
Formation of Crisis Situations in Modern Organizations and their Impact on Market Functioning

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Abstract:

Purpose: The goal is to identify potential areas where crisis situations may arise in organizations and their impact on the contemporary market.

Design/Methodology/Approach: The research problem centres on the question what factors generate crises in organizations? To address this, it is essential to characterize the critical areas within modern organizations. The research hypothesis posits that maintaining effectiveness in organizations results from understanding organizational mechanisms and processes. This requires leadership focused on a deep comprehension of the organization as a system composed of various elements and the relationships between them. Such leadership fosters cohesion among organizational components through direct communication, enabling the acquisition of knowledge and information about the organization's internal and external environments. To answer the research question and verify the hypothesis, the authors conducted an analysis of the available literature.

Findings: The hypothesis has been positively verified. An organization should be viewed as an organized entity created by specific individuals or external institutions led by particular individuals. Through the implementation of a strategy, it becomes complex, integrated, and oriented, ensuring effective management. Understanding an organization as a bundle of various goals, rights, contracts, transactions, and expectations allows one to grasp the essence of its functioning and helps prevent crisis situations.

Practical implications: The analysis of the collected material shows that crisis situations can result from a lack of knowledge about the fundamental areas of an organization: its organization, complexity, integration, strategic orientation, and unfamiliarity with interpreting organizational metaphors as a bundle of rights, transactions, expectations, or contracts.

Originality/Value: An analysis of the collected literature shows that crisis situations are an inherent feature of every organization. However, thanks to scientific management, managers identify and prevent the development of crisis situations. Organizational knowledge contained in theory and practice allows for understanding their functioning and recognizing their impact on the organization and the market.

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1. Introduction

We live in a reality that is becoming increasingly unpredictable. In Latin, it is referred to as the "great unknown" (*magnum ignotum*) (Kopaliński, 1989, p. 314). Often, people face situations that are difficult to define. This creates a scenario where the future can be a barrier hard to overcome for many, and a lack of basic knowledge about organization can foster uncertainty about tomorrow (Hamel, Prahalad, 1999, p. 21).

In scientific literature, external threats are often emphasized, while internal conditions are considered self-evident. In the closer environment, we have competitors and customers, and in the broader environment, segments such as legal, political, social, technological, economic, physical, and cultural (Hatch, 2018, p. 72).

Ansoff writes about strategic surprise, which he interprets as a specific event that appears suddenly and poses a significant threat. This occurs because it is not recognized in the external environment. It is often described by him as a surprising novelty that develops rapidly, giving little time to adapt to the changing environment, exerting a significant impact on the organization itself (Ansoff, 1985, p. 236).

Taleb has also highlighted the external nature of crisis situations affecting organizations. In his book, he uses the metaphor of the Black Swan, writing about a surprising, unexpected event that takes on a drastic character (Taleb, 2014, pp. 17-32). The mentioned author points out that the world is full of such events, which are difficult to recognize in time.

The metaphor of the butterfly effect has been present in literature for several decades, suggesting that a small event in one place can cause significant consequences elsewhere (Taleb, 2014, p. 265). This is possible because the modern world operates on the principle of interconnected systems. Companies - through various supply chains and cooperative networks, become interdependent, which can lead to organizational disruptions.

Analysing crisis situations, it must be stated that every organizational solution contains the seeds of a future crisis (Machaczka, 1998). This occurs because we are unable to quickly recognize the nature and specificity of an organization. Secondly, we cannot identify its impact on the environment and the environment's impact on it.

The creators of physical things are people, and they do not possess complete understanding. They are unable to draw a map and mark all anomalies on it, as these develop along a trajectory that is difficult to predict. Margolis correctly notes that the elements limiting our rationality in decision-making are uncertainty and the lack of full information about what is happening around us.

These two issues are omnipresent in management (*The Analysis of Firm...*, 1958, p. 189). We are unable to identify all strengths and weaknesses, as well as opportunities and threats, because many of them are too faintly visible or invisible altogether.

Mitroff and Pearson state that it is impossible to account for all potential crisis situations and their various scenarios due to the complexity of our reality. They argue that we cannot be fully prepared for every possible crisis. Instead, we can only work to reduce certain types of crises and make them easier to manage (Mitroff and Pearson, 1998, p. 27; Tyagi *et al.*, 2023).

Organizations operating in markets - much like people - have their own life cycle. Some maintain their resilience to crises for a long time, while others lose it quickly. Organizations are not eternal; they have a beginning, youth, maturity, and decline (Gruszecki, 2008, p. 97). Their fate is often determined internally but also depends on external conditions shaped by the near and distant environment. Products and services offered to clients, as well as technologies used in production processes, also have their life cycles. Additionally, we can speak of the life cycle of our customers, whose desire to purchase our products or services diminishes over time.

The developing embryo of a crisis in an organization evolves depending on the conditions prevailing within it. If there is a combination of various contradictions, it quickly emerges and affects its functioning. Problems arise that are discrepancies between the actual and desired state of affairs (Pounds, 1969).

Every organization - regardless of its size - operates in a market that serves as a specific exchange mechanism between buyers and sellers. It is assumed that these participants are free and can make decisions freely regarding the purchase or sale of their goods (Ebert and Griffin, 2023, p. 38-39).

2. The Organisation as a Managed Entity

An organization can be viewed as an entity that is organized, complex, integrated, oriented, and managed (Figure 1). Robert Presthus argues that we live in an "organizational society" (Morgan, 2002, p. 126). In this social space, various entities and objects are organized. Manifestations of this activity include different institutions and organizations. Some are public, while others are private. Some are profit-oriented, whereas others have a non-commercial nature. In this organizational diversity, building and maintaining resilience is key.

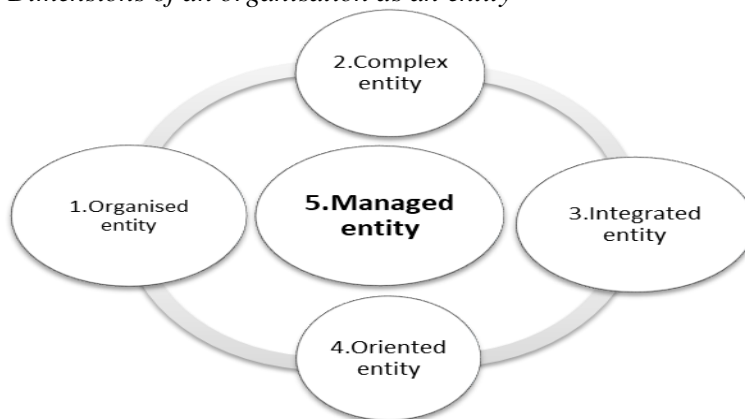
Human-organized activity reduces chaos, connecting individual fragments into a cohesive whole. This process creates durable structures where individual elements become parts of a unified system. Such organization is effective in cases of relatively simple objects. Bertrand Russell observes that in our highly organized lives, everything is structured, leaving no room for spontaneity (Russell, 1997, p. 68).

Every organization should be treated as an organized entity, with varying degrees of structure present in forms resembling smaller or larger machinery. This organization operates amid increasing complexity and environmental uncertainty. Russell argues that organizations should be more flexible and possess local autonomy to adapt effectively (Russell, 1997, p. 69; Velinov *et al.*, 2023).

In literature, two fundamental metaphors of organizations are visible. There is the mechanistic organization, which takes on a bureaucratized form and struggles with changes in its environment, and the organic organization, which has a very flexible operational model and is able to adapt in an unstable environment (Griffin, 2022, p. 307).

When analysing any organization, one should ask fundamental questions: How is it organized? Who organized it? Why was it created? What was the purpose of its organization? What is the purpose of its current functioning? What is unique about it? What stage of life is it in, what does it have within it that can be considered its unique thing?

Figure 1. Dimensions of an organisation as an entity



Source: Own elaboration.

Neville Lake states that organizations are astonishingly complex (Lake, 2005, p. 63). They are considered complex systems governed by dynamic and nonlinear laws (Thietart, 2000). This complexity creates a system in which individual parts interact with each other. Thus, it can be said that systemic complexity is present, which is

difficult to understand because it changes over time. Under the influence of dynamics, it alters its structure. Key questions arise: What is its organizational structure? Flat or tall? What is its size? What are the proportions between elements of complexity? How do they influence one another? The greater the complexity, the higher the likelihood of contradictions and uncertain situations, which can become sources of crises within the organization. Complexity demands greater effort from managers and increased participation from employees in the information process.

An organization is an entity operating in a local, national, or international market, either commercial or non-commercial in nature, with cooperative, private, or state ownership. It is managed by an appointed or elected decision-making body, which may consist of one or multiple individuals. The organization has defined goals, an awareness of its mission and vision, and operates within its environment to perform primary and auxiliary tasks in accordance with its development strategy. It possesses attributes such as organized human, material, financial, and informational resources to provide services or produce goods that yield specific benefits to the organization.

Neville Lake believes that the reality we live in is built on hierarchies. There are elements that connect to form small families, and these small families become components of larger families, which together create a great organism. There exists a certain order of things that operates in the background but always makes itself known. This happens regardless of how hard humans try to disrupt it (Lake, 2005, p. 156).

When it comes to the complexity of a system, we are dealing with the diversity of its components and the complexity of interactions between them (Thietart, 2000). The individual elements of this system depend on each other and mutually support one another.

The next element or feature of an organization is its integration. We understand this feature as: how do individual parts work together? What shared responsibility do they bear? What relationships exist between them? How is the interest of the whole perceived by individual units?

Integration is evident in the example of systems. Józef Penc states that the world is full of systems (Penc, 2002, p. 69). This issue has been present for a long time. The problem was that we did not focus on it, nor did we delve into the mechanisms it comprises. What relationships exist between them? We did not consider it a crucial topic from the perspective of science, technology, education, business, etc.

The study of systems was explored in the past by L. von Bertalanffy. Thanks to his inquiries, it became possible to promote this subject in the worlds of science and business. According to his definition, a system is regarded as a collection of elements that are interrelated (Bertalanffy, 1984, p. 86). It can also be added that these elements are interdependent and collectively contribute to the success or

failure of an organization. The interactions between the elements form a network, which is considered a system.

Operating as systems, organizations functioning in markets adhere to strictly defined laws. Józef Penc points out that these organizations follow their own objective laws, which managers must understand to act as conscious entities within this systemic world (Penc, 2002, p. 69).

However, this imperative is often not fully considered by many managers. Each manager should delve into the depth of the issue in their understanding and actions. Yet, many address the problem only superficially. This occurs because we have not fully comprehended it, nor do we uncover its mechanisms, processes, or phenomena.

Smaller and medium systems are embedded within broader systems, which in turn are part of higher forms called *supersystems*. This structure involves a complex mechanism of cooperation and competition. Such a configuration resembles Russian nesting dolls, where one can fit smaller ones into larger ones until only one remains.

Józef Penc writes that systems have general properties, and their specificity lies in the fact that they are more than just the sum of their components. He assumes that each component can become a system itself, and any such system can be part of another system (Penc, 2002, p. 69). This is a fundamental statement that managers must take into account.

In an organization, its orientation is crucial. To achieve this, one must ask whether organizations have a strategy, and if so, how many? Do they modify these strategies? Does changing a strategy lead to a change in organizational structure, and vice versa? A strategy focused on the market, where the customer plays a central role, is essential.

A marketing-oriented organization offers value in the form of products or services to meet customer needs. This strategy serves as a bridge connecting the organization to its future. Through strategy, we discover the future. Edgar K. Geffroy notes that the world remains unpredictable. He believes that transformations, such as, “what is in fashion and what is out of fashion, occur faster than in the past” (Geffroy, 1996, p. 108).

The future ahead of an organization is irregular and unpredictable, creating uncertainty that generates risk. We wonder and worry about whether to invest or wait. Gary Hamel and C.K. Prahalad suggest that the future can be found at the intersection of technological changes, lifestyle changes, legislative changes, demographic changes, and geopolitical changes (Hamel and Prahalad, 1999, p. 78).

An organization is oriented toward specific goals. This means it employs a strategy, and strategy is considered a lever (Hamel and Prahalad, 1999, p. 123). This strategy

focuses on customers, who occupy a central position in the market. Through the organization, people can achieve their objectives, thereby creating a synergistic effect. Jan Zieleniewski states that an organization encompasses all complex entities whose individual components contribute to their success (Zieleniewski, 1976, p. 64).

Management organizationally integrates the organization. Managers in an organization coordinate human units to achieve a common goal or goals (Robbins and Judge 2022, p. 38). The question arises: Is this entrepreneurial or innovative management? Or is it bureaucratic, military, or intelligent? What management style dominates in the organization? What are the motivational incentives that stimulate people to act? Etc.

Through organizations, employees achieve specific goals and perform associated tasks. As a result of collaboration, a synergy effect emerges. Jan Zieleniewski asserts that organizations are any complex entities whose parts contribute to their success (Zieleniewski, 1976, p. 64).

In such cases, organizations can be likened to organisms or machines. In both scenarios, individual organs or mechanisms work together to keep the human or machine functioning. Any malfunctions lead to crisis situations, manifested as dysfunctions.

3. Organisations as Bundles

Organizations can be viewed through the lens of a bundle. We have a bundle of rights, expectations, contracts, transactions, and goals (Figure 2). A. Alchian and H. Demsetz perceive organizations operating in markets as a kind of "nexus of contracts" (Gruszecki, 2002, p. 131). As they form, they create a network of cooperation and collaboration that influences their functioning.

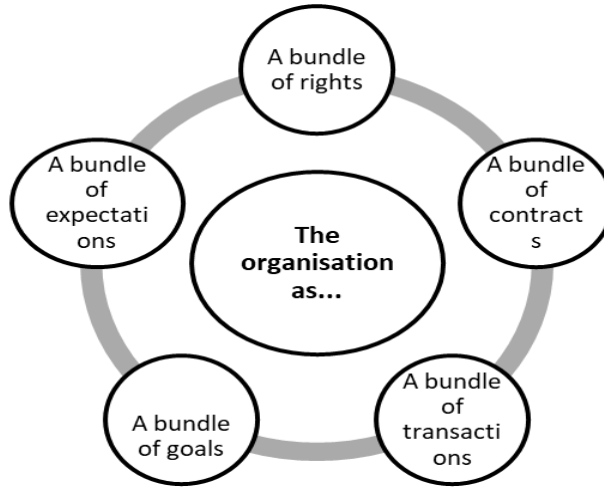
This "nexus of contracts" shows that transactions occur in every system, often with a repetitive nature. Simon Sinek states that we deal with the repetitiveness of business when people engage in transactions with us multiple times (Sinek, 2013, p. 39). The owner of an organization or a manager acting on its behalf enters into these transactions with employees internally. By doing so, a network forms.

This phenomenon is addressed by the theory of contractual costs. The founder, as a contractor, negotiates and signs contracts with employees. In doing so, they generate a connection of different resources that begin to form a whole (Gruszecki, 2002, p. 217). These contracts can be an opportunity or a hindrance. In this way, social networks are created within organizations.

It is believed that contracts entered into by managers with employees cause the latter to perform specific actions on behalf of the organization. These are open-ended contracts, where there is no precise definition of all the obligations and rights of the

parties to the contract (Gruszecki, 2002, 131). The way a contract is concluded, its terms, and possibilities influence employee behaviour, which indirectly affects the resilience of the organization.

Figure 2. The organisation viewed through the lens of a bundle



Source: Own elaboration based on: (Gruszecki, 2002).

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Organizations operating in the market also incur transaction costs. An organization can be described as a bundle of transactions. Within such organizations, there are cases involving a principal (owner or manager) and an agent (manager or employee).

In the relationship between these two parties, the issue of risk-sharing arises. Both the employee (agent) and the principal (owner) pursue different interests, creating a situation that generates information asymmetry. When a manager has an informational advantage, they may manipulate information to their benefit. Consequently, there is a need to monitor their activities. This type of situation leads to additional costs, as described by Gruszecki (2002, pp. 209-220).

Analysing the existing body of work on management theory reveals conclusions that organizations are created to reduce the costs of conducting business in the market. Instead of multiple transactions being carried out by individual people or departments, the organization acts as a single entity in dealings with external parties.

In this way, it serves as one coordinator rather than having many coordinators (Gruszecki, 2002, p. 253). This type of arrangement makes the organization a complex entity, comprising numerous internal actors bound together by a common goal in the form of a contract.

People working in an organization have their rights. Some have a greater scope of freedom, while others have less. In this case, it's about the rights of people to express their comments, criticism, report ideas, and co-decide on the fate of the organization.

In an organization, we deal with a bundle of goals. These goals are included in the strategy and set the direction for actions. They should be clear, understandable, and acceptable to everyone. Goals cannot be contradictory but should be comprehensible and motivating. Conflicts between goals, their inconsistency, lack of ambition, or unfeasibility are causes of crisis situations.

The bundle of expectations plays a crucial role. Employees have certain expectations, and the extent to which these are fulfilled can influence their level of engagement. Managers, who want employees to be fully committed and help achieve the vision, also have their own set of expectations.

4. Findings and Conclusions

Modern organizations are created by people and managed by them. Their effectiveness depends on the technology they possess. Therefore, it is appropriate to use metaphors such as a machine in reference to organizations, as it resembles a mechanism with gears and mechanisms that interlock with each other, and as an organism, because people work within it.

When analysing any organization, it is important to pay attention to the issue of its organization. Who created it? What was the purpose of its creation? What motives does the founder have? What is their vision, mission and goals? Is it organized as a company or a typical organization? We look at the interests of the founders, whether they are consistent with the people they employ.

An important issue for an organization is its complexity. Its elements must fit together. People must rely on each other, support each other, and collectively be accountable for what they do. Their actions should produce a synergistic effect. The more complex the organization, the more situations there are that can trigger a crisis.

When examining an organization, integration is a critical aspect that cannot be ignored. It is essential to conduct an analysis of the level of teamwork. Are teams effective? What is their structure? How are they managed? What competencies, knowledge, and skills do the individuals working in them possess? What factors facilitate integration? What is the nature of communication within the organization?

How do information and knowledge disseminate? Additionally, understanding customer expectations and satisfaction is vital.

Management must consider various aspects to bring order out of chaos, creating a structured and organized system. Through management, roles and objectives are assigned, ensuring that individuals and organizations align their goals. Organizations should be viewed as bundles of objectives, where employees' personal goals are subordinated to organizational goals, a concept emphasized by proponents of scientific management for decades.

Goals must motivate people to act. In every organization, there is also a bundle of expectations. Employees, clients, and employers express their desires: managers seek full engagement, dedication, enthusiasm, precision; employees want fair compensation, opportunities for growth, and recognition; clients look for value in products and services.

In our organization, we have a bundle of contracts. Managers hire employees and enter into contracts with external entities. This creates a bundle of contracts. Some may be beneficial for the organization, while others may not. The mentioned contracts generate profits but also losses.

We view an organization as a bundle of transactions conducted both internally and externally. These transactions are increasing. The market is not free; it generates costs. While cost-cutting is necessary, it should lead to improved operations rather than hindering activities. All managerial decisions, especially those made during times of turbulence and chaos, determine the state of the enterprise once the market stabilizes (Mroczko, 2014, p. 233).

An organization is also a bundle of rights held by authorities and employees. Limiting rights reduces motivation and morale. One should consider the degree of power sharing, employee participation in management and animation within each organization.

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