

RIGHT MACHETE, RIGHT COMPASS, RIGHT JUNGLE

2 NOVEMBER 2007

In medical terms a crisis is the moment when a disease takes control of the body; but the best time to perform an autopsy is when the body is still alive so this morning we intend to audit the good ship Corporate India; a corporate health check. We spend our time assisting executives with issues of leadership, to outmanoeuvre competitors, to gain market share and to forge effective teams. We see some of the best Chief Executives, corporate raiders, financiers and entrepreneurs, all on the edge but in control. These are those who have learnt to surf on the front of the wave.

When the Titanic sank 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 new regulations, so ships would test their emergency plans to a far greater extent and have sufficient lifeboats. Are we on the front of the wave or in front of an ice berg in India?

We continue to live in a world exposed to the impacts of these events. Hardly a day goes by without the occurrence of a new crisis so how does Corporate Governance and Crisis leadership fit together. In the same way that Sarbanes Oxley is aimed at establishing a level playing field our message is that Corporate Governance is the strategic response to risk and Crisis Leadership is your strategic reserve.

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 report. Many feel that the report was far too kind to Captain Smith as it found while his acceleration into a known icefield had been a mistake, it was not negligence because he had followed the established custom and practice of not slowing down for ice warnings in clear weather. 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 in New Delhi? You would like to think that a modern day inquiry would comment that thirty-two more lifeboats, costing just \$16,000, could have been stowed away without being noticed on the broad decks of the Titanic, and that this may have saved everyone.

Just like the Steamship management, most trouble in the corporate world still comes from some very human failings. Indeed most recent crises have stemmed from executive mismanagement, poor management decisions at best. I will come back to triggers because in the last few years have been years in which scandals have dominated the headlines. Dodgy accounting has been rife. The public can only but conclude that typical chief executive would be more appropriately employed on chain gangs. So ask yourself this question? Is the bar on corporate governance being raised high enough in New Delhi? Are we running with the bulls or groaning with the bears? 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. 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 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 the 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.

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. It is obvious that a sound relationship between the board and the CEO leads to meaningful agendas, shared appropriate information, and trust in the board to challenge the CEO. 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. These were Board decisions, so ask yourself this question? Is appropriate information being brought to your attention in your company?

So ladies and gentlemen, having a crisis capability, a last-resort risk treatment, is all about being able to sleep at night. 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. 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 no good for iceberg spotting. We would have found that the supposedly water-tight compartments were not water-tight, 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.

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. 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.

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. 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. The best companies understand that BC is planning for the inevitable, while Crisis Leadership is preparing for the unthinkable. The most dynamic companies are moving Crisis Leadership to centre stage as line management is too slow to seize business opportunity.

Ladies and gentlemen, crisis leaders 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. 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. 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. For this reason you have to be on the front of the wave to lead in business.

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. Now have a look at this. 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. These are the growth areas for crises. Interestingly almost 50% of Australian companies experienced sophisticated economic crime, theft and misappropriation of assets over recent years. How does this compare to your organization? And if you just felt okay with your own organization, how do you really know?

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 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 CM or BC clauses in all contracts with your suppliers? Among the large companies we work with is one that chose to practice a raid by a regulator 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. Australia's national health benefits scheme decided to practice their national response to the outbreak of an Avian Influenza pandemic which had been transmitted human-to-human. They very quickly found themselves totally dislocated as office quarantining provisions and social distancing struck home but had pre-planned how to managed to operate the business in a virtual mode and thereby maintain critical functions.

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. A large football stadium practiced its response to the evacuation of a jam-packed stadium in the aftermath of the rupture of a gas pipeline and proved that they could regain control of the pandemonium. 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?

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?

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.

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. 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. CEOs will use such expressions as 'it will be this way' or 'I see it happening this way' in articulating strategy to their colleagues. Chairmen will say 'it will be this way.' 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. Anxiety is contagious, but so is calmness. Panic is contagious, so is leadership. Ladies and gentlemen, as Henry Kissinger, the arch Crisis Master said, do you have any questions for my answers that I am about to give?