Are you ready for your 'nightmare crisis' scenario?

One of the most common excuses for not being properly crisis prepared is, 'There are so many potential crisis risks that you can’t possibly plan for all of them.' And sometimes that’s followed by, 'So there’s no point in planning for any.' Crisis expert Tony Jaques disagrees.

Planning for every possible crisis scenario is never the right way forward. Moreover, no real-life crisis ever follows the exact narrative someone planned for. Far better to apply time and resources to the most likely scenarios, the ones which keep managers awake at night, the ones which can be called ‘natural crises.’

Natural crises are risks which are ‘natural’ to the organisation or the industry, which are reasonably predictable and should be clear priorities. For example, a chemical company would be expected to plan for a possible major fire or explosion, a transport company should have plans in place for a serious road or rail accident, and a bank should be ready to deal with customers in ski masks making very large unauthorised cash withdrawals.

Every industry and organisation has equivalent natural risks, and for the dairy industry there could be no more obvious natural crisis than a major product contamination or recall. Think no further than the Victorian cheese company which was identified as the source of a Listeria outbreak in early 2013 and initiated a national recall. The official report on the event said the outbreak eventually led to 34 infections nationally, with six deaths and one miscarriage reported, and it was not declared closed until six months later.

Clearly, not every contamination incident turns into a full-blown crisis, but some do – especially when they are badly managed – and any such event is a warning sign of potential disaster. A good example was when an anonymous villain in New Zealand in 2015 threatened to contaminate baby formula with 1080 poison unless the authorities stopped using the controversial pesticide to control feral possums. When the government eventually disclosed the threat, trading in some dairy companies was temporarily suspended and the NZ dollar fell by 8%. While the government took the threat very seriously – the investigation cost NZ$37 million and 45,000 samples were tested –

Chris Claridge, then CEO of infant formula company Carrickmore, saw it very much as a natural industry risk, calling such threats “fairly standard” for international food companies, and opined that the public should not be alerted when no actual contamination has occurred. This case proved to be a false alarm, and almost a year after the threatening letters were sent an unscrupulous businessman involved with manufacturing a competing pesticide pleaded guilty to two counts of blackmail and was jailed for eight-and-a-half years.

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users found that a full 50% expressed complaints or concerns about brands and services on social media at least once a month. That’s a massive amount of potential risk.

The fact that the New Zealand 1080 extortion attempt was a false alarm does not in any way diminish the need to be prepared for such natural crises, as was brutally demonstrated by the recent Fonterra contamination crisis.

The Fonterra botulism scare of 2013 is well-known in the industry and has been extensively analysed. The purpose here is not to single out one company for criticism, but to use its experience as an opportunity to learn in terms of leadership and preparedness.

On 3 August 2013, Fonterra announced a precautionary recall of 38 tonnes of whey protein concentrate, when external tests indicated it could be contaminated with the Botulinum toxin. Less than a month later, on 28 August, Fonterra announced that further tests showed the recall was a false alarm. However, the botulism scare had already sparked a global crisis for the manufacturer, which adversely affected the New Zealand dollar and the reputation of the company and the country’s products.

An independent inquiry established by Fonterra, and a separate government inquiry, exposed some crucial weaknesses, including belated recognition of the crisis and delayed escalation to senior management, lack of formal response teams, no effective social media strategy and no consistent spokesperson.

Another major finding of the independent inquiry was what they described as a failure to “join the dots” between botulism, infant food products, consumer sensitivities and the company’s global reputation. As the report put it, “The group crisis plan had never been rigorously or regularly tested for one of the most likely risks, a global product recall.” Broadly, the report said the company’s crisis management planning, including external communication, was inadequate for a crisis of this kind and scale, and that better planning and processes would have made a substantial difference.

The subsequent official government inquiry reached its own blunt conclusion: “The ill-prepared inevitably pay a heavy price in a crisis. Fonterra was not ready for a crisis of this magnitude and lacked an updated, well-rehearsed plan to implement, as well as a crisis management team that could spring into action.”

It’s not too common for any company to come under such intense scrutiny, but every company should ask how well their own system would stand up to such an examination.
What’s important here for pre-emptive crisis management is that there is no value in identifying the most likely natural crises if there is not a firm system in place to recognise and respond to the risks.

While Fonterra needed to work on a host of systemic and process deficiencies, a critical lesson is the need for much greater CEO and board involvement in the crisis management process. In fact, the Fonterra inquiry recommended that the board should “explicitly accept responsibility for oversight” on progress towards system improvement.

This recognition of the growing importance of direct CEO and board involvement is one of the most significant recent developments in crisis management. For a long time, crisis management was widely regarded as a largely tactical activity which could be delegated to lower level managers, with the focus mainly on preparing a crisis manual in advance, holding an occasional simulation exercise and hopefully responding as well as possible in the event of a crisis actually occurring.

Certainly tactical preparedness is still important, but a new approach to crisis management is now emerging, which demands much more direct participation from the executive suite and the boardroom, and a much greater focus on strategic crisis prevention – that is, taking steps to prevent a crisis from happening in the first place, rather than simply responding when a crisis strikes.

This more integrated executive approach is what lies behind the new concept of ‘crisis proofing’ – moving responsibility to senior management and moving the leadership mindset from what to do in the event of a crisis to what can be done to prevent crises from happening.

Importantly, this change cannot be delegated downwards to technical managers who may think that crisis management is the same as crisis response, emergency management or operational recovery. Such change can only come about at the top of the organisation and brings a need for new leadership skills beyond just chairing the crisis response team or acting as spokesperson.

While establishing a robust conventional crisis response process may provide adequate protection when an incident happens, it contributes nothing to crisis prevention, long-term value and reputation management.

The key to crisis proofing is taking steps to prevent a crisis from happening in the first place, which is where the idea of natural crises becomes important. It’s reinforced by the reality that most crises should not come as a surprise. The Institute for Crisis Management in Denver, Colorado, which has been tracking business crises in the media for well over 20 years, concludes that about two-thirds of all crises are not sudden, unexpected events but are what they categorise as ‘smouldering crises’ – events which should have and could have prompted prior intervention. Many such events are those natural crises which should be even more predictable.

To help identify potential crises early, organisations need to:

- Implement effective processes to identify and respond to risk issues and other red flags;
- Listen to stakeholders and properly understand their concerns;
- Actively participate in associations to keep abreast of trends and changes;

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Crisis Management

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• Establish strong media and environmental monitoring to ensure no surprises;
• Encourage genuine ‘no fault’ reporting and review of near-misses;
• Promote open, upward communication and willingness to accept bad news;
• Analyse risks to be ready for the most obvious or likely crises;
• Honestly review past crises inside and outside the organisation; and
• Provide leadership to develop true crisis awareness.

An organisation might already be doing some of these things, but the big difference is to see them as part of an integrated approach to crisis management and crisis prevention. Effective crisis preparedness and prevention requires a genuine commitment, and unfortunately some executives do not see that as a priority.

A famous study at Oxford University showed that when a crisis struck, the share price of badly-prepared companies fell further and recovered slower than that of well-prepared companies. Indeed, 12 months after a crisis, the share price of well-prepared companies was, on average, 22% ahead of the badly-prepared. Meanwhile, a study of Australian crises over a 10-year period showed that more than a quarter of the companies affected did not survive.

So, with 22% of company value potentially at risk, and a one-in-four chance of going out of business, crisis preparedness should be a no-brainer in the executive suite. And working on the natural crisis risks is a great place to start.

American management expert Karl Stocker once wrote, “When you look at the majority of crises, what happened should have been on or near the top of the list of possible events. Why wasn’t anyone prepared?” It’s a good question, and it’s one every company should be asking.

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