



THE FUTURE OF SUPERVISION

August 2015

Charlotte Insinger

"After a crisis you need to get back to normal, and that can be tricky."

Peter Wakkie

"It is an illusion to believe nothing is ever going to happen."

Dick Schoof

"If you never met each other by the time a crisis hits, you have a serious problem."

Deloitte.



“Every looming crisis is a chance to improve”

Welcome to *The Future of Supervision 6*, dedicated to crisis management. It is an intriguing edition about an important subject. After all, we all want to prevent crises, but they also speak to the imagination, because they can challenge existing relationships.

The question is not if, but when

Crises are inevitable, and yet, Deloitte’s recent CFO survey on crisis management shows that no fewer than 66% of CFOs believe there is only a small chance that their organization will be hit by a crisis. In today’s world this is a remarkable notion, especially when you look at the way economic, financial and political fields are connected. Technological developments are constantly making chains more complex, and the links of these chains are more closely connected than ever before.

As a result, there is a growing chance of unexpected occurrences with far-reaching consequences. The question is not so much if a crisis will ever occur, but when. And this makes the question of how non-executive directors think we should react to a crisis even more relevant.

Part of the business

Peter Wakkie acknowledges that Europeans and Americans react differently to a crisis. “Americans are more crisis-resistant, because they realize crises come with the territory. In the US there is a problem every five years.” To deny a possible risk is extremely foolish, says Willem Stevens. Anyone acknowledging that there is the possibility of a crisis also has the responsibility to prepare for that crisis. Non-executive directors play an important role here. “They need to be able to take radical measures while the skies are still clear. You need to have the courage to act as soon as you feel something is about to happen. If need be, use a mystery guest to test the risk management system. This is something you are responsible for as a non-executive director. You can simply not just walk away when something bad happens.”

Crisis management requires lots of practice

According to many non-executive directors, practice is a large part of preparation and should involve the entire organization, all the way up to the top level of management. Because of this, it is important to use crisis situation simulations, to ensure that people know what they can expect. After all, when a crisis occurs there is no time to reinvent the wheel.

Thinking in scenarios has a positive influence on flexibility and introspection. Femke de Vries mentions DNB research that shows that organizations with a lot of reflective power are better at coping with change: “I think that this reflection also has a positive impact on crisis management and the ability to recognize a crisis in a timely manner.”

When an organization – in spite of all preventive measures – does end up in a crisis, it is important to learn from the situation. Nothing helps an organization to gain focus like a crisis. “Organizations are usually at their best during crisis situations,” says Jacob Middeldorp. “Everyone works towards the same goal and all previous conventions seem to disappear.” The solidarity that comes with a crisis can be turned into a powerful weapon, which can also be used in quiet times. That may be difficult, because the sense of urgency associated with a crisis is lacking during times of peace. But the alertness during a crisis can also be used outside that crisis.

The positive sides of a crisis

Even evaluating a crisis can positively affect an organization, as Charlotte Insinger knows. “After a strategic crisis in particular, it is important to evaluate it and discover just how it reached that point. Not everyone feels comfortable with receiving criticism, but it can benefit an organization to scrutinize the actions of those involved and see what improvements can be made.

This last point illustrates the most important insight: every threatening crisis offers an opportunity to improve the company. Practice, training and simulations might not be main priorities for many organizations, but they do help to combat a crisis adequately and to create extra alertness during times when it is business as usual. In a world where business models can be threatened any moment by new, disruptive technologies, it seems a wise choice to prepare every business for the moment it has to take a new road.

Two-tier boards

Most of our interviewees are non-executives in a two-tier board. A two tier-board consists of an executive board and a supervisory board. The non-executives in the supervisory board are appointed by the stockholders to supervise the policies of the executive board and the general affairs of the company and its affiliated enterprise, as well as to assist the executive board by providing advice.

I wish you happy reading!

Peter Bommel

Chairman, Deloitte Board of Directors

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Peter Wakkie has plenty of experience when it comes to handling emergencies. During his time as a lawyer at De Brauw Blackstone Westbroek, he played an important role in large enterprise law cases. He was closely involved in obtaining emergency loans and negotiated with American supervisors on settlements. He knows how a board can drop the ball and how non-executive directors can keep the board focused. According to Wakkie, a crisis, like a fire alarm, has to be practiced. “As a non-executive director you need to think rationally during a crisis; you need to keep the problem controllable.”

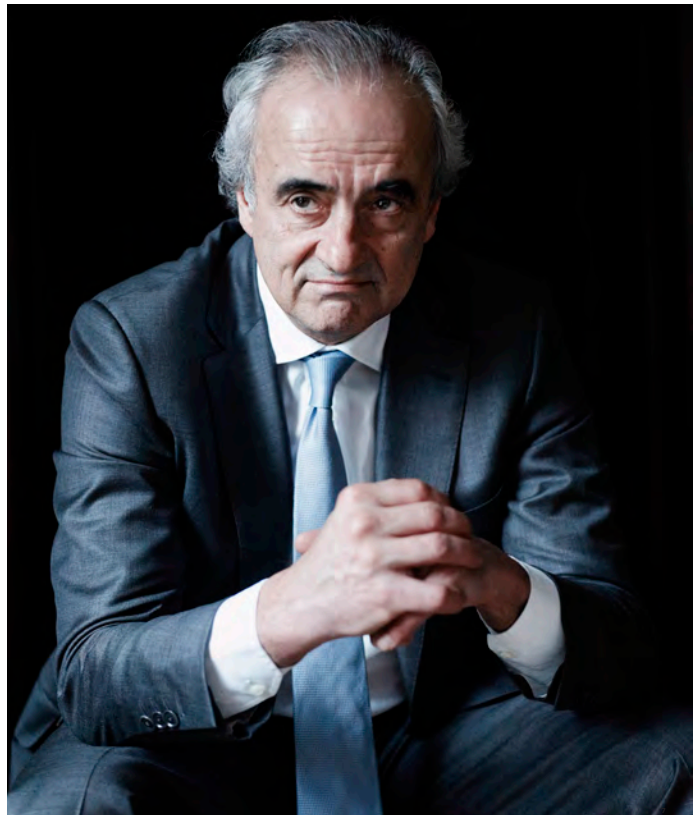
Peter Wakkie has learned to distinguish different types of crises during his time as a lawyer, board member and non-executive director. “There is the financial crisis for example, where the future of the company is looking bleak, where contracts with banks are being violated and where the company is riddled with liquidity problems. This is the kind of crisis that, in most cases, you can see coming. Then there is the international crisis that emerges after violating sanctions, a labor case, or corruption abroad. Yet a different kind of crisis occurs when activist stockholders want to split up the company. And you have crises that only happen in certain sectors. A spill in the Gulf of Mexico is not the kind of problem that software companies will face any time soon.”

Preparing with simulations
Wakkie encourages companies to identify major threats, and to assemble a manual for each possible threat. “The downside to having a manual is that they usually get too big. Because of this I favor using simulations, if necessary with an external party, to ensure that there is a consensus when it comes to handling a crisis.” It would be best if a board of directors – and additionally a board of non-executive directors – practices certain scenarios, says Wakkie. “That almost never happens at the moment. But what do you do when an aggressive hedge fund wants to split up the company? You need someone who knows what to do right then. You need to prepare this person before the crisis occurs. If an American regulator establishes that a

company has violated relevant legislation and chooses to impose sanctions, that is the moment a board should function. And that can only happen if situations are practiced beforehand.”

“In a crisis you rarely have time to involve the entire board in every decision that needs to be taken.”

Another important aspect is communication, says Wakkie, since 80% of a crisis is related to external communication. “Communication has to be organized properly, or problems may become three times as serious. Often, external communication and internal decision-making are not synchronized the way they should be. That is why external communication has to be involved in the simulation before a crisis. On top of that you need a small team to take the decisions: the CEO, the CFO, a non-executive director, someone from the communications department and the head of legal affairs. These five need to take responsibility. In a crisis you rarely have time to involve the entire board in every decision that needs to be taken. Of course the outlines need to be coordinated. That being said, bear in mind that there is no one single medicine for every crisis. It is the process that counts.”



Colophon

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Charlotte Insinger

"If you are aware of an elephant in the room, then you have no choice but to say so."



Dick Berlijn, Sylvie Bleker-Van Eyk, Gerrie Lenting, Theodorus Niemeijer

"Good crisis management is organized ahead of a crisis."



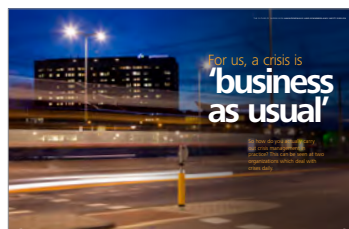
Dick Schoof

"You have to make choices in a situation where you lack the necessary information."



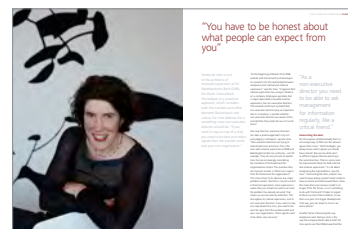
Willem Stevens

"Non-executive directors who don't see the crisis coming; that is a crisis in itself."



Point of view

"A crisis, to us, is business as usual."



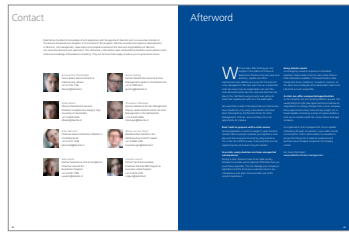
Femke de Vries

"You have to be honest about what people can expect from you."



Jacob Middeldorp

"You cannot resolve a crisis within the existing structures."



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Afterword

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company has violated relevant legislation and chooses to impose sanctions, that is the moment a board should function. And that can only happen if situations are practiced beforehand."

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Limiting a crisis

This process is very important, says Wakkie. The difference between a single burst of flame and a large blaze can be very small. "The main task is to limit the impact of a crisis. This can be done by drafting in an accountant, or a lawyer. When do you bring in an accountant? Suppose a whistleblower has information that something is going on in your Mozambique branch. A CEO might say: "This has the potential to turn into something serious; I think it is best to notify an accountant during the early stages." This is done, and the accountant recommends that research is carried out in Mozambique. The first, second and third line of the company are investigated. Are the right people in the right place? Did similar things happen elsewhere? How is the tone at the top of the concern? This can be price-sensitive information, depending on the outcome of the research; if this is the case, a press statement has to be released and that will automatically trigger a big problem. In the end, it could turn out that nothing is wrong in Mozambique. But by then shares will have dropped 15%, the whole organization will be upset and the whole thing will have cost lots of money. This is one possibility, but it would not be my strategy. I would quietly send my best lawyer to Mozambique. If, after a proper investigation, he concludes that nothing is wrong structurally, that settles the problem."

Know where risks are

Companies have enormously increased their social involvement, says Wakkie. "Twenty years ago, it was a case of 'different countries, different customs.' Now attitudes have changed, and every CEO is aware of this. The rules are strict, and can have serious consequences when ignored. Thus compliance is important for many companies. Of course, things can still go wrong. No non-executive director can be familiar with all the legislation in a certain sector. So it is an illusion to believe nothing is ever going to happen. A non-executive director needs to have a feel for this. With international organizations, I always look at possibly risky activities. I also

size up the situation in different sectors: is there loyalty, are people complaining about salaries? I look at the US with great interest, because it has a lot of legislation, and sanctions can be draconian. Usually you focus on places where the consequences of possible failure will be the worst: a kind of risk management in the preparatory phase for a crisis."

Once a crisis actually occurs, the "treatment phase", as Wakkie calls it, kicks in. In this phase, certain rules are developed. "First of all: don't panic. Decisions need to be made with only a few people. If you can arrange something with regulators, do it quickly, even if it costs a bit more. This applies particularly to criminal matters, because otherwise you will no longer be considered for government assignments. On top of this, it is important to protect your own people and to not sacrifice them, to make sure that the organization can remain confident and can trust management. And you need to agree in advance on who will be communicating."

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Intrinsic communication

This last point is extremely important, emphasizes Wakkie. "Miscommunication is the root of a lot of trouble. You need someone who communicates well, and who also understands the issues. This is often a problem in crises: a spokesman who has no intrinsic knowledge of the issues. Communication departments might not agree with this, but I think it is important to have a content specialist. Otherwise you will not be able to answer all of the questions from the media. Perception is everything. During crises, it is important to appoint one particular individual to handle communication, preferably someone with connections in the media industry. All

this has to be arranged in advance, so in fact the preparatory stage is even more important than the treatment phase."

Wakkie has noticed that European companies react differently to crises than their American counterparts. "Americans are more crisis-resistant, because they realize crises come with the territory. In the US it is very common to have a problem every five years or so, whereas in the Netherlands we have much less experience when it comes to dealing with crises. Supervisors are very strict, but lack the experience that American directors have gained over the past fifty years. This is why it is important to use simulations, so that people know what to expect. Then there is no need to reinvent the wheel when a crisis does occur."

The psychological factor

Wakkie expects non-executive directors to remain alert in these situations. "A non-executive director should think rationally during a crisis; you need to keep the problem manageable. Psychology is very important here. How do people work, how does the board work? You need to take time to think, and that might be the hardest thing there is. The first impulse is always to spring into action, because then you think you're doing something useful. But often that is not the case. If you think things through, you may find it is better not to do anything right away."

Independence might be the most important weapon for a board wanting to stay in control. "The most important lesson coming from good governance is how to stop a successful CEO in time. A successful CEO with a good track record will be capable of forcing his opinion onto the board. This is part of the psychology of decision-making. During the '90s, there was a real "Sun King culture." The crisis in 2000 made people aware of the dangers of a sacrosanct CEO. After that, CEOs returned to their role as the first among equals. Now it seems like the Sun King is making a comeback. I personally think that you should always choose someone who

knows how to handle the specific task at hand. Even though it will always be difficult to judge someone's psychological make-up properly at the beginning."

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"The first impulse is always to spring into action, because then you think you're doing something useful."



Peter Wakkie studied law at the University of Utrecht and established himself as a lawyer in 1972. Until 2003, he was a partner at De Brauw Blackstone Westbroek; from 1992 until 2001 he was managing partner. As such, he was involved in many major business law cases. From 2003 to 2009 he was a member of the board of directors at Ahold, after which he founded the legal firm Spinath+Wakkie with Ilan Spinath. Wakkie is currently also a non-executive director of Wolters Kluwer, TomTom and BCD Holdings, and a board member of VEVO.



"If you are aware of an elephant in the room, then you have no choice but to say so"

"There are different definitions of what a crisis is, but you could say you have a crisis when the organization and its stakeholders are fundamentally affected," says Insinger.

"The most direct crisis I have experienced was when a fire broke out at the Erasmus Medical Center. I was on the Board of Directors and was head of the emergency team. It was all fairly serious. People who were in Intensive Care and who weren't able to walk had to be evacuated. That is a completely different kind of crisis than a strategic one, which puts a company into financial difficulties. A fire like that is an intense but short incident. There is also a moment when the situation is clearly under control. That is very different from a strategic crisis, which can take years to overcome."

The threat of devastating consequences is inherent to a crisis, says Insinger. But that threat does not have to become a reality. "You can prepare for risks, but bear in mind that history never repeats itself in exactly the same way. The only constant is that everything changes. If you manage to find the right answers during that change, you will not end up in a crisis. If you take a few wrong turns, however, you will."

Blind spots

Not every disaster is as visible as a sudden fire. Insinger cites the example of a company where she noticed that things were not going well as soon as she walked in. "This situation was not acknowledged by the board of directors, nor by the non-executive directors. A few heated discussions were needed before steps were taken. It may sound strange that others failed to recognize the crisis as such, but it had evolved over time. There had been years of working with margins that were too small, and inadequate risk management. In a crisis, a company first needs to survive. The biggest problem is created by colleagues and other involved people who think there is still plenty of time, people who lack any sense of urgency. When this happens, it could be that nothing at all is done about a crisis, for example because the shareholders refuse to spend any money, or because the government is unwilling to work on a solution. In my opinion, if you are aware of an elephant in the room, then you have no choice but to say so. Even if that means you

will not be popular. I am well-known for being outspoken."

"After a crisis you need to get back to normal, and that can be tricky."

Cooperation intensifies

In the crises that she has experienced, Insinger has noticed that relations between the board and non-executive directors change. "If all goes well, the board and non-executive directors form a kind of one tier board during a crisis situation, in which non-executive directors get different responsibilities. You need to be on top of things and stimulate decision making. During those times, it is important to work together more closely. This changes nothing in the role of a non-executive director as such; that will always be to give advice, to test and approve. During a crisis the supervisory board, or sometimes a subcommittee of members from this board, often needs to switch tasks quickly and consult intensively. It is important to make a division of labor, but the board of directors should always stay in charge."

Can a crisis be predicted? "That depends," believes Insinger. "According to Wikipedia, a crisis is an extreme emergency situation in which the functioning of a company is

severely disrupted. Some business models may no longer work in a new situation. This can be prepared for by talking about the strategy on a regular basis. The supervisor needs to ensure that the right board of directors is in place, and he needs to keep asking whether the strategy is still working. There needs to be room to exchange views on this issue, with and without the board of directors. This is mentioned on the website, but it does not happen often enough."

"Ideally, you can trust a board to manage a crisis well."

Trust is valuable

Supervising is easier when the board of directors and the supervisory board trust each other, notes Insinger. "Trust obviously makes communication easier and more transparent. If it does end up going wrong, then the supervisor has a few tools available. It starts with going into the actual company and talking to people. If your worries are confirmed, you need to express them openly. If this has no result, then you can ultimately take the last possible step and replace the members of the boards. No one likes doing this, but sometimes it is the best solution."

When there is mutual trust and respect, a lot has already been gained. "When roles are defined properly and there is a good chairman, a crisis can usually be handled in a relatively quiet way," says Insinger. "Let me give you another example from my time at the Erasmus hospital. After it had become the owner of the Havenziekenhuis, an incident occurred there. Something had gone wrong with an anesthetic, and some patients had become very ill. Luckily there was a good chairman on board, who made sure that everyone who had had surgery on that day was called back to be checked. As a non-executive director, you can let such a manager take charge. You do consult with him, work with him and help, but ideally you can trust a board to manage a crisis well. There are of course

already plans in place for situations like this, and the organization also rehearses these situations."

Make good advance arrangements

Once all preparations have been taken, it is important to create an environment in which a crisis can be handled. "When a crisis occurs, there are always people who exceed expectations and who stay calm and focused, just as there will always be people who panic. It can be a real surprise to discover who falls into which category. That is one of the reasons why it is important to think about who gets to fulfill which role in the early stages. Transparent companies are generally more willing to review their own actions, and are also more likely to intervene when a crisis occurs. In an acute situation, there is usually a formalized emergency plan available. A lot of thought must be put into the composition of the crisis team, and a non-executive director has to make sure of this. The plan needs to include a mandate, so that it is absolutely clear what decisions a crisis manager can take. During a strategic crisis, the board itself is the crisis manager. But regular meetings with the supervisory board are required."

Insinger knows how important it is for the board and supervisor to stay in close contact, and agree on the authority of the crisis manager. "I know of a company where a business restructuring manager was appointed. Within a day, the CEO was already explaining that the restructuring manager wasn't allowed to do anything because he did not have the authority. After a week, the supervisory board decided to terminate the entire position, even though they also thought that the CEO was incapable of managing everything on his own. I find it inconceivable that a supervisor would agree with this. I understand that a director does not accept someone being placed above him, as the director will be held responsible in the end. But that discussion is irrelevant during a crisis. Accept that you cannot do everything on your own, and focus on working together."

Going back to normal can be difficult. When can you say that a crisis is over? "As soon as you have faith in the future

again, if you are satisfied with the crisis management that has been done and are confident that the company can take on future challenges. The moment you no longer have to doubt the survival of the company it is important to go back to normal, and that can be pretty difficult. You take the decision to go back to normal together, but what is normal after a crisis is different from what it was before."


Evaluate

A crisis can also have positive consequences, something Insinger noticed after the one at Erasmus. "We reviewed that fire endlessly. That should also happen after a strategic crisis, to find out how things could reach that point. Many people find it scary to look at their own role and the way they function, but they still should. Because an organization can only get better if the people who were involved establish what went well and what could have been done better. The best thing you can do is learn from your mistakes."

Charlotte Insinger began her career at Royal Dutch Shell in the 1990s. After that, she was a supervisor at Robeco and an independent consultant for several years. From 2005 to 2010 she was a board member at Erasmus Medical Center, after which she served as interim board member and non-executive director for several companies. She is currently a non-executive director at Ballast Nedam and SNS Reaal, and a member of the supervisory board for, amongst others, Luchtverkeersleiding Nederland and Filmfonds.



After successful careers at Shell, Robeco and a transfer to Erasmus MC, Charlotte Insinger, in her own words, is once again as free as a bird. "I do assignments and I am currently a member of a few committees. This works really well for me." According to Insinger, a proper preparation for a crisis situation is of the utmost importance, but a company also has to want to learn from a crisis. Sometimes, the most important lesson is that a crisis has changed something once and for all. "You take the decision to go back to normal together, but what is normal after a crisis is different from what it was before."

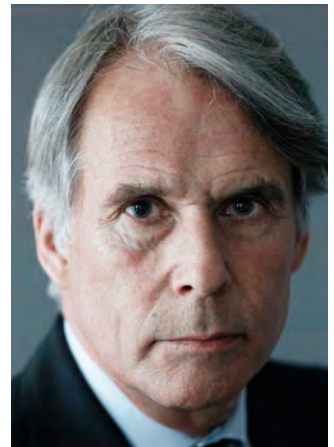
A professional studio portrait of two individuals. In the background, a man with grey hair, wearing a dark suit, white shirt, and dark tie, stands with his hands behind his back. In the foreground, a woman with short reddish-brown hair is seated in a black office chair, leaning back. She is wearing a brown jacket over a yellow shirt. Her hands are clasped in her lap. The background is a solid, textured grey-blue.

Dick Berlijn served with the air force as an F16 pilot, and ended his career in 2008 as Commander of the Armed Forces. At Deloitte, Berlijn works on cybersecurity, public order and safety, and on issues concerning leadership.

Sylvie Bleker-Van Eyk is Professor of Compliance and Integrity Management at the VU Faculty of Economics and Business Administration, and works as a Director at Deloitte Risk Services, where she specializes in managing crises for clients.

Good

crisis management is
organised ahead of a crisis



The next crisis posing a threat to the reputation, or even the survival of your company, might already be in the making. Every organization will have to deal with a crisis at some point. When that happens, they will want to be able to reassure stakeholders and show that crisis management is on point. It is extremely important to prepare properly, so that organizations can respond to a crisis effectively from day one. The right approach will ensure that an organization can not only survive a crisis, but can even come out ahead.

Increasing chance of a crisis

"The world has become hyper-connected," says Gerrie Lenting. "This can be seen in data streams, governance models and supply chains. Changes follow each other rapidly, and more regulation is added regularly, with globalization growing. Companies are becoming increasingly susceptible to problems across borders. In complex chains, the effects of incidents can be felt throughout the entire chain. There is a growing risk of incidents and crises. At the same time, tolerance for companies who react badly to a crisis is declining." The net result is a negative financial impact for companies, according to Theodorus Niemeijer. "Research shows that over a period of five years, there is 80% chance of a Global 1000 company experiencing an unexpected event resulting in over 20% loss of value."

The question is not if a crisis will occur, but when. A crisis is not an everyday incident, that can be solved using standard processes, means and people. A crisis requires an unorthodox approach. Niemeijer: "Incidents happen daily, and are usually relatively easy to fix. But incidents can spin out of control and turn into a crisis. Many crises start off as poorly-managed incidents."

Managing a crisis

Managing a crisis is key. Experts at Deloitte agree that the best moment to manage a crisis is the moment before it actually becomes a crisis. Former general Dick Berlijn knows this from experience. "The Defense Ministry experiences crisis situations regularly. On top of this accidents happen, and sometimes a minister may have to explain these in Parliament. So it is logical that an organization like the Ministry of Defense gives serious thought to this type of phenomenon. The most valuable lesson that Defense has learned over the years is that 90% of good crisis management occurs before the crisis."

Training and evaluating

An organization that is properly prepared for a crisis has considered its own vulnerabilities, possible scenarios that can occur, the possible responses to these scenarios and the procedures that are deemed most effective. After this, it is down to an element for which there is little enthusiasm: practice. "If you do not train for procedures, they are of no use," emphasizes Berlijn. "This is one of the reasons that Defense practices all the time. It is important for every organization to make sure that people learn what happens during a crisis, and that people understand they are a link in the larger chain. An organization is like a pyramid of players who can only do their work properly if they have the best information at their disposal."

Building confidence

"A crisis affects an entire organization and needs an integrated approach," says Lenting. "The communicative, legal, strategic, financial and operational chains need to be attuned to each other. It is extremely important to make agreements about this in advance. The leader has to learn how to deal with uncertain situations and must have prior knowledge of crisis management. Practicing develops something which is crucial for success: people gain confidence. They have experienced the scenarios, and they know what they have to do. And because you practice, you can also evaluate. This makes it possible to learn, and through learning you can adjust the procedures."

Fear of failing

Training is essential, confirms Sylvie Bleker. "In a real crisis, you can see the difference between a leader who can motivate others and a leader who is afraid and waits for a crisis manager to arrive. This forces the crisis manager to start making decisions at the managerial level."

Proper training can prevent such a situation, but Bleker realizes that it can be a struggle to inspire the higher echelons when it comes to training. "In most organizations it is difficult to get the green light for practicing procedures. It takes time, it costs money and people are afraid of making mistakes. Part of it is a fear of failing in front of peers or subordinates. But that is exactly what you can overcome by practicing."

Important duty for non-executive directors

Non-executive directors can make sure this practice actually happens. "A non-executive director only has to ask how many times there has been a training this year to get things moving," says Bleker. "Everyone prefers to ignore uncertainty, but a crisis is uncertain by definition. Events rapidly succeed each other, and because of this you are always one step behind. But this can be overcome by jumping into the water together and realizing that you can stay afloat. The non-executive director can supervise, can ask questions about how driven an organization is when it comes to dealing with certain risks, and how many times cross-functional training takes place. If the Supervisory Board recommends training, people can expand on and make use of their capabilities."

Situational awareness

During a crisis, leaders have to be on top of things. Bleker: "In a crisis you have to act. A crisis manager raises the decision-making process to a higher level. His job is to help you to make the right decisions, not to make your decisions for you. But before you act

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Theodorus Niemeijer is Director Resilience & Crisis Management, and Deputy Leader at the Deloitte Centre for Crisis Management in the Netherlands.



you need to see the bigger picture, adds Berlijn. "It all starts with situational awareness. This is something you need even when there is no crisis at hand. Things go awry all the time because people struggle to see the bigger picture in a crisis. But crisis management can be learned. There are people in boards who

struggle to make decisions. That is precisely why you need to take these people through the scenarios many times. This has a positive effect on their confidence and helps them to make the right decisions."

Prepare, respond, recover

Tackling a crisis can be divided into three phases: prepare, respond and recover. Each phase requires different qualities. When you are properly prepared for relevant scenarios and strategic risks, you will be capable of reacting clearly to a crisis. This does however demand constant alertness in management, even during everyday situations.



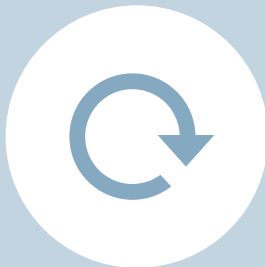
1 Prepare

Controlling a crisis happens largely before a crisis actually occurs. Every organization has to be aware of relevant scenarios, has to know the risks related to these scenarios, and has to be ready to react effectively to them. This means practicing as much as possible.



2 Respond

When preparation is done well, the right solution for handling a crisis will come naturally. Every crisis situation is unique, but when the structures are already in place, responsibilities are clear and everyone is aware of their task, an organization can see off any crisis.



3 Recover

In this phase, the crisis has been averted and the organization will be returning to everyday work. This does not mean that everything has to go back to the way it was. A crisis can also yield new knowledge and uncover new opportunities.

Engaging different levels

Managing a crisis has many layers, as Berlijn points out. “You can choose to do a simulation with someone from the executive board, someone from middle management, someone from the operational level and someone from outside the organization. That way you can consider a problem from different angles. It lets you see how different their perspectives are. This is a great opportunity to learn a lot. What you ideally want is that, when a particular scenario occurs, you know what to do and not to do right away, because you remember this from your training. This also reduces stress. Stress is a built-in warning system and is an aid to survival, but it is worsened by a lack of information and uncertainty about the future. These factors can end up controlling you.”

Coming out of a crisis stronger

The way an organization designs its crisis management has consequences not only for how a crisis is handled; it can also have a positive influence on the workflow during normal circumstances. Creating clarity about who bears certain responsibilities, quickly sharing relevant information and communicating clearly on what steps to take next, are all things that can make an organization more flexible, more efficient and more responsive. These are also characteristics which allow an organization to emerge even stronger from a crisis. Theodorus Niemeijer and Gerrie Lenting know how crisis management works in practice. “Once you get used to looking at things in a broader perspective, it becomes easier to deal with the insecurities and consequences that occur because of a crisis,” says Niemeijer.

“You become more secure by facing different or unknown scenarios in an otherwise safe environment. You also create a capacity to see and use the unforeseen possibilities thrown up by a crisis. Looking at it this way, a crisis does not always have to be a bad thing. You can learn from it and come out of it stronger. This is a positive view of a negative event.”

“The knowledge and experience you gain when you practice the managing of a crisis situation can be applied perfectly in day-to-day situations,” says Lenting. “It gives you the ability to take decisions very quickly, in the spirit of the company.”

Tips for managing a crisis

An organization that suddenly hits a crisis situation must be prepared. When it comes to managing a crisis, here are a few things of importance:

Provide clear leadership

Make sure that procedures on decisions are clear and involve the entire organization in combating the crisis. Realize that doing nothing is also a choice.

Continue evaluating context

Quickly diagnose the problem and decide on a course of action. Adjust the diagnosis and plan where necessary. Think ahead.

Communicate actively

Determine your own story; do not leave it up to the media. Communicate honestly and consistently, and be careful when choosing a spokesperson.

Expect the unexpected

Normal roles change in an organization during a crisis. Be prepared to make decisions based on too little information.

Ensure you have information that you can work with

Focus on information you need to make decisions. Do not get distracted by unusable data. Know that during a crisis, you will never have enough information.

www.deloitte.nl/crisis-management

“You have to make choices in a situation where you lack the necessary information”

As National Coordinator for the prevention of terrorism, Dick Schoof sees it as his most important task to prevent or control social disruption. He gives three main rules that everyone can put into practice during the insecurity that a crisis brings. “You have to realize that every crisis has the capacity to endanger the continuity of your company. Practice, and never underestimate the importance of communication.”

In everyday language, the terms “disaster” and “crisis” are often interchangeable, but for Dick Schoof, the National Coordinator for the prevention of Terrorism and Security (NCTS), there is a clear difference between the two. A crisis always has a national impact, whilst a disaster can be a local occurrence. “Anything involving terrorism is a crisis by definition,” Schoof explains. “It makes no difference whether there is one victim or a hundred. Terrorism always has a major impact on our society, which automatically turns it into a crisis.”

The government has to ensure a defensible society, all the more in times of crisis. A first requirement is that the NCTS stays calm, says Schoof. “Everyone who has ever been in a crisis situation knows one thing for sure: things have to happen straight away, but in the first hour there will be too little information to make serious decisions on what to do. That is where it starts, and it is important not to panic as a result. Staying calm is an essential prerequisite for crisis control.”

Overreacting on purpose

Lack of information does not mean that a director should wait and see. On the contrary – it can be beneficial to mobilize the organization at an early stage. This is also called “prudent overreaction”, and Schoof is a fan of this approach. “Getting a crisis group moving takes a lot of time, so it is important not to wait too long. But the word “prudent” is important here. You need to first take time to consider what is happening. Overreacting to everything is not sensible.”

How can one determine whether a limited response is enough or whether overreacting is desirable? Schoof has a general guideline for this. “As National Coordinator, the most important question to ask is whether a situation will have a national impact. There are cases where that question never even comes up, like the MH17 crash. The crash started to appear in the news by 5:30 PM. By then, the crisis had already occurred, and nothing could be done about that anymore. But because the aircraft had departed from Schiphol airport, we expected that many Dutch people would have been on board. We could not be sure at that moment, but it was enough to assume that this news would have a major impact on the country and that it would be big news. It was all hands on deck from there.”

“The more emotional the incident, the more you are held to the promises you have made.”



The power outage that hit the provinces of Noord-Holland and Flevoland in March 2015 was a completely different story, says Schoof. "We had to take more time to figure out exactly what the consequences would be on that one." There isn't always a need to rush, adds Schoof. "Some decisions can be postponed. The main choices need to be made quickly, but questions on execution do not all have to be answered straight away."

Every crisis is a crisis of trust

The consequences arising from a crisis frequently exceed the technological problems. "The most significant aspect of a crisis is usually the loss of trust," Schoof explains. "That's why corporations put so much effort into reputation management. A crisis threatens the continuity of a company and the trust consumers have in that company. That is the social consequence of a crisis. In the past, companies have made the mistake of viewing a crisis as an internal problem and not as a social crisis. Underestimating the social consequences can lead to huge problems."

Schoof cites the example of hackers who attacked Dutch banks a few years ago. "Those cyber incidents, in the form of DDoS attacks, were a small crisis in technical terms, taking part of eBay offline. But in a very short time it had grown into a crisis of trust in online banking and card payments, even though technically speaking it had nothing to do with this. If you underestimate things like that, you might react wrongly to the crisis at hand. That is why it is so important to figure out what the crisis can lead to, and to do so in the first few hours. You need to prepare for that in terms of communication, possible measures taken and your overall response."

Practising with scenarios

It is no surprise that the NCTS is closely involved in preparing for cyber incidents. "A cyber incident at one big company can damage the infrastructure, and that in turn can lead to social disruption. We therefore attempt to establish a connection between the NCTS and companies that are vital to our infrastructure. For example, a while ago we organized a practice session with Gasunie, in which we considered possible reactions in a scenario where the gas is cut off."

Nothing works better to sharpen a company's alertness than a crisis, says Schoof. "Enjoy your crisis, because it is an important learning opportunity. Crises can have an impact that goes far beyond the incident itself. A poisoned dessert can be bothersome, but it could actually bankrupt the manufacturer. That is why a prudent overreaction can be a wise decision: knowing what might happen if you do not react forcefully. If you only look at the technical problem, you seriously risk making some cardinal errors."

Practice is an essential part of preparation, says Schoof. "It is important for the entire organization, right up to top management. The NCTS also practices with Parliament, including the Prime Minister. I think large companies are becoming more aware how valuable practice is. There is a reason that we work closely with Schiphol Airport and the airlines on security. We do the same when it comes to cybersecurity."

"If you have never met each other by the time a crisis hits, you have a serious problem."

Make contacts early

Just training directors won't get you where you need to be, according to Schoof. "We have a National Academy of Crisis Containment. It focuses partially on directors, but also on the high and middle operational levels. Our crisis academy works for the government, but also for other vital sectors. That connection is crucial. If you have never met each other by the time a crisis hits, you have a serious problem. You need to know each other, and training sessions and meetings are important for that."

Schoof knows from experience how beneficial they can be. "During the two years that I have been in this job, we have seen the coronation of the Dutch king and the Nuclear Security Summit (NSS) in The Hague. During such events the NCT is responsible for everything that involves security. The fact that we had prepared

for these events helped us a lot after the MH17 disaster. The incident itself was completely different, but I had meetings with the Ministries of Defense and Foreign Affairs, as well as with the national police, and because of these previous events we already knew each other at a personal and organizational level. That made it easier for us to get started on repatriating the people who had died in the Ukraine. We trusted each other, and that is extremely important." That the people involved already knew each other also made it easier to establish priorities. "The first priority was bringing back the remains, followed by research into the cause of the disaster and the prosecution of the person or people responsible. Everything happened in that order."

Managing expectations

Crisis management is also about being realistic about the results. Above all, do not make any empty promises, warns Schoof. "Keep a close eye on what you can and cannot achieve. There is an understandable tendency to promise a lot, with the best of intentions. The more emotional the incident, the more you are held to the promises you have made. And if you cannot live up to them you will fail, even though you have done everything right."

Something will always go wrong in attempting to control a crisis, Schoof emphasizes. "That is simply inevitable. You have to make choices in a situation where you lack the necessary information. In retrospect you may find that you should have done some things differently, but that at the moment you just were unable to. You try to prevent this by interpreting the situation as well as you can. Not by asking for more information, because there is none. Waiting is usually no option either." To correctly estimate a situation is an important part of crisis management. Schoof: "That is why a crisis manual has to be thin. You cannot fully capture crisis management in rules. There are fixed values and preferably a fixed number of people to handle the crisis, but you will always have to improvise at some point." That makes taking decisions harder as well, says Schoof. "I sometimes say we make too few decisions here, and I do not expect things are different in high-level corporate positions. We do face a large number of administrative dilemmas, about which we

have to make a choice. That choice can be right or wrong, but it is more about giving some direction than about steering the decision. A crisis committee must contain people who can deal with those administrative dilemmas.”

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Communicate about insecurities

Transparency is also important, says Schoof. “If you cannot confirm something, then just say so. Do not deny it. We have learned from these situations a few times. This also has to do with the dynamics of social media. People hear and see a lot more than you think they do, but they will accept your explanation if you show your vulnerability. Some will see this as a sign of weakness, but strong leaders can also say they do not know everything. That is not a bad thing. Our problem is that we often cannot get confirmation of what has happened. This makes it impossible to deny anything, but neither can you confirm anything. This can lead to difficult situations, especially if there is footage out in the open. ‘Communicate clearly during a crisis,’ is the simple advice. In practice, however, you will find that communicating well is not as easy as it sounds.”



Dick Schoof is National Coordinator for the prevention of terrorism and security. Safety is the main theme of his career. As Director-General of Police at the Ministry of Security and Director-General of Security at the Ministry of Internal Affairs, he was tasked with the formation of the national police. Prior to this, he was Acting Director-General at the Ministry of Justice and Head of the Immigration and Naturalization Service. He is responsible for crisis containment, counter-terrorism and cybersecurity at the state level. His goal is to prevent and limit social disruption.



“The real crisis would be non-executive directors who do not see a crisis coming”

There are shocks that no one sees coming, simply because we ignore the signs. But when a crisis does occur, non-executive directors have a special responsibility, according to Willem Stevens. In contrast to the shareholders, their primary interest is the company, and they have more latitude than the management. “When the company’s reputation is in danger, the head of the supervisory board must be able to take the lead.”

Why are individuals and organizations almost always surprised when a crisis happens? Stevens thinks that Nassim Taleb (author of *The Black Swan* and *The Impact of the Highly Improbable*) is correct when he says that the human brain is ill-equipped for our current complex situations. “That is why we assess a situation badly quite often. This can cause serious situations to turn into crises.”

Total recall prevents reputation damage

A crisis can take many shapes, as Stevens knows. “As a non-executive director you have two major worries: the company’s continuity, and its reputation. A Dutch friend of mine became director of Perrier USA. At some point, it was discovered that some bottles of water were contaminated with a small amount of a chemical substance. This became a major crisis for the company; it was all over the newspapers. The solution was drastic: a total recall. All bottles all over the world had to be recalled, whatever the cost, and new bottles had to be provided free of charge. It was a huge and costly operation, but one that saved the company. A new situation was created with clean bottles which had been rigorously checked.”

Stevens believes that a total recall is always better than papering over the cracks. “With the ‘Woekerpolis incident’ in the Netherlands (around a decade ago, when more than 80,000 people were mis-sold insurance policies with excessive premiums and minimal yields – ed.), a total recall was not considered, and that crisis is still going

on. Insurance companies earned a great deal of money by selling these policies, so why did they not compensate the victims straight away? Ten years down the line, their reputations have suffered serious damage. And this for businesses that are entirely built on trust.”

“As a non-executive director you have two major worries: the company’s continuity, and its reputation.”

Crisis? The supervisory board takes the lead

Non-executive directors can contribute to a structural approach to a crisis. “With an unexpected crisis, it is important for the supervisory board to regroup. You need to be able to back off a bit and determine the course of action together. It is essential to assign one well-informed non-executive director as a spokesman. Usually this will be the chairman. This chairman also needs to be able to play a part when it comes to the company’s reputation and activities, all the more so if the reputation is at stake and the core product is being affected. If there is a conflict of interest involving the board,

then the chairman of the supervisory board has to step in. The supervisory board needs to establish whether there is an actual conflict of interest and if so, how to deal with it. A board of directors that has not been involved in the creation of the crisis can stay in charge. But if the board is vulnerable and in danger, the chairman of the supervisory board has to be able to take the lead."

It is also important for non-executive directors and directors to consult with each other on their message to the outside world. "It might be necessary to investigate some issues first. In a serious crisis, a supervisory board should never hesitate to hire its own advisor. Ideally, a crisis manual produced by the board of directors is already available, stating what the non-executive directors should do. This is essential. It is also important to write down everything that is being discussed, because during a crisis it is easy to forget things."

"As a non-executive director, you simply cannot just walk away when something bad happens. You were there when things started to go wrong."

Special dynamics in the board room

Mutual consultation between the board of directors and a supervisory board isn't always self-evident. "The dynamics in a board room can be unusual. They are not always conducive to openness. But during a major crisis you need to be able to speak out. As a non-executive director you must be able to understand the role of the directors, and you need to understand why they think that they know exactly what should be done. You need to be alert,

to listen closely and to ask why a certain proposal is being made. Is it good for the continuity of the organization, or are there ulterior motives? As a non-executive director it is your duty to keep an eye out. You need to keep asking questions, and to be fair, objective and critical."

"In emergency situations, directors and non-executive directors must dare to appear vulnerable to each other."

There are ways to make interventions by non-executive directors more effective, as Stevens has noticed. "At Schiphol, the supervisory board has established a pre-meeting and an after-meeting. This works really well and also has a positive effect on our feeling of unity. Because that is the weak spot of a supervisory board: they often consist of individuals who just turn up six times a year. The president of the non-executive board has to shape them into a solid team – not the easiest assignment. At least once a year you need to meet with the board of directors, and you need to stay in touch with the company. The real crisis would be non-executive directors who do not see a crisis coming."

Dare to intervene

What makes non-executive directors valuable according to Stevens, is the fact that they act in the interests of the company. "Even when that is not to the advantage of the CEO. If a CEO is dismissed or leaves suddenly, it is important to already have a successor. During a crisis it is possible for a non-executive director to be a temporary director; we have seen this happen a few times in the Netherlands. At that moment you need the right person, and a non-executive director knows the company." But non-executive directors need to take action before a crisis as well. "You need to take preventive measures when there is no trouble in sight," says Stevens. "You need to have the courage to intervene if you feel something is

going wrong. If necessary, use a mystery guest to test the risk management systems. This is part of your responsibility as a non-executive director. As a non-executive director, you simply cannot just walk away when something bad happens. You were there when things started to go wrong."

Stevens argues for forming a subcommittee of the supervisory board during times of crisis. It only needs two people (not the chairman) who are directly involved and work closely with the board of directors. They do need to be respected by the board of directors and seen as knowledgeable. The board of directors has to acknowledge that other people can also offer a helping hand. "In emergency situations, directors and non-executive directors must dare to appear vulnerable to each other."

Is outside help beneficial?

Accepting outside help can make all the difference in the world. Stevens knows this from experience. "I experienced a crisis situation where a company almost went bankrupt. An outsider was brought in to do a quick scan. After two days the man said: 'Make me director, and I will save the company.' He delivered a speech to the staff which immediately yielded a 15% cut in their salaries, without any Works Council opposition. So if you see you are on a slippery slope, draft in a consultant in good time. People often get stuck internally in tackling a crisis."

This is not to say that all outside interference is positive. "When the state takes part the political influence is very relevant. As a shareholder the state will always choose the position in which it is the least vulnerable. That's their starting point. Even in such cases a crisis has to be handled by the commissioners. They look at the continuity of the company and want to solve the crisis: they don't look at it purely as a shareholder."

Pick up signals

Stevens' ideal world is one where the board of directors and the supervisory board work closely together, especially during a crisis. "That is why I find the one-tier board so refreshing. Because you share the board with the directors, and that is where decisions are made. The closeness leads to very open discussions, and this creates an entirely different dynamic. In a two-tier board there is this built-in distance.

In a one-tier board you can remain a non-executive, but you can see what goes wrong more quickly. That is a lot harder for a supervisor who is kept at a distance, and who shows up six times a year. I find the one-tier board the better model, especially at those times when non-executive directors have major responsibilities.”

Ultimately it is all about being able to pick up the signals, says Stevens. “I always look at the board of directors. How do they react, how do they interact with each other? I talk to them about proposals. You must have a healthily suspicious nature. If you are truly convinced that something is wrong, make sure your opinion gets noted. Non-executive directors need to keep the board of directors focused on the large strategic lines. We also need to set the boundaries. But the board of directors also needs to include the supervisory board in their plans. Furthermore, non-executive directors need to talk to the accountant. The accountant often sees things coming, but does not always have the courage to speak out. We as non-executive directors need to keep an eye on things.”

“You must have a healthily suspicious nature.”

One line for non-executive directors

When there are signs of possible problems, there is a task at hand for the non-executive directors. “With a looming crisis, you need to wonder whose interest it serves to keep this crisis from being noticed. For example, in whose interest is it to keep using text messages when WhatsApp is already there? Is someone’s bonus dependent on it? Things like that need to be mentioned in time. It is important in these situations to keep an eye on the competition and to see how the branches of the company abroad are doing. Go and have a look! You need to be able to express your opinion, without wanting to be a troublemaker. Before you can do that, however, make sure you are on the same page as the board. That’s why I support board evaluations by outsiders; they are important steps towards more teamwork in the board.”



Willem Stevens is aC at AZN N.V, Stichting Exploitatie Nederlandse Staatsloterij, Stichting Holland Casino and Non-Executive Director at Brit PLC in London. He is also Vice-Chairman of the supervisory board at Stichting Diabetes Onderzoek Nederland, and is a member of the supervisory board of Boelens de Gruyter Vastgoed and Stichting ArtZuid. He is the Governor of the Harvard Law School Association of Europe.

Stevens studied law at the University of Leiden and at Harvard Law School. He is a mediator and independent advisor for legal, fiscal and corporate governance issues. Stevens also heads the CDA fiscal commission, and is Vice-Chairman of CDA's Wetenschappelijk Instituut.

He is a guest lecturer on corporate governance for executive management programs at the Erasmus University Rotterdam.



For us, a crisis is **'business as usual'**

So how do you actually carry out crisis management in practice? This can be seen at two organizations which deal with crises daily.

For the HagaZiekenhuis and Kennemerland Safety Region, crisis is a daily occurrence.

Emergency situation

As part of a chain of acute caregivers, the hospital called HagaZiekenhuis has dealt with numerous crises. Artze Prins, Sector Manager of Acute & Intensive Care and Surgery, and Piet Melief, Intensivist and Medical Manager of Intensive and Acute Care, explain how the hospital handles these crises. “Just like many other organizations, we define a crisis as an emergency situation in which the operational management of the business is seriously disrupted,” says Prins. Melief adds: “The difference is that for a hospital, a crisis is business as usual. We are prepared for a sudden rise in the number of patients, and make sure that this is no threat to our operational management. If that happens, it usually has other causes.”

Prins refers to a number of crises that occurred during the five years when the hospital was being renovated. “That has taught us how important it is to prevent emergency situations. We plan activities very carefully. They have to fit in with our intervention procedure, there is a working plan, stakeholders become involved and the people responsible have to be committed to the plan.”

Guarantee patient safety

The intervention procedure guarantees that potential problems are noticed in time, and not after the fact. “For example, when the Wi-Fi needs to be updated for the entire hospital, we have to take a lot of things into account,” says Prins. “Coronary care is also connected to this network. Without Wi-Fi, we cannot monitor our patients’ heart rhythms. So we intervene and group all heart patients together, with a nurse and a doctor to keep an eye on them. That way the patients’ safety is never endangered.”

Risk profile

Every safety region in the Netherlands records the most important risks in their region in a risk profile, and that is exactly how regional safety set-up Kennemerland Safety Region operates. The risk profile is then approved by the councils. After that, an analysis is carried out which looks at the risks and the costs of those risks, and at incident and crisis control. The board of the region can then determine a plan on that basis.

“In a crisis you have to be stress-proof, results-orientated and effective. You need to exhibit administrative sensitivity, be flexible and – this is increasingly important – be creative.”

Specific competences

A crisis situation requires other competences than ordinary day-to-day work, says Schelte Egbers, staff member of risk control and operational leader of Kennemerland Safety Region. “In a crisis you have to be stress-proof, results-orientated and effective. You need to exhibit administrative sensitivity, be flexible and – this is increasingly important – be creative. Which competences you need depends on the role you fulfil in a crisis team. At the center of the team are the operational manager and his information manager. They need to keep an eye on the human dynamics within the team. They also need to be able to work together and get others to do the same. However, they do not always have time for this. It is therefore crucial to give the team the right structure.”

Resilience

Making sure that the local authorities share information is necessary if the crisis organization is to act resiliently. A lot is invested in opening up information transparently, and in developing the capacity to use this information quickly during an incident. Because the region cannot do everything on its own when it comes to safety, companies and citizens are asked to be as self-reliant as possible.

The day-to-day operation of the fire department and ambulances falls under the responsibility of the region. There is legislation in place for incidents with a high probability, which stipulates reaction times, among other things. There is no legislation for incidents with a low probability. Hence the regional safety policies.

Scenarios

The policy is extensive, says Barry Visscher, Defense liaison for the Kennemerland safety region. The region also uses multi-scenario cards. "These tell us how we should act when, for example, there is flooding. How will we evacuate? When do we decide to evacuate? To control scenarios like that we need the best possible cooperation. Things like cybercrime and floods are national subjects, but the execution of any plan begins with the region."

HagaZiekenhuis

The HagaZiekenhuis originated from a merger between three hospitals in The Hague. The hospital merged with Reinier de Graaf from Delft in 2013, to form the Reinier Haga Group. More than 3,800 people work at the HagaZiekenhuis, including 280 medical specialists. The hospital plays an important role in regional care. It has a trauma center, two emergency rooms and an intensive care unit.

Cooperation plays an important part in the role of care providers in times of crisis. That is why the HagaZiekenhuis consults frequently with other hospitals in the area.

Kennemerland Safety Region

Cooperation is also important for the ten municipalities that make up the Kennemerland safety region. This body is responsible for regional security, with a focus on Schiphol Airport and the IJmond industrial area. "The safety region was formed because they wanted to go further than an ad hoc response to incidents," explains Schelte Egbers. "Now combating crises is also part of our duty. Not only are we prepared for material crises, but unrest in society can also lead to a real safety risk."

New situation

Eventually it all comes down to the resilience of the region, its companies and its population during a crisis. "A crisis is a bigger disruption than what we are used to," says Visscher. "It can be anything, from a plane crash to a sudden power cut. If all goes well, our society can handle a crisis like that and can get back to business as usual. But we can also enter a new situation, and then it is our resilience that determines the way in which we can adapt to a new situation."

Combatting the crisis directly

A real crisis threatened the HagaZiekenhuis hospital when a power cut occurred because of a fire. "Intensive Care had to be evacuated immediately," says Melief. "Patients had to be transferred internally, or moved to another hospital. It became clear how useful it is to have a team for those moments. The HagaZiekenhuis could call on that team, which included both members of the board and medical experts, straight away. Together with the ambulance service we were able to transfer all patients in time. Luckily, a lot is possible during a crisis, and we got immediate cooperation from other hospitals."

No role for the supervisory board

A crisis meeting for emergencies takes place in a separate room in the hospital. The board of directors is responsible, but when patient safety is on the line, decisions are being made by doctors or medical managers. Theoretically a doctor can force a decision, but in practice decisions are always made with the board of directors. The HagaZiekenhuis trains on handling crises every year. Emergency plans are practiced with so-called "lotus patients", and evacuation is trained to ensure personnel knows which escape route to take, and which patients to take with them. There is also a joint practice with other hospitals for an intake plan during a disaster.

During a crisis the supervisor does not have an operational task, emphasizes Melief. "That would mean that we would have to inform an extra layer that cannot add anything to the situation at that moment, while people on the ground are busy controlling the situation. At that moment, these people need to have a sufficient mandate for their actions and to enjoy sufficient trust. Afterwards, the supervisors will be held accountable."

Working together on the same goal

Safety region Kennemerland involves as many parties as possible when fighting a crisis. “Our goal is to get everyone to join our existing crisis organization,” says Egbers. “The crisis organizations of Schiphol and Tata Steel are integrated partially in the crisis organization led by the government. They adjust their interests – continuity and corporate interests – to those of the policy team. All necessary information is being shared, even if it is sensitive. We want to prevent everyone from just considering their own interests. The safety region wants to work together.”

“Decision makers shouldn’t get fixated on the details – that’s how you lose sight of the bigger picture. By definition a crisis deviates from the plan, so you always need to have a Plan B and a Plan C.”

Nuclear Security Summit

Serving the greater good together with other institutions is important for the HagaZiekenhuis. In 2014, The Hague hosted the Nuclear Security Summit, which was attended by 58 heads of state, 5,000 delegates and 3,000 journalists. This created a special situation for the HagaZiekenhuis, because heads of state would be treated there should anything happen. “This meant we had to take extra precautions,” says Prins. “There were many advance meetings, increasing in number as the summit approached.” The hospital was in the highest state of alert for four days. We had to take on more security, specialists had to be at the hospital day and night, the operating theater team had to be available at all times, and two ICU beds were kept available just in case a head of state might need one. Because of the expected traffic jams we had to make sure that we had extra blood supplies, and we even furnished an extra bedroom for employees who lived far from the hospital.” Risks were certainly not underestimated. At the same time, however, normal operations had to continue. This all went well because of cooperation from the staff and external contacts. A previously made plan was in place to distribute any casualties to several hospitals in case of emergency, ensuring that injured police officers would not end up in the same hospitals as any injured protesters.

Hierarchical approach

This international meeting was scheduled a long time in advance, allowing the hospital to plan ahead. Plans also had to be made for unforeseen events. Those involved had to know who would be taking on which role with what responsibility, and how to reach everyone during a crisis. Melief: “Usually, the bigger the crisis, the more hierarchical the approach. Things have to be tightly arranged. The one making the decisions needs to take a step back and delegate. This is in fact the case with every crisis. When a patient is taken into the shock room, it should not be the team leader who handles the treatment. Decision makers shouldn’t get fixated on the details – that’s how you lose sight of the bigger picture. By definition a crisis deviates from the plan, so you always need to have a Plan B and a Plan C. Be prepared for the unexpected, and make sure you can decide on the basis of available data. You need to consider multiple options during a crisis, to avoid the risk of tunnel vision. You need to be prepared to adjust the plan to a changing situation. And last but not least: make sure you have a good crisis communication plan in place, so that you can inform internal and external stakeholders in a structured way and at the right time. Also make sure that you can anticipate their reaction.”

Training flexibility

Being able to respond flexibly in certain situations is something that people from safety regions need to learn themselves. “Certain things will be taken care of by others, and you just have to accept that. But you also need to be able to analyze situations on the spot and act on that analysis. You can write down everything in advance, but the real risk is the blind spot. Knowing this demands quite a lot from your crisis organization. People need to have the right competences, and your information management needs to be in place. It takes a lot of practice, also in cooperation with companies. That’s how you get to know each other and discover that you share 80% of your interests.”

Lessons from the HagaZiekenhuis

Whoever takes the decisions during crisis management needs to take a step back and retain an overview. Avoid getting involved in the execution of the work, but trust the people who are responsible for this and focus on the bigger picture. Be sure to distinguish between a sudden crisis, which can be solved with existing protocols and can be left to operational staff, and a looming crisis, where there is more work to be done by directors and supervisors. Make sure you inform stakeholders in time.



Lessons from the Kennemerland Safety Region

Crisis control is always about uncertainties. That requires a certain decisiveness. You need to anticipate as well as respond. Thinking in scenarios broadens your horizon. Communication always has to be on the same page with those who decide. Roles and responsibilities need to be clear in advance. Too much uniformity can also be a problem. A team that needs to make a decision while the clock is ticking easily lapses into group thinking. The right operational leader can make sure this does not happen. By not thinking along strict lines, there can still be space for both decisiveness and reflection.



“You have to be honest about what people can expect from you”

Femke de Vries is one of the architects of renewed supervision at De Nederlandsche Bank (DNB), the Dutch Central Bank. She believes in a proactive approach, which considers both the numbers and softer elements like behavior and culture. De Vries believes this is something more non-executive directors should do. “If you want to stay on top of a crisis, you need to be alert and notice signals from the outside world and your own organization.”

“At the beginning of March 2015, DNB worked with the University of Groningen on research into the relationship between companies and internal and external supervisors,” says De Vries. “It appears that internal supervision has a major influence on a company. Employees generally feel a major responsibility towards internal supervisors, like non-executive directors. This research confirmed my belief that non-executive directors play an important role in a company. I wonder whether non-executive directors are aware of this, and whether they make full use of it at all times.”

One way that non-executive directors can take a positive approach is by not just judging in retrospect, says De Vries. “Non-executive directors are trying to look ahead more and more. This is the case with external supervisors at DNB and Belastingdienst (*the tax authority – ed.*) for example. They do not just look at specific risks, but are increasingly considering the members of the board and the organizational culture. The question they are trying to answer is ‘What can I expect from this board and this organization?’ This is how they try to discover any major problems earlier. And this is not just a trend in financial supervision. Every supervisor is aware that you should not wait to act until the problem has already occurred: that means you are too late by definition. This also applies to internal supervisors, and to non-executive directors. If you want to stay one step ahead of a crisis, you need to be alert for signs from the outside world and your own organization. Those signals need to be taken very seriously.”

“As a non-executive director you need to be able to ask management for information regularly, like a critical friend.”

Connecting the dots

De Vries agrees wholeheartedly that it is not always easy to filter out the relevant signals from noise. “With hindsight, you always know which signals you should have noticed. But we can all be alert to different signals that are pointing in the same direction. There is some room for improvement there for both internal and external supervisors.” It is all about recognizing the right patterns, says De Vries. “Connecting the dots, indeed. You need to keep asking yourself what incidents have occurred and what caused them. Does this mean that your revenue model is no longer fit for the future, or is it something to do with the board? It helps to regard incidents as more than incidents, to see them as a part of a bigger development. That way, you can detect a crisis in an earlier phase.”

Another factor influencing the way companies react during a crisis is the way the company thinks about itself. De Vries points out that DNB researched the

ability of companies to change. "One of the conclusions was that organizations with a lot of reflective power are better at changing, and I think that this reflection also has a positive effect on crisis management and on recognizing a crisis in time. As an enterprise it is important to keep judging what developments mean to you, instead of waiting for a supervisor to come up with something. How do you choose your norms? What does society expect from you as a company? The board needs to formulate answers to these questions, but the non-executive directors need to encourage the board to actually do this."

"The non-executive director needs to be open to innovation, and to the question of which business model will be effective in the future."

Self-reflection is another aspect where non-executive directors can contribute. "A non-executive director spends most of his time outside the company. As a non-executive director you need to be able to ask management for information regularly, like a critical friend, for example in response to incidents. It's good to have someone to keep you focused, especially when that person can fill you in on the perspective from the outside world. That makes you better at trying to predict where the risks lie."

Spirit of independence

Any supervisor needs information, and one of the most frequently heard complaints from both internal and external supervisors is that they have much less information than the organization itself. How can you be effective if this is the case? "As a non-executive director you cannot afford to

only talk to the board," says De Vries. "You need to have contacts in the organization too. Increasingly, non-executive directors are talking to people in the organization on a regular basis, to make sure they also get a sense of the company's culture. This helps to better interpret the things you see, and that is a must for internal supervisors. It is also good for their independence."

Exhibiting a spirit of independence is so important that a company should actually select people for that independence, says De Vries. "The responsibility for the suitability of a non-executive director does not lie with the external supervisor. He or she will naturally put up any number of formal guidelines to ensure that independence, for example that there can be no conflicts of interest. But this spirit of independence is in fact one of the most important characteristics for a non-executive director."

Renewed supervision

What also helps to maintain the broadest possible view is diversity in the supervisory board. "People with different backgrounds notice new things more easily," says De Vries. "But whatever background a non-executive director has, he or she must be aware of the company culture and must compensate for any information asymmetry. A non-executive director needs to be open to innovation, and to the question of which business model will be effective in the future. You cannot rest on your laurels when a business model seems to be successful. That can change in a few years, because of changes in legislation or because the public prefers something else."

Awareness of issues like business models and company culture is raised by something called renewed supervision, of which De Vries is a convinced exponent. "Financial supervision has undergone a metamorphosis. Because of the crisis, we have learned that things are more interrelated than we thought. That is why we deliberately put business models and strategy on the DNB agenda, ever since 2010. We are also thinking about the quickest way of solving problems when they do occur, for example by reducing operational and financial aspects which are intertwined. Is it possible to unwind an organization quickly, or can parts be shaved off?"

Intertwined operational sections is another matter non-executive directors should consider. "The complexity of an organization can pose a risk in itself. With company sections placed at a distance, you should wonder how much supervision there is. When you see them producing great figures year after year, you might be impressed. But you might also ask yourself just how realistic those numbers really are."

A test for non-executive directors?

De Vries believes internal supervisors should learn about the new way of supervising. "Non-executive directors have a set of tools to launch a discussion on company culture. You can talk with external parties about board evaluations, for example."

A test to select non-executive directors is a good idea, De Vries thinks. "You could broaden the test already used in the financial world. There is also a discussion going on about introducing some kind of register in the healthcare sector. In the financial sector, testing produces better candidates. This might be harder to introduce in other sectors, because the test always has to take place in a certain context. The preferred way would be to be for the company to conduct this test itself. The idea that there are high, testable demands that have to be met when it comes to choosing a non-executive director sounds rather appealing to me."

"Unfortunately, being well-prepared for a crisis still cannot be taken for granted."

Disappointment leads to distrust. One of the consequences of a crisis can be that an organization fails to meet expectations. De Vries: "Communicating clearly about justified expectations is important before, during and after the crisis. When a product does not do what the customer expects it to do, that could be disastrous for mutual trust. The financial sector is still suffering from this. You have to be honest about what people can expect from you. That responsibility lies with the board of directors; the non-executive director needs to keep the board focused on this. Communicating clearly is especially important when you consider the long term. I hope to study whether being transparent helps trust, or damages it. My instinct tells me that it helps."

When a crisis occurs, the involvement of the internal supervisor grows. First of all, the supervisor needs to know whether the board is managing the crisis properly. It is also the supervisor's duty to prevent navel-gazing. "During a crisis, there is a strong tendency to focus on yourself. It is up to the non-executive director to make sure that there is a view of the outside world as well. Depending on the nature of the crisis and its depth, as a non-executive director you may be reluctant to intervene. But when you feel that things are going wrong you should not hesitate. The art of being a non-executive director is to use your influence to help the board do the right thing. That does not mean that you have to take over everything. You just have to make them notice things they missed themselves, like putting more focus on culture and placing certain things on the agenda."

Crisis as an opportunity

Non-executive directors do not have to wait for a crisis to do these things, says De Vries. "The trick is to get these things on the agenda in the good times. About four years ago DNB asked pension funds to come up with a crisis plan, showing who does what under which circumstances. That type of discussion can be started fairly quickly. It is useful to know which situations could occur and whether it is already advisable to communicate about these possible situations with stakeholders. Unfortunately, being well-prepared for a crisis still cannot be taken for granted."

Sometimes a crisis turns out to be an opportunity in disguise, says De Vries. "Crises in supervision can force the supervisor to come to different realizations. A crisis is only useful once you look at what could have been done better, and when you are prepared to learn from it.

This can be a painful process for those who are not used to reflecting. We are currently thinking about error management. Mistakes are made in every company; you can only improve once you learn from them."

Femke de Vries (1972) studied policy and governance in international organizations at the University of Groningen, and Dutch law at the Erasmus University Rotterdam (EUR). After graduating at EUR, she worked for the Ministry of Justice, the Ministry of Finance and the Belastingdienst (tax authority) before she transferred to DNB in 2003. In 2009, she was appointed Division Director, first of the pension funds supervision division and then of the expert supervision centers.

De Vries was appointed Secretary Director at the end of 2014. She now leads the internal company and is responsible for quality control of Supervision, Finance and IT and the internal business. She also makes sure DNB has effective governance. In addition to her work for DNB, she also works for University of Groningen as a professor, researching the influence of transparency on public trust.





“You cannot resolve a crisis within the existing structures”

Jacob Middeldorp has witnessed a number of crises in his career, and they all had their own dynamics. But he sees enough similarities to draw a few conclusions. One of these is that a crisis does not just lead to panic, but also to a greater feeling of solidarity. Overcoming a crisis usually depends on a small group of people. When you do not determine the actual cause of a crisis, you are doomed to repeat earlier mistakes. “You need to challenge the strategy as soon as you see the market is changing. That is where it all starts.”

“A crisis occurs as soon as you do not have direct control over the situation. That is when panic strikes,” says Middeldorp. But not every crisis starts the same way. “A crisis can be looming for two years, but can also be caused by an incident that only takes a minute. This happened last year at a KPN outlet in Enschede. After heavy snow, the roof of the adjacent supermarket collapsed, and we had to evacuate our building because its roof also had too much snow. You cannot predict these things. Some situations can suddenly get out of control and cannot be fixed with existing processes.”

What happens next is often interesting to see, according to Middeldorp. “Typically, in a crisis situation many ideas are suggested for the direction in which the solution can be found, but usually there is no one leader who takes charge and says ‘We are solving it this way.’ It is also remarkable that a crisis situation that occurs out of the blue usually gets solved more quickly than a crisis that could be seen coming two years back.”

Healthy optimism

A sudden crisis is often an incident, while a crisis that slowly evolves points to a deeper problem. Middeldorp has experienced this himself. He points to InternetPlusBellen, a product from the Dutch telecom provider KPN that sold really well, but was also complained about a lot. Installations did not go smoothly, internet was malfunctioning and phone calls were impossible in certain situations. “We just could not deal with the enormous demand. It was that simple.” The crisis turned customers into critics. Middeldorp

was caught in the middle. “I had to lead the task force to solve this crisis. This was one of those typical crises that evolved over time. With hindsight it was clear we had a problem, but we only realized it later on. At the time you want to keep selling a product that is in high demand. InternetPlusBellen was, and still is, a very successful product on the whole.”

“Organizations are strongest during crisis situations.”

“I now see the same pattern in different companies. You have to adjust mentally all the time. You feel invincible, and fail to notice that you are stuck in habits. The harder a crisis hits you, the larger the crisis is below the surface. The strength of the offensive launched against people who suggest that something is a crisis, should be an indicator of the seriousness of the crisis. Admitting a mistake is hard, especially for large corporations. People tend to prefer an attitude of optimism and opportunism.”

Ambitious goals and tunnel vision

People who are in the middle of an organization find it hard to look at it from an outside perspective, Middeldorp noticed. Having ambitious goals can lead to tunnel vision. “I can still remember the first day I walked into a company as a member of the supervisory board. The first question I asked myself was whether the distribution model was indeed profitable. Until you understand the context and get a

reassuring answer, you retain your doubts. The big danger is when you become too much part of the company to stay critical. Organizations can slowly suck you in."

Intervene sooner

Admitting mistakes is important, but it is even more important to understand what went wrong and to learn from it. "That worked at KPN," says Middeldorp. "The solution was mostly sought in IT structures. That makes sense, because the cause lay partially in infrastructure and partially in customer processes. It is also important to evaluate the crisis properly at board level. Initially we skipped that step, because we had more immediate problems to solve. After that, we also needed to ask ourselves a strategic question: why did we never see the signals? How come we had not intervened sooner? What should we do differently as a board next time?"

Middeldorp distinguishes a number of phases in handling a crisis. "Crisis management always starts with plugging the hole, with damage control. You need to communicate with the outside world in a completely transparent way on this topic. Be open and honest, because the news will come out anyway." The next step is to solve some problems. Middeldorp: "Many organizations typically work from these small 'islands', or 'silos'. When a crisis occurs, those boundaries in the organization seem to fade. A complete mandate arises and everybody accepts it, even though it is not formalized. With KPN there was a task force that asked for permission (and got it) to continue its work, every week. While I was leading this task force at KPN I never felt restricted by that mandate. I experienced significant freedom. It also shows some form of rebellion that I think companies should exhibit more often. In a situation like that it is easier to steer off the beaten track. As soon as a crisis ends, you see old structures being restored. The question is whether this is always a good idea."

Crisis? Exhilarating!

In a paradoxical way, the crisis at KPN also had a positive consequence for Middeldorp. "I experienced it as an exhilarating time, in the most positive sense of the word. Organizations are strongest during crisis situations. Everyone wants to achieve the

same goal, and all conventions go out of the window. There is a momentum that leads to an increase in team spirit."

"The strength of the offensive launched against people who suggest that something is a crisis, should be an indicator of the seriousness of the crisis."

In fact companies should work this way more often, says Middeldorp. "You can certainly see this in smaller organizations: today we make a decision, and tomorrow we make it happen. In larger companies, a decision is often the start of a discussion. A crisis increases the level of alert in an unhealthy way, but the dynamic that accompanies it should be created more often. You only need ten percent of your employees to do so. You need people with a passion who believe in something, and who are willing to go that extra mile. These are precisely the people who come to the fore during a crisis. During these situations some people will automatically do more, instead of telling other people what to do. When you have a small team with people like this and a little help from your network, you can take on the world."

Crises inside the company

Some crises don't start in the outside world, but arise from inside the company. "This can happen because they miss opportunities in the market or have no clear view of developments," says Middeldorp. That in turn depends on how a company is led and on the way it reacts to a crisis. "If you have good guidelines on how to handle a crisis, and you follow the manual, you are doing exactly what you have always done: thinking in structures. You cannot resolve a

crisis within the existing structures. That is why I do not favor appointing and training crisis managers in advance. That just means you are trying to institutionalize things, which is exactly how a crisis happens. Some things cannot be directed; they have to exist more or less on their own."

The spontaneous way an organization reacts to a crisis can also serve as an example for useful preparation. Middeldorp: "What I just mentioned about the positive aspects of a crisis can be used here as well. Besides, I would not want to create a constant state of panic. Maybe we should be talking about urgencies, rather than crises. I think it is a good thing to create a company culture based on a positive attitude, for example by organizing things in a slightly loose manner."

If you can create a sense of urgency before a crisis occurs, your company has a great advantage. The 'independents' of this world can break through conventions because of that. They can break free from the established order. Urgency is part of the culture, and therefore part of the people. So you should already be bearing urgency in mind when hiring a new manager, someone who can make the company more successful and agile as well as manage a crisis. The best-case scenario is the top level of a company where you have managers who can also act as crisis managers, operating and deciding under pressure."

Incidents and slow burns

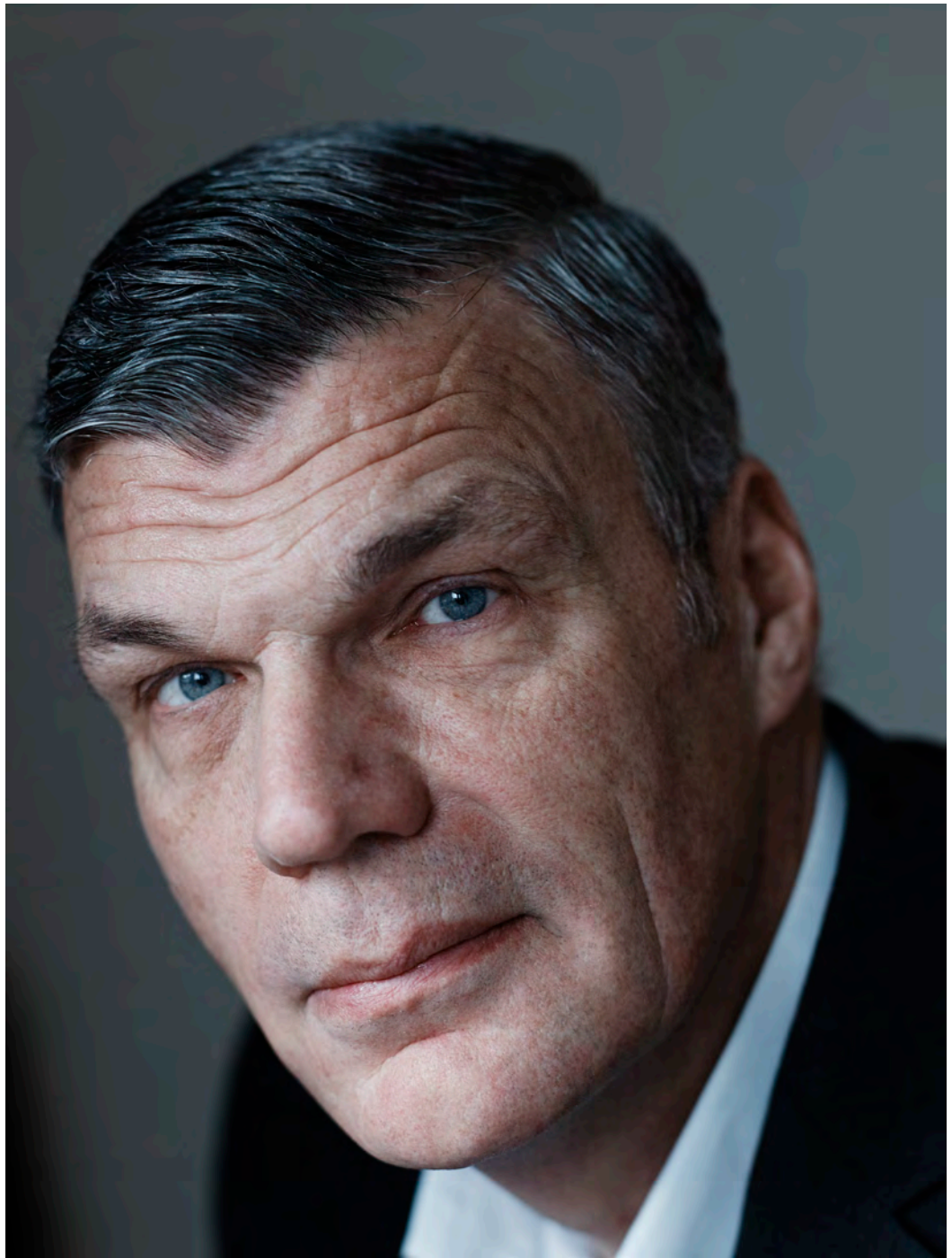
Which kind of crisis is most dangerous? And what can non-executive directors do to avert these dangers? Middeldorp has a few suggestions. "An incident can be solved, but larger problems are really threatening to a company because they can be more structural. So you have to try to prevent these larger problems. Supervisors have an important task here. It is important to discuss the signals that point to a looming risk. To create awareness, you might need strict interventions at times. As long as you are prepared to face larger problems, you can, in my opinion, keep ahead of them."

Middeldorp thinks it is important to keep a close eye on long-term risks. "A fundamental discussion about your strategy can help prevent a crisis. You need to

discuss strategy as soon as the market changes. Preventing larger problems starts with scrutinizing long-term risks. Incidents that only affect operational business, like disasters and such, can be left to the board of directors. As supervisor you do need a certain amount of control. You focus on things like IT, HR, and Finance. You look at those in depth, to see if anything can be done that fits the company's strategy."

Stay critical

The board of directors and the supervisory board need to stay alert. Middeldorp likes to achieve this by removing predictability and complacency. "Before you know it you become a police officer, and you want to avoid that. I want to have interesting discussions, to invite the head of technology from Google and ask him to tell us where the world is going. Diversity in the supervisory board also helps to face a crisis. You need to make sure you have people in there who like asking critical questions."



Jacob Middeldorp is a non-executive director at De Goudse Verzekeringen. During the '90s he worked for Capgemini as International Account Director. After that he transferred to KPN, where he worked as Director of TV, Content & Broadcasting (2007-2010), and became Director of Sales & Service in 2008. In 2012 he founded Middeldorp Jmotion. Since then, he has been advising organizations and managers about strategy, sales and marketing and the development of leadership, guiding them through processes of change. In addition Middeldorp holds a seat on supervisory boards at Essenza Home, VANAD Group and Studio A.

Contact

Deloitte has bundled its knowledge of and experience with the agenda of directors and non-executive directors in the Around the Boardroom Program. In the context of this program, Deloitte considers the impact of developments in direction, risk management, supervision and compliance aimed at the roles and responsibilities of directors, non-executive directors and supervisors. The interviews in this edition were conducted by Deloitte's senior partners with extensive knowledge of boardroom consulting. They will be more than happy to advise you on governance issues.



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Afterword

We have been able to bring you the insights in this edition of Future of Supervision thanks to the non-executive directors, experts and other interlocutors who offered us a view into the world of crisis management. We have seen how an unexpected crisis can occur, how an organization can resist this crisis and what active role non-executive directors can play in this. We thank everyone who was willing to share their experiences with us in this publication.

We would like to add to the ideas that our interlocutors have handed to us by using a few lessons that have been formulated by the Deloitte Centre for Crisis Management. After all, every looming crisis is an opportunity to improve.

Don't wait to prepare until a crisis occurs

Good preparation is worth its weight in gold. Monitor relevant data to prevent surprises, put together a crisis plan and train everyone involved by using scenarios. This is the most effective way of ensuring that you can respond quickly whenever it may be needed.

In a crisis, every decision can have unexpected consequences

During a crisis, decisions have to be made quickly. Perhaps the outside world responds differently than you would have expected. This can damage your company's reputation and the trust your customers have in you. Transparency and open communication are of the utmost importance.

Every minute counts

An emergency situation requires an immediate response. Teams need to be led, even when there is little information available. The board needs to take charge and show confidence. It needs to convince. At the same time, employees and stakeholders need to be informed as much as possible.

A crisis can offer unexpected opportunities

A crisis situation can turn existing relations around. This usually brings to light new opportunities and allows an organization to emerge stronger from a crisis. However, these opportunities have to be actively sought out. A board capable of creating a sense of urgency before a crisis occurs creates a path for a more robust and agile company.

An organization that is prepared for crisis is capable of breaking through conventions, even under normal circumstances. That is what makes it so valuable to ensure that things like situational awareness and alertness are an integral component of company culture.

For more information:
www.deloitte.nl/crisis-management

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