

Deloitte.



**Standing up
through the storm**

Make your organisation
crisis resilient

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About the report

Some of the recommendations in this report are based on the outcomes of research conducted by Deloitte's Intelligence Hub and ComRes.

Deloitte's Intelligence Hub used a combination of web scanning tools and manual open source research to identify and rank the top 50 crises by volume of mentions in 2018. The search was limited to FTSE 350 companies, using specific key terms associated with the different types of crisis, and filtered to UK news sources.

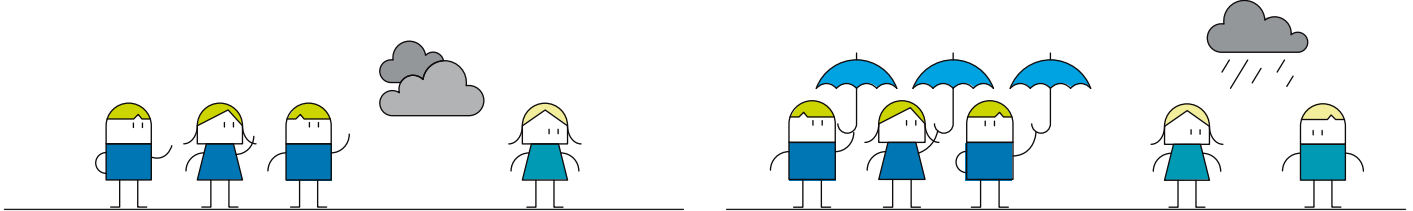
ComRes conducted a telephone survey on behalf of Deloitte Touche Tohmatsu Limited between 11 September and 7 November 2018. All 253 participants are based in the UK and operate at board level or in senior management and are involved in managing or developing their organisation's crisis management. They work in the following sectors: financial services (50); technology, media and telecoms (50); energy and resources (50); consumer and industrial products (53) and lifesciences and healthcare (50).

Organisations are not making themselves resilient to crises, despite the warnings

We asked more than **250 senior executives** involved in their organisation's crisis management how they approach and manage crises.

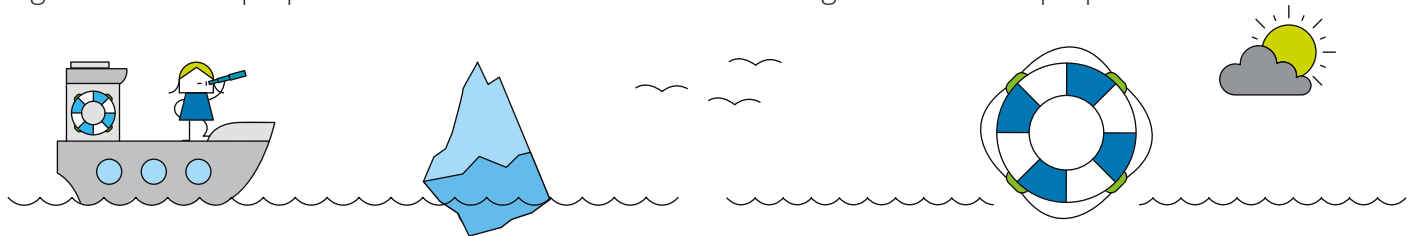
Three quarters (74%) of respondents agreed there are warning signs for most crises...

...yet only **62%** say they act on them.

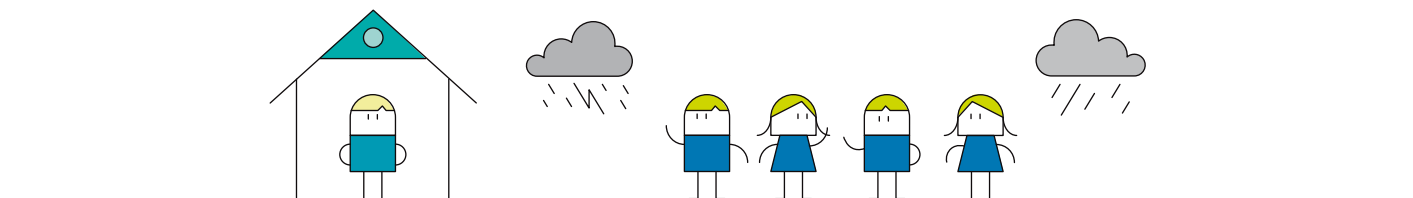


Nearly all (93%) respondents believe organisations can prepare for a crisis...

...yet **just over half** (56%) consider their organisation to be prepared.



And crises happen – **nearly four-fifths** (79%) – admit to having faced a crisis event in the last year.








This suggests that organisations are missing a trick. They know they could be more resilient to crises, but aren't taking the measures to do so.

This is leading to unnecessary damage to reputation, brand and organisation value, financial position and prospects. We look at why organisations might not be taking advantage of opportunities to future proof their organisation and suggest ways your organisation can make itself more resilient to crises.

Why are some organisations not making themselves resilient to crises?

There are several reasons why an organisation might not make itself more resilient to crises. We look at four areas:

-  **Unrealistic optimism**
-  **Aversion to change**
-  **Focus on cost rather than value**
-  **Cross-functional silos**

 **Unrealistic optimism**
Some organisations don't believe a crisis will happen to them – despite the warning signs, and despite it happening to others. Maybe they haven't considered the impact, or appreciated the likelihood, of a certain risk or issue turning into a crisis.

There are also some risks organisations just don't want, or are unwilling, to think about. They may be too uncertain, or difficult to respond to.

Organisations can also be overconfident. Nearly three-quarters (70%) of respondents are confident their organisation could respond effectively to a crisis event. This increases to as high as nine in ten (92%) for safety incidents. This **overconfidence can be dangerous** – it can lead to complacency and prevent important relationships being built; resources being allocated; and people, processes and systems being tested. We have seen confident senior leaders become overwhelmed during live crises and crisis exercises.

Figure 1. Organisations confidence in responding effectively to all types of crises

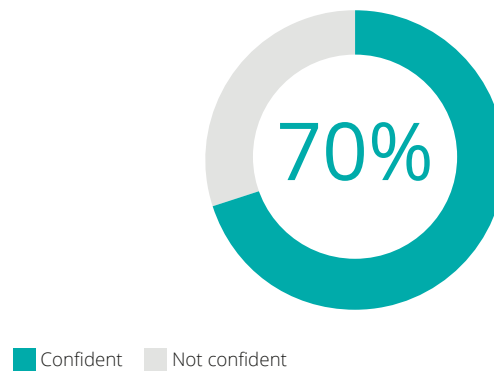
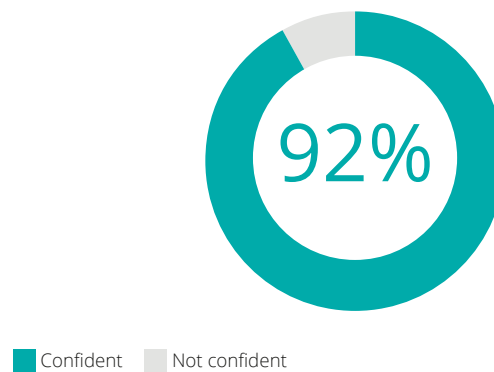


Figure 2. Organisations confidence in responding effectively to safety incidents



Some organisations just don't believe a crisis will happen to them – despite the warning signs, and despite it happening to others.



Aversion to change

Many organisations are reluctant to change their approach to resilience until they, or one of their peers, faces a high-impact event.

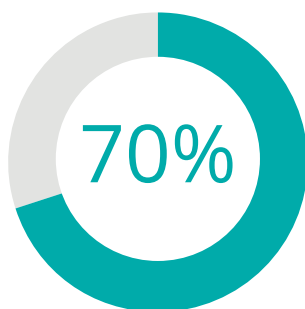
Our research found that most organisations (70%) that had faced a crisis event in the last 12 months saw it as an opportunity to change.

Experiencing a crisis response - what works and what doesn't, understanding what led to the crisis, and the impact it had, pushes change. Changes ranged from significant organisational changes to developments in crisis response capability. They included:

- modifications to senior management and organisational structure
- measures to forestall future high-impact events, such as investing in new organisational infrastructure like IT security systems and adapting agreements with customers and third parties
- mandating more regular risk assessments and reviews, and contingency planning around different risks
- crisis plan developments, increased crisis training and exercises.

If organisations don't invest appropriately to **test and challenge their mind-set around resilience**, they are in danger of being ill-prepared for crises coming their way.

Figure 3. Organisations that made changes in response to a crisis



■ Made changes ■ Didn't make changes

What is a crisis?

‘Unprecedented or extraordinary event or situation that threatens an organisation and requires a strategic, adaptive, and timely response in order to preserve its viability and integrity’

PD CEN/TS 17091 “Crisis Management – Building a Strategic Capability”



Focus on cost rather than value

There's no doubt about it, investing in a holistic resilience programme – in which your organisation identifies and mitigates risks, prepares to respond to them and implements changes should they occur – requires a commitment of resources and investment.

This includes building financial resilience. Specifically consider financing risks because finances will almost inevitably come under pressure in a crisis. The failure of a major supplier, for example, could jeopardise an organisation's ability to do business, or an accounting 'black hole' could lead to bank covenant breaches. Without sufficient financial resilience – or at least a plan to maintain liquidity – your effort to contain and recover from a crisis may be overwhelmed.

A commitment to building resilience throughout your organisation will only happen if senior leadership support spend in this area and agree to give it the right level of priority. Tone from the top is vital.

For something that some perceive might not even happen, this might take some convincing – especially in such an uncertain business climate. But **resilience should not be seen as a cost to the business: it should be seen as a cost of doing business and a future-proof investment.** Organisations would be wise to look at the financial cost of getting it wrong before deciding to cut back in this area.

Resilience should not be seen as a cost to the business: it should be seen as a cost of doing business.



Cross-functional silos

Many organisations have some form of risk monitoring in place. Nearly two-thirds (62%) of respondents said organisations can see and understand the warning signs for crises.

The systems and processes for doing this are typically the responsibility of the risk management function in a large organisation, or finance or legal in a smaller one.

The operational responsibility for crisis preparedness sometimes sits with risk, but more commonly it sits with business continuity and resilience, corporate affairs or security teams.

And ultimate responsibility for identifying, understanding and acting on risks, and responding to crises, sits with the board and executive team.

If all of these teams don't work collectively together, organisations could be monitoring and mitigating the wrong risks, preparing for the wrong possible scenarios, and not fully understanding the impact some identified risks could have should they blow up.

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How can your organisation be more resilient to crises?

Approach resilience holistically

Many organisations have a simplistic view of crisis management – that it’s about rehearsing what they should do if things go wrong. In our view, this is too simplistic.

Truly effective crisis management goes beyond being reactive and simply protecting existing value. It also enables resilience and drives future performance.

Your organisation should view risks and crises on the same continuum and appreciate how they link together understanding:

- the full implications of your risk landscape
- how to prevent crises, manage issues and prepare for the worst
- how to respond to and recover from crises and keep your business running
- how to learn, rebuild and emerge stronger from crises.

To help do this, we suggest six considerations:







-  Think beyond cyber
-  Listen better, and act
-  View crisis management as a strategic capability
-  Don't underestimate the wider consequences of a crisis
-  Prepare for crises, and you'll prevent them too
-  Learn lessons from the past.

Figure 4. Deloitte crisis and resilience lifecycle



Truly effective crisis management goes beyond being reactive and simply protecting existing value. It also enables resilience and drives future performance.



1. Think beyond cyber

Companies are in danger of looking too narrowly at the types of crisis they might face.

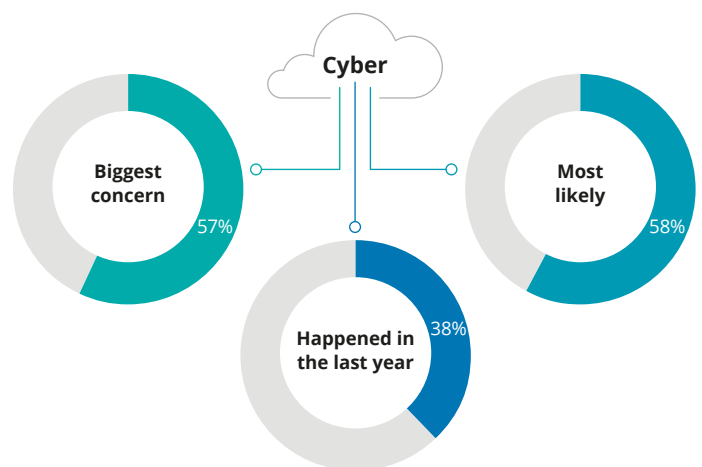
Our research showed that cyber risk is high on the agenda of all organisations: more than half our respondents say it is their biggest concern and believe their industry will face a big cyber crisis.

This is not surprising and is likely to be attributed to a variety of factors, particularly high-profile incidents such as NotPetya and WannaCry, the introduction of mandatory reporting, and high fines from regulators. More than a third (38%) of respondents said they'd experienced a cyber incident in the last year.

It is extremely important that organisations focus on cyber risk – it's a huge and very real threat. And this focus has led to some great change – it's helped many organisations develop the capability to prevent cyber incidents from occurring and know what to do should one occur.

What it hasn't done, though, is help organisations to be well positioned to prevent and respond to other types of risk. Organisations should not lose sight of other types of potential crisis.

Figure 5. Cyber risk is high on organisations' agendas



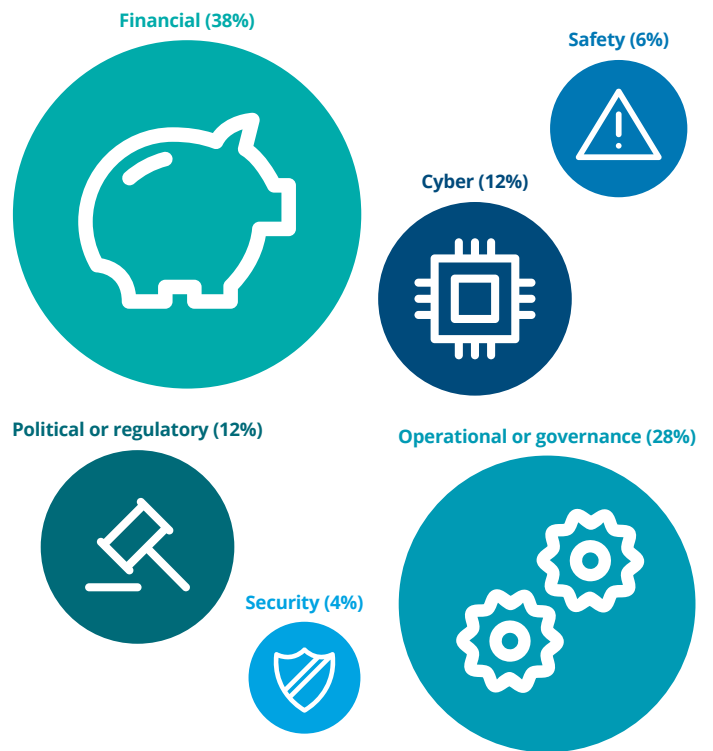
Our Deloitte Intelligence Hub looked at the top 50 high-impact events faced by the FTSE 350 in 2018 and covered in the UK media. Our research found that the majority – 19 of 50 (38%) – were triggered by financial issues, followed by operational or governance issues (14 of 50, 28%). Cyber incidents accounted for just two of the top ten; these two, however, were ranked in third and fourth place. Similarly, security incidents accounted for just two of the top fifty, but were ranked first and second. This suggests that cyber and security incidents are less likely to happen; but when they do, they attract a lot of media attention.

Financial issues related to economic crime or financial distress provoked most of the high-impact events in the top 10. This is likely to be because of a slowdown in the economy, changes in consumer behaviour and an increasingly complex and challenging business environment. Many factors have contributed to this including regulatory and legislative change, greater scrutiny on executive behaviour, and increased pressure to maximise shareholder returns, while delivering a strong ethical culture and meeting corporate social responsibility goals.

Issues relating to executive and gender pay gaps, corporate bullying and sexual discrimination led to nine of the top fifty (nearly 20%) most covered high-impact events. Heightened exposure of this type of issue reflects high-profile campaigning and government interventions in these areas, which we expect to continue. We have seen organisations making substantial changes in areas such as governance and strategy consequently. Leadership teams might find testing their response to this type of scenario in crisis exercises uncomfortable but should be doing more of it.

Senior leadership need challenging around conformity of thinking, be comfortable about being challenged, and consider severe but plausible scenarios in their resilience planning. This will help them focus on preventing and preparing for the right type of crises for their organisation.

Figure 6. Top 50 high-impact events by volume of mentions in the UK media



Issues relating to executive and gender pay gaps, corporate bullying and sexual discrimination led to nine of the top fifty (nearly 20%) most covered high-impact events.

Figure 7. Top 10 high-impact events by volume of mentions in the UK media



Financial issues related to economic crime or financial distress provoked most of the high-impact events in the top 10. This is likely to be because of a slowdown in the economy, changes in consumer behaviour and an increasingly complex and challenging business environment.

Figure 8. Crisis categories used in our research

Safety incident	Natural disaster	Cyber incident	Operational or governance issue	Financial issue	Political or regulatory issue	Security incident
<ul style="list-style-type: none"> Industrial accident Fire incident Transport accident 	<ul style="list-style-type: none"> Earthquake Flood Hurricane 	<ul style="list-style-type: none"> Data breach Targeted attacks (such as DDOS - Distributed Denial-of-service - attacks) Malware, spyware or ransomware attack 	<ul style="list-style-type: none"> Corporate governance failure Strategic failure System failure Poor practice Product recall Supplier or vendor related issue 	<ul style="list-style-type: none"> Fraud Covenant breach Corruption Failed integration Illiquidity Insolvency 	<ul style="list-style-type: none"> Regulatory investigation Regulatory or policy change 	<ul style="list-style-type: none"> Terror attack Societal or political activism or unrest Industrial action



2. Listen better, and act

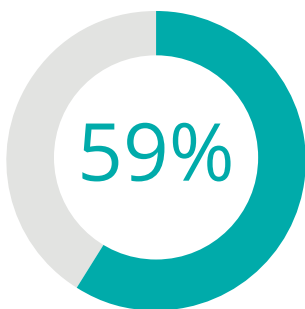
Organisations admit that some crises can be predicted and prevented, if you listen and act.

Three quarters (74%) of our survey respondents agreed there are warning signs for most crises, yet only 62% say they act on them.

In an interconnected, fast paced and uncertain world, risks can move to crises very quickly. Risk management needs to move away from static risk registers and periodic reporting to a dynamic ever-evolving process, using diverse sources and producing actionable intelligence that feeds into crisis management planning.

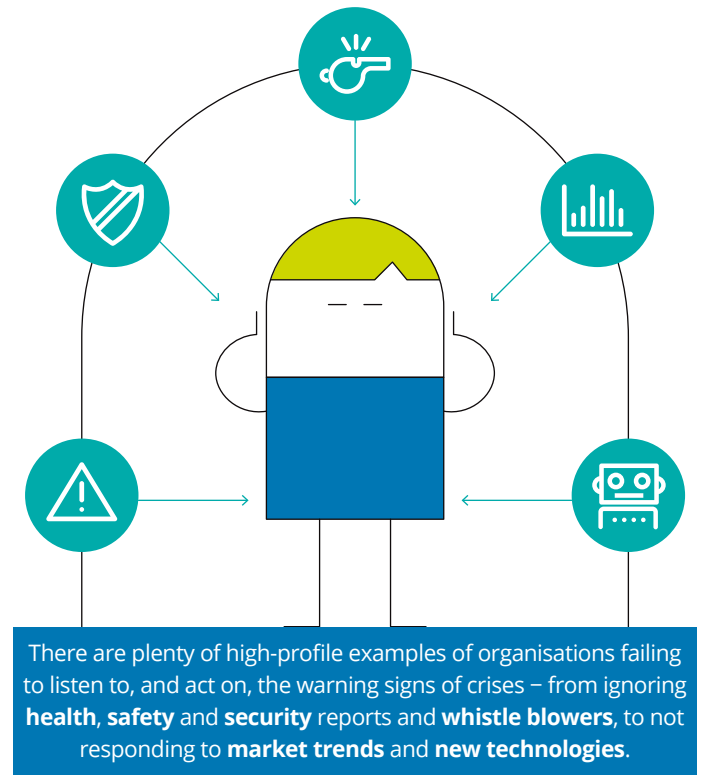
In a recent survey by Deloitte in the US (CEO and board risk management survey – illuminating a path forward on strategic risk), nearly two-thirds (59%) of leaders admitted to lacking a plan to develop or acquire tools to address reputation risks. It was suggested that organisations don't have mature ways of identifying, assessing and analysing reputation risk. They might, for example, monitor and respond to social media but miss the intelligence that advance risk sensing and predictive technologies can provide to help them make smarter decisions.

Figure 9. Leaders who admit to lacking a plan to develop or acquire tools to address reputation risks



Organisations don't have mature ways of identifying, assessing and analysing reputation risk.

Figure 10. Crisis warning signs



The research also suggested that leaders don't have enough time to think and act on warning signs and are not adept at predicting which potential risk or emerging incident will have a significant impact on their reputation.

There are plenty of high-profile examples of organisations failing to listen to, and act on, the warning signs of crises – from ignoring health, safety and security reports and whistle blowers, to not responding to market trends and new technologies.

Organisations should give greater focus to understanding the types of crisis that might hit them. Viewing risk management as an ongoing dynamic process, using better data, having greater diligence at using that data, and involving a greater depth of teams will help to mitigate risks from turning into crises.



3. View crisis management as a strategic capability

Crisis management should be seen as a strategic discipline, as something that is fundamental to the effective running and future of your organisation.

The new European Standard in crisis management (PD CEN/TS 17091 “Crisis Management – Building a Strategic Capability”) supports this.

First, when things go wrong, and inevitably they will at some point, responding effectively will help keep your organisation on track. Research published by Aon and Pentland Analytics (Reputation Risk in the Cyber Age: The Impact on Shareholder Value, August 2018) shows that companies that effectively respond to a crisis will outperform those that don't in terms of shareholder value.

Organisations that see crisis management as a strategic discipline, are more likely to respond effectively when a crisis occurs.

Second, **the core principles of good crisis management can be used to help leaders deliver strategic organisational change successfully.** When an organisation goes through a period of significant change or undertakes a critical project, it faces more scrutiny and is more vulnerable to even small issues turning into a full-blown crisis. Regulators, investors and other stakeholders can quickly lose confidence in both the strategy and the management team – activist investors may seek to intervene, employees might lose morale, and consumers may display less loyalty to the new products or services.

Third, while **crisis planning is important, so too is being agile and adaptive.** Crises often require bold gestures and a willingness to change at the most senior level. This is reflected in the Standard's updated definition of a crisis: 'Unprecedented or extraordinary event or situation that threatens an organisation and requires a strategic, adaptive, and timely response in order to preserve its viability and integrity'.

Finally, the Standard helpfully answers the question we see so many organisations grapple with: 'Who should sponsor crisis preparedness?' It says the role should be held by the board or executive team. Given the board is responsible for assuring business viability, and a crisis calls that into question, **it is essential that senior leadership is accountable for crisis preparedness.**

The core principles of good crisis management can be used to help leaders deliver strategic organisational change successfully. When an organisation goes through a period of significant change or undertakes a critical project, it faces more scrutiny and is more vulnerable to even small issues turning into a full-blown crisis.



4. Don't underestimate the wider consequences of a crisis

It is difficult to quantify the overall impact of a crisis and the consequences of something going badly wrong. But all crises have consequences, even if the organisation facing it emerges stronger after.

Among our survey respondents who had faced a crisis event in the past year, more than half (57%) said it impacted external stakeholders such as customers, suppliers and lenders, and just under half said it impacted reputation (47%), financial performance (46%) and employees (45%).

A crisis will also trigger more than one adverse consequence. A crisis won't just have an impact on financial performance, reputation, employees or external stakeholders. All of these impacts are interrelated. Our research shows that if a crisis has a high affect on one aspect, it is likely to have a high impact on the other areas. For example, organisations that experienced a crisis with a high impact on external stakeholders said it also had a high impact on financial performance (76%), employee morale (71%) and reputation (75%).

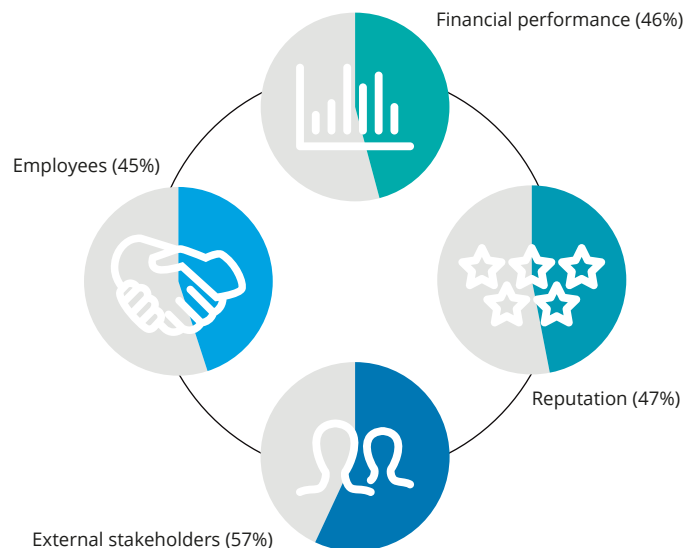
While pinpointing the overall impact of a crisis is challenging, there are various metrics to understand the effect in some of these more familiar areas, such as customer sentiment, employee feedback surveys and the overall financial circumstances, including shareholder value.

Using war gaming and crisis exercises will help you to understand the consequences of certain decisions, developments and possible crises and highlight gaps or areas of uncertainty to be addressed. Inevitably we have seen many organisations spend time considering the potential impacts of different Brexit scenarios and the trigger points at which they might need to make key decisions to manage disruption in the short term and implement longer term structural changes.

Most organisations should recover from the initial impacts of a crisis if they respond effectively and have built financial resilience to withstand the worst.

The longer-term impacts of a crisis, however, can be overlooked and underestimated. They are difficult to identify or attribute. For example, the direct impact of a technology company facing a misconduct-led crisis might immediately experience a fall in share price and negative media coverage. What might not be anticipated is the company's future ability to recruit the best creative staff, and therefore over time losing its innovative edge.

Figure 11. The impact of a recent crisis



The longer-term impacts of a crisis can be overlooked and underestimated.



5. Prepare for crises, and you'll prevent them too

Crisis readiness is not just about preparing how to respond to a crisis. Preparing for a crisis can help prevent them from occurring too.

A crisis-ready organisation is more on top of its risks. Its senior leadership team is more familiar with its vulnerabilities because they've been forced to think about the worst when planning and rehearsing during crisis exercises.

Having this additional awareness can give senior executives the clarity and confidence that controllable risks are being managed and business activities are taking place above board.

For example, an organisation testing a financial crisis scenario such as an accounting anomaly, might prompt its chief executive to ask its chief financial officer if this could really happen to them. Or a company facing a possible regulatory challenge or preparing for a big event might find scenario planning and rehearsing a response to something going wrong helpful to understand the impacts of that change and adapt their strategy because of it.

Organisations continuously testing different scenarios are also more likely to spot potential issues on the horizon as they better understand where they could end up.

Risk management and crisis management need to be thought of as a continuous process and the teams involved need to work collaboratively.



6. Learn lessons from the past

Organisations are not always learning lessons from the past.

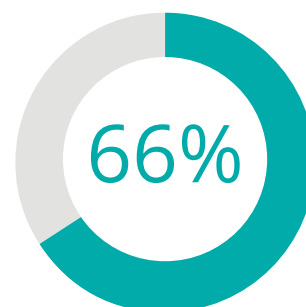
Only two-thirds (66%) of respondents whose organisation experienced a crisis said they carried out a post-crisis review to learn lessons from what happened and how they responded.

This is often seen as hard to do – there is desire to move on as well as an unwillingness to examine and address potentially difficult internal issues.

Some organisations do this because they have to, driven by their regulator or other external parties, and some do so because they know it's sensible to. Companies that see crisis management as a strategic capability focus on this from the outset – they ask: "What will we change as a result?" during the crisis response.

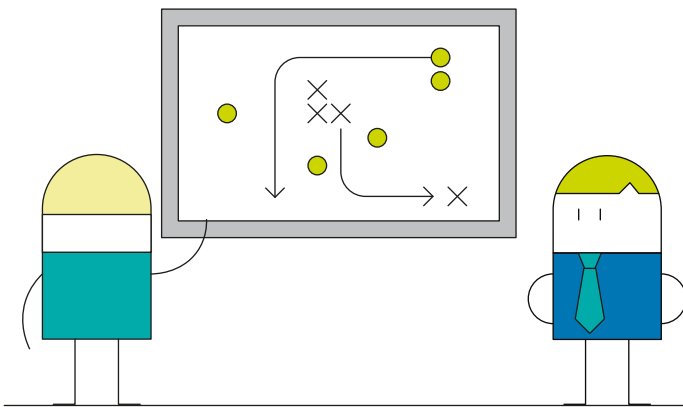
We've already seen that organisations that review their crisis response often make positive changes to their approach to resilience as result. A report by Cranfield University (Roads to Resilience) also cites clear evidence that learning organisations are more resilient. They have a culture of reporting near misses, reviewing what happened and what they can learn, and then acting on it.

Figure 12. Organisations that carried out a post crisis review

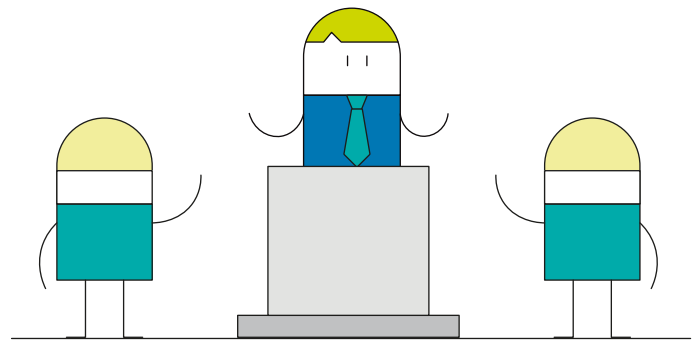


What can you do next?

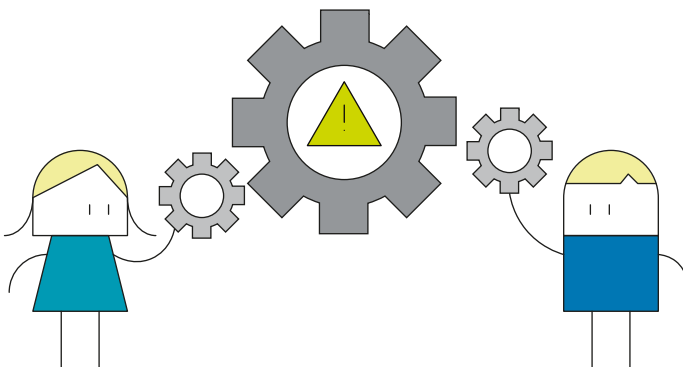
Your organisation has an opportunity to make itself more resilient to crises and protect its existence, value and reputation. Does your organisation:



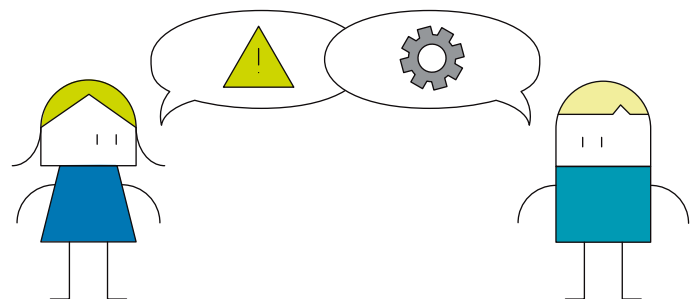
Approach resilience holistically? Map out what you do to identify, prioritise and mitigate risks and issues; and prepare for, respond to and recover from crises. Are there any gaps? Does your senior leadership team have oversight of and accountability for the whole crisis lifecycle?



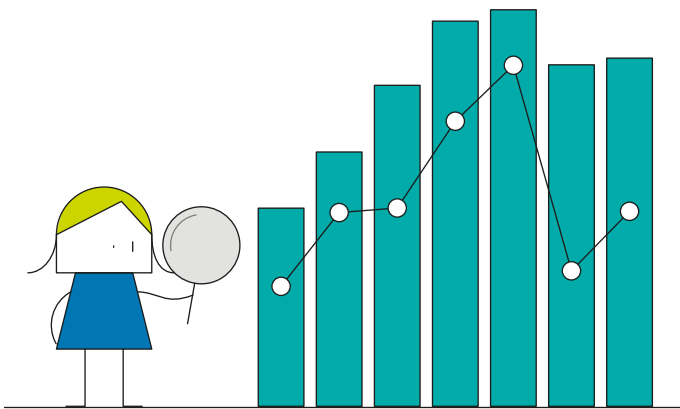
Place accountability for crisis preparedness management with the senior leadership team? If not, build your organisation's case on why it should be.



View risk management as a static periodic process or an ongoing dynamic process providing actionable intelligence for senior leadership? Are your data sources diverse and delivered in real time? Does senior leadership continuously and diligently make time to understand and address risks?

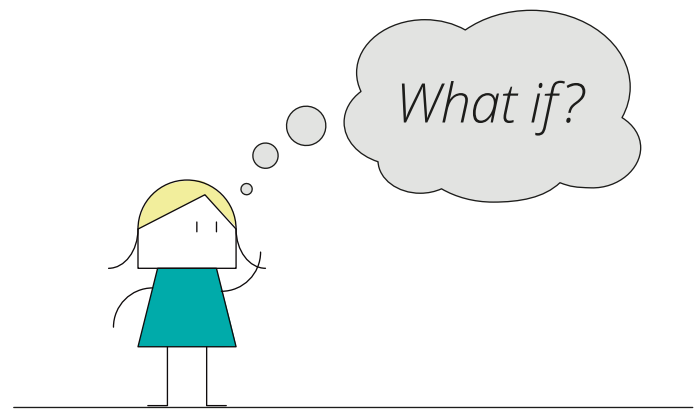


Challenge itself to discuss how it should mitigate and prepare for non-familiar and uncomfortable risks? Identify what risks are currently being addressed and ask honestly if there are others being ignored.



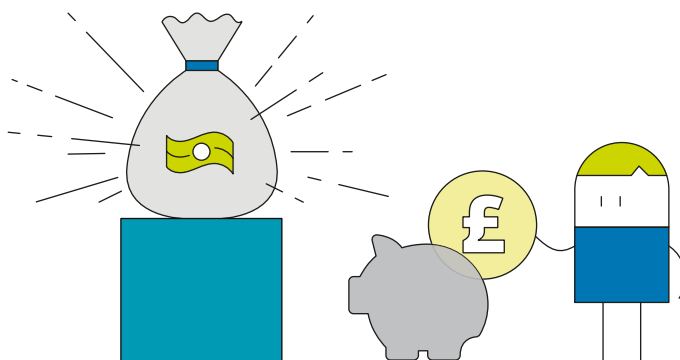
Ensure there is appropriate focus on the controllable risks that might lead to a crisis event?

Are senior leaders confident business operations and activities are meeting legal and regulatory requirements?



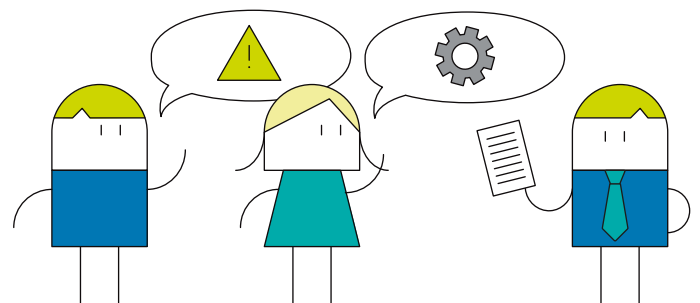
Have the mind set to always think 'what if?'

Use war gaming techniques to understand the long and short term consequences of big strategic decisions, major changes and possible crisis scenarios.



Consider the financing risks of certain crisis scenarios?

Think through and scenario plan around crisis events that might put pressure on financial covenants and liquidity headroom, then work through the options to mitigate, for example refinancing or tactical M&A.



Learn from their mistakes and the mistakes of others?

Make sure someone has responsibility for post crisis reviews and bringing the 'could this happen to us' discussion to the executive team when other organisations are in crisis. Asking the board to play this role can be helpful.

How we help clients

Crisis and Resilience

What's going to happen tomorrow? How will our organisation be tested?

At Deloitte we help our clients not just through the good times, but also in the toughest moments of crisis. We know what it is like to face a critical challenge – and meet it decisively.

Our crisis services are founded on trust. We build the relationships that make organisations all over the world place trust in us to prevent the avoidable and prepare for the truly unavoidable.

When things go wrong you may feel exposed to the fiercest scrutiny. But our unrivalled network including specialists from risk sensing, agile governance and critical communications, can help you turn the tide during a crisis.

Many of our clients have emerged from great challenges even stronger than before. Make our strength your strength.

To find out more, contact one of our team.

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