IT WILL NEVER HAPPEN TO ME!

The Strategic Management of Crises in Business

Allan Manning
To the owners, management and staff from the 12 companies that helped with this research, who learnt the hard way, that it can happen. May the heat of your battle have strengthened you and bring great personal rewards.

“Writing means to be the hard copy of human life.”

Robert Pattison

Other titles by this Author

Business Interruption Insurance & Claims: A Practical Guide
Understanding the ISR Policy: A Comprehensive Guide - Volume 1: The Mark IV
Understanding the ISR Policy: A Comprehensive Guide - Volume 3: Aids to Understanding
Fidelity, Theft & Money Insurance & Claims: A Practical Guide
The Closure of the Bougainville Copper Mine: The Anatomy of a Major Claim
In recent years, risk management has become an issue of increasing importance to business. When a crisis strikes, we are often left floundering and wondering why we, intelligent people that we are, had not taken some precautionary action, and set in place some strategies that might have assisted us at that crucial time. One reason is the lack of literature about crisis management, especially in relation to small and medium businesses, and insufficient guidance about how crisis management should or could be addressed. Until now, there has not been a definitive study on the subject, such as the one described in this book.

Allan Manning addressed the problem as the focus of his Doctorate of Business Administration thesis. Allan has worked in the risk management and business recovery field since 1971. Here, he had seen the devastation caused to small and medium businesses, as well as large organisations because, when faced with a disaster such as a flood, fire or collapse of their IT systems, they were not prepared.

At such a time, owners and/or managers under severe time pressures, were besieged by the number of decisions that had to be taken. Having never previously considered how to respond to the unfamiliar and sudden situation in which they found themselves, they were overwhelmed by the stress.

The primary aim of Allan’s doctoral research was to develop a Crisis Management Model that would assist these people to respond in a systematic and appropriate way. The model was developed through reviewing previous work on strategic planning and risk management, and then collecting data on the individual experiences of twelve small and medium enterprises that had sustained a major fire or similar crisis within the past five years. The twelve case studies were analysed to isolate the factors that determined whether a business in these circumstances could be saved. Even if a business, for whatever reason, could not be saved, Allan found that there was a need for a modified plan that strategically addressed the owners' withdrawal from the enterprise.

Based on research, Allan developed the Crisis Management Model described in the book. This book discusses in a clear and helpful way the step to be taken to plan and anticipate disasters that could occur, to manage the crisis should it occur and, in this event, to respond immediately with a previously prepared business recovery plan.

It will be a valuable resource for those who seek knowledge about the methods and techniques that are fundamental to managing a successful business in today’s rapidly changing environment.

As the thesis supervisor for Allan’s Doctorate of Business Administration in the Centre for International Corporate Governance Research, I can attest to his academic abilities. They are well demonstrated in this book. I am confident that this book not only makes a significant contribution to research into crisis management, but will also prove an invaluable, practical guide to business owners and managers who, after reading this book, will realise the value of risk management planning.

Professor Anona Armstrong
Director of the Centre for International Corporate Governance Research, Victoria University

Melbourne, 16 November 2005
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INTRODUCTION

It’s always a great news story for the media. A factory fire in the night, brave fire crews fighting the blaze to bring it under control. The owners say a few words to the camera, while in shock as a significant part of their lives is destroyed before their eyes. People will say, “They will be fine. They have insurance”.

But what happens after the fire brigade leaves? What steps do the business owner(s) and/or management team take between this moment of complete physical destruction of property, to the re-creation of a profitable company that can once again compete in the modern market? Watch these new stories, be sympathetic to the plight of the poor business owner(s), but also take a minute or two to consider what would happen if you were the person on the news.

For over 35 years, I have been working with business owners who have been in this type of position. They have suffered a major crisis, caused by a fire, flood, storm or similar catastrophe. Except for the rare occasions where the business owner deliberately set fire to the premises, a common feature of these crises was that the owners never expected that it would happen to them. Hence, the title for this book, *It will Never Happen to Me!*

Despite the owners believing they had ‘full’ insurance, which they thought would ensure the business would be returned to normal operation, many businesses did not survive the crisis. Some realised they just had no hope of resurrecting the business, while others worked hard to succeed, but failed in the process.

The rate of business failure is somewhere between 50% and 70%, depending on what definition you wish to use for ‘business failure’. My research found that around 25% of business owners who do succeed, felt that they had been let down by the insurance industry and, as a result, changed either their insurer or insurance adviser. Logic dictates that if at least 50% of the businesses do not survive and, of those that do, 25% change insurance advisers and/or insurers, then the industry as a whole is failing the very people it was set up to protect at their hour of genuine need.

On the one hand, the business community cannot survive without insurance - the public liability crisis that occurred after the collapse of HIH clearly demonstrated this. On the other hand, take a moment to consider the position of the business owner. In the case of most small and medium businesses, the owners invest all or most of their time, effort and finances in their business. Often there is a mortgage over the family home to finance the venture. The business is often linked to their superannuation scheme. For example, the superannuation company may own the building or other assets of the business. As such, if the business faces a crisis, there is much more at risk for the owners than, say, an investor with a balanced portfolio of investments.

If the owners of such businesses are experiencing a crisis caused by a disruption to the business’s ability to generate income, it is not difficult to appreciate the enormous amount of stress that this can place on them. Perhaps the most poignant example of this was a story conveyed to me by a middle-aged woman. After the data gathering phase of my research project, my wife and I would often take those that participated in the research to dinner, to thank them for their time and assistance.
During the dinner, it became obvious that this woman wanted to say something all evening and, after much coaxing and with tears rolling down her cheeks, the woman explained that about 6 weeks before the fire that devastated their lives, her 20-year-old son had attempted to commit suicide. It was feared that he would not survive, and even if he did ‘pull through’, there was a high chance he would have lifelong brain damage. Despite this grim forecast, luckily, the young man made a full recovery and has no sign of brain damage. He has responded well to treatment for his depression, and the likelihood of a recurrence is now considered highly improbable.

In the midst of this great distress, the fire had occurred. The woman had difficulty explaining that she found the fire more traumatic and stressful than the near loss of her son. She had agonised over this reaction for nearly a year, feeling as though this was a poor reflection of her in her role as a mother. After a lot of soul searching, she determined the reason behind her distress was a combination of the following:

- Her son was from her first marriage and her current husband, not the young man’s father, had provided much comfort and support throughout this crisis. With the fire, the business was as much his life as hers. In many ways, the husband did not cope with the fire as well as she had.

- The medical team that treated her son provided great emotional support and explained everything that was happening, what was expected, and responded to her questions in an empathetic way. The loss adjuster, on the other hand, made her and her husband feel as though they had started the fire, that they were dishonest in all their dealings and that he would get around to processing their progress payments when he had the time. He showed no empathy whatsoever to the point that the woman began to feel physically ill in the stomach whenever she had to contact him, and she wished she had the finances to walk away from their insurance claim.

- Finally, while friends and family rallied around her when her son was gravely ill, most people dismissed the fire on the basis of: “You’re insured, you’ll be right”.

This episode, which happened near the end of the data collection phase of the project, highlighted to me the importance of this study for two reasons. First, with so much invested in a business, it is extremely important for the owner of the business to know what needs to be done to ensure the survival of the business in the event of a crisis. Secondly, I am extremely proud to work in and be part of the insurance industry. It provides a vital role in protecting businesses, and is integral to the success and growth of the country’s economy. Yet, like any company or industry, it needs to have a good look at itself from time to time to ensure it is relevant and is meeting the needs of its customers.

In my effort to comfort the woman, I asked her one simple question: “If you had to make a choice between your child and the business, which would you choose?” She answered without hesitation, “My child of course!” I then pointed out to her that she should not be considering this from the point of view of the business over her son, but her experience with the medical system compared to the insurance claim process. She had been well looked after by the hospital, for which they are to be congratulated, and she had had an abnormally bad experience with the claim, for which certain individuals should be ashamed.

On further discussion, we all agreed that the medical profession has its fair share of horror stories, and the insurance industry as a whole does a lot of things right. My wife and I also cited cases where loss adjusters and claims officers had worked abnormally long hours and gone to extraordinary lengths to assist, particularly during disasters such as bushfires, storms and the like. While she had worked much of this out in her own mind, it was clear that the fact that my wife, her husband and I were all able to easily differentiate between the experience and what the experience surrounded, was of great comfort to her.
The discussion that took place that evening, which needless to say I will remember to the end of my days, and others equally moving that took place during the course of this research, drove me on. More than ever, I felt it vital to learn why some businesses made it through a crisis and, like the mythological phoenix, rise again while others do not?

My research focused on small and medium enterprises ("SMEs") as, according to the Australian Bureau of Statistics’ figures, 93% of all businesses in Australia would be classified as a small business. This is around 1.4 million compared to just 16,000 public companies, of which around 1,000 are truly large.

The study itself was unique in that it extended the existing theory on business continuity planning, to post-loss recovery (Business Recovery Planning). Research in the area had been focused on large public companies, even though the demographics of businesses in Australia reflect that a far greater number of Australian businesses are small and medium enterprises. The original study was therefore able to contribute to a growing area of knowledge in what is a vital and significant part of the Australian economy.

The study extended the earlier research, expanding on the Resource Based Perspective Model, Dynamic Capabilities Theory, Business Continuity Planning, Benchmarking, and Stakeholder Theory, as well as Risk Diversification and Insurance, attempting to tailor these with a strong focus on small and medium enterprises. From this previous theory, together with the findings of my study and my own experience, I developed the practical Crisis Management Model for Small & Medium Enterprises, which can be used to minimise the risk associated with significant losses caused by disasters such as fire. The model has equal relevance to a division or department of a larger organisation.

To maximise the potential of the model, this book has been designed to be much easier to read than the academic doctoral thesis that originally documented the research and its findings. It has been compiled to present and distribute the model, discuss the major issues that businesses face during a crisis, and contribute to the overall body of knowledge of the insurance industry.

The book also looks at the importance of crisis planning, and outlines the position in which business owners should aim to place themselves, in order to be in the best possible standing should the worst happen. The key concept here is business resilience. How resilient is your business?

Turning now to the format of this book, Part A looks at the research and the benefits that it has for various stakeholders including, but not limited to, business owners, the insurance industry, and government.

Part B describes some of the characteristics of the small and medium enterprises that provided the case studies for my model. This is followed by a description of the nature of crises businesses face, and the problems that face a business during the recovery process.
Part C outlines the previous theory that formed the background to my model. There has been much literature covering the area of business management and crisis recovery, however there were some aspects of these theories that did not apply to a small or medium enterprise, which has its own special needs. This has not been addressed well in previous research.

In Part D, the model for the Strategic Management of Crises in Small & Medium Businesses is described. Each step of the model is discussed, with practical examples from the case studies collected, to demonstrate its applicability.

The final part, Part E, presents ideas for further research in this area. It also examines the stakeholders involved in the crisis recovery process. It has become apparent that stakeholders from the insurance industry must improve their practices to better aid businesses in crisis.

Throughout the book, I have included some of the stories and examples given to me during the interviews. In the process of data analysis, each company was identified by a letter of the alphabet in order to retain the anonymity of the sample. It is hoped that their experiences can be used to demonstrate the importance of planning and the various unforeseen pitfalls that occur after a crisis.

I find that good authors, scholars, scientists and the like are able to paint just the right picture with their words. Often it only takes but a few. I have included a series of quotations, which I trust will assist you with the picture I am trying to convey. I am a self-confessed admirer of the prose of Winston Churchill, particularly given his great gift of motivation at a time when many would have given up, and have therefore included a disproportionate number of quotes by Churchill. I trust you will forgive me for this indulgence.

I am greatly indebted to the companies that took part in this study, sharing harrowing experiences to help you and other businesses.

I am also grateful to my wife, Helen, and my family, as a doctorate study is a long and intensive project. Even my mother, Lorna, helped with the proof reading of this book. Thanks, Mum! The research took 6 years to complete, and I was very fortunate to have my family and university supervisors support me throughout this period, and then immediately afterwards with the writing of this book.

In the writing of this book, sincere thanks also goes to several of my colleagues at LMI Group, who have offered valuable comment based on their many years of experience in the field, particularly that of Caitlin Fry, Terry Onto and Angus Stewart. Assistance was also provided by Victoria University and my research supervisor, Professor Anona Armstrong, which was greatly appreciated. Thank you so much, Anona.

Finally, I wish to thank Wendy Hunter of Secretaries on the Move, for her assistance in the presentation of the text.

I would be extremely pleased to receive feedback regarding the relevance, ease of understanding and usefulness of the material contained herein, and any suggestions for improvement. You may contact me via email at: allan.manning@LMIGroup.com.

Allan Manning
Melbourne, 12 December 2005
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CHAPTER 1 - THE STUDY...CAN I USE THIS?

There were essentially two parts to the study. The first was to develop the background for the research to take place, by reviewing the literature, selecting the appropriate approach, constructing interview questions, selecting a suitable sample, and successfully gaining approval from the University's Ethics Committee to conduct the research. This led to the second phase of the project, where the sample was contacted and interviewed. In this manner, data was collected, analysed and conclusions could be drawn.

The literature review began many years prior to the study itself. The survival of businesses following a crisis has been of interest to me for over 30 years, and copies of articles on the topic, appearing in insurance industry journals in Australia, New Zealand, United States, United Kingdom and elsewhere, were retained. Similarly, papers delivered at insurance, loss adjusting, management and accounting conferences relating to the topic, were collected from a wide range of sources.

The primary aim of this research project was to gain a close insight into how small and medium business owners prepare for and then manage a crisis in their business. I chose to use the qualitative approach in order to conduct my study. The goal of the study was to determine the deeper structures of business owners’ ideas, feelings and behaviour during a time of crisis recovery. This is consistent with a qualitative type of research, which attempts to understand management behaviour in terms of subjective contexts of meanings. This type of approach is “more intrusive and less structured than quantitative research techniques” (Michael, 2003), which is mainly used when the research is exploratory in nature.

What marks qualitative research is the researchers’ engagement in a form of inquiry that studies the naturally occurring activities and processes; the activities are ‘natural’ in the sense they are not planned and manipulated by the researcher, as would be the case in other methods, such as those found in quantitative research. Qualitative research provides an in-depth and rich insight. It is flexible, typically small-scale and exploratory, and the results obtained are concrete, real-life and full of ideas. As such, researchers emphasise the value-laden nature of the inquiry. They seek answers to questions that stress how management experience is created and given meaning. To conduct an interview is to make the assumption that there are aspects of a phenomenon that cannot be appreciated without recourse to the personal perspective of one or more of the actors involved in it.

There is also an emphasis, with qualitative research, on the maintenance of the natural element throughout the whole research process, from the interviews and observation, to the interpretation. The qualitative interviews allow the respondents to ‘speak for themselves’ and to define, not only through their words but also in their actions, the social worlds in which they live their lives and make their decisions. It is for this reason that the interviews for the study were held at the business owners’ place of work, which was often where the crisis occurred. Given how respondents felt throughout the insurance/crisis recovery process, they appreciated the chance to give themselves a ‘voice’.

Although the qualitative method is often seen as the opposite to the quantitative method, some of the data may be quantified, as with census or background information about the person(s) or object(s) studied, but the bulk of the analysis is interpretative.

With this in mind, you will notice throughout the book, there are various tables breaking down variables studied and other data important to the study.
Information was gathered from 12 small or medium enterprise businesses, which had experienced a major fire or similar crisis within 5 years of the research study and, in particular, the date of the interview. The study itself was undertaken between 1999 and 2004. The case studies were utilised to test the veracity of variables identified from the research, as ones that should potentially be incorporated in a new strategic benchmarking model. The characteristics of the sample are discussed further in Part B.

In line with Carson, Gilmore, Perry and Grønhaug (2001) and their explanation of the interpretivist research methodology, this research method also followed their prescription in qualitative research, which is:

- **Seek to build theory as a result of empirical insight, so the theory-building phase of the research project is given explicit and careful attention.** The aim of the research was to create a model from the empirical insight gained through the interview data. This particular research project did not test the actual model, as this was a theory-building exercise. However, in the 15 months since the model was formulated, it has been tested on several crises involving small and medium businesses, and has been found to be robust.

- **Prior theory is used as a foundation and is to be introduced at appropriate stages throughout the research study.** Part C of this book will introduce various elements and issues covered by the model by demonstrating its foundations in other theories.

- **Prior theory guides and loosely frames the research, but the research is not about testing this prior theory.** In the case of my study, it was about seeking a reality in instances where a crisis had actually affected a business.

- **If, during the analysis phase, this research can confirm, or otherwise, a theoretical construct of actual marketing planning processes in a number of cases, then theory building is said to be occurring.** Despite the previous research providing some insight into the area I was testing, it became obvious from the real-life responses of the interviewees that at least a hybrid model, if not a new model, needed to be developed. This is described in some detail in Part D.

- **The main purpose is to achieve substantive meaning and understanding of the variables.** In this case, this meant the variables that influenced the survival or failure of the business under investigation.

- **The research will involve the researcher as an integral component of the study, where he guides and develops the research.** This certainly proved to be the case here, as the commentary throughout attests.

The interviews used open-ended questions, where the line of inquiry was based on the developed variables, although there was ample opportunity for the respondents to contribute beyond the question asked. This meant the study could include results that were not previously predicted, rather than staying solely with the controlled variables.

Questions were carefully worded and arranged for the purpose of taking each respondent through the same sequence, and asking each respondent the same questions, with essentially the same words. In using this approach, flexibility in probing is more or less limited, and is largely dependent on the nature of each interview, along with the skills of the interviewer/researcher. Having said this, the research methodology used gave all the respondents ample opportunity to get their message across in both a formal and less formal environment. This created an authentic dialogue between the researcher and the respondents.
The interview schedule contained 123 questions¹. The questions that were included in this research were constructed based on the literature collected on issues pertaining to managing a crisis in a business, and the theory that had been generated from this literature. The key theoretical concepts that emerged in the literature and which formed part of the questions, were grouped under the following headings:

A. Basic Business Details
B. Management Team & Training (*question set included the Training & Experience Matrix*)
C. External Consultants (*question set related to use of external consultants*)
D. Business Continuity Planning
E. Information Technology
F. Building (*ownership and use*)
G. Insurance (*question set related to insurance history*)
H. Adequacy of Insurance (*question set included the Adequacy & Type of Coverage matrix*)
I. Stakeholders (*question set included the Stakeholder Involvement matrix*)
J. Financial Variables (*question set included the Timeliness of Insurance Proceeds matrix*)
K. Timing Issues (*question set included the Timing of Notice to Stakeholders matrix*)
L. Previous Losses
M. Details of Crisis
N. Post-Crisis Analysis (*question set included the Major Variables on Survival/Failure matrix*)

The data collected was then coded and analysed, to allow for the themes to emerge. These themes and their interrelationships were then thoroughly analysed. It can be certain that any resultant theoretical implications suggested in this book are a combination of earlier research into strategic management and of the data obtained from the in-depth interviews undertaken as part of this research.

It needs to be mentioned here that keeping to the philosophy of qualitative research, the analysis strictly followed an inductive approach. Inductive analysis means that the patterns, themes, and categories of analysis come from the data; they emerge out of the data rather than being decided prior to data collection and analysis.

An outcome for this study was to investigate in detail, variables that may constitute the key factors in business survival. It is not the intention of this study to prove how well the generated data conformed to some specific model or other.

After investigating various models and approaches, it was decided very early in this study to take a research stand largely based on Patton’s (2002) ‘reality testing’, which is a positivist and realist type, and Tesch’s (1990) method that encourages “the discovery of regularities” using an interpretative approach. The final outcome of this study was to propose a theory on the basis of determining what really happens after a crisis occurs in a business, and what can be done to ease the situation.

¹ A sample of the question set is available on request from the author, Allan Manning, via email: allan.manning@LMIGroup.com.
The Author

Professional Qualifications
Doctor of Business Administration
Bachelor of Commerce
Master of Business Administration
Fellow Certified Practising Accountant
Fellow Aust & NZ Institute of Insurance & Finance
Fellow Chartered Insurance Institute (UK)
Fellow Chartered Loss Adjuster
Fellow Chartered Institute of Loss Adjusters (UK)
Chartered Insurance Practitioner (UK)
FUEDI European Loss Adjusting Expert

Professional Experience

After 11 years experience with General Accident Insurance, Allan joined Robins MBS Loss Adjusters in 1981. In 1987, he transferred to Papua New Guinea, as Managing Director. During this time, Allan handled one of Australia’s largest claims, which surrounded the closure of the Bougainville Copper mine. Allan returned to Australia in 1990 as State Manager, Western Australia and, in 1991, was appointed Regional Manager for the Southern Region, as well as head of GAB Robins’ large claims team.

Dr Manning founded the LMI Group in 1999, a firm dedicated to providing a high level of customer service and technical expertise in both pre- and post-loss insurance services. These include loss management, risk assessment and technical advice to the general insurance and business communities. He developed PolicyComparison.com, an online comparator of general insurance products, now widely used in Australia and New Zealand. His most recent brainchild is PolicyCoach, a web-based expert system to aid in the preparation of ISR and Marine Cargo policies, including industry-specific endorsements. Naturally, this system also provides comprehensive online training.

For 35 years, Allan has managed large and complex losses, involving major property, business interruption including advanced consequential loss, fidelity, construction and liability throughout Australia, Asia Pacific, Europe and North America. Assignments have been completed for multi-national and government organisations, as well as small and medium businesses. He particularly enjoys the challenge of assisting companies to return to normal trading after a major crisis. His interest in the survival of a business following an insured loss prompted him to complete a Doctoral thesis, involving 6 years of extensive research.

Over the past 6 years, Allan has been engaged to review the insurance programs and the level of sum insureds for businesses, including multi-nationals, to ensure adequate declared values, indemnity periods and cover.

Allan has lectured at RMIT on Claims Management, and has delivered over 200 papers at seminars on Business Interruption, Property Insurance, Risk Management, Continuity Planning and other insurance-related topics. Dr Manning is the author of five books on insurance subjects.