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Crisis Management A Point of View

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Introduction



From an accident that disrupts your supply chain to a firestorm in social media, companies manage minor crises all the time. It is part of doing business. But dealing with a major crisis is a different matter. The focus is on a major event, or series of escalating events, that threaten an organization's strategic objectives, reputation, or viability. It is the nature of crises to bring with them chaotic and uncertain environments, where impacts are difficult to assess and even more difficult to manage.

One such recent example is Nestle's Maggi 2-Minute Noodles that triggered India's worst food scare in a decade. Returned months later to the north Indian food inspector who first sent the samples — after a detour via Shimla in the Himalayas — the consignment eventually reached a laboratory in Kolkata, where tests found seven times the legal levels of lead. From there, what began as a minor labelling dispute that according

to a local magistrate could have been settled with a \$400 fine, spiraled into Nestlé's worst public relations crisis to date in India.

By definition, crises have far-reaching implications. Whether because of purposeful acts, simple mismanagement, or something else, crises begin small but often escalate into full-blown events.

No one knows when a crisis will demand the best your organization can deliver. These kind of crises lay bare the readiness and responsiveness of an organization. They test a company's values, leadership and character at a time when there is no room for error. In today's world, technology and social media have dramatically increased the visibility of crisis, which can lead to greater reputation risk. Among the S&P 500 companies, reputation accounts for close to 26 percent of market capitalization.

Escalating threats and their sources

Crises are often multi-dimensional and are growing in intensity and frequency. A series of escalating events or triggers — or even a combination of issues and events — could collectively result in systemic weaknesses that

undermine trust and reputation. The table below lists, what we believe, are some key triggers and threats leading to a crisis.

Trigger	Definition	Examples
Malevolence & cyber	Deliberate acts such as cyber attacks, identity theft or product tampering	110M customers' credit card info stolen
Misdeeds & financial crime	Fraud or other criminal activity	Rogue trader scandal costs bank \$2B
Financial disruption	Unforeseen failures that threaten a company's very existence	U.S. government debt limit negotiations
Technological & industrial	Complex systems fail, either through accident, mismanagement or sabotage	Recent derailed train explosions/incidents
Confrontations	Legal, commercial, geopolitical, military conflicts	Ukraine geopolitical crisis
Other catastrophes	Natural or man-made destructive events that disrupt almost everything	Superstorm Sandy

Addressing these kinds of threats requires organizations to step forward with decisive leadership and actions

that are wholly consistent with their core values and character.



What do you need to be mindful of?

It's natural to think of crisis in spectacular terms — physical catastrophe, international conflict or sudden financial failure. But in practice, a crisis is any high-consequence event that has the potential to threaten an organization's existence.

An organization needs a range of capabilities to manage crisis effectively, including clear command structure, common situational awareness and transparent communications. Crisis simulation is a demonstrated technique for developing and testing these capabilities using life like scenario models.

When crises are managed well, stakeholder value can actually increase. And, of course, the opposite is also true. There is no sure way to destroy value than in failing to manage a major crisis effectively.

Based on our experience, there are essentially five lessons about crisis management that C-Suite executives need to bear in mind:



Five key areas representing opportunities in crisis management:

- 1 **24/7 monitoring capability**, which is necessary to track all the relevant sources of data for potential business disruptions
- 2 Crisis **simulations** where events or relevant crises can be simulated for effectiveness, readiness and robustness
- 3 **Real-time response**, which considers an organization's ability to respond with the necessary expertise
- 4 Crisis **communication**, which delivers business insights and financial acumen to protect shareholder value
- 5 Fluid **enterprise architecture** that gives an organization the ability to respond to a crisis situation quickly while enabling it to address the crisis with the best tools in its arsenal — across all three facets of its architecture — people, processes and technology



How to start

First, decide on the objectives. Then think like a movie producer. Carrying out a crisis simulation is like 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 an MEL should be more than just a script — because a script follows a prescribed narrative line. An MEL enhances realism by anticipating and accounting for all the decision points in the simulation, so cause-and-effect remains realistic from beginning to the end. When participants interact with an 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.

Having information, analytics, and innovative tools that would likely be available in real crisis situations, combined with practical experience, is important to immerse participants in a fully interactive environment. These simulations can help organizations evaluate their response preparedness, while also providing the experience needed to be effective when a real crisis strikes.

A crisis simulation is an opportunity to develop capabilities, stress-test plans, evaluate coordination and communication, and preview real-time response capabilities. C-Suite executives, board members, and other key leaders are usually at the center of the action, but the simulation should also include the larger crisis-response organization, including field operations. Our approach is based on a distinct combination of military and academic rigor, and our own business experience.

Using our advanced simulation techniques, businesses can:

- Understand risks and their consequences
- Consider worst-case scenarios
- Align stakeholders and develop commitment to plans and strategy
- Build operational readiness for new processes or structures
- Train staff in roles and responsibilities
- Test plans, identifying gaps, and driving out false assumptions
- Measure the response capability of the organization to understand capability levels and improve response effectiveness





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