

Crashing into a crisis

In the grip of a global crisis, following two major air disasters, Boeing is grappling with how to recover public confidence and restore its reputation.

Not a week goes by when there isn't fresh news on the crisis that is engulfing Boeing, one of the world's largest aerospace companies. With its top-selling aircraft grounded globally after two disasters, one in Ethiopia and the other in Indonesia, which left 346 dead, the fallout continues. The incident is played out in the press, on TV and web pages as the chain of events is scrutinised.

Lawsuits are now in the offing, accusing Boeing of putting "profits over safety", and software problems have been identified while the media attention has badly shaken the public's confidence in the safety of the 737 MAX aircraft, a workhorse of the global aviation industry.

"It is highly unlikely that Boeing will be put out of business by the fatal crashes. But that doesn't mean it will be trusted in the same way as it was before," says Sandra Sucher, professor of management practice at Harvard Business School.

Already analysts and risk consultants are weighing in on how Boeing initially reacted to this complex incident that involves the US Federal Aviation Administration, crew and technology interactions, as well as stalled responses to the Ethiopian Airlines crash from the offset. It does not help that the actual root causes are only just beginning to surface, weeks after the event.

"The company was too slow and too focused on themselves. It's hard to regain the public relations initiative if the start has been handled badly," explains Rupert Younger, director of the Oxford University Centre for Corporate Reputation. "Their first response was legalistic and engineering-based rather than focused on the tragedy and loss of life. There was no empathy, a lack of humanity and an inappropriate internally focused response."

How Boeing then handled the unfolding crisis gives some insight into the internal workings of the company. It raises questions on many fronts, including how it handles risk, implements crisis management plans, action from leadership and a co-ordinated response to stakeholders.

"These events portray a picture of corporate confusion and absence of cohesive crisis leadership. Boeing's response created a communications chasm that was filled with negativity," says Julia Graham, deputy chief executive and technical director of Airmic, the UK's risk management

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association. "The company was seen as uncaring and more interested in their business than the people their aircraft carried around the world, despite the high regard globally for Boeing's engineering community."

Whatever inquiries reveal over the coming months, corporate trust has been lost and reputation has been damaged. At some point Boeing will have the opportunity to state clearly what happened and what they will do about the 737 MAX aircraft to regain business confidence.

Let's not forget the 737 has been in the air more than 50 years in some iteration. The aviation company still holds an immense, multi-billion-dollar order book for this new version. Boeing will need to do something. "This will be a critical credibility moment for the company and its senior management team. Handling this well will be a major test for the leadership team," says Mr Younger. If you think it's nearly over, think again. Share prices have taken a hit, yet Boeing is not a business-to-consumer business. You and I don't buy planes, but we are passengers on flights. Ignore the end-consumers at your peril.

"The Lion Air and Ethiopian accidents carry the risk that the 737 MAX becomes like the DC-10 of the 1970s, which was so associated with disaster that the public would actively avoid it. For Boeing, therefore, the general public is also now a core constituency," says Marc Cornelius, founder of 8020 Communications. "The 737 MAX is probably the most well-known aircraft in the world right now and Boeing doesn't want it following the DC-10."

We all take it on trust that our chosen airline will be flying a safe aircraft. Boeing take heed. "I few today and the gentleman behind me made a comment to the effect of 'well at least we're not flying on a 737 MAX'. That's a problem for the company," says Kelli Matthews, senior instructor at the School of Journalism and Communication, University of Oregon. And so the saga continues.



Andrey Larin/Unplash

be really challenging," says John Martin McDonald, founder of Caeli Communications. "As Mark Twain once said: 'I didn't have time to write you a short letter'. But you must make the effort and do it throughout the crisis."

All this underplays the role of the risk manager, yet they are a crucial go-to person in any crisis. They have a pivotal role to play, since the impact of a crisis can touch many facets of a business from customers to shareholders, affected communities to supply chains.

"The professional risk manager serves as a co-ordinator across many functions that need to be involved in a situation like this, both for the manufacturer and the airlines in the case of the Boeing crisis," says Typhaine Beaupérin, chief executive

of the Federation of European Risk Management Associations. "The risk professional will also play an important role in managing the complex insurance issues that will inevitably arise as a result of a crisis."

It's not all doom and gloom. Many businesses can be resuscitated over time. "A company's reputation is not earned over night and, usually, not lost over night," says Marc Szezan, lecturer at the University of Oxford Saïd Business School.

But beware, a recent study by *The Economist* of the eight most notable corporate crises since 2010, including those at Uber and Wells Fargo, found that the median firm was worth 30 per cent less today than it would have been had the scandals not occurred. Ouch. ●

sometimes longer to get facts or understand the nature of the problem, while stakeholders will demand immediate answers and a response."

The fact is most of us trust corporations around the globe without knowing what kinds of systems they have in place to deal with risk, safety and incidents that involve people's lives, health and wealth. We eat, fly, drink, drive and consume various products from countless companies that we put our utmost faith in. The question is, can we really trust them?

"Companies that manage risk well tend not to face crises of their own making," says Sandra Sucher, professor of management practice at Harvard Business School. "In my research, I've found a close association between sound risk management and being trusted. Risky actions lead to mistakes of many kinds, and we mistrust, with good reason, companies which don't seem to appreciate the consequences of their mistakes and fail to anticipate the risks that things could go wrong."

“Be quick, honest, open and, in such circumstances, be compassionate in communications, these are the key principles of crisis management

Another aspect that's crucial is crisis communication and the language used. "It is arguably becoming one of the most important elements of damage limitation in an era where harm to brand and reputation is the greatest part of the impact," says Mr Petersen.

Increasingly, big corporations value the role of crisis communications, they also understand that it's a specialised skill either to be cultivated in-house or via an outside consultant who knows the business well and is on call. "Those organisations that don't value communications, do so at significant risk," says Kelli Matthews, senior instructor at the School of Journalism and Communications, University of Oregon.

Many crises that whip through the media are hardly binary affairs, they are infinitely complex. The key is to make these issues simple and communicate in plain, unambiguous language. "This can

02 Put people first

A crisis generally means someone's life has been affected. Being compassionate, empathetic and genuine in all your corporate actions and responses is crucial. Be as interested in listening as in talking. No company wants to be branded as uncaring, putting profits and business before peoples' lives.

03 Communicate

No one expects a perfect response, but they do expect action. There are many ways to respond effectively without having all the answers in a crisis, if only to demand action as a corporation; don't let lawyers slow a response down. People need to know you care before they care what you know.

04 Respond immediately

In today's social media frenzy and 24/7 news cycle, bad news travels around the globe in a matter of seconds. Reputations can be sullied within seconds. Confusion and misinformation can take hold quickly and be amplified. Responses must be immediate.

05 Invest

The cost of crises can now be regularly measured in the billions of dollars or pounds. Some companies or brands have ceased to exist following a scandal. If you are, say, spending £25,000 a year on crisis management capability, it's worth considering whether this is appropriate.

MANAGING KEY RISKS EFFECTIVELY IN 2019

HOME CLAIMS



54%
reduction in claim lifespan from introduction of MiClaim (customer portal)

LOW VALUE BUILDINGS AND FLOORING CLAIMS



98%
accuracy rate when using AI technology to identify the flooring type and cost

FLOODING AND ESCAPE OF WATER CLAIMS

60%

increase in average flood claim costs since 2014

12%

decrease in drying times – more materials preserved

28%

decrease in alternative accommodation costs

20%

decrease in escape of water claims spend

11%

decrease in flood claims spend

100%

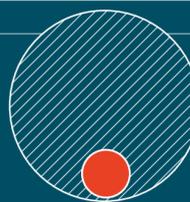
of customers recommended low-cost resilient repairs

SUBSIDENCE SURGE

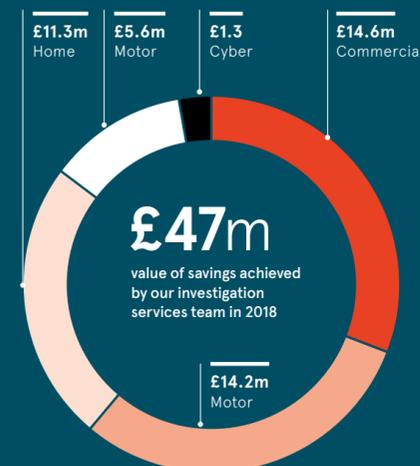
Up to

400%

increase in claims volumes on normal volume in 2018 due to subsidence surge



FRAUD MANAGEMENT



Facing business risk in an interconnected world

The seemingly unstoppable rise of globalisation has opened up countless new markets for businesses and unlocked highly profitable economies of scale. But this interconnected world also exposes companies to a multitude of risks that threaten their ability to do business

Cyber-risks may have been around for many years, but they remain a constant danger for firms of all sizes with ransomware, phishing, data loss and hacking having the power to bring operations to a standstill.

"Cyber-related business challenges have grown considerably over the past decade," says Stewart Steel, chief executive of Sedgwick UK, a leading global provider of technology-enabled claims and productivity management solutions. "It's clearly something that's here to stay, as many major businesses are suffering from repeated cyberattacks on practically a daily basis."

Complex supply chains, the impact of Brexit and climate change are requiring companies to adopt the most effective solutions to mitigate and reduce risk, with having the right management team in place to combat these challenges quickly and effectively being vital.

It's more important than ever to make sure that larger organisations have a talented risk management team in the business, which are able to not just moderate risks, but also ensure there is a comprehensive plan in place to deal with the immediate aftermath of loss.

"Beyond the internal resources, a trusted global broker who is able to explain the risks and challenges that are likely to be faced in certain territories is key as they will likely have more knowledge in this area than you, as the policyholder, might," says Mr Steel.

By nominating loss adjusters to global programmes as early as possible and allowing them to work with the risk management team to plan loss, relationships can be built that ensure if loss happens a robust business continuity programme can be implemented.

Mr Steel believes that to prepare for threats around reputational risk, alongside enterprise risk management, it's important to line up other talented partners who have global penetrations, including a PR firm, which may prove vital around cyber data-breach risks.

"A competent law firm is usually required because fundamentally there's often a legal aspect to the possibility of recovering outlays from another party," adds Mr Steel.

Artificial intelligence (AI) and machine-learning solutions, too, are beginning to speed up the claims process for policyholders, and help them to self-serve and handle their claims

at a time that suits them, rather than having to wait until the various insurance and supplier offices are open.

Being able to take cost out and reduce unnecessary customer service costs for insurance companies would, in turn, have a beneficial effect on the premiums the policyholders pay. Perhaps most importantly for businesses, the power of AI to process claims quickly will enable them to move on immediately from the impact of a risk that damaged the firm.

"If you look at the way many insurance companies are set up, quite a few are already using AI to handle claims. A few of the insurers we have dealt with have said claims of less than £2,500 may soon go through the claims process with no human intervention at all. From a supplier perspective, we are building processes and systems that mirror and match the AI process," says Mr Steel.

“Thanks to our extensive global network, we have at our fingertips practically all the expertise that any global corporate would want or need when facing pressing business risks

It's getting more difficult for insurers to keep pace with the rate of digitalisation, due to the significant cost involved and lack of adequately skilled technology professionals.

"There are some smaller insurers that are already considering either getting out of the market completely or looking towards companies like Sedgwick to offer a faster better, slicker, more customer-focused experience to enable them to grow in the sector, which otherwise would be risky for them to do with their own capital," says Mr Steel.

As the world's largest loss adjusting and claims management company, Sedgwick's 21,000 staff in 65 countries are well placed to offer their technical expertise and vast practical experience to benefit their clients at every stage of the risk management process.

Sedgwick has been involved in dealing with the majority of major global catastrophes, allowing them to bring a considerable amount of post-loss expertise to help organisations plan for the worst-case scenario.

"Within the Sedgwick organisation we have a forensic accountancy business, which is beneficial if you're looking at mitigating losses from interruption risk that may flow from outside your business and involve, for example, a supplier," says Mr Steel.

Emerging risks, including extreme weather-related problems and the rise of terrorism, will continue to challenge how many global businesses operate. Even moderate weather events may require preparation to ensure there are no issues in continually operating.

"In this situation it could just be something as simple as getting your senior management together and considering what could happen in the worse circumstances, and then creating what we call a 'grab bag,'" says Mr Steel.

A grab bag should hold all the information that is needed to get out of the office as quickly as possible and then put steps in place to start the process of recovering the business, including preparing back-up facilities, so the company can still provide a fundamental service for customers.

Forward-thinking businesses need to be considering how they would manage complex situations that require skills and expertise not available in their own company.

"Thanks to our extensive global network, we have at our fingertips practically all the expertise that any global corporate would want or need when facing pressing business risks," Mr Steel concludes.

For more information please visit www.sedgwick.com/uk

