

Chapter 2

Defining crisis management strategy

You must have a Board-approved crisis management strategy.

Support from the very top of the organisation is essential if the crisis administrators are to be effective in changing the culture of the management team and obtaining the necessary budget approvals to build the infrastructure that will be so important in the event of a major problem.

What is a crisis?

The strategy should define the word **crisis**, in corporate terms. In other words, the Board should start by setting out its stall as to what types of event, and extents of disruption/damage are covered by the strategy.

This section might start with a general definition, such as: ‘**Any event that threatens the continuation of the organisation or its ability to attain its corporate objectives.**’ This, however, requires more detail, which might take the form of statements of guidance that show that the Board understands the risks faced by the business. The Board will need to have clear ideas on what would turn a localised problem into a crisis. What are the trigger points?

- Cost?
- Duration?
- Extent?
- Reputational impact?

Cost

Looking at ‘**cost**’, a bank Board might take the view that a sudden diminution in its asset value, or a sudden increase in its liabilities, above a certain level, should be regarded as a corporate crisis. The Barings debacle makes this point particularly well:

A bank trader, operating overseas in the derivatives markets, committed the bank to liabilities above and beyond his mandates – more importantly, market movements (the externally generated killer risk, in this scenario) took the commitments above and beyond the bank’s ability to honour them. That this was a crisis is self-evident – the bank failed as a result – but was the possibility of such a crisis recognised in advance and planned for? The questions surrounding preventive and detective controls, coupled with the availability and use of relevant and timely management information in this case have filled many pages, but for our purpose it exemplifies the crisis potential of sudden, unexpected, major costs.

Duration

‘**Duration**’ is another important element of the equation. It might be argued that if Barings could have quietly worked through its liabilities over, say, a five-year period, and without public scrutiny, it could have survived. Sadly, that was not an option – the markets required immediate settlement, or the confidence that this was possible.

Taking another example, a Board might look at IT service provision and take the view that, if the organisation’s computer systems go down during business hours, there should be (say) a three hour period before a corporate crisis is declared. Obviously, such considerations would depend upon the extent to which the conduct of business is reliant upon the computer and the availability of standby systems. Similar considerations apply to denial of access to premises. A three-hour denial caused by a bomb hoax or a fire alarm, might be something that the organisation would take in its stride and deal with as an operational inconvenience. On the other hand, the possibility of denial for 24 hours with no certainty of a return to normality would be categorised as a corporate crisis by most Boards.

Extent

This is fairly straightforward. If an organisation that has over 100 retail outlets loses one of them, it might take the view that there is a perfectly viable contingency plan for such an event and there is no need to call a corporate crisis. The contingency plan might involve the Services and Operations Departments working together to relocate the business of that particular outlet and keep its customers informed. In fact, such an episode might be ‘spun’ to demonstrate the organisation’s resilience – as long as it all went smoothly. The situation would, of course, be more serious if (say) a cluster of five outlets were lost simultaneously.

Reputational impact

This can be the most damaging element. Otherwise insignificant events can be magnified out of all proportion once reputation is questioned. A Board will be aware that reputational impact can accrue from many situations and it is important that a management team recognises the danger signs early enough to take whatever countermeasures are available. When defining its position on reputational impact, a Board would do well to acknowledge the seriousness of this element and leave its management team to declare a crisis at the earliest possible point in time.

Crisis trigger points

Whatever measures the Board uses to indicate the trigger points at which corporate crisis mechanisms should be invoked, it must acknowledge the right of management to declare a crisis in advance of those points being reached. The thresholds stated in the strategy document should, therefore, be the points at which crisis mechanisms **must** be invoked – earlier invocation is management’s only option – exceeding the trigger points is likely to be considered dereliction of duty and the strategy document should make this clear.

Infrastructure

Board strategy should specify the crisis management infrastructure, that is to say the mechanisms with which a crisis will be handled – the framework that will be employed. This will include the teams that will be called upon, their authority and responsibilities, and the reporting mechanisms that will apply.

Mission

In view of the fact that crisis mechanisms will take precedence over normal line relationships, the strategy needs to delimit the duration of their existence, so as to make it clear when those normal relationships will be resumed. To this end, the crisis management mission should be clearly defined. It might include the following words:

- Work (with the authorities) to neutralise the crisis event and limit escalation.
- Protect the organisation's assets and staff.
- Safeguard the organisation's reputation.
- Authorise remedial works/temporary solutions.
- Oversee the resumption of normal business activities.
- Hand overall control back to line management on completion of the above.

The above are self-explanatory, but the first bullet point acknowledges that, in many situations, the crisis management team will have to work with (and, in some cases, under the direction of) the emergency services. This will inevitably mean that there will be times when public safety will take precedence over the corporate crisis mission statement. This is unavoidable and it is therefore essential that crisis leaders do everything possible to forge close relationships with those in charge of the emergency services on site, in the hope that some consideration will be given to the plight of the business when borderline decisions need to be made.

Of course, you might just get lucky, as was the case with a large U.K. insurance company that was denied access to its offices following a terrorist-bombing incident. The offices had been very badly damaged and the police had thrown an exclusion cordon all around the site – nobody was allowed in, apart from the authorities. This situation was causing the insurance company some distress, as

can be imagined. They had no idea how long the denial of access would continue and there were a number of important documents within the premises, which required urgent action. As a last resort, somebody (let's call him the insurance company's crisis administrator) produced to the police an extract from the Business Resumption Manual, which stated that **'in the event of a crisis, the crisis administrator shall immediately retrieve the *documents from the head office building and deliver them to the corporate crisis centre'**. It may have been that the wording sounded like an order. Whatever the reason, the police officer in charge organised an escort to accompany the crisis administrator into the building to retrieve the documents.

Don't count on it working again – but, if you're desperate it's probably worth a try.

State of readiness

Finally, the strategy document should specify the state of readiness to be expected of the organisation. This will include the ongoing arrangements for maintaining the crisis management infrastructure, as well as the extent to which those arrangements, and the infrastructure itself, should be tested. These subjects are dealt with in some detail in later chapters.

The crisis management framework

In summary, the strategy document should present an overview of the framework for crisis management by addressing the following elements:

- What may be regarded as a corporate crisis.
- Where crisis leadership resides.
- Authorities and responsibilities during a crisis.
- Aims and objectives of crisis management.
- The point at which a crisis ends.
- Maintenance of the crisis management infrastructure.
- Testing the crisis management infrastructure.

Things you need to know...

CRISIS MANAGEMENT STRATEGY

KEY QUESTIONS

- 21** Is there a crisis management strategy document?
- 22** Has it been approved by the Board?
- 23** Have any crisis declaration trigger points been defined?
- 24** Is there a formal crisis management maintenance function in place?
- 25** Have the aims and objectives of the crisis management function been defined?
- 26** Do we have contacts with the emergency services?
- 27** How ready are we to deal with a crisis?
- 28** What are the crisis management testing arrangements?