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RISK MANAGEMENT FORUM

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on CRISIS MANAGEMENT
ARE YOU READY ?

Ladies and Gentlemen,

When a crisis occurs, a company can experience turmoil, stress and frequently, disastrous consequences. Usually, warning signs precede most crises. Heeding them can considerably lessen the impact. So can planning, that is development and implementation of a crises management plan.

Recently, "crises management" has become the issue in the business press and the subject of much discussion in board rooms and on management level. Certainly, a number of well publicized disasters have had severe impact on what are considered well managed companies.

Companies have faced a multitude of crises ranging from oil pollution to product tampering to earthquakes and toxic releases, that took management by surprise. Furthermore they were often unprepared to respond.

With this in mind, companies should be aware of potential crises and have a means to deal with the situation in place.
Regretfully, recent research shows that the reality is far different. Crisis response and crisis management, although often discussed, are less frequently a part of the normal business planning and strategy process than the flood of words tends to indicate. It is as though executives were unwilling to think about the problem in terms of their own company. They think that, although disasters or catastrophes do happen and preparation is a must, the worst will happen only to the others.

In researching his recently published book, Crisis Management, Steven Fink has surveyed top executives of Fortune 500 companies and surprisingly has found that 89 percent of them believed a crises was inevitable. However, 38 percent of those who believed their company had more than a 50-50 chance of having a crises did not have a plan, and 42 percent of those who had gone though a crisis still did not have a plan in place to deal with the next one.

A 1988 survey conducted for the National Association of Manufacturers (NAM) in the U.S. further supports these disappointing conclusions. On a scale of 1 to 7, with 1 indicating strong agreement, the following proposition received a 2.5 rating : "Every organization shoud have a permanent Crisis management unit or team". However, agreement was almost as strong - 2.7 - with the following statement : "Most organizations, unless they first experience a major crises, will not engage in a serious program of crisis management".
And only 38 percent of respondents stated that their organization had a formal crisis management unit or team.

A company that fails to develop and implement a crisis management plan is taking an unnecessary risk. An event, like Bhopal or the Perrier product recall or the Sandoz pollution, can have such a devastating effect, that makes statistics meaningless and jeopardizes the companies future.

A crisis can be defined as any accidental or intentional even that causes a significant disruption to normal operations.
Crisis do not occur in isolation. They have multiple dimensions and call for multiple treatments. One crisis will lead to another, unless definite plans, designed to quickly **identify**, **isolate** and **manage** the crisis are in place.

When a trusted product is found to be contaminated, the product line is not the only thing in danger. The corporation's entire public image may be at stake. Lost revenue could total millions of dollars.
Hundreds of employees could be put out of work.

Likewise, product defect and recall can affect earnings to the point where debt payment becomes difficult and even a small fire can cause a toxic release and millions of dollars in clean-up costs.
Most of these incidents like Bhopal or Sandoz and the fire and explosion at Philips Petroleum Plant in Pasadena, TX, are frequently followed by intense media and governmental scrutiny.
This pressure affects not only the companies involved but the entire industry segment.

To be effective, crisis management must be a continuous effort comparable to risk management, sales strategy, production planning, or any other business activity in a dynamic environment.

For a crisis management plan to be fully effective, it must address six stages :

1. Risk Identification
2. Advance Preparation
3. Risk Escalation
4. Managing the crisis
5. Disaster Recovery
6. Return to Normal operations

These stages represent an ongoing, interactive and proactive effort to safeguard a company's assets and reputation and to guarantee corporate survival. In contrast, using any phase in isolation may achieve little more than increasing a company's chance of getting lucky when a disaster looms on the horizon.
A crisis management plan reflects sensible risk management, pre-loss planning, contingency planning, and post-loss recovery considerations. It provides a strategy tailored to the enterprise's specific environment, decision-making and operating systems, culture and potential problems.

Crisis will occur, no matter what advance planning takes place. A sound plan, however, will help ensure a more carefully thought out and controlled response, even if the particular crisis that actually occurs has never been anticipated.

Let's have a closer look at the components of the crisis management plan.

1. Risk Identification

The risk identification process is the foundation, not only of the crisis management program, but of the entire risk management effort.
Considerable time and effort must be spent identifying those potential risks, that if left unchecked, can develop into a crisis. This stage of crisis management involves identifying the probable cases and determing their probability of occurence.

In the NAM survey, Fortune 1000 corporations identified the twenty most common crises that they experienced in the last three years. The most common were those caused by product defects and recalls, environmental accidents, plant and equipment defects, computer breakdowns and absence of data processing security, loss of confidential information.
The crisis identification process can be summed up in four questions :

What can happen ?
What operations will be affected ?
What will be the overall impact on the company ?
What can the company do to avoid the efffects ?

As risks will change as frequently as the business environment, the identification process should be carried out periodicly.
Very often, true company weaknesses will be discovered before its management has to deal with a real crisis.

2. Advance Preparation

Once the possible crises are identified, the organization has to develop its crises management plan and designate its crisis management team members.

The plan should provide methods for minimizing the extent of disruption and damage and for limiting escalation of the crisis. The composition of a specific team will depend on the nature of each crisis, but a central core membership and a teamleader with authority are necessary.

The crisis management team should establish continuing or alternative operating procedures, including any necessary reduced-capacity procedures and identify the resources necessary for recovery and plan for making them available.

It should also detail how people are to be trained to deal with the events. The plan should set out in detail tasks that must be performed, assign responsability, establish emergency operating procedures and set forth lines of communication, both internally from the team to employees, senior management and board members and externally from the company to the media, public authorities, shareholders, financial community, suppliers and customers.

The plan states where and how to begin and limits the number of uncertainties. Thus it builds confidence and reduces stress.

One component is of crucial importance. During a crisis, a company will need to communicate with hostile media, government representatives, the financial community, customers and suppliers, attorneys and shareholders. The spokesperson is not only in the middle of the battlefield, but constantly in the public eye and controlling the message is one of the major ways to control the crisis.

Honesty is the most important rule in crisis communications.
If a company hides facts, discovery is likely to escalate the pressure, it certainly will destroy the company's credibility and affects its potential for return to its previous position.

3. Risk Escalation : Warning period

Before the eruption of a crisis, there is often a warning period during which a prudent and alert management has the opportunity to recognize the signals and events that increase the likelihood of disaster. Frank BIRD, already in 1939, confirmed that each accident is preceded by smaller incidents.
This warning stage is when the company has the opportunity to accomplish the most good at the lowest cost. Even if it cannot prevent the disaster, the company can gain a huge advantage by being aware and prepared for it.
Some well-known disasters can serve as examples. The "Herald of Free Enterprise" capsizing alerted the whole shipping industry on safety standards and operational procedures of ships carrying passengers and transport means. No doubt the Alaskan oil spill alerted the entire oil industry to similar possibilities.
Several oil companies recently announced tighter controls over their shipping operations. Likewise, after the explosion and fire in Pasadena, TX, many chemical and other firms reassessed their potential for business interruption loss.

4. Managing the crisis - Emergency Response

At this point, the damage has already started and more often than not, it is severe. When a crisis erupts, it requires immediate action and nothing should take precedence over the company's response to it.

Initially the source of the crisis must be **identified**, **isolated** and **measured** in severity as quickly as possible.
Immediate decisions and often all future ones, will come from this analysis. The focus now is damage control, which generally means protecting life, assets, property and environment as much as possible.

The emergency response period is the most fluid part of the crisis. Even at this early stage, the goals are to minimize operational interruption, reduce the financial impact and maintain vital functions. Although nothing should interfere with the crisis management team's activities, others should continue their regular duties as much as possible.

Keeping records of activities and even of the decision-making process, improves the ability to make decisions in the first place. It also helps ensure truthful recall for the questioning process that the media, government, shareholders, employees and many others will start much sooner and with more criticism than the company would like.

5. Disaster Recovery

This is when the healing process starts and when the search for answers begins. This is when the company will appreciate the full benefit of advance planning and when the company can confirm that the crisis turned into an opportunity or has to accept defeat.

The objectives during this crucial phase include minimizing the extent of disruption and damage and preventing its escalation.
They also include effecting a rapid and smooth transition to change operating modes and sites, frequently with reduced resources and ensuring the maintenance of critical functions.
The company wants to minimize the economic impact and to restore normal operations as quickly as possible.

Throughout the entire disaster recovery period, the organization will need to be certain of its relationship with the media, government regulators, the financial community, customers, suppliers, shareholders and employees. A consistent plan of comunication that presents the desired message will be of considerable assistance in restoring the public's image and faith in the organization. Full recovery is not complete until this restoration of faith is accomplished.

6. Return to normal operations: the as before situation.

This is the business-as-usual phase and it can begin when the emergency phase of the crisis ends - simultaneously with disaster recovery. The purpose of a crisis management plan is to help the company return to its level of activity before the disaster. This is an excellent goal, but it may not always be a practical or even a desired or possible end. Many factors - like business strategies, company needs, market conditions, the legislative and socio-economic climate - have probably changed.
New technology may offer an opportunity.

The return to normal operations is an excellent time to assess new risks and exposures, think over the crisis management plan, assess team performance and redefine crisis needs. The new operating environment and structure will suggest new priorities to consider.

Ladies and gentlemen, I would like to conclude as follows :

Crisis may hit every organization. When a company's response is ill-prepared, the crisis will often escalate into disaster.
When a crisis strikes, just having planned and organized for the inevitable, puts a company ahead of the game.
Having an accurate prevention strategy will further reduce the potential for having recourse to a crisis management plan.
As Fink found out in his survey, the organizations without a crisis plan experienced crisis that lasted two-and-one-half times longer than those experienced by companies with a plan.

I leave it up to you to figure out what cost factor this would represent and what impact it might have on your and on your corporation's future.

Thank you for your attention.