

## Crisis! – prevent or prepare? The answer is in the question...do both!

In this article we explore the increased threat posed by crises to the reputation both of companies and of individual directors, along with some useful questions to assess how fit for purpose your crisis prevention activities and preparation have been so far.

### **Crisis – the greatest threat**

The largest and growing threat to corporate value and executive reputations is a crisis. And they seem to be happening with increasing regularity.

Heightened geopolitical risk, cyber fragility and social media amplify uncertainty more than ever, increasing the chances of any organisation experiencing a crisis or related event. Societal changes in the USA, random acts of terror, the rise of nationalism in Europe – reflected in Catalonia and elections across the continent – reflect a fragmenting social mood exacerbated by other factors, economic, financial, cyber-attacks, corporate misdeeds, the fall of icons in the media or politics as well as company specific high-impact operational and technological failures.

Companies are now concluding that it is no longer a question of 'if' they will face a crisis; it is plain and simply 'when' and 'what type'. The question now is 'how prepared' the company is to deal with it and is it doing all it can to prevent them. Whilst some argue that most crises could have, and should have, been predicted and avoided in some form – and we certainly believe this is possible – there are still events which surprise, are unpreventable and have major impacts on a company.

With the ability to affect all aspects of the value chain and personal reputation, crisis is now firmly on the agenda of boards and executive directors alike as a crisis can destroy the largest of companies and devastate promising careers. The reputational impact lingers far longer than the recovery period.

### **Understanding the drivers of a crisis**

The British Standard for Crisis Management (BS11200) defines a crisis as an 'abnormal and unstable situation that threatens an organisation's strategic objectives, reputation or viability'.

Crisis are not limited to any organisational size or type. They occur in all types of companies from multinationals to small enterprises and they do not discriminate based on sector or industry.

They can escalate rapidly and in unforeseen ways, affecting people and assets whilst damaging reputations, the profitability or even the viability of a business.

One of the lessons learned from the last financial crisis was the necessity to clearly link strategy and risk and to be able to identify and manage risk in a highly uncertain environment in order to ensure organisational longevity and resilience. Although one cannot predict the Black Swan events, being able to better understand the sources of a crisis, namely the critical risks a company faces, and how they are being managed to identify where they might become a crisis, is a valuable skill for any leader.

For the vast majority of potential crises organisations can successfully identify and prevent the reasonably foreseeable events by "widening their gaze" – using cultural analyses and challenging institutional norms to identify operational soft spots in their critical activities and using creative data searches with real and artificial intelligence to understand the external environment and its sentiment, using techniques under the umbrella name of "risk sensing".

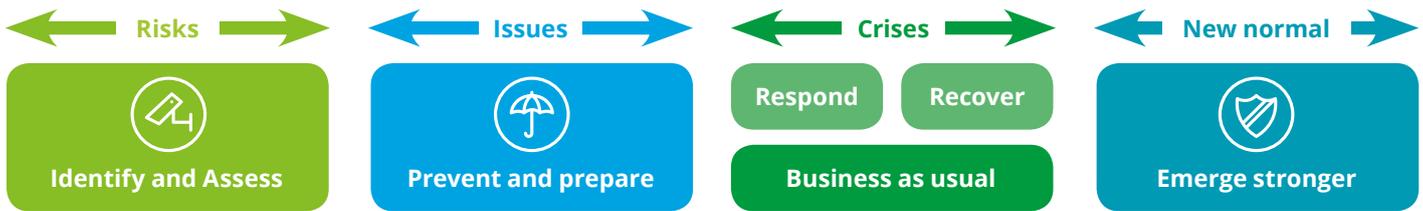
The proof of this particular pudding is to look back at all of the major crises that you can think of and ask yourself – was it just bad luck? Was the potential cause known somewhere in the organisation? And could something have been done to mitigate the onset of the crisis?

### **The lifecycle of crisis management**

Crisis management does not start with a crisis. When most successful, it is essentially an integrated continuum of management activities starting with understanding and interpreting the landscape of uncertainty to assist potential crisis identification and prevention. Practically, this involves identifying and assessing both internal and external risk factors to pick up the signals of change or conflict from the operating environment and decoding them to understand which ones could develop to be responsible for a crisis. This approach allows organisations to minimise the unknown portion of the operating landscape and develop appropriate strategies for preventing the preventable crises. This method also enables them to prepare as effectively as possible in order to take positive, decisive, effective action when unavoidable risks occur.

The most critical element is to take off the organisational blinkers and make sure the board and executive management take a long, clear devil's advocate look at the areas where the organisation may be most exposed. Consider the industry your organisation is in, the risks that industry has faced; the regulatory environment and the crises and near misses you and your competitors have encountered.

Consider whistleblowing reports, customer and supplier complaints, cyber security reports, unchallenged beliefs in your organisation – these are the canaries in the coal mine when it comes to crises – is management really confident that there are sufficiently effective controls to prevent a crisis in any of these areas?



During the crisis response phase robust leadership and effective operational discipline are vital. It is the quality of the live, ongoing response to a crisis, together with successful management of the day-to day business operations, that will support the longer-term, post-crisis recovery phase. After the crisis, reviewing the unfolding of the crisis and understanding its causes and accelerators are also important for developing new operational and governance structures that take into account learnings and remedial actions from the past to build a better, stronger future.

**Are you up to date in your thinking about crisis? Some questions for non-executive directors to pose to management.**

- Is our range of vision broad enough both internally and externally? Have we thought about where our blind spots and weak spots might be and what we can do to get more visibility in these areas?
- Have we considered where our “soft spots” are in operational discipline? What actions or programmes have been put in place to address these?
- Are there any parts of our business where we don't have full visibility of corporate culture and approach to risk? Where does it just not “smell” right?
- How much time do we spend assessing crises and near misses suffered by our competitors? Have we properly considered our potential exposure to the same issues?
- Do we understand our organisational biases? Is anyone acting as devil's advocate to ask the really challenging questions?
- Are we really listening to our people, our customers and our suppliers? Are we making the best use of the data available to us, both formal and informal? Are we acting promptly on what we hear?
- Have our scenario planning exercises included senior management, the board and any spokespeople we would nominate in the event of different crises? Have spokespeople received media training?
- Who will retain a focus on business as usual if a crisis should happen?

**For the board agenda** – are you thoroughly identifying and assessing your risks and do you regularly consider your crisis recovery, communication and business as usual plans?

**Contacts – Crisis and Resilience**

Deloitte Crisis and Resilience helps our clients not just through the good times, but also in the toughest moments of crisis, providing clients with the clarity and confidence for when it really matters. Our specialists can help you identify, assess uncertainty; and prevent, prepare, respond and recover from crises. Many of our clients have emerged from great challenges even stronger than before – and some know that they have avoided a potential crisis.

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This article was first published in [Governance in focus: On the board agenda – the 2018 reporting season](#), the Deloitte Academy’s comprehensive round up of governance and reporting matters for boards.

In one place, in magazine style format, a series of articles covers many of the current topics on the board agenda – purpose, governance reform, cyber, crisis management, stakeholder engagement and s172, to call out just a few areas – as well as the usual summary of areas of focus for the coming reporting season.

You can read the full publication [here](#). Our library of publications covering developments in corporate governance over the past year can be found [here](#).

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