

Crisis Management in Today's Business Environment: HR's Strategic Role By Nancy R. Lockwood, SPHR, GPHR, HR Content Expert

Introduction

"A commitment to planning today will help support employees, customers, the community, the local economy and even the country. It also protects your business investment and gives your company a better chance for survival."¹

Never before has crisis management been more important. As recent events have shown, the business community, as well as communities at large, is vulnerable to disruptions that can be extremely costly. Examples of recent crises that resulted in lost lives, displaced families and communities, shutdown businesses and damaged economy are hurricanes Rita and Katrina, the London bombings, the South Asia tsunami, the Northeast blackout and the September 11 terrorist attacks. Other serious events, such as financial failure from poor business management, workplace violence, fires, cybercrime, computer viruses, product tampering or union strikes, can also lead to substantial damage and loss.

The SHRM 2005 Disaster Preparedness Survey Report indicates that as a result of the September 11 terrorist attacks 56% of organizations created or revised their disaster preparedness plans but 45% of organizations did not.² In view of today's risk environment, these findings are cause for concern. Companies continue to think "it will not happen here" (see Figure 1).

Defining Crisis Management and HR's Role

Crisis management is broadly defined as an organization's preestablished activities and guidelines for preparing and responding to significant catastrophic events or incidents (i.e., fires, earthquakes, severe storms, workplace violence, kidnappings, bomb threats, acts of terrorism, etc.) in a safe and effective manner. A successful crisis management plan incorporates organizational programs such as emergency response, disaster recovery, risk management, communications and business continuity, among others.³ In addition, crisis management is about developing an organization's capability to react flexibly and thus be able to make the prompt and necessary decisions when a crisis happens. If an organization prepares for the "worst-case scenario," then it can handle other situations as well. Teamwork and rehearsal are also critical success factors.⁴

Through crisis management planning, organizations can be better prepared to handle unforeseen events that may cause serious or irreparable damage. Traditionally, HR has not been funded or designed to organize or oversee safety and security initiatives. However, regardless of the organization size, HR leaders today have a strategic role and responsibility to ensure their organizations are aware of the human side of a crisis and plan ahead to help minimize its effects.⁵ To be most effective, HR leaders work collaboratively with top-down commitment to develop enterprise-wide solutions. As emphasized by HR management gurus Ulrich and Brockbank, "as change agents, HR strategic partners diagnose organization problems...help set an agenda for the future and create plans for making things happen."⁶

Leading the discussion about the future of the organization's workforce is an obvious way for HR to contribute to both crisis management and long-range strategic planning. Scenario planning, for example, is a strategy that companies are utilizing to help plan for unexpected events. While HR professionals cannot predict the future, they can help their organizations prepare for it through identifying the most critical issues that could influence the workforce in the years to come.⁷

To be included as a strategic partner in crisis management, it is also important that HR professionals understand the "lingo" of crisis management. For example, the term "business continuity" refers to both the short- and long-term sustainability of an organization. Through crisis management, HR has the opportunity to demonstrate intangible values in the organization with real "deliverables" (e.g., crisis management/communication plans, crisis resources, safety and security training, talent management and succession planning). In partnership with other organizational leaders, HR can develop an infrastructure for crisis management of the company's human capital-based on the organizational culture, capabilities and need-and thus provide supportive leadership before, during and after a crisis.⁸

The Business Case: Cost or Survival

As noted in the SHRM 2004-2005 Workplace Forecast, there is an increased focus on domestic safety and security and concern for global security.⁹ With the aftermath of Hurricane Katrina, the business case for crisis management has become all too clear: sustainability of every aspect of the workplace-including people, company reputation and the economy.

Challenges

The business case comes with challenges. Organizations may be reluctant to provide the essentials-that is, total commitment by the CEO and the board (in the short and long term), allocated resources and, ultimately, ownership by every employee. Also, changes in management practices have resulted in organizations having little resilience to cope with emergencies or emerging threats due to flatter organizations, reduced headcounts, smaller financial savings and less ability to absorb the impact of disruptions.¹⁰

The Human Side of Crisis

One of the errors in crisis management planning is the tendency to focus on systems, operations, infrastructure and public relations, with people last on the list. Organizations need to pay greater attention to the impact of critical events on employees, their families and the community. Business recovery cannot occur without employees. HR plays a strategic role in promoting trustful and prepared leadership throughout the organization to help reassure employees of their safety.

The Ethical and Legal Balance

Organizations have a moral and legal duty to safeguard their employees and the integrity of their business. The Occupational Safety and Health Act (OSHA) requires that employers furnish employees with a place of employment free from recognized hazards likely to cause death or serious physical harm.¹¹ Further, it makes good business sense to include crisis management as an integral part of corporate governance. The board, for example, has an obligation to ensure the organization is adhering to solid management principles.¹²

Reputation: Key to Sustainability

Corporate reputation is a valuable asset. However, public perception of risk presents a constant threat to an organization's reputation. In the case of a poorly handled crisis, it may take years to re-establish a company's reputation. To maintain stakeholder loyalty, reputation is a key component of a crisis management plan.¹³ Further, intellectual capital, such as reputation and brand, has value on the organizational balance sheet. For example, research shows that intangible assets account for about 53% of the value of Fortune 500 corporations.¹⁴

Economy

Business is a stronghold in the U.S. economy. More than 99% of organizations with employees, for example, are small businesses, employing 50% of all private sector workers and providing almost 45% of the nation's payroll. Thus, the commitment to crisis planning today is key to supporting employees, customers and the community in the local, regional and national economy.¹⁵

Crisis Leadership: Who Is in Charge?

There is a growing interest in the connection between the importance of leadership and crisis management. According to Harvard Business School professor Daniel Goleman, leaders with emotional intelligence competencies (such as empathy, self-awareness, persuasion, teamwork skills and the ability to manage relationships) are effective leaders. Such skills would be important in crisis management.¹⁶

During a crisis, one of the roles of a leader is to create and sustain the organization's credibility and trust among crisis stakeholders (e.g., management, employees, customers, suppliers, partners, communities, investors, media, government, special interest groups). Depending on the crisis situation, a leader's goal is to assist the organization in returning to productivity. Overall, it is important to protect and sustain the organization's reputation, brand and value in the marketplace.¹⁷ Thus, one of HR's strategic roles is to focus on leadership qualities, such as strategic thinking, communication, empowerment, trust and integrity, when considering succession planning for crisis management.

Crisis management, when handled well, safeguards the reputation of the organization, which can have a long-term impact on sales and profits. Further, one of the most

important aspects of crisis management is a good communication strategy (how quickly the organization will respond and what the message will be). For example, it may be the CEO who sends the message of personal involvement, honesty and compassion.¹⁸ One of the most positive and successful examples cited as the corporate standard for excellence regarding crisis management is that of Johnson & Johnson during the Tylenol crisis in the early 1980s. Strong leadership and corporate values made the difference with clear communication to the company workforce and the public, and this helped the company through a difficult time. Today, Tylenol is one of the top-selling over-the-counter drugs in the United States.¹⁹

A crisis-planned or unplanned-can be strategically managed more effectively if an organization does its "homework" for crisis management (see Figure 2). One of the key factors of a proactive organization is its ability and obligation to assume responsibility for its acts.²⁰ Yet while many companies plan for their financial growth and success, many do not take productive steps in advance to deal with a crisis. Considering possible scenarios and how best to prevent, prepare and provide interventions allows an organization to become better prepared to handle a crisis.²¹ Scenario planning, as a strategy for crisis management, provides a mechanism to think through the different ways these scenarios could develop and the best business response.²²

According to the SHRM 2005 Disaster Prepared-ness Survey Report, 65% of HR professionals believe that their organizations are well or very well prepared for a crisis or disaster, in contrast to the perceptions of employees, only 50% of whom think their organizations are well or very well prepared. Eighty-five percent of HR professionals indicate their organizations have some form of a formal disaster preparedness plan, and 15% do not. The findings show that large (500 or more employees) and medium (100-499 employees) organizations are more likely than small organizations (1-99 employees) to offer formal disaster preparedness plans.²³

The first step of strategic crisis management is the establishment of a crisis management team. Figure 3 lists the recommended players of such a team. HR has an integral role on the crisis management team, such as addressing issues that may affect employees and their families as well as having the required talent and succession plans in place to ensure that the necessary work of the organization can continue.

Information gathering is a key part of strategic crisis management planning. By utilizing a risk reporting process such as SWOT (an analysis that identifies strengths, weaknesses, opportunities and threats), organizations can begin to make better informed decisions, improve communication of risk and build greater management consensus.²⁴ The following questions are helpful as part of the risk assessment: 1) what is the impact on people; 2) how realistic is the identified potential crisis situation; 3) could corporate action halt or moderate the crisis; 4) does the policy stand up to public scrutiny; 5) are the resources to act available; 6) is the will to act present; and 7) what would be the effect of inaction?²⁵

The crisis management team also develops the contingency recovery plan.²⁶ This is a living document that must be kept current. Within the plan, it is essential there be a clear chain of command established in advance of a crisis. The plan should be written to address the "worst-case scenario," such as total inaccessibility to the normal workplace and the inability to rely upon and use the organization's resources and infrastructure for an extended period of time. It is recommended the cross-functional crisis management team meet every six months to discuss potential crises and how to respond to them.²⁷

Some small- to medium-sized firms, however, may not have the staffing and resources needed for crisis management planning. Thus, they may need to consider various options, such as accessing their chambers of commerce and/or professional associations for assistance. They may also look to their commercial insurance carriers' safety and loss control professionals for additional support.

Outsourcing is another option. For example, one alternative is to partner with a crisis management consultant that can lead the process. In essence, working with a vendor is a form of outsourcing. In theory, the advantages of outsourcing are saving money on ongoing expenditures and avoiding capital outlay.²⁸ However, the very nature of crisis management requires an organization to tailor the plan to fit its unique culture and needs. Thus, 100% outsourcing may not be the most practicable avenue, as the vendor would need to obtain a significant amount of information from the organization to develop an effective crisis management plan. Ultimately, the organization's management is responsible for crisis management.

Finally, research indicates that crisis management budgets are severely underfunded. However, the emergency operations plan (EOP), developed by the crisis management team, can be strengthened at a very low cost. For example, organizations should establish relationships with infrastructure providers (e.g., telecom, local fire and police, utility companies), community organizations and governmental agencies. Often, crisis management information is available for free from such agencies.²⁹

HR's Strategic Leadership Role

As a result of a crisis, corporations may lose workers, along with key talent and organizational knowledge, from low morale, fear, physical relocation or death. As seen in the aftermath of Hurricane Katrina, workforce issues tend to rapidly escalate from a crisis. One of the critical roles of HR is to help the organization develop recovery plans. These strategies should address the safety, health and welfare of employees before, during and after an emergency. Crisis preparedness, response and recovery are essential to help people begin to recover. Helping employees achieve a sense of normalcy is also an important factor in addressing the "human side of a crisis."³⁰

Research shows that increasingly HR has a strategic role in crisis management. According to the SHRM 2005 Disaster Preparedness Survey Report, HR professionals frequently have a part in developing their organizations' disaster preparedness plans. Nearly one-third (31%) state that HR forms disaster preparedness plans and procedures

with equal input from other departments, 29% advise other departments that are primarily responsible for these plans and procedures, and 18% are primarily responsible for developing all disaster preparedness plans and procedures. However, 22% of respondents indicate they do not have a role in developing their organizations' preparedness plans.³¹

For organizations without a plan, the analysis phase can reveal risks that are not managed effectively. Such conclusions may then prompt the organization to develop effective prevention activities, while in turn contributing to an overall safer work environment and/or processes. To forward crisis management planning, HR can make the business case by establishing a link between crisis management/business continuity planning and the organization's mission, vision and values, and connecting crisis management to the bottom line—such as achievement of the organization's balanced scorecard, key performance indicators and critical success factors. Some of the benefits of crisis management and business continuity planning are better avoidance of liability actions, protection of assets through risk reduction, protection of markets by helping to ensure supply and reputation protection, and compliance with health and safety legislation.³² Risk exposures, for example, are considered by investors. Moody's Investor Service looks at the rigor of the risk management process and asks questions such as whether the company's senior management is aware of how much it can lose while still achieving its overall long-term financial objectives and if the company knows its top exposures (both measured risks and nonmeasured).³³ For the sake of their stakeholders and financial well-being, as well as retaining valuable human capital, organizations cannot afford to not be prepared.

Finally, HR can help identify key personnel essential to the recovery effort, potential places to work in the event of a crisis and communication options. When a crisis happens, employees want to go home immediately to take care of their families. However, depending on the type of organization, certain key functions may need to be staffed. HR can take the lead by identifying key staff roles well in advance. For example, a hospital or a nursing home will need staff to remain on-site—unlike an association, a manufacturing facility or a school. Also, HR, in conjunction with the crisis management team, should ensure in advance that employees have contact information of their colleagues and their manager.

HR Services: Value-Added for Crisis Management

In developing a crisis management plan, HR directly creates value for the bottom line by being prepared for emergencies and unexpected events with specific strategic plans and activities. Below are recommended strategic and practical steps regarding crisis management planning.

HR Processes and Information

Review policies and programs related to crisis management.

House HR records in another geographic location.

Develop and maintain a list of external resources.

Safety

Identify and "rent" emergency office space (e.g., a commercial telemarketing center).
Distribute fanny-pack emergency kits.

Information

Working with employee assistance program (EAP) professionals, educate management regarding the phases of stress.

Establish an online page with information about employee benefits and other employee-related policies and programs.

After a crisis, employees need a number of services. From the organization, they need immediate aid and assurance of safety, information, understanding and ongoing support, as well as a rapid return to productivity.³⁴ According to the SHRM 2005 Disaster Preparedness Survey Report, some organizations have formal policies or procedures to assist employees in times of natural disasters or terrorist attacks. Large-sized organizations (59%) are more likely to have formal policies and procedures to cover these situations than small- and medium-sized companies (24% and 16%, respectively). Also, the survey findings indicate that the following policies and procedures are offered in case of emergencies: EAPs (82%), additional unpaid leave (61%), additional paid leave (35%), paycheck advances (33%), leave donation programs (33%), loans (27%) and temporary housing assistance (12%).³⁵ In addition to these services, HR may provide assistance to employees by highlighting the purpose of the EAP, transferring employees to other company locations as needed and matching employee donations to relief efforts.

Communication: A Key Factor in Times of Crisis

A communication plan is an essential part of crisis management. It is a sign of the times that demands HR to be ready to communicate—often both internally and externally—regarding emergencies on behalf of the organization and employees. Further, unprecedented events such as Hurricane Katrina demonstrate that traditional HR roles go out the window in the interest of being flexible to find new ways to help employees. HR may be called upon to provide answers to the following types of questions: 1) what information and resources are needed to deal with the immediate emergency; 2) what the situation is in the various locations affected; and 3) how employees are reacting.³⁶

During a crisis, employees and other internal stakeholders need a convenient and easy-to-find place to access communications from the company. The communication channels listed in Figure 4 are those most organizations could utilize and that would provide the widest access. For managers and supervisors, the company may wish to include password-protected sections on the intranet site, such as a database for information or discussion section strictly for managers.³⁷

The Importance of Safety: Preparing in Advance

Employee safety has become a top priority. According to the SHRM 2005 Job Satisfaction Survey Report, feeling safe in the work environment is a high contributor to overall job satisfaction. Specifically, 85% of HR professionals and 82% of employees note that feeling safe is either important or very important. From the employee perspective, 62% of women state that feeling safe is the third most important job

satisfaction factor.³⁸ Further, research indicates that safety executives identify management visibility and leadership, accountability at all levels of the organization and open sharing of knowledge and information as the best strategies for developing a truly effective and sustainable safety culture in their organizations.³⁹

In partnering with security professionals or heading up safety and security, HR must play a role that will increasingly involve developing, promoting and training for emergencies. Research shows that some organizations are putting training front and center in case of a crisis. The SHRM 2005 Disaster Preparedness Survey Report notes that 91% of HR professionals whose companies offer crisis response training have specifically tasked employees with the role of crisis leadership. The findings show that 64% of employees in leadership roles have received training in organization-specific disaster response plans (see Figure 5). In addition, HR professionals whose organizations designate employees with leadership roles indicate that 39% are employees with this role in their job description and 25% are employees who have volunteered.⁴⁰

Evacuation plans are also a critical element of a crisis management plan. Organizations should include all people in that plan, with specific attention paid to employees with disabilities, as well as visitors, customers, subcontractors and vendors on site. According to the SHRM 2005 Disaster Preparedness Survey Report, 60% of companies have specific guidelines or equipment in place to assist in the evacuation of people with disabilities in the event of a disaster.⁴¹

Studies Focus on Crisis Management

The cost of a crisis continues long after it has ended for employees, their families, the community and the organization. Further, there are bottom-line implications in terms of the organization's reputation and the perceived value of the business. The following studies offer evidence of the critical need for thoughtful crisis management. Oxford University and the Sedgewick Group analyzed the impact of catastrophes on shareholder value. This study revealed companies that responded well to a crisis recovered, while those that did not effectively respond experienced a decline in stakeholder confidence. For example, there was a 22% positive difference in stock price for the companies that recovered from the crisis in contrast to those that did not recover.⁴²

The results of a 2003 study of 400 financial executives and risk managers at Fortune 1000 companies revealed that 34% reported their companies were unprepared to recover from a major disruption to their top revenue source and 28% stated that such a disruption would threaten their business continuity.⁴³

An SHRM 2005 survey on the importance of human capital in crisis management shows that 34% of companies indicated that employee and people issues were a significant part of their organizations' business continuity or disaster plans and 36% indicated that employee and people issues were somewhat a part of these plans.⁴⁴

In 2004, following the third anniversary of the September 11, 2001, terrorist attacks, the American Management Association surveyed its members and customers to learn if they were prepared to handle a major crisis. The findings revealed that fewer U.S. companies had crisis management plans in 2004 than in 2003: 61% of executives stated their organizations had established crisis management plans, in contrast with 64% in 2003. In 2004, 54% of companies had designated crisis management teams, compared with 62% in 2003.⁴⁵

In a survey jointly conducted by Strohl Systems and GMP-Global Assurance, responses from all major industry sectors (including those outside the United States and Canada) revealed that one out of every eight organizations had experienced decreased insurance rates due to a comprehensive business continuity plan. The ultimate goal of the program, said 67%, was to "manage an interruption." This survey suggests that insurers are beginning to review business continuity plans, as recommended by the 9/11 Commission.⁴⁶

These studies reveal much variation and degrees of commitment by organizations regarding crisis management. While some of the findings raise the question of exactly how prepared organizations are to effectively handle a crisis, there is also an increasing awareness of the impact of crisis management on the bottom line.

Safety and Security Overseas

As noted in the SHRM Special Expertise Panels 2005 Trends Report, terrorism, safety and security top the agenda for many multinational organizations. Today, companies with a global workforce are paying greater attention to risk assessment, liability and security practices. One of the places where HR can add value is to help ensure the safety of global employees, especially those located in unstable countries. Specifically, this includes being aware of developing situations, knowing where employees are located, keeping communication lines open and having an evacuation plan ready. Further, companies may consider minimizing international travel and overseas assignments.⁴⁷

Multinational organizations face unique risks and challenges, from social unrest and disease outbreaks to military conflicts and kidnappings. To better understand what employers are doing to address these issues, in 2003 Watson Wyatt conducted a survey of companies around the world across a broad range of industries. These 37 companies represented more than 11 million employees. The survey results show that 70% of companies have employees in locations considered to be dangerous. Areas of greatest perceived risk are Asia (81%), the Middle East (50%) and South/Central America (46%). The survey results reveal that in the past two years, 43% of companies had to evacuate employees and/or family members. Interestingly, key findings reveal that 40% of these companies have not adopted a formal policy for evacuation in case of security threats or health-related issues. However, nearly six out of 10 employers (57%) have developed formal evacuation policies. The survey results also show war and terrorism as the top reasons for implementing these policies, as well as political, social or religious unrest. However, 82% of employers appear to be committed to maintain their international presence in these areas and do not plan to reduce the number of employees in these

regions in the long term. Some employers are providing additional financial incentives to compensate employees working in high-risk areas.⁴⁸

HR professionals can further support their global workforce and expatriates by preparing employees in advance and having access to resources that can provide emergency support (see Online Resources). In addition, orientations prior to departure for international business travel and assignments abroad should include a checklist of information (e.g., personal papers, contact information, medications) to have readily available should evacuation be necessary. Companies can also contract with organizations that specialize in providing international assistance for health-related emergencies, such as International SOS or Worldwide Assistance (part of the Europ Assistance Group). Further, the U.S. Department of State provides a list of high-risk regions and recommends that U.S. citizens register with the U.S. Department of State prior to international travel.

In Closing

In a strategic partnership role as part of the crisis management team, HR leaders add significant value to the sustainability of an organization. Whatever the term—crisis management or business continuity—the goal is the same: to protect human capital, safeguard company stakeholders and ensure critical business processes in the short and long term.

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