

# CRISIS MANAGEMENT: MOVING THE EMPHASIS FROM RESPONSE TO PREVENTION

**An expert outlines the options and says thinking ahead is the best course for businesses**

**By Tony Jaques, the Principal of Melbourne-based agency Issue Outcomes**

**M**ention crisis management and some executives immediately think of a dusty manual on a shelf somewhere and a crisis simulation exercise which was held last year... or was it maybe the year before?

The risk inherent in any crisis is usually well understood and well documented. However, the emerging approach to crisis management is increasingly moving the focus from crisis response to crisis prevention,

from risk mitigation to proactive risk reduction.

The traditional crisis management manual and scheduled simulation exercise are recognised as important tools for effective crisis response. But the best crisis management is to take steps to try and prevent having a crisis in the first place.

The challenge for many organisations has been understanding what options are available for crisis prevention and which part of the organisation "owns" the process.

One of the simplest ways to understand crisis management is to study the detail

which emerges in the aftermath of a major crisis – news media features, coronial inquests, academic case studies, commissions of inquiry and court proceedings against alleged wrongdoers.

Regardless of the form of analysis, one fact stands out: the focus is almost never on the format of the crisis management manual, the delicate political balance of who was on the crisis management team, or on the number of telephones and computers in the crisis response room.

Yet these are typical of the tactical details which often exercise executive attention in the pre-crisis phase.

Detailed post-crisis inquiries and analyses are far more likely to focus on questions such as "why didn't you see this coming?" and "what steps were in place to prevent it happening?" and "what new steps will you take to prevent it happening again?"

It is this fuller understanding which has led to development of the new approach to crisis management, which extends the process from crisis response back into a much broader continuum of management activity.

Crisis management is an integrated linking of management activities proceeding from potential crisis identification and prevention through event response and on to long-term post-crisis management – not just what to do when the crisis happens and everything turns to custard.

The Americans Ian Mitroff and Thierry Pauchant call it "the difference between crisis management and crash management".

In recent times there has been a much greater focus on crisis management as an integrated part of overall management, and this has led to the evolution of two separate ideas which are now referred to as the "event approach" and the "process approach". This in turn led to a much greater focus on activities before the crisis.

A useful way to think about the integrated approach is to divide the pre-crisis phase into two separate elements:

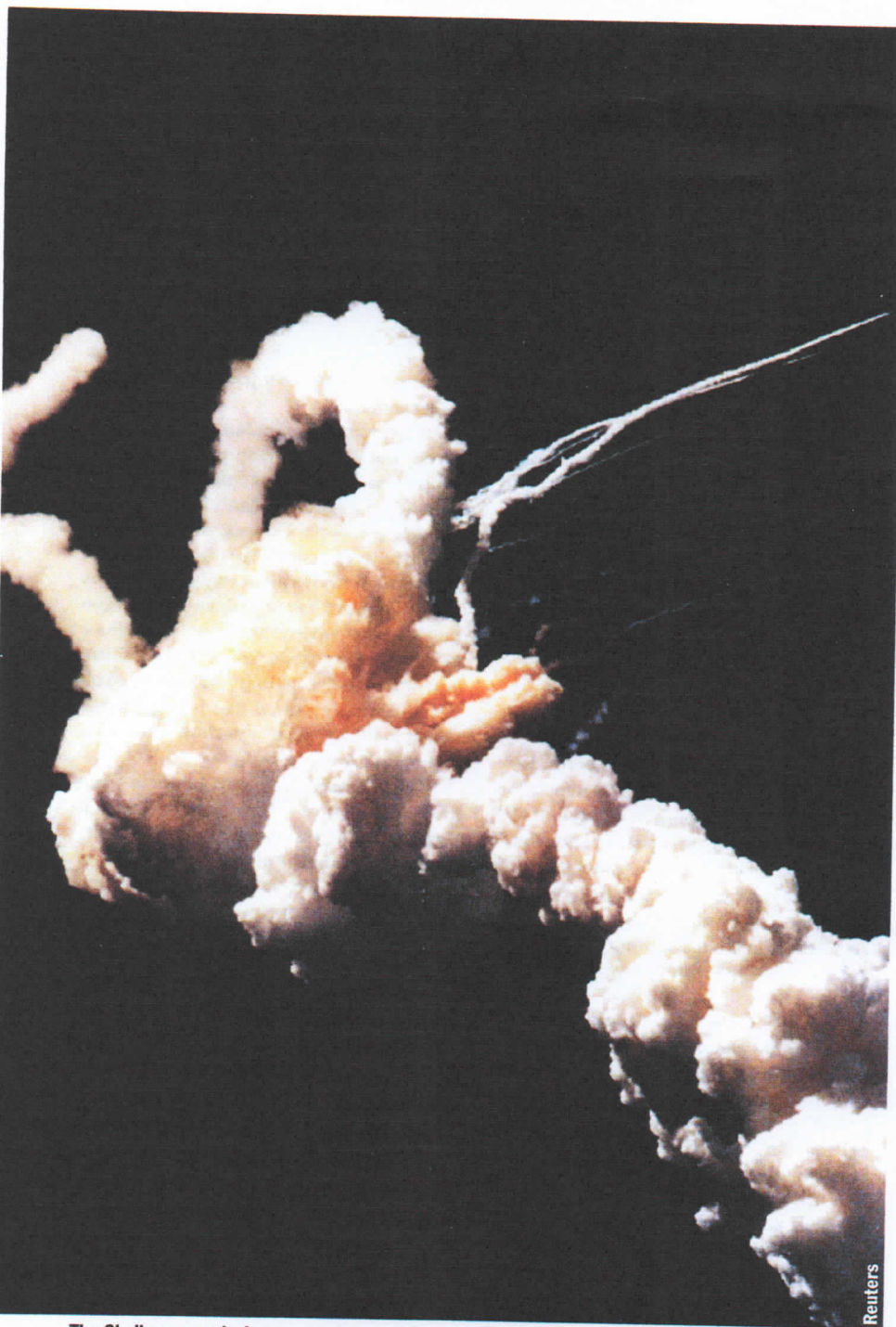
- Crisis preparedness, which includes planning processes, systems and manuals, documentation, infrastructure, training and simulations;
- Crisis prevention, which includes early warning systems, risk audits, risk and issue management, social forecasting, environmental scanning, and emergency response.

The crisis preparedness element is largely tactical, and there is plenty of good material and advice about how to set up the contributing processes.

The crisis prevention element is rather more difficult, but here too there are a number of proven tools and processes.

One of the most useful and versatile crisis prevention tools is issue management, which attempts to minimise surprises by effective processes to enable organisations to recognise problems early; to mobilise and co-ordinate resources across the organisation in order to take proactive action; and to develop structured plans to work towards planned, positive outcomes.

A crisis can sometimes be seen as an issue which wasn't properly managed, and



Reuters

### The Challenger explosion: management systems blocked dissenting views

there are four broad areas where issue management can contribute to addressing issues which have the potential to escalate into crises:

#### 1. Proactively addressing underlying systemic causes of potential crisis

Signal detection is an organised effort to recognise and respond to warning signs or specific events or trends which may adversely impact the organisation.

Systemic management failure in this area might relate to not putting in place processes and structures designed to recognise and respond to warning signs. Or it might relate to underlying systemic culture in an organisation which limits signal detection, inhibits upward reporting or even

actively discourages dissent.

Some well known instances of such systemic failure are the 1986 explosion of the space shuttle Challenger, where management systems worked to block dissenting views; the Mitsubishi Motor quality scandal of the 1990s, where evidence of recall faults was deliberately suppressed; or the 1995 failure of Barings Bank, which was destroyed by the activities of a single rogue trader after the bank's internal control systems failed to catch signals such as increased trading activity, the extensive use of leverage and escalating volume of trades.

While systemic problems are easy enough to identify, solutions are much harder to find.

The issue management approach pro-

vides an effective tool to address such underlying problems as it requires going beyond the obvious systemic risks which are intrinsic to particular industries, such as contamination scares for food producers; fires and spills at an oil refinery; or security and fraud risks at a financial institution.

Issue management also helps businesses identify and respond to underlying systemic problems which may apply across a wide variety of business sectors – beyond industry-specific risks and beyond generic problems such as floods, fires, power outages, infrastructure breakdown and natural disasters.

These broader systemic problems, which have the potential to become crises, might include uncompetitive behaviour; sexual or racial harassment or discrimination; executive dishonesty; takeovers and mergers; layoffs; new technology; and management misconduct. All of these are highly sensitive, and issue management can be very effective by providing no-fault, objective analysis.

#### 2. Establishment of effective signal detection mechanisms

In the brutal glare of public scrutiny after a crisis, it is often claimed that there was inadequate communication and that top managers were not fully aware of what was happening.

It has been said that top management, by definition, is the least informed group in the company when it comes to bad news.

But in reality the greater systemic challenges for management structures are not

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just lack of good information but lack of imagination; faulty or inadequate analysis; not seeing the big picture; and – most importantly – failure to link information to action.

Two recent cases in the financial sector provide vivid examples of failure to link information to action.

Following Société Générale's \$US37 billion (\$46.3 billion) trading disaster early last year, an independent panel found the bank failed to act on 75 "red flags" over a period of 18 months.

And when the \$US50 billion Bernard Madoff investment scandal in New York became public early this year, it was revealed that regulators had ignored repeated specific warnings from an expert.

The link between information and action lies at the heart of effective signal detection mechanisms. Issue management, with its deliberate action-orientation, can help deliver effective realisation of this link.

### 3. Properly identifying stakeholders and their perspectives

While stakeholder analysis is a core risk reduction activity, the processes developed within issue management have enhanced this skill, particularly in relation to the role and response of "opponents" such as community and political activists.

The importance of understanding stakeholders as part of crisis prevention is illustrated by a number of high-profile cases where inadequate understanding of stakeholder potential led to serious failure.

One of these was Monsanto's notorious misjudgement of the state of public opinion over biotechnology, which dramatically damaged Monsanto's brand and the whole industry. Speaking in the wake of the disaster, Chief Executive Bob Shapiro said: "We started with the conviction that biotechnology was useful and valuable but we have tended to see it as our task to convince people that we were right and that people with different points of view were wrong."

"We have irritated and antagonised more people than we have persuaded. Our confidence in biotechnology has been widely seen as arrogance and condescension because we thought it was our job to persuade. But too often we forgot to listen."

Another crisis arising from failure to properly understand stakeholder perspectives, in this case customers, was the notorious Intel Pentium chip recall, where it was computer users whose voice was ignored. Intel Chief Executive Andrew Grove later conceded: "We got caught between our mindset, which is a fact-based, analysis-based engineer's mindset, and customers' mindset, which is not so much emotional but accustomed to making their own choice."

Both of these well-documented cases come from the 1990s, but there is little

reason to believe that understanding of external stakeholder perceptions as part of crisis prevention is improving.

### 4. Learning and unlearning on an ongoing basis

It has been said that the greatest lesson of history is that we don't learn the lessons of history, and this certainly seems to be the case with crises.

The pace and impact of crises shows no sign of abating, and evidence in the news media every week suggests the majority of crises which occur should have been on or near the top of the list of possible events.

So why aren't organisations better prepared and more able to avoid the crisis happening in the first place? Sadly the hopeful concept of "it can't happen to us" remains a powerful driver, despite all the evidence to the contrary.

And it is also evident that crises can be highly emotive events which often raise fundamental questions about the nature of managerial style, organisational culture and individual capability of senior managers. It is only natural that managers feel threatened by such questions and the changes they might bring.

What is needed to gain a benefit from crisis experience is an agreed, neutral process to address change. Properly implemented, issue management is a fundamentally neutral process which permits risk and change to be presented and assessed objectively.

This is particularly important in light of the fact that organisational issues arise, by definition, where there is no black and white answer; where emotions rather than data prevail; where the risks of failure are greatest; and which, if left unmanaged, have the potential to become crises and threaten the entire organisation.

Accordingly, issue management offers the essential elements to help prevent crises before they happen.

Six key steps in moving from crisis response to crisis prevention:

- Listen to a wide range of external stakeholders, including those who don't agree with you.
- Be open to dissenting opinions and warnings from within your own organisation. Silence can represent acquiescence, not necessarily agreement.
- Integrate issue management and crisis management into a continuous structure, with clear hand-off to transition between the different elements.
- Establish systematic learning from your own issues and crises, and the issues and crises of other organisations.
- Utilise issue management to identify and respond to all potential issues, not just technical concerns you feel comfortable with.
- Develop integrated issues and crisis strategic plans and implement those plans. Planning and preparedness are the essential ingredients for success.