

CHAPTER 1

WHY CRISIS PROOFING IS IMPORTANT

Crisis proofing is a low-cost investment which has a real bottom-line return. Nothing destroys reputation faster or deeper than an issue or crisis mismanaged. Just ask Volkswagen, BP or FIFA. This book features many such examples of the high probability of a crisis occurring and the terrible cost of not being prepared.

There's also the high risk of a crisis turning into a terminal disaster, and I will show worrying data that any organisation struck by a crisis has at least a one in four chance it won't survive. Think no further than Enron, WorldCom, Arthur Andersen, Lehman Brothers or Ansett Airlines.

So, crisis proofing should not be a priority because it's a new management fashion, or because it will help executives avoid being embarrassed at the golf club. It should be a priority because taking steps to recognise emerging issues and to effectively manage crises protects people and the environment, protects strategic objectives and protects reputation, which in turn protects the entire enterprise. This interconnection is no theoretical assertion. It's a reality of the modern organisation, and the single most important factor in effective crisis proofing is leadership.

A few years ago the veteran British commentator Bill Sweetman wrote:

Since White Star Line President Bruce Ismay hopped into Titanic's Collapsible Boat C and left 1,502 of his employees and customers to drown or freeze to death, companies have been looking for better ways to respond to a disaster.¹

While Sweetman's conclusion was maybe just a little overstated, no one could dispute the sentiment. It's also a reminder about the role of senior executives, and of a central theme throughout this book; specifically, that crisis proofing and crisis management are not just about response—what to do when the crisis strikes, or when the ship hits an iceberg—but about all the steps that need to be taken in advance.

It's this integration of ongoing management processes where executive leadership is essential—to lead from the top by example (unlike Mr Ismay of the White Star Line); to identify issues and crisis threats early; to assign sufficient resources to make a difference; to break down cross-functional barriers and promote integration of processes and systems; and to drive crisis proofing as an organisational priority.

In fact, everything in this book leads to one overriding conclusion—responsibility for managing issues and crises resides absolutely at the top of the organisation and cannot properly be delegated downwards.

CRISIS PROOFING AS A GOAL

What is the goal of crisis proofing and what does a crisis-proof organisation look like? To optimise protection, your organisation requires four interlocking steps, outlined below. In a later chapter I introduce a relational model to graphically illustrate how they fit together.

THE FOUR KEY PHASES OF CRISIS PROOFING

- 1 Crisis preparedness—getting ready in case a crisis strikes
- 2 Crisis prevention—proactive steps to help prevent the crisis from occurring in the first place
- 3 Crisis incident response—activating proper plans to respond to the crisis and minimise ensuing damage
- 4 Post-crisis management—dealing with the risks, particularly financial and reputational, which frequently occur after the crisis event itself is over.

A crisis-proof organisation has all four major elements in place—with direct support and involvement from top management—in order to achieve two strategic outcomes: (a) reduce the likelihood of a crisis occurring and (b) minimise damage if a crisis does occur. In other words, resistance *and* resilience (as defined in the Preface).

While the key phases of crisis proofing will be expanded and explored in due course, right now I would like to introduce one other very important concept—the distinction between crisis preparedness and crisis prevention.

This is one of the least understood areas of crisis management and it lies at the heart of our objective—namely, strategic, integrated crisis *management* as opposed to tactical crisis *response*. This in turn is central to crisis proofing the organisation.

A helpful way to think about this distinction is to consider home security. Let's assume you are a responsible homeowner. You will most likely take out insurance to provide financial assistance in the event that your house suffers fire, flood or burglary. But the insurance policy itself does nothing to prevent the fire or flood or to deter the burglar. Although it's very important, it comes into play only *after* the event. Thus it can be seen as the equivalent of crisis *preparedness*—it's only useful when the event has already occurred.

However, as a responsible homeowner you don't just take out insurance (crisis preparedness). You also install burglar alarms, smoke detectors and security locks on doors and windows; that is, you take protective action before the event to reduce the risk of fire and burglary. These actions might be called the equivalent of crisis *prevention*.

Most importantly, as a responsible homeowner you would never do just one task and think the job was done. Effective home security requires both advanced planning to provide protection if it all goes wrong (crisis preparedness) and proactive actions to keep your home safe (crisis prevention). In exactly the same way, organisations need both crisis preparedness and crisis prevention.

Sadly, companies sometimes develop a crisis manual (which sits on a shelf gathering dust) and undertake an occasional crisis simulation or team training exercise and think they are done. It's only when a crisis strikes that they discover how wrong they are.

IS CRISIS PROOFING REALLY POSSIBLE?

Let's get this clear right away. It simply is not possible to make any organisation *totally immune to every conceivable crisis*. If a guarantee is what you want, then you'd do better to look for all that paperwork which came with your latest home appliance (and you likely didn't bother to read at the time).

But it *is* possible to protect your organisation from the risk and impact of crises, and that's what crisis proofing is all about. However, the reality is that absolute crisis proofing can't be done, any more than you can produce a watch which is waterproof under all conceivable conditions; or erect a building which is earthquake-proof in the face of the greatest-magnitude quakes capable of levelling entire cities; or weatherproof your home against a tornado which could blow the entire building away. As Madame Butterfly sings in my favourite opera: 'A storm can uproot the strongest oak.'

But that's no reason not to try to design everyday watches which are *more* resistant to water; or create buildings which will stand up to *most* tremors and minimise casualties when an earthquake strikes; or to make homes which are *more* stormproof.

Exactly the same applies to striving to make organisations *more* crisis proof and less vulnerable to disastrous consequences. It's no guarantee, but it's certainly worth the effort. Just think about the devastating impact a major crisis could have on your organisation. I mean *really* think about what's the worst thing that could possibly happen, no matter how unlikely. And how badly would it affect you? Got that clear in your mind? Now, the only real question is what steps are you taking to protect your organisation from such a crisis?

The idea of proofing goods against adverse outcomes is a common one—from waterproof jackets to leak-proof pens and fireproof safes. And don't even get me started on creative labels such as smudge-proof mascara and kiss-proof lipstick!

Apart from obviously cosmetic claims, society has come to accept such language, even though we know that many waterproof jackets are showerproof at best; that leak-proof pens won't survive rough handling; and

that fireproof safes will preserve paper documents from fire but are useless at protecting heat-sensitive electronic media such as CDs, DVDs, flash drives and computer discs. In addition, experts tell us that fireproof safes are typically less resistant to being forced open by determined thieves.

Similarly, we know that childproof locks can be a challenge rather than a barrier to adventurous kids. Indeed, the effectiveness of locks caused a major crisis for the Kryptonite company when young people on social media showed how to open Kryptonite bicycle locks in seconds with nothing more complicated than a ballpoint pen and some online instructions. YouTube videos racked up over a million views and, with the story spreading to the mainstream media, the embarrassed company was forced to change some locking mechanisms and exchange 380,000 locks worldwide.² One expert claimed the problem cost the company US\$10 million, which was almost half its annual revenue at the time.³

So, in a world full of nervous lawyers and mealy-mouthed phrases like ‘an excess of caution’, companies and regulators have come up with an entire vocabulary designed to modify perceived consumer expectation and to reduce legal liability.

CRISIS PROOFING DEMANDS LEADERSHIP, NOT JUST TOOLS

The ill-fated US energy trading company Enron was once a media darling and regarded as a great corporate citizen. It was listed as the most admired global company in the year 2000; for six years it was ranked the United States’ most innovative company; and it enjoyed three years rated as one of the best companies to work for. But in early 2001 it collapsed into financial disaster, with its senior executives sent to prison for dishonesty.

In terms of crisis preparedness, communications expert Robert Heath says Enron developed a mammoth database monitoring and response system that could track threats and opportunities, calculate impact on business plans and operations, and suggest coordinated responses. He said this was the ‘essence of an excellent issues management program’. But it had at least one fatal flaw—namely, no commitment to corporate responsibility that truly reflected the reality of sound business practices, rather than what he called ‘sheer opportunism’.⁴

IS MY WATCH WATERPROOF OR WATER-RESISTANT?

The watch industry gives us a good example of the importance of language. The International Organization for Standardization (ISO 22810) forbids the use of the term ‘waterproof’ in relation to watches. It contains specific requirements for how to grade ‘water resistance’ from the humblest wristwatch, through ‘sports watches’, to the most sophisticated timepieces designed for deep-sea divers. A common description is ‘water-resistant to 30 metres’ (3 ATM). However, officially that actually means: ‘Suitable for everyday use. Splash and rain resistant. Not suitable for showering, bathing, swimming, snorkelling, water-related work and fishing.’

In other words, despite the label, it is not expected to continue to work at 30 metres underwater. In fact, some watches labelled ‘water-resistant’ are not even recommended to be worn while washing your hands.

Other industries have also tried to address the uncertainty of ‘proofing’ their goods. Take the pharmaceutical industry, which had to face up to this problem in the wake of the notorious Tylenol crisis in 1982. When unknown persons spiked headache capsules with cyanide, killing seven people in the Chicago area, new types of protective packaging were rushed into production.⁵ Today, most countries have official standards which mandate the language and level of protection to be used in relation to drug packaging, and include legal definitions such as child-resistant and tamper-proof or, more commonly, ‘tamper-evident’.

The term ‘tamper-resistant’ (rather than ‘tamper-proof’) is even used to describe sealed nuclear reactors (SSTAR) designed for developing countries to prevent them from using reactor material to make nuclear weapons.⁶ Tamper-resistant nuclear plants? That’s hardly reassuring.

If we can readily accept the idea of making consumer goods proof against adverse consequences, it’s hardly a stretch to apply the same concept to organisations. But we have to accept that it’s not possible to make any organisation totally proof against every conceivable crisis. Unlike, for example, the official standard for drug packaging, crisis management is not governed by enforceable regulations. Therefore, crisis proofing is not a guarantee or an absolute condition. It is, in fact, more of a leadership goal.

And for any executive accustomed to the strategic territory of vision, mission, goals and objectives, the concept of crisis proofing the corporation as a stretch goal should be entirely familiar.

CHAPTER KEY TAKEAWAY

It's not possible to totally crisis proof any organisation. But there are proven practical steps any leader can take both to reduce the chance of a crisis happening and to reduce the impact and duration of any crisis which does occur.