European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.6, No.9, 2014

An Attack Made By Either Former Vision Crisis or Change Management Principles

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Abstract
The purpose of this study is to examine and discuss current literature on financial crisis management within organisational development. The key characteristic of a crisis is that you cannot control it that's why they call it crisis "management". In order to be able to manage crises effectively and it sets out a theoretical framework for the decision-making process should understand the steps of effective crisis management. Management of change represents a significant responsibility for the managers and specialists, for those who have not only to assure the survival of the organization, but to assure the fundamentals for future development and competitiveness. Results from the present investigation showed that the impact of the global crisis is being driven by the country's high dependence on management of a financial crisis which led to regulation is rising and is creating new challenges that need managing. It is hoped that the study will be able to fill the gap in research in the area of crisis vision and change management regulation due to the limited literature on this area in emerging countries.
Keywords: Crisis, Crisis management, Organizational development, Financial regulation, Decision-making, Systemic risk, Liquidity
JEL Classifications: G01, G14, G15, G28, M41, M42

1. Introduction

The response to the 2008 financial crisis were more concerned about economic sanctions, political instability, management wars and demonstrations, riots and insurrection. Deterioration in the state of economy, excessive regulations and bureaucracy, absence of distinct monetary policies in relation to the exchange rate are considered as the main elements connected with stock market problems. It can be argue that the most significant lessons learned emanated from other MENA nations followed by Central and East European countries, Far Eastern countries and Latin American nations. The results of stock market assessment were largely reported to general managers and to chairpersons or members of the board of directors in which downward communication from management reporting at the level of decision-making to risk management was limited. The quadrupling of oil prices by OPEC in 1973 and the subsequent 1974 crisis involved eight developed markets in Canada, France, Germany, Italy, Japan, Switzerland, the UK and the U.S. In Germany, for instance, recovery took only four months but, in Switzerland it was about 16 months. The other six countries took between 27 months (U.S.) and 52 months (Canada) to achieve the same level of recovery. Between 1980 and 1981 a crisis developed after increases in gold prices in 1980 and after the doubling of oil prices by OPEC in 1979, which involved Canada, France, Japan, Italy, and the UK. Japan recovered in just two months, but Canada and the UK took 19 months or less. However, France and Italy took in excess of three years to recover. A major crisis then occurred in 1987 where, in the New York Stock Exchange, prices fell which encompassed all developed nations. Recovery this time took 11 months in Switzerland and two years in Italy.

The focus on financial crises is of interest for several key reasons. Firstly, that which lead to major disruptions in financial markets[1]. Secondly, the four types of factor that leads to such crises are increases, such as interest rates, increases in uncertainty, asset market effects on balance sheets and bank panics (see Figure. 1). Finally, a comparison is made between emerging economies and the other developed market countries in introducing financial deregulation, including in the stock exchange. For instance, an early study by Solnik (1974) explained that national investments are beneficial for U.S. investors which link with other international markets. Further study by Aderhold *et al*. (1988) reported that direct international linkages are difficult to account for the worldwide decline in equity stock markets which occurred in October 1987. In their turn, Neumark *et al*. (1991) argued that correlations between the transmission of stock market prices, the volatility of various stock markets, and the world increase during the crash reduced in size approaching or close to zero. Studies in developed market indicate the current and future approval of the financial crash. For instance, Lin *et al*. (1994) found a significant correlation between the S&P 500 index and the Nikkei 225 increase from the Tokyo Stock Exchange (TSE) during the 1987 crash period. In the U.S., Fama (1989), Roll (1989), Javed & Ahmed (1999) presented a

[1] According to the IMF (1998:74-75), a currency crisis can be defined as a sudden devaluation of a currency by speculative attacks or a massive reduction of foreign currency reserves as a result of defending the value of a currency. A financial crisis is a disruption of financial markets which is often caused by actual or potential failures of financial institutions that compel the government to rescue them on a large scale. Whilst a financial crisis is occasionally accompanied by a currency crisis, the latter does not necessarily evolve into a financial crisis.

summary of the literature on the U.S. stock market crash of 1987, and Kaminsky *et al*. (1997) reviewed the results of 25 selected studies pertaining to currency crises. Moreover, Harris (1987) provides the index of stock market and Kleidon (1992) identified the limit between buying and selling for the behaviour of the S&P 500 index.

2- Defining Crisis Management

Crisis management is broadly defined as an event that "*causes severe emotional and social distress, which may occur at any time and without warning*" (MacNeil & Topping 2007:46). Similarly, Winkleman (1999) clarify that a crisis management is about developing an organization's capability to react flexibly and thus be able to make the prompt and necessary decisions when a crisis happens. A crisis should, therefore, create three related threats: (1) public safety; (2) financial loss; and (3) reputation loss. In crisis management, the threat is the potential damage a crisis can inflict on an organization, its stakeholders, and an industry.

Ultimately, crisis management is designed to protect an organization and its stakeholders from threats and/or reduce the impact felt by threats. As Brockner & James (2008), Rochet *et al*. (2008) acknowledged, if stakeholders believe an organization could able to handle a crisis appropriately, it is possible for organizations viewed as "victims of the crisis" to move towards a better future. In contrast, the assessment of the crisis threat is a two-step process. In the first step "natural crises and second step "*human-induced crises*"[2]. As Coombs & Holladay (2002:171) specifies 10 crisis types or frames: rumor, natural disaster, product tampering, workplace violence, challenges, technical-error product recall, technical-error accident, human-error product recall, human-error accident, and organizational misdeed.

2. Literature Review and Theoretical Background

2.1 Using the Tools of Containment: The Response

In respect of the primary objectives in containing a financial crisis is study by Mishkin & Eakins (2003) contend that crises are caused by an increase in adverse selection and moral hazard problems that prevent financial markets from channelling funds to people with productive investment opportunities, leading to a sharp contraction in economic activity. The stock market crash in October 1987 inspired national links between stock markets worldwide. In recent years, however, many emerging markets have encountered financial crises. In Latin America, for instance, the Mexican crisis began in December 1994, when stock prices on the Bolas stock exchange had fallen almost 20 per cent from their September 1994 peak. Commencing in February 1994, the financial crisis saw a rise in interest rates overseas. Among East Asia a crisis began in July 1997 in Thailand, Malaysia, Indonesia, Philippines and South Korea. Another study set in a transitional economy context by Higgott (1998:349) who argued that: "*the Asian crisis is a contest of ideology between Asian and Anglo-American ways of organizing capitalist production*". In Thailand a foreign debt default in early February 1997 required over 8 billion US$ of loans from the central bank to bolster the government. The financial markets of Thailand and South Korea both experienced declines in their securities' markets. This increased uncertainty in the financial markets of both nations and substantial declines were experienced in their securities' markets. As the IMF (1999:17) indicate: "*the Asian crisis differed from previous financial crises in which the IMF's assistance has been needed [...] Conventional fiscal imbalances were relatively small and only in Thailand were significant real exchange rate misalignments evident*".

[2] Hutchins (2008:4) described natural crisis as hurricanes, earthquakes, and fire, whereas bribery, corruption, scandal, and terrorist attack he classified as human-induced crisis.

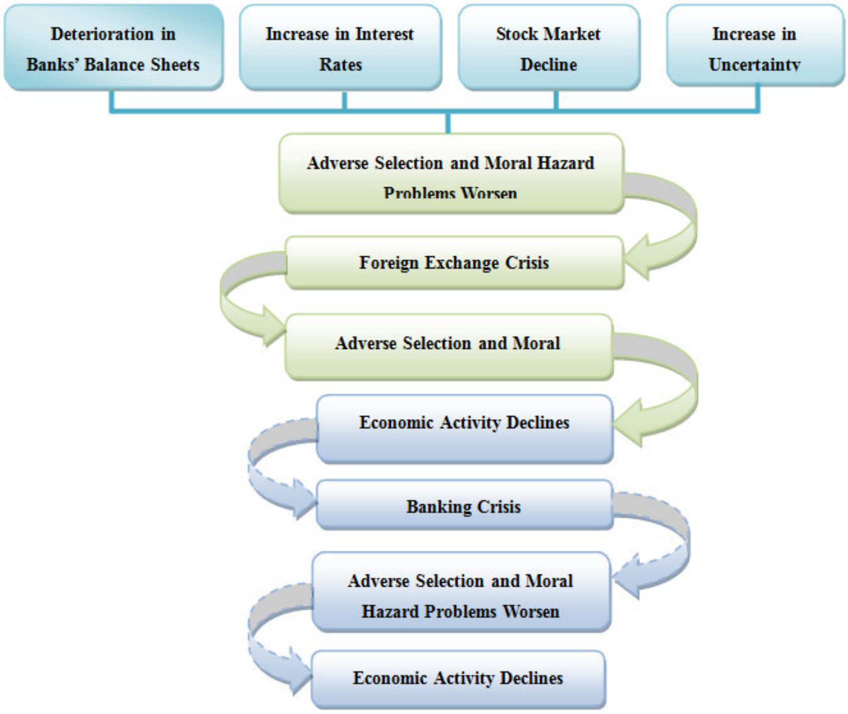

Figure 1. Sequence of Events in the Mexican and East Asian Financial Crises
Source: Mishkin & Eakins (2003).

2.3 Impact of Financial Crisis and Risks on Remittances

Remittances to emerging countries are estimated to have declined by 6.1 per cent in 2009 as a result of weak job markets in major destination countries (Mohapatra & Ratha 2010:1). Although, studies by Poshakwale (1997) have confirmed a general impression that emerging markets are excessively risky for overseas investors; more have concluded that this view is not justified. The available data is unluckily relatively short over the observed life of these markets which generally have been subject to considerable changes in their regulatory and operating framework. As a result knowledge about the risk and return characteristics of emerging markets is patchy, Derrabi & Leseure (2005). As shown in Figure.1, further worsening in the economic milieu occurred due to the collapse in economic activity and deteriorations in the cash flow and balance sheets of both firms and households. The argument is that, many of them were no longer able to clear their debts, resulting in substantial losses for the banks. However, even more problematic for the banks was the fact that many short-term liabilities in devaluation led to a further deterioration in the bank's balance sheets. Under these circumstances, the banking system would have collapsed in the absence of a government safety net such as that fielded by the U.S. during the Great Depression. Furthermore, the collapse of currencies led to a rise in actual and expected inflation in these countries. Market interest rates rose to dramatic levels (over 100 per cent in Mexico). As a result, the increase in interest payments caused cash flow reductions for households and companies, which led to further deterioration in their balance sheets. This negative shock was most severe in Indonesia, Thailand, the Philippines, Malaysia and South Korea where the value of the currency in their stock markets declined from 50 to 80 per cent; the Mexican market declined 50 per cent from its peak value. Consistent with the U.S. experience in the nineteenth and early twentieth century's, stock market declines and increases in uncertainty were additional factors precipitating the full-blown crises in Mexico, Thailand and South Korea. For example, in 1994 the Mexican economy was hit by political shocks that created great uncertainty. Finally, in the aftermath of crisis, Mexico began to recover in 1996. The East Asian nations, on the other hand, were recovering by 1999. It can be argue that in all these countries, the economic hardship caused by the financial crises was incredible. Employment rose sharply, poverty increased significantly and the social fabric was stretched thinly. Mexico City, for instance, became one of the most crime-ridden zones in the world, while Indonesia witnessed waves of violent ethnic conflict.

2.4 Roots and Spread of Financial Crisis

The roots of the financial crisis began in the late seventies and early eighties at liberalising the financial system in both the U.S. and Britain of the restrictions on the currency. Following the collapse of Lehman Brothers, once the world's fourth-largest U.S. investment bank and 158-year-old firm which had survived the railroad bankruptcies of the 1800s and the Great Depression of the 1930s. It filed for bankruptcy protection on 15th September 2008, becoming the latest victim of the global credit crunch. The company listed more than 613 billion US$ (343 billions UK£) of debt and made this the biggest in U.S. history dwarfing World-Com's insolvency 6 years earlier (BBC News 2008; Onaran & Scinta 2008; Taylor 2008). On the Friday, the Lehman's was an investment-grade bank with 42 billion US$ of liquid assets. By the following Monday it was bankrupt. The New York firm employed 25,000 people worldwide including 5,000 staff in Britain (Boden 2008; Wood 2008). Andrew Goodwin, a senior economist at Oxford Economics states: "*there is a danger there could be more bad news in the next few weeks. We would tend to see an acceleration in job losses right about now*" (Master 2008). Lehman shares dropped 92 *per cent* in New York to 29 *per cent* from their 3.65 US$ close on 12th September 2008. UBS AG, HBOS plc and Axa Sale saw a decline of more than 3 *per cent* for European stock markets (Onaran & Scinta 2008). However, the stock market on this particular Monday witnessed its worst day's trading decline since the 11th September 2001 terrorist attacks. European markets dropped by 3.5 *per cent*. Similarly, oil prices declined to less than 100 US$ a barrel for the first time since March 2008 (Wood 2008). The benchmark FTSE Euro-first 300 fell by about 2 *per cent* to 1097.85, with its losses for the week amounting to 5.5 *per cent*. Also, the index had lost over 30 *per cent* since the beginning of 2008. Some analysts believe that the Lehman collapse could lead to a reorganisation of the entire U.S. financial system which has been stuck in the economic depression since the mortgage crisis struck more than a year previously (Aljazeera 2008).

3. Research Framework, Scope and Methodology

3.1 Conceptual Framework Model of Crisis Management

According to Coombs (2004) proposed "the situational crisis communication theory model" by considering three intensifiers (see Figure. 2) : (a) severity, amount of damage done by the accident; (b) relationship history, the organization's record of good or bad behavior toward stakeholders; and (c) crisis history, whether an organization has had similar crises in the past. He further argued that determining a crisis response strategy to accommodate all stakeholders affected by crisis events. Therefore, crisis and relationship histories have an indirect effect on the reputational threat. In turn, it would be possible for changes in history alter perceptions of crisis responsibility that impact the organizational reputation. Furthermore, increasing amounts of damage, a history of past crises, and/or negative relationships with stakeholders can have a direct, negative effect on organizational reputation.

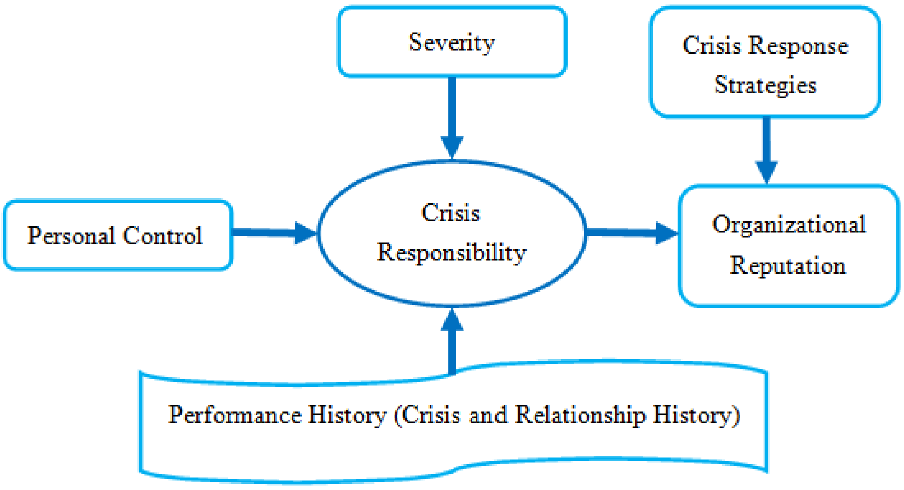

Figure 2. The Situational Crisis Communication Theory Model
Source: Adapted from Coombs (2004:271).

3.2 Crisis Management and the Decision-Making Process

The role of crisis management needs to be clearly learned from the many faces of expertise. For instance, Christensen & Kohls (2003) declared that a crisis might increase an individual's pressure. They suggested it would, therefore, be that all stakeholders have a right to be involved in the decision-making processes that affect them as part of their organizations. Based on this argument, Howard Archer, chief UK and European economist for Global Insight, said that "The main problem for the UK market is if it leads to a further tightening of the credit crunch which could further hurt the housing market, and small businesses might find it difficult to get the money for investment" (Master 2008). The Financial Times reported that a merged Lloyds/TSB and Halifax-Bank of Scotland (HBOS) would have a combined mortgage loan book of 335.1 billion UK£ , thousands of job losses across the UK would follow as the two banks employ 139,000 people and have 3,100 branches. Lloyds, however, were offering an all-share deal that would value HBOS at about 280p (2.80£), a share slightly more than the 275p price, which HBOS sold as shares as part of its failed 4 billion UK£ in July 2008. Richard Buxton, head of UK equities at Schroder's which has a 2 per cent stake in HBOS, said "Why does this [deal] need to happen? The Bank of England's Special Liquidity Scheme buys HBOS time. How does the deal benefit shareholders in HBOS and what if the short sellers turn next on Lloyds and then to other banks?" (Croft *et al*. 2008). The Wall Street share prices, other crisis encouraged by the collapse of Lehman Brothers and fears over AIG, one of the world's largest insurers, resulted in the biggest fall in U.S. stocks since the September 11 attacks to represent their lowest level for nearly three years. For instance, insurer AIG jumped to 35 points or 3.5 millions US$ payment plus 500,000 US$ annually to insure 10 million US$ of bonds for five years (Mackenzie *et al*. 2008). John Coffe, law professor at Columbia University said that if AIG fails, a number of other institutions they insured against default will find themselves "naked and exposed" (Felsted & Burgess 2008).

Ultimately, equity markets in Europe and the U.S. fell to their lowest levels since mid-July. By mid-afternoon the Pan European FTSE Eurofirst 300 index fell 3.6 per cent while, in New York, the S&P 500 was down 2.6 per cent. Markets in Japan, Hong Kong, China and South Korea lost between 5 and 7 per cent, when they opened for business and fell sharply that were closed for holiday (Financial Times 2008). Drawing from the previous discussion, it can be argued that preparedness, building effective communication between stakeholders, and sharing authority policy are vital components in the effective management of crises within organizations development.

3.3 Asset and Liquidity Purchase Programmes

Liquidity is a key characteristic of stock market development because more liquid stock markets theoretically improve the allocation of capital to their optimum use and influence investment in long-term growth. For instance, the critical issue of asset and liquidity provision is stressed theoretically in Levine (1991) and empirically in Levine & Zervos (1998). Considerable research has focused on stock market liquidity size. Bencivenga & Smith (1991), Levine (1991), Bencivenga *et al*. (1995; 1996), Diamond (1996), Greenwood & Smith (1997), Fulghieri & Rovelli (1998) and others contest that stock market liquidity is necessary for economic growth. Levine (1997) suggests that stock market liquidity encourages, or at least strongly forecasts, corporate investment even though much of this is financed through reserved earnings and bank loans, rather than equity issues. Miller (1991) argues that greater liquidity has a direct impact on the effectiveness of the government function of the stock market which increases market activity to reaching information which, in turn, increases the content of share prices. Additionally, the effective use of the stock market for corporate control is required for the market to be liquid.

Ahimud *et al*. (1997), Henry (2000a; b) contest that increased stock market liquidity can also reduce the cost of equity capital via a reduction in the expected return that investors require when investing in equity to compensate them for associated risks i.e. risk premium. Figure. 3 shows the liquidity levels in both developed and emerging markets for cross-border investors for the period 1997-2000. In this period emerging market liquidity started to decline after the South Korean "devolution" in November 1997. The crisis in Korea appears to have had a more systematic impact on flows and liquidity than the previous devaluations in Thailand, Indonesia and Malaysia. Liquidity conditions in developed markets began to downturn just prior to the Russian crisis of August 1998. Essentially, the argument is that since 2000, concerns seem to have concentrated upon emerging markets, with few liquidity impacts on developed markets.

Figure 3. Liquidity Index for Emerging and Developed Markets between 1997 and 2000
Source: Risk Magazine (2000).

4. Findings

The research literature acknowledged issues of essential effective of the global financial crisis which began with distinction from the mortgage, banking, and insurance companies, to turn into the various economic sectors. Latterly the global financial crisis started to show its effects in the middle of 2007 and into 2008, the stock market around the world have fallen, large financial institutions have collapsed or been bought out, as reported by Banziger (2008:8) "*[...] As the current financial crisis has painfully made clear, such a market-based financial system is less tolerant to weaknesses and mistakes; it therefore requires a sound financial infrastructure and highest standards for risk management both in financial institutions and in the work of* *financial supervisors and central banks*". Another aspect discussed in the literature review was the issue of implementing a general model of crisis management, such as the situational crisis communication theory. It was conformed that the model proposed in the literature could bring new insights and understanding for the organizational members of how to repair the organization's image and regain the public trust after times of crisis. Emanating from the current research question, further development points are that the current financial crisis requires a change in the management policy in the financial sector in order to stimulate economic activities and the establishment of new regulatory frameworks. This requires a new theory of economics for instance, a change from equilibrium theory to reflexivity theory which requires a change in the underlying model of the economic activity framework. However, as mentioned in previous discussion, the main global economy was influenced by four crises, mutually feeding on each other, viz. other climate change, oil and energy, financial and economic crises. As a result, governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. On the other hand, many people are concerned that those responsible for the financial problems are the ones being bailed out. Whilst the current study effort concerns deregulation in emerging economy in particular as well as other comparable nations which, it is still timely, since the question about the appropriate degree of regulation and management policy can be seen as part of the same debate as to what is the appropriate level of regulation. To quote Timothy Geithner, United States Secretary of the Treasury, "*it's time now for us to move together and to begin to act to put in place a stronger framework of reforms*" (Puzzanghera & Reynolds 2009). Achieving these goals, and others, remains dependent on serious and comprehensive restructuring programmes.

5. Concluding and Future Work

This paper has sought to recast the financial and economic crisis which has added to pre-existing economic, social and political challenges in the market-wide. A key lesson learnt during the crisis has been the need to understand the roles of the different financial institution's players and how they work together as a crisis intensifies. The paper has also tried to bring in the importance of the key decision-making process associated with containing a crisis and the possible policy-makers. It suggests a policy-makers need to recognise the significance of dividing issues into those of liquidity-type crisis and those of a solvency-type crisis. Further research is needed in order to provide a clear understanding of the framework that managers face under the current regulatory rules in the banking system, in particular, and financial markets in general. There is also a need to identify remedies for the developing regulatory framework in order to improve current practices. President Obama outlined two main goals for the G-20 "*the first is to make sure that there is concerted action around the globe to jumpstart the economy. The second goal is to make sure that we are moving forward on a regulatory reform agenda that ensures that we don't see these systemic risks and the potential for this kind of crisis again in the future*". As a result of the current crisis, regulation is rising and is creating new challenges that need managing. Further concerns mentioned by Obama being "*we're moving forward in stabilising the financial system through a whole host of steps that have already been taken and a number of steps that we intend to take in the future to make sure that the financial system is solvent, that our banks are strong, and that we start lending again to businesses and consumers*" (Sherman 2009).

The discussion highlighted shows that this is not a normal cyclical crisis of the capitalist system but a global crisis around the world, which needs to be tackled by the authorities with new regulatory frameworks for the financial institutions. It is hoped that the study will be able to fill the gap in research in the area of organizational crisis management due to the limited literature on this area in emerging economy. At this stage, future research is needed to meet up-to-date information providing an in-depth understanding of how organizations can deal with crises effectively.

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