

# The importance of crisis management plans management essay

[Business](#), [Management](#)



In light of increased technological advancement coupled with increased environmental concerns, organisational crisis management has become an interesting field of study particularly in the energy sector. Indications are that though oil and gas companies have contingency plans for crisis, they are ill prepared to deal with actual crisis when they occur. This highlights the apparent lack of crisis management plans particularly before crises occur. In instances where some form of planning existed, they were limited and contributed little to the overall success of crisis management. Definition and attributes of crisis and its management are ascertained with theorised crisis management plan model suggested. Oil and gas industry possible best and worst cases of crisis leadership and communication in crisis management planning are analysed to ascertain their relevance in crisis management planning. This sets the tone for recommendations to include modern modification such as social networking as well as improve crisis management planning integration into everyday business strategy and operation within the industry. This integration subsequently results in derived benefits which include financial and reputational thereby promoting effective business continuity for oil and gas businesses.

## **Keywords**

Crisis, Crisis Management, Crisis Management Plan, Crisis Communication, Crisis Leadership, oil and gas industry

## **Introduction**

Crises are apparent in everyday human activities and have occurred in different forms and across different industries for centuries. The United

States terrorist attacks during 9/11, environmental disasters like hurricane Katrina and the global financial meltdown in 2008 highlight variations in modern crisis and its management. However, crisis management existed ages before these incidents gaining attention even during ancient Greek times and even earlier during the biblical days of Noah (Regester and Larkin, 2009 p. 205; Topper and Lagadec, 2013). Though crisis management can be traced back several centuries, organisational crisis management is a phenomenon marked out following the 1982 Tylenol scandal and Chernobyl disaster in 1986 (Falkheimer & Heide, 2006 cited in Jaques, 2009). Despite the origins and evolution of crisis, a unique definition for crisis, its management or planning cannot be easily identified. Crisis often misused and synonymously used in reference to risk, disaster, emergency, issues or even catastrophe. This difficulty in clearly defining crisis events further compounds into effective crisis management and planning by organisations and hence the need for constant scholarly analysis (McConnell and Drennan, 2006). Besides definitional issues, crises are characterized by unpredictability couple with fear by stakeholders involved making it difficult for leaders to display efficiency during such times. Anticipation of crises becomes ideal for smothering crisis which unlike sudden crisis has some degree of predictability. Based on the characteristics of smothering crises, it can be implied to be the leading for crises in the oil and gas sector. But does this suggest that oil and gas companies have efficiently anticipated crises in the past? If yes, were there crisis management plans in place before or during the actual crises occurrence? How successful were these plans in mitigation and control for cases where plans existed? And finally what

lessons have been learnt to prepare the oil and gas industry for the next big post- Macondo crisis (Pearson and Mitroff, 1993 cited in Fragouli, 2010).

## **Attributes of crisis, crisis management and crisis management plans**

Crisis From a public relations point of view, the key in addressing crisis management challenges lies in definitions. It is important that a consensus is arrived at in relation to crisis definition to enable managers have improved awareness and alertness when faced with crisis situation. This may help in promoting more effective crisis management plans. It is important to note that definition does not necessarily refer to a single " dictionary-type" classification but can be analyzed in terms of common understanding of key concepts (Jaques, 2009). In agreement Fragouli (2010) highlighted that " there are many definitions of what constitutes a crisis; nevertheless there are three elements that are common to most of them: (a) a threat to the organization, (b) the element of surprise, and (c) short decision time". Based on this, crisis can be defined as " a low probability, high impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effects and means of resolution, as well as a belief that decisions must be made swiftly" (Pearson and Clair, 1998). Gregory (2005 cited in Jaques, 2007) almost a decade later defined crisis in a like manner but emphasized on the impact of risk and uncertainty as well as threat to organisations' reputation. Crises as suggested by Mitroff and Anagnos (2001, p. 32-38) are of seven categories namely; natural disaster such as China's April 2013 earthquake, physical like Shell Nigeria April 2013 pipeline shutdown due to theft, economic like the global financial meltdown in 2008,

informational from Nokia India's battery defect media issues in 2007/2008, human resource face by South African mining companies during the 2012/2013 strikes, reputational as faced by BP in 2010 and psychopathic acts including the Amenas (Algeria) gas plant hostage crisis in January 2013 (BBC, 2013; Forbes, 2013; Bloomberg Business Week, 2013) . These broad categories seem to be in agreement with the types of crises listed by both Regester and Larkin (2009, p. 164-166) and well as Fragouli (2010). The stages of crises have been theorized to range from 3-5 by varied academic works, it is important to note however that some of the stages seem overlap in the different scholarly work. But there appears to be some consensus on the first two stages (pre and acute crisis). Devlin (2010, p. 107-159) begins with a pre-crisis before the crisis becomes public knowledge and sometimes even before the crisis occurs, this stage usually involves awareness by some internal organisational members. The acute-crisis stage is when the crisis is now in the full glare of the public and contingency plans are employed to control the extent of damage. Lastly the post-crisis stage which deals with image restoration following a crisis can be identified. Crisis

Management Crisis management follows the classified stage of crises. This is a somewhat directional approach which ensures all crisis phases are adequately addressed. At the heart of modern day crisis management planning is crisis preparedness which involves anticipation of the potential crisis through an analysis of risk, causes and action that lead to escalation as well as its impact on business operations. In crisis management much like in risk management, a sense of urgency needs to be created from top management. This helps to place authority on plans and process to be

followed with lesson properly noted to help in future occurrences. They are to ensure that systems and structures are in place and understood by all employees. However due to intense nature of crisis and the potential magnitude of losses, the management cannot be an individual sole responsibility as is with the Chief Risk Officer (CRO) as with risk management. This heightens the need for a crisis management team advocated (Lam, 2003 p. 48-51; Devlin, 2007) Barriers exist in crisis management at different levels within an organisational setting. Smith and Elliott (2006 p. 99-143) group them as psycho-social for individual levels and include issues of perception, cultural and group level which address relationship to strategy and lastly systems level which varies from internal structures to environmental constraints. Additional constraint can occur based on the much advocated for "top-down" management approach. The key emphasis of this constraint is with distortion of information along the hierarchy chain (Topper and Lagadec. 2013). A classical crisis management structure is hypothesized by Jaques (2007) as below. It emphasizes the need for a non-linear management approach which encompasses pre-crisis management starting with planning and ending in evaluation or modification. This forms a key guide to a crisis management plan in the next session of this paper. Source: Jaques, 2007 Issues and crisis management relational model © (©Issue Outcomes P/L 2007) Crisis Management Plans Crisis management planning can be defined as "a skill acquired through experience, study or observation" (Devlin, 2007 p. 2). Crises management plan is therefore a documented set of activities and actions designed by experts, to be referenced when a crisis occurs to save time and maintain

orderliness (Fink, 2002). Crisis management model as suggested by Jaques (2007) is seen to start with planning which indicates that even though some events overlap, the first step in effective crisis management is to have a plan. The crisis management plan is usually as detailed as the crisis management process and is seen to have some common features like crisis communication and crisis leadership. The initiation process of the Crisis Management Plan (CMP) highlights the organisational culture which is ideally incorporated into the strategic statements (values, mission and vision) of the organization. Though culture identification is the objective of the board and CEO; it is communicated and effectively understood by all employees and other stakeholders like partners, outsourced firms and the general public. Board involvement backs the CEO in terms of authority and offers support for team formation. A Crisis Management Team (CMT) is set up based on the board and CEO consultation and agreement of key organisational cultural elements. The CMT comprises crisis management experts as well as representatives from the various organisational departments who are empowered to act during crisis. To ensure effective coordination between members, the teams are usually not large (Gumbs and Qian, 2012; Joyner, Frantz and Maguire, 2013). Specialized subgroups are formed to perform key roles in the crisis management planning process particularly in the area of communication. Once the CMT is in place, scenario planning starts. Thorough analyses of all possible causes of crisis, probability and the impact of occurrence. Crises causes range from internal to external and from system failure to human error. In the scenario process, objectivity is enforced since crises could be caused by even organisational leaders due to human or

operational error. A crisis barometer (probability/ impact plotting grid) however employs subjectivity of CMTs (Taneja et al., 2013; Fink, 2002 p. 36-46). Because crisis management plans are linked to the organisational strategic management plan, companies often check their internal Strengths (S) and Weaknesses (W) relative to the external Opportunities (O) and Threats (T) that could potentially overwhelm them during crisis.

Organisational SWOT analysis also proves vital during post-crisis events in ensuring effective continuous planning and organisational crisis learning as well as contingency planning for another crisis cycle or the worst possible crisis scenario (Prewitt, Weil and McClure, 2013). Crisis communication in the crisis management process is of particular interest to many companies and scholars in recent times because it encompasses issues regarding company reputation (social acceptance) which is considered a top risk in modern organisations (Ernst and Young, 2010). Based on this importance, a further subset of Crisis Communication Team (CCT) who will primarily ensure efficient and timely communication through Crisis Communication Plan (CCP) is in place. The CCP covers all stages in a crisis cycle namely; pre-crisis, acute-crisis and post-crisis. It is important to note that the CCP includes communication to all stakeholders (both internal and external). Usually the primary objective of the CCP is to gather facts that tell the story of the company. Sometimes an articulate spokesperson is selected to engage the media during press conferences. However when multiple spokespersons exist, they ensure uniformity through common communication policies (Devlin, 2007; Comfort 2007). However when companies want to grade the information shared, a two by two stakeholder matrix is drawn. The



power/interest matrix puts stakeholders in four quadrants so that each segment can be dealt with appropriately. The key player quadrant made up of both high power and interest requires the keenest attention (Johnson, Whittington and Scholes, 2011 p. 141-147). To ensure easy spread of knowledge throughout the organization, the crisis management plan is documented. This ensures easy access to a list of key people needed and the procedures to follow during crisis. The document also contains information on assembling points, they include external points incase evacuation. This document is however not rigid particularly because some crisis are unpredictable and cannot be adequately factored into the plan. Flexibility of the plan allows easy modification to suit various types of organisational crisis. Because crisis has a characteristic element of surprise, organisations should attempt to simulate crisis events. Testing of the plan becomes the final stage; reviews based on the outcome of fabricated events sometimes leads to modification of the drafted plan. Following a well mitigated crisis due to an effective plan, organisations pick lessons which prepare them to face the next (Regester and Larkin, 2009; Watkins, 2001 cited in Fragouli, 2010)

### **Do petroleum companies have crisis management plans before crisis events occur?**

Based on the elements of crisis; threat, surprise and short decision time, it can be implied that any organisation which lacks an appropriate crisis management preparedness outlined through a CMP will suffer greater losses. Oil and gas companies have emergency and contingency plans for responding to risk and crisis issues. Additionally, virtually all companies in

the industry have Health and Safety Management departments with managers and directors forming part of the board. This shows a clear attempt to deal with crisis. Regardless of the effort, even the emergency plans used as contingency measures during crises apparently lack some vital elements. It is therefore difficult to pinpoint the existence of crisis management plans before, during or even after a crisis (Devlin, 2007 p. 1). The importance of leadership in modern management practices cannot be over emphasized in the petroleum industry. Top executives who are usually the face of oil and gas companies have been seen to thwart their CMPs due to their lack of personal knowledge and understanding of plans, procedures and process employed by their organisations. Following the Exxon Valdez 1989 crisis for example, Rawl; Chairman of the company mentioned that it was not top management responsibility to know and interpret all technical plans (Regester and Larkin, 2009 p. 175). Fast-forward to 2013, BP former vice president of gulf drilling operations during the Macondo disaster had this to say about Captain of Deepwater horizon rig (Curt Kuchta), " I heard him say, this can't be happening, we've lost power," the executive recalled. " It just appeared to me that he wasn't quite sure what to do". Aside top executives, everyone with either direct or indirect relationship to the company can impact in the escalation of a crisis situation and should therefore be aware of the mitigation plans as well as empowered to act during crisis situations. For oil and gas companies, the CMPs which exist lack the much need inclusive attribute. During the Macondo liability trial in March 2013, Steven Neman CEO of Transocean Ltd acknowledged " our people should have done more". Within the trial you hear evidence that show that

though some workers knew what to do, they had strict instructions of informing management first before acting. This constituted waste of time and escalation of the events resulting in 11 deaths. Crises come with series of ripple effects and are therefore not limited to the business or individuals but to the entire activities of the organization and its partners. However, it is a factor apparently forgotten during crisis management planning within the industry. In January 2013 for example Transocean Ltd was to pay a \$1. 4 billion fine as well as face probation following the 2010 Macondo Oil incident for which British Petroleum (BP) has paid an estimated \$26. 1 billion for Clean Water Act fines, medical and economic claims with Halliburton Co. also having their fair share of post Macondo issues. This emphasizes another need for improved coordination in the industry with regard to CMPs. With crisis communication, companies like Exxon are highlighted for ineffective crisis management during the Exxon Valdez oil spill but Hertfordshire Oil Storage Limited (HOSL, jointly by Total and Chevron with Shell, BP and others using the oil depot) in the December 2005 displayed effective joint communication and coordination during their crisis. This case gives an indication that sometimes petroleum companies employ aspects of CMPs in their operations (Regester and Larkin, 2009 p. 183-186; Bloomberg, 2013; Oil and Gas Journal, 2013).

### **Importance of crisis management planning in organisations**

Though crisis is synonymous to unpredictability and severe losses for most people, they can have valuable upside if properly and effectively managed. Fink (2000 p. 1) affirmed the potential gains by highlighting crisis based on

Chinese entomology " wei-ji" meaning " danger" and " opportunity". This means it is possible to benefit from any crisis stage. A CMP offers a framework for dealing with crisis, this helps reduce loss and maintain productivity during crisis. In modern business, it ensures good reputational image which translated to financial gains not only from loss prevention but also attractiveness to investors based on the Social Responsible Investment (SRI) employed by some asset managers. It forms a source of damage control for companies, due to crisis simulation employees are better empowered to respond faster during crisis. In some cases, due to anticipation during planning a crisis can be averted or crisis escalation prevented (Speight, 2011; Register and Larkin, 2009 p. 73-94). The response measures employed by CNPC during the 20th April 7. 0 magnitude earthquake in Sichuan province; China highlight modern success and importance of crisis management planning by an oil and gas company. The emergency response actions lead Zhou Jiping (CNPC President); CNPC vice president and vice president of PetroChina (CNPC subsidiary) contributed the zero casualty report as well as continued operation and production of the oil company (Oil and Gas Euro Asia).

## **Conclusion**

Though oil and gas companies are constantly seen as ill prepared to deal with crises and lacking crisis management plans, there are increasing opportunities to turn this notion around. To enable the industry to be attractive in relation to crisis management, companies may have to better collaborate and learn from each other's past mistakes. Since leadership is

evidently important during a crisis, oil and gas industry leaders should display more aptitude even with the existence of a crisis management team because as highlighted in the Harvard business essential (2004) cited by Prewitt et al., 2013, " during periods of crisis, people look for a strong leader. They don't look to committees or to teams; they look for a confident, visibly engaged leader to pull them through". This may be their first step in crisis management planning and thereby spread more successfully throughout organizations. Governments, environmental activists, the media and general public are in constant scrutiny of all business activities particularly during crisis and should also be included in the crisis management plan using communication. This will help reduce the level of fear and panic and allow reduced reputational consequences. Undoubtedly, crisis management planning is very important and the organisational development and training integration it provides help in business continuity of post crisis events.

## **Recommendations**

All internal stakeholders particularly managers and employees who are not part of the planning process should have knowledge about the crisis management plans. This can be done through regular training, internal road shows and mock crisis simulations. To ensure participation, incentives such as bonuses can be given to the most active participants. External stakeholders who are usually concerned and often want to help need to be considered and involved in the crisis management plan. This can be done through engaging them in modern-day volunteerism as was done during the Rena oil spill in New Zealand (Sargisson et al., 2012). With increase in social

networking due to technological advancement, companies in the oil and gas sector should better integrate social networking into their crisis management plans. This will help them get a more genuine stakeholder opinion better community involvement through volunteering and grant improved appreciation of their plans. Additionally, it will grant them access to faster real-time communication should a crisis occur, thereby reducing potential fear and panic from media relative to external stakeholder reaction. Though the most recent oil and gas industry crisis (BP- Macondo oil spill in 2010) indicate that the industry is embracing the techniques, enhanced use is advocated for. The crisis management plan should not be seen as a one-off generic plan for dealing with all crisis faced within the organisation. It should serve a framework which should be directly proportional to the company's strategic management plan and adjusted in relative to the company's strategic direction. With constant changing business dynamics like technology, oil and gas companies should better learn to anticipate crisis through improved probability and impact assessments. This will help oil and gas companies recognize warning signals early enough. To ensure that oil and gas companies integrate better crisis planning into their businesses, there need to be improved regulation as has been done for risk management through processes by Sarbanes-Oxley Act, Turnbull report and U. K corporate governance code for example. However, the regulation need to be binding and non-discriminatory as suggested in the fine against BP post-Macondo.