

- ▶ Preparation is the key to effective crisis management
- ▶ Identify key players and form a team before anything happens
- ▶ Develop a communication plan and execute it quickly
- ▶ Failure to respond quickly and effectively causes more damage
- ▶ Be prepared to exclude the CEO if necessary

By Maryann Waryjas

# Winning the war

A crisis is likely to create instant chaos, regardless of how well your company is managed under normal conditions. While damage control is the most obvious aspect of crisis management, its true essence goes far beyond ‘putting out fires’ to cultivating the potential successes that lurk among the ruins. A crisis has the potential to fundamentally change an organization – for the better – and a good crisis management plan enables an organization not only to deal with the immediate devastation, but also to begin rebuilding and fortifying its reputation and credibility.

The ability to manage a crisis is an important element of good corporate governance because any crisis will have both a major immediate impact on shareholder value – likely negative – and a long-term impact on the company’s reputation and brands, hopefully positive.

## Stages of crisis management

The board of directors is charged with oversight of the company’s enterprise risk management, including all aspects of its business and operations. Directors should understand the general nature of the risks facing the companies on whose boards they serve. This includes general business risks, such as executive turnover and takeover activity, and industry-specific risks, such as competitive activity and environmental or product liability. As part of their enterprise risk management responsibilities, directors should confirm that the company has an appropriate crisis management plan.

Crisis management requires careful and thoughtful planning for a disaster that might not even be predictable.

The way a crisis is handled is often more important to the eventual outcome for the company than the tangible impact of the crisis itself.

The pre-crisis stage is the most effort-intensive and also the most important. The key factor here is planning. Relying on wisdom, experience or savvy alone is a formula for disaster. Preparation and forethought are the foundations of effective crisis management, and the routine that planning creates will save precious time during an actual crisis.

When management and the board begin pre-crisis planning, they must first anticipate the kinds of crises the organization could face. While every business has unique vulnerabilities, some generalizations are possible: natural disasters and accidents; labor action or protest; product crises (think of product recalls, injuries to consumers, plant shutdowns, and severe and

prolonged supply chain interruptions); people crises like the sudden death or impaired health of the CEO; cash flow and other financial problems; and legal crises that may involve allegations of accounting improprieties, large-scale regulatory investigations or grand jury subpoenas.

All boards need to consider what will happen after the sudden loss of the CEO or CFO. The board should also prepare for the possibility of the loss of several top executives at one time, whether due to accident or accusations of malfeasance. The board should hold at least one executive session annually to deal with emergency succession planning.

Once the board and management have a feel for the kinds of crises they might face, the real planning begins.



The first step is forming a crisis team. The team should have representatives from all key areas of the business as well as open slots that can be filled strategically, based on the particular crisis. Core team members should include representatives from senior management, the board chairman or lead independent director and members of any board committee charged with crisis response or oversight, appropriately specialized outside counsel, and investor relations and public relations advisers.

Other members should be added as the crisis demands, and a team leader should be chosen in advance based on the type of crisis, accessibility and his or her knowledge of the organization. The leader will be responsible for evaluating crises, assembling the team, filling slots with specialists and ongoing coordination throughout a crisis.

Finally, formalize the plan, complete with contingency options, in writing, then distribute it in various forms to the potential players. Live drills are instrumental in testing the strengths and weaknesses of your plan and should be done at least annually. The plan should be reviewed annually in strategy sessions; these should include examination of crises affecting other companies, to enable the crisis team to discuss how your organization would have responded to similar events.

### The crisis hits – now what?

The first step in beating a crisis is recognizing that you have one. Too many organizations mistakenly believe that things are not that serious or that the situation will blow over. A crisis will not pass without proactive effort from within. Evaluate the flow of information objectively and place yourself in the role of a customer, regulator, media representative or member of the public, and ask yourself how one of them would see things. Above all, do not take a bunker or ‘company under siege’ mentality. Crisis management requires forthright communication and proactive, decisive action.

The keys to effective crisis management are decisiveness, honesty and a customer-first mentality. Focus on the people. In a crisis, becoming obsessed with the technical or legal details of a situation and forgetting about the

### ELEMENTS OF A CRISIS MANAGEMENT PLAN

- ▶ A risk identification, evaluation and management program
- ▶ Well-developed hypothetical crisis scenarios, with affected stakeholder groups identified and their likely responses predicted
- ▶ A chief risk officer or other identified executive in charge of crisis planning and response
- ▶ A multidisciplinary crisis response team
- ▶ Crisis response drills
- ▶ Crisis response skills training, including media relations
- ▶ A written, company-specific crisis response plan
- ▶ A written communications plan

human aspect is a surefire recipe for failure. The problems underlying the crisis must, of course, be solved, but long-term damage to the business is usually a result of damaged credibility, integrity and customer loyalty. The goal of crisis management is to end the crisis quickly, limit damage and restore your company’s credibility and reputation.

### Taking charge

Who will manage the crisis? Is management in the best position to deal with the crisis, speak on behalf of the company and regularly update the board, drawing on the board’s experience as needed? Or is this a crisis where the CEO or CFO may be part of the problem or is otherwise compromised, requiring the board to assume a public leadership role?

Even if management has the leadership role in a crisis, the board must continue to exercise oversight. The chairman or lead independent director should be updated frequently and determine whether special meetings of the board or any board committees are needed. Management should consult with the board regarding key decisions, and discuss alternatives and implications.

The board should consider whether an independent committee should be established to oversee the matter and whether to hire independent advisers, including outside counsel. If the crisis is within the purview of an existing board committee, is the committee chair the best person to deal with it? Who should be the spokesperson for the board? In all circumstances it is important for the board to speak with a unified voice.

## CRISIS COMMUNICATION PLAN

Contact	Purpose
<b>Employees</b>	Verify personal safety, recruit to a response team, explain company's action or position.
<b>Customers</b>	Explain implications of the crisis, communicate without media filter.
<b>Vendors</b>	Explain implications of the crisis, discuss ability to pay, communicate without media filter.
<b>Shareholders</b>	Avoid sell-off of stock, but be careful not to disclose material non-public information.
<b>Lenders</b>	Avoid withdrawal of credit, ask for assistance.
<b>Government regulators</b>	Establish rapport with authorities that will potentially be involved.
<b>Citizens and civic leaders</b>	Reach out to those impacted, express sympathy.
<b>Competitors</b>	Share relevant information where there is a common threat.
<b>Media</b>	Get the company's message to the appropriate audience.
<b>Internet</b>	Website, intranet and mass emailing capabilities can help manage and expedite communications internally and externally.

### Communication is paramount

Swift and effective communication at the beginning of a crisis is crucial to minimizing damage. Remember that the media should *never* be used as messengers to the company's key constituencies. The company has a duty to inform its constituents and shareholders itself.

Pick one – and only one – member of the crisis team to be the spokesperson. It can be the public relations person, the crisis team leader or any other figure with the necessary attributes. This allows for maximum control over the flow of information made public.

Issue a statement as soon as you reasonably can. If the company is silent or issues a 'no comment', someone outside the organization will fill that void and the viewpoint publicized will not be the company's. The statements a company makes during the first few hours following a crisis allow it to take control of events instead of letting events control the company.

One of the first steps is to withdraw potentially inappropriate advertising. You do not want advertising


hyping your products or company as you are about to begin a massive product recall. You do not want to advertise discounted airfares after one of your aircraft has been involved in a serious mishap. You do not want to advertise the quality of your customer service right after the local US attorney has announced an investigation into the company's billing practices. The best judgment is often to pull all advertising during the crisis.

### After the dust settles

Attention must be given to post-crisis customer strategy and litigation strategy. No matter how well the crisis team handles the situation, customer confidence must be resolidified and litigation is certain to follow any major crisis. If the crisis team stuck to the plan and followed protocol, customers should have been reassured that the company was doing everything possible to respond to the issues in a fair and forthright manner, and the company should not have admitted culpability or responsibility for the crisis during the initial stages.

Sales and marketing managers must formulate prompt plans to restore customer confidence. At the same time, in-house counsel and outside litigation specialists

must formulate a strategy for addressing and disposing of pending and threatened litigation. Management should also work closely with insurance carriers to minimize the company's financial exposure.

In the final analysis, however, the most important post-crisis advice is to learn from the events and mistakes that led to the crisis. Even if the company played no part in causing the situation, there are still lessons to be learned to avoid similar crises and to improve upon the company's plan. When the smoke clears, the company should judge its performance not on its ability to minimize litigation or shift blame, but instead on its ability to minimize damage, find potential successes within the crisis, and build its reputation for credibility, honesty and integrity. 

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