

Hoisting the sails to navigate in a perfect storm

Crisis Management

The world as we know it today, is an uncertain place. The “Global Megatrends”; mass migration, unstable political environments, terrorism, the depletion of the earth’s natural resources, climate change, a rapidly evolving technological environment, and increases stringency in national and international regulation challenge our perceptions of the world, and require us to alter the way we think and act.

Today organizations, small, medium, and large, as well as multinational corporations, are having to adapt their business operations, decision-making processes, policies, and organizational strategies to ensure survival in an environment as unpredictable as the one we live in today. For businesses, the lack of certainty in predicting future consequences of these global trends, means that business operations are more exposed to risks stemming from an inability to fully control or predict the consequences of global socio-economic, environmental, and technological developments.

What defines a crisis?

What is a crisis? Broadly defined a crisis is any event that causes damage to the reputation, market share, or market value of an organization, and may well involve regulatory repercussions. As to risk awareness and acknowledgement of increased crisis susceptibility, PwC’s 2016 Pulse Survey asked 164 CEOs globally about their views on crises;

- **15%** claimed that their companies had experienced 5 or more crises situations in a span of 3 years,
- **30%** anticipated more than 1 crisis to affect their companies within the next 3 years, and
- **72%** of CEOs believe that global economic uncertainties are the most threatening factors for their businesses. (CEO Pulse, 2016)

A crisis is a (sudden) event that shakes the organization at its core and may directly affect internal and external stakeholders (from employees, management, suppliers, customers to the direct vicinity of the organization).

A crisis may directly put the license to operate at risk. The steps taken during the crisis will determine the future of the organization and the trust of its stakeholders.

Are you able to determine your exposure to crises?

It is an inherent human optimism that resides in us all, a coping mechanism wherein actors tell themselves that “bad things happen to others, not to me, not to us, not to our organization”. The Psychological “Law of Self Exception”, is as much an affliction of the individual ego, as it is of organizational actors and decision-makers. The harsh reality however is that no one is exempt from calamity, and not even large multinationals are “too big to fail”. Let’s think of the most recent financial crisis. The devastation caused by the collapse of the sub-prime mortgage market in the US sent ripples of devastation across the globe. Many lost their jobs, their pensions, their homes, or crumbled into debt.

What keeps you up at night?

PwC’s 2016 Pulse Survey asked 164 CEOs globally about their views on organizational crises. 15% stated their organization experienced 5 or more crisis situations in 3 years, 72% saw global economic uncertainties as the biggest threat to their organization, and 57% claimed that the cause of a crisis is an out of date business continuity plan. Read on to find out how PwC helps clients build crisis resilience, and their CEOs sleep better at night.

The crisis however was far more than financial; according to a study published in the British Journal of Psychiatry in 2014, the 2008 financial crisis was said to be the cause of 10.000, so-called “economic suicides” in Europe, the US, and Canada¹. Although one can read an insurmountable amount of studies and descriptions of what happened in 2007-8, let us focus less on the ‘what’ instead of focusing on the ‘why’². The crux of the matter is that this crisis, like so many others, happened because some large organizations and individual decision-makers were overly confident in the improbability of a total financial collapse.

With the explosion of social media, and internet access reaching even the most isolated areas of the world, organizational misdeeds are now paraded across global platforms for all the world to see. The empowered consumer is now having a say in how companies should conduct their operations, and no longer can corporations claim to be amoral chameleons subject only to the rational laws within the global market place. Similarly to corporate social responsibility, born from the rise of the vocal consumer who demands that companies contribute to making the world a better place, social expectations now mandate organizations to take personal responsibility for their business decisions. This however is more than just taking remedial measures, or than simply having Compliance Policies and Codes of Conduct in place. Companies are expected to take action.

The trend is towards a further democratization of businesses. Organizations need to put the consumer/customer first and put effort in protecting the consumer/customer’s data, their privacy, et cetera.

The need to look forward, and come to terms with an ever-changing global landscape necessitates forward thinking, and most importantly a proactive preparatory approach regarding business strategy – without which, any global or local situation could potentially spiral into a crisis, affecting business operations. “When sorrows come, they come not single spies, but in battalions” Says Claudius in Shakespeare’s Hamlet. These words are echoed in the nature of crises; they may arise at any moment, develop from a seemingly insignificant event, and evolve into multiple crises in a consequential chain reaction. If not handled properly by an organization, a singular event could snowball into a threat that may endanger the survival of a business. When a crisis occurs – and it will – the organization’s response will define its future. A resilient organization will learn from the crisis and emerge more powerful, therewith increasing the trust of the customers, the financiers as well as the supervisory authorities. Organizations can reinvent themselves due to having been caught out of their comfort zone and thinking out of the box while experiencing an existentialistic crisis!

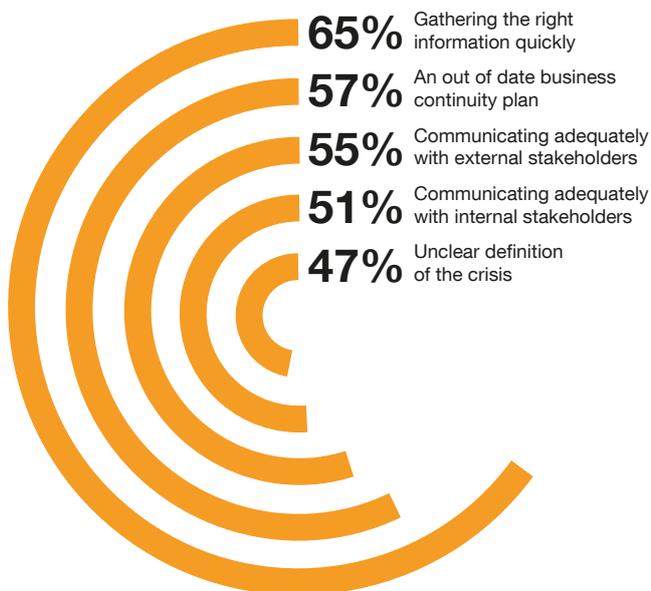
Examples of existential crises

The source of a crisis may be multifarious; torrent rains may flood basements and lower floors of buildings commonly used to house information systems, while at a hospital, the same situation will require immediate and efficient evacuation of all patients. A contaminated or flawed product may necessitate a massive recall or create problems within the supply chain, and tampering with technology to deceive customers and/or trigger compliance issues with national laws and regulations is a phenomenon that is today all but uncommon. Crises can become existential to the organization because of loss of faith in the organization or even worse; non-compliance triggering countermeasures by national authorities and foreign state authorities. A crisis can directly affect a company’s license to operate and put the organization in dire straits. Below we have taken two examples of such existential crises.

Cyber threats

We should not forget that our grandparents saw the first cars drive through the street, while now a Tesla sports car orbits Mars! The world is changing rapidly and the changes within technology are dramatic. We have plunged from the industrial revolution into the

Respondents feel most vulnerable during a crisis when it comes to...



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 Q: Thinking of your most recent crisis, when it hit, in which of the following areas do you feel most vulnerable? Base 106.

1 Aaron Reeves, Martin McKee and David Stuckler (2014) Economic suicides in the Great Recession in Europe and North America, The British Journal of Psychiatry, Access Volume 205, Issue 3, pp. 246-247.
 2 Simon Sinek (2011) Start with Why, Penguin Putnam Inc.



digital revolution, without having a century of time to help us adjust. What is new and trending today, may be superseded tomorrow. Only a small percentage of our employees and/or advisors really grasp the essence on how our technology functions and how organizations can protect themselves against the negative side effects of technology steered operations. Through the interdependencies with their business partners in our data driven society, organizations are constantly confronted with the dangers which lurk around the corners of our technological systems, opening doors for hackers or DDOS attacks et cetera. The threat landscape is constantly increasing and we are faced with more actors, breaches, targets and hacks. Infiltration through technological systems is the new plague.

As a consequence, it's inevitable that cyber events will be more frequent, and many will escalate to crisis situations.

Geo-political trends and consequences for small, medium and large organization

Political decisions may directly affect day-to-day business operations. Geo-political changes create uncertainty and sometimes, it may seem that we are going backwards in time. On the 14th of July 2015, the Iran nuclear deal framework between Iran and the United States, the United Kingdom, Russia, France, and China—plus Germany) and the European Union came into force.³ The deal reduced the severe sanctions on Iran. After having overcome initial “cold feet”, many organizations grasped the opportunity to develop new business in Iran. The Iranian market was booming.



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In 2018 President Donald Trump announced that the US will reinstall even more severe sanctions, despite acknowledging that this decision will entail severe financial repercussions for businesses due to the extraterritorial effect of applicable US legislation.

Financial as well as manufacturing organizations have received severe penalties by US authorities because they cooperated in financing trade with sanctioned countries such as Cuba and Iran. Germany immediately reiterated that it would not offer financial aid to companies struck by the new US sanctions. The prominent place the US holds in the international business community makes it almost impossible not to abide by their sanctions, due to the possible license to operate in the US or the risk of becoming ‘blacklisted’ or debarred from doing business in the US.

Some examples of how US jurisdiction can be triggered are:

- Payment in US dollars;
- Listed on a US stock exchange
- Having a subsidiary in the US
- Having a US equity partner
- Board members (of targeted managers/employees) with a US passport or green card
- Hitting a US based server for sanction related communication
- Products, services, data, technology with US origin.

Middle and long term planning of operations – and even short term planning – may be put aside with one stroke of a pen. For organizations, such a pen strike; the imposition of sanctions may create a perfect storm which may seem to come unexpectedly. Global interdependencies can offer opportunities, but also threats. The business community must be prepared to sail such sudden storms.

³ Joint Comprehensive Plan of Action.

How to become a crisis-resilient organization

The first step in crisis-resilience is prevention. Of course, if internal hard and soft controls are in perfect shape, the organization will be resilient enough to withstand any crisis (with the exception of certain natural disasters). However, in practice nobody is perfect and the same applies to organizations. Therefore, every organization should know how to act and how to scale up in case of a crisis.

Crisis simulation

Crisis requires sharp thinking and effective decision-making from management. Only few managers have the natural psychological acumen to react in the correct manner and crisis requires the entire team to be prepared to take the right decision at the right time. As a result, it is necessary to train crisis management, not only within the Board, but also within the group that is set to lead in the future, as well as the members of the Supervisory Board. Crisis management skills can be acquired through practice. The military train endlessly to prepare for the moment of actual deployment. War is so overwhelming, but military personnel are able to react naturally due in large part rigorous and extensive training. Crisis management is not intrinsic in the human DNA, but must be internalized through training.

Crisis training should take place in a safe and controlled environment, without value judgments on one's character, but through training best practices.

Efficient training will make management more resilient. People tend to learn the most from their mistakes. Within a controlled environment, one can make mistakes without being judged, and therefore can learn how to cope with similar situations in practice.

Driver's seat

When a crisis occurs, it is important for the Board to remain in the 'driver's seat'. All too often, the Board will engage a law firm and make their decisions dependent on legal advice. The legal advisor is of fundamental importance, but the Board should never forget that they will be held accountable for the business consequences. As a result, decision-making may require legal expertise, but will also demand the application of the business expertise of the organization itself.

Scoping the crisis

From the beginning on, it is important to determine, to the best of the management knowledge, the exact scope of the crisis. In case of an incident attracting the attention of a national/foreign authority, set up an independent forensic investigation to base the discussions with the authorities on facts and/or suspicions. Expert, independent forensic teams lessen the strains of organizations in a crisis, and are trained to execute an unbiased assessment of the situation at hand, allowing decision-making to be based on factual, relevant information. Prioritizing information, and separating fact from rumor are vital in informed and accurate crisis decision-making.

Legal assistance

In case of a full-fledged crisis with legal repercussions (e.g. an investigation by US authorities), it may be advisable that next to the organization's legal representation, the Board and Supervisory Board also seek their own legal assistance. Additionally, employees who are more exposed to legal repercussions may need legal assistance, preferably offered by the organization, because company law expertise is also required to prevent further damage. Often organizations will offer a list of two or three names of lawyers that these employees can choose from. Legal assistance is important, because it is essential to balance decision-making with all the different personal interests at play in a critical situation.

Communication

All communication should be based on facts. Internal communication will become public one way or another, so don't rely solely on internal communication. Communication is an essential part of crisis management. Decision-makers tend to become introvert in times of crisis, while sometimes timely and accurate communication with groups of stakeholders may be the best way forward. Next to introversion, decision-makers



also tend to focus on the short term and do not reflect on the middle or long term effects of their decisions. Full transparency will not always be an option, but with regard to consumers, customers, authorities et cetera, controlled communication may very well be a first step in containing the crisis.

Recording

All decision should be meticulously recorded as well as the follow-up of the decisions taken. It is of great importance – in hindsight – to reproduce which decisions were made, which facts supported this decision, as well as arguments as to why a particular solution was chosen.

The PwC approach to Crisis

Calculating, anticipating, and preparing for the uncertainties of hidden risks, and ensuring that organizations can tackle a critical event is what drives PwC's Global Crisis Centre and its Crisis Leadership professionals. Experts with experience in business, academia, cybersecurity, supply chain management, compliance, social and political science, and the military make up the expert teams, which look to the future and provide clients with the expertise to prepare, react, and recover from crises. This multidisciplinary approach is the key to versatility, innovation, and strategic precision when it comes to anticipating and handling a crisis.

PwC's Crisis Leadership Team is dedicated to ensuring society's trust in the organizations that serve them, and preserves this trust by equipping organizations with the know-how to handle calamity. A crisis can only be effectively managed if organizations ensure that their members are fully prepared for any situation. Ill informed, or rash decisions made under pressure can be more devastating than an actual crisis itself. Since no two crises are the same, PwC's Crisis Leadership Team prepares organizations, and equips them with the tools needed to anticipate crises, assemble a strategy to manage the crisis, and ameliorate harm to organizational reputation and business continuity.

In times of crisis PwC's industry leaders and international network can bring their extensive knowledge of the industry to the table, as well as experts that have extensive knowledge and experience from a full-fledged war to successful negotiations with national/foreign officials.

Crisis Preparation, Response, and Recovery are not only business continuity requirements, but fundamental components of PwC's mission which serves to build, maintain, and regain continued trust in society. ■

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