Risk and Crisis Management.
An Overview

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The article is intended to provide an overview on risk and crisis management both in theory and in practice. Risk is everywhere and derives directly from unpredictability. However, until few decades ago, risk probability was lower and there were no schemes and well-established theories. Since the 1990s an increased interest for this topic raised, together with the need for studies, articles and relevant literature. Thus, risk management theories provide a framework for organizations to deal with and to react to uncertainty that might affect a company’s objectives and missions, in order to enhance the operations’ efficiency within the organization. Similarly, crisis can be a threat for companies, brands and their business reputation, but through crisis management organizations can learn the best way to handle it and minimize negative effect. Concretely, theory was applied by Ferrero while facing the palm oil scandal, affecting its flagship Nutella cream. By implementing the correct strategies and communicating effectively, the company was able to minimize losses and even increase consumers’ loyalty.

L’articolo si propone di offrire una panoramica sulla gestione dei rischi e delle crisi. sia in teoria che in pratica. Il rischio è ovunque e deriva direttamente dall’imprevedibilità. Tuttavia, fino a pochi decenni fa, la probabilità di rischio era inferiore e non esistevano schemi e teorie consolidate. Dagli anni ’90 è cresciuto l’interesse per questo argomento, insieme alla necessità di studi, articoli e letteratura pertinente. Pertanto, le teorie sulla gestione del rischio forniscono alle organizzazioni una struttura con cui affrontare e reagire all’incertezza che potrebbe influenzare gli obiettivi e le missioni di un’azienda, al fine di migliorare l’efficienza delle operazioni all’interno dell’organizzazione stessa. Allo stesso modo, la crisi può rappresentare una minaccia per le aziende, per i marchi e per la loro reputazione aziendale; tuttavia, attraverso la gestione delle crisi le organizzazioni possono apprendere il modo migliore per gestirle e ridurre al minimo gli effetti negativi. In concreto, la teoria delle crisi è stata applicata da Ferrero mentre affrontava lo scandalo dell’olio di palma, che interessava la sua crema di punta: la Nutella. Implementando le strategie corrette e comunicando in modo efficace, l’azienda è stata in grado di ridurre al minimo le perdite e persino aumentare la fedeltà dei consumatori.

Keywords: Risk theory; mitigating crisis; risk and crisis strategies; risk management; crisis management; Enterprise Risk Management theory; Ferrero Italy

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1 – Introduction

Risk and crisis management theories have been studied since the 1990s, to help companies dealing with unexpected events. From that moment, several authors and organizations tried to establish principles and guidelines in risk and crisis management, providing suggestion on strategies to effectively identify and mitigate issues (Gazzola, Amelio and Figus, 2020).

In light of the unpredictable issues that affected all type of activity, particularly raised in a global economy, organizations are nowadays almost forced to adopt those plans. Indeed, the core objective of any risk management effort is to ensure the organization survival whatever the circumstances. Therefore, risk and crisis strategies should be implemented and tailored as an integral part of the organizational procedure, in order to create and at the same time protect value.

Therefore, the article aims at providing an overview on risk and crisis management in the business world. In addition, it will provide a case study from the food sector, showing its concrete applicability in corporate management.

Firstly, the article deals with risk and risk management, proposing useful classification systems and describing its characteristics and general principles. It will also suggest the correct procedure to deal with risks, describing the different steps an organization should implement tackle it. Later on, risks will be studied from a business perspective, through the Enterprise Risk Management theory, a fundamental tool to protect people, capital and brand reputation.

Secondly, it will focus on crisis management, providing a definition and presenting the different phases and actors involved. Messages during crisis must be studied carefully, therefore included in a crisis communication plan that will customize the messages for the different stakeholders.

Lastly, the paper provides an example from one of the biggest food producers in Italy, Ferrero, describing a critical situation and how it was solved without impacting on business reputation.

2 – Literature Review

The very first economist that tried to define identify and conceptualize was Knight (Watkins, 1922), in the early 1920s, that considered it as “measurable uncertainties”, an adverse deviation from an expected outcome.

Later on, Pearson and Clair (1998) wrote about reframing crisis management and since the beginning of the 21st century a raising number of scholars and scientific publications, demonstrating its relevance in a globalized world. Operating worldwide also requires an international standard, the so-called ISO 31000, providing guidelines on the approach to risks seen as “the effect of uncertainty on objectives”.

Hopkin (2010) classifies hazard risks in a temporal scale, starting from short-term risks, immediately impacting on objectives, core processes and key dependencies. Medium-term risks are usually the ones impacting on organizations with a short delay after the event occurs, threatening the ability of a company to maintain core processes and main projects. Typically, a long-term risk might impact on the organization between one and five years after the event, influencing the overall strategy.

Wright (2014) published his research on crisis management and its influence on business continuity, from risk assessment to recovery management. More recently, Chalaris et al. (2018) studied novel approaches in risk and crisis management, while Crovini (2019) tried to apply risk management theories to SME.
A reference in food crisis management was published by Doeg (2005), offering a focus on the food and drink industry and providing advices on the best way deal with crisis through effective communication by using a practical approach.

Indeed, communication resulted in a useful tool in critical events, with a spokesperson referring information to both employees and other stakeholders. These aspects are explained by Coombs (2007) and Griffin (2014), with an emphasis on the development and application of situational crisis communication theory. Moreover, Francesconi and Dossena (2013), but also Gazzola (2012), decided to address the issue from a reputational perspective and its business implications.

Literature has also been supported by online press articles, from a financial Italian journal (Il Sole 24 Ore) and a food specialized online newspaper (Il Fatto Alimentare), particularly concerning the case study. Last but not least, several information was collected from the Ferrero website, in a dedicated section dealing with quality, traceability and sustainability.

### 3 – Risk Management: Theory and Applicability

According to Alvintzi and Eder (2010), risk management can be defined as the process of identifying and assessing risks, taking steps to deal with it and reduce it to an acceptable level. Risk, in a economic perspective, is considered as a hazard or threat that might impact on company’s objectives, core processes and stakeholder expectations. Engermann and Henderson (2012) depicted risks in the so-called “risk event chain” (Figure 1), representing the transition from threat to crisis to disruption to impact.

![Risk Event Chain](image)

*Figure 1– Risk Event Chain (Engermann, Henderson, 2012)*

Effective control and prevention might reduce the probability of transitioning through the risk event chain and mitigate the final impact too.

Each organization needs to identify the risk classification system that suits better for its needs and the nature or the risks faced. However, the most common risk classification identifies three categories: hazard (or pure) risks, control (or uncertainty) risks and opportunity (or speculative) risks.

Other classifications focus only on two types, pure and speculative. Whatever the system preferred, what matters is that the organization adopts the risk subdivision scheme that adapts better to its own circumstances. Examples of hazard risks can be fire, theft, fraud, IT issues etc. that inhibit the corporate mission’ accomplishment, while control risks are uncertain and more difficult to identify because usually associated to projects (i.e. building constructions).

Whatever is the risk in the business process, companies can try to handle it through an appropriate risk treatment. Thus, risk management can be defined as the process of identifying and assessing risks, taking steps to deal with it and reduce it to an acceptable level.

There is an international standard for risk, provided by the International Standard for Organization (2009). The ISO 31000 standard proposes general principles and guidelines that organizations can follow to ensure good practice. These should be considered as recommendations and not requirements, thus not intended for certification purposes. According to this standard, risk management is part of decision making, a dynamic and responsive system, and should address uncertainty in order to create and protect value.
The following figure (Figure 2) represents the scheme for risk management, according to ISO 31000.

Figure 2 – Risk management process from ISO 31000 (Hopkin, 2010)

At the very beginning, companies should evaluate the company’s internal and external contexts, including all the business aspects as well as an overview of the cultural, political, technological and financial frameworks. While establishing the context, a company also need to know how much risk key stakeholders are prepared to accept.

The following step, risk assessment, is subdivided into three steps:

- Risk identification, focused on recognizing the origin risk, the possible area of impact and the potential consequences. It is usually conducted by a panel, preferably composed of internal employees that know better the company and can suggest possible weaknesses and hazards.

- Risk analysis, based on understanding the risk and evaluating the probability of an event happening, consider who could be affected and how serious the result of exposure might be;

- Risk evaluation, that involves assessing the risk, the likelihood of the damage to occur (with reference to risk analysis) and deciding the priorities for action.

Then, risk assessment is followed by risk treatment. With all the information collected in the previous steps, a company can make a decision and effectively deal with the risk itself, deciding to accept it or preferring to reduce it through several options such as risk transference, risk mitigation (or even risk avoidance).

This last phase should be followed by a further step of monitoring and review if the circumstances change. The risk process does not end at this point, since risk is dynamic and changing. Regular checks are necessary to see whether risks have been managed as expected, but also to control if new risks are arising.
Likewise, Hillson (2016) structured the risk management process on a Plan/Do/Check/Act basis, as represented in Figure 3.

The core risk management techniques (risk identification/analysis/evaluation and treatment) are listed on the ‘Do’ item.

The ‘Plan’ box focuses on a broader context, including design, governance, documentation, resources, business context and communication.

Another step is the ‘Check’ one, centred on monitoring and reviewing but even comparing the risk outputs to its risk appetite. Once this step is completed, there is the ‘Act’ phase, that includes the calculation of capital required, stress test and so on.

**Figure 3 – Enterprise Risk Management and Plan/Do/Check/Act (Hillson, 2016)**

Since the early 1990s, the risk management theories have been applied to the corporate world, resulting in the so-called Enterprise Risk Management (ERM), a tool enabling organizations to manage risk exposure. It can be applied to small and big companies, aiding them to be more prepared, more resilient to change and more ready to lessen threats and benefits from opportunities as well as maintaining the business continuity. Reference can also be found in Selleri (2016), that addressed the ERM topic as a system of protection and value creation.

Resilience likewise means organizations should look beyond risks seeing opportunities, even in adverse situations. By implementing ERM, managers will be able to oversee total risk exposure and work towards an effective decision-making process. Moreover, ERM can also be defined as a methodology that encompasses all areas of organizational exposure to risk (that
can be financial, operational, strategic, reputational, etc.) and evaluate the company’s risk portfolio.

It is important to highlight that a risk management initiative will not be successful unless the culture of the organization is receptive, having a risk-aware culture within the organization.

A fundamental step in risk management is communication, that need to be simple and clear, with objective facts and data. In addition, the spokesperson in charge of risk communication also need to be prepared to answer further question and provide additional information.

The appropriate means of communication can vary according to the type of stakeholder and the complexity of the message to be delivered. While for most of stakeholders, companies can produce brief guides or send e-mails, for employees it can be used the intranet, an internal communication system, in order to send urgent risk information and provide updates on risk assessments.

4 – Crisis Management

Following risk management, some theories on crisis management have been developed. The difference is that the former focuses on preventive measures to minimize the risk and the possible impact on the business operations, while the latter is applied when the critical event already happened and tries to reduce the potential impact of a specific issue.

Indeed, a crisis is considered as an abnormal situation, beyond the scope of everyday business and represents a threat to the company’s operations. A crisis often creates uncertainty and threatens an organization’s image, identity, and reputation.

A critical situation can disrupt organizational processes and functions, attracting the attention of the media and the public. Typically, crises can have negative impact on financial, legal or political aspects, if the company is not able to deal with it effectively and promptly.

The main problem is that most crisis arise unexpectedly, and a company can be caught unprepared. It occurs rapidly, leading the company to react and take difficult decisions in order to minimize the negative impact of the crisis situation. It disrupts organizational processes and functions, attracting the attention of the media and the public.

Crises can also be subdivided in two major groups according to their origin: natural disasters and human-made disasters. The former includes a range of sudden weather phenomena such as hurricanes, earthquakes, wildfires, floods and droughts; the latter ranges from human conflicts (including wars), industrial accidents and environmental destruction.

Therefore, crisis management can be described as measures of all types which allow a business to cope with a suddenly occurring danger or risk situation in order to return as quickly as possible to normal business routine. It contributes to control a crisis situation and reduce the negative impact, minimizing losses and also learning to protect the organization and prevent future incidents.

According to Alvintzi and Eder (2010), crisis management is also described as the intervention or co-ordination by individuals or teams before, during, or after an event to resolve the crisis, minimize losses or otherwise protect the organization.

The adoption of a crisis management plan is an indispensable tool for a company during the crisis, because it will allow top managers to deal properly with a future crisis situation. In the best scenario, a crisis management plan should identify situations that constitute a possible crisis and react in order to minimize the negative impact of the crisis.

Indeed, crisis management should begin before a crisis actually occurs, starting from a thorough audit of organizational risks and identification of those that could result in major problems. Pre-crisis means prevention and preparation: these are fundamental actions for a business corporation to handle a crisis in the best way possible.
Accidents and natural events, health and environmental disasters, technical issues, rogue employees or economic and market forces are among the potential perils faced by organizations, so the first step in conducting a crisis examination is to know where to look for potential hazards. In fact, each event is unique, requiring special tactics for handling it properly.

The next task is to look systematically within those sources to identify things that could lead to trouble in the future, searching for all the possible threat to the organization. This risk assessment must be conducted in all the company’s departments, operating units and work teams. Top management can provide important insights, but the people best equipped to detect crisis-producing situations are further down in the organization. These employees meet regularly to formulate plans and budgets, to assess competition and their own performance, and to identify opportunities for improvement (Harvard Business School, 2004). Risk identification should be on their list of things to do, for the corporate well-being.

Indeed, the identification of potential crisis should be conducted in all areas of the company, at entry level, not just at the top management one. This research must include a look outside the organization as well (including the thinking of customers, suppliers, industry analysts and so on).

It is also important to do it regularly, as part of business planning and evaluation procedures. Once it becomes part of the organization’s management process, participants will become more conscious of the risks that could develop into full-blowned crises. A regular scanning of the possible sources of risk for a business is the basis in order to prevent crisis and unplanned visibility that will affect the reputation and image of a company.

Certainly, the most difficult aspect of crisis management is probably crisis recognition. There can be warning signals of a crisis such as technical discontinuity, health issues, persistent customer complaints, rumours, etc that can threaten the company. Sometimes warnings and signals are unheeded, and the company underestimate the problem until it is too late to prevent. It is important to highlight that the vast majority of issues faced on a day-to-day basis are not truly crises, but rather problems the organization must learn to anticipate, resolve and neutralize. Indeed, a company should define carefully the situations that could become crises, before including them as part of the crisis communication strategy.

Thus, the second step is crisis avoidance, meaning to check the list of potential risks in order to avert the breakdowns. Many crises begin as small problems, and by paying attention to the signals, a company can neutralize them before they became dangerous.

On the other side, companies can work on contingency planning, organizing a pre-crisis plan that involve the employees, preparing them on what to do and how to do in case of an unforeseen event, that can be a fire, a natural disaster, a strike and so on.

In fact, a common mistake in planning is to think only about the systems, operations and infrastructure and to forget about the company’s human capital, when instead the human resources have a key role in crisis management and business continuity. This means that contingency plans are not designed to prevent crises but instead, they are reactive and triggered by events; they are created in order to lessen the negative impacts of crises and return situations to normal faster.

The next step after crisis recognition is crisis containment, which means prevent a bad situation from becoming worse. In order to be able to control it, a company must act quickly and decisively, as well as put people first. In case of emergency, in fact, it is more important to care about employees rather than material things, that can be replaced quite easily. Another suggestion for crisis containment is free communication, to update personnel with information and be open to questions about the ongoing situation. In those cases, people want to know what happened, how it occurred, what will ensue next, and how they should respond. Communication must be internal but also external, because in containing a crisis also the
stakeholders and the public must be updated on what is occurring and what to expect. It is also a way to avoid rumours and profiteering.

It is absolutely essential that crisis messages be disseminated promptly and with sufficient details. The role of communication during crisis events is fundamental in order to update all the stakeholders as quickly as possible and transmit the right information.

It is essential to segment the audience, to use appropriate media to reach several segments and to tailor the message diversely, for example through direct communication to employees, press release for the journalists/public, e-mail for stakeholders and so on.

In a globalized world, where communication is also spread via the Internet, news has become more immediate and global than ever before.

The advantage is that social media allows the company to communicate directly to stakeholders but on the other side it increased the vulnerability. The Internet can be a two-edged sword, helping to share information globally but also increasing the possibility of incorrect news, risking on creditability and accuracy.

Communicating demonstrated to be the main way, in such events, to maintain a good business reputation, retain customers and avoid their shift to competitor’s companies.

All the mentioned steps, if well put into practice, should leads to a crisis resolution. Indeed, fast and effective action on the containment front will result in a crisis that is smaller and more manageable.

As in the containment phase, time only gives the problem an opportunity to spread and take root, making it more intractable. A delay in working toward a resolution provides opportunities for the crisis to break through the holding action, impacting on people (employees, public and stakeholders), community and the company (assets, image, customers, etc.).

Crisis response is followed by one additional stage, crisis recovery, that should include several activities in order to return to normal operation and pre-crisis conditions, as well as rebuild the company’s image.

5 – Crisis Communication

As anticipated, one of the most important parts in crisis management is effective communication, that is realized by following a crisis communication plan. It is a key element in dealing with crisis, that requires an extensive planning. Indeed, an effective crisis management and communication is based on managing, controlling and responding in short time.

The purpose of communication in a crisis situation is to prevent the audience receiving misleading information and reassure them that the crisis is under control. Delaying or denying what is going on are some of the biggest errors a company can do. Communication must be quick and direct; thus, a company need coordination, commitment and on-site leadership to respond to the crisis.

Key facts that the media should ask for are detailed information on the crisis itself, how it happened, what has been done until that moment and what will be done to fully manage the crisis.

According to Chandler (2010), a famous crisis communication expert, crisis communication must be differentiated according to six stages: warning, risk assessment, response, management, resolution and recovery (Figure 4).

In order to be effective, every stage must be considered separately, even if in some cases they can overlap. Chandler listed some characteristics and suggestion for each step:

1) Warning. Certain incidents have very distinct warning phases. In this stage, communication is precautionary and directed to increase awareness; this stage highlights the importance of
preparation. The issue is that some companies skip communication during this moment, increasing the future negative effects of a crisis;

2) Risk Assessment. It is the phase right after an incident occurs or is reported, in which the crisis management team assess the risks, potential consequences and the damages of the crisis. Then, the team has to decide how to handle the situation, with actions to mitigate the disaster. The organization must identify the different stakeholders that are affected by the crisis and the extent of the threat risk the crisis poses to the company’s reputation and brand image. Messages communicated during this stage should be clear, objective and as concrete as possible. In this phase, internal communication is vital but external communication is crucial;

3) Response. During this phase, emphasis is place on fast and effective action to control and contain the incident. Once the emergency response plan is activated, the team starts informing the general public (and the media) about the incident. Communication in this phase must be focused on providing instruction and calling to action;

4) Management. In this phase, the organization must share information about the incident: communication in this period is centred on providing updates to the stakeholders, controlling possible rumours and continuously adjusting actions to newest developments. The crisis can either evolve into a catastrophic incident or it start to be managed effectively and move toward resolution.

5) Resolution. Once the crisis has been resolved, the crisis team reassure the audience by communicating the resolution. During this phase, communication should be simple and provide reassurance, to help the audience to return to normalcy. After a negative situation, consideration should be given to emotional and physical well-being;

6) Recovery. During the last stage, the company heals and goes back to normal. Communication doesn’t stop but shifts to a post-crisis counselling and a return to pre-crisis operations. In this phase, the company begins to rebuild its reputation and regain the trust of stakeholders. Reassurance, confidence and stability are the keywords in communication, that can also incorporate the use of social media.

Figure 4 – The Stages of a Crisis (Chandler, 2010)
6 – Ferrero AND The Palm Oil Scandal

In order to put theory into practice, the paper will provide a concrete case, related to the palm oil scandal raised in the last years. It is a food crisis that strongly affected the industry, impacting on the whole supply chain. In particular, the food categories that were interested the most were baked products and spreadable creams.

Indeed, the article will deepen the palm-oil based Nutella cream issue. This product has a relevant palm oil content, but consumers were appreciating the flavour and texture anyway. However, since health studies reported that palm oil can negatively impact on health and environment, people started a shift to competitors’ products. In detail, the health matter was related to the fact that palm oil is rich in saturated fat, contributing to an excessive fat consumption in daily diet and an increase possibility of tumours. For what concern the environmental aspect, palm oil is the result of intensive deforestation in Malaysia and Indonesia, with a higher risk of destroying the natural habitat for orangutan, a loss in biodiversity and increased greenhouse gas emissions.

Thus, the Ferrero company had to react to this crisis, but was not able to substitute the ingredient without changing the whole recipe, as reported by Il Fatto Alimentare (2016). Considering these facts, the only way to restore consumers’ trust was to conduct researches demonstrating that in reality the Nutella cream is not dangerous for health if consumed moderately (as all the product containing saturated fats) and to look for sustainable sourcing in order to reduce the environmental impact, as mentioned by La Stampa (2016).

In to communicate this news to consumers, the brand decided to elaborate an online communication campaign. In particular, they developed a dedicated section on their website, reassuring consumers by speaking about sourcing, safety, quality control and traceability.

Sustainability was enhanced by their membership in the Palm Oil Innovation Group (POIG) as well as good scores from the “palm oil scorecard” made by WWF and Greenpeace, ranking companies on responsible sourcing and transparency criteria.

A second step in sustainability sourcing was their participation in the RSPO (Roundtable for Sustainable Palm Oil), a commission made of several stakeholders of the palm oil industry such as palm oil producers, processors and traders, food producers, retailers and NGOs, aiming at implementing a global standard for sustainable palm oil.

7 – Conclusion

By applying the risk management theories an organization will be able to prevent negative outcomes, maintain a good business image and reputation, and at the same time maintain customer loyalty. Otherwise, consumers will tend to shift to another brand or different products that is considered healthier.

It is known that health related risks are the category that scares people more because can threaten our lives, so it is important to work on risk management. On the contrary, if risk cannot be anticipated, companies deal with crisis management. It is the case of the palm oil scandal and in particular the negative comments on Ferrero products. Nevertheless, it is important to notice that the Italian company was supported by an efficient crisis management team, that worked on a positive and quick advertising campaign.

Its promotional activities and corporate communication should be considered as a reference point in the food sector, for its ability to rapidly transmit the correct message to the consumer.

A reflection on future improvements in (food) crisis management certainly takes into account the need for an international guiding principle. For this reason, it is suggested that the
International Organization for Standardization’s guidelines become the standard for most companies, regardless of their size and geographical location.

In conclusion, sharing standards, information and thoughts will contribute to a process of continuous improvement in risk and crisis management practices.

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