Crisis preparedness trends 2019

With threats evolving, the best defence is a crisis-fit plan

Part of PwC's 22nd Annual Global CEO Survey trends series

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CEOs' curbed confidence

If CEO forecasts concerning global economic growth are an accurate predictor, we're in for a bumpy ride. In PwC's 22nd Annual Global CEO Survey of 1,378 chief executives across more than 90 territories, only 42% of respondents said they believed that GDP will 'improve' in the next 12 months, down from 57% in the prior year (see Exhibit 1). CEOs express similar pessimism about prospects for their companies over both one- and three-year time horizons.

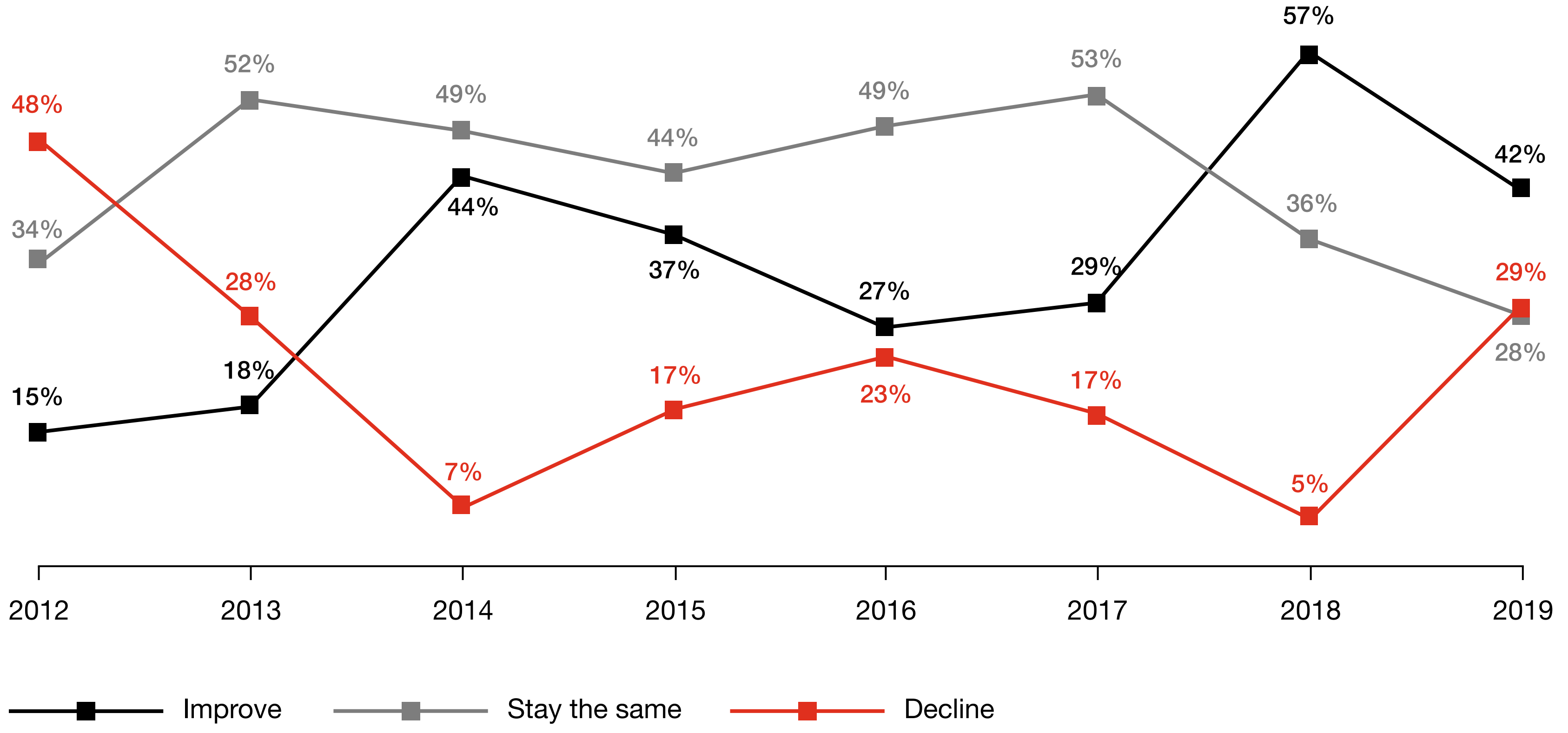
Delving more deeply into these numbers, it is intriguing that CEOs' top concerns have shifted in the past year — from macro, somewhat amorphous threats to more imminent and palpable risks to their businesses. Consider that in 2018, terrorism and climate change were cited as top woes; this year, both of these issues have fallen out of the top ten. Risks that dominate the top spots this year are those that are related to the ease of doing business: namely, overregulation, policy uncertainty, availability of key skills and trade conflicts, among others (see Exhibit 2).

EXHIBIT 1

Although many CEOs expect global economic growth to 'improve', there is a sharp rise in those saying growth will 'decline'

QUESTION

Do you believe global economic growth will improve, stay the same, or decline over the next 12 months?



Source: PwC, 22nd Annual Global CEO Survey
Note: from 2012 to 2014 respondents were asked 'Do you believe the global economy will improve, stay the same, or decline over the next 12 months'
Base: All respondents (2019=1,378 2018=1,293; 2017=1,379; 2016=1,409; 2015=1,322; 2014=1,344; 2013=1,330; 2012=1,258)

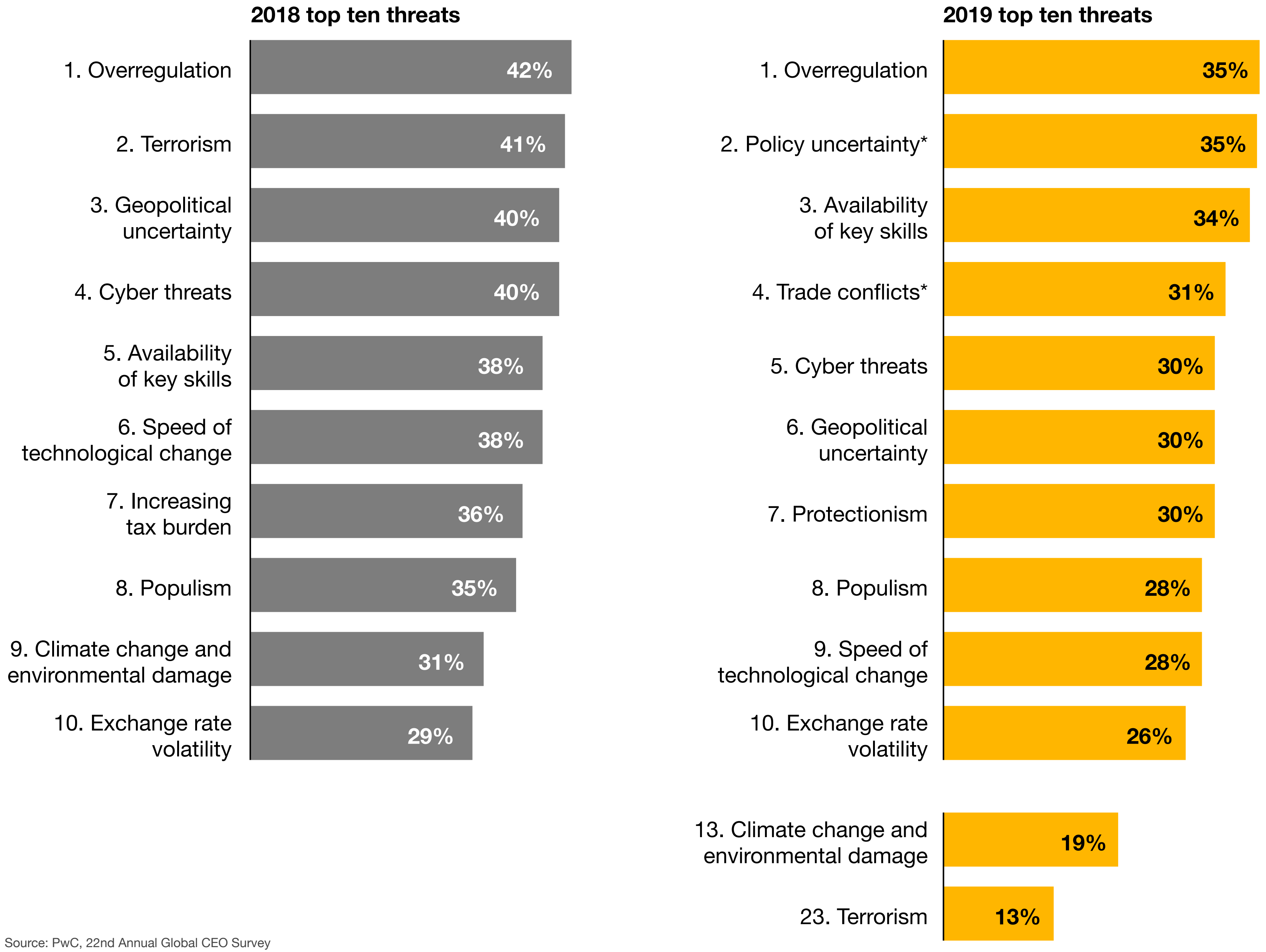
EXHIBIT 2

Threats that are top-of-mind are less existential and more related to the ease of doing business

QUESTION

How concerned are you, if at all, about each of these potential economic, policy, social, environmental, and business threats to your organisation's growth prospects?

(Showing only 'extremely concerned')



Source: PwC, 22nd Annual Global CEO Survey
*Note: 2019 was the first year CEOs were asked about 'policy uncertainty' and 'trade conflicts'
Base: All respondents (2019=1,378; 2018=1,293)

Confronting these concerns and in light of their pessimism, it appears that CEOs are hunkering down. They are attempting to insulate their businesses from harm and turning inward to drive revenue growth. Many are focussing on operational efficiencies and organic growth; others are looking to new product and service launches or supply chain adjustments. Notably, fewer CEOs are planning moves that are more vulnerable to geopolitical shifts, such as new strategic alliances, new market entries or M&A activity. Still, despite this protective stance, CEOs responding to the survey were still uneasy: nearly 60% said they were 'extremely concerned' or 'somewhat concerned' about their readiness to respond to crisis.

Have a plan for imminent threats

Although the landscape is volatile right now, there is an opportunity to manage risk intelligently. Today's threats are tangible, have a discernible face and are already having an effect. This means that CEOs can be more focussed on what is going on in their immediate line of sight as they await greater clarity on government actions, geopolitical concerns and market conditions. They can have a plan.

Instead of trying to prepare for every possible future scenario, ask yourself: What are the top three to five threats I need to most worry about today? Have a strategy for those — backed up with a crisis playbook, a strategic cross-functional response team and workforce training. Then, should a different threat prevail, you will already have developed the muscle memory and the internal cohesion to handle it optimally.

Crisis confidence and muscle memory cannot be gained by checking boxes, no matter how robust a plan looks on paper. It takes careful preparation, stress-testing and a healthy respect for the unexpected. Here are five essential steps:

1. Establish a dedicated crisis leadership team, and train the members on their roles and responsibilities.

Raise awareness of the crisis management program, from the corporate level down to business units.

2. Identify a core cross-functional team with the talent and skills needed to see you through a crisis.

The team should include legal and regulatory specialists, your PR and communications team, IT and security, and other operational first responders.

3. Develop a crisis playbook that reflects the real technical and business impacts a crisis would have on the organisation.

Anchor the crisis response plan in fact so that all parts of the organisation are operating under the same set of facts. If they are not, the response can be disjointed and unclear, threatening stakeholder confidence.

4. Put the theory into practice.

Crisis exercises recreate the pressures, psychology and team dynamics of a true crisis, and yield valuable knowledge of strengths and weaknesses. In high-stress situations, people tend to revert to their lowest confidence threshold. Providing time for the core team leading the crisis response to practice and develop a level

> Top of mind among CEOs' concerns is what dominates the headlines. Terrorism events dropped off in 2018, while trade conflicts and policy uncertainty rose to the fore.
>
> **PWC'S 22ND ANNUAL GLOBAL CEO SURVEY, 2019**

of comfort in their roles is crucial. The ability to simulate a realistic scenario with input and feedback as the event unfolds instils the team with the confidence of 'having been there before' when a crisis strikes. Stress-testing your crisis plans in a safe environment provides confidence that when a crisis occurs, you've built the muscle memory — you are ready.

5. Take action on lessons learned.

What gaps did you uncover through the exercises? How viable were your business continuity and disaster recovery plans? How well did the company communicate, both internally and externally? Address all of these gaps, report them to senior leadership and, if necessary, test again.

A company's state of preparedness can dramatically affect outcomes (from disastrous to surprisingly positive) when a crisis hits. The benefits can be material: one study shows that companies perceived to have responded well to a crisis experienced on average a 22% premium in share value, according to Knight/Pretty data.

Planning for the Unexpected

Typical crisis planning focusses on specific potential shocks. But how do you prepare for an unforeseen 'asymmetric' threat — one that comes out of nowhere, with no rule book to follow?

This *strategy+business* article, by Paul Wolfowitz and PwC's Kristin Rivera and Glenn Ware, advocates for a different approach: meta-readiness.

EXHIBIT 3

CEOs face a shortfall between the data needed to make decisions and the data they actually get

QUESTION

Thinking about the data that you personally use to make decisions about the long-term success and durability of your business, how important are the following?

(showing only 'critical/important')

How adequate is the data that you receive?

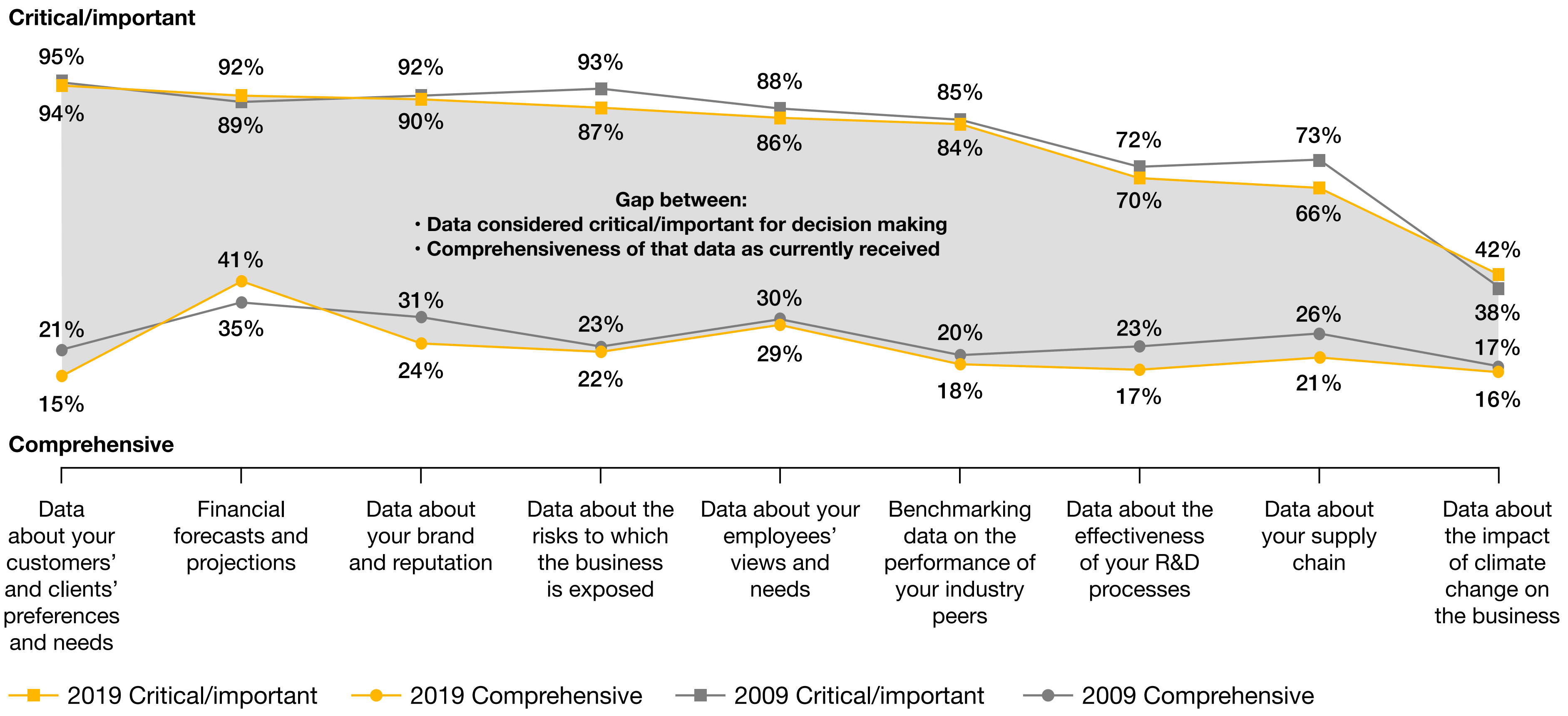
(showing only 'comprehensive')

Where is the actionable information?

As mentioned previously, companies must ground their response in facts — and get those facts quickly. Yet the shortfall between the data that leaders need to make decisions and the data they actually get has barely budged in the past ten years (see Exhibit 3). This may be one reason that so many CEOs are worried about their state of crisis readiness.

What's behind the information gap? CEOs largely blame internal shortcomings involving people, systems and data quality.

When faced with a crisis situation, leaders often have to balance acting on business 'gut' instincts with a data-based response. This is challenging when many believe they need to have 100% of the information before they act — and the survey shows they are not getting the comprehensive data they need.



Source: PwC, 22nd Annual Global CEO Survey
Base: All respondents (2019=1,378; 2009=1,124)

To make executive decision-making more balanced, efficient and accurate, leaders should focus on closing the loopholes. Methodically examine and address the internal reasons for the gap — especially data siloing, poor data quality, lack of analytical talents and inadequate IT infrastructure. Another strategy to bridge the information gap is to build up your business intelligence capability. Strong, accurate business intelligence can serve as an early warning radar for broader emerging threats in your industry and region. Having a handle on these facts also helps you optimise your existing resources to meet any threat head-on.

Addressing the skills gap

For many years, CEOs have listed 'availability of key skills' as a top threat to growth (34% say it this year). CEOs' current reality is that they don't have enough skilled team members. This means that when crisis hits, leaders are already at a disadvantage.

CEO responses demonstrate that leaders notice the impact of skill shortages on things such as the ability to innovate and pursue market opportunities, as well as on quality standards and customer experience. However, they may be overlooking the crucial link between the talent crunch and crisis response. When examining skill requirements, are you taking into account the skill of being able to operate in a crisis? After all, it is people who are going to carry out your crisis plan.

Although there are no quick fixes, CEOs can start to address the skills gap in crisis expertise by:

- training and up-skilling the existing team to know what to do in case of crisis
- cultivating soft skills such as empathy and problem-solving ability
- instilling dedicated crisis resources
- focussing on a senior-level crisis sponsor and board and senior executive buy-in.

A crisis is 'all hands on deck' time. Senior-level oversight — and internal cohesion among cross-functional teams, grounded in preparation, training and testing — are key to good outcomes. They are also key to a harmonious, holistic response.

Being crisis-fit is clearly important in the face of today's elevating risk, shifting policy, fragile global economy and general uncertainty. Effective plans can help build trust with customers, stakeholders, leaders and with society as a whole. So although you won't ever know when or what type of crisis will hit, you can build confidence in your organisation's ability to roll with the punches, execute an agile crisis plan and emerge stronger.

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About PwC's 22nd Annual Global CEO Survey

PwC conducted 3,200 interviews with CEOs in more than 90 territories.

Notes:

- Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.
- We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the second half of 2018. The interviews can be found at ceosurvey.pwc.
- Our global report (which includes responses from 1,378 CEOs) is weighted by national GDP to ensure that CEOs' views are fairly represented across all major regions.
- The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services: www.pwc.co.uk/pwcresearch.

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