BUSINESS CRISES, THREAT AND OPPORTUNITY FOR QUALITY MANAGEMENT

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Summary
This paper deals with crises in the business context and within modern business organizations and communities. The issues are, however, also relevant for other kinds of organizations, including public civil service and third-sector organizations. Crisis management is considered in relationship with quality management and other related managerial issues. Turbulent business environments aggravate business crises. This has even caused a serious crisis in quality management. Crises are in human minds, not in organizations. Business leaders and managers have personal responsibility in business crises. They confront business realities in a way that requires their business self-management. Crises are opportunities for business improvements. Strategic business crises require decisive business transformations.

Keywords
Business Crisis, Crisis Management, Quality Management, Business Turbulence, Leadership, Transformation

ORIENTING TO BUSINESS CRISES

Crisis is, in general, a stage in a sequence of events at which the trend of future events and performance is determined. This may mean improvement, maintaining the status quo, or deterioration.

The word “crisis” originates from Greek krísis, meaning “decision”. One type of decision is also that of leaving a decision unmade. Crisis is a turning point leading to a new decision-based performance. Crises are always in human minds, not in organizations.

Business crises are also opportunities for a real business improvement, as J. Juran said: “There is no real development in organizations without business crises.”

Scope and responsibility in business crises vary. Business crises relate to events and situations within, between or among organizations. There may be crises at different levels in the organization, and to various extents related either to operational management or to strategic management. In all crises there are many different (and even independent) parties involved.

Executives and managers have responsibility in managing major organizational crises. Without managing business crises properly, they may expand from top down in an organization, to other networked organizations, or to the business community or society as a
whole – or vice versa. Crises may also develop towards conflicts, i.e. open clashes between opposing groups or individuals. Crisis initiation may occur at any level and expand to any level. Large-scale examples include the following cases:

- On 30 September 2005, in the Danish newspaper Jyllands-Posten, an individual journalist, Flemming Rose, published cartoons of the Prophet Mohammad that eventually caused big problems for the Danish food business, and even a global controversy between Christian and Islamic communities.
- Large common-mode phenomena, e.g. greenhouse development, the Al-Qaida network, South-East Asian tsunami, and Hurricane Katrina had big impacts on the activities of nations, organizations, and individuals.

Crises in global or business networks involve a special difficulty because, in managing globe-, nation-, society- or community-wide crises, there is no clear single and responsible ‘manager’ of the situation. Instead, there may even be many unknown, contradictory or hostile actors in the case. This may also be relevant within single organizations if the management is weak and the management system incoherent and ineffective. In these cases, crises may be solved only by mutual agreement of all essential involved parties. Crises in networked situations may be affected by practices utilizing network theories (e.g. related to emergence of networks, scale-free networks, power in and of networks, collaborative informal learning) and technologies (e.g. social technologies). Examples include:

- Mediators in difficult humanitarian crises (e.g. Nobel-awarded M. Ahtisaari)
- Voluntary activists and usage of open-source information technology in the context of large natural disasters (e.g. Hurricane Katrina in the USA, and tsunami in Thailand)

There are many cases where voluntary networked resources (e.g. “open-source ecosystem”, “peer production”, and “crowdsourcing”) have created remarkable achievements for organizations in their business challenges, and enhanced business opportunities. Examples include open-source software and IT services, pharmaceutical products, e-commerce components and systems, automotive products, etc.

**CRISIS MANAGEMENT AND QUALITY MANAGEMENT**

Crisis management and quality management are highly analogous managerial issues. These concepts may also be defined similarly. According to the ISO 9000 standard definition, quality management means: *Coordinated activities to direct and control an organization with regard to quality*. It should be emphasized that, according to this definition, quality management is not management of quality, but quality of organizational management. The key issue is how an organization is being managed as a whole. Correspondingly (business) crisis management may be defined as *Coordinated activities to direct and control an organization with regard to (business) crises*.

Factually, crisis management is a part of quality of management (= quality management). Crisis management is a responsibility of the business management, and it takes place through the managing actions of business leaders. Experts have assisting roles both in quality management and crisis management. Effective cooperation of different experts and business leaders is strongly recommended.
Quality managements may provide a great variety of useful tools and practices for managing business crises. The PDCA (Plan-Do-Check-Act) approach is also most useful for all kinds of business crises. This covers the following areas:

- **Control** practices in sporadic operational problems
- **Kaizen** methodology (continual improvement) in chronic operational problems and challenges, particularly relating to operational crises in business processes
- **Breakthrough** management, transformation methodology, and SixSigma tools in strategic business crises relating to essential business problems and new business challenges

There is a serious challenge to quality management experts to serve organizations within modern business realities and environments – and particularly in crisis situations.

**BUSINESS CRISES IN TURBULENT BUSINESS ENVIRONMENTS. CRISIS IN QUALITY MANAGEMENT**

Typically, business crises today relate to:

- Conditions of instability or danger, as in social, economic, or political affairs
- Unique situations that have reached difficult or dangerous culminating points
- Times of great disagreement, uncertainty, suspense or suffering

All these situations are very typical and significant in today’s business environments to be considered by business managers. As an example, R. Sennett, in his book “*Ever-mutable form of capitalism*”, refers to business environments as “*Mp3 economy with authority without responsibility*”. This means that modern business may be characterized by the following features:

- Drastic changes in corporate culture wrought by downsizing, “re-orging”, and outsourcing
- Appreciation of reality where one should continuously jump from one task to another or at least have the capability of continuous change (“Mp3 phenomenon”)
- Erosion of certainty and the need to adapt to changing circumstances
- Changes in work ethic, in our attitudes towards merit and talent, in public and private institutions (“spectre of uselessness”).
- Craftsmanship and getting the job right seen as negatively wasteful and obsessive.

These are existing trends today in our society. We can't change, avoid, or dismiss them.

In these kinds of conditions, prevailing “one-track” quality management means do not offer a lot to help organizations in their businesses. They cannot provide appropriate help either for crisis management or even for quality management. In fact, there is a crisis in quality management itself, and that needs decisive measures to be solved.

Recent studies have also revealed crucial needs for transformation within the quality management profession.

The fifth international future study of the American Society for Quality in 2008 considered the forces that will most likely shape the future of quality in powerful and forceful ways. The previous similar study was in 2005. The new study revealed the following seven most significant forces:

1. Globalization (item #1 also in 2005 study)
2. Social Responsibility (item #8 in 2005)
3. New Dimensions for Quality (item #2 in 2005)
4. Ageing Population
5. Healthcare
6. Environmental Concern
7. 21st-Century Technology

These factors indeed create implications for quality concept, organizations, and the quality profession as a whole. Based on the results of the study, the preferred scenario proposed “Global adaptation: Evolution toward a synergistic society”.

An international study was also carried out in 2008 within ISO TC 176 (ISO 9000 standardization) about the role and importance of time, speed and agility and related aspects in an organization's business. Related aspects included complexity, networking, information and knowledge, and innovation. E.g. the following statements were evaluated by respondents from different organizations and businesses:

a) There are, in the organization's business environment, quick changes and fluctuations that are necessary to be responded to by the organization.

b) Time, speed and agility aspects and fulfilling timeliness requirements are critical in the organization’s business success.

c) The organization has awareness and learning programmes that address time, speed and agility aspects.

The results of this study also reveal the need for transformation for quality management and assurance standardization and the whole quality profession. E.g. the survey respondents recognized facts a) and b) as very relevant and significant in their businesses. However, item c) was poorly realized in practice in their organizations, and their opinion was also that existing standards or other quality management reference models support these aspects very little.

Recent trends in business environments increase uncertainty, variety, variability, and dynamics in all areas of business management, and therefore also aggravate business crises. This is a big challenge to business leaders, and also to quality experts in order to help businesses professionally for quality of management in today's turbulent business environments.

THE BROAD SCOPE OF CRISIS MANAGEMENT

Crisis management (as well as quality management) is very closely linked with risk management, vulnerability management, conflict management, and business continuity management. However, these topics are often seen as separated managerial issues apart from crisis management and quality management.

For these issues there is lots of guidance material available. E.g. recognized national and international references for business continuity management include:

- BS25999: Business continuity management
- ISO/PAS 22399: Societal security – Guideline for incident preparedness and operational continuity management
- Business Continuity Institute: Good practice guidelines
- London First: Business continuity
Most of these references and guides propose complicated and difficult solutions that are distinct from normal business management routines, and therefore easily further add confusion among business leaders. Many of these guides strive only for reactive actions to keep the status quo, prevent, mitigate, prepare, response, and recover in the cases of disasters or emergencies. However, there is a real need in organizations for practical and simple business-integrated methodology that helps organizations aim at radical and proactive strategic transformations of business performance in crisis situations. The business continuity guide of London First is, however, simple and practical and therefore highly recommended. It also reflects the ideas of the PDCA model known to the quality professionals.

**BUSINESS REALITIES CHALLENGE BUSY MANAGERS**

Business leaders and managers have personal responsibility in business crises.

One of the most obvious characteristics of our modern society and all kinds of organizational activities is the immense haste of business people. This is a major threat to organizations’ performance, including crisis management and quality of management. This has a detrimental effect on managing organizations in crises and interfering crises solutions.

D. Seghezzi has illustrated the development of human actions – particularly in business management – in terms of “Time Scissors”. He brought to light an essential perspective on reasons why we are always in a hurry. This is because of working life and, in particular, the contexts in which organizations and their management operate have become more complex. The amount of time factually required for a certain act of management has increased significantly during recent decades, because the equipment, systems and phenomena involved have become much more complex. By the same token, the amount of time that a person has for one task of management has become shorter, as there is a lot more that one has to get done in the course of a day.

One may easily find examples from the daily news as to how human mistakes – mainly due to shortage of time – have caused serious situations of crises.

Organizations (managers) do not have enough time to think about business phenomena and how to manage them. This causes problems. Effective management activity requires deep know-how and knowledge in many specialized areas. If business leaders don’t have time to get a profound understanding of these matters and their underlying bases, business will drift into inefficient and even negative development. W.E. Deming said: “A requirement for doing business successfully is a profound knowledge of the company’s total operations in its business environment, of the actors involved, of how things fluctuate, and of changes and developments. Without this, the natural, even day-to-day operations of a company will be disrupted.”

It happens typically in hasty business situations that business leaders:

- Limit themselves only to immediate bug fixes and cures of symptoms
• Carry out managerial duties superficially, or buy the services of dubious outside “experts”
• Allow things to drift, and everyone is quiet and hopes nothing bad will happen

Lack of time also causes businesses to lose their identity. What is more, there is no time for innovation either; the sources of innovation dry up.

Poor crisis management may cause business crises to develop towards conflict. According to P. Niemi (University of Turku) “people’s mental performance and ability to work often crumble when things get complicated, as this also means great uncertainty”.

How to find time for managing an organization appropriately even in hasty situations? D. Zohar proposes that a prerequisite for increasing speed is to stop in order to think and understand the situation and to respond to it and to create premises for speed. P. Drucker emphasized that, in a crisis, a manager should act as a leader:
• To face the difficult facts and take action
• To do the right thing
• To share the pain
• To exercise authority

Research and references stress that crisis management is a business leaders’ personal self-management issue that may be characterized by:
• Being aware of one’s own spiritual process and its performance in business environments, and recognizing rationality, non-rationality, and irrationality
• Considering situations in an unbiased way by pure observation (senses and mind), being conscious of one’s own intentions and opportunities, and liberating intuition to creativity and rational decision-making
• Acting straightforwardly without prejudice, using all knowledge, information, abilities, tools, etc., focusing on the essentials, acting with sincerity and empathy, and communicating naturally
• Developing oneself continually in practical everyday activity

In fact, this is a good recipe for quality of leadership.

TRANSFORMATIONS IN STRATEGIC BUSINESS CRISIS

Transformation is the success factor in a strategic business crisis. In strategic crisis there is a need for large-scale breakthrough change in an organization’s performance.

Transformation is a radical discontinuous change. Transformation means change of form, shape or appearance. The Greek word metanoia may be more suitable than “transformation”. It means penitence, repentance, reorientation of one’s way of life. Basically it is a spiritual conversion because factually business crises are essentially in human minds.

Transformations are initiated and managed from the strategic (top management) level of an organization. Transformations do not happen spontaneously, but through decisive actions.

There are typically the following consecutive transition phases in a crisis transformation:
1. Immobilization shock: Mismatch between expectations and reality
2. Denial defensiveness: Retreat into false competence. Denial of need to change
3. Incompetence, anger, frustration and confusion: Awareness that change is necessary, but unsureness of what to do
5. Testing: Trying new approaches and coping with risk of failure (trepidation)
6. Search for meaning: Curiosity. Trying to understand how and why new behaviours are better.
7. Integration: Confidence. New attitudes and behaviour become part of behavioural repertoire

Phase 4 is especially crucial for solving business crises because it makes it possible to approach phases 5 to 7 successfully and facilitate organizational learning. Innovative quality management methodology may help managing all these transformation phases.

**SUMMARY AND CONCLUSIONS**

Business crises are turning points in decisive changes in business priorities. Crises may be initiated at any organizational level and expand to any other level within the organization or to the organization’s stakeholders and environment. Real business circumstances should be taken into account in managers’ reflections on actions against crises in order to avoid random drifting or superficial solutions. Turbulent and uncertain business environments and haste aggravate business crises and impede their solutions. Business leaders’ self-management and sound management practices by using profound general and contextual information and knowledge are steadfast bases in confronting business crises. Crisis management should be embedded within normal business management activities by the business leaders’ responsibility, and understood as a part of an integrated quality management approach. Appropriate quality tools may be useful. Operational crises may be solved by rational control and improvement measures and appropriate methodologies. Strategic crises may be solved only by innovative business breakthrough transformations.

Today, organizations and business leaders should be able to live continuously with crises. Business crises are opportunities for real business improvement, but also risks for losing the business. Each organization should develop and maintain its principles and methodologies for crisis management according to the organization’s business needs.

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Business crises, threat and opportunity for quality management

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Main themes of the presentation:

1. Crisis in the business context
2. Modern business environments and conditions and business crises
3. Crisis management and quality management
4. Crisis management and related management issues
5. Managers undergo business realities and crises
6. Challenging out of crises through business transformations
7. Conclusions
Orienting to business crises

Crisis is a stage in a sequence of events at which the trend of future events and performance is determined:

- Improvement
- Keeping status quo
- Deterioration

The word crisis originates from Greekkrísismeaning decision.

➢ One type of decision is also if one leaves undone a decision.

Crisis is a turning point leading to a decisive transformation.

Dr. J. Juran, USA: “There is no real development in organizations without business crises.”

Crises are always in human minds not in organizations.
Business crises relate to situations within, between or among organizations.

Business crises are significant management issues.
- There may be crises at different levels in the organization and various extent related either to operational management or to strategic management.
- In all crises there are involved many different (and even independent) parties.
- Executives and managers have responsibility in managing organizational crises.

Without managing business crises they may expand from top to down in an organization, to other networked organizations, or to the business community or society as a whole – or vice versa.

Crises may also develop towards conflicts.

Crisis initiation may occur at any level and expand to any level:
Examples: 1) Danish journalist F. Rose published Prophet Mohammad cartoons 2) Global green house development, Global Al-Gaida network, Hurricane Katrina
A difficulty in managing globe-, nation-, society-, or community-wide crises is that there is no clear single and responsible “manager” of the situation. Instead, there are many even contradictory or hostile actors in the case.

This may be relevant also within single organizations if the management is weak and management system ineffective.

In these cases crises may be solved only by mutual agreements of all essential involved parties. However, crises in networked crisis situations may be affected by practices utilizing network theories (e.g. emergence of networks, scale-free networks, power in and of networks, collaborative informal learning) and technologies (e.g. social technologies).

Examples:

- **Mediators** in difficult humanitarian crises (e.g. Martti Ahtisaari)
- **Voluntary activists** and usage of open source technology in the context of large natural disasters (e.g. hurricane Katrina in USA and tsunami in Thailand)
Crisis Management and Quality management

**Quality management:** Coordinated activities to direct and control an organization with regard to quality (*)
- Quality management = Quality of Management

(Business) **crisis management:** Coordinated activities to direct and control an organization with regard to (business) crises
- Crisis management is a responsibility of the business management, and it is taking place through the managing actions of business leaders.

Crisis management is a part of quality of management ( = Quality Management).
**Experts** have assisting roles both in quality management and crisis management. Their cooperation is strongly recommended.
- Quality managements may provide useful tools and practices for managing business crises.
- There is a serious challenge to **quality management experts** to serve organizations within modern business realities and environments - and particularly in crisis situations.

**Quality tools for crisis management:**
- ✓ Sporadic operational problems => Control
- ✓ Chronic operational problems => Kaizen (Continual improvement)
- ✓ Strategic business crises, new business challenges => Breakthrough management
Business crises in turbulent business environments: “Authority without responsibility”

Typically business crises relate today to:

- Conditions of instability or danger, as in social, economic, or political affairs
- Unique situations that have reached difficult or dangerous culminating points
- Times of great disagreement, uncertainty, suspense or suffering

Today all these aspects are very typical and significant features of business environments to be considered by business managers.

Prof. Richard Sennett: Ever-mutable form of capitalism, “Mp3 Economy”:

- Drastic changes in corporate culture wrought by downsizing, “re-orging”, and outsourcing
- Appreciation of reality where one should continuously jump from task to another or at least have capability to continuous change
- Erosion of certainty and the need to adapt to changing circumstances
- Changes in work ethic, in our attitudes toward merit and talent, in public and private institutions (“specter of uselessness”).
- Craftsmanship and getting the job right seen as negatively wasteful and obsessive.

Prevailing and traditional quality management means have not a lot to help organizations in modern business environments.

![Diagram illustrating the crisis in quality management over time.]
Role and importance of time, speed and agility and related aspects (*) in organization's business (**)  

1. There are in the organization's business environment quick changes and fluctuation that are necessary to be responded by the organization.  

3. Time, speed and agility aspects and fulfilling timeliness requirements are critical in the organization business success.  

11. The organization has awareness and learning programs that address time, speed and agility aspects.  

(*) Related aspects, complexity, networking, information and knowledge, and innovation, gave very similar results in the study.
The fifth Futures Study (*)
of the American Society for Quality in 2008

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<tr>
<th>Forces that most likely shape the future of quality in powerful and forceful ways</th>
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<td>1. Globalization (#1 in 2005)</td>
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<td>2. Social Responsibility (#8 in 2005)</td>
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<td>4. Aging Population</td>
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<td>6. Environmental Concern</td>
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<td>7. 21st Century Technology</td>
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These trends increase uncertainty, variety, variability, dynamics in all areas of business management.

Preferred scenario:
“Global adaptation: Evolution toward a synergistic society”
Creating implications to quality concept, organizations, and the quality profession as a whole
Crisis management (as well as quality management) are very closely linked with:

- Business continuity management
- Risk management
- Vulnerability management
- Conflict management

For these issues there are lots of guidance material available, e.g. for business continuity management:

- BS25999: Business continuity management
- ISO/PAS 22399: Incident preparedness and operational continuity management
- Business Continuity Institute: Good practice guidelines
- London First: Business continuity
- National Fire Protection Association: Disaster / Emergency Management and Business Continuity
- ITIL: Continuity Management
- Singapore Business Federation: Business Continuity Management

Most of the references and guides propose complicated and heavy solutions that are distinct from business management routines and that therefore further add confusion among business leaders. Many of these strive only for reactive actions to keep status quo, prevent, mitigate, prepare, response, and recover in the cases of disasters or emergencies.

Real need is for practical and simple business-integrated methodology that help aim at radical improvement of performance in crisis management.
Busy managers undergoing business realities

One of the most obvious characteristics of our modern society and all kinds of organizational activities is an immense haste. This is a major threat to organizations’ performance including quality of management. Business leaders have not time enough to think.

This has detrimental effect on promoting crises and interfering their solution.

Prof. Seghezzi: Time scissors

One may easily find examples from daily news how human mistakes - mainly due to shortage of time - have caused serious situations of crises.
Organizations (managers) have not enough time to think how to manage

Dr. Deming: A requirement for doing business successfully is a profound knowledge of the company’s total operations in its business environment, of the actors involved, of how things fluctuate, and of changes and developments. Without this, the natural, even day-to-day operations of a company will be disrupted.

Management activity requires deep know-how and knowledge in many specialized areas. If a business leaders don’t have the time to get a profound understanding of these matters and their underlying bases, business will drift into inefficient and even negative development.

It happens typically that business leaders:

a) Limit only to immediate bug fixes and cures of symptoms
b) Do superficially or buy services of dubious outside “experts”
c) Allow to drift, and everyone is quiet and hopes nothing bad will happen

Lack of time also causes businesses to lose their identity. What is more, there is no time for innovation either; the sources of innovation dry up.

“People’s mental performance and ability to work often crumble when things get complicated, as this also means great uncertainty.”
This may even cause conflicts.

Prof. P. Niemi (University of Turku)
How to find time for managing an organization appropriately even in hasty situations

Zohar: A prerequisite for increasing speed is to stop:
* To think and understand the situation and to respond to it
* To create premises for speed

Drucker: In a crisis a manager should be as a leader:
* To face the difficult facts and take action
* To do the right thing
* To share the pain
* To exercise authority

A stop requires self-management by a business leader:
• To be aware of one’s own spiritual process and its performance in business environments and recognizing rationality, non-rationality, and irrationality
• To consider situation unbiasedly pure observing (senses and mind), being conscious of one's own intentions and opportunities, and liberating intuition to creativity and rational decision-making
• To act straightforwardly without prejudice, using all knowledge, information, abilities, tools, etc., focusing to the essentialities, acting with sincerity and empathy, and communicating naturally
• To develop continually oneself in practical everyday activity

(Ref. Danah Zohar, Peter Crucker, Reverend Radha)
Transformation, a success factor in a strategic business crisis

In strategic crisis there is a need for a large-scale breakthrough change in organization’s performance.

**Transformation** is a radical discontinuous change. Transformation means change of form, shape or appearance.

The Greek word *metanoia* may be more suitable than transformation. It means penitence, repentance, reorientation of one’s way of life. Basically it is a **spiritual conversion**.

**Note:** Crises are always in human minds

Transformations are initiated and managed from the strategic (top management) level of organization.

Transformations do not happen spontaneously but by decisive actions.
Transition phases in a crisis (*)

1. IMMobilisation
   Shock - Mismatch between expectations and reality

2. Denial
   Defensiveness - Retreat into false competence. Denial of need to change

3. Incompetence
   Anger, frustration and confusion - Awareness that change is necessary but unsure what to do.

4. Acceptance of Reality
   Sadness - Letting go to past attitudes and behavior. Excitement - At prospect of improved performance

5. Testing
   Trying new approaches and coping with risk of failure (trepidation)

6. Search for Meaning
   Curiosity - Trying to understand how and why new behaviors are better.

7. Integration
   Confidence - New attitudes and behavior became part of behavioral repertoire

Conflicts, decay, succumbing

(*) Ref.: Adams & al 3171/2.12.2008/jan
Summary and conclusions

1. Business crises are turning points in a decisive changes in business priorities.
2. Crises may be initiated at any organizational level and expand to any other level within the organization or to organization’s stakeholders and environment.
3. Real business conditions should be taken into account in managers’ reflections for actions against crises in order to avoid random drifting or superficial solutions.
4. Turbulent and uncertain business environments and haste aggravate business crises and impede their solutions.
5. Business leaders’ self-management and sound management practices by using profound general and contextual information and knowledge are steadfast bases in confronting business crises.
6. Crisis management should be embedded within normal business management activities by the business leaders’ responsibility and understood as a part of integrated quality management approach. Appropriate quality tools may be used.
7. Operational crises may be solved by rational control and improvement measures and appropriate methodologies. Strategic crises may be solved only by innovative business transformations.

Today organizations and business leaders should be able to live continuously with crises. Business crises are opportunities for real business improvements but also risks for losing the business.