

# Crisis Management

## From a Business Continuity Perspective

**Crisis Management**  
From a Business Continuity Perspective

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*Other BCM Academy publications include:*

*BCM PocketBook*

## Table of Contents

Preface	7
<b>1. Introduction</b>	9
Acute versus latent crises	13
A crisis in phases	15
Definitions	17
<b>2. Organising Crisis Management</b>	19
Risk analysis	19
Issue management	20
Reputation management	21
Stakeholder plan	23
The crisis management team	27
Facilities	37
Training & testing	40
Administration and maintenance	43
<b>3 Escalation and alarm procedures</b>	45
Accessibility and availability	47
<b>4 Crisis management in practice</b>	49
Perception of a crisis	51
Psycho-social factors	53
The crisis management process	57
Network analysis	61
Strategy	63
<b>5 Crisis communication</b>	67
Monitoring	67
Internal communication	69
External communication	71
Communication with the press	72
<b>6 In the wake of the crisis</b>	75
A positive balance	76
<b>7 Ten Golden Rules</b>	79
<b>8 Models and templates</b>	81
<b>9 About the author</b>	97

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*"Anyone can hold the helm  
when the sea is calm."*

*Publilius Syrus (~100 BC)*

## **Preface**

There is no such thing as a life without risk. Controlling risks is second nature for man, both in a personal sphere and in organisations. In our exponentially changing world, it is of prime importance for an organisation to keep the finger on the pulse at all times. After all, viability, continuity and growth must be safeguarded. But whereas management may spend considerable time extinguishing the proverbial fires, this does not automatically safeguard an organisation's continuity. Reality is not quite so controllable.

Of course we know – rationally – that we may be hit by a serious, unexpected and unwelcome incident, but an 'illusion of invulnerability' stops us from being continually on the lookout for worst-case scenarios. It would make life unliveable. This phenomenon is reflected in an organisation's attitude to risk and explains why crises fall largely outside the management's field of vision. There is a danger that no measures have been taken to guard against these, despite their potentially disastrous consequences.

In the midst of a crisis – in which a controllable, secure and predictable environment has made way for an unpredictable, ominous world – is not the time to practice. A crisis can only be controlled efficiently and effectively by providing a crisis management structure and training the crisis management team in advance on how to handle a crisis.

This book provides a practical guide for anyone wishing to obtain an insight into crisis management for organisations or wanting to set up crisis management. After the introduction to the topic, chapter 2 outlines how to plan for and design a crisis management structure. chapters 3, 4 and 5 then describe how the crisis management process and procedures work in each of the stages of a crisis. The period following the crisis is dealt with in chapter 6. Finally, the appendices feature a number of checklists, models and templates that can be used in designing your organisation's crisis management.

*“What we anticipate seldom occurs;  
but what we least expect  
generally happens.”*

*Benjamin Disraeli (1804–1881),*

*English prime minister and novelist*

## 1. Introduction

In the event of a crisis, the world becomes chaotic. Our familiar surroundings instantly transform into an unfamiliar and potentially hostile world. The model of day-to-day practice – business as usual – no longer functions. Routines, habits and procedures simply do not work anymore. Safeguarding an organisation's continuity in such an environment requires a decisive, efficient and effective organisation that is prepared for its task: crisis management.

Crisis management refers to the set of activities, efforts and facilities aimed at preparing the organisation for crises, preventing them where possible and, if one materialises, controlling its consequences. Crisis management relies heavily on an efficient approach in taking action. As such, the crisis management team plays a crucial role at the time of a crisis. It bears final responsibility for the safety and wellbeing of staff, the continuity of the primary processes and protecting the organisation's reputation – in short, for controlling the crisis. In the event of an acute crisis, the crisis management team is alerted immediately. Alternatively, an incident may escalate to the point of activating the crisis management team, which draws on supporting technology and communication methods during the crisis management process. A command centre provides accommodation for the crisis management team.

Crisis management is one of the measures taken as part of the Business Continuity Management (BCM) process. BCM is aimed at safeguarding the continuity of the business process and the future of the organisation. It provides a set of measures enabling the continuation of critical business processes under crisis conditions and protecting that organisation's capital, including its reputation. The primary aim of crisis management is crisis control, making crisis management a repressive measure inextricably linked to the other measures an organisation takes to safeguard its continuity.

Evacuation or workplace first aid may take place alongside the crisis management team's activities. And at the time of a crisis, several support or recovery teams may be activated to carry out activities aimed at safeguarding business continuity. These are all directed by the crisis management

team. The entire set of measures drawn up to safeguard an organisation's continuity may comprise the following types of measures:

Type of measure	Nature of the measure	Example of measure
Prevention	Preventing and restricting the emergence of a crisis	Depends on the risk
Detection	Identifying a crisis and alerting the organisation	Escalation and alarm
Workplace first aid	First aid and guaranteeing the safety of staff & visitors in the event of a crisis	Workplace first aid and evacuation
Repression	Reducing the consequences of the crisis and preventing further escalation	Crisis management Continuity plan
Correction	Recovery from a crisis	Depends on the event

## The characteristics of a crisis

This book does not distinguish between crises. Irrespective of their manifestation – whether the event is internal or external, the result of a natural disaster or a terrorist action, or a material or a reputation crisis – all crises lead to an emergency situation. They demand an approach that falls outside the organisation's daily activities and will therefore rely heavily on crisis management. Although crises are unique and unpredictable, with different causes and links, they have some common denominators:

### **Damage**

Every single crisis, regardless of its nature, causes damage. This could be direct and/or insurable damage to buildings, inventory or goods, but the indirect and often uninsurable or difficult-to-insure damage can also be substantial. After all, loss of reputation is difficult to measure and almost impossible to quantify.

### **Escalation**

A crisis is characterised by a rapid succession of events and effects that call for immediate action. Every action triggers so many other actions that the management can no longer control these within its regular structure and with its functional responsibilities.

### **Information**

All crisis situations are characterised by either missing, unreliable and conflicting information or a surplus of information. During the crisis management process, it is imperative to understand as quickly as possible what information is already available and what additional information is needed. A clear and reliable information supply is essential to prevent rumours and speculation from gaining the upper hand.

### **Time**

Time pressure is inevitable during a crisis, as a crisis situation will not permit a delay in response. A rapid and efficient response to a crisis is vital. As the most important decisions are made in the first few hours of a crisis, its progression largely depends on the quality of those early decisions.

**Media**

Media attention is inevitable. News spreads with dizzying speed via new media. Press coverage has a decisive effect on the extent to which the organisation is affected by the crisis.

**Case: The evacuation of a shopping and living center**

*On 11 July 2006 local authorities decided to evacuate Bos en Lommerplein in Amsterdam. The evacuation was quite a major intervention for the 190 residents of the 96 homes, the proprietors and employees of the 27 shops, the local district office, the library and the social services units. The entire area was cordoned off in anticipation of a building engineering inspection. The evacuation plunged all of the affected parties into a deep crisis. The chief contractor, Hillen en Roosen, was seen as the prime culprit for the construction drama. Hillen en Roosen, development owner Fortis and project developer Multi Vastgoed paid €20 million for the housing compound to be restored. The evacuation cost approximately €8 million. The residents were allowed to move back into their homes by Christmas. Retailers and market vendors, however, had to wait until 15 February 2007, a full seven months, for Bos en Lommerplein in Amsterdam to be reopened.*

**Acute versus latent crises**

Early recognition of a crisis is a precondition for a successful outcome. However, not all crises materialise with a literal or figurative explosion. Whereas an acute crisis can be recognised by its enormous and immediate impact, a latent crisis is characterised by a slow escalation that becomes critical at a certain point. Causes of a latent crisis might include the transgression of social values, dubious conduct by chief executives or turning a blind eye to the breaching of legislation and regulations.

The cause of a latent crisis often lies within the organisation itself. When organisations fail to address or manage an internal problem that is eventually made public, it may cause a serious loss of reputation. What is more, a latent crisis is often 'more fatal' than an acute crisis. Whereas an organisation may be 'forgiven' crises with external causes, this is far less likely for crises caused by the organisation's own negligence. This means that a latent crisis has, by definition, a more negative impact on the organisation's reputation than an acute crisis. So recognising such crises merits explicit attention. The only strategy for preventing a latent crisis from becoming uncontrollable is to guarantee that the organisational culture is honest, open, transparent and sound.

The escalation of a latent crisis follows these four stages:

- ▶ The incident has an internal focus. It can be nipped in the bud by the management responsible.
- ▶ The incident has an internal focus. It can be controlled by the management responsible, with the support of other in-house staff/management.
- ▶ The incident might become public, with potentially negative consequences. It can still be controlled, but no longer by and within the regular organisational structure. Outside help is needed, which may include legal, management or content expertise.
- ▶ The incident will in all likelihood become public. Responses from 'the public' will generate long-term and considerable consequential loss for the organisation. Crisis management is needed to limit the damage, while internal and external resources are required to control the situation.

Crisis management must be activated in all cases where an event moves beyond the second phase or has the potential to do so in the short term.

### Case: The Shell lies on oil reserves

Shell experienced a 'major embarrassment', said Lord Oxburgh, chairman of Shell Transport and Trading Co. PLC, following the Oil Reserves Crisis in 2004. A summary of an outside investigation into managers' conduct, made public by Shell, said executives in its exploration and production division had exaggerated the size of reserves and failed to act when it became clear the estimates were unrealistic. It was found that some executives knew for almost two years the company had publicly overstated the size of its oil reserves. Investigators found, executives attempted to 'manage' the problem and 'play for time' in hopes that future growth would eventually obviate the need to come clean. But this strategy failed – as business conditions either deteriorated or failed to improve sufficiently to justify historic bookings. Shell had to downgrade a total of 4,35 billion barrels, or about 22 percent of its reserves, from 'proven' to less certain categories; 200 million barrels more than a previous estimate. Reserves are an oil company's most valuable asset, and any reclassification into less certain categories is a major concern for investors. The disclosures caused a shareholders' uproar and led to a string of resignations.

Source: Associated Press

## A crisis in phases

A crisis develops in four phases, with an additional, preparatory phase. Each phase features different processes and each requires different measures.



The stages of a crisis

The *preparatory phase* is the period preceding a crisis, business as usual, during which preparations can be made for tackling it. Alarm and escalation take place as soon as a crisis materialises or one is anticipated. The alarm phase tends to be brief, but is characterised by specific alarm and escalation measures.

Once a crisis has occurred, it is called the *acute phase*. This phase is characterised by the discrepancy between the information available and the information needed. The crisis management team must now call on its ability to improvise and anticipate needs, as decisions are made amid enormous time pressure and media attention. It is during this phase that the most important measures aimed at reducing the consequences of the crisis and preventing further escalation are taken. As soon as there is a grip on the situation and the crisis management team finds itself in relatively calm waters, additional, stabilising measures are taken.

The *stabilisation phase*, during which the crisis cannot cause any further consequential loss, signals the start of the road to recovery.

The *recovery and follow-up phase* marks the return to business as usual. Recovery activities are carried out to return to the original pre-crisis situation. The crisis management process is evaluated and follow-up offered for a small group of stakeholders, including staff.



*"The Chinese use two brush strokes  
to write the word 'crisis'. One brush stroke  
stands for danger; the other for opportunity.*

*In a crisis, be aware of the danger –  
but recognize the opportunity."*

*John F. Kennedy*

## Definitions

### ***Crisis***

An event that, within a short timeframe, may cause serious material and immaterial damage and that, amid great uncertainty and limited time for decision-making, calls for an approach that falls outside the organisation's daily activities.

### ***Disaster***

The definition of a disaster is similar to that of a crisis, with the difference being that a disaster always has a material component to it: damage to buildings, injury to persons, etc. This book, therefore, takes a 'crisis' to also mean disasters.

### ***Incident***

A disruption of the business process that can be solved with everyday, in-house procedures.

### ***Crisis management***

Crisis management refers to the set of organisational, procedural and material facilities aimed at preparing the organisation for crises, preventing them where possible and, in the event of a crisis materialising, controlling its consequences.

### ***Crisis management team***

A pre-selected group of people who, in the event of a crisis situation, can be called upon immediately, mobilised quickly and, with a full mandate, act decisively.

### ***Crisis management organisation***

The organisation that, led by the crisis management team, carries out activities aimed at reducing the impact of a crisis and stabilising the crisis.

### ***Crisis management***

The process and/or activities carried out at the initiative of the crisis management team to control a crisis.

*"The risk of success is the assumption  
that whatever you did in the past  
will also work in future."*

*C. William Pollard*

## 2. Organising Crisis Management

During a crisis – during which a controllable, secure and predictable world makes way for an unpredictable, ominous one – there is no time to practice. There is no room for improvisation; a single mistake can have far-reaching consequences. That is why an essential business precondition is being prepared for a crisis situation, by designing a crisis management process and training a crisis management team. This chapter describes all the activities that can be carried out ahead of time.

### Risk analysis

One of the causes of non-functioning or not fully functioning crisis management is the inability to explore seemingly unthinkable scenarios in advance. During preparations and training of the crisis management team, organisations often only consider events that have occurred in the past. Yet those crises they have never experienced before or, worse, cannot even imagine pose a much bigger threat.

By proactively approaching potential crises, the organisation not only prepares for such situations, but also reduces the chance of actually being hit by them. Thinking about new situations reduces the chance of these materialising, although they cannot be ruled out entirely. It has also been found that proactive organisations enjoy a quicker recovery from a disaster, are less likely to go bankrupt and benefit from a better reputation than their reactive counterparts.

In other words, a risk analysis carried out with the crisis management team offers nothing but benefits. And it need not be a long-drawn-out exercise; it can be done prior to or after a training session (a model has been included in the appendices). The analysis may then provide the input for customised scenarios or checklists for the various crisis situations.

## Issue management

An *issue* arises when the expectations of stakeholders are not, or no longer, in line with the organisation's activities. Public opinion is not static and what is deemed acceptable by stakeholders is subject to constant change. Legislation and regulations can only provide limited guidance. As a result, an organisation's policy can remain in place, unchanged, for a long time, before suddenly being called into question. If an issue is not addressed properly, it may eventually lead to a crisis.

Issue management bridges stakeholders' expectations and the organisation's activities. This is done through systematic media monitoring and keeping abreast of social developments and political debates. When, on the strength of this, a potential issue arises, the organisation can proactively adjust its policy or manage its stakeholders' expectations by launching a communication campaign.

### Case: ABP arms investment

*In March 2007, the Dutch television programme Zembla reported that ABP, a major pension fund, was one of a number of companies investing millions of euros in US mine factories and cluster bomb manufacturers.*

*ABP responded by saying that while it considered cluster ammunition to be despicable weaponry, it did not have any guidelines prohibiting the fund from investing in it. Although the Netherlands had signed an international landmine treaty, the fund indicated that this type of investment was not subject to an embargo. 'Our strategy is aimed at realising an attractive yield and the companies operating in the arms industry sometimes generate such yields.' In response to the furore created by the TV programme, ABP sold its shares in four landmine manufacturers. Shortly thereafter, it also decided to terminate its investment in companies closely involved in the production of cluster bombs.*

## Reputation management

A good reputation provides invisible insurance during a crisis. Some companies quickly recover from the blow of a crisis, after which the crisis recedes. Others sustain more considerable, lasting damage. The difference is caused, on the one hand, by the organisation's handling of the crisis and, on the other, by the organisation's pre-crisis reputation. After all, an organisation with a good reputation is more likely to be forgiven a lapse. An organisation with a dubious reputation is not given any leeway and will find itself persecuted in the media. It is with good reason that, in our media-driven information age, organisations attach increasing importance to a good reputation.

Image may be ephemeral, but building up a good reputation takes time. After all, a reputation is the product of long-term consistent behaviour. It is shorthand for how people think about a company, based on their information (whether correct or incorrect), the companies' activities, the working environment, past performances and future prospects (Fombrun 2001).

Well-organised crisis management should be part of every organisation that, at the initiative of the strategic management, counts reputation management among its boardroom responsibilities. A good reputation arrives on foot and leaves on horseback, as the Chinese proverb suggests, and this is certainly true during a crisis that is not controlled.