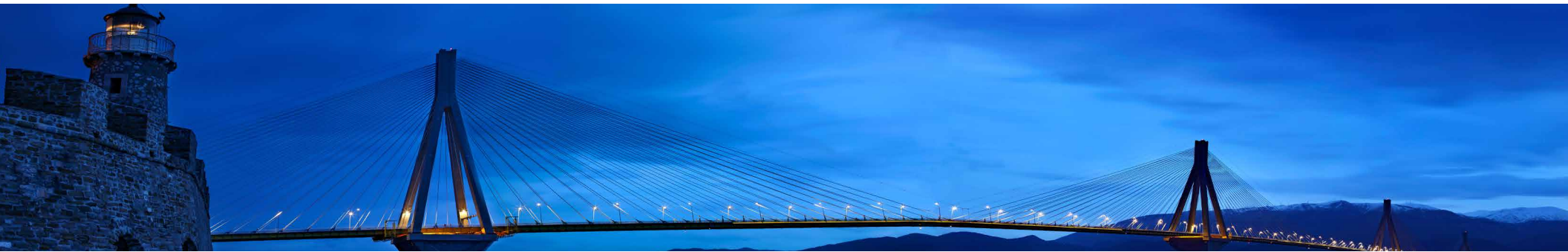




# Focus on: Making crisis simulations matter

The Deloitte Center for Crisis Management



## A plan is only a plan until you put it to the test.

You know it's coming. But not when, where, or how big. You'll sleep a lot better if you're confident your crisis management plan works. One of the ways to earn that confidence is with a program of effective, multidimensional simulations that test your board, your C-Suite, and the organization that stands behind them. Do you feel this is "for real" while it's happening? That's one test of effectiveness. Do you feel you really learned something afterward? That's an even bigger one.

There is more than one way to approach a simulation. The ones that create lasting value go far beyond the theatrics of a simple "fire drill" that focuses only on a short-term crisis. An effective crisis simulation puts the organization to a stringent test, whether or not the scenario represents the worst case. It demands the right questions and the right responses. It cascades realistically from one decision point to another. It plays through both your external and internal worlds. It leaves participants, including the C-Suite, feeling they've truly learned something by testing their responsibilities under trying circumstances that subject them to uncertainty, ambiguity, and conflicting and incomplete information—where there is often less known than unknown—so the crisis *modus operandi* permeates all levels of the organization from the boardroom to the front lines.

The foundation of this approach is preparation. The objective might be an orderly exploration of strategic market risk, a dramatic moment-to-moment sequence of scenarios and responses, or something in between. The trigger might involve technical failure, market disruption, natural events, or deliberate malfeasance. In each case, the effort an organization puts into planning and customizing its crisis simulation approach can pay off many times over when a real crisis strikes—in personal preparedness, process improvement, team coherence, and raw confidence. The result is a team that's more confidently equipped to handle crisis, faster in reacting to it, and ready to scale up the necessary resources for response and recovery.

## Begin with a scenario?

### That's your first mistake.

Instead, begin with a purpose. What is your organization trying to prepare for? When crisis happens, how do you want to look coming out the other side?

Only with a clear objective can you construct a scenario that will advance it. And while the situation may be fictional, the stakes are real. The effectiveness of a crisis response can make or break an organization's reputation—and reputation can count for as much as one-quarter of an organization's market value.<sup>1</sup> The average organization can expect a value-destroying event at least once every five years.<sup>2</sup> Crisis simulation is not a place for shortcuts. There are still some organizations that don't use simulations at all—but more and more are realizing the benefits and putting their plans into practice for preparation that really counts.

## Designing across all dimensions

To protect organizational value, a crisis simulation should be as multidimensional as the real world in which a real crisis might play out. Whether real or imagined, it should include externalities, including realistic injections of "news" and stakeholders with agendas different from your own.

## A world of crisis triggers

Crises can be malicious, accidental, or completely random. Many organizations are susceptible to threats from more than one of these potential triggers:

Malevolence & cyber	Misdeeds & financial crime	Financial disruption	Technological & industrial	Confrontations	Other catastrophes
Cyber attacks, identity theft, or product tampering	Fraud or other criminal activity	Financial failures that threaten a company's very existence	Complex systems fail, either through accident, mismanagement, or sabotage	Legal, commercial, geopolitical, military conflicts	Natural or man-made destructive events that disrupt almost everything

People should interact as they would in real life. They should consider and challenge the impact each decision will have on finance, customers, strategy, and operations—and those decisions should have palpable consequences. If participants run up against the limits of the simulation, the simulation hasn't been designed broadly enough.

## A maturity-based approach

Depending upon the purpose of the simulation, the scenario design, and the resources available, simulation approaches will vary.

At one end of the scale, a simulation can be as simple as a discussion of likely scenarios. The next level is a formal rehearsal of roles that tests strategies, information flows, and communications in a highly realistic, scripted environment. The most intense simulations can rival military "war games" in their dynamic use of worst-case scenarios and immersive, even stressful, environments. When participants make decisions, they should consider the consequences those decisions will have days, weeks, and even months down the line. Just as important, decisions need to be made at the right levels. Executives need to be confident others will handle the tactics while they focus on the outcomes, key stakeholders, and future consequences. Getting ahead of the game is critical for them.

An organization could choose a specific place along this spectrum to stage a needed simulation, or it might stage a progressive program that builds through simulations of increasing challenges following its organizational maturity.

No matter what type of simulation your organization chooses to conduct, realism is invaluable. The simulation should mirror your internal world as well as your external environment, including customers, regulators, competitors, suppliers, and governments, whenever appropriate and possible. It should help participants reach sound decisions while information assails them from many directions. The more realistic the experience, the more confidence it will build in you and your teams. It's also vital to include the entire organization, from the board and leadership to the front lines. This is the only way to test decision-making authority and escalation paths.

## How to start

**First, decide on the objectives. Then think like a movie producer.** Carrying out a crisis simulation isn't unlike producing a movie. *What's the storyline—the scenario? How do I turn it into a script that determines who will say what to whom and when?* This script is known as a Master Events List, or MEL. But a MEL should be more than just a script—because a script follows a prescribed narrative line. A MEL

<sup>1</sup> Simon Cole, "The Impact of Reputation on Stock Market Value" (*World Economics*, February 2013)

<sup>2</sup> "Reputation Review" (*Oxford Metrica and AON*, 2012)

enhances realism by anticipating and accounting for all the decision points in the simulation, so cause and effect remains realistic from beginning to end. When participants interact with a MEL using real data in a real physical setting, the lessons are real as well.

**Next, find the limit.** A simulation that doesn't challenge people won't teach them anything. But a simulation that carries them past the breaking point will teach only humiliation and poor morale. Designing scenarios that deliver the most useful stress without going over the line is part science, part art form.

**And that's the easy part.** The weeks that lead up to a simulation take rigorous planning. The hours that pass during a simulation are engaging, emotional, and challenging. When the simulation ends, the real work resumes—because collecting the lessons and applying them to create a stronger crisis management plan is where the real value lies.

## Simulations in action

### Cyber readiness for energy security

A major European energy provider had been through several simulations already and wanted to reinforce the lessons its Crisis Management Team had learned. In simulating a large-scale cyber-incident, the team would practice communication and operational response involving multiple teams, with over 100 people taking part. Scripted injects and mock media response added to the realism of the simulation. In the end, management and staff increased their understanding of the impact a cyber-incident might have, honed the decision-making skills they would need to combat one, and learned first-hand how well they worked together under stress.

### Gold-medal confidence

The organizing committee of a global sports event conducted more than 200 simulations to prepare for the event. In an environment of rapid growth and dependence on a large number of public and

private delivery partners, these simulations helped the organizers develop teamwork, test protocols, and build confidence and resilience, so that they were ready for everything from day one. It was a philosophy and mindset, put into action through simulations and war games that were at the very heart of the success of the events.

### Transport on the right track

A national transport operator in the Asia Pacific region used simulated events to stress-test existing crisis management protocols, so stakeholders throughout the organization—as well as the Department of Transport, safety regulators, media, and customers—had as realistic an experience as possible. The internal crisis team and its supporting response teams received the coaching and development necessary to prepare the organization to manage and respond to unplanned, high impact crisis events.

### A new "dawn" of preparedness

In 2013, one of the more comprehensive cybersecurity simulations ever conducted tested the crisis readiness of multiple financial institutions and the industry as a whole. The test involved a series of simulated systemic attacks that attempted to disrupt trading in the U.S. equities markets. Observers in New York, Chicago, and Washington D.C. pinpointed several areas where improvement was needed—including the industry's crisis management playbook and the coordination among market participants, industry groups, and government agencies. The exercise greatly enhanced the financial services industry's readiness for incident response and crisis management, and bolstered the public-private partnership between the financial services sector and various government and regulatory agencies.

Crisis Simulations Maturity Model

Increasing maturity	Aware			Rehearsed			Prepared		
<b>Definition</b>	<ul style="list-style-type: none"> <li>Individuals and teams are aware of crisis management roles and responsibilities</li> <li>Basic understanding of how to use processes and tools defined in crisis management policy standard and supporting documents</li> </ul>			<ul style="list-style-type: none"> <li>Individuals and teams are practiced in applying crisis management processes and tools, including application of experiential judgment</li> <li>Supporting plans/procedures validated</li> </ul>			<ul style="list-style-type: none"> <li>Individuals and teams are trained, motivated, and engaged—a culture of preparedness</li> <li>Senior executives and stakeholders are confident that incidents of any nature can be managed in a controlled way</li> </ul>		
<b>Training (examples)</b>	<p><b>Initial training to:</b></p> <ul style="list-style-type: none"> <li>Raise awareness and build a consistent understanding of crisis management policy and supporting documents across key individuals and teams</li> <li>Familiarize key staff with individual roles and responsibilities</li> </ul>			<p><b>Enhanced training to:</b></p> <ul style="list-style-type: none"> <li>Develop understanding of how to use key crisis management documentation (e.g. decision models) and apply experiential judgment</li> <li>Enable staff to further understand their individual roles within key tasks</li> </ul>			<p><b>Advanced training to:</b></p> <ul style="list-style-type: none"> <li>Develop understanding of how to use key crisis management documentation (e.g. decision models) and apply experiential judgment</li> <li>Enable staff to further understand their individual roles within key tasks</li> </ul>		
<b>Simulation (examples)</b>	<p><b>Desktop</b></p> <ul style="list-style-type: none"> <li>Training based</li> <li>Informative</li> <li>Consensus building</li> <li>Walkthrough scenarios, passive environment</li> </ul>			<p><b>Simulation</b></p> <ul style="list-style-type: none"> <li>Practice crisis management roles and processes</li> <li>Examine assumptions</li> <li>Increased pressure and focus on timely decision-making</li> <li>Scripted, active environment</li> </ul>			<p><b>War games</b></p> <ul style="list-style-type: none"> <li>Stress-test assumptions</li> <li>Worst-case scenarios</li> <li>Cross group involvement</li> <li>Free play, interactive, resistant environment</li> </ul>		

## The Deloitte Center for Crisis Management

No one knows when a turn of events will demand the best your organization can deliver. No matter what form it takes—whether it's front-page news or a quiet struggle only you know about—crisis is a moment of truth that test your readiness, resilience, and character.

The Deloitte Center for Crisis Management is here to help organizations prepare for, respond to, and emerge stronger from major crisis events. The Center offers dedicated crisis management services through Deloitte member firms (Deloitte), bringing the full breadth of Deloitte's capabilities together into a comprehensive solution for clients facing major business-threatening crises. In addition to its global team of experienced crisis management specialists in the Americas, Europe/Middle East/Africa, and Asia Pacific regions, Deloitte has resources in every industry and discipline who can help bring experience and realism to crisis planning. Deloitte draws on simulation and war games expertise from Simulstrat, a pioneer in simulations and war games for public and private sector organizations with academic and military roots in the department of war studies at King's College London. In addition, the Deloitte U.S. firm's Federal wargaming experts bring their in-depth knowledge and techniques to crisis simulations.

Disruptive events bring not only danger, but also opportunity—the “unforeseen advantage” you can seize if you're prepared. To learn more, visit [www.deloitte.com/crisismanagement](http://www.deloitte.com/crisismanagement).

*This paper is part of Deloitte's commitment to provide insights that help board members and senior executives navigate the crisis management lifecycle, including readiness, response, and recovery.*

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