Crisis Preparedness as the next competitive advantage: Learning from 4,500 crises

PwC's Global Crisis Survey 2019

pwc

www.pwc.com/globalcrisissurvey

We talked with 2,000 companies about their worst crises — so you don't have to

We are pleased to present PwC's first-ever Global Crisis Survey, the most comprehensive repository of corporate crisis data ever assembled. We heard from 2,084 senior executives in organisations of all sizes, in 25 industries, and across 43 countries — 1,430 of which had experienced at least one crisis in the past 5 years, for a total of 4,515 crises analysed overall. What we found out is game-changing.

By delving deep into the real-world experiences of organisations like yours, we uncovered some surprising findings, many of which turn the basic notion of crisis management – in fact, how we even think of crisis – on its head.

Instead of "admiring the problem," we've used this data as a springboard to reverse-engineer a successful crisis response. We looked at the companies that self-identified as having emerged stronger from their worst crisis – and compared them to those who did not fare as well. What did these organisations do differently? What crucial preparedness steps did they take that led to their positive outcomes? Can crisis actually be a positive experience… even one that can yield competitive advantage?

Yes, it can. And you don't have to go through a crisis to learn how.

2,084 respondents

Across 43 countries

In 25 industries

64% of respondents from C-Suite

36% of respondents Head of departments

Crisis Preparedness as the next competitive advantage: Learning from 4,500 crises

Living with crisis

What is crisis? And what does it mean to operate in this new normal?

The chain reaction of crisis

The shock waves from a crisis can travel far and wide — and then back again. So how do you contain the damage?

Can crisis be good for you?

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

The future of crisis

What can the past experiences of your peers tell us about the future of crisis? We talked to 1,400 of them — so you don't have to.

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

What is crisis? And what does it mean to operate in this new normal?

For purposes of this survey, we defined crisis as a situation that:

- Is triggered by significant internal and/or external factors or escalation of smaller incident(s)
- Has an enterprise-wide, multi-functional impact
- Creates disruption in normal business operations
- Has the potential for reputational harm/damage

1

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

Nearly 7 in 10 (69%) leaders have experienced at least one corporate crisis in the last 5 years — with the average number of crises experienced being 3.

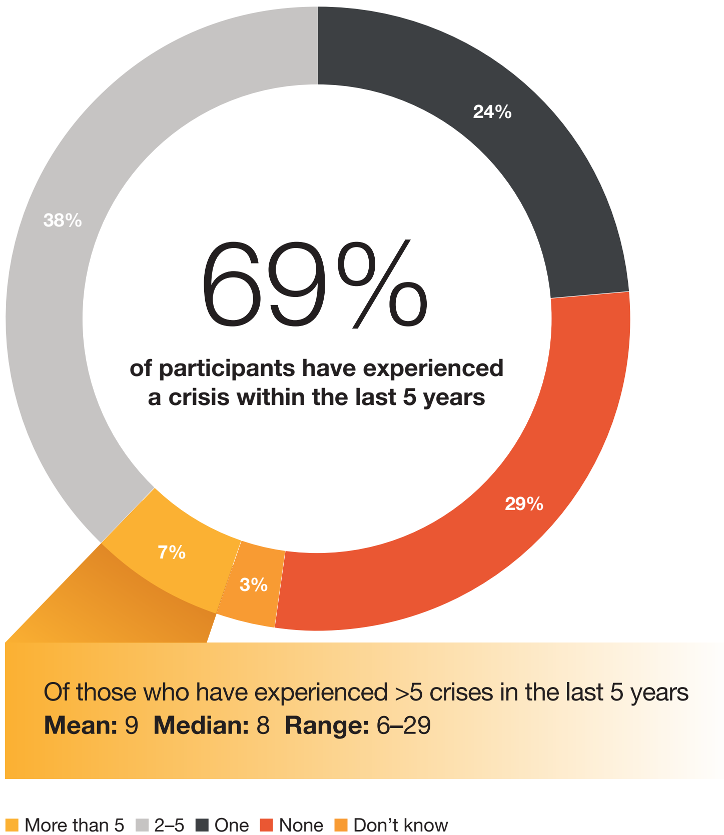
What's more, the risk scales up: companies with more than 5,000 employees are more likely to have experienced more than 5 crises – an average of one per year.

The sheer number of crises reported is striking in light of our definition of the phenomenon: a major disruption to multiple functions of the enterprise – and one with the potential to significantly harm your reputation.

Clearly, crisis is here to stay. Nearly all respondents (95%) – including those who did not report a crisis – expect to be hit by one in the future. The 5% of respondents who do not expect to experience a crisis in the future might feel "inoculated" by their recent experience – or they could be engaging in wishful thinking. (Or both.)

Crises don't discriminate. Like companies themselves, they come in all shapes, forms, and sizes – and no one, and no region, is immune. What's more, the very definition of a crisis will vary by industry. For example, consider a wind storm: for a financial services company, it's a meaningless event; for a utility, it could trigger a catastrophe.

Figure 1: Crises experienced in the past 5 years



Source: PwC Global Crisis Survey of 2084 respondents

2

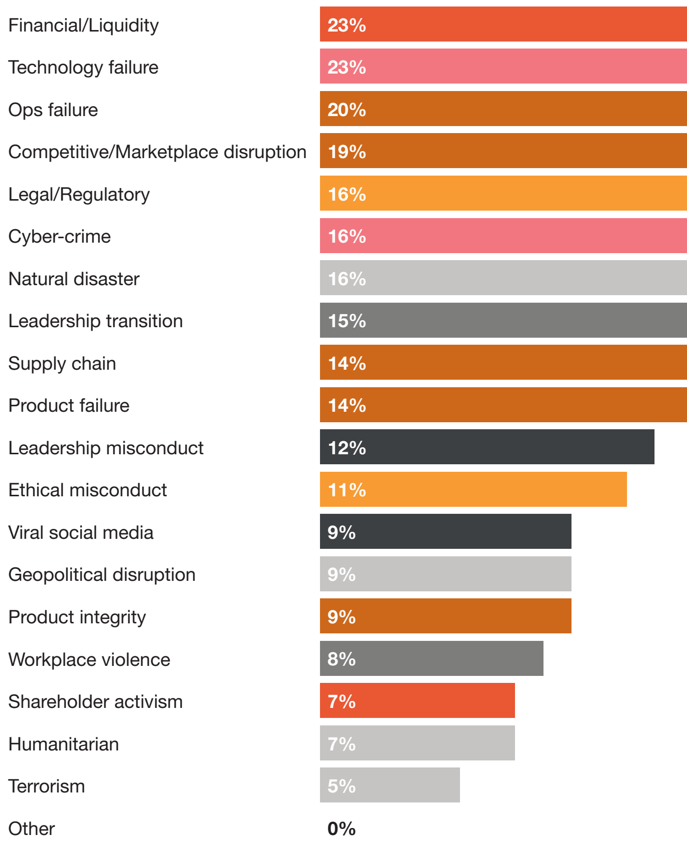
The diversity of crises keeps companies guessing

In order to capture the granularity needed for a study of this size, we listed 19 possible crisis triggers. We then sorted these into 7 broad categories — operational, technological, humanitarian, financial, legal, human capital, and reputational — to facilitate a broader analysis.

Over half of respondents (53%) say at least one of the crises they experienced was operational in nature, including operational breakdowns, competitive disruption, supply chain issues, and various forms of product failure — a statistic that makes sense, given the centrality of operations to any company's lifeblood. Tech-related crises — triggered by technology failures and/or incidents of cybercrime — were cited by one third of all crisis responders, with humanitarian (29%) and financial (28%) categories of crises close behind.

What's the reality for the largest companies? Organisations with 5,000 or more employees are most likely to experience crises related specifically to cybercrime (26%), natural disaster (22%), leadership (17%) or ethical misconduct (16%), including fraud, corruption, and corporate malfeasance.

Figure 2: Crisis triggers/types experienced



Net Crisis Type	%
NET: Operational	53%
NET: Technological	33%
NET: Humanitarian	29%
NET: Financial	28%
NET: Legal	24%
NET: Human Capital	21%
NET: Reputational	20%

Source: PwC Global Crisis Survey of 2084 respondents

3

The most disruptive crises aren't necessarily the most newsworthy

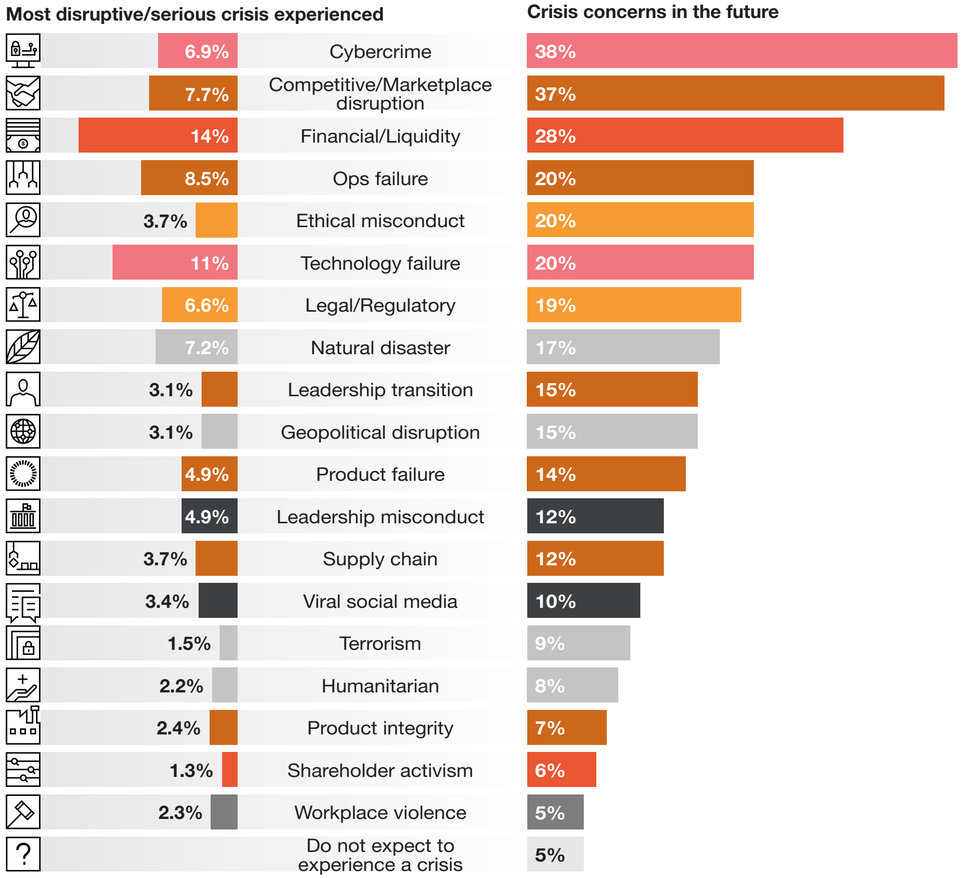
Companies list liquidity issues, technological failure, and operational disruption as the top three most disruptive crises they faced — hardly the front-page stories we see every day.

Their future concerns, however, do skew toward larger, "in the news" crises such as cybercrime (38%), marketplace disruption (37%), or ethical misconduct (20%).

This apparent disconnect could be evidence of familiarity bias, where humans are predisposed to expect what they hear about or already know, despite the evidence. If the most disruptive crises aren't the most newsworthy, the most newsworthy may not be the most disruptive, either — a potential blind spot when it comes to crisis-readiness. We know from experience that financial liquidity crises are often triggered by other business disruptions. Our data suggests that smaller companies tend to see financial crises as the trigger while larger companies view it as the impact of another disruptive crisis trigger.

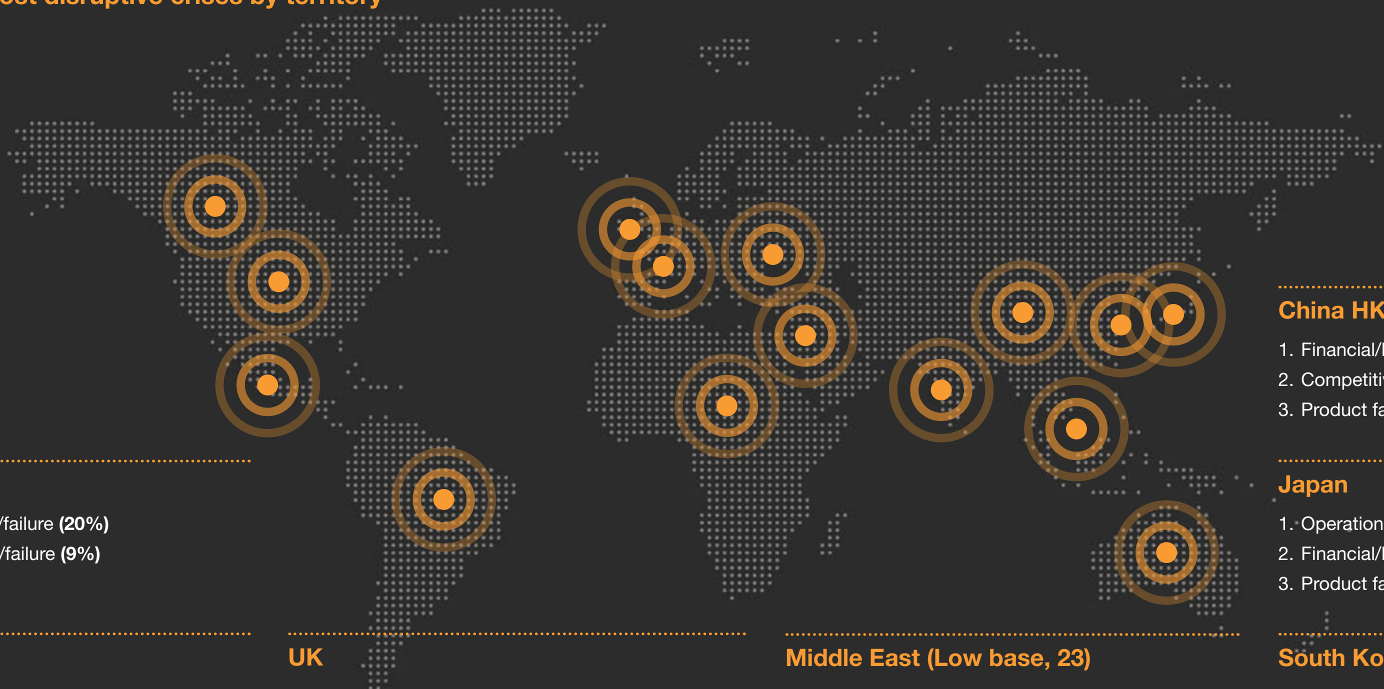
The types of crises experienced varied considerably by region. While we saw technological or operational disruption most frequently in Western Europe, Australia, India, and Japan, financial liquidity crises were most common across the rest of Asia, Brazil, and Central and Eastern Europe, while natural disaster and cybercrime loomed largest in the US.

Figure 3



Source: PwC Global Crisis Survey of 2084 respondents

Figure 4: Top 3 most disruptive crises by territory



Canada
1. Technology disruption/failure **(20%)**
2. Operational disruption/failure **(9%)**
3. Legal/regulatory **(9%)**

China HK
1. Financial/liquidity **(18%)**
2. Competitive/market place disruption **(16%)**
3. Product failure/product liability **(12%)**

Japan
1. Operational disruption/failure **(14%)**
2. Financial/liquidity **(12%)**
3. Product failure/product liability **(11%)**

US
1. Natural disaster/environmental **(22%)**
2. Cybercrime **(13%)**
3. Legal/regulatory, Technology disruption/failure **(10%)**

UK
1. Technology disruption/failure **(16%)**
2. Financial/liquidity **(12%)**
3. Operational disruption/failure and Competitive/marketplace disruption **(9%)**

Middle East (Low base, 23)
1. Geopolitical disruption **(36%)**
2. Cybercrime, Natural disaster/environmental, and financial liquidity **(14%)**

South Korea
1. Financial/liquidity **(27%)**
2. Competitive/marketplace disruption **(12%)**
3. Legal/regulatory **(10%)**

Mexico
1. Technology disruption/failure **(16%)**
2. Financial/liquidity **(14%)**
3. Natural disaster/environmental **(9%)**

Europe
1. Operational disruption/failure **(10%)**
2. Technology disruption/failure **(10%)**
3. Leadership misconduct **(8%)**

Africa
1. Financial/liquidity **(12%)**
2. Natural disaster/environmental **(12%)**
3. Leadership misconduct and technology disruption/failure **(9%)**

Australia
1. Technology disruption/failure **(18%)**
2. Cybercrime **(11%)**
3. Financial/liquidity and leadership misconduct **(10%)**

Brazil
1. Financial/liquidity **(35%)**
2. Operational disruption/failure **(9%)**
3. Technology disruption/failure, Competitive/marketplace disruption, Ethical misconduct, and Leadership transition **(6%)**

CEE
1. Financial/liquidity **(15%)**
2. Competitive/marketplace disruption **(10%)**
3. Technology disruption/failure and legal/regulatory **(10%)**

India
1. Technology disruption/failure **(14%)**
2. Financial/liquidity **(13%)**
3. Legal/regulatory **(10%)**

SEAC
1. Financial/ liquidity **(14%)**
2. Competitive/marketplace disruption **(12%)**
3. Technology disruption/failure **(11%)**

Source: PwC Global Crisis Survey of 2084 respondents

4

Who's responsible for crisis management? Everyone — and no one

When it comes to pinpointing who "owns" crisis, it's complicated. Interestingly, everyone from board members and CEOs to Legal to Risk to IT claim responsibility for a variety of crisis roles — preparedness, response, recovery, ERM, communications. This tells us that most senior executives want to be involved in helping their companies prepare for and respond to crisis, which is a positive sign.

While our results tell us that companies have not aggregated around a single function that is best suited to "own" crisis, we also found that C-Suite respondents are significantly more likely to claim responsibility for these roles than non-C-suite ones, underscoring how crisis management is escalating as a necessary function for the corner office in this new normal to drive success.

That said, the "ownership map" clearly highlights the overlapping of roles and responsibilities, which should cause some concern given the importance of efficient coordination, communication, and decisions in crisis. This is highlighted by respondents ranking the ability to make timely and deliberate decisions as one of the largest area of vulnerability during their most disruptive crisis event.

Figure 5: Level of involvement in crisis management areas

Crisis preparedness		Crisis response		Stakeholder communication	
C-suite	Non C-suite	C-suite	Non C-suite	C-suite	Non C-suite
42%	25%	41%	24%	39%	20%

Source: PwC Global Crisis Survey of 2084 respondents

Balancing the desire for help with the confusion that comes from having “too many cooks in the kitchen” is a critical element of crisis planning and response. In the end, it doesn’t matter who owns crisis — as long as someone clearly does and the roles are clearly defined.

Another sign of how companies are becoming more sophisticated and attentive to crisis: nearly three quarters (74%) sought outside help either during or after their most serious crisis.

Meanwhile, fewer than 3 in 10 (29%) say they have no staff dedicated to crisis preparedness or response. This trend towards committed internal and external resources demonstrate how crisis management is transitioning to be a strategic program to protect corporate strategy sponsored at the highest levels of the organisation.

Nearly three quarters of companies

74%

sought outside help either during or after their biggest crisis.

5

Companies that emerge stronger from crisis do specific things

What doesn't kill you makes you stronger. Of the 1,400 who had already faced a major crisis, 42% 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.

What's their secret? Our report outlines the specific crisis preparedness steps these companies took to come out ahead of their peers. These are measures every organisation can take right now, to emerge stronger and healthier from the crisis that — let's face it — is likely to hit when you least expect it.

Figure 6: Crisis impact

19%
In a worse place

36%
In a similar position to pre-crisis

42%
In a better place

Source: PwC Global Crisis Survey of 2084 respondents

The chain reaction of crisis

The shock waves from a crisis can travel far and wide — and then back again. So how do you contain the damage?

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

Our data confirms the layered nature of crisis impacts. It crossed over from business relationships (74%), reputation (61%), and workforce morale (59%), to legal issues (57%) and beyond. Companies cited, among other effects, economic loss (57%), environmental consequences (20%), and long-tail fallouts such as new laws and regulations (25%) and political change (18%), as a result of their worst crisis.

But crises often travel in packs. And a crisis is never more dangerous than when it spins off one or several ancillary crises — each of which can create its own feedback loop of consequences, both internal and external.

Understanding the 3D dynamics of how a crisis might impact your organisation — and taking steps to forestall or at least minimise its secondary effects — is an essential part of crisis preparedness. That's why we examined whether secondary crises (or crisis accelerators) followed or spun up in the wake of the initial crisis experienced by our respondents.

Here's what crisis-experienced leaders told us: Regardless of the nature of that initial crisis, nearly half (47%) suffered an ancillary crisis that was operational in nature. The largest piece of that operational turmoil? Competitive/marketplace disruption (20%). Additionally, more than a quarter had to deal with reputational issues; 22% faced legal complications.

In keeping with our goal of creating an actionable crisis survey, we dove more deeply into the data we collected on 4,500 real-world crises. We created this powerful interactive tool to map the full range of impacts and secondary crises experienced for each category of initial crisis. For the first time, you can see the likelihood of specific impacts and ancillary crises that could arise from any initial crisis you might face.

Marketplace disruption is the most-mentioned ancillary crisis across all types of initial crisis. But it is significantly more common for those who had experienced a severe financial crisis (35%), suggesting that a liquidity problem can seriously hamper an organisation's competitive position over many years.

Reputational crises seem especially treacherous, with one in four (24%) companies reporting at least one subsequent reputational crisis, and one in five (20%) seeing it cascade into another, connected to fraud or ethical misconduct (20%), or leadership transition (14%).

No matter how, when, or where it hits, a crisis will constitute an organisational stress test, capable of disrupting your company's operations, both internal and external. And as it does, it will almost invariably distort your perception of what is actually happening and slow your response — exactly when you are most in need of accurate facts with which to take appropriate action.

The cumulative "chain reaction" of crisis can wreak havoc over time. But it also will reveal the stress fractures and gaps — be they cross-functional or cultural — within the organisation that made it more vulnerable in the first place. These are your starting points for strengthened defences, improved preparedness, and better future outcomes.

Visit www.pwc.com/globalcrisissurvey to view the full results.

3

Can crisis be good for you?

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

Some companies emerge stronger — and even experience revenue growth — after a crisis, while others falter. What's the secret sauce?

As crisis specialists, we know that the potential damage of a crisis — and whether or not you emerge stronger from it — is not so much governed 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.

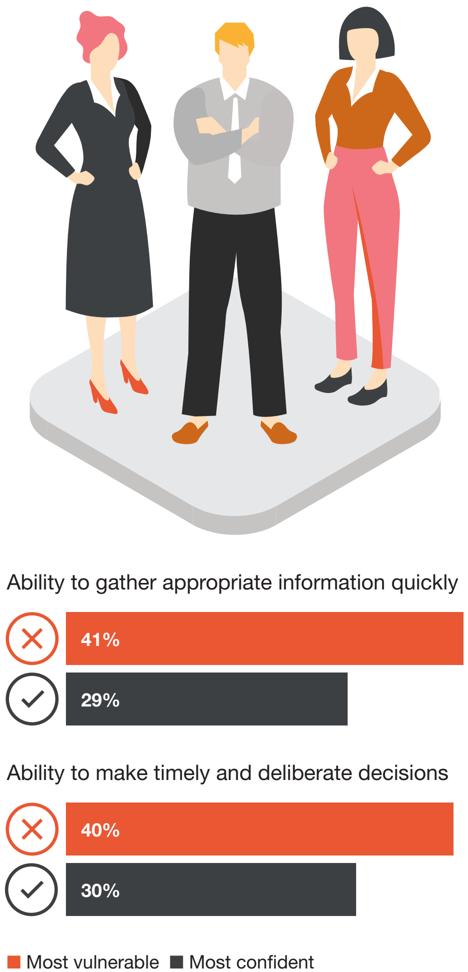
In crisis, getting facts quickly and basing your response on them, are key to successful outcomes. In a world of split-second virality, incorrect, insufficient, or misleading information (or even correct information spread at the wrong time or in the wrong way) can increase your exposure and amplify the crisis.

There's plenty of work to do on this front. While 87% of respondents agree on the importance of establishing facts accurately, nearly 4 in 10 report that they didn't actually have the facts they needed to mount an effective response. And one-quarter of organisations acknowledge that they did not communicate effectively in their most serious crisis. This presents a significant opportunity for companies to learn from the mistakes of their peers by investing more in fact finding in the early days of a crisis.

We also uncovered a disequilibrium between internal and external information flows: while executives are generally confident in their internal communication dynamics they feel most vulnerable in communicating with external stakeholders, with nearly 4 in 10 (38%) ranking this as one of their top three areas of vulnerability.

This makes sense, considering that internal teams are naturally more familiar to business leaders. But it doesn't make sense when you consider the well-documented risks of an incomplete or inaccurate public response to a crisis, or the fact that your greatest risk can arise from any stakeholders — customers, regulators, shareholders, the media — kept in the dark.

Figure 7: Areas of vulnerability and confidence



Source: PwC Global Crisis Survey of 2084 respondents

When can crisis be good for you?

Our data shows that companies that emerge stronger and create competitive advantage in the wake of crisis do these 5 things:

1 Allocate budget to crisis management — before it hits. More than 4 in 10 (41%) of those that came out in a better place post-crisis allocated budget to crisis management before the crisis hit — and a nearly identical share (39%) actually saw their revenue grow as a result. This underscores the reward for investing proactively in having a clear crisis response program and governance structure.

2 Have a plan — and test it. When a crisis hits, there is no substitute for muscle memory. 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 keep their crisis plan up to date and implement the lessons learned are 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.This is the difference between being confident in the decisions you are making during a crisis and making knee jerk reactions in the heat of the moment.

3 Adopt a fact-based approach — and don't neglect key stakeholders. Three-quarters of those in a better place post-crisis strongly recognise the importance of establishing facts accurately during the crisis. They are more likely to say that in the midst of the crisis, they did gather facts accurately and quickly — and they used those facts effectively to inform their response strategy.

As you focus on your fact-finding and communications strategy, however, it's critical to avoid over-rotating to one or two primary stakeholder groups. Cast a wide net on the perspectives of every important stakeholder, internal and external. Carefully consider, in advance, their wide diversity of needs and interests, as well as the appropriate mechanisms for two-way communication for each stakeholder — and ensure all your bases will be

> **By failing to prepare, you are preparing to fail.**
>
> Benjamin Franklin

covered when the time comes to communicate in an emergency. 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.** Those who ended up in a better place performed a root cause analysis of their crisis handling, and 8 out of 10 acted on the results — one-third (33%) made a few changes, a quarter (24%) defined several projects to be completed, and another quarter (24%) 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 longer 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 from lessons learned.

5 **Act as a team, and hold to your values.** No surprise here: there's a strong correlation between great teamwork and great outcomes. A huge majority of companies who self-identify as "in a better place" (93%, including 66% who agreed strongly) confirm that they acted as a team in response to the crisis, with similar majorities agreeing they'd acted with integrity. Conversely, a lack of internal harmony can make managing crisis more difficult. Of those who ended up in a worse place from the crisis, only 39% said they acted as a team. Use crisis experiences — real or simulated — as an opportunity to galvanise your team and strengthen your internal culture.

Crisis is a magnifier. The experience of going through one can bring out the best (or worst) in both your company and your people. Surviving a crisis together can bond individuals to each other and to the organisation far more deeply than many value statements could. And on the flip side, a poorly planned and executed response can send a company or team into a tailspin from which they may never recover.

Taken together, these findings should give all organisations both pause and hope. The marquee finding is not about how many companies have endured major crises in the last half-decade. It is, in fact, that crisis presents not only as a threat, but also an opportunity. An incident managed well allows you to develop your immune system, enabling you to take on riskier opportunities, with the confidence that future threats will be spotted and addressed quickly. That's the key to sustainable competitive advantage.

Crisis presents not only as a threat, but also an opportunity

Those whose organisations are in a better place are significantly more likely to strongly agree to establishing facts accurately

73% VS
54%

4

The new reality of crisis — and crisis management

What can the past experiences of your peers tell us about the future of crisis? We talked to 1,400 of them — so you don't have to.

What do crisis experiences from the recent past tell us about the future of crisis? We talked to 1,400 of your peers who've been through it — so you don't have to.

From our analysis of this data — and our in-the-trenches experience helping companies prepare for, respond to, and learn from crises of all shapes and sizes — it's clear that the future of crisis calls for a fresh approach to 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 ubiquitous smartphones and the always-on frenzy of media/social media — the public have become "crisis connoisseurs." 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.** Virtually all respondents expect to face an operational crisis in the future. But whereas in the past they might have expected to be able to control and contain it, 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.

Contacts

Kristin Rivera

Global Forensics Leader,
PwC United States
+1 (415) 302-3428
kristin.d.rivera@pwc.com

Dave Stainback

US Crisis Leader, Principal,
PwC United States
Tel: +1 678-984-3699
david.stainback@pwc.com

www.pwc.com/globalcrisissurvey