

The Missing Ingredients in Crisis Decisions

By Chris Hatzi

Endless natural disasters, terrorist activities, accidents, and internal and external sabotage serve as ongoing reminders of the importance of crisis decision-making.

Effective crisis decision-making has become an increasingly important aspect of modern business management. A crisis can threaten an organization's reputation, financial stability, and survival. It can harm the health and well-being of its employees and consumers, the communities it serves and in which it operates, and the environment.

Good decisions during a crisis can solidify an organization's favorable standing, as with Johnson & Johnson and the Tylenol poisonings in 1982. Unfortunately, one reason J&J is cited so often is that there are so few examples of excellent crisis management. It's easier to find examples of disastrous crisis management, ranging from the Exxon Valdez oil spill to Sony/BMG's current public relations crisis with CD digital rights management.

Private-sector crisis preparedness focuses on individual corporations and their strategies for managing supply-chain disruptions, tarnished brands, or financial scandals. Crisis preparedness links risk management, understanding of internal and external interdependencies, business continuity, security, and crisis response and recovery with crisis decision-making and training.

Three elements of crisis decision-making have grown more critical in an increasingly complex and interconnected world:

- Integrated crisis response
- Trust and communication
- Realistic expectations

Integrated crisis response

Today's businesses spin amazingly intricate webs. Highly concentrated facilities - vaccine plants, oil refineries, chip factories - are efficient when they're operating, and global bottlenecks when they aren't.

Organizations neither operate nor respond in isolation. Therefore, it is essential to develop crisis-management plans and skills that understand and incorporate the upstream effects and downstream needs of both internal and external domains. The more institutionalized the relationships between the "players", even in a non-crisis setting, the greater the likelihood that they must - and are able to - cooperate.

Organizations should identify the essential participants that must respond in times of crises in order to achieve an optimal outcome. The list could include:

- Stakeholders such as suppliers, competitors, customers, and local communities, all of whom have a stake in the organization's response to the crisis.

- Internal domains, such as top management, marketing, finance, production, and public relations, which diagnose, work-around, repair, and prevent problems.
- External domains, such as electric and water utilities, telecommunications, banking, insurance, and government at federal, state, and local levels, any of which may contribute to the crisis, the solution, or both.

A company cannot be truly prepared for crises if it does not understand the intricacies of its web. Could a hurricane alter the balance of power in the fiercely competitive airline industry? Yes. Hurricane Katrina took a great deal of refining capacity out of commission, leading to spiking fuel costs for airlines. Numerous airlines all felt the pain - except for Southwest Airlines, whose strategy of hedging fuel costs gave it a major advantage.

Trust and communication

It's easy to think that crisis responders are well-oiled cogs acting out their roles in a thoroughly rehearsed play, especially when people are highly competent in their day-to-day lives and when thick binders spell out who does what, when. The reality is that a crisis thrusts together people who may never even have met, and demands that they work together with peak efficiency under stressful conditions.

Organizations' crisis response depends on trust and communication to achieve acceptable outcomes, yet crisis-response plans assume both without creating either. Trust and communication generally come from established personal relationships, not from manuals or hierarchies. Without trusting relationships, breakdowns occur, resulting in catastrophic failures.

The successes and failures during the 2005 hurricane season clearly demonstrate the importance of building trusting relationships and open communication with essential responders before crisis strikes. Our experience at Crisis Simulations International has shown that organizations that prepare and train together - with both internal colleagues and external stakeholders - build trust that not only serves them well in times of crisis but in their day-to-day business operations, too.

Trust and communication can help a company face facts and respond quickly, and in a crisis reality and speed matter. Imagine a key supplier to an entire industry suddenly becoming unable to supply a critical component. When that happened in the cellphone industry, Nokia scrambled to lock up alternate suppliers. Ericsson waited. Result: as the supply shortage dragged on, Ericsson's inability to satisfy demand became Nokia's gain in market share.

Realistic expectations

Without an integrated, trusting, open-communication approach to crisis preparedness, organizations significantly hamper their ability to plan and respond effectively to crises. In many cases, they base critical decisions on unrealistic expectations of their capabilities, thus making the crisis even worse.

Here's an example of how unrealistic expectations can affect a company. An explosion and fire caused significant damage to Republic Engineered Products' No. 3 Blast Furnace in Lorain, Ohio, because of the 2003 blackout. Within 15 to 30 minutes after the outage began, the plant lost the ability to cool the iron inside the furnace and the molten metal burned through the side of the structure and started spilling inside the building. Company officials refused to allow firefighters on the premise, presumably expecting that their own workers could quickly contain the fires. On October 6, 2003, Republic announced that it had

been forced to file for protection under Chapter 11 of the U.S. Bankruptcy laws. It cited the August 14 explosion and fire at Lorain as a contributing factor.

If Republic Engineered Products had a validated crisis management plan (validation is critical because all plans work on paper) and if their managers had received training to enhance their crisis decision-making skills, the outcome of the power outage could have been different. Shareholder value could have been preserved, jobs could have been saved, and perhaps Chapter 11 could have been avoided.

The missing ingredients

Real crisis preparedness means much more than writing manuals and buying hardware. It means preparing to respond with others, through integrated actions, trust, open communication and realistic expectations.

When preparing for crises, business executives should ask:

- What would facilitate and constrain cooperation among internal functions and external organizations in a crisis?
- What structural factors or organizational relations, established before or during the crisis, most influence those organizations' need to work together in managing the crisis?
- How do we know our plan will deliver the outcomes that we expect?
- What parts of our business model are most vulnerable to shocks? If I were invincible and wanted to bring down our company, how would I do it?
- On a scale of 0 to 10, how would I rate the level of trust and open, honest communication in my company?
- Have my company's crisis managers ever met and trained with their counterparts in the organizations we rely on?
- Is my executive team trained in the art and science of crisis decision-making?

Senior executives are uniquely able to prepare, and uniquely responsible for preparing, their companies to respond to crises. By including the missing ingredients they can avoid mistakes that crippled other companies.

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