The Economist Intelligence Unit

A report from The Economist Intelligence Unit



THE YEAR IN CRISIS

Rising risk and more to come



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About this report

2016: The year in crisis provides The Economist Intelligence Unit's assessment of sources of corporate risk in the year 2016, its evolution over the next three years, and a perspective on the role of the board of directors in managing crises. The programme was sponsored by FTI Consulting.

The Economist Intelligence Unit conducted a survey of 537 senior executives, all actively involved in the crisis management function of their firms, during the period November-December 2016. [1] Nineteen percent of respondents are members of the board of directors and 33% are from the C-suite, with the rest ranked director or above. They hail from 15 industries and are globally representative (30% from North America, 31% from Asia-Pacific, 30% from western Europe and the rest from other regions). All represent companies with an annual revenue of at least US$200m.

To complement the survey findings, we also conducted in-depth interviews with senior executives and industry experts. We would like to thank all the survey respondents as well as the following executives (listed alphabetically) for their insight and contribution:

- Vijay Balasubramaniyan, CEO and founder of Pindrop
- Brian Delaney, former congressional press secretary with over 30 years experience as a crisis management adviser to private firms
- Matt Devost, managing director, Accenture Security
- Joseph Robinson, senior director of risk and resilience at Micron Technology, Inc. and former member of the US Army's Crisis Action Team
- John W Rogers, chairman and CEO of Ariel Investments and member of the boards of directors of McDonald's and Exelon Corporation.

The report was edited by West Coghlan. ■

1. The survey was launched immediately after the US election.

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1. Introduction
A year of living dangerously

Companies have always faced crises.

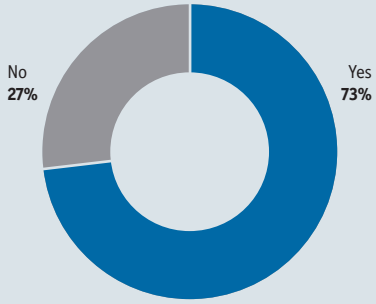
These are the unforeseen challenges that come from outside the normal course of business to threaten the health, and even the survival, of the firm. Crises such as product recalls, environmental accidents and natural disasters have challenged corporations and their crisis management teams since the first commercial enterprise opened its door.

But many experienced crisis managers believe that 2016 was somehow different, research by The Economist Intelligence Unit shows. This seemed to be a year in which the volume of threats jumped, their impact was amplified, and the pace of managing the crises became even more relentless. "All years have their challenges. But in 2016 they just kept on coming... Crisis seemed to be almost a steady state," says Vijay Balasubramaniyan, the CEO of cyber-security firm Pindrop.

In other words, it was a year of living dangerously for crisis management.

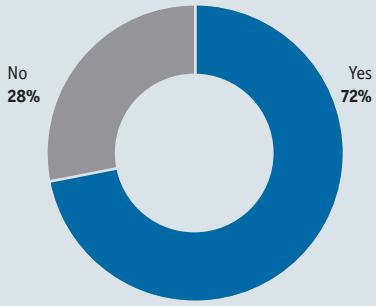
Indeed, the survey results show that only a small minority of companies escaped a serious crisis during the year. Seventy-three percent of respondents reported at least one major threat that could have significantly harmed the reputation of their firm. A similar percentage (72%) reported at least one major threat that could have significantly harmed its financial value.

% reporting a crisis that could significantly harm reputation



Source: Economist Intelligence Unit survey, 2017

% reporting a crisis that could significantly harm financial value



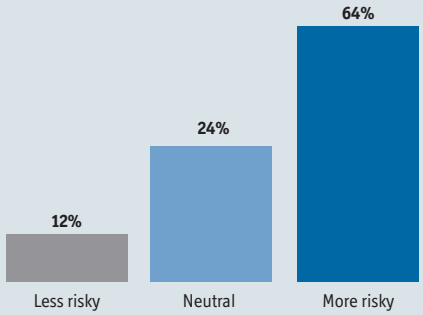
Source: Economist Intelligence Unit survey, 2017

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A sizable majority of executives—almost two out of three—also believe that the world became a riskier place for business in 2016.

Despite obvious differences in their risk factors, all of the industries surveyed report an escalation of risk in 2016. "This isn't an industry trend… This is a global trend," says Brian Delaney, a former congressional press secretary with 30 years of experience in advising firms on crisis management.

Assessment of whether the world became a riskier place in which to do business in 2016
(all respondents)



Assessment of whether the world became a riskier place in which to do business in 2016
(% of respondents selecting more risky, selected industries)



Source: Economist Intelligence Unit survey, 2017



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2. Crises in 2016:
standard risk + political disruption + cyber-insecurity

The Economist Intelligence Unit asked executives to identify the types of crises that had the greatest impact on the reputations and the financial values of their firms. Their responses for both categories fell into three distinct groupings: standard risk, political disruption and cyber-insecurity.

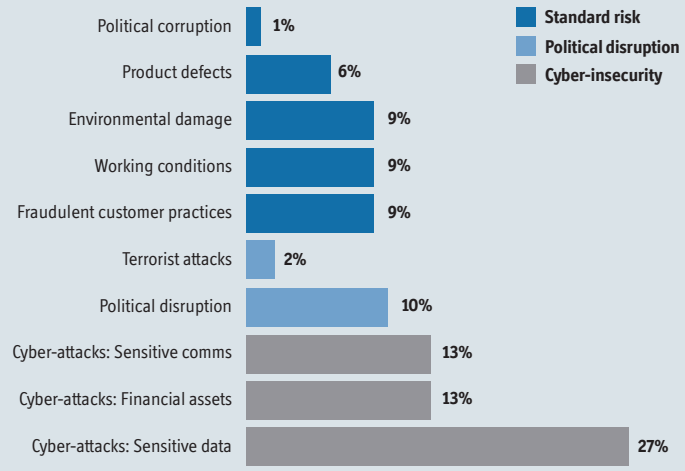
Standard risk

Standard risk describes traditional crises with which companies have had long years of experience. These can include events such as environmental accidents, labour issues, product recalls and fraud. When asked what type of crisis had the most impact on their firm's reputation, 34% of executives cited a standard crisis. When asked about impact on financial value, 27% of respondents cited a standard crisis.

Joe Robinson, senior director of risk and resilience at Micron Technology, Inc., notes one key reason why these types of risk are increasing: "Look at today's globalised supply chains as just one example. A US firm can now be hit by a tsunami in Japan. Or your customers are putting pressure on you to work only with suppliers with the highest ethical standards in Bangladesh. Globalisation is increasing all kinds of risk."

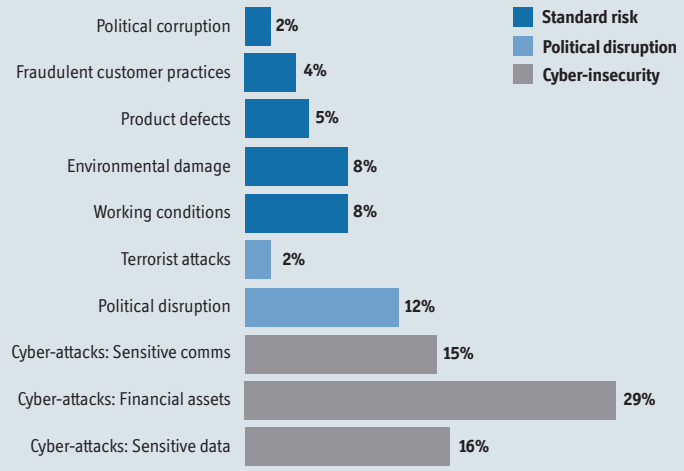
"The important point about these types of crisis is that they have not gone away," says Mr Delaney. "It is just in the nature of business that there will continue to be products that are defective, or the employee caught bribing the politician. Unfortunately, these types of incidents will present a steady level of challenge to a crisis team. You can count on them causing a continuing flow of trouble even in a really conscientious company."

Crisis types that had the greatest impact on the firm's reputation in 2016



Source: Economist Intelligence Unit survey, 2017

Crisis types that had the greatest impact on the firm's financial value in 2016



Source: Economist Intelligence Unit survey, 2017

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Political disruption

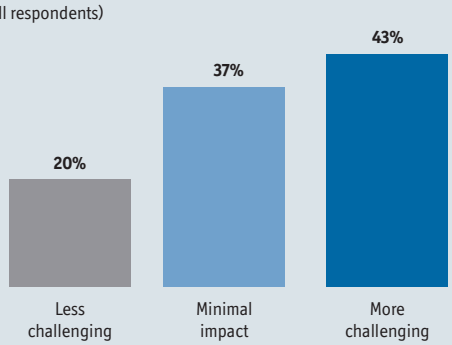
According to survey respondents, political disruption accounted for 12% of crises that threatened their firm's reputation, and for 14% of crises that threatened its financial value. Mr Delaney comments: "When you mix politics with business, there will always be problems. But two issues in 2016 have put businesspeople on edge. That is Brexit and the surprising US presidential election."

When asked about how they believed the results of the US presidential election would affect crisis management at their firm, 43% of the survey respondents said that it would make it more challenging. "But this shouldn't be mistaken for disagreement on policy. It is that a Trump administration means unpredictability—and unpredictability is called risk in the business world," notes Mr Delaney. "There is a feeling that the rules have changed, and no one is sure what the new rules really are. That is what is scary."

It is telling that, even though the election was, of course, a US political event, executives across regions have a similar level of concern. "Where the uncertainty particularly lies is in international trade—on issues like tariffs and restrictions on overseas investment," explains Mr Delaney. In a world where trade accounts for 30% of global GDP,[2] that represents a significant potential for the escalation of risk.

Pindrop's Mr Balasubramaniyan adds: "There is a wider feeling of uncertainty in the business world on political issues. This is really affecting how the business world is seeing risk."

How do you believe the US presidential election will affect crisis management at your company?
(all respondents)



% of respondents who believe US presidential election will make crisis management more challenging
(by region)



Source: Economist Intelligence Unit survey, 2017

2. World Trade national accounts data, 2015.

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Cyber-insecurity

When asked what type of crisis had the greatest impact on their firm's reputation, 53% of executives cited cyber-attacks. When asked which crises threatened financial value, 60% cited cyber-attacks. Cyber-attacks accounted for more significant corporate crises than all other categories combined.

"It is not surprising that cyber-attacks have become the leading kind of crisis in executives' minds," says Matt Devost, managing director at Accenture Security. "As businesses put more of their operations on information networks … no other kind of risk has the ability to exponentially scale like cyber-risk. The others don't come close."

"2016 was the year of the cyber-attack," says Mr Balasubramaniyan. "It was not just an increase in the number of attacks but in the type—denial of service, ransomware, state-sponsored attacks. It is hard for the best teams to keep up."

He adds: "A further problem is that success will draw new players into this market. In 2016 everyone saw that someone got away with about US$60m from the Bank of Bangladesh. At least when you used to rob a bank, you knew who did it." No wonder that a recently published report from Europol, the EU's law enforcement agency, found that cyber-crime is now the world's most profitable crime, surpassing even drug trafficking.[3]

Another problem is expanded points of vulnerability. As Mr Balasubramaniyan explains: "The digitisation of business operations is increasing the integration of many players. Now you have to take security responsibility for customers, suppliers and others who are within your network … and you are only as safe as the weakest link." He also believes that the criminal elements are getting more sophisticated. "They have more funds, they are getting better tech and are able to concentrate their efforts. This will get tougher before it gets better."

The growth of cyber-crime is difficult to project—the perpetrators are not going to reveal their plans, and the victims are reluctant to talk about vulnerabilities. But one indicator of future concern is the increase in the number of firms that now carry cyber-insurance policies, which has shot up by 85% in five years to over two-thirds of major corporations.[4]

Mr Delaney adds a comment from the perspective of the crisis manager: "The company's greatest asset is its brand. This can take generations to build, but the effective cyber-attack is the type of crisis that can wreck your brand and your customer relationships overnight."

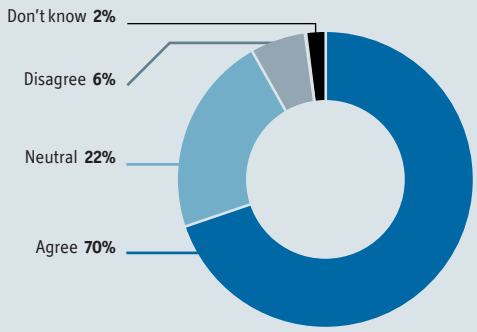
3 Europol Serious & Organized Threat Assessment, 2013.
4 Survey on Information Security and Cyber Risk Management, Zurich Insurance and Advisen, 2016.

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3. More, faster risks ahead

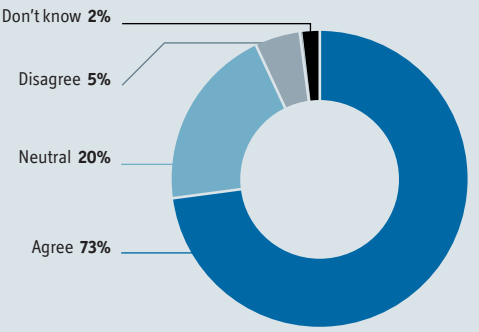
Thirty years ago, crisis management teams referred to the "golden hour"—the notion that there was a defined period of time in which to respond in the unfolding events of a crisis. That same team dealt with a limited number of media channels—perhaps newspapers, radio and television—and a limited number of outlets within these channels.

In 2016, social media amplified public knowledge about corporate crises



Source: Economist Intelligence Unit survey, 2017

In 2016, social media accelerated the pace of corporate crises



Source: Economist Intelligence Unit survey, 2017

But now, in a world where nearly one-third of the population is expected to use social media this year,[5] that balance of power has shifted. There is a clear consensus among the executives surveyed that social media have changed the dynamics of crisis management, with 70% agreeing that social media amplify public knowledge of a crisis.

Micron's Mr Robinson observes: "Any company that has a consumer-facing product can find social media makes a crisis take a life of its own. An incident can quickly escalate into a situation that you lose control of."

Seventy-three percent of executives believe that social media have accelerated the pace of the management of crises. Whereas crisis managers used to think of response time in hours, now they are being forced to respond in minutes. "This kind of volatility requires a real agility from the crisis team, and an ability to depart from the playbook and move very fast," says Mr Delaney.

A critical need is to understand and respond to the many stakeholders—government, media, shareholders, activists, customers, and others—that are part of the crisis environment. While social media can amplify the participation of these groups, they can also help in the orchestration of the response.

Executives then assessed the risk factors that might drive corporate crises over the next three years. As can be expected, cyber-insecurity was identified as having the greatest influence on future crises. Accenture Security's Matt Devost observes: "Cyber-risk is definitely going to accelerate in the near term. It will

5. eMarketer, *World Social Networks Users*, 2016

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How much influence will the following risk factors have on crises over the next three years?
(% of respondents identifying very strong influence)



Source: Economist Intelligence Unit survey, 2017

take three to five years before we see technologies that will begin to get a handle on the threat."

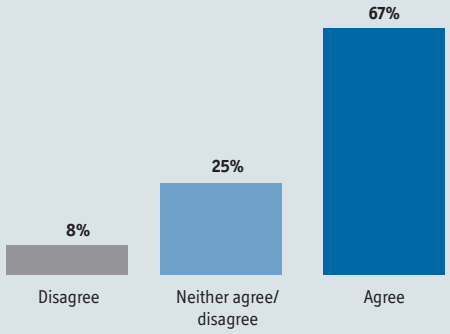
Sociopolitical factors—political disruption/abrupt policy changes, income inequality, and civil disruption—were identified as the next three most important influences on corporate crises. These are non-business factors that can escalate uncertainty in the business environment.

"The question is whether this is just part of an election cycle or a longer-term issue. Many view these changes as forced by technology, which means they are not going away," says Mr Delaney. "We are going to be seeing concern about political uncertainty for years to come," adds Micron's Mr Robinson.

We asked the executives about their views on future levels of risk for companies. More than two-thirds of survey respondents believe that the world will become a riskier place in which to do business in the next three years. Fewer than one on ten believe it will become less risky.

Looking forward, Mr Delaney observes: "If risk is going to reach these levels, it cannot be handled by traditional ad hoc PR teams. Managing these risks will mean mobilising the company—and that is going to take very strong leadership from the top."

Will the world become a riskier place in which to do business in the next three years?



Source: Economist Intelligence Unit survey, 2017

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4. The role of the board in crisis management

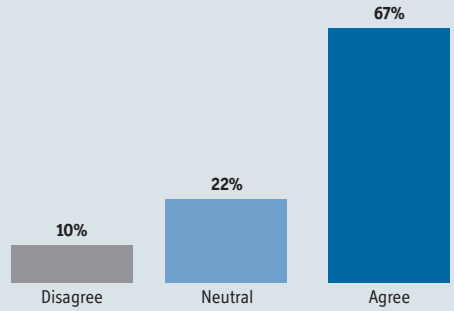
The need for leadership

In the normal course of business the board of directors sets strategy, monitors performance and provides governance for the enterprise. But crises are hardly normal times. What is the proper role of the board in extraordinary situations?

Survey respondents—board members and other executives alike—agree that board members will need to take a strong role in the management of future crises. Over two-thirds of the executives surveyed advocate a stronger role for boards, and only one in ten is in disagreement.

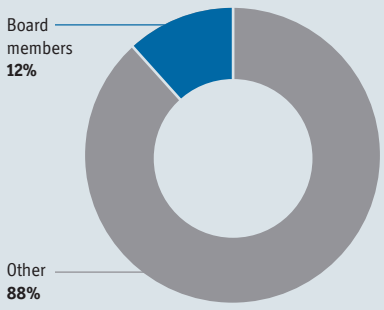
According to our panel, board members rarely lead actual crisis management efforts—less than 12% of executives report that this is their company's practice. However, board members serve on crisis management teams 32% of the time.

Please indicate your agreement with the following statement: "Corporate crises will demand more involvement by boards of directors in the future."
(All respondents)



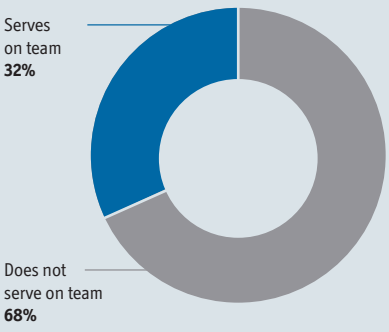
Source: Economist Intelligence Unit survey, 2017

Which of the following is most likely to lead your company in a corporate crisis?
(All respondents)



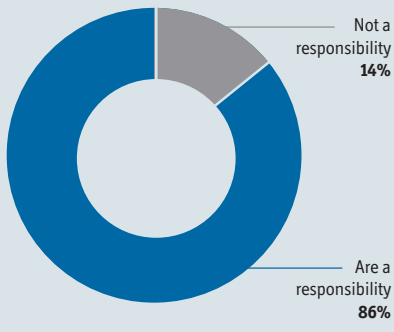
Source: Economist Intelligence Unit survey, 2017

How likely is a board member to serve on a crisis management team?
(All respondents)



Source: Economist Intelligence Unit survey, 2017

Are crises a responsibility of the board of directors?
(Board members only)



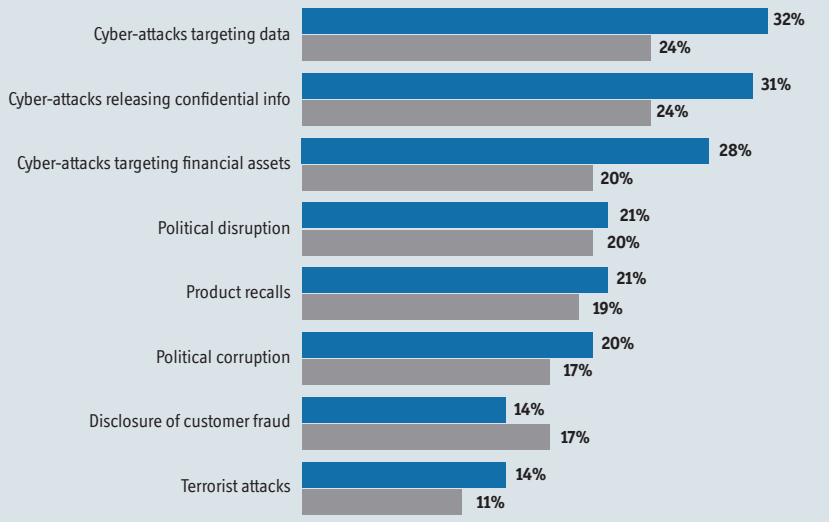
Source: Economist Intelligence Unit survey, 2017

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But whatever role they play, a large majority of board members (86%) believe that crises are their responsibility. John W Rogers is the chairman and CEO of Ariel Investments and sits on the boards of McDonald's and Exelon Corporation. "That is what being on a board is all about—taking responsibility during extraordinary times. It is not just a fiduciary duty ... If you are going to take that job, you are going to be expected to provide some real leadership in tough situations."

Nineteen percent of the respondents to the survey were board members, allowing a comparison of their views with non-board respondents on certain issues. One such finding is that board members more often foresee higher risk than non-board members—particularly cyber-security.

% believing that risk factors will grow significantly in the next three years

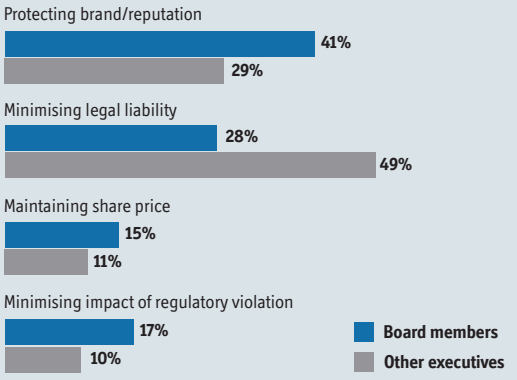


Source: Economist Intelligence Unit survey, 2017

"The board is taking the long view of risk. Cyber-attacks are seen by most experts to be increasing," says Mr Balasubramaniyan.

What, specifically, do board members and executives believe are the most important responsibilities of the company's leadership during times of crisis?

What are the primary responsibilities of the company's leadership in times of corporate crisis?



Source: Economist Intelligence Unit survey, 2017

Board members believe that their most important responsibility is protecting the brand and reputation of the firm. "Board members are there to see the long term," explains Mr Rogers. "If you don't keep the customers happy, nothing else is going to work."

However, non-board members place a priority on minimising the legal liability of the firm. Mr Robinson notes: "Executives can be a little close to the problems they are working on. They can sometimes take a more tactical view than members of the board of directors."

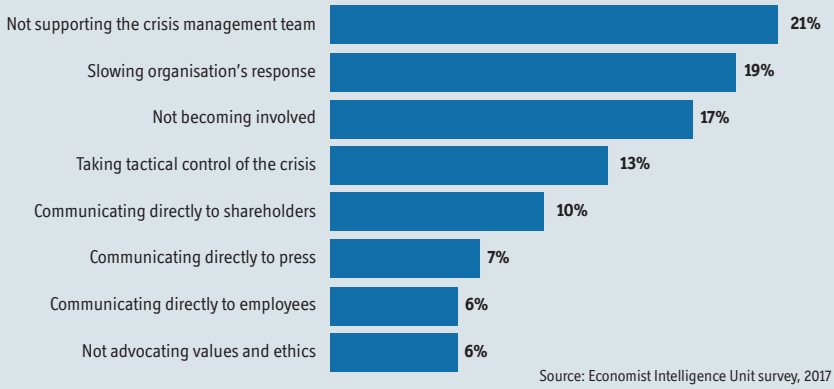
All executives, board members and executives alike, agree that the board should play an active role in crisis management initiatives such as identifying risk and determining crisis strategy. On five crucial management tasks, a majority of executives believe that board members should either own the issue or closely supervise management as it deals with the crisis.

"Companies expect a lot from their board members when a crisis strikes," says Mr Rogers. "They don't want them to stand back—they want them really involved across a range of different issues ... and providing very close support to management."

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Executives were also asked to identify the things board members should *not* be doing during a crisis.

What is the worst thing a board of directors can do in a crisis?



Source: Economist Intelligence Unit survey, 2017

Executives' greatest concerns focused on the working relationship between the board and management—21% believe the worst thing a board can do is not support management, and 19% believe that the worst thing a board can do is slow the organisation's response to crises.

"What this tells us is that executives really want their boards to be involved," says Mr Rogers. "They are looking for the experience and guidance of people who have been there before. The worst thing a board can do is hold back and say: 'Let management figure this one out'."

Mr Robinson adds: "A serious crisis is just the time when management needs advice and support. That is the job of the board—maybe the most important one."

The board and crisis management

There's another important reason for boards to get crisis management right—when they do so, the survey data suggest, executives are more often satisfied with the company's management of past crises and more often confident in the company's ability to manage them in the future.

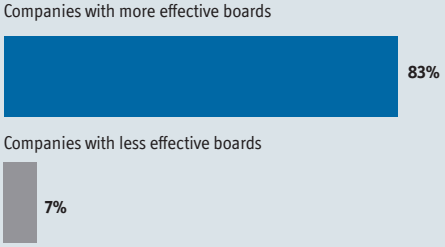
"The active and smart board is probably at its best during times of crisis. A strong board, which is there to help its management, is a critical part of seeing companies through the most difficult times," says Mr Rogers.

The message is clear: as corporate risk continues to rise, so management will need to rely on boards of directors for experience, guidance and support. Mr Delaney sums it up: "The world is becoming a tougher place to do business on many fronts. In addition to all of the regular challenges of running a business, there will be the unforeseen crisis that comes out of nowhere and that will demand incredible efforts."

"Crises by their very nature are extraordinary and just don't fit the normal ways of doing business. This is when you want an experienced and savvy board by your side to see you through to better times."

% very satisfied with the company's management of crises over the past year

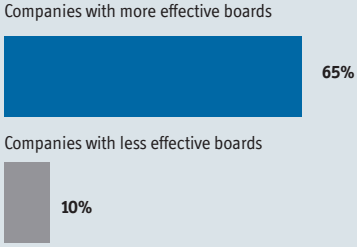
(Board members and executives)



Source: Economist Intelligence Unit survey, 2017

% very confident in company's ability to manage crises over the next three years

(Board members and executives)



Source: Economist Intelligence Unit survey, 2017

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Conclusion:
Rising risk and the board

Looking back on 2016, a clear majority of executives—those who are on the frontline of crisis management—believe it was a year in which the risks of doing business increased. This was not an isolated circumstance—this escalation was a phenomenon seen across all industries.

It is not only that the risks are increasing. A majority of crisis management experts believe that pervasive social media are amplifying and accelerating the crises that these risks create.

It is therefore no surprise that more than two-thirds of the crisis management experts believe that the world will become an even riskier place in which to do business in the coming years.

These executives believe their companies will need strong leadership to weather these storms. They are looking to their board members for their experience and for their close involvement in the actual management of the crises. When the board demonstrates this engagement and effectiveness, there is greater satisfaction in the crisis management of the past, and greater confidence in the ability to manage the crises of the future. ■



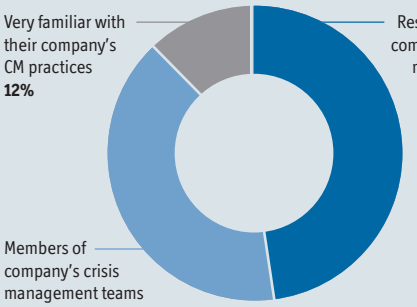
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Survey demographics and results

Percentages may not add to 100% owing to rounding or the ability of respondents to choose multiple responses.

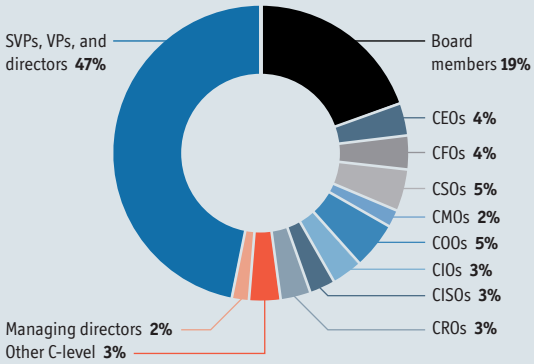
Survey demographics

Expertise in crisis management



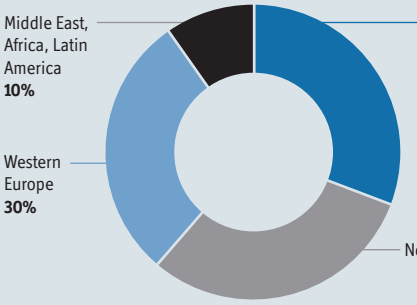
Source: Economist Intelligence Unit survey, 2017

Seniority/titles of panel members



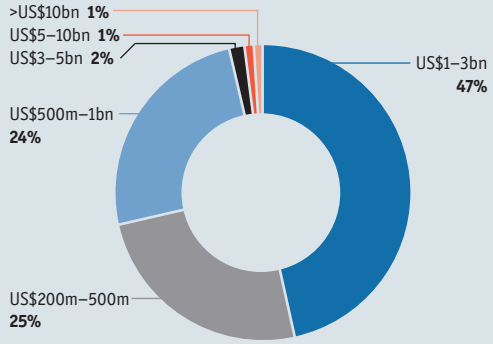
Source: Economist Intelligence Unit survey, 2017

Geographical representation



Source: Economist Intelligence Unit survey, 2017

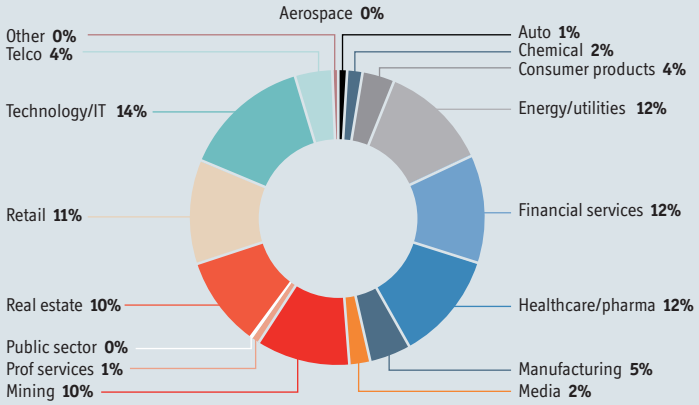
Company size: Revenue



Source: Economist Intelligence Unit survey, 2017

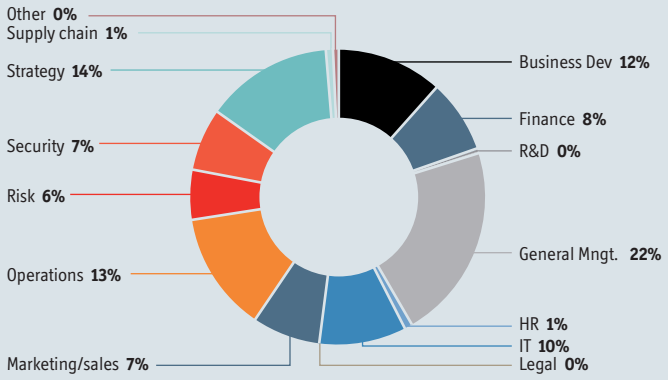
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Industry



Source: Economist Intelligence Unit survey, 2017

Functional areas of panel members



Source: Economist Intelligence Unit survey, 2017

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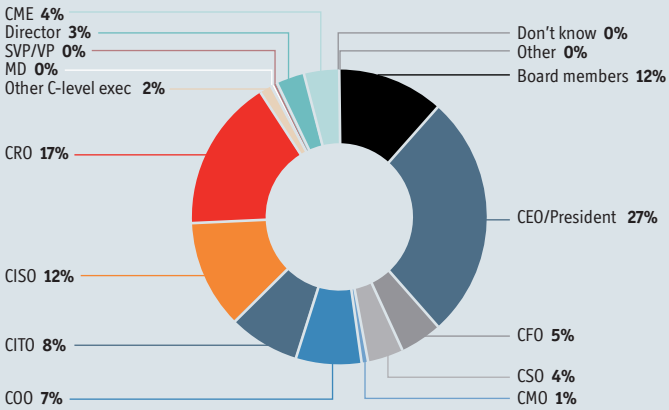
Survey results

Do you have an executive who is designated in advance to manage corporate crises?



Source: Economist Intelligence Unit survey, 2017

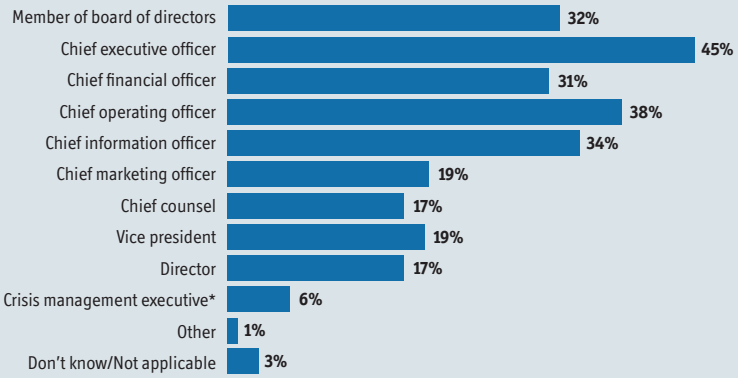
Which of the following is the individual most likely to lead your company in a corporate crisis?



Source: Economist Intelligence Unit survey, 2017

Many companies form a team when a crisis needs to be managed. If your company were to do so, which of the following would be likely to serve on that team?

(Please check all that apply)

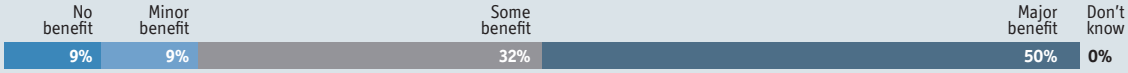


*an executive solely dedicated to crisis management

Source: Economist Intelligence Unit survey, 2017

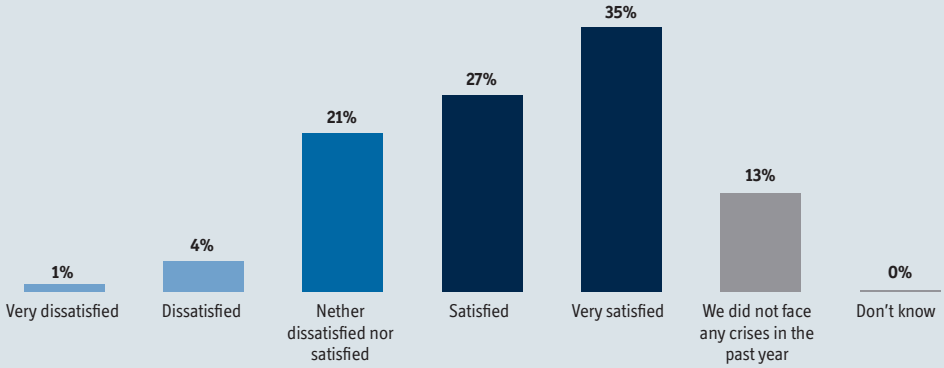
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Assume a company is experiencing a crisis that is significantly damaging its reputation. In your experience, what is the likely impact on its direct competitors?



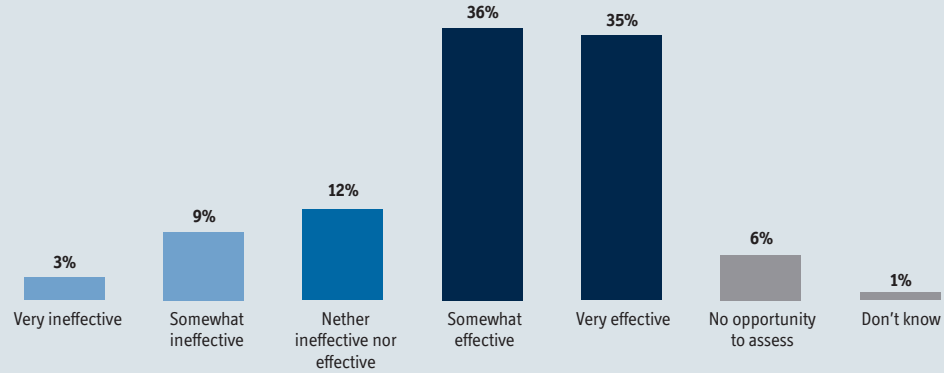
Source: Economist Intelligence Unit survey, 2017

How satisfied are you with your company's management of corporate crises over the past year?



Source: Economist Intelligence Unit survey, 2017

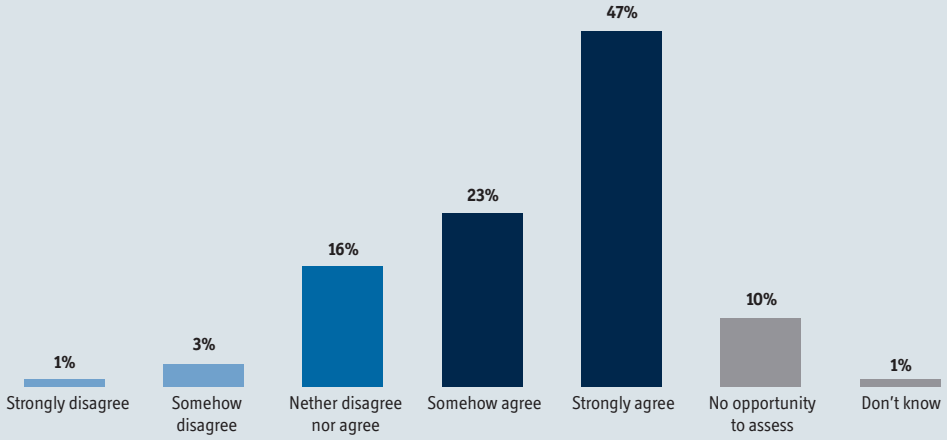
How effective, if at all, is your board of directors in the management of corporate crises?



Source: Economist Intelligence Unit survey, 2017

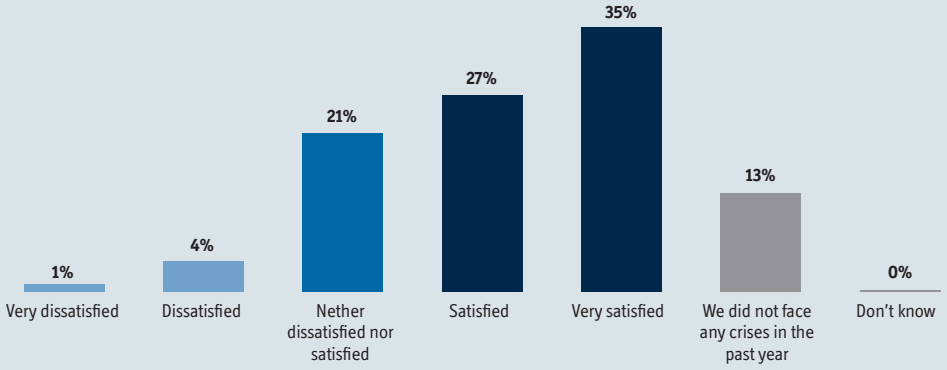
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How much, if at all, do you agree with the following statement: "Our board plays a proactive role in anticipating and planning for crises?"



Source: Economist Intelligence Unit survey, 2017

How satisfied are you with your company's management of corporate crises over the past year?



Source: Economist Intelligence Unit survey, 2017

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