

5.7 Crisis management and contingency planning (HL)

The impact of contingency planning

Contingency planning is all about asking ‘What if?’ questions about the future. If the worst does happen, a contingency plan can be indispensable.

Many diverse organisations use contingency plans. Theatre companies have understudies in case lead actors fall ill. Schools practise drills so that students know what to do in the event of an emergency such as a fire. Governments even prepare national contingency plans that may be needed in the case of a national crisis.

In the event of a major incident, contingency plans can make the situation less chaotic. With a detailed contingency plan, people know what to do, where to go and from whom to seek help if they need it.

Next time your school holds an emergency drill, keep an eye on your teachers. If things go smoothly, you will see them going through the steps of the school’s contingency plan. If it is a fire drill, for example, students will be gathered together in a safe place. Next, a register will be taken to make sure everyone is accounted for. While this is going on, it is likely that additional members of staff will be going from room to room, checking that no one has been left behind. It is very unlikely that a real emergency will ever occur at your school, but if it did, drills ensure that everyone knows what to do.

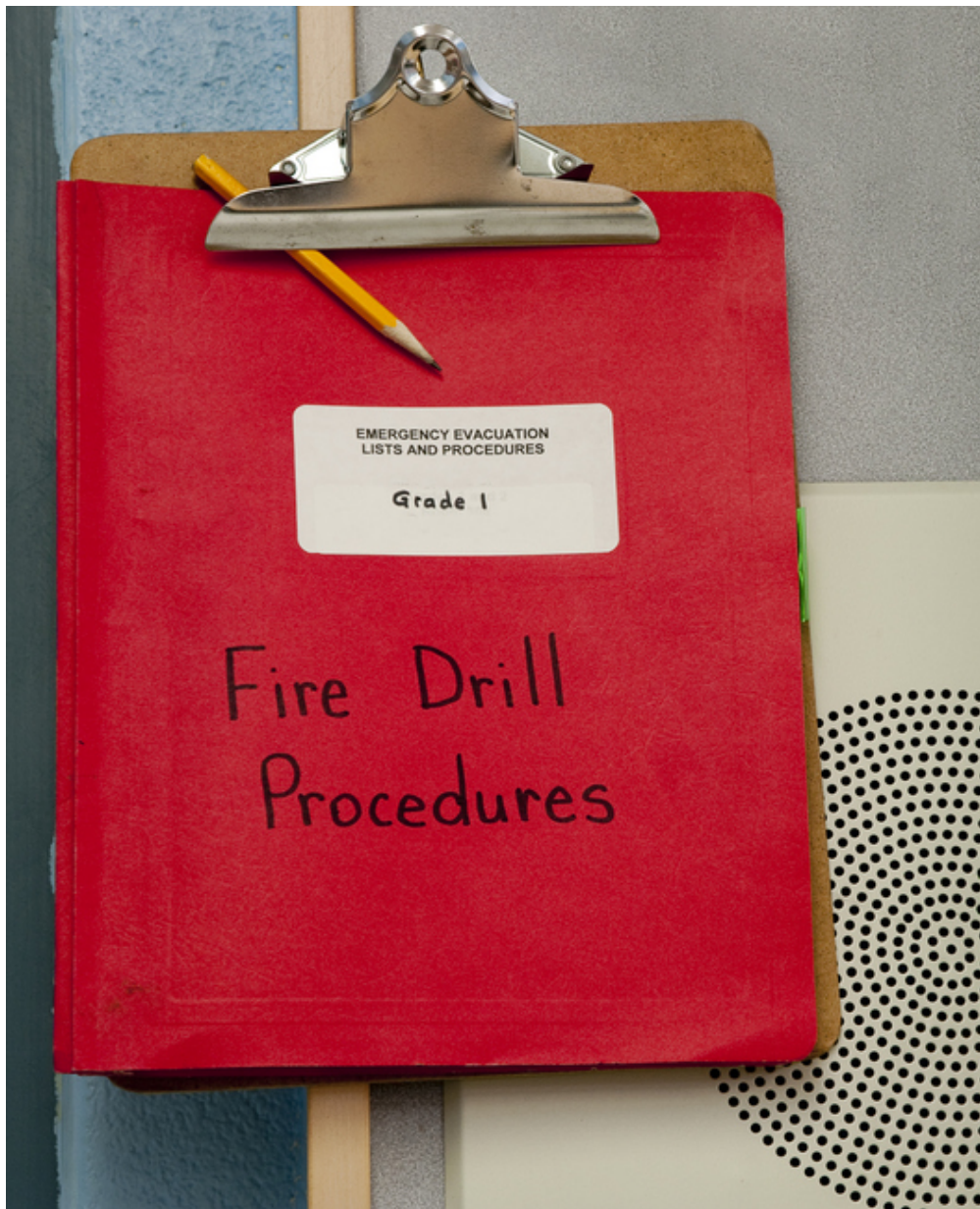


Figure 1. A fire drill procedure is an example of a contingency plan.

Credit: Gail Shotlander, Getty Images

There are some downsides to contingency planning; the planning takes time and resources. But not having a plan may leave a company in a terrible situation after a crisis.

In this section you will look at the impact of contingency planning on an organisation in terms of:

- cost
- time
- risk
- safety

Cost

If a crisis does occur, contingency plans are designed to help managers make rapid, well-judged decisions and minimise the cost of a crisis, such as paying out damages, or losing staff, machinery and customers. Having a plan minimises the chance of managers making costly mistakes in a high-pressure environment.

For plans to be relevant, they need to be reviewed and updated regularly. This has an opportunity cost in terms of resources. Companies will need to develop a range of different plans for diverse situations. The actions that need to be taken in the event of a computer failure, for example, will be different from those needed for a product recall. For small businesses, it may be too costly to allocate staff resources to develop contingency plans that may never be used. A larger business may have teams of employees who only work on contingency planning.

When planning for contingencies, businesses often purchase insurance that covers costs resulting from things like severe weather events or employee injury. While insurance may be worthwhile, it carries a monthly cost that needs to become part of the budget and would divert funds from other activities.

Making connections

Banks are generally required by the government to be ready for a crisis. They are required to have an 'emergency reserve', which is a percentage of their overall deposits, to ensure that depositors can be paid if there is a run on the bank. The trade-off of this policy is that not all of the clients' money can be invested, reducing the bank's ability to make profits.

Time

'It takes 20 years to build a reputation and five minutes to ruin it.' (Warren Buffett, CEO of Berkshire Hathaway Inc (<https://www.berkshirehathaway.com/>))

At times of crisis, a detailed plan should aid swift decision-making. This can be invaluable. If solutions to potential problems are evaluated in advance, then rapid implementation should be possible. The business should be able to return to normal quickly and minimise losses.

Actions that are swift and well thought out help to reassure all stakeholders that the crisis is being dealt with and is under control. This is why it is common for contingency plans to include a detailed communications strategy that outlines how customers, staff

and potentially the media will be contacted in the event of a crisis.

The time involved in creating and regularly updating a contingency plan needs to be considered in relation to the time or speed needed to act in times of crisis. Time spent now could increase speed later, which will be a critical factor in the effectiveness of crisis management.



Figure 2. Swift action allows leaders to bring a crisis under control and may prevent significant human and financial loss.

Credit: Sofiya Salonko, Getty Images

Risk

An effective plan can help to minimise the risk of potential accidents or loss of life. For example, in a large chemical plant, a chemical spill could have fatal consequences. Specific contingency plans will therefore need to be in place to contain the spill while protecting employees, equipment, machinery and the general public.

Safety

Your school probably has a contingency plan for dealing with extreme weather conditions or a student being seriously injured on the sports field. These plans exist to keep everyone as safe as possible. They try to ensure staff (and students) know what to do without having to think it through from scratch at the time of the emergency. If a snowstorm means students might all be stranded at school before the end of the day, it would be a good idea to have a plan in place that smoothly arranges to get everyone

home before that. Some organisations have emergency messaging trees, where it is outlined who is expected to message whom in case of a school closure or an emergency. Having an additional layer of peer-to-peer communication can be helpful to ensure safety.

If a crisis did occur, how similar would the actions be to those written in the contingency plan? Consider the example of a school fire drill again. In reality, everyone knows it is a drill and not everyone will take it that seriously. In the event of a real fire, however, panic and confusion might set in. People can react in unpredictable ways and events may develop rapidly. If a contingency plan does not take these factors into account, its use is limited.

To be useful, contingency plans need an investment of both time and money. If they are not updated regularly, they may even become outdated and do more harm than good.

A contingency plan will never hold all the answers, however. The plan is an initial guide to rely on when disaster strikes. In times of crisis, situations may develop quickly and plans may need to be adapted to the situation.

Theory of Knowledge

The nature of crises can be unpredictable and difficult to plan for. Contingency plans help, but they are limited.

- To what extent can the human sciences provide accurate predictions? (IBDP Business Management guide)

Activity

Learner profile: Inquirers

Approaches to learning: Thinking skills (transfer)

Emergency plans may include fire drills, lockdown drills, and/or earthquake drills, amongst other things.

- Interview an administrator at your school. Find out what emergency plans and procedures they have in place.



Figure 3. Chilean schoolchildren, teachers and staff are regularly given training on earthquake safety.

Credit: Plan Shoot / Imazins, Getty Images