Crisis Preparedness: An imperative to stay competitive

We are pleased to present the India findings of PwC's first-ever Global Crisis Survey. Our first-of-its-kind report presents **cutting-edge** insights into crisis management based on the experiences of some of the largest organisations in India. We heard from senior executives from 25 industries, 80% of whom have experienced at least one crisis in the past 5 years. We analysed whether their organisations were prepared to respond to crisis and the impact of crisis on their organisation and ecosystem.

What we found is game-changing.

From 25 industries	70% from C-suite	36% heads of department	68% from publicly traded and PE-funded companies	80% have faced at least 1 crisis in the last 5 years

Our definition of a crisis is a situation that is triggered by significant internal or external factors or several small incidents, having an enterprise-wide, multi-functional impact on the organisation, with significant disruption of normal business operations and the potential to harm or damage the reputation of the organisation.

Surprisingly, almost 80% of the respondents have faced such a situation in the past 5 years.

We delved deeper into the practices and behaviour of organisations before, during and after a crisis. What comes to the surface about the whole notion of crisis management in India is an eye-opener.

How did organisations emerge stronger from the crises? What was different in their approach? How did they respond? What type of Crisis Preparedness steps did they take to get positive results? Can crisis be a positive experience, giving one an edge over competitors?

Yes, it can. And we will tell you how.

Contents

01

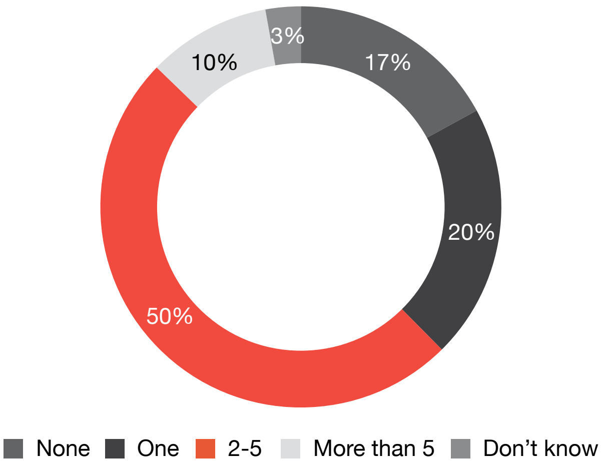
Five takeaways from the most comprehensive repository of corporate crisis data ever assembled

1

It's not if. It's when: No one is immune.

80% of the respondents have faced at least one corporate crisis in the last 5 years — with the average number of crises faced being 2.

Figure 1: Crises experienced in the last 5 years



Our survey reveals that all organisations of all sizes are vulnerable to crisis.

In all, 68% of our respondents were from large organisations who are either publicly traded companies or have private equity investors. The number of crises reported increased with the size of the respondents' organisation. Some of them experienced more than 5 crises in the past 5 years – an average of one per year. At least half of the respondents experienced between 2 to 5 crises in the past 5 years.

Crises can increase given the increasingly volatile economies and continuous disruption faced by business ecosystems. Nearly all respondents (97%) in India – including those who have not experienced a crisis yet – expect to be hit by one in the future. Chances are that the remaining 3% are either too optimistic or believe that they have taken enough measures to avert one.

Crises don't discriminate and can threaten the existence of the organisation if not contained in time. They come in all shapes and sizes and no one is immune.

What's more, the very definition of a crisis varies by industry. For example, consider a cyclone: For an automobile company, it can be a meaningless event; however, for an insurance firm, it could trigger a catastrophe.

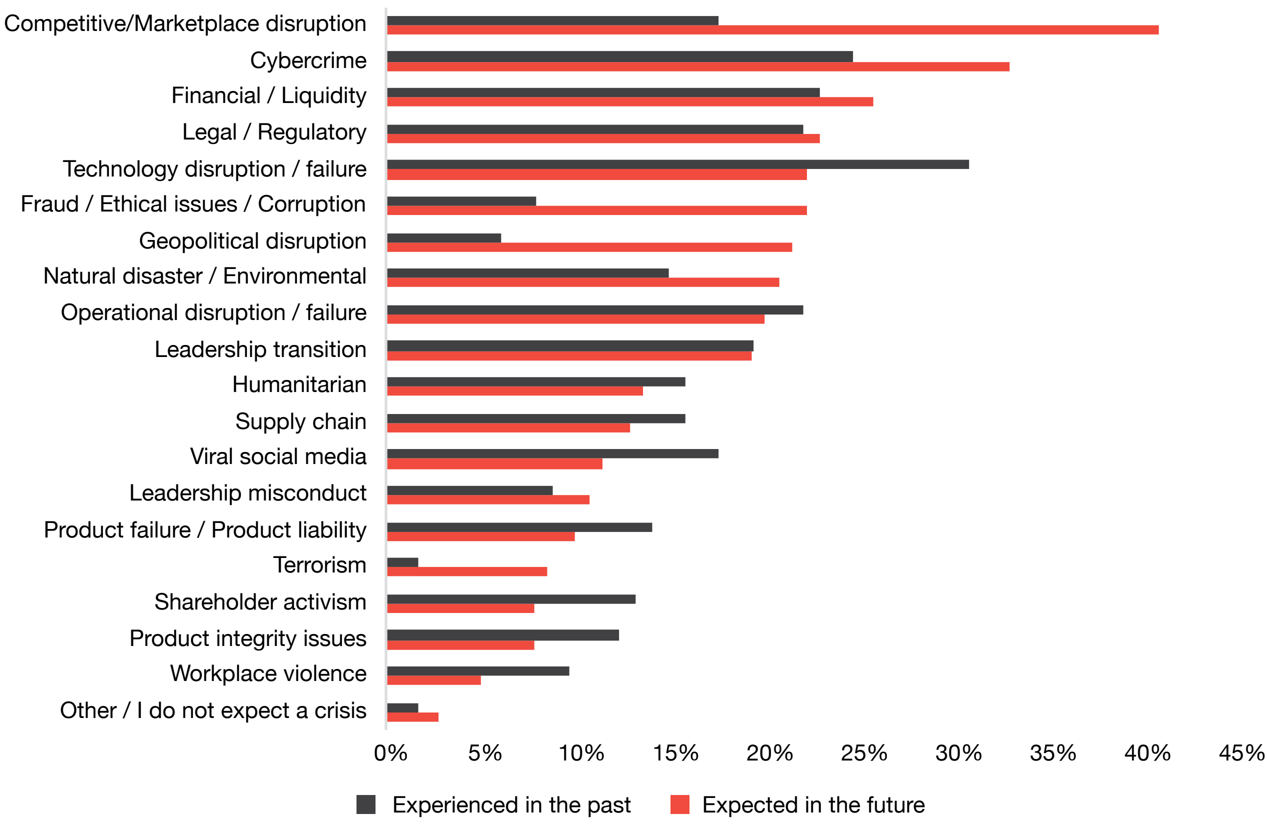
2

The diversity of crises keeps companies guessing

Crises that have occurred in the past and affect us today may not necessarily exist in the future, and those that are expected to hit in the future don't seem to be triggers in the present.

Quite contrary to what we expected, most of the crises today (65%) stem from day to-day operations (operational disruption, supply chain, product failure, etc.), with technology failure/disruption and cybercrime together constituting the second biggest cause (56%). This seems natural as operations are at the heart of any organisation and there is increasing dependency on technology.

Figure 2: Crisis triggers from the past and expected in the future



The future concerns echo the 'breaking news' trend

Geopolitical	Will increase 3.5 times

As 'news' shapes our perception of tomorrow, leaders believe that the possibility of crises triggered by the changing geopolitical scenario would be 3.5 times higher in the future.

Fraud / Ethical Issues / Corruption	Will increase 3 times

Leaders anticipate that the likelihood of their organisations facing a major crisis due to Fraud / Ethical Issues / Corruption could be three times higher in the future than it is today. This is understandable given the increase in 'breaking news' around corporates facing fraud/ethical issues witnessed currently.

Competitive / Marketplace disruption	Will increase 2.5 times

Competitive / Market place disruption seems to be a top-of-the-mind concern in the future for leaders. With the rise of entrepreneurship and rapid adoption of technology, a majority of the respondents believe that the possibility of a crisis due to Competitive / Marketplace disruption is 2.5 times higher in the future.

Operations / Technology / Cybercrime	1/3rd of all future crises

A third of our respondents feel that cybercrime or operational disruptions or both could bring about the next major crisis. Almost 15% of the respondents are also worried that product failure/liability-related issues could cause their organisation to face a major crisis.

Leaders seem to be looking at the 'known unknowns'. While their prediction of future crises is based on their current and past experiences, the real threat to their existence could come from anywhere – that is, the 'unkown unknowns'. Only those organisations that regularly test their crisis response plan and train themselves on it will become crisis resilient in the future.

3

Impact and chain reaction of crisis

Crises hit without discrimination – penetrating every layer of an organisation, and affecting both internal and external stakeholders in unique ways.

78%
Business relationships

77%
Reputation

75%
Financial strength

73%
Workforce

70%
Operations

70%
Legal / Regulatory

Our data confirms that a crisis is always multilayered and impacts many different aspects of an organisation in unpredictable ways.

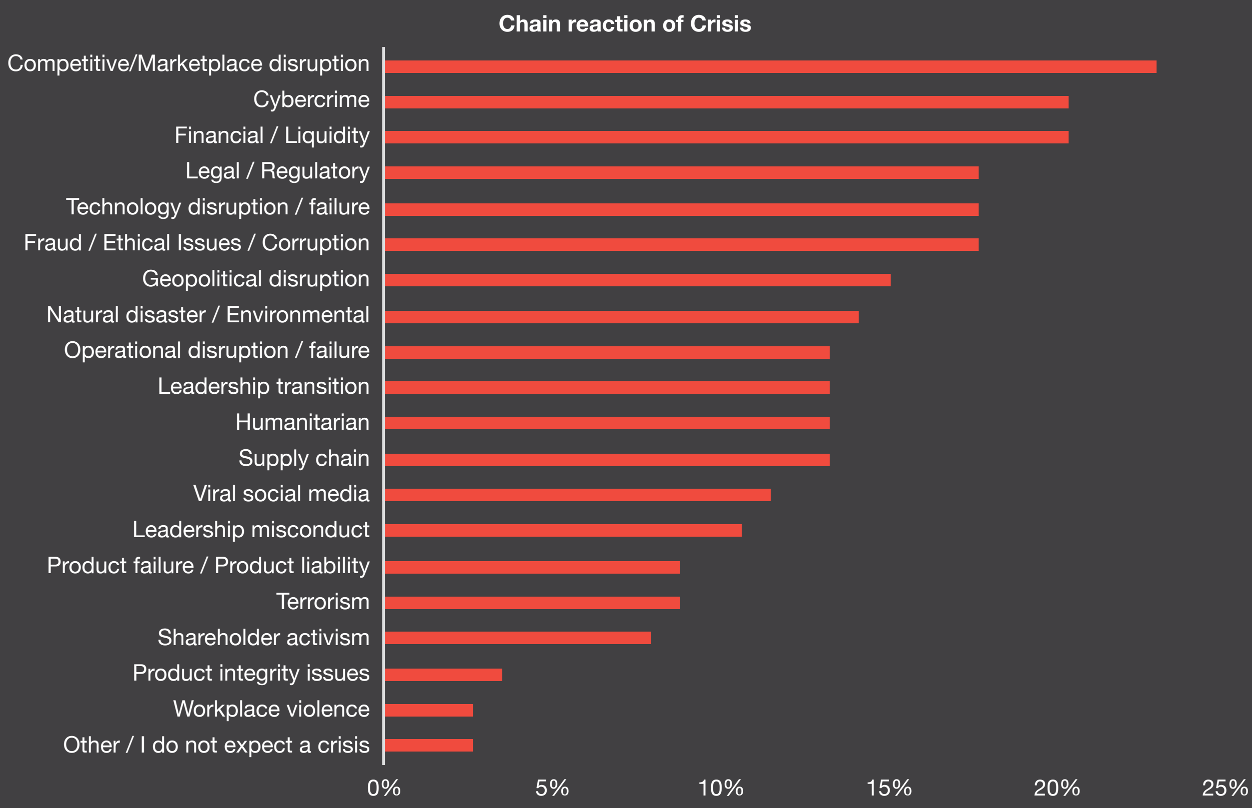
Irrespective of the size of an organisation, business relationships – vendors and customers – financial strength and workforce morale are the worst hit.

The impact trickles down to operations, further deepening the impact on financials and sending the organisation on a downward spiral. Regulators and law enforcement agencies also step in, and news spreads fast, causing immense damage to reputation.

From the outside, the organisation looks like a falling pack of cards, giving many others opportunities to take advantage of the situation. It therefore becomes imperative to have a razor-sharp focus on facts related to the main issue and a continuous mechanism to look around the corner for any red flags that may be triggers for secondary crises.

The impact of a crisis is not experienced in linear form. While grappling with the main crisis, almost every respondent faces a secondary crisis which complicates the situation. As a result, the crisis leader is distracted from responding to the situation and ends up fire-fighting other issues instead. The most common issues are competitive disruption (23%) and financial and liquidity issues (20%). Surprisingly, almost one-fifth of the respondents faced a secondary crisis due to leadership misconduct, which could arise when an organisation is gathering facts in order to devise a response to the crisis.

Figure 3: Ancillary impact of crisis faced



Ancillary crises can be eye openers as they bring to the surface deep-rooted problems and could serve as crisis triggers themselves if not fixed. Therefore, as part of Crisis Preparedness, it is important to have a sound understanding of the stress fractures and gaps in the organisation in order to prevent a crisis from branching out into several more ancillary crises.

4

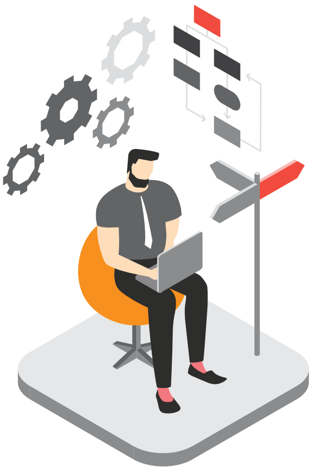
Who’s responsible for crisis management? Everyone – and no one

Everyone from board members to C-suite executives to Legal to Risk to IT claim responsibility for a variety of crisis roles — preparedness, response, recovery, communications. But who is the crisis leader?

Although a large number of the respondents are involved in Crisis Remediation or Recovery, only 24% of them ‘own’ it. Most executives would then look up to ‘someone’ who owns the crisis agenda in the organisation. The key executives of the organisation are naturally expected to ‘own’ the crisis agenda.

33%

Own Crisis Preparedness



33%

Own Crisis Response

24%

Own Crisis Remediation / Recovery

While it is great to have many people helping with a crisis, there is a need to establish clearly defined roles and responsibilities and to appoint a crisis leader.

The absence of a designated leader could be a cause of concern as there needs to be clear communication, coordination, fact finding and decision making in the midst of a crisis. This is clearly suggested by the results of our survey as respondents ranked the ability to make timely and deliberate decisions as one of the largest areas of vulnerability. Only 27% of the respondents felt that the crisis leader had significant experience and authority to navigate through a crisis.

Further, 8 in 10 (82%) companies sought external help either during or after their most serious crisis hit them. Most of these companies did not have an in-house team dedicated towards crisis management.

5

Companies that emerge stronger from crisis do specific things

A crisis is an opportunity to emerge stronger: 42% of leaders who had already faced a major crisis in the past 5 years said they were “in a better place” post-crisis — with some even reporting revenue growth as a direct result of their management of the crisis.

Figure 4: Impact of crisis

42%
In a better place

41%
In a similar position to pre-crisis

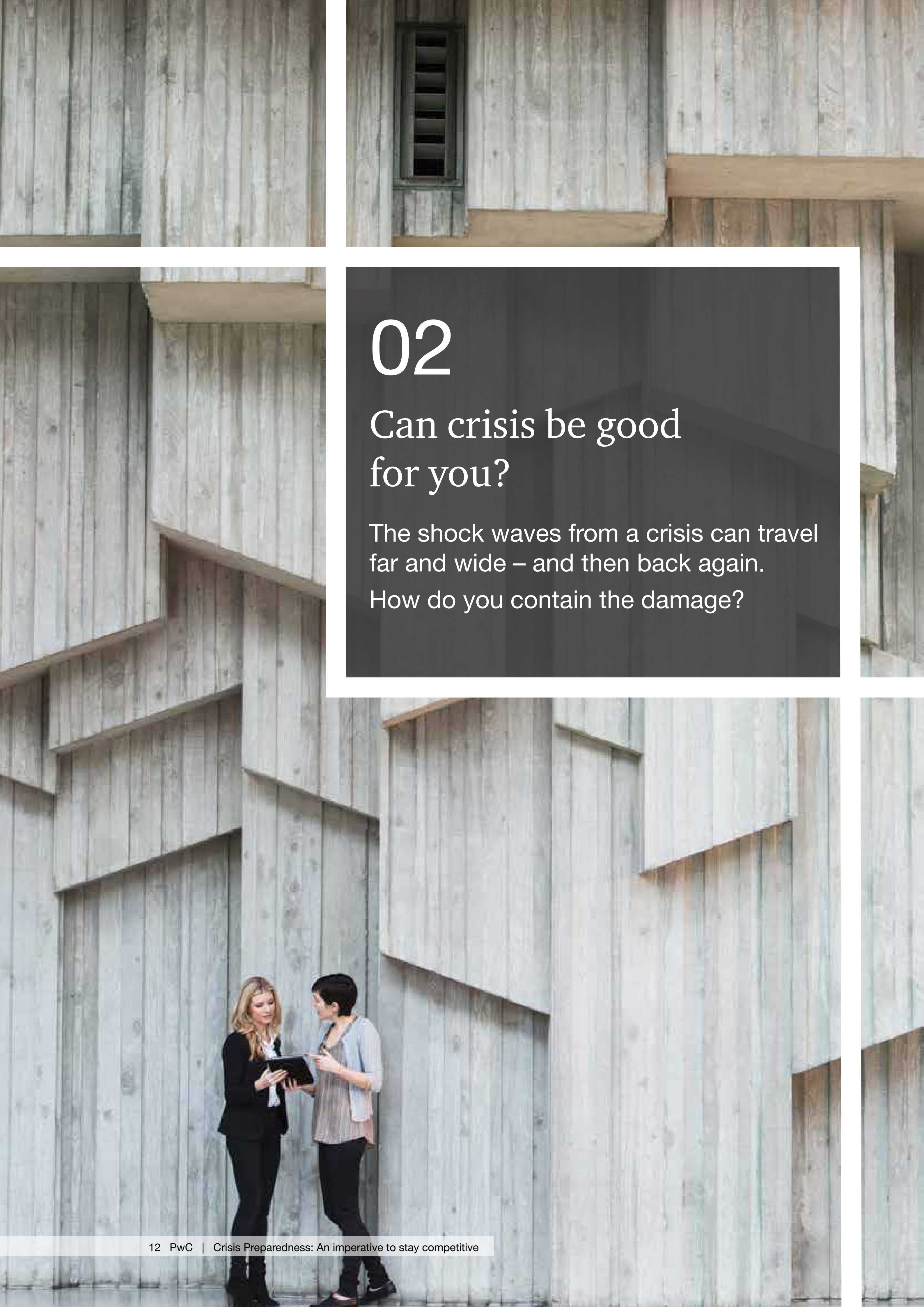
17%
In a worse place

What did 42% of the companies do to emerge stronger from the worst crisis they ever faced?

The secret lies in the steps they took to come out of the crisis.

Our report focuses on the Crisis Preparedness steps which these companies adopted and which others can learn from and adopt before a crisis actually hits them.

Crisis Preparedness will help companies to stand out and see positive results in many areas, including revenue growth.



02

Can crisis be good for you?

The shock waves from a crisis can travel far and wide – and then back again.

How do you contain the damage?

Some companies emerge stronger – and even experience revenue growth – after a crisis, while others stumble along. What's the secret?

As crisis specialists, we know that the potential damage of a crisis – and whether or not you emerge stronger from it – is governed not so much by the nature of the crisis as it is by how well you handle it once it arrives. And there are three bedrock elements to successful crisis management: preparedness, a fact-based approach, and effectiveness of (all!) stakeholder communications.

In crisis, gathering facts faster and establishing your response on them hold the key to successful outcomes. According to our survey, 65% of the respondents felt most vulnerable while communicating and controlling the narrative in the media.

Leaders felt most vulnerable while

32%	20%	13%
Communicating with external stakeholders	Communicating with internal stakeholders	Trying to control the story in the media

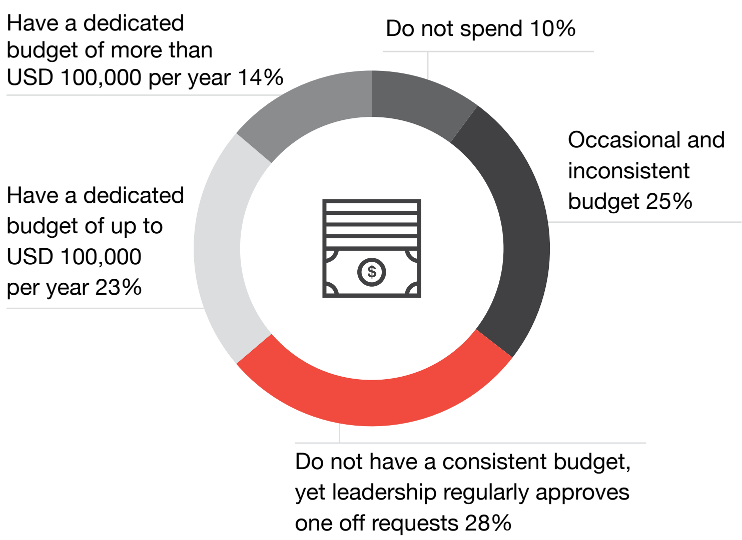
In a world of split-second virality, incorrect, insufficient, or misleading information (or even correct information spread at the wrong time or in the wrong way) can increase your exposure and amplify the crisis. This necessitates investment in the process of fact finding from the 'zero hour' onwards during a crisis.

How can you make crises good for you?

Our data shows that companies that emerge stronger and create a competitive advantage in the wake of crisis do these five things:

1 Allocate budget to crisis management – before it hits

Figure 5: Do organisations spend on crisis management in India?

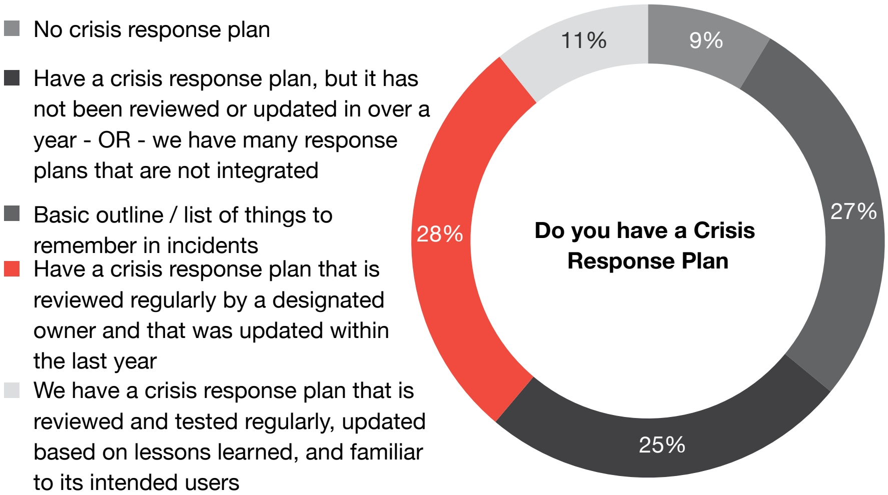


Globally, close to 4 in 10 (37%) of companies that are in a better place post-crisis had allocated a budget for crisis management before the crisis hit – and nearly half (50%) saw their revenue grow as a result. This underlines the advantage of investing proactively in a well-defined crisis response programme and governance structure.

It is important to look at the impact of crises on the revenue growth of companies. Our analysis presents an interesting and arresting picture (see Figure 5).

2 Have a plan – and test it

Figure 6: Do organisations have a crisis response plan in India?



When a crisis hits, we cannot rely on memory to follow a plan of action. A documented crisis management plan is indispensable. By a margin of nearly 2:1 (54% vs 30%), organisations that had a crisis response plan in place fared better post-crisis than those who didn't.

And those that kept their crisis plan up to date and implemented the lessons learned were four times more likely to come out on top.

Being prepared doesn't mean you can anticipate every eventuality: While being mindful of the specific kinds of triggers that could pose risks in your industry, make sure your crisis response plan is not tied to just one or two scenarios. Make it holistic and flexible. Test it and revise it. Then test it again. It is this preparation that sets apart organisations that make confident decisions from those that show knee-jerk reactions.

3 Adopt a fact-based approach – and don't neglect key stakeholders

Notably, 87% of the respondents not only recognise the importance of gathering facts, but also realise the benefits of gathering accurate facts quickly. Half or less than half of the respondents said that they were able to gathering facts that were accurate quickly and were able to use them effectively in responding to a crisis.

It is critical to address a wide set of diverse stakeholders rather than focus on a few. An often hidden upside of comprehensive stakeholder engagement and transparency is that it can actually lead to external stakeholders rallying to advocate for you during a crisis.

4 Perform a root-cause analysis – and follow up

Respondents who were in a better place post-crisis performed a root cause analysis of their crisis response. Nearly all (98%) acted on the results – one-third (32%) made a few changes, a quarter (25%) defined several projects to be completed, and others (16%) are taking substantial action. That substantial action takes the form of:

1. Identifying and following through on key remediation initiatives to prevent or reduce the impact of the same type of crisis;
2. 'Looking around the corner' by scanning the long-term horizon for key risks and opportunities related to the crisis. Most were also likely to incorporate changes into their crisis response plans and documentation of lessons learned.

5 Act as a team, and hold to your values

There is a strong correlation between great teamwork and great outcomes. A huge majority of companies who self-identify as "in a better place" (94%, including 59% who agreed strongly) confirmed that they acted as a team in response to the crisis, with similar majorities (92%) agreeing they'd acted with integrity. Conversely, a lack of internal harmony can make managing crisis more difficult. Teamwork was lacking in companies which did not act as a team and stick to their values. It suggests that it is important to use crisis experience – own or others and real or simulated – as an opportunity to rejuvenate the team and strengthen the internal culture.

03

The new reality of crisis and crisis management

Learnings from your peers that you can apply

What do crisis experiences from the recent past tell us about the future of crisis?

Our experience of working on Crisis Preparedness and Crisis Response and of working with companies that have emerged stronger from crises tells us that a completely new approach is required for crisis management.

Today, there's hardly any room for error, and the cost of reacting too slowly, or ineffectively, grows by the minute. In the wake of repeated, highly publicised corporate crises – accelerated by always connected smartphones and the always-on frenzy of media/social media – the public have become unsparing. We've entered the era of radical openness, of whistleblowing on steroids, where aberrations must be exposed and rectified instantly, even when all the facts are not yet in.

In the future, external stakeholders will demand hyper-transparency. They will expect a much swifter reaction to crisis triggers. And they won't hesitate to punish companies and brands whom they perceive to be slow-footed or ineffective in their response.

Ultimately, perfect handling of a crisis will be expected from Day One – even though crises are messier and potentially more destructive than ever before.

That future – the future of crisis and of crisis management – has already arrived. We launched this study to help you stay one step ahead of it, by learning vicariously through the experiences, positive and negative, of others. This gives you the opportunity to change not only your state of preparedness, but also your mindset. Here are a few takeaways as you begin your journey to future-crisis-fitness.

- **Crises will be more complex – and harder than ever to contain:**

  Today's crises leach out and easily affect stakeholders across – and beyond – the organisation. A major cyber crisis today will not be extinguished by the IT/IS team alone. A reputational crisis triggered by a rogue employee, caught on a dozen smartphones, may not get rectified by their firing

- **Assume everybody is always watching:**

  With the hair-trigger attention of outside stakeholders – and the belief that whistleblowing is an ethical obligation – you will be expected to handle any crisis instantly, effectively, and properly.

- **You need a crisis leader:**

  The future of crisis management requires a broad, tested response plan, ready to deploy from Day One. This cannot happen without one central person given the clear mandate and authority to develop a crisis management program that governs every aspect of preparedness, response, and communication.

- **Cultural expectations are converging:**

  Different cultures have historically had different ways of responding to a crisis. Today norms and expectations are converging, and you should be aware of them, no matter what regions you operate in.

- **Crisis Preparedness is more than an opportunity:**

  It will be a competitive advantage. We believe there is long-term value in being crisis fit and see a future where managers and investors look to a 'Crisis Preparedness index' as a key performance indicator.

- **Crisis is, and always will be, a human event.**

  It is tempting to tuck crisis management under the rubric of ERM. But what sets it apart from all other business functions is the intense effect it has on human beings – positive or negative.

  Only human beings can manage a crisis effectively, and human beings (your people, your customers, your business partners, and more) are the most affected by it. The needs and expectations of all your stakeholders, internal and external, are constantly evolving, and so should your communications strategy.

- **It is possible to be a crisis optimist:**

  When faced with the prospect (statistically, the likelihood) of a crisis, it's easy to go numb and get caught unprepared. Or swing the other way and over-focus on the crises you read about... at the risk of preparedness for the actual things that could hit you. Instead, you can choose to see crisis as an element of strategic risk intelligence: an opportunity for maturity and economic growth.

  So what's the future of crisis? There's every reason to believe that crisis will continue to play an outside role in business outcomes. That's why Crisis Preparedness should also play a more strategic role in your overall business priorities.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with over 250,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

In India, PwC has offices in these cities: Ahmedabad, Bengaluru, Bhopal, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai, Pune and Raipur. For more information about PwC India's service offerings, visit www.pwc.in

Contact us

Gagan Puri
Leader, Forensic Services
PwC India
M: +91 9818756955
E: gagan.puri@pwc.com

Vishal Narula
Leader, Crisis Management
PwC India
M: +91 9769876426
E: vishal.narula@pwc.com

pwc.in

Data Classification: DC0

AW/August 2019 - M&C38