# A crisis of confidence

Which companies have a clear view of crisis—
and which are ready to handle it?
More than 300 board members from around
the globe share their views

Deloitte.

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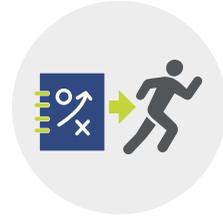
Board members' survey finds **a broad "vulnerability gap"** between **awareness of threats and preparation** to actually handle them.

A crisis of confidence

There is no substitute for confidence, and board members around the globe have confidence in their organizations' ability to deal with crisis situations. But a closer look suggests this confidence is not based on sound evidence and that organizations have further to go on the journey to being truly crisis-ready.

To assess the state of crisis readiness in large organizations, Forbes Insights, on behalf of Deloitte Touche Tohmatsu Limited, conducted a survey of more than 300 board members from companies representing every major industry and geographic region. The survey, conducted in the fourth quarter of 2015, targeted companies with annual revenues that ranged from US$500 million to more than US$20 billion (or the equivalent).

The survey defined a crisis as follows: "Crises result from a single devastating event or a combination of escalating events and present a severe threat to an organization's strategic objectives, reputation and viability. Crises are episodic and of more significant magnitude." It's common to think of crisis in dramatic terms: natural disasters, people led away in handcuffs, the glare of media lights. But some crises don't appear on the nightly news, and some don't appear on board members' radar until it's too late. For any organization, crisis is a matter of when, not if. And the larger and more global the company, the greater the exposure to risk.

"Very sudden crises are not so frequent," a director at a personal products company said. "Take a car company. A safety incident might appear to crop up suddenly and lead to a major recall or quality issue. But it wasn't really sudden. You could have put the failures on a chart and seen it coming."

For any organization, crisis is a matter of when, not if.

Key findings

2 Ranking the threats

Survey participants said the crisis areas that make them feel the most vulnerable are corporate reputation (73 percent), cyber crime (70 percent), and rumours (68 percent). Two-thirds (66 percent) named supply chain issues, regulatory action, and natural disasters as vulnerabilities as well.

4 Board members aren't engaging with management
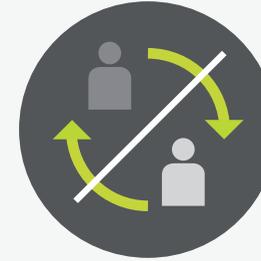
Fewer than half (49 percent) say they have engaged with management to understand what has been done to support crisis preparedness. Only half say board members and management have specific discussions about crisis prevention.

1 Feeling ready vs. being ready

More than three-quarters of board members (76 percent) believe their companies would respond effectively if a crisis struck tomorrow. Yet only 49 percent say theircompanies engage in monitoring or internal communications to detect trouble ahead, and only 49 percent say their companies have playbooks for likely crisis scenarios. Even fewer (32 percent) say their companies engage in crisis simulations or training.

3 A "vulnerability gap" between awareness and preparation

When asked about specific crisis areas, board members were more likely to acknowledge their vulnerability than they were to say they had a plan for it. For example, 73 percent named reputation as a vulnerability, but only 39 percent said they had a plan to address it.

5 No quick fixes

Fewer than one-third (30 percent) of board members who had experience in past crises said their reputations recovered in less than a year. Sixteen percent said it took four years or more. Financial and operational crises had similarly long recovery times.

When it comes to crisis, however, the board and the C-suite must **work together**-.

Percent of experienced board members who said these elements took more than a year to recover from past crises:

70 Corporate reputation

69 Financial performance

64 Operations

No substitute for board leadership

When crisis occurs, many of the costs are obvious and measurable. But board members who'd lived through past crises said the most significant victims of a crisis were less tangible assets like company reputation and morale—and they said a damaged reputation can take years to recover. Asked how long it took corporate reputation to recover from crises, almost seven out of

10 crisis-experienced board members said it took from one to five years.

Because the damage from a crisis can cut so deep and last so long, the ability to lead in a crisis must increasingly become a core competency for CEOs, senior executives, and board members. This competency can only come through training, rehearsals, and direct experience of crisis situations.

A board may stand at arm's length from the daily work of the management it appoints. And board members have a natural tendency to trust risk managers and other executives when they say everything is fine. When it comes to crisis, however, the board and the C-suite must work together.

In most crisis situations, the board's involvement adds value to what management can do; in others, the board must take steps management cannot. Consider the sudden departure of a CEO -- not so unusual when a crisis overwhelms an organization. Consider the prospect of managerial malfeasance. Or even a crisis that embroils the board directly, such as a power struggle or shareholder revolt. When a company defines crisis-related roles, assigns responsibilities, and conducts rehearsals, the board must recognize that some crises may impair the integrity of senior management—and board members must be prepared to step in and run the company for a time if that happens.

"I worry," one communications company board member said. "Worry is not the word. I consider crises all the time. Will this system fail or that one fail catastrophically? Will we have a breakdown in ethics, maybe bribe a public official somewhere or systematically shortchange on our taxes with or without intent? Do we discriminate or pollute? And, by nature, my focus is prevention."

Board members feel ready to handle crisis, but a deeper dive hints otherwise

To varying degrees, board members expressed confidence in their organizations' crisis-related abilities. Seventy-six percent of them say their companies would respond effectively if a crisis were to strike tomorrow. Seventy-nine percent say all relevant leaders and staff are aware of the relevant procedures and how to execute them. And 62 percent describe their companies as well-prepared.

This attitude appears to vary with the size of the organization. Board members from companies with more than US$10 billion in revenue are more likely to call their organizations well-prepared—82 percent as opposed to 62 percent overall. It's possible some organizations feel better-prepared

than they are because they equate crisis management with business continuity planning, which is a related but different discipline. Business continuity plans are typically procedural and designed to recover processes or systems if they fail or are unavailable. Crises are broader, more ambiguous, and cover all areas of potential strategic impact risk. They demand a high degree of organization, coordination, and communication. They require leadership to make tough decisions in near immediate timeframes, often based on very limited information. Crisis readiness is about the execution capability of the organization and its leadership in such circumstances, irrespective of whether an appropriate business continuity plan exists or not.

"Smaller companies tend to be less fully prepared than larger companies," a board member from a large industrial organization said. "They are less prepared because they have fewer resources. A larger, more mature company can be more risk aware. These companies have more mature risk management functions and compliance functions who know industry regulations and HR risks. Plus they have public relations and social media-savvy people. So it's a lot more than just the CEO or the board thinking about what would or could go wrong."

"Now this isn't always the case," the board member added, "because it can also be that a smaller, fast-growing company might be more focused in its core competence and knows what it does inside out."

Most board members believe their companies are ready— especially in larger companies

FIGURE 1

How would you rate your organization's crisis management strategies and capabilities?

Respondents who answered "4" or "5" on a 5-point scale where 1= not at all prepared and 5= fully prepared

62%
OVERALL
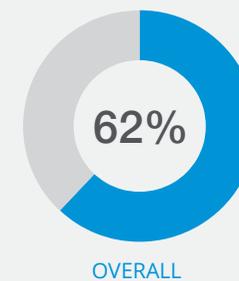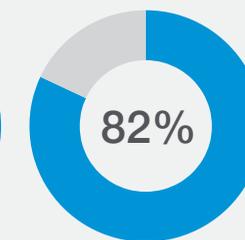
82%
OVER US$10B REVENUE

Despite this difference, large organizations often falter when called upon to deal with a crisis.

Some companies say their monitoring activities sound robust but they focus on net outcomes instead of root causes-.

The same group of board members who were bullish on their companies' crisis preparation and response showed a different outlook when asked about the specific capabilities that combine to make those other outcomes possible.

Fewer than half (47 percent) say their organizations have the capabilities or processes they would need to meet a crisis with the best possible outcome. Fewer than half also say they have a "playbook" that sets out some of the options, actions, and decisions that may be required for specific, defined crisis scenarios. And half the total respondents or fewer reported having engaged in each of a list of specific crisis preparedness activities [Figure 2].

Life Sciences and Health Care companies were more likely (91%) than the average (76%) to predict an effective crisis response.

Technology, Media & Telecommunications reported lower confidence in their crisis preparation than respondents as a whole.

Key steps to prepare for crisis: Most go ignored at half of companies or more

What steps have you taken in crisis preparedness?

Respondents who answered "4" or "5" on a 5-point scale where 1= not at all and 5= extensively

Evaluated key crisis scenarios
50%

Evaluated strengths/ weaknesses/opportunities/ threats (SWOT)
50%

Identified relevant stakeholders
49%

Engaged multifunctional teams
46%

Evaluated worst-case scenarios
43%

Engaged stakeholders in analysis of specific scenarios
41%
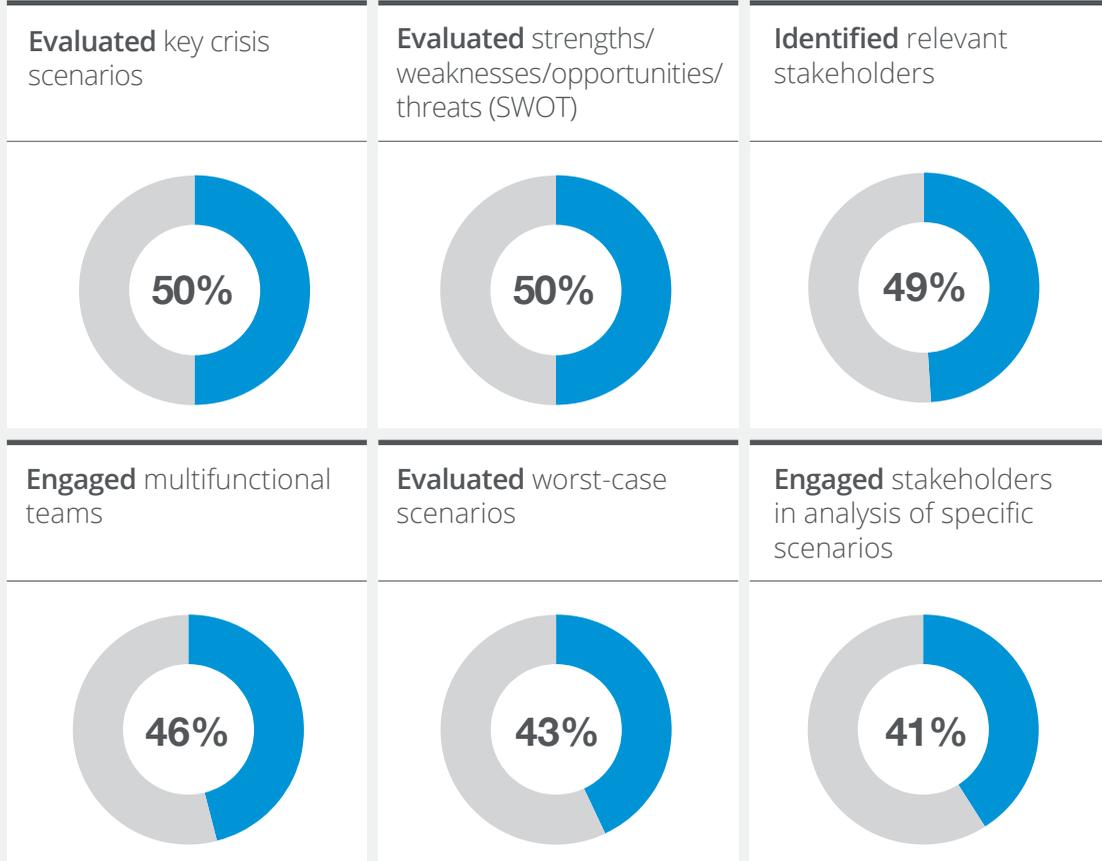
Some board members say their organizations' monitoring activities are robust but that they focus on net outcomes instead of root causes. For example, one member of several boards in China said, "We have monthly reporting and we watch for any shortfall in profits." But a board member from the United States countered that thinking: How do they know nothing has gone wrong? Just because the numbers show growth, this or that investment is paying off, that doesn't mean the business is running as planned."

Good numbers on a quarterly report may conceal a crisis smouldering just below the surface, waiting to erupt. Or the problem may run deeper: a culture that prizes and pursues those good numbers at the expense of deeper risk-awareness and compliance might actually invite and fuel a crisis that would not have emerged

otherwise. Many examples in the news point to the way a pursuit of the bottom line can open up deep reputational wounds.

That almost one-fifth of board members say they have no crisis playbook is noteworthy. But the finding that one-third don't even know if they have one may be more telling. If the board isn't readily conversant with its company's crisis preparations, it can't play the oversight role it should in guiding those preparations—and board members will have a hard time taking the necessary steps when crisis actually erupts.

"Generally, a business needs to have enough self-awareness to know likely crises," a UK board member said. "Failure to respond in a timely, confident, reasoned manner hurts shareholder value unnecessarily. So I agree with you, a company should have a good game plan in hand for risks that are not out of the realm of possibility."

It's noteworthy that almost one-fifth of board members say they have no crisis playbook. But it may be more telling that one-third don't even know if they have one.

Life Sciences and Health Care were more likely than others to have evaluated key crisis scenarios (63% vs. 50%) and worst-case scenarios (60% vs. 44%).

Companies with high revenue were more likely to have identified relevant stakeholders as part of their crisis preparations.


But identifying stakeholders doesn't necessarily mean a company has engaged with them.

Fewer than half have crisis playbooks ready to use— and one-third don't even know if they do

Does this organization define a specific set of actions—a distinct "playbook"—for each of its specifically defined crises scenarios?

33%
49%
18%
Uncertain   No   Yes

"**Yes, this happened.** We allowed this to happen. But not only do we apologize to all, please know that we are doing everything to make this right, not just for today but into the future. We are sorry. We will fix this—and we assure you, we won't take your business, or your trust, for granted."
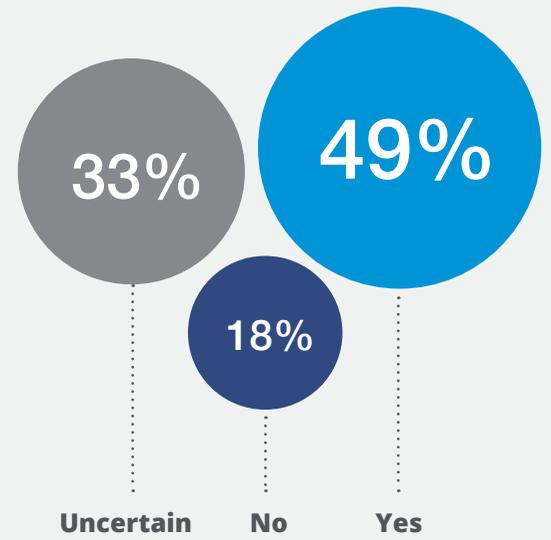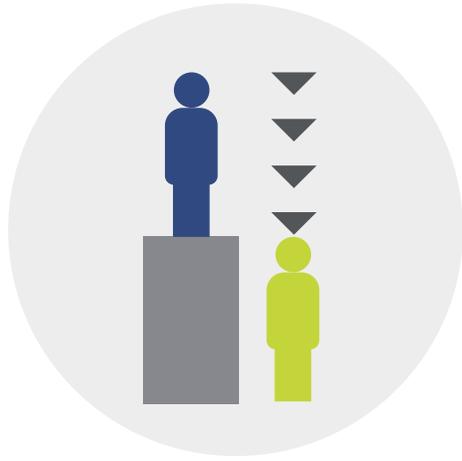
The vulnerability gap

Understanding the risks that can leave an organization vulnerable to crisis is important, but it's just as important to follow up on that understanding by taking steps to strengthen the systems that are meant to detect and prevent negative events.

The survey asked board members what areas within their organizations they considered to be most vulnerable to crisis. Their answers are noteworthy as a first-level finding. But it's possible an even greater insight emerges from a second-level calculation—the difference between board members' self reported vulnerabilities and their self-reported planning capabilities in the same areas.

Across all industries, locations, and organization sizes, the most commonly cited vulnerabilities were corporate reputation and cyber crime. The threat of chemical, biological, radiological, or nuclear attack and workplace violence were at the bottom of the list. But the comparison between these vulnerabilities and the corresponding response

capabilities is striking. In some instances, the "vulnerability gap" between potential harm and protection against that harm was more than 40 percentage points.

In every potential crisis area the survey tested, companies were more likely to acknowledge it was a vulnerability than they were to report they had a plan for it. The issue on which companies come the closest to matching awareness with planning is liquidity—a comparatively tangible, measurable concern that shows a vulnerability gap of only four percent.

But consider the areas where the vulnerability gap is widest. Two of the top five, corporate reputation and rumours, are intangibles. This

may be because respondents do not assess those vulnerabilities in isolation: a threat like natural disaster or cyber crime stands as a distinct category, but a threat like reputation loss is always bound up with some other, underlying event.

Intangible does not mean valueless. Some research holds that a company's reputation can account for as much as a quarter of its market capitalization.* And there is a direct correlation between shareholder value and the effectiveness of a company's response to a crisis situation.**

* Simon Cole, "The Impact of Reputation on Market Value" (*World Economics*, September 2012).

** "Reputation Review" (*Oxford Metrica and Aon*, 2012)

"When things go wrong, you need to be able to **respond very quickly and decidedly**—with concern for your customers and your community, with humility, with a sense of accountability."

While the market's reaction to a corporate crisis may initially centre on concern over lost revenues, the costs of fixing the problem, and other measurable commodities, reputation is in truth intrinsically linked to trust. A reputational crisis is one in which that trust—whether it is with customers, suppliers, shareholders, or regulators—is broken. The people charged with managing such a crisis must focus from the outset on rebuilding that trust, and should accept that it may take some time to do so.

The vulnerability gap: Board members see threats but their companies aren't ready to handle them

FIGURE 4

What are your company's vulnerabilities—and do you have a formal crisis plan?

Respondents were asked to check all that applied for the risks which their company maintains a formal crisis plan. The recognized vulnerabilities are from respondents who answered "3," "4," or "5" on a 5-point scale where 1= not at all vulnerable and 5= extremely vulnerable

Potential crises	Yes, have crisis plan %	Yes, vulnerable %	Gap %
Terrorism / manmade disasters	18	63	45
Rumours (though false)	26	68	42
Chemical, biological radiological, nuclear	13	55	42
Corporate reputation	39	73	34
Product tampering	26	60	34
Organizational malfeasance	35	64	29
Regulatory actions	40[b]	66[a]	26
Natural disasters	40	66	26
Cyber crime	48	70	22
Supply chain issues	47	66	19
Workplace violence	37	54	17
Liquidity	54	58	4

0   50   100 %

[a]83% life sciences/health care
[b]37% life sciences/health care (so in spite of higher vulnerability, fewer than average have a crisis plan)
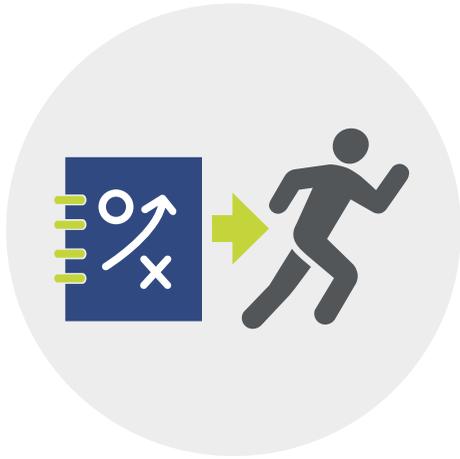
Translating plans into decisive action

A North American food company board member said the first steps in a crisis can make a big difference. "You need to be able to respond very quickly, very decidedly. With concern for your customers and your community, with humility, with a sense of accountability. Yes, this happened and we allowed this to happen, but not only do we apologize to all, please know that we are doing everything to make this right, not just for today but into the future. We are sorry. We will fix this. And we assure you we won't take your business, your trust, for granted."

Companies' crisis response plans may tend to lag behind the crises they are designed to address, but in truth it is the planning or preparation that is vital, rather than the plan itself. Asked about the key elements of their response planning, board members in the survey named an array of different measures.

Communicating how? Companies with strong communication plans reach out to key audiences, but neglect to prepare day-of-crisis messages
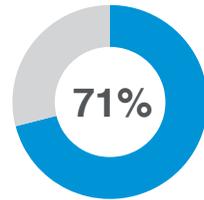
What are the key elements of your crisis communication planning?

(Among those who reported having strong communications plans)

Respondents could choose more than one answer

[1]Investors, regulators, partners, suppliers

Outreach to employees

71%

Outreach to customers

63%
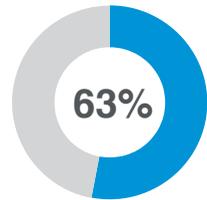
Outreach to key constituents[1]

53%
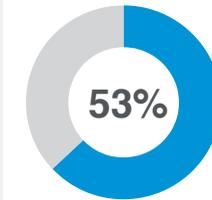
Preset timetables for rapid response

45%
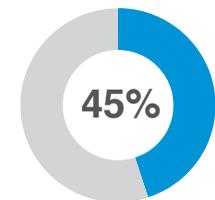
Pre-scripted social media messaging

37%

Pre-drafted press releases

34%
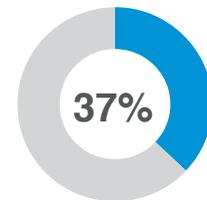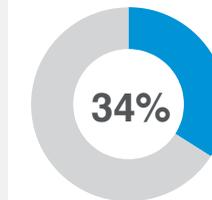
Pre-drafted press statements
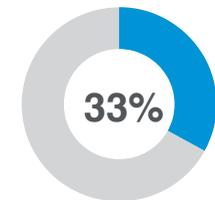
33%

While no single answer came from more than half the respondents, it may be telling that one of the most concrete actions on the list—before-the-fact crisis simulation—was the one mentioned least often.

One mining company representative expanded on the need to put people and plans through their paces in a controlled environment before real crisis hits.

"We do regular training exercises for a variety of scenarios at both our work sites and corporate office," the director said. "These exercises give us the opportunity to interact with emergency response personnel and provide us with a good understanding of how and when we need to respond under certain circumstances. While many companies may look at these activities as time consuming, we see great value in ensuring that our people are prepared to address unplanned or disruptive events."

Only about two in five (41 percent) said communication protocols were part of their crisis management regimes. A closer look shows the nature of a communication effort can also vary widely. More than half of the companies include outreach to employees and customers in their crisis communications plans, but fewer than half include pre-drafted messages for social media and the press.

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The value of experience

The Technology, Media & Telecommunications sector was an exception. Crisis-experienced board members there said productivity is where crisis hits hardest, followed by reputation and sales.

The vulnerability gap casts a spotlight on the importance of intangible elements such as reputation and morale. The same focus is just as intense from another direction: the personal judgment of board members who have significant prior experience in crisis situations.

Asked what corporate assets a crisis was most likely to influence, just under half of "crisis-experienced" board members said it would affect reputation and morale (48 percent each). That pattern was more pronounced among larger companies, and for respondents who are members of their companies' audit committees.

FIGURE 7

What areas of the business were most affected by past crises?

Respondents selected all that applied

Hard-earned lessons: Reputation and morale were top casualties in board members' past crisis experience

48%	Company reputation Employee morale
41%	Sales
39%[a]	Productivity
33%	Leadership reputation
28%	Share price Regulatory or legal action
27%	Customer loyalty
26%	Supply chain Talent (attract/retain)
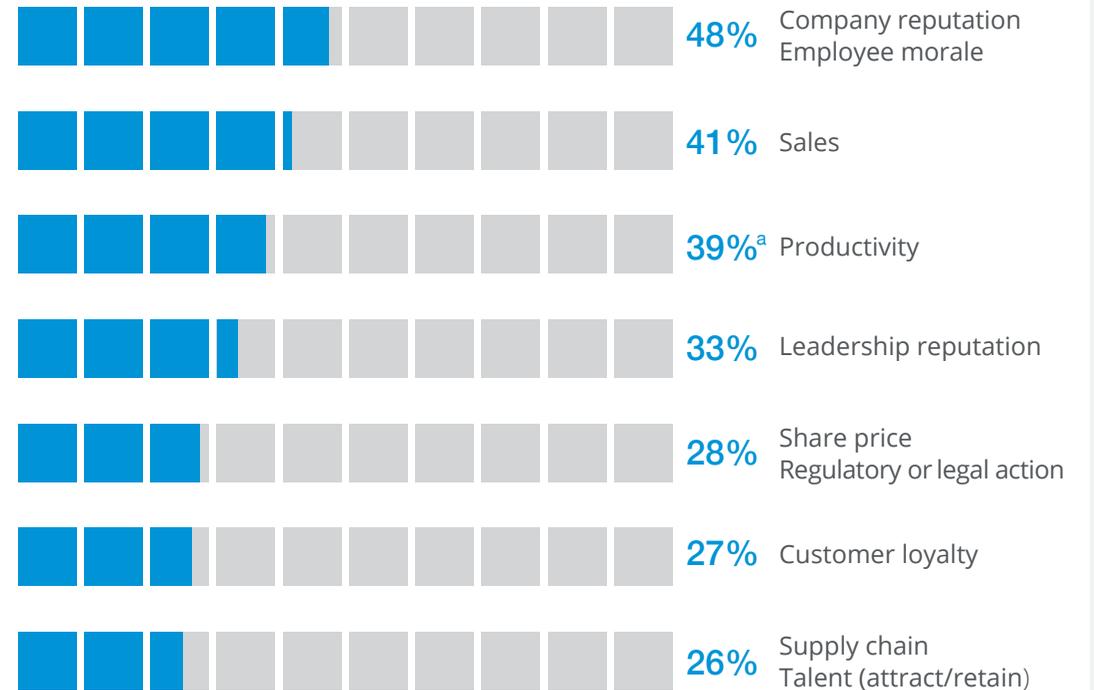
[a] 61% Technology, Media & Telecommunications

The value of hindsight: What board members learned from crisis

Perhaps the ultimate measure of experience is to ask, "What would you do differently next time?" The survey posed exactly this question. The most common answer was to identify more crisis scenarios ahead of time.

Having been through a crisis, what are the lessons that your company has learned, or that you would do differently?

Respondents could choose more than one answer.

34%
Do more to identify crisis scenarios

32%
Improve detection and early warning systems

29%
Execute a more timely and robust communications plan

29%
Communicate more effectively with employees

28%
Communicate more effectively with customers

28%
Communicate more effectively with business partners/alliances

28%
Conduct better pre-crisis planning[1]

27%
Invest more effort in prevention

24%
**Communicate** more effectively with suppliers

23%
Better define the chain-of-command and roles/responsibilities

16%
More closely monitor social media (early warning)

[1] For coordination/communication with emergency response teams including first responders and government agencies

Deciding today to be resilient tomorrow

Based on the survey findings and many corporations' real-world experience in crisis management, there are a number of steps board members can take to accelerate their progress on the journey from crisis awareness to crisis readiness. Here are six things organizations can do right now.

Build crisis capabilities into the membership and structure of the board.

Real-world experience with a past crisis can be a strong credential when searching for new directors.

Build crisis awareness into everyone's job description.

Every board member should recognize that crisis isn't always something you can delegate. They should be ready to apply special skills like PR, risk management, or social media when needed. Long before the need emerges, board members should make time for joint planning committees, simulations, and other time investments that will pay off later. During a crisis, the board's governance and engagement with shareholders can be critical. And when the worst moments are past, the effort that goes into investigations and independent reviews can help head off future trouble.

Define the crisis organization.

Dealing with a crisis is not the same as dealing with daily operations. Up and down the line and across the many silos inherent in most organizations, the "organization within the organization" that will swing into action has to be ready. A plan won't work if people don't know about it. A key player can't play a role if no one has defined that role.

Insist on specifics.

As the survey showed, recognizing a threat and preparing for it are two different things. Board members should expect to see specific plans for handling each of the scenarios that might threaten their organizations. They should participate in testing those specifics against their best knowledge of what may happen and what the company is capable of.

Keep the lines open.

It's a common mistake to think crisis management is all about crisis communications. But it can be a costly mistake to underperform in that area. The role of messages in a crisis doesn't begin with pre-drafted press releases or mea culpas under the spotlight. It starts much earlier, when an organization works inside its walls to promote shared understanding of risks and responsibilities. And outside its walls, where listening to and engaging with key influencers, stakeholders, and customers will help the board look at the situation from the outside in.

Embrace the board's role as the guardian of reputation.

This is a high-level commitment that includes all the details above, but it's also a distinct understanding. An organization's reputation is a priceless asset. It can take years to build, but a moment can imperil it. Everyone who has any kind of authority over preventing that damage derives that authority from the board—and only the board can engage the right decision-makers, establish the requisite communications strategy, and set the necessary tone.

Point by point

Breaking down
the board's crisis
management role

The role of the board, both individually
and collectively, will change significantly in
a crisis from providing oversight to making
rapid, far-reaching decisions. Here are some
of the key points along that progression.

Before a crisis

?

- **Do we have a crisis management plan,** with clear roles and responsibilities? Who in the executive team is responsible for it?

- **Has our executive management team** been adequately trained? Have they taken part in crisis simulation rehearsals? When was the last time they did so?

- **Is there a crisis plan for the board?** Have key board members taken part in crisis simulation rehearsals?

- **Is there a robust crisis communications plan?** Has it been stress-tested through crisis simulation rehearsals, including the what, how, and by whom?

- **What's our perception of the organization's** vulnerabilities and key risks? What is our confidence level in our preparedness to deal with such events should they arise?

- **Has our crisis management capability been** subject to internal audit or external validation?

⚙

- **See to it that the organization,** including the executive team and board members, are ready to deal with a crisis.

- **The audit committee should seek** this assurance through its oversight of internal audit and related activities on behalf of the board.

- **The board should choose members** of its risk committee who have the requisite knowledge and experience to deal with the organization's specific likely crisis threats. In turn, the risk committee should take an integrated, enterprise-wide approach that drives better reporting and monitoring. A "big picture" view can improve the board's support of executives who are also charged with risk management, and it can also hone the board's own focus on crisis.

- **Work with management to create** a shortlist of third-party service providers in legal, forensic accounting, and other key areas to assist in times of crisis.

During a crisis

- **Is it clear which members of the board** will be responsible for what during a crisis?

- **Is the organization communicating** appropriately and transparently to all stakeholders?

- **Do we know whom we would call upon** to support the board? Are arrangements to do this already in place?

- **Consider forming a temporary board-level** or board/management hybrid committee to deal with the crisis so other committees and management structures are not too heavily taxed during a time of stress.

- **Amid pressing operational concerns,** make sure at least one board member represents the body in planning and carrying out communications.

- **Act in support of the executive team**—or, at times, replace or stand in for key executives.

Immediately after a crisis

- **Do we require an independent review** in the wake of a crisis so that lessons may be learned, and improvements made, in the spirit of full transparency?

- **To make sure post-crisis lessons aren't lost,** the audit committee should see that independent investigations and reviews post-event are undertaken where appropriate.

? ASK   **⚙** DO

"While many companies may look at these activities as time consuming, we see great value in ensuring that our people are prepared to address unplanned or disruptive events."

It's clear from these findings that crisis awareness, preparation, and resilience needs to be a more prominent topic in the boardroom.

value. Physical damage is easy to assess, and lost currency is easy to count, but invisible erosions of assets like morale and reputation are harder to quantify. How can companies safeguard these priceless intangibles? They can make very tangible, measurable investments in the planning and exercises that turn crisis awareness into crisis resiliency. And they can also make investments that help them anticipate adverse events before they blossom into full blown crises.

Conclusion

Organizations and their board

members around the world recognize the danger crisis brings and the importance of preparing for it. It would be hard for them not to, given the regular occurrence of high-profile events that affect organizations from inside and out.

They also recognize that awareness, action, and true preparation are not the same thing. They are steps on a scale of crisis management maturity. And the companies in this survey give a strong indication that they are on a purposeful journey up that scale.

But it's clear from these findings that crisis awareness, preparation, and resilience needs to be a more prominent topic in the boardroom. The structural approach may differ from company to company; crisis may be a committee assignment, a whole-board responsibility, or the special task of experienced individuals. But no board member should be ignorant of the challenge or ignorant of how the company plans to meet it. And no board should go without a

clear expectation of what questions it expects executives to answer, what steps it expects executives to take, and what lines of communication will have to be clear in a future moment when nothing else is.

A few other patterns emerged from engaging people in this discussion. The value of experience is clear—in organizational crisis as in almost every other situation, there is no better teacher. People who had been through crisis situations before brought a clear view of what was at stake, how lasting the damage can be, and how they would apply their hard won knowledge in the future.

The conversation also highlighted the central role of intangibles in the way a crisis threatens

"While many companies may look at these activities as time consuming," one respondent said, "we see great value in ensuring that our people are prepared to address unplanned or disruptive events." Seeing that value is an important step. The next is to make it happen.

Talk to us

We look forward to hearing from you and learning what you think about the ideas presented in this study.

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About the survey

This study was a joint effort by Deloitte Touche Tohmatsu Limited and Forbes Insights. The global survey included 317 respondents who identified as non-executive board members of their organizations. Among respondents' companies, 16 percent had annual revenues between US$500 million and US$999 million; 47 percent were between US$1 billion and US$4.9 billion; 23 percent were between US$5 billion and US$9.9 billion; 12 percent were between US$10 billion and US$19.9 billion; and 2 percent had annual revenues of US$20 billion or more. Respondents were divided among three regions: EMEA (32%), Asia/Pacific (32%) and the Americas (36%), and represented companies from all five major industry sectors (Financial Services, Consumer & Industrial Products, Technology/Media/Telecommunications, Life Sciences & Health Care, and Energy & Resources).

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