Corporate Crisis Management

Preparing for a Rapid Response to Unexpected Events

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Catastrophe, crisis and unexpected events are part of the business landscape. A quick look at the last ten years demonstrates the broad range, unexpected nature and sometimes devastating impact of catastrophic events on businesses, their shareholders, their customers, and the communities they serve.

Large scale crises, whether stemming from catastrophic events, managerial misconduct or other causes, always tend to have a significant effect on earnings and share prices. Companies may or may not recover from such situations. Some companies come back stronger than ever, but some companies affected by crisis have disappeared altogether, either through liquidation or merger, and some have suffered from lingering reputational damage.

In the past few years, we have seen an intensification and acceleration of crisis events, which is closely related to an increasingly complex and interconnected global operating environment for businesses. With companies looking at a much broader range of opportunities, often across a more diverse geography, it is not surprising to see emerging risks joining existing concerns. Among these growing ‘Drivers of Corporate Risk’ are:

**Resource Scarcity**
Spot shortages of energy, key metals, food sources, even water have characterized the decade, with significant risk implications for companies trying to balance supply and demand.

**Environmental Responsibility**
Companies are more often being held accountable for their actions by an increasingly environmentally aware public, as well as by rapidly changing national and multinational environmental regulations. This risk is compounded by increased weather volatility and severity related to climate change effects.

**Geopolitical Security**
In an age of numerous regional conflicts, expanding terrorism and shifting power centers, we see increasing impacts on business from political changes and instability at both regional and local levels. Such political risks affect business operations or investments across many parts of the world.

**Technology Dependency**
The rapid proliferation of digital and mobile communications has created numerous choke points that are susceptible to physical disruption, or, more and more often, to cyber-attack by individual hackers or by organized activist or criminal groups.

Alongside this multiplication of external risk factors, many companies have also taken on additional risk through their continuing drive for increased efficiency. Widely implemented business practices such as ‘just-in-time’

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.”

Warren Buffett
(‘JIT’) logistics, lean supply chains, and reduced redundancy in operations may increase efficiency and lower operating costs, but they can leave companies with little margin for disruption or error. Efficiency without appropriate attention to risk can potentially create fragility in operations.

Finally, the pace of technological change (widespread use of the Internet and mobile communications is less than 20 years old), along with rapid globalization and interconnection among economies makes it more difficult for traditional risk and crisis management practices to keep up. Companies often find themselves preparing for and responding to the last crisis, while pushing into new businesses without establishing the necessary safeguards against failure.

Risk management, more than ever, is one of the key strategic disciplines in this environment. However, rapidly changing risk profiles and the proliferation of new and different kinds of risk, along with unprecedented economic volatility, mean that companies must ask themselves directly: what sort of crises could we face? And, if an unexpected event strikes, how can we prepare ourselves now to position the company for recovery and future growth?
The negative effect on a company’s share price is only one measure of the impact of a crisis (alongside reputational and brand impacts, loss of revenues, fines, impacts on cash flow, and other repercussions) but this public and market-driven impact is frequently the most dramatic.

In Figures 1–3 we have picked a few simple examples to demonstrate this often stark effect.

The plots show examples of companies affected by a crisis event, represented in time by the red circle. Company 1 faced a crisis following a large and historically-common form of human catastrophe; Company 2 was exposed to a huge and technically-complex industrial accident; and Company 3 faced a global product recall following the failure of a key design element within one of its core products.

The companies are from different industries, and the specific industry-wide index of share values has been normalized and tracked against the individual company’s performance. As is almost always the case, the impact on share value following a crisis is not only negative; it is often pronounced and can persist over a prolonged period, despite the industry.

Other interesting aspects of these and similar data sets include:

**Multi-stage crisis events**

The demonstration of the multi-stage nature of many crisis events is shown in the cases of both Company 1 and Company 2. Here, we can clearly see two distinct phases of impact, and in the case of Company 1, its share value had begun to recover before falling dramatically away. The reason in both cases was a re-estimation by the public of the level of impact of the crisis and indicated that company responses were inadequate in relation to the actual scope of the issue. Significantly under-estimating the impact of the crisis may give the company short-term ‘breathing space’, but the facts will always surface.

**Big fish syndrome**

This is the subsequent industry-wide impact following either very-large-scale events or events affecting a predominant player in that sector. In the case of Company 2, the industry was similarly affected by the event before it began to recover, although the industry recovery took place faster than the specific company recovery did. The market capitalizations of various companies within that same industry were adversely affected through no direct fault of their own strategy or operations.
Note: Each figure illustrates the normalized share price of the company tracked against the relevant industry index. In each example, an initial plateau is reached between the onset of the crisis and the major share price drop (between 2 weeks and 1.5 months). This is the stage during which two things happen in the public domain; 1) external stakeholders develop their initial perceptions and reactions to the severity of the crisis, and 2) stakeholders form their basic opinion of the company’s responsiveness, either good or bad. Market analysts and other third party observers will ultimately provide additional insights that will have a bearing on the first issue, i.e., impact to operations, cash and the environment. However, public opinion on the company will be heavily impacted by those first few weeks and the initial perception of crisis response.

A good news story...

Companies rarely respond to such crises with the scope and intensity that is needed and expected from stakeholders during such events. We explore here the essential elements of high-performance crisis management. When such approaches are adopted, the company can develop a capability to respond positively to negative events. In the example of Company 4, the externally-visible public relations plan, including efficient crisis communications, implied a high impact ‘operational triage’ at work behind the scenes. This company worked to get their message out early and structured the communications, timing and content to help prevent escalation in the public eye. The communications were paralleled by an active operational crisis response effort to address issues themselves. Through these integrated efforts, the company leveraged the opportunity to defuse the ‘immediate impact’ through a well thought-out regional strategy to minimize the depth to which the crisis was felt.
Broadly speaking, risk management deals with the identification and assessment of risk exposures of a company, and the development of approaches to control those exposures in order to provide an optimal set of risk/reward tradeoffs. Strong crisis management capabilities are the logical extension of a holistic risk management approach and demonstrate to shareholders, customers, employees and the global market that management is able to deal with extreme circumstances and unexpected negative events.

Crisis events, whether natural or man-made, almost always have a negative initial impact on share value. Paradoxically, however, such events offer companies an opportunity for management to demonstrate their ability to deal with difficult circumstances. Effective crisis management can have a more significant benefit than hedging against the economic effects of the unexpected event. A strong demonstration of leadership in adversity can dramatically improve investor opinion and protect, or even improve, the company’s share price.

The only good crisis, of course, is one that does not happen, either because the company’s operating procedures reduce the possibility of adverse events, or because early and effective response to a potential crisis solves the problem without undue harm to its people, assets, reputation or share price.

Crisis management is one of the logical elements of risk management planning, in this case picking up where planned mitigations have failed. Many crises stem from problems which pre-date the proximate cause of the crisis or emerge as a result of cascading and compounding events which lead to an ultimate catastrophic failure.

The company’s board of directors and senior management need to make building the crisis management capability a high priority, with appropriate funding, resources and attention. Ensuring that crisis management capabilities and planning are in place should be one of the expected performance factors for leadership.

Accenture has identified four essential elements for helping to achieve high performance in crisis management.
Prepare for unexpected failures

Crises usually occur because some aspect of risk management has failed. Crisis management needs to be an extension of the overall approach to risk management, not a distinct activity. Integrating both of these activities with the business is essential. Just as risk management should be treated as a key business process, inseparable from other aspects of the business cycle including sales, manufacturing, and distribution, so is the case with high performance crisis management.

First steps to high performance

Conduct robust scenario planning

Every crisis is different, and it is impossible to anticipate exactly where, when and how one or more adverse events might turn into a full blown crisis. However, through a combination of scenario planning and risk exposure analysis, it is possible to better prepare for various types of events by challenging assumptions and highlighting both the range of possibilities and potential capability gaps (or strengths) in dealing with them.

While scenario planning is a fairly well-developed discipline in some industries – including chemicals, energy, and transportation – such planning does not always integrate valuable risk exposure identification and driver analysis coming from other internal processes. By bringing risk root cause/driver analysis from other risk processes into scenario planning, an additional dimension of potential vulnerability is introduced, which helps focus attention on potential ‘white space’ (unaddressed gaps) in processes which can allow event escalation. This dual approach can help establish a robust set of considerations for use in building resilience to crisis events. The goals of these initial steps are to:

1) challenge current planning assumptions about what ‘might’ happen to test robustness against what ‘could’ happen;

2) proactively identify types of capabilities and processes that could prevent or mitigate crisis situations; and

3) create a seamless interaction between normal risk management practices and crisis management, increasing awareness of developing situations and response effectiveness.

The path to best-in-class

Leverage analytics to drive prediction

Use predictive analytics as a decision support tool to drive a forward-looking analysis of scenarios, response effectiveness, and critical correlations that can complicate or escalate events. Better understanding of the drivers of extreme events, whether external developments or internal process interactions, can help build a robust, flexible and dynamic crisis management program. The objective for enhanced analytics is not to predict events, but to help companies develop more meaningful warning indicators, and an increased awareness of their leverage in preventing or managing ‘runaway’ crises.
First steps to high performance

Prepare crisis management structures and plans

While crisis management has a number of major elements, it takes two main dimensions: internal and external.

Internal crisis plans should focus on operational elements and should determine who needs to do what in a crisis situation both to protect and maintain operations, as well as prevent escalation. Responsibilities should be clear, with senior executive oversight as appropriate. Often the ‘traditional’ crisis management plan takes the form of a thick folder, gathering dust on senior executives’ shelves and providing little business support. What is required is primarily a business exercise, not a risk one, which will subsequently allow anyone in management or on the board to know immediately their own role and the roles of others during a crisis.

While it is inevitable that some form of key documentation will be required, it is the process of developing this which should be the first step of embedding crisis management in all layers of the company. This process will prompt numerous questions about roles and responsibilities, helping make the approach more business-focused, practical and appropriate for real-world situations. It will then become easier for subsequent actions to become hardwired into business processes and management decisions, making the crisis management plan operational throughout the company.

The external crisis plan focuses on communications and information flow, with particular attention to the public, investors, media, regulators and government authorities at all levels. The plan should reach broader audiences such as employees and customers, as well. There is a need to make a distinction between the target audiences (e.g. public, investors, regulators) and the mechanism groups (e.g. media). There is a message component and a method component.

The path to best-in-class

Develop the long term vision

Map out a master plan to develop fully integrated crisis management capabilities which are embedded in operations, codified in business processes, founded in risk management planning, and executed via real-time systems. A coherent and phased roadmap to this crisis management end state will enable increased capabilities while supporting maximum protection available at any given stage of development.

Ensure that crisis management operates across structures, functions and divisions, both vertical and horizontal

The crisis does not care how the company is structured. In any real crisis situation, problems quickly leave organizational confines and become the concern of the entire company. Crisis management, therefore, must be established in such a way as to be effective across different operations and functions.
Recognize the crisis as early as possible, and take quick, decisive action

There are numerous examples of crises that could have been headed off if identified and acted upon earlier. While there may be operational penalties for inaction or late action, there are even more significant reputational consequences from being seen as hesitant or indecisive. The company should start positioning itself for response, recovery and growth as soon as the crisis is identified.

First steps to high performance

Develop the ‘A-team’ for crisis management

Reacting quickly is hard. But early recognition is one of the key determinants of effective crisis management. Ensuring a close interlock with the risk and operational indicators within the business is an effective method of achieving this. Identification of potential crisis situations must be thoroughly incorporated into scenario planning and ultimately into operational processes.

In a crisis environment, events often move too quickly to allow for exhaustive review and multiple levels of approval. One of the major factors in effective crisis management can be the prior development of a small, centralized team with communications access to key executives, department heads and board members (‘A-team’).

This central ‘A-team’ should be thoroughly prepared for dealing with a range of crisis situations and should have ownership of both the internal and external aspects of the crisis management plan. Contact information for operational, legal, financial and regulatory resources should be incorporated into the plan. Back-up or alternate resources for team members should also be identified and briefed as part of the plan, and one (or more) board members should be part of the process of developing this ‘A-team’. The team will also be responsible for leading the exercises and testing of the existing crisis management planning. The exercises should take the learnings back through the processes to ensure that with each refinement, the company is increasing its capability.

The path to best-in-class

Get the best out of your ‘Golden Hour’

In emergency medicine, the ‘Golden Hour’ refers to a period of time following a person’s traumatic injury, during which there is the highest likelihood that quick medical treatment will prevent death. Tie your response planning to a ‘Golden Hour’ should unforeseen scenarios strike. Your actions in this initial window often determine how your efforts are later judged by the public – plan well ahead what your first steps might be.
Communicate thoroughly, effectively and frequently with all audiences

Company management cannot prepare for every conceivable crisis. They can, however, prepare a communications framework that will facilitate rapid communication and rapid response to changing events.

First steps to high performance

Integrate real time communication and analysis to align management perceptions and commentary

Organizations should ensure that those who may have to speak to the media are thoroughly trained in how to handle tough questions both in formal media and ‘off the record’, convey key messages and avoid embarrassing sound bites. Additionally, in this age of continuous recording and video (e.g., cell phones) it is critical that company staff learn how to talk about crisis events no matter where they are, or with whom they are speaking. The concept of ‘always on’ communication is truly the norm today and staff need to be prepared to manage this new reality.

In a 24/7 media environment, a company’s performance in the media arena is carefully evaluated and becomes an important element in how audiences judge overall crisis response. In a crisis situation, the perception of the way the company is handling the crisis becomes reality as experienced by external stakeholders including media, government officials, customers, employees and shareholders. Crisis management can be said to deal with the reality, while crisis communications manages the perceptions so that they are consistent with the true situation of the company. Both crisis management and crisis communications, however, play an important role in determining if and when the company regains lost shareholder value.

Mechanisms to increase alignment might include internal (encrypted) text alerts to inform management on messaging changes and dedicated communications coaching staff to provide ongoing support to multiple leaders, versus point in time advice. These can help support the critical goal of ensuring that messages are both comprehensive and factually correct; because public statements based on incomplete knowledge can soon negatively affect the public image of the company.

The path to best-in-class

Prepare your people to a greater depth

Ensure all leadership is trained in speaking with media and the public in general; understands clearly who is authorized to speak for the company and what the messages are; is directly supported by public affairs and legal; and regularly participates in filmed communications practice exercises. Effective communication is the result of planning and practice.
Crisis management is a core business process, not a one-time event. Crisis planning should evolve with the organization’s own strategy, focus and people. Once a crisis occurs, however, the organization should be ready to act on two levels: first, to contain and control the immediate damage; and, even while this is taking place, to begin the process of recovery and growth. Crisis management is also a logical extension of a well-formed and comprehensive enterprise level risk management program. As noted earlier, crisis management picks up where the previously developed risk mitigations have failed, and should therefore not operate as a silo or stand alone process. Additionally, when crisis management planning is coordinated with other enterprise level risk efforts there is a much greater likelihood that the ‘white space’ between organizational structures and business processes will be identified and managed.

Protecting the employees, shareholders, and the public is at the heart of good risk management. High performance crisis management helps to make sure that when events begin to move beyond your initial plans and efforts, there is a credible backstop to rely on. It prepares the company for future growth even at the worst of times.
This publication outlines four essential elements which a company should adopt on its journey to high performance crisis management. From successfully preparing for the unexpected, through to ensuring a robust crisis communications approach, implementing these elements (and sub-components) will not only help reduce the immediate impacts of crisis events, but will help position the company to rapidly recover and benefit from the event, leveraging the situation for future growth and competitive differentiation.

At Accenture we know, from examples across our global business, that integrating crisis management within a consistent and complete risk management framework can lead to high performance. In working with clients, and drawing from deep industry insight, our experience indicates that adopting these practical elements can yield measurable rewards for the company.

Accenture can help businesses on their journey to high performance through crisis management. We can be with you anywhere on the continuum of risk and crisis management models. We can offer a team of people with deep global and industry experience—people who are pragmatic in their approach. People who can provide insight and guidance on how to put strategy and risk management together for a company—and make it work. We know how to help you use these elements for all they’re worth—and assist in moving you closer to becoming that high-performance business you want to be. If you’d like to find out how we can help do that in your company, please contact us.

What Accenture can bring
“I have always found that plans are useless. But planning is indispensable.”

Dwight D. Eisenhower
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