Sense and Sensibility
Making sense at a time of Crisis
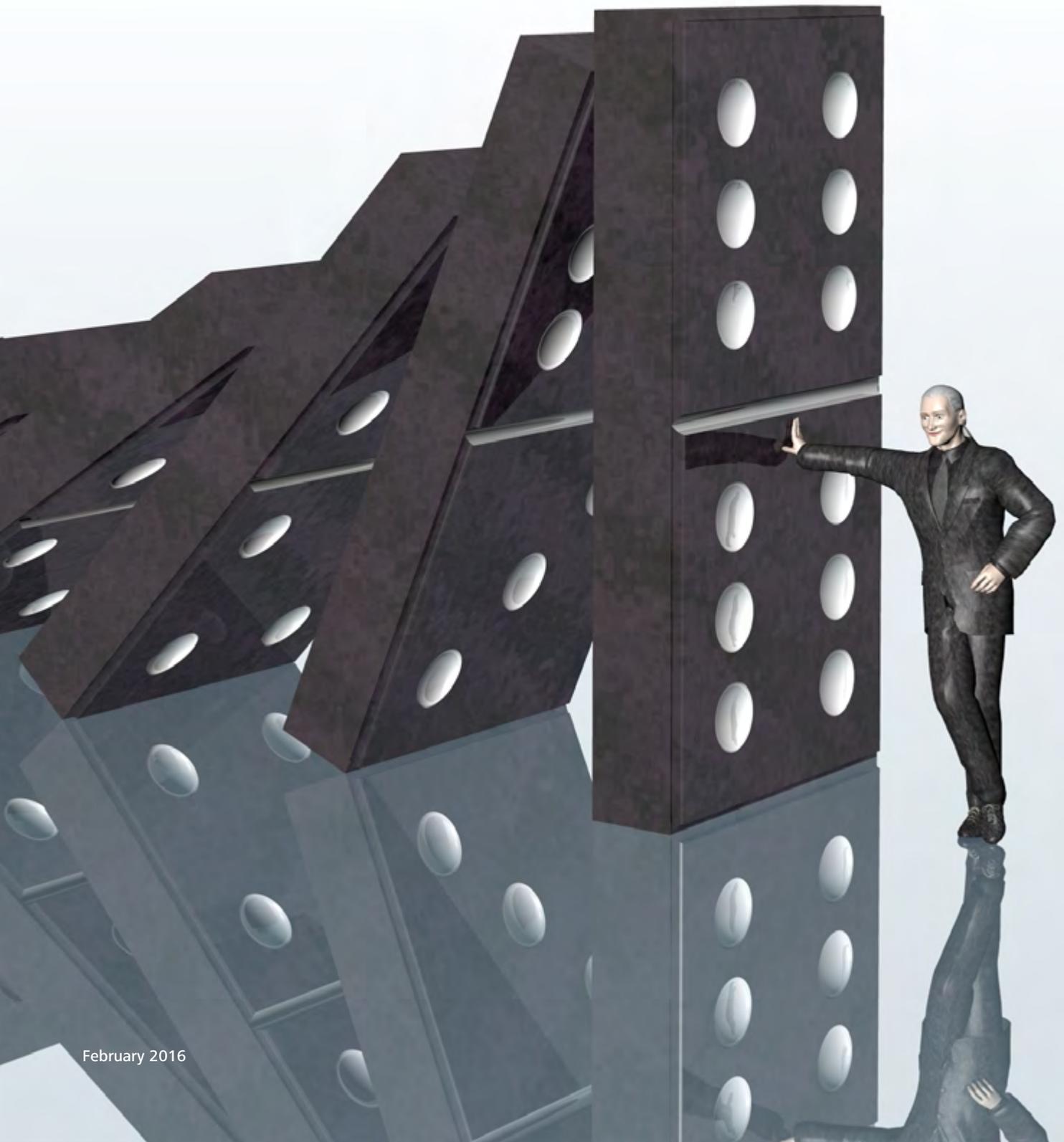
Point of View

Preface by Retailers Association of India

The reality check on sustenance will happen if the business models are cognizant of the expected and inherited risks. Profits and risks and are two sides of the same coin. While many would be willing to talk about the potential of retail, the RAI-Deloitte report Sense and Sensibility, takes an in-depth view on identifying risk attached to retailing and making sensible adoptions to tackle them. This report is a must for retailers as it is easier to recognize possible risks at the beginning and plan well in advance to mitigate them.

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CEO, Retailers Association of India

Foreword by Deloitte

By definition, crisis has far-reaching implications. Whether because of purposeful acts, simple mismanagement, or other reasons, crisis often begins small but often escalates into full-blown events.

It's not that organizations are not aware of such implications but often, in a cost-sensitive market, prioritization of potential risks, associated with unforeseen events, may be considered low, until the event actually takes place.

As part of the executive committee of decision-makers and boards, there is a need to ask questions such as, 'Are we ready to handle a crisis?', 'How do we know we are ready for one?', 'Do we have mechanisms in place to test and even measure our crisis management capabilities?'.

It is this thought process that has led us to take a serious look at Crisis Management. Crisis lays bare the readiness and responsiveness of an organization. They test a company's values, leadership and character at a time when there is no room for error. In today's world, technology and social media have dramatically increased the visibility of crisis, which can lead to a greater reputation risk. In one such literature, it was noted that among S&P 500 companies, reputation accounts for close to 26 percent of market capitalization.

With that as a premise, this booklet is to provide you, the reader, some food for thought around what can be a rather complex theme. It is to facilitate a debate as businesses consider crisis management as a framework to complement their current business continuity and disaster recovery plans. At a time when human behavior is at test, making sense of chaos requires retrospection, actualization and some structured planning to deal with uncertain risks especially in the kind of clime we operate in.

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In the face of danger

From domestic terrorism to cyber attacks, to the wrath and fury of nature, deemed as "acts of God", these are among the many catastrophic events which can put to test the crisis plans of some of the top companies in the world. The management ability to react and respond to such threats have to be swift, decisive, and carefully executed to bring back order and serenity at times of crisis. While some of the threats are within the borders or jurisdictions of the state or the country, some seem to take no notice of such separations. Natural disaster is one such example that fits in this category.

When a smooth sailing ship suddenly faces harsh and violent weather at sea, the captain of the vessel and her crew are drawn into an active role to combat and effectively handle the rough situation. Similarly, when crisis stares at the face of the company, the board members and the management are exposed to an unfamiliar situation that is very distinct from the usual.

It is this unexpected and unknown crisis situation that creates an aura of uncertainty in the management of the organizations, which can inundate contingency mitigation plans, business continuity, and emergency responses. People and the assets are the first things priorities leaders think about when faced with crisis.

However, it is not that organizations do not have any idea of dealing with such events. Over the years "Business Continuity Planning" and "Disaster Recovery" are focus areas that try and handle such risks. In fact, often the distinction between each of these practices seem to overlap with blurring distinctions. For this purpose, we try and define the three into distinct points of view:

Business Continuity

Business continuity considers the capability of the organization to restore business operations, or supply chain, to an acceptable level of performance within a defined timeframe following a disruption. This could also include critical third parties.

Crisis Management

Crisis Management looks at executive-level response to a catastrophe focused on high-impact decision-making. Crisis is an abnormal and unstable situation that threatens the organization's strategic objectives, reputation, or viability.

Disaster Recovery

Disaster Recovery on the other hand considers infrastructure and procedures required to restore critical infrastructure, applications, and data in line with business expectations for recovery.

With those distinctions, or definitions, this booklet, essentially wishes to introduce and more so stimulate, first steps towards culling out, what we believe, are a few key elements that need to be considered in Crisis Management.

The challenge of a leader during a crisis

Any crisis poses the same problem upon the company, which is its inability to function normally. It puts the organization's reputation at risk, disrupts the strategic objectives and perhaps, if continued to, allows its existence as well. Assessing the complete length and breadth of a crisis situation is of paramount importance to deal with pressures arising from tensions and the speed with which leaders are expected to act. Often, a crisis situation provides limited amount of information leading to an unintentional reaction to just the incident rather than finding a suitable response to handle and take the situation back under control.

The management team has to distinguish the difference between an operational and corporate crisis and plan for the business continuity and response. The management not only acts as an overseer, but, it must assume direct charge of the situation and if necessary, form a crisis committee with people exceling from different roles such as audit, legal, human resource, public relations, administration and finance to supervise and tackle the ongoing crisis. It may also involve hiring people externally to support and guide the crisis management team during the crisis. The Chief Executive Officer (CEO) may not be a part of this committee as it is the job of the CEO to make sure the business is running efficiently during the time of the crisis.

Parameters for consideration

According to a recent Deloitte online poll in the US, only a small fraction of the companies have a crisis management plan in place that has been actually tested and seems adequate. The survey revealed that many respondents, comprising executives, managers, analyst, and professionals, did not know the biggest gap in crisis preparedness and but also did not have any idea if their organization's crisis response team was tested.

So what would essentially entail strategic considerations for a crisis management plan?

Essentially, we believe, there are eight key parameters that need consideration while forming an overall strategic crisis management framework. Certain conclusions and statistics mentioned under these elements are based on surveys conducted by Deloitte member firms and also a flash survey for the purpose of this article, conducted with a few companies in India.

Strategic Crisis Management Framework

- Crisis Communication
- Crisis Management Plan
- Control Hierarchy
- Decision Making
- Response Organization
- On-Going Monitoring
- Common Operating Practices
- Information Management

Crisis Management Plan

The first step in responding or preparing for a crisis is by creating a crisis management plan. Based on the recent flash survey, 71 percent believed that they had a well-planned document which considered managing a crisis. However these were interchangeably connected with existing Business Continuity Planning (BCP) and Disaster Recovery (DR) plans which possibly watered down the criticality of a Crisis Management response.

The crisis management plan is a crucial step towards planning and preparing for future crisis situations. A well laid out plan and a crisis action team comprising experts from different functions, who are equipped to handle the crisis, significantly reduce unnecessary wastage of time, resource and the growing confusion within the management. External agencies and third party services can be obtained to carefully design and implement a bespoke crisis management plan according to a particular organization's requirement.

To avoid being prescriptive to what should be a well thought through document should essentially challenge the leaders of the organization today to meet the demands you'll make of them tomorrow. Resistance is inevitable, after all, today is sunny and clear. In the moment of crisis and for a finite period afterward, you are likely to find people more receptive to big asks[1]. During a crisis, different people will react in different ways. It is during such times of chaos that a plan becomes that clutch which defines the outcome of a crisis.

Control Hierarchy

In any organization, a decision-making body should always have a hierarchy in place for any kind of escalation and also, for accepting the consequence of the decision that has been made. The poll reflects around 30 percent of the organizations did not have a well-defined control structure with the majority feeling the need for a well-articulated control hierarchy. However clarity in terms of what the role of each individual is going to be and when does an incident go up the hierarchical chain is either not defined or nor tested.

Hierarchy defines the distinct roles and responsibilities for each member at a particular level. Ultimately, someone from the leadership team has to take the ownership of the decisions taken during a crisis. The impacts due to the decision, positive or negative, has to be owned by someone from the top management. Also, as mentioned earlier, by having a hierarchy in place, each member in the team is aware of their pre-defined roles and responsibilities during the crisis, which saves duplication of tasks and confusion. The leadership should also understand the severity of the threat and if the threat cannot be handled by them, external agencies should be allowed to intervene and take control. Example: During a terrorist attack, government should be given full access to handle and neutralize the threats.

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[1] The Deloitte Center for Crisis Management: Focus on : Overcoming natural disasters

Decision Making

Decisions taken during a crisis can change the outcome of the given crisis situation. They can be data driven or situation based. With expectations of quick response time and meeting the requirement of multiple stakeholders, some amount of formalization for decision making is helpful. For example what invokes communication with and from a general counsel or what data thresholds would decide an incident and mitigated steps being reported to your clients or customers? Another important point to understand is the legal, regulatory and statutory ramifications of the decisions taken. If the decisions are not carefully analyzed, the reputation or even the existence of the organization can be put in jeopardy.

An organization needs to bear in mind that during a time of a crisis, it will require capable, trusted deputies who can make independent calls in the heat of the moment. Waiting for permissions to flow up and down a command chain and a lack of empowerment to make these decisions is a recipe for paralysis at a time when it has the highest cost.

Response Organization

The response during the first few hours of a crisis is very crucial and its biggest constraint is time. Not just internal players but mutual support between government and public-private agencies require preparation and planning to respond during a crisis. Interestingly, almost half the respondents of the poll, felt a large gap in terms of understanding what constituted these inter-relationships along with the required skills and knowledge.

On-Going Monitoring

Real time monitoring of a crisis situation is critical in conducting situational analysis by gathering data. Around 53 percent of the respondents had stated having identified the parameters which are required to monitor a crisis in real time, regularly share situation reports to internal and external parties and use tools for monitoring and communicating the crisis. 47 percent of the respondents are not using or are not sure about the real-time monitoring systems used within their organization.

Having protocols for understanding and communicating crisis are important as they are time saving and have a clear understanding about the severity of the threat. Similarly, real-time monitoring of the crisis enables spreading the updates and key actions taken to internal and external parties. This can also enable the corporate crisis management team help the local crisis management team due to enhanced information sharing due to real-time monitoring. Tools and checklists are critical in gathering and recording the data and decisions made. This also helps in analyzing and reviewing decisions and outcomes at a later point.

Common Operating Practices

An operating practice's manual can be referred to at the time of the crisis when there is confusion or disagreements surrounding a decision. An operating manual is very essential in communicating the operating procedure during a crisis. It is referred to by the crisis management team, which provides the crisis team with predefined information points. The operating manual specifies things like which sources of data are reliable and should be taken into account while making decisions. The operating manual has a carefully laid out operating procedure which is safe to follow without inviting any legal, regulatory, or statutory ramification. Off the poll, more than one-third of the respondents did not have an operating manual.

Information Management

47 percent of the respondents were not sure or do not have a provision for information management. It is a formal process of capturing, tracking, and recording the crisis-related data which is used for legal, regulatory and communication purposes. It acts as a central repository for all the information which has been gathered from various data sources. Using this central repository, the management and the leadership can identify and mitigate any future crisis situation which may arise similar to the one encountered previously. The response to a similar crisis in the future will be more effective by studying and analyzing the data from the information management central repository.

Crisis Communication

Perhaps the most important part of the crisis management is communicating the news about the crisis to both the internal and external stakeholders. It is imperative to keep all the stakeholders informed about the crisis situation using a common platform. A communication plan is essential during crisis, as communication becomes the arterial line for exchange of information.

Crisis communication needs to be intertwined with all of the seven elements of a crisis framework. Without communication, there will be no coordination and corporation between different teams. Similarly, the communication platform should be consistent for messaging the internal and external stakeholders, as it makes sure that no one misses out on the information that is being disseminated. The control over the messaging can be ad-hoc, but a regular update cycle should be in circulation for keeping the stakeholders informed about the current situation.

The flash survey indicated that only 61 percent of companies had put any thought to having a communication plan in place. The plans were however considered as an ad-hoc process with no predefined time cycles.

Taking a serious approach to Crisis Management

Because crisis is unpredictable—due to the magnitude of chaos and distress that it can cost organizations—executives need a documented crisis management plan in addition to their more conventional risk management strategies. The timeliness and effectiveness of an organization's response in crisis often determines how it fares afterward. And front-loading a crisis management approach with a strong emphasis on readiness and preparation can help organizations stay ahead of potential threats more effectively.

Ideally, organizations should think of crisis management in terms of a cycle—moving from preparation to response to recovery, and then around again—applying lessons learned from one stage to the plans and processes that support the other stages.[2] When a real crisis arises, a traditional business continuity plan may be insufficient, especially if it hasn't been tested.

The mistake many organizations make is to focus their crisis planning on reactive measures. With a broad, lifecycle approach to risk awareness, scenario planning, and simulation, you can help retain control of the process even when you don't have control of events. You can build in the resiliency that has the potential to turn unforeseen events into unforeseen advantages.

Endnotes

1. Poll conducted during the January 22, 2016, Deloitte MCCI Crisis Management workshop "Crisis Management in an Age of Uncertainty." Polling results presented herein are solely the thoughts and opinions of survey participants and are not necessarily representative of the total population.

2. References and usurps made to Crisis leadership Guiding the organization through uncertainty and chaos : http://www2.deloitte.com/content/dam/Deloitte/us/Documents/risk/us-aers-crisis-leadership.pdf

3. References and usurps made to Crisis Management in Action - Readiness, response, recovery – and a stronger future: http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Risk/gx-cm-overview-sales-sheet.pdf
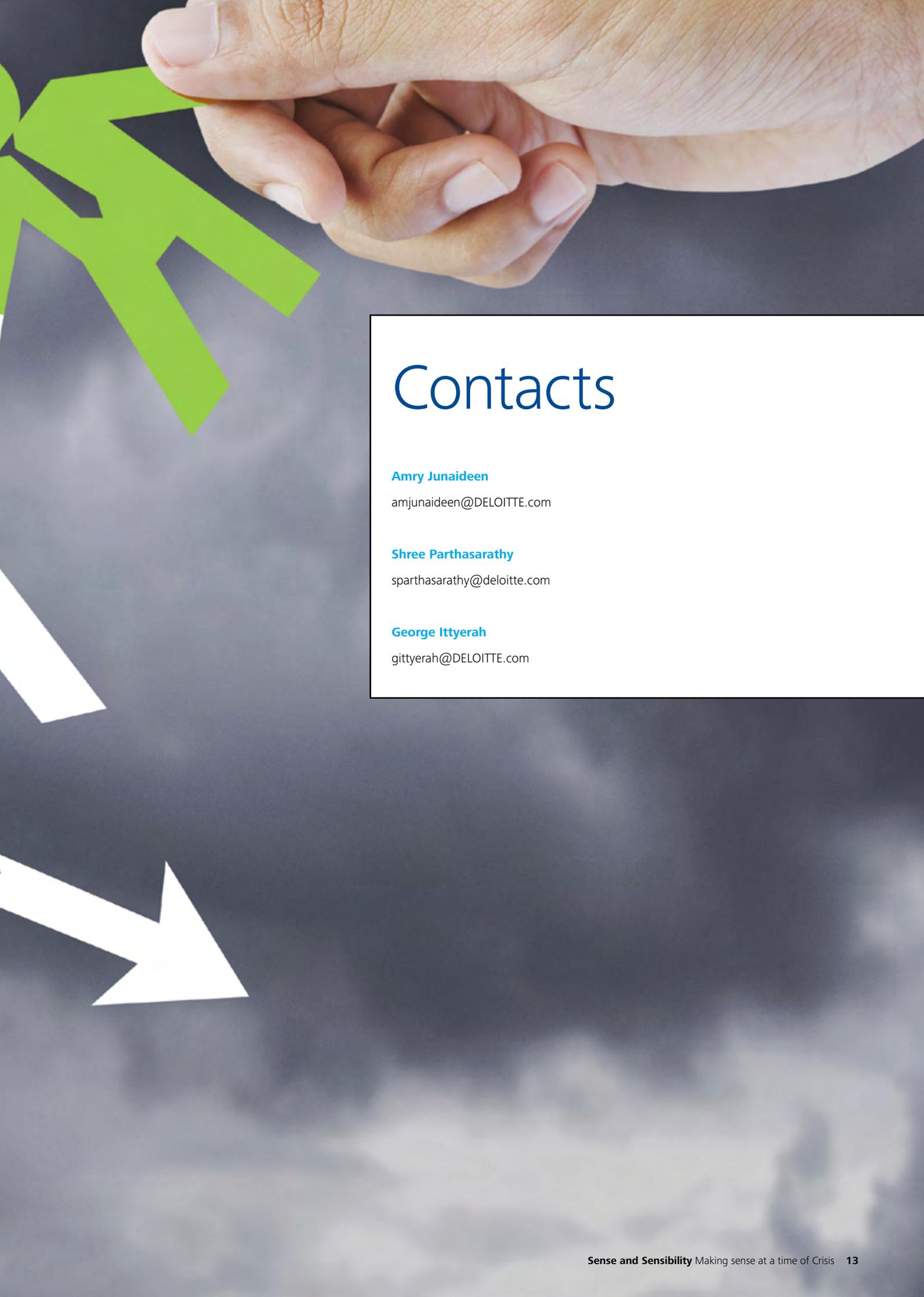
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