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ECONOMIC CONSEQUENCES OF THE COVID-19 PANDEMIC AND CRISIS MANAGEMENT

EKONOMSKE POSLEDICE PANDEMIJE VIRUSA COVID-19 I KRIZNI MENADŽMENT

Rezime: Rad se zasniva na analizi posledica aktuelne ekonomske krize izazvane pandemijom COVID-19. Pre svega analizirana je uloga kriznog menadžmenta sa praktičnog i teorijskog aspekta. Identifikovane su ključne ekonomske posledice pandemije po pojedinačna preduzeća i privredu kao celinu. Dat je predlog ključnih potrebnih mera na nivou države za prevazilaženje uočenih ekonomskih poremećaja. Pored toga predstavljen je set pitanja iz osam poslovnih oblasti koja služe kao osnova za utvrđivanje jaza u potrebnom i aktuelnom setu preduzetih mera kriznog menadžmenta na nivou pojedinačne organizacije.

Ključne reči: krizni menadžment, krizne mere, COVID-19, ekonomska kriza

JEL klasifikacija: H12, M21

Summary: The paper is based on an analysis of the consequences of the current economic crisis caused by the COVID-19 pandemic. First of all, the role of crisis management from the practical and theoretical aspect is analyzed. The key economic consequences of the pandemic for individual companies and the economy as a whole have been identified. A proposal of key necessary measures at the state level for overcoming the observed economic disturbances is given. In addition, a set of questions from eight business areas was presented, which serve as a basis for determining the gap in the necessary and current set of crisis management measures taken at the level of an individual organization.

Keywords: crisis management, crisis measures, COVID-19, economic crisis

JEL classification: H12, M21

1. CRISIS MANAGEMENT

Crisis management is one of the vital functions of the organization because failure to achieve the goals of this function can be far-reaching and very negative for all stakeholders. First of all, the consequences of the crisis are manifested through a decline in financial performance, jeopardizing liquidity and disrupting the financial stability of companies. After the crisis grows from a tactical to a deep strategic crisis, the consequences are far more radical and can lead to bankruptcy and liquidation of companies. Given that the consequences of the crisis change over time and become more comprehensive and serious, crisis management cannot be viewed as a precision plan prepared in advance with a clear set of commands but as a set of iterative steps and recommendations. Fink (1986) states that crisis planning is the art of reducing risk and uncertainty with the goal of achieving greater control over the future. Robert and Lajtha (2002) also conclude that effective crisis management is based on a structured and continuous learning process that allows managers to deal with unexpected situations, rather than a rigid crisis plan. Coombs (2007) states that crisis management is a process consisting of three phases: pre-crisis period, response to the crisis, and post-crisis period. The pre-crisis period is based on the preparation of a preventive response, a crisis plan, and the determination of a crisis team. The response to the crisis is realized through concrete measures and guidelines envisaged by the plan. The post-crisis period is characterized by learning activities and the creation of organizational knowledge, which is the basis of future crisis plans.

Coombs (2006) and Barton (2001) in their work conclude that organizations are more prepared and easier to overcome the crisis if they have prepared crisis plans that are regularly updated on the basis of acquired knowledge, have a defined crisis management team, conduct crisis exercises to improve plans and responses in times of crisis and periodically test crisis plans, and have prepared forms of crisis information. Paraskevas (2006) points out that effective crisis planning is aimed at identifying early crisis signals, however, signals can often be hidden and difficult to spot. The same author states that when moving from the pre-crisis phase to the acute crisis, the management rarely manages to return the company to a stable path, and the magnitude of the damage is proportional to the organization's readiness for the crisis and the effectiveness of crisis measures taken.

In accordance with the previous, the recognition of early crisis signals has a decisive influence on the size of the damage caused, and the flexibility of the crisis plan and the comprehensiveness of crisis measures affect the effectiveness of implemented activities to combat the consequences. Depending on the depth of the current crisis, the measures taken at the level of an individual company are not enough to give the desired result. The deep economic crisis caused by the COVID-19 pandemic requires the application of crisis management at the state level as well, as a kind of organization. By combining measures at the company level and at the state level, it is possible to mitigate the consequences of the deep economic crisis and create a comprehensive crisis plan.

The first step in defining crisis measures is the analysis of the current situation in terms



of identifying the consequences of the crisis in order to mitigate and eliminate its causes. In the following, the basic trends caused by the acute economic crisis are identified, and

after that, basic guidelines are formulated, in the form of questions from several business areas, for understanding the crisis management gap.

2. ACUTE CONSEQUENCES IN THE BUSINESS SPHERE CAUSED BY THE GLOBAL COVID-19 PANDEMIC

The scale of the global crisis caused by the COVID-19 pandemic cannot yet be fully understood. It is certain that the damage inflicted on the economy already exceeds the scale of the global financial crisis that occurred in 2008, and some sources state that the crisis is greater than the Great Depression (Roubini, 2020). These two crises were accompanied by a 50% decline in financial markets, a contraction in demand, a freeze on credit activity, accelerated growth in unemployment, a significant decline in domestic GDP, a rapid decline in corporate income, and the final consequence was the bankruptcy of many companies. The dynamics of manifestation of previous crises was incomparably slower. Namely, the effects of the mentioned crises were manifested for three years, while the manifestation of the effects of the current global pandemic is three weeks. Local economies have been affected to a greater or lesser extent, but overall, due to global connectivity, in a very short period of time, the economy is facing extremely large losses and a potential recession in the coming quarters. The Western Balkans region is no exception, including the Croatian economy. Market signals clearly indicate several negative trends:

1. There is a crisis of demand on the market, which is a direct consequence of the ban on the movement of people, but also the perception of the population that monetary reserves are not

spent on discretionary spending. The drop in demand caused a drastic drop in the companies' turnover in the last two weeks. In some industries, such as sports shoes or branded textile products, the decline is up to 90%. At the same time, there is an additional problem of the collection of receivables based on previously sold (invoiced) goods, because many companies stabilize their liquidity by prolonging the payment of obligations.

2. The illiquidity of the economy is increasingly manifesting itself, due to the application of the strategy of preserving the existing liquidity by individual companies. By limiting payments and completely stopping the settlement of obligations, except for the most urgent ones, a chain of illiquidity is created, which is spreading at a high speed throughout the entire economic system. In this way, liquidity flows are completely frozen.

3. Negative psychological factors dominate among the population and the economy. Namely, there is great uncertainty regarding the duration of the global pandemic and the measures taken to prevent it, which further worsens the economic situation and creates negative expectations in the short term. The companies' crisis and planning teams have been making stress tests and crisis plans for a period of 60 days, and they are already being prepared for a period of 90 days. In addition, an increasing number of

businessmen perceive that the new (in)normalcy will last for some time until the end of the current year due to the measures taken by the governments of certain countries. For example, the Government of Hungary introduced a moratorium on the payment of obligations based on loans to businesses and households until the end of the year. Shifting the perception of the duration of the black swan creates additional fear that maximizes the company's desire to preserve and strengthen the liquidity reserve at the expense of other participants in the value chain.

4. Most economic entities, especially micro, small and medium enterprises, do not have sufficient liquidity reserves, and where they exist, it is very uncertain whether they can last longer than 30 days with the existing level of regular costs. Numerous companies, especially in Serbia, have optimistically initiated new investment cycles due to the period of previous prosperity, thus consciously straining their liquidity position. Such business decisions have brought businesses into negative scissors because they do not have a satisfactory liquidity reserve, which increases the risk of rapid and certain bankruptcy. Faced with a constraint on the side of sources of funding for regular operations, many private sector companies are already making decisions about significant reductions in employee salaries. In some industries that have been particularly affected by the crisis, reductions in employee wages are drastic and range at the level of 60% of previous wages.

5. In addition to the problem of maintaining liquidity, which is the most acute, the business activities of companies are accompanied by a number of other restrictions. Namely, the supply side is also facing a decline unless companies do not have several months of stocks of inputs for production and finished products; logistics supply chains have been disrupted due to restrictions on movement; the organization of

telework is not fully organized and is largely inefficient; a new concept of physical production has been objectively imposed due to strict hygiene and protective measures that cause new operating costs; numerous business contracts have been terminated due to the manifestation of force majeure risks; there is uncertainty in the insurance business as well as numerous other problems.

6. Indirectly, it can be concluded that public companies prolong or completely stop paying their obligations to companies in the private sector. This further creates panic among medium and large private systems that rely heavily on the public sector. It is not entirely clear whether the public sector's delays in payments are a consequence of the intention to preserve its own liquidity or a consequence of a new organization of telework that reduces the capacity of public companies to carry out their operational processes on time. On the other hand, the Tax Administration regularly blocks companies that are late with the payment of tax liabilities, which creates a system of asymmetric behavior of the public sector and the perception of additional fear among privately owned business entities.

7. Slowed economic and cash flows will very quickly jeopardize the expected inflows of the state budget, which will be formally visible in mid-April when the next calculation and declaration of value-added tax is made. According to the official data of the Ministry of Finance of the Republic of Serbia (2020), the income from value-added tax, in the first two months of 2020, makes as much as 49% of tax revenues, i.e. 44% of the total budget revenues. Although there is an evident jump in the turnover of basic foodstuffs, it is not enough to compensate for the lost inflows, but it only partially reduces the negative effect of the reduced turnover of other goods and services. In addition to the expected lower inflow into the state budget on the basis of value-



added tax, there is a certain chain of layoffs in the private sector conditioned by the cessation of economic activity. For example, the Austrian economy has faced the highest unemployment since World War II (Xuequan, 2020). The unemployment rate increased by 52.5% compared to the same month last year, and it is estimated that at the end of March the number of unemployed in Austria was 12.2%. The wave of the expected reduction of the labor force in Serbia, but also in the countries of the Western Balkans, will lead to a decrease in the inflow based on taxes and contributions on salaries. Reduction of employment on the one hand and postponement of payment of taxes and contributions on wages by the economy, according to the Ministry of Finance of the Republic of Serbia, will lead to a drop in revenues on this basis in the amount of 161 billion dinars, i.e. 1.3 billion euros (Ministry of Finance of the Republic of Serbia, 2020). The decline in economic activity is directly reflected in the decline in inflows from other public revenues - corporate income tax, excise duties, customs revenues, fees, taxes and others. However, the increase in unemployment and the reduction of wages will also limit the liquidity capacity of the population on the other hand.

8. There is a visible decline in revenues and inflows in the public sector, which is partly due to the non-payment of utilities by the population and reduced demand due to less mobility of citizens and the economy, on the other hand. Representatives of the authorities of the Republic of Serbia, in order to preserve social stability and standards of citizens, made a decision that vulnerable categories of the population do not pay utility bills, which started a wave of non-payment of any obligations to the state during the crisis, even by the liquid part of the population. There was no precise definition of the endangered category of the population by the representatives of the authorities - whether they are

pensioners, one-member households, households with a certain level of income, families with a larger number of children, and the like. It is certain that the countries in the region have a certain short-term liquidity reserve, but it is clear that the reduced inflows in the previous and next period will reduce the liquidity capacity of the state to pay its obligations.

9. The greatest pressure of the current crisis will be exerted on entrepreneurs, micro, small and medium enterprises (SMEs) which participate with 33.6% in the gross value added of Serbia, i.e. in 28% of the gross domestic product and employ 44% of registered employment (Ministry of Finance of the Republic of Serbia, 2020). Given the high level of participation of the SME sector in economic activity, their preservation in times of crisis is becoming one of the basic tasks of government officials. It is expected that the consequences of the crisis will be manifested in reduced employment in this sector and the bankruptcy of a large number of entrepreneurs and micro-enterprises. In the "frozen economy", it is not possible to pay salaries from the existing reduced inflows and accumulated reserves, and social (and security) tensions will be manifested in proportion to the duration of the overall situation and the reduction of personal savings of dismissed people. Professor Milanović argues in his work that one of the key dangers of the pandemic is social collapse, and a large number of dissatisfied people can be expected who will feel unjust losers of the pandemic (Milanović, 2020).

10. Due to the protectionist attitude of the state and the protection of the public sector, a general feeling can be created that employees in the public sector are favored in relation to employees in the private sector. First of all, this is a consequence of state guarantees regarding the preservation and security of jobs and the level of earnings in the public sector, while employees in

the private sector are left to a high level of uncertainty and the ability of the private owner to ensure business continuity.

11. The dynamics and organization of work is greatly influenced by the measures taken to prevent the pandemic. Dismissal prevention is a collective holiday already adopted by a number of firms, followed by management's perception that losses can be partially offset after the lifting ban during the summer months ends. The second step, up to the terminal phase, is the implementation of a salary reduction plan in the range of 50 to 70% of the previous salary, depending on the work intensity in a particular company and the share of the salary fund in the structure of total company costs on a monthly basis. The next step is to lower salaries to the level of minimum wages. The terminal phase is forced unpaid leave, non-renewal of fixed-term employment contracts and dismissal of workers in order to ensure the survival of economic entities.

12. The banking sector is under great pressure. There is an outflow of liquidity from the banking system due to the irrational withdrawal of funds by the population and the economy caused by uncertainty, fear of the population, the need to spend the accumulated reserves and to create "reserves in straw mattresses". The moratorium measure adopted by the National Bank of Serbia and other central banks in the region directly affected the inflow of funds to the banking sector in the next 90 days, and in some countries by the end of the year. The consequence is the inability to continue lending, approving bank guarantees and drastically changing the appetite to take on additional credit risk. In other words, banks in this situation, without external liquidity support, cannot be expected to provide an additional lending activity that would stimulate the liquidity of the economy and enable faster development of economic flows after the crisis.

13. In addition to the undoubtedly negative consequences for the economy, there is also a certain part of the economy for which the cost-benefit analysis will show that it is profitable to initiate intentional bankruptcy and liquidation of the company. At the peak of undeserved liquidity accumulated by non-payment of loans to banks, operating liabilities, full salaries of employees, liabilities to the state, etc., the owners withdraw liquid assets and declare bankruptcy using the entire economic situation to preserve the future reputation. In addition to the closure of these companies, it is possible to expect a high risk of bankruptcy of related companies in the value chain of these companies.

Given the aforementioned negative trends, the seriousness of the situation and the potentially devastating effects of the pandemic on the economy of Serbia, the Western Balkans and the whole of Europe and the world, it is extremely important to adopt a package of coordinated and comprehensive measures to support economic entities in order to overcome the already present and evidently coming liquidity crisis on the market. In addition to state measures, measures are needed that are adopted at the level of individual economic entities, which would create an integral and comprehensive package of crisis management measures.



3. PROPOSAL OF STATE MEASURES FOR OVERCOMING THE CRISIS

The measures introduced and announced so far, and above all the moratorium on loans and certain fiscal policy measures, represent a partial relief for economic entities. However, in the current situation, which is characterized by the paradigm of a dramatic drop in turnover, i.e. income, and then the inflow of money, state measures will not be nearly enough. Namely, if we keep in mind the very low level of liquidity reserves in the economy, especially in the SME segment, the complete absence of inflows in the short term leads to a lack of money to cover basic operating costs, including primarily wage costs, suppliers and tax costs. Following the economic logic, companies will very soon start reducing all controllable costs.

Having in mind the above, it is necessary to adopt urgent measures aimed at intervention increase of the economy's liquidity, the implementation of which must be inevitably fast in order to avoid the first wave of bankruptcies and layoffs. The Federal Government of the Republic of Germany has announced economic measures worth 500 billion euros, which consist of 100 billion euros of direct investments in the equity of companies affected by the crisis and 400 billion euros of guarantee schemes for future credit activity of the economy. Besides that, additional funding of € 100 billion has been provided for KfW - Germany's development bank, which would provide liquidity to companies in crisis. All these measures account for more than 10% of Germany's GDP (Chazan, 2020). The Spanish authorities announced measures worth 200 billion euros to help the economy, the Portuguese government announced a package of economic measures worth 9.2 billion euros, and the French government provided funds to help

SMEs worth 60 billion euros (Martyr & Mukhopadhyay, 2020). The most valuable package of measures to help the economy has so far been announced by the United States, worth more than one trillion euros (Higgins, 2020).

One of the basic steps is the establishment of the Guarantee Fund by the Republic of Serbia and relevant international institutions, such as the European Investment Bank, USAID and the like, which would, through guarantee schemes with commercial banks, provide the much-needed new liquidity to the economic system interventionally and non-discriminatory through liquidity loans.

A prerequisite for the success of the previous model is adequate liquidity of the entire banking sector. The National Bank of Serbia has multiple mechanisms for raising the level of bank liquidity, such as lowering the reserve requirement rate, repo transaction rates and others, which would spill over through loans to the economy. Thanks to the results achieved so far in the field of fiscal and monetary consolidation policy, as well as stable economic growth in the previous period, the public debt of the Republic of Serbia has been significantly reduced - from the former level of 70% of GDP in 2015 to about 49% of gross domestic product (Ministry of Finance of the Republic of Serbia, 2020). The above means that the Republic of Serbia currently has at its disposal 8 to 10% of GDP (worth 3 to 5 billion euros) for intervention in the economic system. Also, the level of foreign exchange reserves is extremely high with almost twice the amount of the dinar money supply - M1, covering the six-month amount of imports of goods and services (National Bank of the Republic of Serbia, 2020). Having a satisfactory level of security in foreign

exchange reserves, Serbia can prevent the bankruptcy of the economy through monetary relaxation. At the same time, through interventions in the foreign exchange market, the state can guarantee the stability of the exchange rate, which would also eliminate the pressure on prices.

Another assumption is that a significant part of the credit risk is taken over by the Guarantee Fund (from 70 to 80%), in order to enable banks to approve loans with a lower level of risk (given the currently declining risk appetite) and thus increase the likelihood of survival of their existing clients.

These measures should be aimed at entrepreneurs, micro, small and medium enterprises, regardless of the industry in which they operate, as well as large enterprises that are directly affected by the current crisis.

During the fourth quarter of 2019, the volume of newly approved loans to the Serbian economy was 274.8 billion dinars (about 2.33 billion euros), of which 60% was approved to the segment of micro, small and medium enterprises. In the same period, working capital loans were approved in the amount of 129.7 billion dinars (about 1.1 billion euros). Assuming that, according to the previous structure of approved loans, 60% of working capital loans were approved to micro, small and medium enterprises, the approved amount is 662 million euros. Guided by the principle that the newly approved loans represent the demand of the economy for credit funds in normal business conditions, it is concluded that the minimum amount of the required guarantee fund is the one that has just been mentioned. This amount needs to be further increased by the needs of large companies directly affected by the crisis, but also reduced by the effect of the moratorium on loan repayments, bearing in mind that under normal circumstances part of newly approved loans is used to refinance existing loan obligations. The total

amount of liquid funds that could be approved to the economy, without increasing the public debt by more than 10% of GDP, is up to five billion euros.

When approving intervention loans for liquidity, it is necessary to further specify and clarify the criteria. One of the basic conditions for approval is a non-discriminatory approach, i.e. the absence of customer favoring by commercial banks. On the other hand, in order to ensure the general stability of the economy, clients must commit themselves not to reduce the number of employees for a minimum period of 6 months, regular payment of wages, public revenues and the discipline of regular payment of obligations to suppliers. Furthermore, credit criteria should be as simple as possible with the aim of quick approval and in line with the minimum acceptable criteria uniform for all commercial banks: that the client's account was not blocked before the state of emergency, the fulfillment of certain standard criteria measured by ratio indicators, and the like. Having in mind the currently known projections of the scope and duration of the crisis, as well as the expected echo effect of the crisis on the economy, lending to the economy should be based on liquidity loans, with an average maturity of 36 months and a grace period of 12 months. At the same time, it is necessary to ensure the availability of loans even to those companies that are not currently in debt, because they currently do not benefit from the already implemented moratorium measure.

Complementary to the mentioned intervention increase in the liquidity of the economic system, the psychological aspect must not be neglected. It is necessary to ensure the raising of the trust of economic entities, which would consequently lead to the thawing of the flow of goods, services and money. A large part of the turnover of goods and services is realized with deferred payment, which leads to the conclusion



that a special guarantee fund should be formed aimed at insuring the claims of economic entities. This measure would reduce the economy's fear of credit risk and would more freely maintain the pre-crisis volume of turnover and business activities. Such secured receivables could play the role of collateral for financing, both with banks and in alternative financing options. The body that could implement and realize this form of guarantee is the Export Credit and Insurance Agency (AOFI).

In addition to the listed key measures, it is necessary to consider a number of fiscal reliefs that can form a set of accompanying measures, where a certain dose of caution is necessary for their measurement. For example, delaying the payment of advance tax on profits or property would not produce a significant effect on the liquidity of the economy. However, over-relief in conditions where rapid government borrowing is not possible can lead to government illiquidity in the very short term. The state must find a balance between the dosed tax relief of the economy and the protection of its own liquidity, and the right measure requires a precise cost-benefit calculation.

Theoretically possible fiscal and other benefits, if a detailed analysis of inflows and outflows of budget funds shows their financial expediency and reality, could be: relaxation of the burden on salaries (taxes and contributions) in all active private companies, relaxation of lump sums for entrepreneurs in the period duration of the state of emergency, relaxation of the amount of utility services in the period up to 3 months for micro and small enterprises, relaxation of the collection of advance income tax in the current year for all economic entities, refund (of the fiscal part) of fuel costs for companies engaged in transporting goods, relaxation of payments of the value-added tax, suspension of calculation of interest on due tax liabilities in the period of 90 days, sus-

pension of parafiscal levies in the period of 90 days, financing of salary compensations of all employees who will be absent from work due to COVID-19 disease, relaxation of customs duties for companies predominantly focused on the import of goods and as a measure to stimulate the demand of natural persons suspension of execution on the property of natural persons (or a significant restriction) for a period of 9 months.

Decisions at the state level are not easy and require coordinated calculations of implications by the National Bank of Serbia and the Ministry of Finance. It is important to point out that partial and delayed measures or the absence of additional measures will certainly lead to a liquidity collapse of the economy, which will bring with it irreversible structural effects in the coming period. A coherent set of previously proposed measures, implemented quickly, will provide the necessary liquidity and partially reduce the fear of non-payment that has produced the freezing effect of the economic system. When we look at the comparative practice, that is the economically leading countries in the world, we conclude that the focus of economic measures is on increasing the liquidity of the economy, which in turn protects the liquidity of the state and social peace in society. Speed in the implementation of measures is crucial in order to use the existing capacity of reaction reserves. With the passage of time and the reduction of reserves, the response capacity of the state will be smaller and smaller, and the effectiveness of aid to the economy will be lower. To ensure a quick response, complicated bureaucratic procedures need to be avoided.

The proposed measures have implications for increasing debt and/or reducing the level of foreign exchange reserves. It should be borne in mind that reserves and fiscal space for borrowing are basically public policy instruments whose primary purpose is to enable the state to intervene in such extreme situations.

4. IDENTIFICATION OF CRISIS MEASURES GAP AT THE COMPANY LEVEL

Given that the nature of a business crisis can be different, crisis management can, in a general sense, be defined as a set of special measures taken to address the problems caused by a crisis (Devlin 2007, p. 1). Large companies have pre-prepared crisis plans and crisis teams whose main role is to implement previously prepared plans at the time of the crisis. However, the existence of a crisis team is not always a guarantee of a quality and quick response to the crisis. Augustine (1995) states that crisis teams do not have much value in crisis situations if they are never tested. Mitroff, Harrington, and Gia (1996) specifically point out that crisis team training is extremely important so that team members can make quick and quality decisions when a real crisis manifests itself.

On the other hand, it is necessary to emphasize that entrepreneurs, small enterprises and many medium-sized enterprises do not have enough human, organizational and financial capacities, and experience that would help them to anticipatively prepare themselves for the crisis and provide a systematic response. At a time of deep economic crisis, such as the current crisis caused by the COVID-19 pandemic, all crisis measures, regardless of the size of the company, are aimed at surviving in the short term and preserving stability in order for business to continue after the end of the acute crisis.

In practice, it is very common for companies to view crisis situations separately. However, the paradigm of the crisis is such that companies face not only one type of crisis, but a number of different crisis situations, especially in a deep economic crisis. Therefore, the basic characteristics of a crisis plan must be the comprehensiveness, feasibility and inclusiveness of all members

of the collective, especially executive management. A crisis management plan is, by its nature, a set of guidelines instead of a completely precise action plan because no crisis has the same symptoms and consequences. Authors Barton (2001), Fearn-Banks (2001) and Coombs (2007) state that a crisis plan saves time during a crisis by proactively defining the tasks of team members, providing the necessary information, and providing guidance for action.

At the moment of the manifestation of the first consequences of the crisis, a quick reaction is necessary in the form of crisis measures that prevent greater consequences. Carney and Jordan (1993) point out that a quick response means that the organization is active and in control of the current situation. A similar conclusion was reached by authors Arpan and Rosko-Ewoldsen (2005) who state that a rapid and early response to a crisis enables a company to gain and maintain greater credibility among its stakeholders. However, it is a very common case in business practice that the managerial focus during the crisis is focused exclusively on finances and financial indicators, because the consequences of the deep economic crisis are effected exactly through a drastic drop in income and profitability indicators. In such circumstances, with a high degree of uncertainty, the integrated approach to crisis planning is completely neglected and many business areas remain outside the scope of crisis management. In order for crisis management and crisis planning to have a positive effect, an integrated approach to crisis planning and expanding the focus from finance to other related business areas is necessary.

In this context, it is necessary to identify a





comprehensive gap in crisis management practices and identify neglected crisis areas. The management team, based on the recommended self-assessment questions, can very quickly and easily test the application of existing crisis management practices in the areas of finance, leadership and organization, human resources,

marketing and sales, communication, procurement and logistics, production and law. In the following tables, based on many years of practical experience of the author, questions are given that can assess the quality of applied crisis management in the company or any organization.

Do you have an integrated crisis financial plan for the company?

Have you done a detailed financial stress test and defined red lines of financial sustainability?

Have you made an analysis of different financial scenarios in business, keeping in mind the different levels of activity affected by the crisis?

Have you made a financial risk register?

Do you have precise preventive strategies for financial risk management to protect the vitality of the business for the post-crisis period (in terms of budgeting, reporting, performance measurement, early warning system, financial leverage optimization, liquidity reserves, and communication with commercial banks)?

Have you made a cash flow plan on a daily, weekly and monthly basis?

Have you made a plan for working capital optimization?

Have you analyzed the existing and signed loan agreements and identified the existence of contractual clauses that would limit the possibility of further borrowing or withdrawal of additional funds under these agreements?

Do you have in use a payable bank guarantees that can potentially burden the cash flow in the short and medium-term?

Have you analyzed the portfolio of current investment projects and determined the priorities and the possibility of postponing individual projects?

Have you defined an internal rulebook on transfer pricing to reduce the tax burden?

Table 1. Assessment of the crisis response gap in the finance segment.

Source: Author's review

Do you have a crisis leadership system in place that knows who is doing what, with what resources, in what time frame?

Does the crisis leader have experience in running a company in crisis situations?

Have you singled out key goals and success indicators for the crisis period?

Have you clearly defined your priorities in the crisis period and directed all employees to work in this direction (are employees informed about priorities)?

Have you determined which level of operations in each of the business functions of the company is considered the minimum level of maintenance of the work process?

Do you have teams in charge of adequately responding to the crisis and are the roles of team members clearly defined?

Have you defined a model for ensuring business continuity in case of operational risks (e.g. central server shutdown, power outage, breakdowns and other escalations)?

Have you envisioned a way to provide critical inputs and raw materials to maintain a minimum workflow in the event of a crisis?

Do you take care to preserve the credibility and image of the company?

Table 2. Assessment of the crisis response gap in the leadership and organization segment.

Source: Author's review

Have you singled out priority work operations and employees who cover them during a crisis situation?

Is there a delegated person (or team) in the human resources sector who is active in the event of an escalation of the crisis situation and are the tasks and responsibilities known?

Do all employees have clear instructions on how to function during the crisis?

Have you defined priority "projects" and redistributed employees according to priority activities?

Have you considered alternatives to permanent employment (e.g. alternating unpaid leave, collective leave, dismissal of temporary and occasional employees, etc.)?

Have you defined a single contact list for all employees and provided a location that is accessible to human resources department and management?

Do you transparently inform employees about all important crisis management decisions?

Do you monitor the work engagement, motivation and loyalty of employees during the crisis?

Do you adequately have an accurate insight into the activities of employees and their daily agenda?

Have you analyzed the contracts with the employees and identified the risks that may arise in the case of some labor-legal activities on your part?

Have you assessed the risk of some key employees leaving during or after the crisis?

Do you have a crisis talent management plan that takes special care of employees who are key to the future development of the company?

Do you have a plan to inherit key positions?

Do you have a backup team plan in case of illness of individual team members?

Table 3. Assessment of the crisis response gap in the human resources segment.

Source: Author's review





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- Do you have a sales crisis plan that you have introduced to the sales team with corrected short-term targets and an active current sales team?
 - Do you have alternative models and sales channels?
 - Have you adjusted the portfolio of products/services, putting more focus on those products/services whose turnover is least endangered by the crisis situation or has the potential for growth due to the crisis?
 - Can you introduce a new portfolio that will suit the changed spending habits during and after the crisis?
 - Have you considered reducing the prices of products/services, in order to bring them closer to the reduced purchasing opportunities of customers in an emergency?
 - Have you considered helping vulnerable categories of the population as a form of social responsibility?
 - Have you contacted new distributors, who can make it easier for you to market goods/products on the market?
 - Have you updated your credit policy in the area of credit ratings, nominal exposures, credit limits, collection methods, and collateral instruments?
 - Do you follow the reactions of the main competitors to the new circumstances, in order to adapt in time?
 - Have you considered extending the deferred payment period to strategic customers if you have a liquidity reserve to provide additional credit to them?
 - Have you adapted to the new logistical and customs circumstances?
 - Have you comprehended the savings in marketing and sales activities during the crisis?
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Table 4. Assessment of the crisis response gap in the marketing and sales segment.

Source: Author's review

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- Have you created a crisis team that is responsible for internal and external communication?
 - Have you defined and communicated key messages to employees?
 - Have you determined the dynamics of informing employees and key stakeholders about the most important messages?
 - Have you provided employees with online access to emails and a server where they can share information?
 - Have you provided access to databases 1) to employees for the data necessary for uninterrupted work from home and 2) to key managers about the most important information about the company to ensure business continuity?
 - Have you backed up all your essential data?

Do you have a manual for a crisis situation or an internal document that describes the internal communication procedure during a crisis?

Have you provided a contact phone, website, social media profile and e-mail for emergencies that can be contacted by stakeholders, customers, the interested public and get relevant information?

Have you made a plan for offline communication in case of an interruption in the internet signal?

Have you communicated to the interested public precise information about the way companies work during the crisis and how they can buy a product or get a service?

Do you regularly update information on websites and social networks?

Have you defined a clear policy for employees as they represent the company in times of crisis?

Table 5. Assessment of the crisis response gap in the communications segment.

Source: Author's review

Have you ensured smooth communication between the planning sector and the sales sector on the one hand with the procurement and production sectors?

Have you defined the optimal stock of inputs and finished products?

Have you divided the product portfolio into key and ancillary products, if production has to be reduced and if work is shifted to priorities?

Have you defined daily, weekly and monthly procurement and production plans?

Have you defined and provided the required quantities of production inputs in the event of a complete disruption of logistics?

Have you asked suppliers to increase payment date and/or change other commercial terms due to an emergency on the market?

Have you made a plan for the use of alternative raw materials and packaging if some distribution chains between countries are interrupted?

Have you considered the possibility of reorientation to domestic producers?

Table 6. Assessment of the crisis response gap in the procurement and logistics segment.

Source: Author's review

Have you defined a work plan in production that contains health and hygiene measures recommended by the competent authorities?

Do you monitor the health and availability of production employees on a daily basis?

Have you redirected employees to work from home in situations where the nature of their job allows it?

Have you considered redeploying employees to other tasks in the production if there is currently no need for their positions?



Have you proactively identified potential problems in production processes that could be the result of an emergency and proposed preventive measures?

Have you provided all employees in the production function with instructions and preparation for reacting to the occurrence of a specific problem in the production process?

Have you mapped points in processes that in the greatest scope and most likely can be affected by an emergency and produce production bottlenecks (processes, technology, and employees)?

Have you identified key employees/positions in the production function and critical inputs, which are necessary to maintain production during an emergency?

Have you defined plans, scenarios and measures for recovery of production after the state of emergency?

Table 7. Assessment of the crisis response gap in the production segment.

Source: Author's review

Have you created a register of legal risks (list of legal risks, their assessment, strategies for treating legal risks) for an emergency?

Have you identified temporary restrictions on the transport of goods?

Have you comprehended the impact of regulatory price limitation on certain goods and services?

Have you identified labor-legal risks related to possible changes in the employment status of employees?

Have you identified the force majeure risk in key contracts and the potential implications of the provisions on business?

Have you identified legal risks in relationships with suppliers, customers and creditors?

Do you regularly monitor potential additional state measures and possible changes in relevant legal regulations derived from those measures?

Have you identified the limitations and consequences for the business that can produce the limited functioning of public services and courts?

Table 8. Assessment of the crisis response gap in the legal issues segment.

Source: Author's review

Based on the proposed questions and self-evaluation, it is possible to conduct a summary assessment of the quality of crisis management and identify a gap in the application of an integrated crisis management system. The practice of crisis management that is applied in the company and with which the management is satis-

fied is marked with the sign "ü", and the practice that is not applied, i.e. with which the management is not satisfied with the sign "x". Further, each of the above eight areas of crisis management is rated on a scale of 1 to 5. The summary assessment of the applied crisis management practice of crisis management is calculated as the

average score of eight given grades, with high weight given to areas 1, 2 and 3 (weight 2), medium weight for areas 4, 5 and 6 (weight 1.5) and low weight for areas 7 and 8 (weight 1).

A hypothetical example of calculating the quality of crisis management is given in the following table:

Areas	Finance	Leadership	HR	Sales	Communication	Procurement	Production	Law
Rating	4	5	3	2	5	4	3	2
Weight	2	2	2	1.5	1.5	1.5	1	1
Product of rating and weight	8	10	6	3	7.5	6	3	2
% of max	80%	100%	60%	40%	100%	80%	60%	40%
Sum of products	45.5							
Total % of max	45.5/62.5=72.8%							

Table 9: Calculation of the quality of crisis management practice

Source: Author's review

The total percentage score of the applied crisis management practice is divided by the number 62.5 (maximum score if all grades were 5 for all eight areas of crisis management) by which the summary score of the quality of crisis management is calculated. According to the calculated summary score, the company can be classified into one of the five systems.

Level 1 - Ad-hoc system with a range of grades from 0 to 20%. Crisis management is not implemented or is implemented as an ad-hoc activity. The company is not familiar with good practice in this area or does not systematically apply crisis management tools.

Level 2 - Reactive system with a range of grades from 21 to 40%. Crisis management is not consistent, it is established at some levels and functions of the company. Responses to the crisis are reactive.

Level 3 - Managed system with a rating range

of 41 to 60%. Crisis management is being established as an integrated management system at the enterprise level. The processes and procedures of the crisis management system are created and a special function/body is established in the company with the responsibility for crisis management.

Level 4 - Proactive system with a range of grades from 61 to 80%. All operational elements of crisis management are applied in accordance with best practice. Strategic and operational planning is in direct connection with the crisis management system. In addition, regular evaluations and updates of preventive and reactive crisis measures are carried out. Employees proactively participate in reviewing the effectiveness of the proposed measures and provide quality bottom-up inputs and suggestions.

Level 5 - Optimal management system with a range of grades from 81 to 100%. The crisis





management system has become an integral part of the company and is incorporated into all decision-making, planning and control processes. The company actively works on improving crisis management, assessing the effectiveness of crisis measures and harmonization with best practices in the industry. The competent function/crisis management body has established de facto authority and managers at all levels proactively cooperate with it.

Based on the established maturity of the system and the shortcomings identified through the above questions, the management of the company should take appropriate actions to overcome the gaps and shortcomings of the cri-

sis management system. In other words, recognizing gaps and missed elements of crisis management allows management to proactively complete its system of crisis measures, assess the quality and comprehensiveness of crisis management, assess the maturity of the company in the field of crisis management and prepare all necessary decisions for survival during and after the crisis period. At the end of the crisis, the lessons learned and information gathered need to be integrated into the crisis plan, making them part of the corporate strategy, organizational knowledge and experience. Continuous improvement of crisis management practices should lead the company towards an optimal system.

5. CONCLUSION

The paper presents the consequences that the current crisis has caused on the Serbian economy. The key consequence is a drastically reduced liquidity of all market participants, and on that basis, financial stability. However, having in mind the global character of the crisis, all the countries in the region and most of the world are facing very similar consequences for the national economy. The differences stem from the size of individual economies, and thus the losses that economies record on a daily basis.

The speed of response in times of crisis is one of the most important factors that can affect the survival of the company and ensure business continuity after the end of the crisis. In a deep economic crisis, such as the current one caused by the COVID-19 pandemic, integral, comprehensive and rapid state support is primarily necessary because individual measures at the company level cannot give effective results. The state's response to the crisis must be primarily

aimed at significantly increasing the liquidity of the economy and restoring the confidence of participants in the stability of the economic system. State measures to support the economy must combine the mechanisms of fiscal and monetary policy in order to achieve an efficient and systematic result.

A comprehensive proposal for crisis measures at the state level is presented in detail in a previous paper. The monetary, fiscal and parafiscal measures available to the state, the central bank and the competent ministries were discussed. The total package of measures exceeds the value of five billion euros, which proportionally corresponds to the size of the Serbian economy when we compare them with the value of economic packages of other countries in the region. However, the question is whether this package of measures will be sufficient to compensate for all the economic consequences caused by the crisis.

It is expected that entrepreneurs, small and medium enterprises, with the smallest liquidity reserves, will suffer the greatest consequences of the economic crisis. In addition, companies whose product portfolio consists of products and goods that do not include basic foodstuffs will also face significant consequences in the short and medium term.

Regardless of size, no organization is immune to the crisis and its consequences. Therefore, crisis management must provide a rapid response to the current crisis and crisis teams have a primary role in preventing greater damage and long-term consequences. The previous

paper presents a series of proposals in the form of questions that should encourage companies to create an integrated package of crisis measures. Based on the questions and evaluation of the readiness of the current management system, managers can assess the gap in the quality and comprehensiveness of the measures currently taken and make their company more agile and ready for a crisis response. The lessons learned from this crisis must be the subject of detailed study and translated into organizational knowledge, which would further improve the crisis management system of the company and prepare it for the new (in)normalcy.

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