

Avoid Crisis Mode by Choosing Crisis Management:

Why crisis management should be a key part of your risk management program

By Dan Weedin, CIC

Imagine yourself sitting at your desk on a Monday morning, sifting through paperwork. It was a good weekend and you're ready to hit the week ahead. All of a sudden, your world goes into "crisis mode." Staring you in the face is a summons stating that an employee is suing you for sexual harassment. Well, not actually you, but your company. She claims a supervisor has been making unwanted sexual advances and harassing her for quite some time, and you've done nothing about it. Unfortunately, you've never heard about it! What's your next move?

This is a true story about a small business owner near my city. He had no Employment Practices Liability insurance. He would incur defense costs and damages for about \$750,000. The only reason he didn't go out of business is because the local community rallied to raise money to pay his costs. This was a two generation family-owned business that was thrust into "crisis mode," because it didn't perform crisis management.

How do you define crisis? Is your business prepared to survive a catastrophic event? Will the reputation of your organization be enhanced or diminished by how you respond?

Dictionary.com defines crisis like this:

1. A stage in a **sequence of events** at which the trend of all future events, esp. for better or for worse, is determined; **turning point**.
2. A condition of **instability or danger**, as in social, economic, political, or international affairs, leading to a decisive change.
3. A dramatic emotional or circumstantial **upheaval** in a person's life.
4. *Medicine/Medical.*
 - a. The point in the course of a serious disease at which **a decisive change occurs**, leading either to recovery or to death.
 - b. The change itself.

There are key words in this protracted definition. The ones of most significance have been highlighted in bold font. As the CEO, President, or Risk Manager of your organization, you must consider crisis management as an overall part of your risk evaluation process. I fear that too many businesses, both large and small, overlook the significance of crisis because they are focused on today. The consequences of inadequate preparation and planning are not only severe, but potentially will determine the survival of your organization.

This executive brief is intended to start you down the road of thinking more arduously about how your organization is including crisis management as a part of your overall risk management program.

Crisis Defined

I gave you the dictionary rendition of crisis. Here is mine, based on the perspective of a risk management professional:

- Disruption of operations
- Threat to the ability to carry out organizational mission and goals; and/or
- Threat to the financial welfare and image of the organization
- Damage to environment, animals, property, or data
- Critical incident involving death, serious injury, or threat to people

Basically, a crisis is a threat to your people, your assets, your liability, and your reputation. It goes deeper than “disaster planning” because it’s more than just getting your operations back and running. It also involves your response, your communications, and your overall ability to safeguard your people.

You’re undoubtedly well acquainted with the widely publicized catastrophes of recent years – the BP oil spill, the collapse of the Metrodome in Minneapolis, Hurricane Katrina, and the September 11, 2001 tragedy. However, there are more examples out there that occur every day...

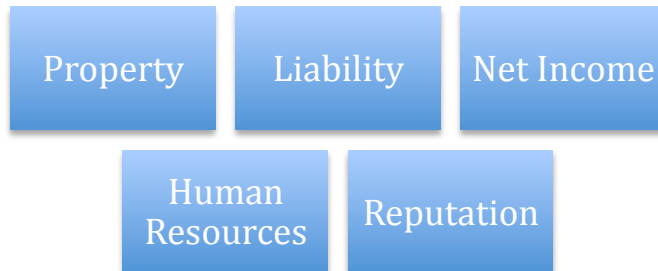
- Your server room is flooded damaging all your critical equipment.
- A windstorm knocks out power indefinitely, meaning you can’t operate.
- A lawsuit is filed against your organization for discrimination (age, sex, hiring, wage, you name it).
- One of your drivers is at fault in a fatality accident.
- Your major supplier has had a fire and you’ve lost your key vendor in your supply chain.
- You’ve received bad press for actions you took (or did not take).
- Your top sales producer/manager/executive leaves to work for a competitor.
- A pandemic erupts affecting hundreds of employees.
- A natural disaster wreaks havoc on your operations, employees, and property.

Crisis Consequences

There are consequences to any crisis, and not all have to be bad. Depending on how you respond to it, you will end up with either a decreased or enhanced reputation. The latter is certainly better.

Let's examine the areas of concern related to any crisis. Depending on your situation, all five of my **areas of impact** may be hit; in some cases it might just be one. The more that are hit, the larger the potential damage.

Visual #1 **The Five Areas of Impact**



Here are 5 bullet points for each area showing just how your business can be impacted by a crisis. You can bet there are many more:

1. Property
 - Severe physical damage or destruction to buildings and personal property
 - Loss of access to locations
 - Damage or loss of power to computers, technology systems, phone systems, entries into buildings
 - Damage to vehicles
 - Damage to goods already sold, but not yet delivered
2. Liability
 - Bodily injury to non-employees
 - Property damage to third-party claimants
 - Liability claims to neighboring business due to lack of revenue (e.g. the sports bars and restaurants surrounding the Metrodome on an NFL game day when stadium roof collapsed)
 - Directors & Officers claims stemming from poor decision-making that led to lost jobs, lost benefits, and loss of reputation
 - Employment Liability claims
3. Net Income
 - Loss of revenue due to temporary or permanent shutdown of operations
 - Financial loss due to retained losses (deductibles and uncovered)
 - Cancellation and return of money for inability to meet reservations or ticket sales
 - Cost to market or advertise information to customers
 - Cost to resume operations in a new location
4. Human Resources

- Workers Compensation claims
 - Diminished morale
 - Fear of loss of job
 - Employees leaving organization
 - Loss of time and efficiency
5. Reputation
- Perception of your organization is damaged
 - Perception of your organization is enhanced (depends on how you respond)
 - Poor reputation leads to decreased sales and potential demise of organization
 - Heads roll – executives fired
 - Need to change name and/or branding (see AIG with name change and Accenture with Tiger Woods fiasco)

“If you lose money for the firm by a bad decision, I will be understanding. If you lose reputation for the firm, I will be ruthless.” – Warren Buffet

The Crisis Process

Visual # 2 – The Pre-Loss to Post Loss Phase



There are defined steps to the process of being in crisis. Let's use the example of a major hurricane on a beachside resort.

1. **Threat** – The location is right in the heart of hurricane country in South Carolina. It's currently hurricane season, however you are booked with guests.
2. **Warning** – The National Weather Advisory warns of a major hurricane to hit the coast (and possibly your location) within 3 days.
3. **Event** – The event takes place as predicted. The results are major damage to buildings, reduced communications, and loss of revenue.

4. **Response** – Guests had been evacuated to avoid human and physical losses. Most workers were sent home with the response team on site to mitigate damages. Crews called in to work quickly to reduce further losses and prevent any new ones.
5. **Impact** – The resort acted appropriately and dealt with guests and employees well. Their reputations among their clientele and employees soared and everyone lives happily ever after.

I wanted to give a good report for a change! However, you can see how if you don't have a crisis plan in place how things can go sideways in a hurry!

Your Next Step

You should put together a crisis management team, with a coordinator. This team will be responsible for carrying out the steps I list below. This committee should include a management and employees that are diverse in position, role, and operations. All levels of operations should have a voice – financial, technology, operations, human resources, and executives.

You will have to determine your current status and how crisis and disaster planning are built into your risk management program. At the very least, here are 7 steps to get started down the right track...

1. Perform a vulnerability analysis to determine ALL your potential exposures and how you would respond to them.
2. Anticipate future disasters and formulate preventative and preparatory measures.
3. Use sound risk management principles (identification, analysis, control, finance, and administration) to assign priorities and resources.
4. Ensure a unity of effort among all levels of the organization.
5. Create and sustain broad relationships with sources such as the media, your supply chain, clients and customers, and insurance partners.
6. Train and drill. You must practice for disaster. Just like in grade school with fire drills, you must engage your employees and disaster teams in training.
7. Be proactive and professional. Value a knowledge-based approach based on education, training, experience, ethics, and continuous improvement.

Final Thoughts

Crisis management is an often-overlooked component of an effective risk management program. There is good news, however. It's easy and relatively painless and inexpensive to put a workable plan in place. It does take some time, training, and implementation to do. You can start today and work toward ensuring that your assets, human resources, financial stability, and reputation are protected.



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