

CASE STUDY: AUDITING THE TITANIC:

Understanding how Business Continuity and Crisis Management Fit Together

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"When anybody asks me how I can best describe my experience of nearly forty years at sea, I merely say: 'Uneventful'. Of course, there have been winter gales, storms, fog and the like, but in all my experience, I have never been in an accident of any sort worth speaking about. I have seen but one vessel in distress in all my years at sea...I never saw a wreck and never have been wrecked, nor was I ever in any predicament that threatened to end in disaster of any sort." Captain Smith, Captain of the Titanic, 1907.

When the Titanic sank in 1912 on its maiden voyage, almost 1500 lives were lost, including Captain Smith who made these comments some five years beforehand to the New York Times. The ship had everything from stem to stern, including emergency plans, but they were never tested, nor were the lifeboats. The world was stunned by this massive disaster and it led to the first International Convention for the Safety of Life at Sea in 1913. The convention introduced new regulations, so ships would test their emergency plans to a far greater extent, have sufficient lifeboats, and maintain a continuous radio watch.

We continue to live in a world exposed to the impacts of these low probability, but high consequence events. Indeed, wanton hazards have become an inevitable, almost natural feature of our everyday lives. Hardly a day goes by without the occurrence of a new crisis so how does business continuity and crisis management fit together?

In 1907 when the MD of the White Star Line, a wholly owned subsidiary of the International Mercantile Marine Company, made the decision to build three of the largest ships in the world, no one envisioned one of these scraping against a solid object for 100 metres. With the benefit of hindsight, who agrees with the British Court of Inquiry's finding in 1912 that the loss of the Titanic was due to collision with an iceberg, brought about by the excessive speed at which the ship was being navigated? Perhaps few of us have read the British report; more likely our opinion is based upon the movie. Those fifty words were in fact the extent of the main report albeit the Annexes were 74 pages long. Many claim that the British report with so few words was a whitewash with no person named as being responsible, and the lightweight treatment afforded the Board of Trade which was responsible for regulating ships at the time.

Others feel that the British report was far too kind to Captain Smith as it found while his acceleration into a known icefield had been a grievous mistake, it was not negligent because he had followed the established custom and practice of not slowing down for ice warnings in clear weather. However the court did say that such conduct would be negligence in any similar case in the future. This is as near as the British Inquiry came to blaming anyone for the regulation, construction, operation and navigation of the Titanic.

We know now that the triggering event for this crisis was the steamship's management attempt to establish a new speed record on her maiden voyage. It was the saving of three hours that cost some 1500 lives. Could that happen today?

Interestingly the Managing Director of the White Star Line is not held responsible for the ship's high speed. In fact, he is barely mentioned in the report. You would like to think that a modern day inquiry would comment that thirty-two more lifeboats, costing \$16,000, could have been stowed away without being noticed on the broad decks of the Titanic, and that this might have saved everyone. There are few other modern disasters due to the neglect of so small a business continuity budget.

Just like the Steamship management, most trouble in corporate Australia still 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 3 to 4 large companies that fail each year, most like the White Star Line and the British Board of Trade incubated their crises, and that it simply required an internal or an external trigger to get them going.

The last few years have been years in which scandals have dominated the headlines. Dodgy accounting has been rife and each new story has a background of bosses being paid too much. The public can only but conclude that typical chief executive would be more appropriately employed on chain gangs. The International Mercantile Marine Company was actually an American-owned collective of smaller sailing lines and fortunately the US Senate produced a far more rigorous report requiring every ship to carry sufficient life-boats amongst other regulations.

So ask yourself this question? Is the bar on corporate governance with respect to Business Continuity and Crisis Management being raised high enough in Australia?

There is no doubt that if you audited the Titanic today, you would find regulators demanding financial transparency and more responsible management of its organizational risks. Investors are highly impatient when companies fall short of financial expectations, and the market is more focused on accountability from boards. Companies we work with are finding that if their governance practices are not adequate, they risk sharp declines in share prices, inability to raise capital, de-listing from stock exchanges, and legal action.

Ask yourself this question? Is it conceivable that in future, companies will not be allowed to list on Stock Exchanges if they do not have a Business Resilience Plan for their interdependencies let alone risk management frameworks? Maybe some of you think that there is too much emphasis on corporate and civic governance and that it will suffocate your firms and organizations with bureaucratic rules? Do any of you feel like that? Inevitably the business cycle and scandal cycle will sour again, but it has proven that good corporate behaviour combined with a healthy appetite for reasonable risks is the way to go. This combination creates real wealth for shareholders, employees, customers, and even for top managers who do not cook the books. Under these circumstances, speed may indeed have benefited the White Star Line's wages, turnaround time, cargo, and passenger receipts. From a marketing perspective, even though the Titanic only required three smokestacks, size was of such importance, that a fourth was added so that the public would not perceive competitor's ships, like Cunard's with four stacks, to be more powerful.

The best CEOs and Boards understand the value of a board which supports the CEO with difficult decisions, whether the termination of a high-profile executive, a change in strategy, or a controversial acquisition. Boards typically compromise former CEO, accustomed to running their own show; less so working as part of a team. Altering board culture requires the chairman to take an active lead to break from the routine agenda. To discuss the real issues can be very challenging. In the case of the Titanic once ice was located on both sides of the lane in which she was travelling, no discussion took place among the officers, no conference was called to consider these warnings, no heed was given to them. The speed was not relaxed, the lookout was not increased.

Many governance practices address the design aspects of a board, and neglect composition, when it is obvious that a sound relationship between board members and the CEO leads to meaningful agendas, shared appropriate information, and trust in the board to challenge the CEO. Most statutory requirements focus on the oversight role of the board rather than its duty to provide the company with strategic direction. Leadership is required in the real sense of the word and directors can no longer claim to be profoundly misled. We know now that the Titanic was designed as a hotel, a virtual floating palace, rather than an ocean liner. It is largely for this reason that while it had been designed to carry 48 life rafts, 28 of these were rejected by the White Star line because they made the boat deck appear too cluttered. The perfect ship was no longer the best built, but rather the ship that made the most money. In this way stewards could serve passengers more easily with doors cut in watertight bulkheads. In fact, the grand staircase required a spacious opening at every level making a watertight deck impossible, and a double hull would take up valuable passenger and cargo space so a double bottom was considered enough. These were Board decisions, so ask yourself this question? Is appropriate information being brought to your attention in your company?

Risk is unavoidable, but it is how you manage risk that can make the difference between success and failure. So ladies and gentlemen, having a crisis capability, a last-resort risk treatment, is all about being able to sleep at night, or being able to Eskimo roll a kayak in any sea. Crisis planning is a process of continually asking "what if" a set of problems hit. Ships are safe in harbour but that is not where they are meant to go, so we encourage you to use the red card like they do at the football if you do not agree. We all have different experiences and if yours is totally the opposite, then please speak up, because in a crisis we need to pull together as a board and executive team and you need to voice your opinion if Directors are off track.

Consider the Titanic, which was claimed to be unsinkable. Clearly the Steamship Management focused on the wrong areas. They did not try to find what could have gone wrong. They did not ask the right questions of the right people. We now know that a cup of tea with Captain Smith, even with his 26 years experience would have focused on the acclaimed early arrival rather than the absence of lifeboats. Indeed the opportunity of a celebrated early arrival would perhaps have even blinded the MD to the accompanying risks. A governance committee may have yielded more honest results with those of a less vested interest in an early arrival. We would have found that processes and machinery were untested, that an iceberg warning had been received (in fact, three distinct warnings), that crew on lookout did not have binoculars, and that perfect weather was ideal for speed but not good for iceberg spotting. We would have found that the supposedly water-tight compartments were not water-tight, because of the non-water-tight condition of the decks, contributing to 500 deaths. We would have found that the crew were only just acquainted with their duties in an accident and only one drill was held before the maiden trip. That would have led us to realize that there were not enough lifeboats, or that there was insufficient emergency training and signs.

It is interesting to contemplate if modern day BC attitudes and planning would have rectified these risks. As it stood the number of lifeboats carried by the Titanic exceeded the Board of Trade's requirements as lifeboat capacities at the time were based on a liner's gross tonnage, and there were no mandatory rules for lifeboats rehearsals or crew musters. In 1900, lifeboats were only considered to be a means of transport from one ship to another. It is a somewhat like the manner in which business views security today, where few businesses see security as a contributor to profit. Just as the retrofitting of a double hull to the Titanic's sister ship became an affordable cost and not an impossible or extravagant cost, I predict that it will take a crashing disaster in Australia for business to value the security dividend.

If we then chained the separate risks, our governance committee would have found that an iceberg warning, plus millpond conditions, plus no binoculars, plus high speed significantly increased the probability of a collision and that the Captain may have been forced by the logic to take precautionary action. Perhaps we would not have found that the unsinkable design was flawed or that the rudder was undersized, but we would have found that most of the knowledge about risks and controls were resident within the crew and that unchecked authority was vested in the Captain who had no crisis plan. It is for this reason that the best boards these days provide strategic direction in a constant process of tension and dynamism with the executive.

Regrettably, more Titanics may be needed to really make Directors understand what needs to be done, even with UK research showing that board performance can boost share price by up to 20 percent and provide fundamental improvements in the generation of revenue. Accreditation of Directors is becoming a best practice issue with some insurers offer 25% premium reductions where a certain number of board members are accredited. This reflects the new professionalism of the director role in policy formulation, strategic thinking, and accountability. It also reflects the demand that directors provide value for money and in the UK, director's remuneration is subject to shareholder vote.

Why then do investors often put money in something they are not sure of? Ask yourself this question. If you are a business leader in your company or organization, do you get paid for what you do today, or for what you may have to do tomorrow?

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 is overwhelmed. 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 and not software, and NOT hardware, that will allow them to treat some risks as opportunities.

There is no ISO on Crisis Leadership, and we predict that there will never be a business standard for managing failure. We find it wanting that the Standards Australia Handbook on Business Continuity Management paints the crisis component as just one part of the process, whereas the best companies use it as the overarching management tool. 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 or Martin Place 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, the dark side, does at business discontinuity conferences like this one and the NSW authorities of that time clearly did, because we had contingency plans for both. Just as one would hope that there is a contingency plan for a dirty bomb here at Darling Harbour. In the same way, business resilience is planning for what you do know could happen, and these plans are all about taking your business 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 that 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.

Ladies and gentlemen, crisis champions and explorers of business continuity alike, this session is about things you cannot see. Visualize a 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.

As Crisis Practitioners, 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. Indeed in the last ten years this is what companies thought they should prepare for. Environmental pollution/Product defect/Unwanted takeover/Sabotage Death of senior manager/Kidnap of senior manager/Computer breakdown/Industrial dispute/Fraud

Now have a look at this. White collar crime/Labor disputes/Company mismanagement. This is what actually caused just about every corporate crises in the western world during that time. And this is what recent research has found. Sexual harassment/Class action lawsuits/Executive dismissals/Hostile takeover. 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 car 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, its 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 that occupies the same building as a US Consulate, prudently practiced a building evacuation. It took 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 were 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 ACCC 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 trader, 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 de-merger 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 that 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?

Interestingly the US Senate found Captain Smith negligent and the New York District Court received claims for \$16M. The White Star line sought to limit its liability to the \$100,000 in salvage value but the court set its liability at \$670,000. The end did not come until 1916 when White Star admitted liability and all American claims were settled out of court for 2 ½ million dollars with the White Star Line successfully recouping one million pounds from the insurers. The value of the insurance policy covering the vessel against all ordinary risks was \$5M, but the whole of this amount was not insured because the British and Continental markets could not absorb it. The actual amount of insurance was \$3.7M of which the owners themselves held ¾ of a million. This was the sum total of their business continuity plan. Although passenger carrying was the most important activity of the major North Atlantic steamship lines, income from passengers was only one of the factors that contributed to the final balance sheet. The company announced record profits in 1913 despite the loss of the flagship. It did eventually get sold to its arch competitor in 1927 for \$34M profit.

So how much BC contingency planning is enough and was it a true business crisis for the International Mercantile Marine Company or the subsidiary White Star Line from a Business Continuity perspective?

Whether you are crisis prone or crisis prepared, what should be the rationale limit of BC planning? Crisis Leadership, bought through practice and learning from others mistakes, is the cheapest insurance policy that you can buy, so why not consider it first. Unlike other policies, best practice seizes opportunities in addition to dealing with threats. Just as insurance is used to protect assets, reasonable steps should be taken by the Board to prevent all exposures. If you do not have a plan then you should have a well-documented analysis that justifies your position in the event of legal action by stockholders. Directors could be liable if they knowingly neglect this exposure.

The Duke of Wellington put it this way. “All the business of war, and indeed all the business of life, is to endeavour to find out what you don’t know from what you do”, or as he added, “guessing at what is on the other side of the hill”. Interestingly, many crises could have been avoided if companies had a system of identifying indicators and warnings in place. I find it strange that companies do not have Business Intelligence Officers. They are overt and commonplace in the military. Indeed every SAS operator is an intelligence gatherer. In SAS, information equals edge. Why is it that companies are so reluctant to appoint a Business Intelligence Officer and to collect information in a very determined way? Why is there a current Knowledge Management fixation on trying to recall what we already know, rather than focusing on what we don’t yet know? The reality is that without competitive intelligence the formulation of strategy is impossible. Without competitive intelligence, a business cannot be managed strategically. If you want to posture for dangerous opportunity, then I would have no hesitation in having a Business Intelligence Officer in every company, with all employees actively collecting now.

Crises are going to occur, so planning to control them is key to survival. Planning creates early warning systems, it informs business development, and it postures you for dangerous opportunity. Even if a crisis cannot be detected or prevented, planning minimizes legal liabilities, it minimizes the loss of public confidence, and it minimizes the loss of market share. As a “no regrets’ measure BC planning is a cheap powerful tool.

Is this enough to build resilience? 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 outdated or 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.

To use the Titanic analogy, failing to plan is planning to fail. A good boat suggests preparation, allocation of resources, life boats, flares, maps, sextants, radio and so on. A good crew suggests selection and training. But you need to find people who know what they are doing and train them to work together in emergency situations with the equipment that you have provided in the boat. A boat that is well equipped and has sailors, who are well trained, will clearly perform better than one that is not. Nevertheless, regardless of the resources and training there will always be a first time for any crew in a real life situation.

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. How many of you are familiar with this style of problem-solving? If you remember nothing else from this session, except for the funny little guy up front with glasses and big ears, then remember this.

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. 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. 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 that I am about to give?