

What the Pandemic Has Taught Us About Crisis Management

Matthias Breier (Lappeenranta-Lahti University of Technology LUT)

Sascha Kraus (Free University of Bozen-Bolzano)

Thomas Clauß (Witten/Herdecke University)

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Because COVID-19 had effects unlike any other crisis, crisis management research has received increased attention in the past few years. Within a few weeks, economic life was turned completely upside down. Governments around the world implemented strict measures to prevent its spread: contact restrictions, hygiene regulations, and closing national borders, educational facilities, and businesses. With few exceptions, most catering and tourism businesses, non-food retailers and numerous service businesses with direct customer contact were completely closed, while others were significantly restricted and had to find creative solutions to continue generating revenue.

Now, more than two years after the start of this crisis, we've seen changes in social behavior and digital adoption at companies. And thanks to the wealth of research that took place during the pandemic, we now have many new insights about crisis management. This article summarizes the research and explains the insights from it, to help business owners better understand how to cope with future crises as they unfold and think strategically despite the turmoil. We discuss the different crisis response strategies, when and how innovation strategies during a crisis are relevant, and how they help companies to emerge stronger.

Potential Response Strategies

Some of the first research articles pointed out that a crisis response strategy is proactive behavior through innovation. While they explained a total of four potential crisis response strategies, innovation is the only strategy that can be followed in the long run. Small to Medium-sized Enterprises (SMEs) have to be particularly innovative since they don't have enough liquidity to dive through a long crisis. Their small size prevents them from simply getting money from capital markets or banks. While SMEs were hit by the crisis in a

special way, they were not the only ones that considered innovation as a useful response strategy.

One early study explained how family firms coped with the crisis. Based on a framework, they analyzed that family firms build on a mixture of strategies. These responses were separated into long and short-term responses.

1. *Controlled shutdown:* An immediate, controlled shutdown of business operations to secure liquidity. This involves avoiding non-essential costs (reduction of fixed costs, focus on most probable cash flows etc.), while at the same time exploring ways of raising money (e.g. extending credit lines or suspending annuities with banks) and government support.
2. *Streamlining:* Using the dynamics of the current situation to identify ineffective structures and unnecessary expenses. The crisis relentlessly reveals the strengths and weaknesses of the company and creates the opportunity to question existing processes and responsibilities and streamline them if necessary. Increased communication with employees helps managers enlist their help to pinpoint these opportunities, and increases their acceptance of cost-saving measures.
3. *Operative crisis management:* Introducing specific health-related measures against COVID-19 in the workplace, such as online tools for workflows and adjustments in work organization. For example, many companies adjusted their work day and added core working hours up to 10 p.m. to allow employees more flexibility in working from home.
4. *Reflection:* For most companies, the COVID-19 crisis has been an unknown challenge for which

they were not prepared. Now they have the opportunity to learn from the crisis and its challenges and use the experience as a blueprint for dealing with future crises. In the long term, opportunities should be explored here to capture the best practices from the COVID-19 crisis and translate them into crisis strategies for the future.

- 5. *Temporary business model adjustment*: Many family businesses experienced significant drops in demand or even a complete standstill due to the considerable government restrictions. In this situation, extensive resources of the company remained unused in many places. It has made sense to find creative ways to adjust the business model temporarily so that these dormant resources can be re-deployed to help the company continue to make money.
- 6. *Business model innovation*: The COVID-19 crisis has already triggered short-term adjustments to business models and created opportunity for profound longer-term innovation. Family businesses are particularly good at reinventing and adapting, since many of them have already dealt with other crises and made radical technological changes.



1. Figure 1: Crisis response strategies based on Kraus et al. (2020)

Research further showed why companies were changing their business models. Because the crisis disrupted several business models completely or at least in part, managers could no longer engage in their regular tasks. But this left more time and energy to ponder the company’s strategic direction and generate new ideas, especially at SMEs, where the management was still strongly engaged in the daily business. On the other hand, the crisis also showed companies their weak spots. They realized that they are not resilient enough to cope with crisis situations, which led to an innovation process to rethink existing business models and create a more crisis-resilient foundation.

Emerging Stronger After a Crisis

At the beginning of a crisis, a company’s first order of business is preserving liquidity so they can survive. However, after some time they know how long they will make it in the short term and start to innovate to ensure they survive in the long term. This innovative behavior and strategic thinking make a company stronger after the crisis, especially if companies closely observe the opportunities a crisis creates.

Several opportunities arise from the effects an external crisis -- for example, legislative changes or social change -- has on the general environment of a company. Early research highlighted how the crisis changed employee behavior about adopting digital solutions: as employees started to use digital tools, they realized their benefits and got comfortable with their functionality. In the long run, using these tools may change the thinking of employees and therefore, set a foundation for the integration of digital business models. For companies, it is important to assess if opportunities are only temporary because of the crisis or if they will remain after the crisis is over. This prevents investing in opportunities that go out of the market as quickly as they came.

Future Crises Are Sure to Come

Research produced a massive amount of crisis literature in the recent years and more is still to come as companies continue to adapt. However, early research showed that for long duration crises, just "waiting it out" won't work: a mixture of strategic responses is necessary to come through it. Business model innovation is a strategic response that can help the firm weather short-term crises and also create long-term positive effects. Companies innovating their business models generally start to build new capabilities that will help them innovate even more in the future. The latest crisis further showed the importance of digitalizing infrastructure and business models. Companies that did this reported less severe effects of the crisis.

Summary

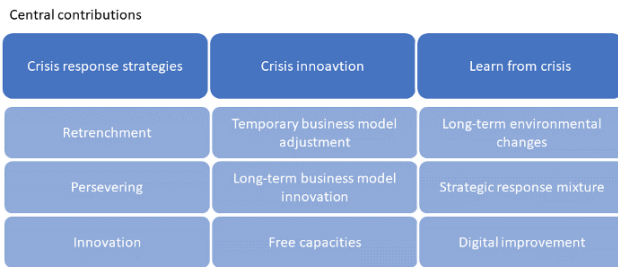


Figure 2: Central contributions of this article

During a crisis, companies have to quickly adapt to changing environments. The first step in adapting to a new situation requires a company to consider the six strategies outlined in this article. However, once the initial challenges are overcome, companies can start to focus on analyzing the long-term changes to their environment and innovate accordingly: the shorter-term issues might go away once a crisis is over. This innovation capability of companies can be fostered during the crisis and strengthen the company after a crisis. This creates a foundation for long-term positive effects. Finally, companies that survived COVID-19 need to learn from the experience, which helps to improve resilience and ensure they are better prepared for other crises.

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