

# Organizational Crisis Management for Business Continuity : A conceptual Review Report on BharatPe Fintech Company's Situation Analysis

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**Abstract:** This report discusses an overview of the reputational and operational crisis experienced by BharatPe, a prominent Indian fintech company, the key crisis issues, the strategies deployed by the company to mitigate the crisis, and possible recommendations for improvement. The key crisis issues faced by the company were examined drawing upon a relevant theory. The Pauchant and Mitroff Onion Model of Crisis Management was examined in light of the difficulties discovered concerning the organization's preparedness—or lack thereof—at the time of the crisis. The paper analyses BharatPe's response to the crisis, highlighting its Business Continuity Management (BCM) provisions, crisis management effort, and crisis communication initiatives. The report revealed that the company lacked a specific business continuity plan and that its crisis management efforts lacked holistic depth, but rather concentrated on the recovery of some misappropriated funds, increased data security, customer support, coordination with regulatory authorities, new hires to fill the talent gap, and stakeholder perception. The report concludes that while BharatPe has come to terms with the impact of the crisis on its operations, reputation, and assets, it has not yet developed a clear blueprint for what its BC plan should look like. Additionally, the report notes that the haphazard operational recovery plan that BharatPe adopted will not be sufficient because it cannot stand independent of the BCM framework. The following are some of the report's recommendations for the company:

- Restructuring the leadership at BharatPe.
- Adopting an inclusive approach to decision-making.
- Forming new strategic alliances with other fintech and financial entities.

## Introduction

BharatPe's complex crisis put to test its ability to protect its operations and reputation. The report draws up a pertinent theory while highlighting the crisis issues, crisis management efforts, and improvement suggestions. BharatPe specialises in digital payments and financial technology. It was established in July 2017. It provides small and medium-sized enterprises with fintech solutions. The organisation expanded quickly and increased its market share in a highly competitive environment. More than 50,000 retail establishments in 150 cities use its services.

## Key Crisis Issues

BharatPe's crisis situation was multi-faceted. It comprised a chain of issues that metamorphosed into the crisis that threatened the company's reputation and operations.

**Fraud:** On October 21, 2021, operational irregularities were uncovered in a preliminary report on BharatPe's systems by Alvarez & Marsal. These irregularities included dealings with fictitious vendors and movement of fund via phoney HR consulting firms linked to one another. These payments were facilitated by Madhuri Jain Grover, head of controls and wife of Ashneer Grover, a co-founder. In 2022, a comprehensive audit by PricewaterhouseCoopers revealed that the corporation had transitioned from the prodromal to the acute crisis stage when it was discovered to be at the centre of numerous corporate crimes.

**Data Breach:** Concerns regarding the company's data security were raised after reports of a significant data breach including sensitive information on retailers and their consumers, surfaced. Usernames, passwords, mobile phone numbers, official email IDs, and IDs for the Unified Payments Interface were said to be among the information that was hacked. Co-founder Ashneer Grover, who had been fired from the business, claimed that Bhavik Koladiya, the CEO, was responsible the data theft.

**Porous Operational Structure:** There was a "god syndrome" in BharatPe. Ashneer Grover had nearly single-handedly driven the growth of the company and raised more than \$600 million in equity funding from prestigious funds within four years of its founding. He gained implicit control in the company. The board overlooked about anything Grover did, as long as he was bringing in investors willing to give the company a better valuation. The operational culture was thus ingrained with irregularities.

**Leadership:** Critical distinctions were muddled by the shareholders' and managers' intersecting duties. Since the shareholders held key management positions, the focus was on boosting corporate valuation rather than creating a resilient organisation. Financial irregularities involving the board of directors and the co-founder were discovered by an independent audit.

**Regulatory Issues:** The company faced increased scrutiny regarding compliance with payment and data security, from regulatory authorities. The company struggled to keep up with the evolving regulations, leading to potential disputes and fines.

**Financial Loss:** The company's valuation witnessed a substantial decline from its peak. It faced mounting liabilities owing to regulatory penalties and legal disputes. This caused a strain on the company's financial position.

**Funding Drought:** Despite early success, the business began to have trouble securing more funds for expansion. Potential investors started to rethink their investment decisions owing to growing instability in the company's culture. Losing the trust of investors made it challenging to attract fresh capital.

**Exodus of Top Talent:** The company's stakeholders were becoming increasingly concerned about the management's ongoing brash and combative behaviour. Examples were a leaked audio tape of Grover threatening a Kotak Mahindra Bank employee and Grover's spat with the managing director of Sequoia Capital, a firm which owned 19% of BharatPe in 2022. The company lost top talent as a result of the growing worries about the hostile workplace, internal conflict, and uncertainty following the problems at BharatPe. A few of the important executives who departed the company were not only a part of the founding team but were in charge of crucial initiatives or divisions.

**Reputation and Customer Trust:** The company's crisis concerns hurt its brand and damaged its public image. BharatPe's market share decreased significantly as a result of customers switching to alternative service providers due to uncertainty of the company's future.

### **Theoretical Underpinning**

The basis of BharatPe's crisis is explained by the Onion Model of Crisis Management developed by Pauchant and Mitroff. BharatPe's crisis was a result of the interaction between its strategy, structure, culture, and individual characters, which suggested a crisis-prone organisation. Additional elements that may increase the likelihood of crises have been identified through internal perspective research, such as an organization's culture, governance, and compensation plan (Greve et al., 2010; Harris and Bromiley, 2007; Zhang, et al., 2008).

According to Behnamiri and Hossein (2012), organisational culture and structure, organisational norms, and lastly organisational technology and guidelines must all be compatible for crisis management to be effective. There were no supporting crisis management strategies- plans, or procedures in place. BharatPe was run on the wings of a man regarded as the "face" of the company. The company's reliance on a small number of people was a recipe for disaster. One would anticipate an airtight security system given the nature of its product offerings. BharatPe concentrated only on short-term advantages at the expense of creating a resilient system that could maintain performance over the long term. The operational and leadership structure of BharatPe was precarious and dependent on a delicate balance. Based on corporate governance principles, there was no distinct separation of powers. According to Kooor et al. (2000), the main reason why organisations fail is because of outdated organisational structures in which crisis leadership is in the periphery of the organization rather than at the very centre of daily operations. The ongoing internal crises served as a blatant sign of a frail system and structure. Any deterioration in the interaction of an organization's people, technology, and environment leads to crises (Sawalha et al., 2015). Critical decision-making was highly centralised but not inclusive.

The culture at Bharatpe lacked conventionalism and professionalism. According to Greve et al. (2010) and Ashforth and Anand (2003), an organization's culture may be more tolerant of misconduct resulting from managerial ambitions or struggles for control. Failures in an organization's conventionality further facilitate the emergence and amplification of crises (Mitroff, 2004). BharatPe continued to maintain a toxic workplace and a leaky internal system that left it vulnerable to crises. The important people in the firm had a shallow and materialistic character. Their decisions and choices were influenced by their characters. The consequence of individual choices had direct effects on the organisation as a whole. Organisations can orient themselves to avoid system failures that could result in crises by making changes to their culture, design, and organisational structure. As a result of a cognitive and behavioural process known as collective managerial awareness, a high-reliability organisation should be able to manage unforeseen events (Weick and Sutcliffe, 2001).

## **BharatPe's Management of the Crisis**

BCM provisions in BharatPe were reactive, as the organisation could neither identify what needed to be done before the crisis, protect its critical assets, nor ensure smooth continuity of operations. It lacks a comprehensive management strategy that enables the detection of potential effects and offers a framework for boosting resilience for an effective reaction that protects the interests of its major stakeholders, reputation, and value-creating endeavours. BharatPe's BCM provisions takes a standard practice approach described by Elliott et al. (1999), as concerned mainly with the development of corrective plans while paying less attention to creating continuity cultures.

### **The Company's Crisis Management Efforts**

Despite the audit report's recommendation for a more thorough investigation, BharatPe's immediate response to the preliminary audit report by Alvarez & Marsal was to reverse the transactions listed in the report as questionable and pay a fine rather than look into the fictitious financial dealings with the non-existent vendors revealed by the audit. The directorate general of GST intelligence summoned a firm representative on the case in November 2021. The company's response to this was a request to waive the notice in lieu of paying dues and penalties. These events indicated the prodromal crisis stage. Although the prodromes were clear, the management took an unusual strategy for dealing with them. To prevent a full-blown problem, an investigation should have been conducted right away. To prepare for prospective crises, a proactive plan will assist in identifying prodromes. The most detrimental effect on a company's reputation is a preventable crisis, which might have been averted through the organization's responsible and attentive reaction to an issue at an early stage (Coombs 2007; Clair and Waddock 2007; Claeys et al. 2010).

A crisis response team made up of specialists from IT security, legal, public relations, and customer service departments was created. This group developed a plan of action after determining the scope of the breach. Although the specialists' representation of various departments seems to be advantageous, the question is: Were the other personnel of these departments involved, either directly or indirectly? Beyond this, it may have been necessary to participate in numerous forums with members of the organization's top management, up to the board level, to agree on and implement the required continuity measures after the study of risk and business impact was finished. Departmental function competence does not equate to crisis management expertise. As a result, is likely to include some people who have never actively participated of the preceding components of a continuity plan. Bundy et al. (2016) posit that people in certain crisis management roles might need extra training.

BharatPe invested in cutting-edge cyber security technology right away to improve its data security architecture. They also put in place stringent access controls to avoid problems in the future while regularly updated customers on the status of security upgrades. A position of ownership that will assume responsibility for this technology should be funded along with modern cyber security technologies. Beyond this, inadequate maintenance programme will render the proposed plan ineffective and useless and as such, will fail to enhance organisational resilience, which often determines whether or not a company can recover after a significant disaster (Elliott et al. 2010; Herbane 2010).

The company exhibited accountability by providing compensation to clients who experienced financial losses as a result of the breach and by establishing a customer helpline specifically dedicated to resolving the concerns of affected customers. Customer-centric support programmes should be introduced to increase their sense of belonging.

During the data breach disaster, the company worked extensively with regulatory bodies and law enforcement. This made it easier to identify and bring legal action against offenders. This should however go beyond collaboration to regulatory compliance. There should be a transition from a period of self-regulation in which the organisation largely took the decision to invest in crisis management activities voluntarily, to a period of regulation in which it builds predetermined crisis management plans, resources and activities. To comply with relevant requirements, the business should make investments in compliance teams and systems. BCM is a component of good corporate governance, hence implementing it is wise. It makes excellent financial sense to reduce the risk of operational disruptions, develop failure resilience, and be prepared to act quickly when the unexpected happens.

New executive and non-executive directors from within the company were appointed by BharatPe, together with two independent directors from outside the company. The company's new key executives have been with the company for the past two years, taking the place of those who had been in charge since 2018. To achieve its goal, the corporation might consider removing the shareholders from the management team. A higher concentration of executives from outside the company will mop up some culture decay.

The organisation is at a chronic crisis stage; which is one of self-analysis, self-doubt, and healing (Gillespie and Dietz, 2009; Pfarrer et.al 2008). The business will undoubtedly remain in this state unless the basic concerns of culture, structure, and strategy are recognised. It should work to develop a resilient culture where accountability and authority are co-located and BCP elements are included in regular business operations.

### The Company's Communication Attempt

The crisis management team crafted messages to prevent misunderstandings and preserve the public's goodwill. The business swiftly informed the affected clients, partners, investors, and other stakeholders about the incident, displaying openness and a determination to make things right. BharatPe conducted a comprehensive communication effort, alerting its users of steps taken to preserve their data, regain consumers' trust and boost customer support. Two difficulties required immediate attention. The first goal was to preserve credibility throughout the crisis, and the second was to restore the company's damaged reputation. The corporation handled its communications with the media straightforwardly and consistently, accepting responsibility for the problems and admitting what went wrong.

BharatPe communication effort was external-focused. The immediate gains of adopting this communication strategy are temporal. According to Schnatterly (2003), some governance practices-such as the transparency of policy and communication-were superior to other governance structures at deterring white-collar crime. Business continuity and crisis management awareness is for everyone as everyone is required to play their part. To keep their roles within the business, employees must be involved in the crisis management process. Embedding BCM calls for continual learning that emphasises flexibility and technological integration (Rogers, 2013). This involves collaboration between all business units and management levels (Alesi 2008; Elliott et al. 2010), especially for achieving post-crisis outcomes.

According to De-Holan and Phillips (2004), organisations with superior learning capabilities are better able to deal with new challenges, produce new knowledge, and adjust to shifting external conditions rapidly and effectively. Continuity training is paramount for organisation preparedness. Training aims at enhancing awareness levels and motivating change. By giving participants the chance to engage in critical thought, collaborative group work, and learning, the BCM plan is intended to lessen resistance. To improve readiness for upcoming incidents, training should be implemented generally (Sapirstein 2006).

### Conclusion

The haphazard operational recovery strategy put up by BharatPe would not be sufficient because it cannot stand alone. The business must invest in a well-grounded BCM strategy.

### Recommendations

1. BharatPe should uphold the corporate governance principle of power separation.
2. The company should pursue the strategic formation of new alliances.
3. Decision-making should be decentralized for more inclusiveness.

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