign owned company commented:

“We are a big organization and we can not neglect such an important issue (CM), especially in this globalized unstable business environment. In the past we experienced some crises caused by exogenous factors, and this department (CMD) acted instantly and avoided some bad consequences and tried to take preventative actions to avoid crises. So far, we are very satisfied with the operational performance of the CMD” (executive 15).

A similarly positive view was expressed by a top manager of the other company that operates a CMD. On inquiring why such a department did not exist in the sampled services companies, the majority of respondents did not consider the existence of such a department necessary and some others considered

the small size of the company as the major argument against operating such a department. Only a few regarded the cost of such an operation (expensive) as a reason not to operate such a department. The following extracts demonstrated these views:

"We are a small sized company and we can not afford to hire a person or 2-3 people just for this reason. We have to stay competitive by investing in the quality of our services" (executive 18).

"It is not necessary to operate such a department. If you observe the conduct of your employees (moments of truth) and understand your customers' needs, then you can prevent many negative interactions" (executive 20).

These responses show a partial lack of awareness of what constitutes a real crisis since they are more customer-centered than about the whole business environment. According to Mitroff and Anagnos (2001) this perception could be characterized as "myopic". A kind of different response was given by another manager from small sized firm:

"We are a new company but we know the importance of CM. Although, given the nature of our services (consulting) it is not necessary to operate such department, we take a series of proactive actions like holding regular meetings with the staff and external associates. Also, in order to assure our service quality we got ISO for our service procedures and that gives us a competitive advantage and a tool to handle crises" (executive 26).

Further, the majority of the sampled service providers do not have any crisis management programs and only 7 of them (46.6%) apply some type of crisis management program. Moreover, all the companies have at least a contingency plan for handling a particular crisis (fire) since according to Greek legislation, all the enterprises must have such plans. This confirms the findings of Henderson and Ng, (2004) who asserted that *"not all organizations are in possession of a plan and those that do exist are often informal and undocumented, addressing only one particular type of hazard"*. Mitroff and Anagnos (2001, p. 32) point out that organizations usually prepare for crises such as natural disasters that are "least threatening to the collective ego of organization". In addition, Edvardsson (1992) argues that part of the difficulty associated with managing the development of crisis within the service sector concerns the sheer diversity of the sector and the range of organizations within it and the differences between different kinds of services.

However, all organizations have some type of procedures for crisis preparation. The vast majority

(92.3%) of the sampled companies, through monitoring the daily operations, followed by ensuring service recovery strategy (46.1%), attempt to prevent any potential business crisis. One of the executives commented:

"The least that we can do is monitor our operations day by day to avoid or eliminate any possible problems" (executive 11).

In an era in which strategic planning is receiving more and more attention from corporate management, it is surprising that so many companies do not include crisis planning as an integral component of their business plan, despite the fact that crises can threaten the foundations of a given company. Pollard and Hotho (2006) in their study emphasize that a real crisis prepared organization considers the CM plan an integral part of the strategic management process. Wisenblit (1989) reported that companies with a plan in place when hit by a crisis event reported shorter crisis duration and fewer after-effects than firms without a crisis plan. For example, Wal-Mart, because of its effective crisis management process, was able to reopen 113 of the 126 stores which were affected by Hurricane Katrina (Anonymous, 2007).

In addition, many companies spend huge sums of money on advertising, public relations and image creation, ignoring most of the time the fact that a poorly handled business crisis can quickly destroy their established reputation and carefully crafted image (O'Rourke, 2004; Wisenblit, 1989). A very recent example, coming from the service industry, is the damaged reputation of Arthur Andersen Consulting which became irreparable and led the company to downfall in the aftermath of the Enron business scandal.

Conclusions

Crisis management seems to be a vital factor for success in today's uncertain business environment. It is a useful tool in enabling executives to develop proactive business decisions about long-term strategies since it gives them the ability to fight challenges to profitability and survival. Companies that are prepared for crises are better able to handle them more efficiently and successfully.

The purpose of this study was to shed some light on the issue of crisis management in Greek services enterprises. The results revealed the intangible nature of services, customer interaction, front line employees' performance and recovery strategy responses to service failures could be the major sources for generating business crisis in services organizations. The findings are closely connected

with the critical foundations of services, the management of the service delivery process and the interaction between customers and servers (Laing et al., 2002).

Also, crisis management programs are applied only by a very few companies, mainly the large-scale leaders in their fields, which employ them in an effort to be more secure and to ensure their existence or to minimize any damages. Further, the sampled Greek services companies mainly depend on their executives or owners' experience in handling business crises. There is a great need for companies to enhance their readiness to deal with future crisis situations.

This study is one of the few investigating crisis management in the Greek business environment. It should be noted however, that this study was qualitative in nature and the focus was explicitly on obtaining depth of understanding rather than generalization. More research is needed to better understand the current state of the condition of CM in the Greek business climate and to confirm the findings of the present study. The number of the sampled companies used in this study was adequate for the purposes of this study and allowed reasonable conclu-

sions to be drawn; however, it cannot be considered representative of the Greek service sector. Our findings are limited by the sample and measures used. Studies of more diverse samples of other companies, for example, large sized companies, using quantitative measures should be done to confirm and expand these results in order to improve generalizability.

Regardless of the current limitations, the present study adds to our overall knowledge about CM, especially in a globalized business context, since very little research has been done in the service sector and thus this research is worthwhile in general and it provides the basis for future, more systematic and hypothesis testing research. Future studies can build on these results to complete this picture, for example, to extend the survey to specific services, such as banking, health care services and especially to those that are important to national economy, since there is the possibility of different sectors in the service domain experiencing differences in crisis management application. Furthermore, empirical investigations might incorporate the opinions of customers and service staff, since these actors play a significant role in the delivery of effective and superior service quality.

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