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Managing Crisis Situations: No Company is Immune - How to Deal with Disaster

Companies should create detailed plans and guidelines to handle worst-case business crises, but disaster planning is the ultimate key.

Richard J. Maturi (Spring 2011)

The recent earthquake and tsunami that devastated Japan remind all corporate executives that crisis management programs are crucial to their operations — and possibly their survival. A major crisis can severely impact your operation; damage relations with customers, suppliers, and the public; and even drive you out of business.

Crises can take many forms. Natural disasters, as in Japan, often receive intense news coverage. But other crises can also take a toll on your company. Industrial accidents, a devastating fire, financial disruption, management scandal, government intervention, labor strife, white-collar crime, physical accidents like explosions and chemical spills, and workplace violence can cripple your business.

“Any manager who thinks his or her company is immune from a crisis situation is only fooling themselves and putting their company in jeopardy,” says Larry Smith, president of the Institute for Crisis Management (ICM).

“While most crisis situations appear random and sudden, it’s the failure to recognize potential problem situations and accept their probability that puts companies of all sizes in jeopardy,” he says. “Two-thirds of all business crises are what I call ‘smoldering crises,’ the kind of issues and problems that start out small and could be spotted and fixed before they get large and out of control. You can plan, prepare, and minimize.”

Crisis management events created by outside forces only account for 19 percent of the total, according to ICM’s 2010 Annual Crisis Management Survey, while executive and management account for more than half of crisis situations, and employees the remaining 30 percent.

“Companies must take a proactive stance and use forward-thinking crisis management planning as a positive tool to manage their business and lessen the impact of crisis situations. Companies need three crisis management plans: operational, communications, and continuity/recovery to return to normal operations,” Smith says.

Setting Out

When establishing an effective crisis management program, first thoroughly review your business and operations to determine crisis risks particular to your company. For example, what risks are associated with your location, type of operation, and supplier base?

“Recognize that you may not have the expertise in-house to establish your crisis management program,” says Andy O’Hearn, a communications consultant who established Reckitt Benckiser’s North American crisis management. “You may have to lean on outside crisis management professionals to get your program up and running. Find seasoned crisis management professionals and put their brains to work for you. Have them walk you through various crisis situations point-by-point.”

Brainstorming the five worst events that could damage your company and how you would handle them can also be fruitful. Besides professional and your own expertise, you can also gain knowledge from industry trade groups.

“Front and center, look at all of your business’s critical assumptions,” says Sandy Pundmann, an audit and advisory partner at Deloitte. “In the age of cost-cutting, companies have moved to [fewer] suppliers and have assumed greater risk in the process without realizing it. Company management needs to sit back and assess their risk dependencies, and assess how prepared it needs to be.” (Read Deloitte’s Risk Intelligent Enterprise Management paper for more information.)

Pundmann outlines three pitfalls:

- **Precedence:** “Management relies on the fact that it has never happened before,” Pundmann says. “History is not a predictor, as the management of TEPCO [Tokyo Electric Power Corporation] found out.”
- **Speed:** Management needs to deal with the situation quickly before letting social media and the 24/7 news cycle turn a minor crisis into a major problem.
- **Preparation:** Failing to prepare for an issue can turn it into a crisis — and bad publicity. “Management needs to be prepared to handle all situations,” Pundmann says.

Create a Plan

Once you have assessed risk, management must develop a plan based on risk tolerance. Crisis prevention and control procedures form the basis for crisis management plans. For example, if operations are susceptible to fire, be sure to regularly inspect alarm systems and fire fighting equipment to make sure they work properly and are in their proper places. Likewise, personnel training and fire drills will insure a prompt response to a fire.

“Crisis management plans are not only for the corporate office,” says Carlos J. Cortez, manager of Kraft Foods’ Global Security Program. “Threat management teams at the local plant level need a good understanding of the overall crisis management plan to properly respond to a local crisis.”

Deloitte’s Action Plan asks three key questions:

- How will we know if a risk is imminent?
- How will we respond to specific risk events?
- How can we appropriately allocate our risk management investment?

While Deloitte uses a matrix approach to help clients develop crisis management programs, any method you use must be comprehensive.

Make Your Message Heard

Developing effective communications is a third key to effective crisis management. “You need to first define the nature of the crisis. Make sure you know you are addressing the root of the problem and not symptoms before you make misstatements,” Smith says.

O’Hearn advises against both jumping to conclusions and letting the problem fix itself: “Both are big mistakes.”

“Be frank with your audiences,” he says. “If you can’t make a delivery to a customer, be up front and try to find a replacement supplier if possible. Your actions will be appreciated.”

Tailoring your company’s message to the appropriate audiences is another critical component, Smith says.

“Companies have several audiences that must be kept informed, but each audience requires different information. It’s important to remember that the press is not an audience; it’s a conduit to reach some of your audiences. The first 48 hours are crucial in a crisis situation.”

And don’t deny that the crisis is occurring at all.

“Create a culture of candor by being open and transparent,” says Bill George, a management practice professor at Harvard Business School. “If you don’t know the extent of the crisis, say so. Don’t pretend everything is under control when future events will prove you wrong.”

Finally, make sure your crisis management plan incorporates periodic reviews to ensure your plan is up-to-date and takes into account new circumstances.

Realistic Threats

While natural disasters, such as the Japanese earthquake, grab the world's attention, they are a rare threat to corporate operations and survival. "There's a whole other side of crisis management that may not generate as much worldwide coverage, but can be just as deadly to your company," says Jon Groussman, president of CAP Index, which forecasts and analyzes crime and security risk. "Workplace violence, sexual assault, stolen corporate documents, and a host of other problems can turn into crisis situations which affect employee morale, tarnish your brand, and cut into your bottom line."

Timothy Dimoff, president of SACS Consulting & Investigative Services, calls this, "a new era with more violence and aggression in the workplace."

"Employee-on-employee confrontation has increased tenfold in the past six years," Dimoff says.

Specialty chemical maker Lubrizol is already creating policies that incorporate these strategies.

"We're starting to integrate security risk into our overall crisis management program, and plan to roll it out to all U. S. plant sites this year," says Tom Scott, Lubrizol security manager. "We're training employees to spot warning signs, concentrate on prevention, and know how to respond to workplace violence in order to protect themselves and others."

Taking the time to make an effective crisis management plan is half the battle. You can't prevent every disaster, but you can be as prepared as possible to deal with the aftermath.