The Risk-Crisis Continuum

How Integrated Risk and Crisis Management Can Protect, Create and Transform Value for an Organization

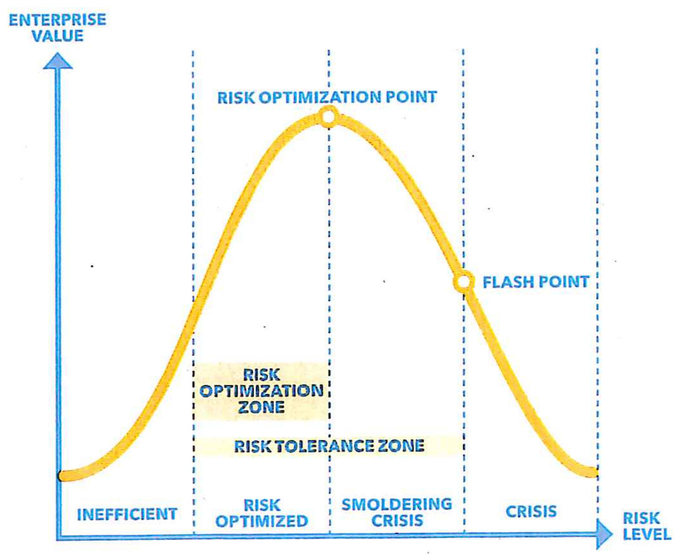
BY JENNIFER HILLS, LAUREN PASHIA AND GREG WALLIG

When risks cannot be adequately mitigated, organizations face crises. A crisis, or a sudden or evolving change, results in an urgent problem that must be addressed immediately, as it has the potential to greatly damage an organization's reputation, finances, operations, and people, and destroy the trust it has built with its stakeholders. King County faced just such a crisis the day after Thanksgiving, 1998, when a gunman unexpectedly shot a bus driver, and himself, causing the bus and its 33 passengers to plummet 50 feet off the Aurora Bridge and into an apartment complex below. King County could have taken an immediately defensive crouch, denying liability and fighting all claims. Instead, King County's response was unconventional: rather than aggressive defense and dispute, county leadership adopted a compassionate, caring response. The result was enhanced stakeholder value, reduced cost to taxpayers, and a strengthened county reputation.

THE RISK-CRISIS INTEGRATED MODEL

To date, there has been little or no overlap in the practices of risk and crisis management. It seems logical that these two disciplines should be linked, allowing for a smooth transition between the two as events occur. One revelation from integrating risk and crisis management is a transformation of the traditional risk curve, which ordinarily would simply plot risks and relative outcomes, into a series of zones where different management approaches can be used to maximize value and minimize loss. Understanding where an organization sits on the risk-crisis continuum provides management a powerful tool to gauge response and maximize value in the face of unexpected events. The diagram in Exhibit 1 depicts the relationship between enterprise value and risk that results from integrating risk and crisis management.

EXHIBIT 1: THE INTEGRATED RISK AND CRISIS CURVE



In the first zone, risk is low, but so is value. The organization has placed too much emphasis on mitigation and avoidance of risks and is therefore bypassing potential investments that could yield a positive return for the organization. This organization is inefficient and may be prioritizing compliance over opportunity.

In the second segment of the diagram, risk management is optimized—the organization is taking on risk up to its risk tolerance level. Organizations in this zone take strategic risks and are less likely to experience severe losses when unforeseen events occur.

Once the high point of the curve has been passed, organizations are in a higher risk interaction zone and must apply both risk and crisis management tools to avoid significant destruction of stakeholder value. The organization may be facing a smoldering crisis, where risk indicators are known, but management has few tools to adequately address them. The organization may find itself overly susceptible to unexpected events, increasing the likelihood these events cross the flash point and result in a crisis. In this zone, management should actively seek both risk management tools (e.g., insurance, active monitoring) and crisis management tools (e.g., public relations, increases to reserves). This may provide the organization the ability to pull itself away from the flashpoint where risks are realized and crises occur.

Organizations that have poor risk and crisis management tools, or face unexpectedly severe or swift onset of adverse events, may inevitably find themselves in the crisis zone. In this case the flash point has been crossed and stakeholder value is actively being jeopardized. Management has no choice but to adopt extraordinary measures to avoid outright failure. Decisions must be both quick and creative to avoid irreversible damage.

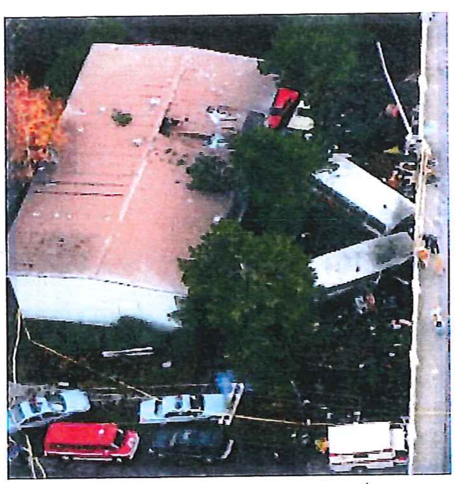
EXHIBIT 2: INTEGRATED RISK-CRISIS CONTINUUM DESCRIPTORS

INTEGRATED RISK-CRISIS CONTINUUM DESCRIPTORS				
	INEFFECTIVE	OPTIMIZED	SMOLDERING	CRISIS
CATEGORY	Excessive emphasis on mitigation and avoidance of risk	Taking on measured risk to optimize organizational value	Degradation of enterprise value due to excess risk incurred	Destruction of enterprise value due to unforeseen or uncontrolled circumstances
STRATEGIC ALIGNMENT	Overly mitigated, spending more resources to mitigate than to incur risk	Intentionally take risks in pursuit of objectives	Risk awareness does not adjust to actual situational risk	Risk response is not sufficient to mitigate risk to an acceptable level
DATA UTILIZATION	Excessive or incorrect data paralyzes the organization	Reliable, accurate data is accessible and used to analyze risk	Data is accessible but may not be used to analyze risk	Data is reactionary; focused on addressing crisis
RISK EVALUATION	Using resources to mitigate risks that have a low likelihood of occurring	Risks are managed within the tolerance levels of the organization	Risks are incurred due to ignorance, misperception, or disregard	Risks compounded by outside variables
PROCEDURES	Procedures lack agility and flexibility; focused on compliance	Procedures are adaptable to allow for measured risk taking	Procedures may be inconsistent, lacking, or misunderstood	Procedures are ignored or may be redefined in response to the crisis
RESOURCE ALLOCATION	Resources are inefficiently allocated to match level of risk	Resources are strategically placed to maximize enterprise value	Resources are inadequate to address all relevant risks	Focused on incident/crisis response
SYSTEM	System is largely retrospective and rigid	System is predictive and guides the user to optimal results	System is improvised in response to risk	System is reactive and possibly unresponsive

KING COUNTY'S FLASH POINT

With nearly 2 million residents, King County, Wash., is the 13th most populous county in the United States. The county's operations are diverse and include criminal justice (courts, law enforcement, and correctional facilities), wastewater treatment, solid waste management, public health clinics, parks, and transportation, which includes Metro Transit, the regional public transportation provider. The Office of Risk Management is within the Department of Executive Services and provides risk management services to all branches of county government. The services include enterprise risk management, liability claims administration, self-insurance management and insurance procurement, and management of contractual risk transfer mechanisms.

CRISIS:



On the day after Thanksgiving, November 27, 1998, a 60-foot bus was traveling across the Aurora Bridge. At 3:20 PM a passenger shot the bus driver and then himself. The bus traveled 100 feet before plunging off the bridge. The bus fell approximately 50 feet, striking the roof of an apartment building, split in half, and fell two more stories to the ground below. The bus driver was fatally injured when thrown from the bus. Thirty-two of the 33 passengers survived with injuries that varied from minor to catastrophic.

COMPASSIONATE LEADERSHIP:

While the usual post-accident activities were occurring, the first priority was to meet the immediate needs of the passengers. King County quickly swung into crisis response mode; it had never experienced a loss of this magnitude. Despite the rapidly deteriorating situation, county leadership elected to take a measured response to the crisis. The County Executive viewed this as a community tragedy, requiring a caring response.

Under the direction of King County Executive Ron Sims and Chief Civil Deputy Sally Bagshaw of the Prosecuting Attorney's Office, King County adopted a social service approach with outreach to all individuals and families who were impacted by the tragedy. The Executive and the team of King County ambassadors from the legal, risk, and Metro offices made early contact with victims and their loved ones to offer support.

A CARING RESPONSE:

Passengers were offered $25,000 toward out of pocket medical payments for up to one year, and $5,000 toward personal property damage. Every passenger was assigned a "case worker," a contact person in the Risk or Legal office to assist with reimbursement requests for medical and property damages, filing a claim with the State of Washington's Crime Victim's Compensation Fund, and providing referrals to other resources as needed.

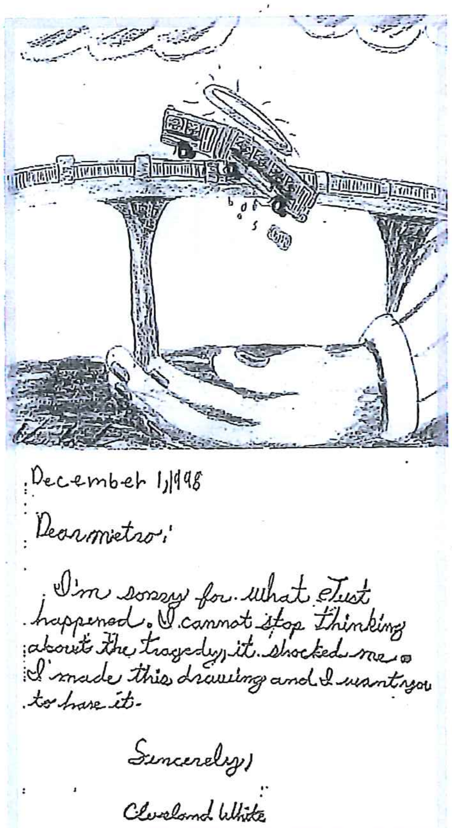
At the time of this loss, King County was self-insured for the first $2.5 million per loss, and purchased liability insurance up to $100 million in limits. The insurance companies were contacted and agreed to immediately fly to Seattle to discuss how to proceed. The insurance executives agreed with the County's approach to this loss: outreach, compassion, community support, and apology. This strategy was novel at the time and was outside the comfort zone for King County and its insurance partners, but there was consensus for compassionate leadership.

King County disputed liability, but wanted to establish a claims process to provide an opportunity for passengers to be heard, and to reimburse passengers, some of whom were permanently disabled, toward their injury, medical, and wage loss damages. The reinsurers were consulted and agreed to support a mediation process to compensate passengers.

A TRANSFORMATIONAL REACTION:

Twenty-four passengers pursued claims to final settlements; two refused settlements and filed lawsuits. The lawsuits were dismissed on Summary Judgment, were appealed, and the dismissal was affirmed. The court ruled the accident was unforeseeable as a matter of law, and that King County was not liable under either a negligence or civil rights theory.

VALUE PRESERVATION AND CREATION IN THE FACE OF A TERRIBLE CRISIS:



This tragic event could have had a destructive impact on King County's reputation, relationships with insurers, and transit operations. King County was beyond the flash point and in the crisis zone of the risk-crisis curve. Yet instead of destroying value, King County's integrated risk and crisis management approach sustained and arguably increased enterprise value while navigating through a difficult crisis. Not only were the risks actively mitigated immediately following the crash through a compassionate response, transparent communications, and active involvement of insurers, but the response to the Aurora Bridge bus tragedy transformed King County's approach to catastrophic losses and is the model it uses today.

The total cost to King County and insurers was over $6 million. Had King County taken a traditional approach to this loss with an aggressive defense to dispute liability and damages, the costs to defend and potentially pay some or all of the 24 claims would have far exceeded that amount.

As a result of the decisions made by the leadership of King County following this tragic accident, King County takes an approach to significant claims for which the county is liable that is unique among its peers, and includes:

- Apology and early outreach to victims and their families
- Compassionate leadership
- Early involvement of insurers
- Internal consensus among leadership, risk, and legal, and with external insurance partners

This approach may seem too risky, but King County has found it adds value to its residents and the county, keeping risks from reaching the flash point.

THE PATH FORWARD

Organizations can learn from King County by visualizing the relationship between risk and crisis management and developing a practical approach the organization can use to monitor where it is on the risk-crisis continuum. In an acute crisis, there isn't time to test potential responses and make minor adjustments. The organization has to go into response mode and make rapid decisions about how best to reduce the impact of the crisis on stakeholders and the organization's survival potential.

King County found itself in an acute crisis almost 18 years ago. The compassionate, risk-aware decisions made by County leaders immediately after this crisis pulled King County back from the crisis zone toward the risk optimization zone. The creativity and innovation employed to respond appropriately and compassionately to this community tragedy continues to inform the county's response to severe losses to this day, and has resulted in continued preservation of the perceived value of King County's government in the eyes of its residents. ■

Jennifer Hills is the director of risk management for King County, Wash.

Greg Wallig is the Public Sector Business Risk Services Leader and US Advisory Leader – Shared Services for Grant Thornton LLP.

Lauren Pashia works for The Boeing Company.