

## **CRISIS MANAGEMENT & DISASTER RECOVERY PLANNING**

17 November 2004

In the next 75 minutes, we want to learn to ride the tiger so that you have a hot plan in your hand. Unlike Captain Smith on the Titanic, and the Board of management of the White Star Line, we will be going step by step through the planning, preparation and practice necessary to achieve a best-practice Crisis Management and Disaster Recovery capability. The tables that you are now sitting at represent Conglomerate A with Business Units/Subsidiaries B, C, D, E etc as we step through the workshop. The ability to learn faster than your competitors is the only sustainable competitive advantage these days and you will find that having a Crisis Governance approach to business will allow you to generate incredible business tempo over your competitors, not only in managing special situations in periods of volatility, but also in dealing with the slow burning or creeping crisis.

It is our experience in assisting companies to prepare plans, and to practice through the conduct of stressful office activities, that they have an unintended powerful bonding effect on the company as staff are empowered to do their utmost to protect the company. It gives management the opportunity to display crisis leadership and commercial bravery in front of all employees. It also engenders management-in-depth as deputies are often given responsibility in excess of their usual responsibilities. The experience becomes embedded in the company's knowledge base and it positions these companies to treat some risks as opportunities; even with terrorism.

You all received a pre-conference document which explained the framework of this session. Hopefully you at least scanned it and identified your top ten scenarios that may cause existing Line Management to be overwhelmed or cause you to go into crisis running mode, be it Risk Management, Issues Management, Safety and Environmental Management, Security Management, Financial Management, Information Management or any other form of management that fails to function in normal mode. Let's aggregate your concerns now?

Here are typical external triggers for either a major emergency or crisis event. How susceptible is your organization to these. Write down the top three? There are countless checklists to help you scan your enterprise for commercial exposures and operational risks. It is important to remember that risk is a function of hazard and outrage. In classic mathematical terms it is written like this, ...  $F=(H,O)$  ... although the reality is that the human brain works off impressions and not facts.

We often find that the real threat to organizations is often internal rather than external, and the trigger may well be totally unexpected. How susceptible is your organization to these? Write down the top three? Okay now let's benchmark, because 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.....How many of you are now focused on these scenarios? White collar crime/Labor disputes/Company mismanagement ....

Now have a look at this....This is what actually caused just about every corporate crises in the western world during that time. How many of you are now focused on these scenarios? So is the past any guide to the future? Sexual harassment/Class action lawsuits/Executive dismissals/Hostile takeover ..... Well 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?

Cash flow Industrial relations Public perception Top management succession Sudden market shift Product failure Adverse international events Regulation and deregulation So what are the top ten most common crisis situations faced by organizations? Well we find that when it hits the fan and a special situation or a true crisis get going, it always seems to come back to one of these triggers which set them off. What can we learn from this, other than that Crisis governance continues as an area of weakness for many companies? The reality is that quite often CEOs, most of whom are honest and have every intent to be law-abiding and ethical, often have no idea what's really happening in certain areas of their organization. They know a lot about the operational end of the business, but they don't know what they aren't being told. And they don't realize the need for an internal communication system that makes sure they stay in the know even when bad, or unethical managers are trying to block information flow. Almost every comprehensive vulnerability audit will uncover information that the CEO should have known, but didn't, information that foretell future crises.

Let's move into planning and set some benchmarks. Five years ago, only 30% of organizations had corporate business continuity plans, including crisis management. However increased accountability being directed at officers of a company has influenced the implementation of formal communication and decision-making procedures to the point where 50% not only have formal crisis management and emergency response team plans, but also test them at least annually. Crisis leadership has become central to business, although many languish because there is little executive involvement in setting and driving their programs. Most organizations lack a crisis champion that can influence both the company culture and budgeted funds. Who here would regard themselves as Crisis Champion? Attitudes aside, what resources you need to drive capability forward? Budget? Line item or central budget? DR = 1% of Operating Costs? KPI like IAG? Upwards reporting like Shell?

Most organizations these days aspire to a system of Crisis Management and Disaster Recovery like this. The Crisis Team will be based upon the senior leadership with a focus on business continuity liability and reputation issues. The Emergency Team will be based upon front line managers with a focus on saving life, protecting property and information, and minimizing damage to the environment. Sitting below the EMT is the Warden structure should facilities need to be evacuated. In those companies where protecting information is crucial to business, there will be a DRT with a singular focus on this. Remember however that Business Continuity is much more than this ( $BC = IT + ET$ ). ET stand for every thing else. Business Impact Analyses and Recovery Time Objectives apply across all critical processes and functions in business albeit this methodology has been driven by the IT Sector.

As we discussed before lunch, the Corporate Affairs Support Team which includes of media and telephone responder components can be utilized at the emergency or crisis levels. Similarly most companies will have a HR Support Team which is used primarily at the EMT level. Okay what must we do to help you design your CEM. Many smaller companies have no choice but to combine their crisis and emergency teams into one. Often referred to as the strategic management of emergencies.

Policy Recognition Thresholds Declaration Notification & Activation Default composition of the CEM organization Physical and Virtual Meetings Problem-solving and decision-making process Team member prompts Communications Protocols These are the contents of a best practice plan. The best plans at the true corporate will be less than a dozen pages when a mature capability is achieved. People invariably never open their plans in these special situations. It is the telephone directory which is all important. None the less plans are crucial for inducting new managers and for capturing corporate knowledge. These step through these. Take notes and ask questions because we will then ask you to bullet point your own plan and brief it back to the conference.

Policy is a simple description of the system of Crisis and Emergency Management including policy on the maintenance of the capability through training and testing. This policy may include arrangements with key suppliers or other third parties. Keep it to a page, so that it is actually read.

Recognition Thresholds sets single page guidance for prudently activating the crisis and/or emergency management organization; best set out in matrix format describing the impacts upon employees and people, asset or business continuity, finance, environment, reputation or public concerns. The table will describe the level of notification and activation required within the company. This decision-support matrix is often the crux of the plan. If you only want a one-page plan, then this is it. Comment about 25% of average quarterly income.

Declaration is absolutely critical to state who can declaring a crisis, major or minor emergency. A short statement is needed as to who has the delegation and responsibility to do this, particularly as MD/CEOs are constantly on the move. Having the commercial courage to abandon Line management and adopt a horizontal team solving approach can be quite intimidating. These days, the best companies aspire to 'prudent over-reaction and rapid de-escalation.'

The section on activating and customizing the crisis and emergency response describe how Front Line Managers activate Emergency Response and the Emergency Management Team, and how the company Crisis Management Team is activated if necessary. It also describes the activation of the default HR and Corporate Affairs Support Teams. Best practice is to immediately activate these teams, even if unsure of the situation. The best plans assign a default composition of these teams along with deputies and alternates who are empowered if called,

The primary and alternate EMT and CMT rooms and approach to virtual meetings is specified, including the actions of the first person to enter any room.

Wetware is the disciplined team process for problem-solving and decision-making process in order to develop and implement strategy under pressure, or developing an implementing a plan if you are operating at the emergency level. . Often plans will document supporting checklist for considering business continuity, reputation and liability issues and a simple checklist to aid the saving of life, the protecting of property and the minimizing of damage to the environment. Specific and existing contingency plans pertinent to the company's exposures and risks maybe referenced.

Managers and staff assigned to teams generally perform their normal daily roles within the more critical environment generated by the situation. However some companies like to include individual prompts for positions like the Team Leader, Corporate Affairs, HR, Operations, Legal, Finance and any other key member or to describe processes for log keepers, scribes, runners, telephone responders and other essential staff.

Last and by no means least are the procedures for Corporate Affairs inclusive of the Call Centre and invariably including guidance for spokespersons, media releases, use of dark website, media monitors and PR consultants. You perhaps have most interest in this part, although remember that you cannot implement strategy until you have mopped up the blood on the boardroom floor.

We now want to move into the third and last part of this session. It is one thing to have a plan; it is quite another to practice it. Human beings will remember close to 90% of what they experience, as opposed to more like 10% of what others tell them. Hence stressful simulations have a powerful, bonding effect on Crisis Teams when staff are empowered with personally owned experiences. The extreme leadership experience becomes embedded in the corporate knowledge base, and it enables companies to simultaneously handle risks and seize potential opportunities. Crisis exercises achieve maximum value if they are preceded by some form of refresher so that they are viewed by all as being successful, and the experience engenders confidence in the company's ability to control crisis situations. The best plan never survives contact with a risk issue, but simulations can effectively raise issues, expose vulnerabilities, as well as lay the foundation for resolution.

Forging effective teams are issues of leadership when it comes to out maneuvering competitors and gaining market share. We see some of the best Chief Executives, all on the edge but in control. These are those who have learnt to surf on the front of the wave. Some American companies actually use in-house facilitators to keep teams focused on process although I personally find that this is an anathema to the whole notion of leadership and it has little significance when Director's liability is at stake anyway.

We have already spoken of the commercial courage required to adopt this modus operandi. Managing on the edge of darkness does not come easily for some accustomed to traditional Line Management. Having the ability to quickly transition from a reactive to proactive style of management can be the crux in doing it well.

We keep coming back to wetware. The ability to follow a disciplined process, to find and check the facts so that you can develop and implement strategy is all important. This is the Eskimo tool that will allow you to paddle in the roughest sea and pop back up every time. It is the rapier-like tool which acts as your strategic reserve and which prevents executives from suffering from Captainitis.

Crisis Leaders are big-picture, people types who use power and passion to turn the camera on in people's minds. In updating their colleagues they will use expressions like "The situation as I understand it is this" In articulating crisis strategy they will say "We see it happening this way" – the language of leadership.

Communications teams will be firmly focused on making belly-to-belly contact with stakeholders to ground truth media in order to generate speed in the analysis of information, and using buzz marketing to communicate word of mouth images. These teams understand that spin equates to no action and talk only. HR teams will be firmly focused on dealing with the relatives and friends of affected people first and fast.

Recognizing that it is all over can be difficult. You can only rest when the gorilla rests, so having the ability to sustain prolonged situations will be the mark of an effective team; and yes there is a Crisis Governance dividend.

The proof is in the pudding so lets try it. Please open these brown paper bags and see what they contain. The matters have come to the attention of your leadership group and you are now meeting to deal with the issue. The media have got hold of these events and there are stories in the media about this behaviour. Like any potential crisis issue we are prudently meeting to deal with potentially explosive hot reputation issues that may impact on share price.

Having a crisis capability, a last-resort risk treatment, is all about being able to push legally and ethically right up to the regulatory margins, but still have an option up your sleeve should things come unstuck through no fault of your own. Ships are safe in harbor but that is not where they are meant to go. If you want to be on the front of the wave and not in front of an ice berg, companies must upgrade their competency to face increasing competition in the future. When pirates attack your ship, and you find yourself walking the plank between risk and opportunity, you need to row together as a board and executive team and you need to voice your opinion if Directors are off track. Corporate Assurance comes from being prepared to discuss the undiscussable.