Crisis leadership
Guiding the organization through uncertainty and chaos
From the specter of domestic terrorism, to burgeoning cyberattacks, to catastrophic events that could exceed crisis plans, many companies are increasingly at risk of being felled by crises. Some potential crises are so serious that management’s ability to withstand the danger is being put to the test.

It’s the unseen or unanticipated crises that are potentially the most dangerous. An unanticipated crisis can easily overwhelm contingency mitigation techniques and risk management programs, such as business continuity, disaster recovery, health and safety plans, or emergency response. Management can even exacerbate a crisis if bad news is marginalized or otherwise ignored until it’s too late.

While many companies have a crisis plan in place, only a minority of those companies have actually tested their plans. What’s more, many crisis plans are inadequate. In fact, in a Deloitte online poll of more than 2,000 C-suite executives, managers, analysts, and crisis professionals from US and international companies, respondents were divided on who in their organizations would lead a crisis response. A large percentage also did not know what their biggest gap in crisis preparedness would be, and half of the respondents were not sure whether the crisis response team had been tested.

The first step in crisis preparedness: defining the crisis

A crisis is a major catastrophic event, or a series of escalating events, that threatens an organization’s strategic objectives, reputation, or viability.

Crises can be divided into two types: routine and novel. Routine events are the known risks for which organizations can plan and develop procedures. Examples include safety plans for manufacturers, recall plans for food companies, and liquidity plans for financial institutions, as well as disaster recovery and security plans for companies across industries.

Novel crises are the risks that exhibit unusual frequency and impact. Organizations typically don’t have plans for those events. They may be a confluence of two or three events that strike at the same time. Or they may simply be too big or unusual to be imagined. Hurricane Katrina, for example, was a novel event. It wasn’t just a large-scale hurricane; it was a large-scale hurricane accompanied by the catastrophic failure of New Orleans’ levee system.

For novel events, there’s no experience to draw from to manage or lead in that type of crisis. In the absence of pre-determined procedures, novel crises—whether they be natural disasters, terror attacks, cyber breaches, or malevolence such as shootings or inside sabotage and fraud—can test leadership’s decision-making and strategic-thinking abilities.

“Unexpected or novel events can threaten not just an organization’s people and buildings, but also their strategic objectives, reputation, and their actual viability. You could almost say that it’s an existential crisis in that regard. When it comes to major catastrophic or cascading events, typical business continuity plans, safety plans, and emergency response plans may not be enough.”

Rhoda Woo, Deloitte Advisory director and US crisis management solutions leader, Deloitte & Touche LLP
Of these novel crises, terror attacks are garnering the most concern. Respondents in the online poll mentioned above were asked which event their organizations were least prepared for. Terror topped the list at 36.4 percent, followed by cyber breach at 18.3 percent.

**Common stumbling blocks**
Leaders are faced with a range of challenges when dealing with novel crises. Despite these very different challenges, and these very different crises, there are some common stumbling blocks:

- Excessively focusing on fixing the incident, rather than leading the response and addressing the strategic impacts
- Failing to understand or underestimating the scale, breadth, and speed of the crisis and its unanticipated consequences
- Making poor decisions and unintentionally causing harm, due to bad or incorrect information in the first few hours of a crisis
- Not taking the time to make sense of the chaotic inflow of information and answering all the direct inquiries

**Key operating principles**
To help companies avoid these stumbling blocks, consider the following operating principles. Like the stumbling blocks, these principles are also common across all types of crises.

**Lead decisively**
The first step in responding to an unexpected or novel crisis is to assign ownership to a manager. Yet the Deloitte online poll revealed that there was no clear consensus on who that manager should be. When asked who in their organizations would lead a crisis, 37.8 percent answered the chief executive officer or the C-Suite. The second most frequent answer was the chief risk officer at nearly 14.7 percent. But almost a third of the respondents said they didn’t know who would be the designated leader.

Leading decisively during a crisis is paramount and, as part of that, the crisis leader needs to be identified. The CEO may not necessarily be the best choice. Companies must continue to run the day-to-day business, and concentration on just the crisis can cause normal operations to suffer. Therefore, other C-level executives might lead the crisis, such as the chief operations officer, chief risk officer, chief legal officer in the case of a major legal challenge, or an outside crisis manager.
Leaders sometimes fail to accept that they are even in a crisis, and then make poor decisions or become paralyzed as a result. Consider one company that was experiencing a liquidity issue. While management hashed out the issues and tried to decide how to keep their financial difficulties a secret, bills piled up and the bank loan defaulted. Everyone from employees to unpaid vendors knew that the company was in trouble; therefore, the crisis was leaked. Because leadership was late in defining the problem and then taking steps to address it, the problem ended up defining the company.

Decisive leaders negotiate a delicate balance: React too quickly, and they may act on bad information. Wait too long to receive “perfect information” and analysis paralysis may result in making no decision at all.

**Continuously frame the crisis**
Crisis managers should constantly analyze the crisis and identify it, down to the minutes, hours, and weeks. Rather than holding fast to the first impression and analysis of the crisis, be flexible to new information as it comes along. A process should be in place to analyze multiple events on a continuous basis and anticipate how the crisis might progress. If new analysis suggests a remake of the original plan, remake the plan. It’s all too easy to let incidents of any kind distract from managing the crisis. Staying focused is critical.

**Actively communicate**
During a crisis, it’s important to constantly communicate up to lenders and owners, down to employees and vendors, and outside to the media and public. Control the message by designating a crisis manager to be the sole spokesperson and to be the source of honest, consistent information. It’s also critical to keep a record of the facts that the crisis manager knows at each point of the process, in order to respond to potential lawsuits that may arise.

“Based on my 25 years in the FBI, I can say that every crisis—regardless of its size or impact—needs a quarterback. Determining who will take the lead in managing a crisis is necessary in order to lead decisively. But crisis leadership also means having empathy for the people affected and having the ability to ask very pointed questions of the right people at the right time to quickly identify the issues.”

Mary Galligan, Deloitte Advisory director, cyber risk services, Deloitte & Touche LLP
Information management and crisis communications are two key components in handling a crisis. But poll results indicated that those areas would present gaps in preparedness for some organizations—with 16.9 percent of respondents selecting information management as the largest gap, and 16.8 percent selecting crisis communications.

**Be ready for the unexpected**

Under extreme pressure, the crisis manager needs to know that individuals may act differently than normal, and that the usual organizational roles may not apply to a crisis. This can further add to the unpredictability of a critical event. To counteract that, any one manager should have limitations and should not be the only one to deal with a crisis. In advance, plot out when and how external parties may steer the crisis.

In addition, prepare to operate in a situation where there are no technology tools and/or information. For example, the disaster plan of a company based on the US’s Atlantic Coast had its employees work on their laptops from home in the case of natural disaster. To support this plan, data had been moved to a site in Nevada. But when Hurricane Sandy knocked out power both at the office and at employees’ homes, laptops and modems were of little use.

Many companies conduct simulations to test whether their crisis response teams and plans are ready for the unexpected. But many don’t. In Deloitte’s online poll, 52.7 percent of respondents were unaware of any simulation or test of the crisis management plan, and 14.8 percent didn’t know what a simulation is.

**During a crisis, which of the following do you believe would be your organization’s biggest gap?**

<table>
<thead>
<tr>
<th>Gap</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information management</td>
<td>16.9%</td>
</tr>
<tr>
<td>Crisis communications</td>
<td>16.8%</td>
</tr>
<tr>
<td>Decision-making process</td>
<td>14.0%</td>
</tr>
<tr>
<td>Response organization</td>
<td>12.9%</td>
</tr>
<tr>
<td>Private-public coordination</td>
<td>8.9%</td>
</tr>
<tr>
<td>Don’t know/not applicable</td>
<td>30.6%</td>
</tr>
</tbody>
</table>

**When did your organization last conduct a simulation of a crisis event?**

<table>
<thead>
<tr>
<th>Simulation Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I don’t know what a simulation is</td>
<td>14.8%</td>
</tr>
<tr>
<td>Table-top exercise in last 6-12 months</td>
<td>14.6%</td>
</tr>
<tr>
<td>Detailed simulation in last 6 months</td>
<td>9.9%</td>
</tr>
<tr>
<td>Detailed simulation during my tenure</td>
<td>8.0%</td>
</tr>
<tr>
<td>Unaware of any simulation or testing</td>
<td>52.7%</td>
</tr>
</tbody>
</table>
When in the midst of a crisis, leadership must often navigate confusing data and intelligence. It’s important, therefore, to cast a wide net, as crucial information can come from a range of sources, including customers and employees. But those sources must be qualified, as misinformation can be as prevalent as information.

In addition to listening to inside voices—an anonymous company tip line within the organization is one good technique—management can detect early warning signs by engaging a third-party risk assessment professional. Because a third-party analyst has no vested interest in the outcome, it can be a valuable resource for minimizing conflict within the organization.

**Improving the organization’s crisis management lifecycle**

The timeliness and effectiveness of an organization’s response in crisis often determines how it fares afterward. And front-loading a crisis management approach with a strong emphasis on readiness and preparation can help organizations more effectively stay ahead of potential threats.

Ideally, organizations should think of crisis management in terms of a cycle—moving from preparation to response to recovery, and then around again—applying lessons learned from one stage to the plans and processes that support the other stages.

By identifying and preparing for strategic risks, and then leveraging a broad portfolio of tools—including simulation, monitoring, response, and communications—the organization can tap into an integrated system that will be at the ready should crisis strike.

“Leading decisively—which is critical to surviving a crisis—will also result in mistakes. But the key is to acknowledge that and to be willing to back up, change course, and go forward again. Great turnarounds and great crisis leadership are not built on micro-incrementalism. They are built on bold and decisive acts, and on the courage of leaders to recognize mistakes and make adjustments accordingly.”

William Snyder, Deloitte Advisory principal and corporate restructuring group leader, Deloitte Transactions and Business Analytics LLP
How Deloitte can help

Deloitte’s Crisis Management Solutions provide resilience and disaster management services to public and private sector clients in nearly every industry and supply chain, helping them sense, prepare for, respond to, and recover from major crisis events.

Our professionals have experience across all phases of the crisis management lifecycle in the areas of strategy, policy and planning, governance, financial and regulatory compliance, capital projects and infrastructure oversight, housing recovery, business intelligence, data analytics and reporting, geospatial analysis, human capital, stakeholder engagement, outreach, and more.

We can help you go into any crisis prepared. And come out strong.

Contact us

Mary Galligan
Deloitte Advisory Director
Cyber Risk Services
Deloitte & Touche LLP
+1 212 492 3749
mgalligan@deloitte.com

William Snyder
Deloitte Advisory Principal
Corporate Restructuring Group Leader
Deloitte Transactions and Business Analytics LLP
+1 214 840 1721
wksnyder@deloitte.com

Rhoda Woo
Deloitte Advisory Director
US Crisis Management Solutions Leader
Deloitte & Touche LLP
+1 212 436 3388
rwoo@deloitte.com

Crisis trigger

<table>
<thead>
<tr>
<th>Prepare</th>
<th>Respond</th>
<th>Recover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic risk/ERM assessment</td>
<td>Crisis management planning</td>
<td>Crisis communications</td>
</tr>
<tr>
<td>Periodic and frequent review of the strategic risks that pose significant threat to the business objectives</td>
<td>Proactively putting mechanisms in place to reduce business disruptions in case of any unforeseen event</td>
<td>Navigating traditional and social media to pre-empt reputation threats, and managing stakeholder outreach</td>
</tr>
<tr>
<td>Scenario planning</td>
<td>War-gaming &amp; simulation</td>
<td>Real-time response</td>
</tr>
<tr>
<td>Assessing the key risks associated with the business and building scenarios from them to plan for an unexpected, yet foreseeable future</td>
<td>Immersing leaders and employees in a simulated environment to evaluate their response effectiveness and organizational preparedness</td>
<td>Deploying an expert team to support management in dealing with the crisis event and its fallout</td>
</tr>
</tbody>
</table>

24/7 monitoring

Constantly tracking and monitoring sources of internal and external data to provide real-time situational awareness, and identifying leading indicators for potential crises
Endnotes

1. Poll conducted during the January 29, 2015, Deloitte Dbriefs webcast, “Crisis Leadership: Strategies for Effective Decision Making Amid Chaos.” Polling results presented herein are solely the thoughts and opinions of survey participants and are not necessarily representative of the total population.


3. In Managing Crises: Responses to Large-Scale Emergencies, some crisis situations are categorized “as routine emergencies, not because they are ‘easy’ but because the predictability of the general type of situation permits agencies to prepare in advance and take advantage of lessons from prior experience—even when circumstances are quite severe.”

4. Again, from Managing Crises: Responses to Large-Scale Emergencies: “crisis emergencies are distinguished by significant elements of novelty. These novel features may result from threats never before encountered; from a more familiar event occurring at an unprecedented scale, outstripping available resources; or from a confluence of forces, which, although not new, in combination pose unique challenges. Crucially, novel circumstances may make routine response seriously inadequate or invalidate it entirely, making it counterproductive.”