

CRISIS LEADERSHIP IN SUCCESSFUL RESOLUTION
Mastering the Business Game of Snakes and Ladders
24 March 2004

A lot of trouble in corporate Australia comes from some very human failings. Indeed most recent crises have stemmed from executive mismanagement, poor management decisions at best, and not operational emergencies, or anything to do with Business Continuity. Of the collapses in the last 30 years; certainly of the 3 to 4 companies that fail each year, most incubated their crises, and that it simply required an internal or an external trigger to get them going. Some 40% of recent crises actually resulted from announcements that companies made themselves, as opposed to the 60 odd percent of stories that originated in the media. Why do investors put money in something they are not sure of? Ask yourself this question..... If you are a business leader in your company, do you get paid for what you do today, or for what you may have to do tomorrow?

Crisis Management is a subset of Business Continuity management? Who thinks this is the case.....like most banks do? We work with many companies, some who regard crisis preparation as a subset of Business Continuity, and others who understand crisis leadership to be the tool when line management fails. We find that those companies that follow the first philosophy, financial institutions in particular, get locked in paperwork; some of these volumes ending up as door stops for explorers of business continuity. Those that take the holistic view to risk issues, generally have thinner contingency plans, and understand that it is *wetware (point to head)* and not software, and NOT hardware, that will allow them to treat some risks as opportunities. Ladies and gentlemen, there is no ISO on Crisis Leadership, and we predict that there will never be a business standard for managing failure.

....Now ask yourself this question, if you know something is about to happen, is it a crisis or not in your terms, or just a Business Continuity problem? For example how many of you knew that the Bali bombings would happen? And who used the Bali experience to extrapolate further to a Madrid possibility? Who had to think that planes could crash into the stadium at Homebush Bay during the Olympics or that a ship could have been driven up on to the seaward runway at Sydney airport? I will answer that. The other side does at business discontinuity conferences and the authorities of that time clearly did, because we had contingency plans for both. In the same way, business resilience is planning for what you do know could happen, and they are all about taking you back to the retrievable past; the safe status quo. In our experience these plans are never perfect; indeed they are hardly ever used in true crisis situations, and this is why Crisis Leadership is called for. Crisis leadership is planning for what you do not yet know, in the same way that funds are given to NASA because we don't know what we don't know. It is a process of leadership which underpins the future, and not the past. It is about exploiting the opportunity of the open paddock beyond, rather than fixing the hole in the fence.

Crisis champions and explorers of business continuity alike, this session is about things you cannot see. Visualize a Canberra fog, some 3 kilometres across. Business Continuity is a management tool about getting back to the start, to the bottom of this pyramid. Crisis management is about getting through to the end, to the top of this pyramid..... but it is not enough. Crisis Leadership is getting up into the air and seeing that that the fog is only 3 kilometres across in one look. This is vision... and it has to happen in the boardroom. Just as business thrives on instability, there is plenty of room at the top, and the best companies practice Crisis Leadership to keep them in business no matter what happens. These companies recognise that they cannot afford to be without it, just like that Eskimo who can roll his kayak in any sea, Crisis leadership is preparing to confront what you do not yet know. Corporate governance is the strategic response to risk and Crisis Leadership is your strategic reserve.

When we run simulations, we always ask for the profiles of commercial exposures and operational risks so that we can build scenarios around credible events or issues. We invariably find that what appears in these profiles, often driven by insurance requirements, is not what truly causes CEOs to toss and turn at night. Environmental pollution/Product defect/Unwanted takeover/Sabotage Death of senior manager/Kidnap of senior manager/Computer breakdown/Industrial dispute/Fraud Indeed in the last ten years this is what companies thought they should prepare for.....White collar crime/Labor disputes/Company mismanagement This is what actually caused just about every corporate crises in the western world during that time. Sexual harassment/Class action lawsuits/Executive dismissals/Hostile takeoverAnd this is what recent research has found. These are the growth areas for crises. Interestingly almost 50% of Australian companies experienced sophisticated economic crime, theft and misappropriation of assets over the last two years. How does this compare to your organization? And if you just felt okay with your own organization.... How do you really know? The point here is that if you know it is a parlous situation already, it is probably not a crisis.

It is our experience in preparing companies to deal with failure that simulations have an unintended bonding effect when staff are empowered to do their utmost to protect the organization, and managers are given the opportunity to display commercial bravery in front of staff, peers and employees. In racing, if you feel everything is under control, you are not going fast enough. In business if you cannot solve problems, you are playing by the rules. It does not mean that you are going to crash, it's just that you are not going fast enough. Less success than your endeavours deserve. For this reason you have to be on the front of the wave to lead in business.

Simulations are designed as much to raise issues as they are to solve them. A petroleum company who occupy the same building as a US Consulate, prudently practiced a building evacuation. It too over two hours to regroup their staff as it is not possible to muster everyone in the street after an inner city disaster. Should you be concerned if you do not have such a plan for terrorism at a mass-gathering of your company?

A leading bank practiced the loss of their main processing centre. The CEO announced this problem at a routine monthly meeting and the team swung into action. A very impressive performance with key executives in the UK and New Zealand, and another sick in bed all contributing to the development and implementation of strategy under pressure. In planning this activity we learnt the greatest lesson. The processing centre resembles Fort Knox, but we able to walk around the corner and prove that it was possible to enter through a section on non-armoured glass. More importantly we learnt that while all of the banking transactions could be cutover to another facility within an hour, the technology could not allow this to be reversed. Their plan was based on a one-way solution and this finding saved tens of thousands of dollars. So ask yourself this question..... Should there be security or Business Continuity clauses in all contracts with your suppliers?

Among the large companies we work with is one that chose to practice a raid by the Consumer and Competition Commission over allegations of misuse of market power. It had actually happened to a competitor, and so they prudently went about exploring their response should it happen to them..... It is always valuable benchmarking to compare and contrast the vulnerabilities of different companies. The top risks for an international oil company are the loss of just one trade, and oil spill to state the unusual and obvious together. Their commodity traders are so commercially skilled, that they are not easily replaced, and the loss of market share is potentially huge. As far as oil spill is concerned, how much contingency planning is enough? Well, it was decided that as long as they spend more than their competitors... that this was enough.

A mining company recently went through a demerger and now finds itself as an attractive takeover option, and as a consequence has produced a hostile takeover contingency plan. One does not often come across that sort of business resilience planning. Another international company has a problem with the distribution of illegally imported true products, and the distribution of false products which almost constitute 40% of their market. That is a perilous situation to be in, you must admit. Another top company we work with was very concerned about senior leadership succession issues, and decided to conduct an insider trading scenario to see how the management team would react when one of their fellow members was arrested as a result of a Stock Exchange investigation. It is very hard to prove these situations, but none the less there was much blood spilt on the boardroom floor, and a plan is now in place. It is no wonder that Director Insurance premiums have gone through the roof. It can work in your favour sometimes though, like an international construction company who found it was able to justify a reduction in other insurance premiums through active crisis prevention. Ask yourself this question....., is it possible to reduce Director's insurance premiums or other premiums in your organization through demonstration of Crisis Leadership?

There are essentially two approaches to making your company resilient. You can either use Crisis Leadership to develop strategy under pressure.... or you can first work up and apply an existing Business Continuity plan as a basis for the former. Many resilience planners get bogged down in detail, and it is important to not end up with huge amounts of documentation that easily become outdatedor which is too hard to apply to changing situations..... Ultimately if you want to practice problem-solving, you must conjure problems that you have not solved before.

In solving business discontinuity, Crisis Teams must find the facts, check and double-check the facts to identify the stakeholders and issues, and then to develop and implement strategy under pressure..... There is no other successful style of management when you need to engage multiple stakeholders simultaneously, and for which failure is not an option..... To succeed within stakeholder deadlines, information is your most important resource, truth is your most important value, and speed is your greatest enemy..... The transition from reactive back to proactive management requires highly disciplined team sessions, interspersed with timeouts to engage stakeholders.

Your executive team should be small enough to be effective....big enough to be representative.... and senior enough to be compelling. You should encourage colleagues with different perspectives to speak up because in crisis everyone needs to pull together as a team..... Guard against the business adviser who is all-powerful in understanding the intricacies... and who under pressure in a team many want to become the leader. Lawyers also need to be chosen carefully, as you need counsel who does not work in secrecy, who can work quickly, and in a team with corporate affairs. Corporate affairs advocate telling it all, telling it fast and telling it truthfully. Lawyers will advocate saying nothing, doing nothing and admitting nothing.

Having advised many crisis teams, it is obvious that we virtually need to use disasters to catapult us into the future. We see far too many managers who are apprehensive about transitioning from line management to crisis leadership. This is a manifestation of their recovery thinking, designed to return an organization back to the retrievable past, or the previous status quo. There is no leverage in that. Business Continuity does not cater for, or take advantage of dangerous opportunity. These emergency planners see the hole in the fence, but not the open paddock beyond..... From this perspective, next level crisis management, is also just a sophisticated safety net. In many ways it is just assurance when you do not have insurance;a mechanism for seeking to maintain the present and immediate future. But just as leadership is about the future, so is crisis leadership thus getting 'back to the future'..... Whereas best practice in controlling crises used to be getting back to the past, the status quo, now best in-class is inspiring the organization back to the future..... Ha future of your own creation through the vision of leadership. Having the competence to return situations to normal, is just not enough in these multi-competitor times..... Crisis leadership is looking for the location and challenges of the next jungle, not just sharpening the machete, nor checking the compass for the current one. ...Crisis Leadership Teams can even be successful in the current global security environment, as long as they apply what we call "beyond bin Ladin" thinking to meet and turn crises to your advantage.

In directing the company, language and symbolic communications will become more important. CEOs will use such expressions as 'it will be this way' or ' I see it happening this way ' in articulating strategy to their colleagues. Whatever the nature of the crisis, you must maintain your ability to keep thinking, and not become entangled in anxiety that threatens to overtake you.... You must develop a solution, and articulate it through raw displays of leadership..... Remember your staff and employees are looking at you, depending on you. Anxiety is contagious..... but so is calmness. Panic is contagious.....so is leadership. As Henry Kissinger, the arch Crisis Master said, do you have any questions for my answers?