ANZSASI REGIONAL SEMINAR – AUCKLAND JUNE 2002

CRISIS MANAGEMENT

INTRODUCTION

The subject of this paper is the need for thorough planning of managing long term responses to major emergencies, to ensure that company losses and damage to reputations are minimised. In many respects, the way in which a company responds to ongoing challenges as time passes may determine if the company can survive a continuing crisis. Actions after major accidents and other disasters in various parts of the world have shown the value of being prepared for the type of event that everyone hopes will never occur.

There are many definitions of what constitutes a crisis, but for the purpose of this paper, a crisis can be regarded as:

> 'the adverse effects of some event in the life of an organisation, which result in a time of extreme difficulty for an unspecified duration for those concerned'.

Hence, unlike an emergency response, a crisis can (and frequently will) continue for a protracted period. Nevertheless, the planning processes should be interlinked to ensure that the company is able to take appropriate initial actions, and then continue managing the crisis for an unspecified duration.

Ultimately, the aim of comprehensive emergency response and crisis management planning is to minimise pain and suffering of all associated with an emergency event and to ensure that the affected company will survive. This paper examines the various considerations associated with planning company responses to disasters, emphasising the need for thorough preparations well in advance.

EMERGENCY RESPONSE AND CRISIS MANAGEMENT PLANNING

The economic and social effects of aircraft accidents (or 'crashes'), including loss of life, destruction of property and dislocation of communities, cannot be overstated. Planning for the crisis that may face the company is the key to minimising the harmful effects of such events. Around the world, experience has shown that communities and organisations that have effectively applied comprehensive emergency planning and crisis management processes are better able to cope with the impact of adverse events and recover from the ensuing period of difficulty.

Professor James Reason of Manchester University has carried out considerable research and has published a great amount of material on 'Organisational Accidents'. Reason's (1997) work on latent and active failures and in-depth defences and the dangers of neglecting or forgetting the effects of things that rarely happen, is just as valid in emergency response and crisis management planning as it is to the production and transport organisations featuring in his studies.

For example, Reason has offered the thought that when an organisation operates for a lengthy period without experiencing an accident or serious incident, a mindset develops in the organisation that less effort need be devoted to safety considerations. In this situation, safety is eroded as productive demands gain the upper hand. As a result, investment in safety measures declines, more capital is devoted to productive growth, and the whole operation becomes less safe. The consequence is an increased risk of catastrophe. The corollary of this line of thinking is a similar effect in an organisation's response preparations. In short, 'We have a safe operation, we have not experienced an accident for years; why should we spend time and effort on preparing for the effects of an accident? We would be better off investing more money in additional equipment that is going to generate income'.

Company executives, and particularly airline safety managers and airport operators, need to guard against such thoughts to ensure that their response preparations do not suffer. They need to promote the value and wisdom of preparing for the unexpected. Devoting scarce resources and spending money on preparations for responding to, and recovering from an accident may appear difficult to justify, but an old adage applies.

> 'If you think spending money on safety and preparing for an accident is wasteful, try having an accident when you haven't done any preparations.'

Reason's (1997) studies have included high-reliability organisations as targets - systems or companies having less than their 'fair share' of accidents. He found that people who operate and manage these organisations do so on the premise that 'every day will be a bad day', and prepare for the consequences of a 'bad day' accordingly. This attitude can be very difficult to sustain, particularly in time of economic pressure, and managers need to resist any temptation for complacency. It is the company that continues to operate in this way, considering and preparing for adverse events, that is less likely to experience a serious accident. Nevertheless, if it should meet with such a misfortune, it will invariably be prepared for that day.

THE NEED FOR CRISIS MANAGEMENT PREPARATIONS

A crisis is the most intense period of media, public and legal scrutiny a business, its executives and officers are likely to experience, and if not addressed adequately, will lead to major difficulties for the company. Probably more than any other recent event, the 11 September terrorist attacks in the USA have highlighted the importance of businesses having well-developed crisis management plans capable of responding to a variety of adverse occurrences.

Most organisations (and particularly those associated with the aviation industry) have emergency response plans in place. However, many do not consider the ramifications of a response requiring long term action, and the guidance of an efficient and effective crisis management plan.

An organisation will face many risks after experiencing a disaster, but they can generally be grouped as operational, socio-political, financial, and legal risks. For an airline, operational risks could relate to loss of assets (ie aircraft and personnel), inability to provide a satisfactory customer service etc. Socio-political risks could be acts of war and the possible need to select new routing, economic trends (downturns etc), and new government regulations. Financial risks relate to foreign exchange rates, stock prices, and investment return; and legal risks most frequently arise out of contract and product liability and the organisation's handling of other risks.

Also in the legal risk bracket is the possibility of negligence by an organisation. If legal processes can establish that a crisis arose as a consequence of negligence, possibly because the way the company ran an operation allowed the crisis to come about, or because it failed to adequately supervise contractors, or it failed to warn customers about possible problems, or it failed to have systems in place to deal with an emergency or a crisis, a claim of negligence could be made. Damages can be sought for business interruptions, breach of contract, and so on.

A crisis will invariably bring a range of miscellaneous costs to an organisation, as will the preparations that are necessary to cope with a crisis. The organisation needs to balance the costs of preparation with the potential costs of not being prepared. Invariably, preparations to manage a crisis will cost much less than the effects of the crisis if the company is not prepared.

The actual cost of a crisis can be difficult to quantify, even after the long term effects have subsided. However, a crisis can cause considerable public relations damage that can take years to recover from, if at all. Exxon's name will be forever linked to the Exxon Valdez disaster. At the very least, a crisis is likely to result in a significant increase in the cost of insurance, and even difficulty in obtaining insurance. It can also result in damage to reputation and the value of company shares.

Even companies not directly affected by a crisis can face similar increased costs after some crisis, and aviation events are a typical example. For the aviation industry, companies need to implement risk-management strategies to deal with certain risks.

Having a crisis management plan in place is not sufficient action to enable an organisation to 'rest on its laurels', but the existence of such a plan will at least represent a starting point. To be considered an effective plan, a crisis management plan needs to represent 'reasonable' standards expected of the public. It does not need to ensure that an affected company will continue its operations unchanged after a disaster. In other words, it should reflect the standards of a 'reasonable' person, appropriately trained and qualified. Hence, the plan needs to be developed, considering that staff are capable of carrying out those duties expected of them, and are given sufficient ongoing training to assure supervisors and executives of their competence. Experience has shown that often, businesses have crisis management plans in place, but staff are not trained to implement them.

In spite of all reasonable preparations, terrorism insurance has now become extremely expensive, and some insurers will simply not provide this cover. Given that this may force organisations to self insure against terrorist attacks, the importance of these companies maintaining comprehensive crisis management strategies is self-evident. Clearly, the type of strategies necessary to ensure a company's survival will vary from organisation to organisation.

These measures may appear costly but could prove invaluable in the long term. For example, in September 2001, one firm occupied more than 50 floors in the World Trade Centre, yet the back up systems the company had in place in different locations enabled it to bring business back to normal within a relatively short period of time. In months leading up to September 2001, the company was spending US$100,000 per month to run its back up systems, an amount that at first glance could appear exorbitant, but long term, the investment proved worthwhile.

As far as the actual planning process is concerned, there is a close relationship between emergency response preparations and crisis management, so all planning of this nature needs to be integrated. A crisis management explanation can be included as part of an emergency response plan, or produced as a stand-alone item; a separate planning document that is activated by senior management when some adverse situation attracts significant media and public interest. The key is thinking about the issue in advance and preparing.

For a crisis management plan to properly cope with a crisis, it will require well conceived and implemented risk management strategies and a well trained, well prepared crisis management team, featuring high level management. Without senior executive support and participation, the plan will almost certainly not succeed. Strategies should be comprehensive and should address every element of the company's day to day functions. Provided that this occurs, the business will be well on the way to managing the crisis.

MANAGING THE CRISIS

Perhaps the major difference between an emergency response and crisis management, is the possible duration of the crisis. The objective of a crisis management plan should be sufficiently broad to enable those with high level corporate expertise to be able to focus on the solution of major problems concerning ongoing company viability, not just the detail of responding to an emergency. Executives need to be able to stand aside from those short term emergency considerations to concentrate on getting the company out of trouble.

The control and co-ordination of all actions, and the resources that should be deployed in response to an event that has caused significant disruption to an organisation's operation need to be addressed as part of a company's planning process. If the planning has not taken place, a company's ability to react appropriately in order to continue, or resume, operations will be severely inhibited.

In global terms, a crisis could result in several major setbacks, depending on the particular industry. For example, the crisis could:

- be the result of a direct loss of existing major assets (human and material); eg an aircraft accident;
- be the risk of losing the market or clientele;
- require very tough decisions on the part of senior management (eg major staff cuts if the organisation is to survive); and
- require the diversion of resources and effort away from ongoing operations, in order to achieve a satisfactory recovery.

This final point is critical. If companies try to muddle through the situation without consciously devoting appropriate resources to the problem, they may be hard pressed to survive.

In any emergency planning and crisis management deliberations, a prudent approach is always to plan for a worst case scenario. It is easier to step back from that approach than to suddenly be confronted with something beyond imagination. Arguably, such a worst case scenario materialised in the USA on 11 September 2001. Even those airlines not directly affected by the hijackings were immediately faced with crises of varying magnitudes and they all needed to take decisive action just to survive. Because of the downturn in demand for seats, US airlines needed to act quickly to dismiss thousands of employees.

Airlines requested billions of dollars from the federal government, but airports also faced major concerns. Losses in the millions of dollars were experienced at many major airports, but the impact of the events was equally serious for small regional airports which had air traffic virtually cut overnight.

Boeing had major worries too when orders immediately declined. In spite of financing some of its sales, Boeing may still need to lay off large number of employees by the end of 2002. There is no doubt that some companies faced (and are still facing) a major crisis.

The effects of 11 September were not confined to the aviation industry. Insurance companies, financial establishments, commercial entities etc were faced with a situation that was almost beyond belief. Unfortunately, many of those did not have any special plans in place. Most insurance and finance companies have Business Resumption Plans, but when headquarters, property, and large numbers of staff are wiped out, they need to be able to deal with the inevitable crisis in order for their businesses to resume. This was the situation facing the company occupying 50 floors of the World Trade Centre (as described in the previous section)

Terrorist attacks highlight the need for industry in general to be prepared for crises. Even the insurance industry was not immune. Probably the biggest insurer in the world, Lloyd's of London experienced financial concerns during those critical weeks after 11 September. Insurance payout figures may never be known with any degree of certainty or accuracy, but insurance companies certainly needed to respond to the crisis.

Hence, it is not just the aviation industry that needs to concern itself with crisis planning. However, the aviation industry, and airlines in particular, are probably more susceptible than most and are frequently faced with long term crisis management measures. An example was the action by TWA in dealing with relatives after its Boeing 747 accident off the coast of New York in July 1996. Some of the bereaved remained in local hotels at airline expense for about a year, during which time media scrutiny remained intense. As well as the financial cost of such an arrangement, the airline needed to appoint staff members to continue attending to the needs of the families.

Credibility of senior executives and of the company is vital in managing a crisis. Maintaining a positive psychological company image is essential. When a company faces a crisis, the public will make judgements about that company and will continue to make judgements as time passes. The perceptions of the public will usually be based on the company's response to events as they unfold. These perceptions can be shaped by the media, government, emergency services personnel, and most importantly, by the company itself. How senior executives in particular appear to be coping with and managing the crisis will be of paramount importance.

A key factor in managing a crisis is the need for crisis management functions to be kept separate from day to day operations. There needs to be close interaction between 'normal' operations staff and the crisis management team, but to attempt to integrate these two components is to risk conflicts of interest surfacing, and resultant action that may not be best for the organisation. Clearly, additional staff will need to be available to manage the effects of the crisis.

To successfully manage a crisis, several factors are critical. These include:

- effective planning;
- sound organisational arrangements;
- easily understood command, control and co-ordination arrangements;
- clearly stated information management requirements;
- timely activation of response and crisis management plans; and
- ongoing high level support.

In an international conference in Paris in 2000, a statement concerning the effect of an aircraft accident on company profitability was made.

> 'A recent accident led to an initial drop of 40% of rider-ship, which stabilised at around minus 19% six months after the event. On the route on which the accident occurred, the load-factors were still down by 50% six months after the event. According to the airline's economist, it took close to one year to get the traffic back to normal, thereby turning the balance sheet of the airline upside down.'

Lastly, the importance of strong leadership needs to be highlighted. There have been many historical examples, and the polar expedition led by Sir Edmund Shackleton some 80 years ago illustrates the point. Most observers would say that the expedition was a failure, yet in spite of not reaching his destination, losing his ship and very nearly his crew, his men later spoke warmly of Shackleton's leadership. They paid tribute to his attention to crew members, listening to concerns, explaining and guiding, and taking firm action when necessary.

Vital in crisis management is the ability to understand and work effectively with a variety of people, and to recognise their effort and achievement. New York's former Mayor Guiliani demonstrated these grass root skills, and proved an inspiration to those around him through his actions after the 11 September attacks.

For a final word on leadership, Colin Powell, US Secretary of State and former Army General said that, 'The leader needs to be responsive to the needs of the people who will ultimately produce the results.' These are wise words indeed and are most applicable to those faced with the task of managing a crisis.

CRISIS MANAGEMENT SUMMARY

An article in Australia's Business Review Weekly (published before 11 September) discussed crisis management planning. The writer of the article utilised a two stage process of planning and responding to outline the writers thoughts on the process.

Planning

- Identify stakeholders – who do you need to involve in the planning process, and who will you need to appease in a crisis?
- Management workshop – consider things that go wrong (worst case) and how you might react.
- Appoint planning staff
- Develop crisis management plan
- Allocate tasks and responsibilities – ensure you know who will form your crisis management team; and that you have sufficient trained people to focus solely on the running of the business.
- Study others – look at the reactions that other companies have employed; and the results obtained.

Responding

- Be truthful. Ensure the company, not the media, is leading dissemination of information and setting the discussion agenda. It is important not only that you are as open as possible, but that you are seen as being open. Perceptions and rumours can be more damaging than reality.
- Deal with unique circumstances - make sure that your team is acting to keep the company afloat and preserve the company image even in the most difficult and trying of circumstances.
- Hotline. A toll free hotline helps a company handle a crisis.
- CEO. Make sure the chief executive is seen to be the main company representative. Avoid the use of public relations executives.
- Web Site - put as much information as possible on the site.

CONCLUSION

After an aircraft accident or crash, those who are involved in the operation of an airport or airline always need to act to lessen the effect of such a calamity (both short term and long term) on their customers, the public, their organisation, and just as importantly, themselves and their staff. The problems that need to be considered and resolved commence at the time of the impact, and may continue for many years. There is only one proven way to combat the effects of the event; a well formulated and accepted company emergency response plan supported by trained staff and strong leadership.

At the heart of managing a crisis is a quick and positive response, achieved through pre-planning, exercise and practice. However, just as management of a company's operations is by human beings, management of an accident and its aftermath is by people, and is therefore subject to human frailties. The complexity and sophistication of the equipment used by an organisation is unimportant unless the individual is prepared to deal with the unexpected, the system failure. Preparing for the unexpected is vital to successful emergency response planning.

Lastly, during the actual period of the crisis, senior executives will need to ensure that overall leadership remains positive. This is the key. Thorough planning supported by strong leadership, is vital to the success of a protracted recovery.

REFERENCES

Australian Business Review Weekly; unknown edition.

Mills, Michael; Crisis – Be Prepared, Be Scared, The Investigator Magazine; Palm Beach, Queensland; March/April 2002.

Reason, James; Managing the Risks of Organisational Accidents; Ashgate Publishing; 1997.

'Yolla' – Journal of Australian Defence Colleges Association; various 2001 editions.

Lindsay Naylor
April 2002