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# Crisis Prevention NOT A PRIORITY, say Australian CEOs

NOTHING DAMAGES REPUTATION FASTER OR DEEPER THAN A CORPORATE CRISIS OR ISSUE MISMANAGED. YET NEW RESEARCH SUGGESTS CEOS ARE NOT PROVIDING THE LEADERSHIP OR PRIORITY NEEDED FOR EFFECTIVE CRISIS PREVENTION.

**T**he study among Australian CEOs shows there is a good level of optimism that crisis management capability is improving. But it also paints a worrying picture of inexperience, inadequate risk awareness, and only limited crisis preparedness, particularly in smaller businesses. Moreover, only half of the major companies studied had a fully effective and rehearsed crisis management plan.

The senior executives interviewed all agreed that the most effective crisis management process involves taking positive steps to help prevent a crisis from occurring in the first place. And while most were optimistic about the capability of their own company, they were much less confident about Australian business in general.

As one CEO commented: "People prioritise based on day-to-day issues and pressures. And, hopefully, on more than 99 per cent of days, crisis management is not an issue or priority. Consequently, I think there is a tendency for people to put it off. When it's time to do the crisis management stuff, there is always something else which is more important in the short term. It's a matter of planning and priority setting and leadership."

CEOs participating in the study believed top executive participation was the single most important element, and they identified eight key leadership roles in crisis preparedness and crisis response:

- Encourage a proactive crisis culture
- Establish and enforce standards and processes
- Prioritise and set an example
- Properly assess the full range of risks
- Promote open upward communication
- Build relationships before the crisis
- Be ready to deal with the news media
- Encourage a learning environment and share experience

However, they also identified a number of barriers to Australian companies putting effective crisis management in place. →



The research, by Issue Outcomes Pty Ltd of Melbourne, involved in-depth interviews with senior managers from 12 multinationals in the chemical and petrochemical industry, with a total of 10,600 employees in 113 Australian plants, and local annual sales of over \$13 billion. All the participants were either managing director or general manager, or in one case a divisional director.

The heavily regulated chemical and petrochemical industry is something of a bellwether for crisis management, not least because of its involvement in some of the highest-profile industrial crises of the last few decades, from Bhopal in India, to Exxon Valdez in Alaska, and the Deepwater Horizon disaster in the Gulf of Mexico. And the same applies in Australia, including the Coode Island chemical fire (1991), the Longford gas explosion (1998), the Montara oil rig fire and spill (2009), and successive leaks which shut down the Orica chemical plant in Newcastle in November 2011.

Given the focus on risks and safety in the chemical and petrochemical sector, more than half of the Australian CEOs characterised their industry as more vulnerable to crises than others. But beyond just their own industry sector, the CEOs provided a unique contemporary view of crisis management and crisis prevention in Australia as seen from the executive suite.

Not surprisingly, leadership was recognised as critically important, though the participants identified six common barriers faced by senior executives:

### 1. Denial and failure to prioritise

The idea that 'it will never happen to me' was seen to be a persistent belief among many Australian managers. "It's like driving down the roads. Most people don't expect to be in a crash on the way home," one said. Another added: "The attitude is, we're okay; we don't have crises here. We haven't had a crisis, so why do we have to plan for one?" Then it's a case of, "I'm too busy running the business."

One CEO linked it directly to priorities in the minds of senior managers, who acknowledge it's a nice thing to do and should be done, but feel it's not going to change next week's financial results or this year's results. "So given that their shareholders, or whoever, are looking at financial results," he said, "they think, 'I'm going to focus on that before I get around to any crisis management planning'. I suspect that's the reason."

Another senior executive went even further, suggesting that crisis management is regarded as a dry process which is simply seen as a cost. "So it's easy to think it's something you have to do to fob off the auditors each year, to get through the audit process, without contemplating what that potentially means."

### 2. Lack of experience and full understanding of potential risks

Nearly every CEO highlighted lack of experience and understanding as a critical barrier. "I think it might be just experience," said one. "You don't understand the potential risks if you don't put in the resources. I'm not sure people are even aware of some of the potential issues. Unless you've been exposed to it, it's not easy to get that mindset."

It was suggested that inexperienced managers lack genuine understanding of the roles and responsibilities of directors when it comes to crisis management and prevention. It was also suggested that a major issue was risk-taking by people who came into business at a fairly young age, and had only ever seen upside and failed to factor in how to run a business under threat.

Lack of adequate scenario analysis was another cause: "We don't think broadly enough about scenarios. I don't think there is a lot of analysis of the risks of it happening versus the impact, and looking at different things other than what might traditionally jump into your mind. For a chemical company, for example, you think about things blowing up – that's going to be our crisis.

But it's far from that." He and others agreed that there was too much focus on operational, industry-specific crises where managers feel more comfortable rather than employee or reputational crises, which could be even more probable.

### 3. Inadequate systems, processes and management discipline

The value of systems and processes was another strong theme among the CEOs interviewed, which was not surprising for executives of major multinationals, who traditionally have a strong process focus. However, an unexpected finding was a distinct divide between the CEOs who appeared to implicitly rely – perhaps over-rely – on the effectiveness of systems and process, and those who felt that no amount of process will provide a sufficient safeguard without strong leadership and personal skills.

"It seems to me as if the problem is probably going to get down to the awareness of the management of the importance of risk management and getting the process steps in place," said one. "Unfortunately, it is not an exact science, so it is not something which can be readily done. It requires work and effort, with no obvious return."

Another CEO added: "It is essential to have good systems and processes in place ... Big companies have a lot of systems and processes, but you have to actually conduct the training and then audit. When you do regular audits, it's very difficult in large companies to get away with too much."

### 4. Insufficient size and resources

Recent newspaper headlines about crises at some of Australia's biggest corporations would seem to contradict the idea that in large companies it is hard to get away with much. Yet the CEOs interviewed were unanimous that size, resources and international exposure really matter in crisis management.

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- Anonymous



One commented: “My main experience has been with major companies who do this stuff fairly well. You get very sensitised to making sure you are in good shape locally. I suspect that if you are more an Australian company, you may not fully appreciate that until you have it happen to you. Smaller companies – Australian-focused, Australian-owned companies – I am not sure all of them even understand the potential risks they are running trying to manage their business.”

This pessimistic view was certainly shared. “We have a whole range of processes, procedures, policies, audits. We are associated with a major multinational, and they have very many risk management processes in place. So a lot of it is built into the way you do business. If you were to go outside of our industry, I don’t think you would find that rigidity of risk management within other industries. That’s my assessment.”

One CEO went so far as to conclude that some smaller companies don’t know where to start, believe they don’t have the time or resources or people, and therefore do nothing. “For the vast bulk of Australian companies, which are small to medium in size, I would say, no, they don’t put enough effort into crisis prevention.”

#### 5. Unwillingness or inability of executives to share crisis experience

A less-expected perspective from the executive suite concerned unwillingness or inability of senior executives to share crisis experience with executives from other companies.

Referring to lack of discussion on crises, one possible reason put forward was absence of suitable forums where CEOs could openly share experiences with their peers. “CEOs don’t meet to do that. It’s either a social or management context. One of the key things companies value and want to protect is their reputation, and they will sweep things under the carpet to protect it. So when you start talking about risk management and areas where one may be weak, that is inevitably going to impact, or be perceived to impact, the company’s reputation. There is going to be a natural desire to protect that.”

One CEO added: “By openly sharing when things are not perfect, you may learn the most. But I know there are some areas where I feel a little vulnerable. So, potentially, unless it is a very trusting relationship, I am not sure you would talk about those. I guess that is what I am wondering, whether from a reputational management viewpoint that provides a natural barrier.”

Legal constraints on discussion, or sharing information which had a competitive impact, were also raised. But while most agreed careful sharing of crisis experience would be of value, they were doubtful about it happening. “I don’t think the subject is taboo by any means,” said one. “Quite why it doesn’t get onto the agenda is an interesting observation.”

“If leadership from the very top of the organisation doesn’t give adequate focus to crisis management, then why would you expect that layers of leadership further down the organisation would give it adequate focus?” - Anonymous

#### 6. Failures of leadership and upward communication

The final barrier to effective crisis preparedness identified by the CEOs, and perhaps the most important, was failures of leadership and its importance in crisis management.

As one put it: “If leadership from the very top of the organisation doesn’t give adequate focus to crisis management, then why would you expect that layers of leadership further down the organisation would give it adequate focus?”

Several participants also highlighted the issue of the local culture or management style, which one referred to as the Australian ‘antipodean style’. “When it comes to structure and discipline, I think Australians are not as accepting of that as some others, particularly when I see my colleagues in Asia-Pacific and elsewhere. Australians have a tendency to try to be creative and innovative in some ways, and will deviate from the plan if they think that will give a better outcome. That might be good in the short term, but often not in the long run. You need the right culture and you need to set the standard from the top.”

While the call for positive executive leadership from the top was clear, this new study does not suggest Australia is any better or worse off than other countries when it comes to crisis management. But it does highlight that Australian business remains vulnerable, and there is a lot of work yet to do. ◦

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