

Harmony Alliance Guides:
Risk Management

Crisis Management



Crisis Management

Crisis! What crisis?

The COVID-19 pandemic is perhaps the most striking example of the need for effective crisis management. Not-for-profit (or for-purpose) organisations must develop the ability to manage crises effectively. COVID-19 has shown us that the impact of a crisis can far exceed what most organisations had ever anticipated or planned for. If the pandemic has taught us anything, it is that crises on the scale of a global pandemic are not limited to fiction—they can and do happen, and they may happen again.

Organisations were forced to adapt quickly, establish new routines, and transition from short-term fixes to longer-term solutions. They also had to consider new risks. This process of organisational learning—from the Board to all levels of staff—has strengthened resilience. The experience of navigating a crisis and adapting to unforeseen challenges builds an organisation's ability to withstand future disruptions.

Historically, crisis management was often overlooked. However, this is no longer the case. Boards and management teams are now more engaged in discussing and planning for potential crises.

Effective crisis management is an integral part of good governance and risk management. It ensures organisations are better prepared to adapt, respond, and recover when the unexpected occurs.

The Many Forms of a Crisis

To plan for a crisis, it's essential to understand what constitutes one. A crisis that requires the Board involvement is typically far more significant than those handled by line managers.

This guide focuses on crises that demand the Board's attention.

A crisis can be defined as:

"A low-probability, high-impact event that threatens the viability of the organisation and is characterised by ambiguity of cause, effect, and means of resolution, as well as a belief that decisions must be made swiftly."

Examples of crises include natural disasters, pandemics, political upheaval, fraud, corruption, unexpected departure of the CEO, a major industrial accident, or a major industrial relations event.

While a crisis often occurs abruptly and is unpredictable, effective crisis management can mitigate its impact and support recovery. Tools like heat map which identify high-impact, low-probability risks, are helpful in prioritising risks that require a crisis management plan.

1. M Pearson and J Clair, 1998, "Reframing crisis management" *Academy of Management Review*, Vol 23, No1, pp 59-76

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Types of Crises

Understanding the nature of a crisis can help organisations better prepare and respond. The following framework outlines four types of crises based on their origin (internal or external) and how they emerge (gradually or abruptly):²

	Gradual	Abrupt
External	<p>Gradual emergence from external factors: Examples include economic downturns, changes in regulatory frameworks, new strategic focus areas, or alliances formed by competitors.</p>	<p>Abrupt, externally driven crises: Examples include natural disasters, terrorist attacks, or cases of product tampering.</p>
Internal	<p>Gradual emergence from internal factors: Examples include strategic mistakes such as failed mergers or product launches, loss of key personnel to competitors, or inadequate succession planning.</p>	<p>Abrupt, internally driven crises: Examples include the sudden departure of a CEO or key executives, or failures in critical technology, production, or distribution systems.</p>



Common Crisis Categories

Crises can also be grouped into broader categories, such as:

- **Natural and Social Disasters:** Earthquakes, tidal waves, bushfires, floods, civil unrest, or pandemics.
- **Strategic Crises:** Failed product launches, economic downturns, emergence of new competitors, regulatory changes, or projects failures.
- **Board-related Crises:** Governance failures, director controversy or scandals.
- **CEO-related Crises:** Sudden resignation, loss of confidence, scandals, or legally due to misconduct.
- **Operational Crises:** Product contamination, misappropriation of funds, environmental disasters, terrorist acts, corruption, or financial fraud.

2. Adapted from D Nadler, B Behan and M Nadler (eds), 2005, Building better boards: A blueprint for effective governance, Jossey-Bass, QLD

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Crisis Management Plans

A comprehensive crisis management plan must address the three stages of a crisis:

1. **Preparedness and Identification:** Planning for and recognising an emergency event.
2. **Response:** Executing the planned actions during the crisis.
3. **Recovery:** Returning to normal operations following the event.

While often part of an organisation's broader risk management plan, the crisis management plan should include the following key elements:

- a. **Immediate Actions:** Clear instructions for what the crisis management team must do immediately.
- b. **Processes and Procedures:** Detailed steps to follow during the crisis.
- c. **Essential Resources:** A contact directory, templates for pro forma letters and media releases, a call register, and templates for logging events.

To be effective, the plan must be easily accessible, straightforward to use, and regularly tested.

Business Continuity Planning

A crucial part of crisis management is the development and activation of business continuity planning (BCP) and disaster recovery planning (DRP). Whilst BCP and DRP focus on addressing operational failures and system breakdowns that affect product and service delivery, they may not address crises that cause broader business, organisational and reputational damage.

Many organisations mistakenly believe that having a BCP/DRP in place means they have comprehensive crisis management planning. However, BCP/DRP should be viewed as an extension of crisis management, focusing on ensuring that the organisation can recover and continue operating despite disruptions.

Learning from a Crisis

Once a crisis is under control, organisations often move on without reflecting deeply on what happened. While this response is understandable, it dispels the myth that organisations naturally learn from their mistakes. To truly grow, Boards and management must thoroughly investigate the root causes of the crisis and evaluate the organisation's response. This critical learning process is essential for building long-term resilience.

Other Harmony Alliance Guides in the Risk Management Series

- Risk Management
- Identifying, Analysing & Evaluating Risk
- Risk and Culture
- Emerging Risks
- Business Continuity Planning – Overview
- Pandemic Planning

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