

ISB CTO

Week 20: Crisis Management

Crisis management is an inevitable aspect of life and business. From system outages and failures to larger events like natural disasters, business continuity can often be tested. This discussion aims to equip you with insights into how CTOs can lead during crises, manage risks, and ensure resilience in their organisations.

Building Cyber Resilience

As a CTO, creating cyber resilience is paramount. This involves anticipating and managing disruptions effectively. Consider these key points:

- Broadening Business Continuity Planning (BCP):
 - Extend the scope of BCP to address non-technical failures, such as organisational or external disruptions.
 - Conduct regular crisis simulations (at least once a year), involving the entire C-Suite in scenarios to test preparedness.
 - Set up a war room fully equipped with necessary communication and technological tools to act quickly during crises.
- Crisis Leadership Beyond Technology:
 - Broaden your role as a CTO to include company-wide crisis management efforts, integrating technical and non-technical perspectives.

Safeguarding Data Privacy

Data privacy crises are increasingly prevalent. As a CTO, you must ensure robust safeguards against breaches. Key actions include:

- Establishing protocols to prevent unauthorised third-party data sharing.
- Educating all employees on the importance of data privacy and their responsibility in handling sensitive information.
- Learning from examples of data breaches, like those faced by Google, to proactively strengthen defences.

These issues may not always be visible immediately but can escalate into major crises if left unchecked.

Artificial Intelligence as a Crisis Catalyst

The adoption of AI and robotics brings opportunities but also significant challenges that CTOs must address.

- Impact on Employment:
 - Companies like Amazon, with 750,000 robots in operation, exemplify how job displacement can result from automation.
 - CTOs must prepare for and mitigate these impacts by creating strategies to retrain displaced workers.

- Responsible Use of AI:
 - Establish guidelines for the ethical and responsible use of AI technologies.
 - Prepare organisations for the cultural and operational shifts that AI adoption necessitates.

While not directly part of BCP, managing AI-driven changes will require crisis-level attention.

Case Study: Johnson & Johnson Tylenol

Learnings

A cornerstone in crisis management is the Johnson & Johnson Tylenol case, often hailed as a best practice example. The recall of Tylenol capsules following cyanide poisoning incidents serves as a rich case study. The Harvard Business Review case reflects on the facts, opinions and choices faced by the company. The case poses critical questions, such as the extent of the recall, worldwide implications and strategies to rebuild consumer trust.

Overreaction as a Strategic Approach

In crisis scenarios, the question of whether to overreact or take a measured response arises. Analysing the Tylenol case, it becomes evident that a swift and comprehensive recall of Tylenol capsules nationwide was the chosen strategy. The rationale behind this decision was to eliminate any potential risks across different locations. The company's subsequent introduction of tamper-evident packaging showcased adaptability and a commitment to consumer safety, ultimately leading to the restoration of trust.

Case Study: Johnson & Johnson Baby Powder

Let us explore another facet of the same company—Johnson & Johnson—and delve into the baby powder controversy.

The Asbestos Concern

The baby powder controversy centres around talcum powder, a product deeply entrenched in Johnson & Johnson's heritage. Talcum powder's composition involves calcium carbonate, a mineral subject to natural asbestos contamination, depending on its mining source. In the '60s and '70s, when asbestos was perceived as a marvel material, its presence in talcum powder was not considered a severe issue. However, subsequent revelations of asbestos's health risks led to its widespread ban from various applications, including insulation and construction materials.

Faced with the revelation of asbestos in their baby powder, Johnson & Johnson encountered a pivotal crossroads. Despite being aware of the issue since the '60s and '70s, the company opted not to take substantive action, potentially underestimating the gravity of the threat. Court proceedings brought to light internal documents revealing the company's knowledge of asbestos in their product, yet no decisive steps were taken

to inform consumers. Consequently, over 30,000 individuals filed class-action suits against Johnson & Johnson, posing a substantial threat to the company's financial stability.

Johnson & Johnson's Strategic Response

In a bid to mitigate potential legal consequences, Johnson & Johnson made a strategic manoeuvre. They isolated the baby powder division, spinning it off into a distinct company, creating a legal buffer between this division and the broader pharmaceutical entity. This approach aims to shield the parent company from the fallout should the class-action suits lead to substantial losses. The legal efficacy of this move remains uncertain, awaiting the test of time and legal scrutiny.

Tylenol vs Baby Powder Crisis

A pertinent question arises: why did Johnson & Johnson adopt markedly different responses to the Tylenol and baby powder crises? While Tylenol saw a rapid, decisive containment strategy, the baby powder controversy seemingly festered over time without a robust response. This incongruity underscores a crucial truism—never underestimate any crisis. Internal preparedness and overreaction, even if externally measured, are imperative. The case of Snow brand further reinforces the significance of early and robust crisis management.

Purpose, Strategy and Values

In 1998, Honduras witnessed a significant crisis with the Choluteca Bridge. Despite European engineers designing the bridge to be indestructible, Hurricane Mitch altered the river's course, rendering the bridge useless. This serves as a classic example of a crisis emerging unexpectedly, something impossible to foresee.

Similarly, COVID-19 is another tragic example of a crisis dominating the world stage unexpectedly, resulting in significant loss of life. How should one respond to such crises?

Recognising and Responding to Crises

As discussed previously in the context of the Johnson & Johnson and Snow Brand crises, the first rule of crisis management is to recognise the crisis and respond promptly. Whether the crisis occurs within the value chain, as with the Choluteca Bridge, or from outside, as in the case of COVID-19, a swift response is crucial.

It is essential to realise that the same crisis does not affect everyone equally. COVID-19, for instance, disproportionately impacted industries reliant on out-of-home consumption, travel, and hospitality, leading to downsizing and even closures. The response to survive varied, with some businesses taking innovative measures.

A high-end restaurant in Sydney transformed into a grocery store during lockdown, demonstrating resilience and adaptability. Similarly, Chipotle in the US, already set up for take-home delivery, thrived during the COVID-19 crisis, catering to changing consumer preferences.

Industries producing masks, medical supplies, home entertainment and personal care products experienced a surge in demand. Their challenge shifted from survival to meeting unprecedented demand, presenting a different kind of crisis.

Preparedness and Strength

Regardless of the nature of the crisis, the crucial goal is to be prepared and emerge stronger than before. This applies not only to surviving but also surpassing competitors and industry standards.

The attitude towards crisis management should be one of inevitability – crises will happen. The goal is not just to survive but to emerge stronger. Whether facing a recession, pandemic, or other challenges, businesses must be prepared to come out ahead when the crisis subsides.

Managing Crisis

Whether it is the unprecedented COVID-19 pandemic, the Choluteca Bridge incident, or a product recall crisis, numerous questions arise during such testing moments.

One of the initial queries that arise in a crisis, such as COVID-19 or others, revolves around the extent of control one possesses. Decisions about the severity of a virus, the necessity of a lockdown, or the management of product recalls often lie beyond immediate control. The solution, however, is straightforward. Instead of becoming immobilised, the key is to focus on what can be controlled and take action based on factual information.

Swift Response and Survival Strategies: Case Studies

Drawing insights from advising startups in the early weeks of the COVID-19 crisis, a common strategy involved cutting fixed costs, relinquishing office space, and minimising expenses. This survival response aimed not only to weather the crisis but also to emerge stronger. The approach, akin to a successful response to disruption, involves treating the situation both as a threat and an opportunity.

Revisiting the case of Kodak and Fujifilm reinforces the importance of a dual response in crisis management. Initially, a threat-based response is vital to swiftly address and minimise the immediate impact, removing the issue from headlines and preventing further harm. Subsequently, a pivot is required to consider the crisis as an opportunity for growth, ensuring that the brand, company, and individual strength are enhanced.

The effectiveness of crisis management lies in maintaining a balance between threat and opportunity responses. Leaders must reflect on their past experiences – have they primarily focused on addressing threats or seizing opportunities during crises? Successful crisis management requires a nuanced combination of both approaches.

Response to Crisis: Rules One to Five

Rule 1: Acknowledge the Crisis

The first rule is simple but crucial—acknowledge the existence of the crisis. Avoid panic but recognise the need for a response. Failure to acknowledge a problem can lead to severe consequences, as exemplified by the Johnson & Johnson baby powder controversy.

Rule 2: Formulate a Skilled Team

Understanding that you can't handle a crisis alone is the second step. Assemble a team with diverse skill sets relevant to the crisis, including communication, legal, corporate affairs, and product quality expertise. Appoint a chairperson for decisive leadership, ensuring that important decisions are made promptly and documented.

Rule 3: Include a Devil's Advocate

Rule number 3 recommends appointing a devil's advocate within the team. This individual challenges groupthink and introduces alternative perspectives. This role is crucial in avoiding tunnel vision during crises, drawing parallels with the Apollo 13 case.

Rule 4: Distinguish Facts from Opinions

You should separate facts from opinions only after following the first three rules should. Establish a process to gather necessary facts and information, as decisions should be based on verified information. Opinions play a role in influencing decisions, but facts remain the foundation.

Rule 5: Uphold Core Values

The fifth rule underscores the importance of reminding oneself of the organisation's core values. Even in a crisis, there are values that should not be compromised. This rule encourages leaders to maintain integrity and adhere to principles throughout the crisis.

Practical Application: Real-Life Scenarios

The author illustrates the application of these rules in his career. One instance was during the 1998 Asian Financial Crisis in Indonesia, where Nestle chose to stand by its employees, farmers, and consumers, even at the cost of short-term business losses. Upholding core values and making threat-based decisions contributed to the eventual success.

A decade later, in 2010, a crisis emerged when glass pieces were found in baby food jars in France. A swift and transparent response, especially on social media, helped avert a potential catastrophe. The lesson learned here is the need for rapid and decisive responses, particularly in the age of social media.

In conclusion, crisis management demands a proactive approach, adherence to core values, and the ability to adapt swiftly to changing circumstances.

Response to Crisis: Rules Six to Ten

Rule 6: Embrace Crisis as Both Threat and Opportunity

A crucial perspective in handling a crisis is to view it as both a threat and an opportunity. This involves minimising damage while strategising to emerge stronger post-crisis.

Rule 7: Prioritise Communication

This rule underscores the importance of communication during a crisis. Effective, transparent communication is key to managing stakeholders' concerns. Addressing employees, suppliers, governments, customers, and consumers with empathy and relevance is vital. Regular updates, acknowledging the issue and providing insights into ongoing investigations are crucial to preventing the spread of misinformation.

Rule 8: Take Decisive Action

Moving on to rule 8, swift and decisive action is imperative. Decisions aligned with established policies and values should be implemented promptly. Continuously revise actions based on evolving facts, maintaining a proactive stance throughout the crisis.

Rule 9: Learn from the Crisis

This encourages a post-crisis analysis to identify lessons learned. Examine the crisis's root causes, evaluate the effectiveness of responses, and focus on problem-solving rather than assigning blame. It is essential to enhance processes and avoid similar issues in the future.

Rule 10: Preparation is Key

The final rule, Rule 10, emphasises the need for proactive preparation. Waiting until a crisis occurs is too late. Develop training programs, communication protocols and conduct simulations to prepare for potential crises. Being well-prepared ensures a more resilient response when faced with unexpected challenges.

Real-Life Application: Project Saturday

The author illustrates a real-life scenario from his career that embodies these rules. In Chile, he faced a crisis involving the presence of a pesticide, iprodione, in locally sourced apple puree. Though compliant with Chilean law, the crisis escalated when a local politician compared it with European standards. To uphold the commitment to quality, batches were withdrawn and destroyed, and the product was re-launched 18 months later, meeting the strictest global standards. This experience led to the inception of Project Saturday, reinforcing the commitment to quality globally.

Dealing with Individual Crisis

While the focus has been on corporate challenges, individuals, too, encounter crises in personal and professional realms. Whether facing personal hardships or navigating career uncertainties, the principles guiding our responses remain surprisingly similar to those in the corporate domain—the same 10 rules apply.

Rule 1: Shifting the Blame Game

In moments of personal crisis, it is common to question fate or external forces. However, Jim Collins' research on corporate luck applies here too. Recognise that individuals,

much like companies, experience both good and bad luck events. The distinguishing factor lies in how one responds to these events.

Rule 2: Embracing Change and Growth

Acknowledging personal setbacks is natural, and it is acceptable to take time to process and grieve. However, the real transformation occurs when you ask, "How can I turn this crisis into an opportunity for growth?" Preparing for such moments beforehand becomes crucial. Cultivate a support network, build financial resilience, and acquire new skills that will be invaluable in navigating the changing landscape.

Rule 3: Learning from Challenges

Major successes often stem from significant challenges. Problems, in retrospect, serve as catalysts for personal and professional growth. The message is clear: view challenges not just as obstacles but as steppingstones to personal development.

Rule 4: Reinvention During Liminal Periods

To reinvent oneself, it is essential to leverage transitional periods, such as the one induced by COVID-19. Drawing on Herminia Ibarra's insights, it is suggested to engage in projects, network strategically, and explore diverse ideas for personal and career reinvention. The path may be winding, but the journey is an essential part of discovering one's true potential.

The journey of personal growth often mirrors that of a company navigating a crisis. An article by Herminia Ibarra provides additional insights, emphasising the importance of reinvention during transformative periods.