

Crisis Management in an Emerging Market: Evidence from Turkey

Elif Yolbulan Okan, Ayşe Begüm Ötken and Senem Göl Beşer

Abstract—Crisis is integral part of today's highly competitive, fast changing, and global business world. Companies may experience severe financial and reputation losses that can threaten their reputation, image and survival. The issue is not whether you face a crisis, but it is how you cope with it and go through this turbulent time. Thus, there is a growing need to understand the nature, determinants of crisis and crisis management, specifically in an emerging market. The purpose of this study is to draw a framework to the basis of crisis management and provide examples from both global and local companies in Turkey in managing crisis. Both companies, which one is a well known global Turkish company faced severe crisis recently and had difficulties in managing this process.

Keywords—Crisis Management, Emerging Market, Strategic Management, Turkey

I. INTRODUCTION

GLOBALIZATION is complicating the decision-making systems and crisis management by forcing businesses to plan outside the country borders and business culture. Many leading multinational companies expect that their future success will depend on their ability to win in emerging markets. However, Western managers face a variety of difficulties in emerging markets. In addition to the challenges such as government instability, poor infrastructure, lack of capital markets, and lack of local market knowledge at the market entry phase, companies need to get ready for sudden crisis or unexpected incidents through their lives in emerging markets. In today's highly volatile and global world, managers need to be vigilant than ever to unexpected incidents or crisis that might have a profound impact on the success of building and maintaining sustainable companies and images.

Crisis are critical turning points for companies and managers. Thus, crisis management has been a phenomenon for many industries and also studied by researchers. The growing interest in studying crisis management is due to the fact that crises are seen at an increasing rate and are also imminent dangers for companies.

Elif Okan Yolbulan is with Yeditepe University, Department of Business Administration, İstanbul, Turkey.

Ayşe Begüm Ötken is with Yeditepe University, Department of Business Administration, İstanbul, Turkey.

Senem Göl Beşer is with Yeditepe University, Department of Business Administration, İstanbul, Turkey.

Although it is not possible to anticipate all problems in advance, the measure of business damages could be diminished if managers can get prepared for all possible contingencies. Thus, "companies need to combine expertise from history, scientific research and new technologies in order to develop proactive strategies" [9].

This paper aims to summarize crisis management literature from different perspectives. Besides conceptual background, the paper provides two examples from stakeholders that experienced the crisis, and how (and why) both were not managed successfully and led to further troubles for the companies. One of the cases is a well known Turkish company, Turkish Airlines and the other example is from a coal mine managed by a local company in order to guide both academicians and practitioners in terms of implications.

II. LITERATURE REVIEW

The term crisis can be used for any organizational problem that has negative consequences. It is stated that crisis are "unstable time or state of affairs in which a decisive change is impending either one with the distinct possibility of a highly undesirable outcome or one with the distinct possibility of a highly desirable and extremely positive outcome" [5]. After revising alternative definitions of crisis, In order to call a situation a crisis, the entire system needs to be disturbed and the survival of the organization should be under a serious threat [2]. It is an extraordinary situation that involves some potential risks such as disruption within the business, further deterioration due to media and authority involvement, damage to corporate and employer image and damage to its productivity [5]. From financial perspective, costs of damaged reputation caused by a crisis may result in loss of market share and revenue, destroy investor confidence in the company which leads to a decline in the financial value of publicly traded company [3].

In the last decade, there has been significant increase in the number of major crisis experienced by companies' worldwide [4]. Among crisis triggering events, natural disasters (earthquakes, fires, floods and hurricanes), industrial crisis (product recalls, withdrawals) and other disasters (technological disasters, industrial accidents, environmental pollution incidents and occupational diseases) are examined in literature [12], [6].

Crisis are occurring more frequently than ever due to social concerns such as; increasing concern with security, transparency, value distortion, justice/equity and authority. Also, the nature of crisis is changing and new crisis characteristics are being identified [11]. Therefore, strategic crisis management efforts are effective when activities are sustained or resumed.

Although many scholars studied on checklists and flowcharts for excellent crisis communication plans, crisis management is not solely the result of creating a thorough list of instructions [7]. Crisis management should be viewed as a continuous process that can be revised and updated with feedback from experience. Effective crisis management requires custom tailoring programs to the specific industry, country or company category. Rather than pre-set plans, crisis management should aim to prepare the organization to think creatively about the sudden situations so that the best decision can be made in time of crisis. Urgency, legitimacy and understanding the power of different stakeholders are crucial elements for an effective crisis management plan.

III. METHODOLOGY

There has been a growing interest in the use of qualitative techniques especially case studies in the administrative sciences. It is known that the case research strategy is well-suited to capturing the knowledge of practitioners and developing theories from it. Case research methodology provides the opportunity to focus on naturally occurring and ordinary events in natural settings [8]. Therefore, case study method is used and two crises from Turkey were analyzed in the study because of their impact on social, economic, political and legal environment.

CASE 1 An Unmanaged Crisis: Soma Coal Corporation

The mine disasters have declined dramatically in number and severity through decades of research, technology, and preventive programs. However, preventing recurrence of disasters like those of the past remains a top priority requiring constant vigilance by management, labor, and government agencies.

By planting work out to subcontractors, suppressing the unions and awarding construction contracts to magnates on the basis of their support for the government, rather than their safety record, the rate of industrial-related deaths have increased in Turkey. According to statistics collected by the General Mine Workers Union (Genel Maden İşçileri Sendikası) of Turkey, 25,655 accidents occurred in Turkish Coal Corporation mines during the preceding ten years (2000–2009), in which over 26,000 mine workers were injured, and 63 lost their lives [10]. A total of 135 miners were killed in mining accidents in general in the years 2008 and 2009, according to statistics by the Chamber of Mining Engineers (Maden Mühendisleri Odası) of Turkey.

On 13 May 2014, a fire had broken out in the local coal mine in Soma, Manisa, as one of Turkey's worst ever industrial accident. The formerly state-run mine was leased to a private company in 2005, Soma Holding, but the permit rights of which belong to a government conglomerate, Turkish Coal Establishments. Inspection reports claimed that the coal had been smouldering for days before the disaster, releasing toxic gases and survivors have complained of poor working and safety conditions inside the mine, including defunct gas masks and poor ventilation. Key equipment was no longer imported but outsourced locally, such as transformers, one of which exploded

causing the fire. A cosy relationship between government officials and mine executives meant problems were ignored. Two weeks before the disaster, the opposition parties had called for an investigation into accidents at that very mine - but the governing party had rejected it.

Although dozens of managers and employees have gone on trial, there has been a rage against both the mine executives and the government over a tragedy that could have been believed to be prevented. In this incident, the management as well as the government overlooked ways to deal with the crisis. Instead of addressing underlying systemic causes of the crisis, ranking the options, moving decisively whilst identifying stakeholders and their perspectives, eliminating the cause and preventing reoccurrence, the company executives that were on trial had been blocked by the government -- a decision challenged by the state council. The victims families get \$370 a month as their lost ones' pensions.

According to the Chamber of Mining Engineers of Turkey (TMMOB), the neoliberal governmental policies since 1980s via numerous privatizations, subcontractings and rentals, have diminished public mining, resulting in the loss of knowledge and experience along with the lack of application of scientific approaches related to mining engineering including the Soma Reservoir.

The government wants to be associated with economic triumph whereas from the stakeholders' point of view, the price being paid is the death tolls of workers each day. Proactively managing crisis to avoid foreseeable and avoidable disasters in the mining industry can involve challenging organizational and management paradigms as "crisis prevention is inherently a political process and certainly not one which is essentially technical" [13].

Case 2 THY Strike Crisis

One of the most important reasons of crisis in airline industry is labor strikes. Workers aim to impose substantial costs upon the firm. According to a study, a strike of at least 1000 workers can reduce shareholder equity by 4.1 percent [1].

The crisis started right after Turkish parliamentary commission voted in favor of a draft law to cancel aviation workers' right to strike with the government's support despite opposition from other parties represented in Parliament in May 2013. The aviation labor union Hava-İş, which represents 14,000 of the airline's 15,800 workers, labeled it a move "against universal, constitutional, and the most fundamental, workers' right." In the following days, the draft is set to be voted on soon in Parliament's General Assembly. Since Hava-İş Union called for an illegal strike, the cancellations, delays on many flights caused a chaotic environment. Due to the slow down strike, Turkish Airline (THY) management sent a message to employees threatening them about the consequences of the illegal strike like dismissing them without paying their compensations and all other legal rights. This message increased the tension between Hava-İş and THY management and members of the union gathered to hold a protest in front of İstanbul's Ataturk Airport building. Their demand was 10 percent increase in salaries, expanded rights

for part-time employees and the reinstatement of 305 workers who were fired before.

During strikes the famous dissident computer hacker group Redhack hacked the THY internet site. Moreover, the strike has become a trend topic on Twitter for several days. People were accusing THY for spending millions of dollars for sponsoring Barcelona and Manchester football clubs and other overspendings. Besides public support, writers, journalists also supported strike on social media.

Due to slow down strike, several flights were delayed and at least 128 domestic and international flights were canceled. THY hired extra planes to help stranded passengers and control the crisis. THY management made several statements declaring that there is no strike and the situation is under control. However, Hava-İş public spokesmen mentioned clearly that the decision for strike is certain. Moreover, they mentioned that THY flights are not safe due to replacing employees who are on strike with temporary and unexperienced flying personnel. Hava-İş also criticized THY management for increasing the tension and putting personnel's and passengers lives at risk.

THY strike process did not have the expected impact on the stock market. THY shares increased 2 percent during the third week of May 2013. Most of the personnel on strike were from cabin crew so that the flight schedules were not affected to a great extent. Hava-İş management changed on December 2013 and new management signed an agreement ending the strike after 7 months. Out of 305 employees who were fired, 256 were rehired. Agreement included some monetary compensation for THY employees.

IV. DISCUSSION

In a time of crisis, traditional management practices are inadequate when the crisis happens in an emerging market. Both the multinational and national companies have many unknown factors that need to be taken into account in order to protect the company reputation or even their survival. Although global companies have many advantages in emerging markets, they are indefensible to many threats and the damages resulting from a crisis.

Although crisis generally change the company's products/services, reputation, image, public trust, market share, stock price and profitability, crisis can also be turning point for organizations since they may represent opportunities to establish a reputation for competence to reshape the organization. An effective crisis management program followed by a well-designed recovery strategy will leave stakeholders with a favorable impression and renewed reputation and trust in the affected company.

Turkish Airline strike crisis was triggered by the political authorities. The aviation workers union, HAVA-İŞ, criticized this attempt and called the workers for a slow down strike. So, the source of this crisis was an external intervention causing anxiety among workers of the company. Although the negative impacts of strike on stakeholders in terms of flight delays and stock price declines were not major, the "noise" about the strike on social and traditional media was higher in impact. Thus, in today's digital world, companies need to take proactive stance to defend company image and

reputation. The company engaged in the crisis management risked its reputation beyond the boundaries of those directly affected by the strike. Although the core problem was human relations management related, it became a threat for the whole organization's financial and market success. The crisis has been carefully orchestrated by replacing the former union management and recalling 256 workers. In age of information technology and globalization, people are aware of their rights more than ever. Therefore, companies ensure to meet the demands of the employees and the stakeholders at risk.

The other case presented in this study is about a mine disaster which required a constant vigilance by management, labor, and government agencies. The underlined problem was lack of understanding the nature of the crisis where the fundamental variables such as numerous privatizations since 1980s, subcontractings and rentals — which resulted in the loss of knowledge and experience along with the lack of application of scientific approaches related to mining engineering. In this incident, the management as well as the government overlooked ways to deal with the mining crisis. Rather than addressing underlying systemic causes of the crisis, sharing the critical information with the stakeholders, and preventing reoccurrence, the company executives that were on trial had been blocked by the government.

Both of the cases represent a good example in which the companies have difficulties in detecting early signals and underestimate the very importance of "virtue" in today's business world. Sadly, we have found that these two companies could not manage the crisis effectively, but the critical question is whether they have learned their lessons from their failures and put an emphasis on the human side of crisis management.

Our study had afforded us the opportunity to understand the companies that are crisis prone, our recommendation includes that companies – along with psychological, socio-political and technological-structural assumptions- should be *human centeric* in resolving their crisis, in order to sustain their image and competitive advantage.

Crisis management is an effort combining expertise from different disciplines such as history, scientific research, and new technologies in order to develop proactive strategies. Although most of the crisis cannot be foreseen and prevented in advance, effective management can reduce the size and impacts of the crisis. Managers need to remember that each crisis is unique due to organizational, sectorial, cultural or environmental differences. Due to the number, complexity, diversity of the factors causing the crisis, the companies need to employ a strategy that will help them meet not only financial goals but also internalize social and human values.

REFERENCES

- [1] Becker, B. E., & Olson, C. A. (1986). The impact of strikes on shareholder equity. *Industrial & Labor Relations Review*, Vol. 39, No. 3, pp. 425-438.
<http://dx.doi.org/10.2307/2524101>
- [2] Carmeli, A. & Schaubroeck, J. (2008). Organizational Crisis-Preparedness: The Importance of Learning from Failures, *Long Range Planning*, pp. 177-196

- <http://dx.doi.org/10.1016/j.lrp.2008.01.001>
- [3] Chen, Y., Ganesan, S. & Liu, Y. (2009). Does a Firm's Product-Recall Strategy Affect Its Financial Value? An Examination of Strategic Alternatives During Product-Harm Crises. *Journal of Marketing*, November 2009, Vol. 73, No. 6, pp. 214-226.
<http://dx.doi.org/10.1509/jmkg.73.6.214>
- [4] Elsubbaugh, S., Fildes, R. & Rose, M.B. (2004). Preparation for Crisis Management: A Proposed Model and Empirical Evidence, *Journal of Contingencies and Crisis Management*, Vol. 12, No. 3, pp. 112-127.
<http://dx.doi.org/10.1111/j.0966-0879.2004.00441.x>
- [5] Fink, S. (1986). *Crisis Management: Planning for the Inevitable*. New York: American Management Association.
- [6] Gurau, C., & Serban, A. (2005). The anatomy of the product recall message: The structure and function of product recall messages published in the UK press. *Journal of Communication Management*, Vol. 9, pp. 326-338.
<http://dx.doi.org/10.1108/13632540510621632>
- [7] Marra, F.J. (1998). Crisis communication plans: poor predictors of excellent crisis public relations. *Public Relations Review*, Vol. 24, No. 4, pp. 461-474.
[http://dx.doi.org/10.1016/S0363-8111\(99\)80111-8](http://dx.doi.org/10.1016/S0363-8111(99)80111-8)
- [8] Mankelov, G. & Merrilees, B. (2001). Towards a model of entrepreneurial marketing for rural women: a case study approach. *Journal of Development Entrepreneurship*, Vol.6, No.3, pp. 221-35.
- [9] Priporas, C.V. & Vangelinos, G. (2008). Crisis management in pharmaceuticals: Evidence from Greece. *International Journal of Pharmaceutical and Healthcare Marketing*, 2, 88-102.
<http://dx.doi.org/10.1108/17506120810887899>
- [10] Pelek, S. & Tahaoğlu, Ç. (2010). At least 28 Casualties in Mining Explosion. BIA News Center.
- [11] Robert, B. & Lajtha, C. (2002). A New Approach to Crisis Management', *Journal of Contingencies and Crisis Management*, Vol. 10, pp.181-191.
<http://dx.doi.org/10.1111/1468-5973.00195>
- [12] Siomkos, G.J. (2000). Managing airline disasters: the role of consumer safety and sense making, *Journal of AirTransport Management*, Vol. 6, pp. 101-108.
[http://dx.doi.org/10.1016/s0969-6997\(99\)00030-7](http://dx.doi.org/10.1016/s0969-6997(99)00030-7)
- [13] Tombs, S. & Smith, D. (1995). Corporate Social Responsibility and Crisis Management: The democratic organization and crisis prevention. *Journal of Contingencies and Crisis Management*, Vol. 3, No. 5, pp. 135-148.
<http://dx.doi.org/10.1111/j.1468-5973.1995.tb00065.x>