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Confronting crisis in the boardroom: grace under pressure

BY DEBORAH HICKS MIDANEK

In the world we live in, crisis seems inevitable. The test of an organisation and its leadership lies not so much in what happens as it does in what the organisation does about it. Though the nature of the emergency is rarely foreseeable, the very process of thinking through the steps required in managing the crisis can lead to greater preparation. Preparation can in turn save precious time in the early, chaotic days, and give the company the best chance of maintaining the initiative, managing crisis, rather than being caught up in the chaos.

Crisis undermines the confidence of all, and the board's demonstration of calm deliberate action will go a long way to giving the company its best chance to restore that confidence. No plan can foresee the content of the emergency, but advance focus on the process of response can reduce the number of variables requiring immediate attention.

When the phone rings and word of the emergency comes, what does the board need to do?

Board responsibility. Steady independent leadership is never as important to the health and even the survival of the corporation as it is during a crisis. The board provides continuity and can usually stand a bit outside the situation to assess the issues and possible responses coolly and carefully. The buck stops with the board, and it must be sure that there is an emergency response system in place.

Sometimes, the board *is* the emergency response system. It can be tempting to believe that the best response in a corporate emergency for the board is to stay out of the way or even to resign. Such a course is rarely advisable to directors concerned about personal liability, and resignations or board inaction may, by sending disturbing signals both inside and outside the company, exacerbate the crisis.

The board needs therefore to establish protocols for ensuring effective emergency response that emphasises preparedness and team play. The role of the board is to appraise carefully, know what is happening and what the resources to respond are, and then to plan and act. The decisions the board will be called upon to make are by definition those that no one else in the situation can make.

Define the emergency. Focus on facts: who has been affected, what has happened, when and where did it happen? Are all parties safe, and if not what needs to be done by whom to secure their safety? Is it an unfolding drama, or a one shot deal, already over but leaving aftermath to handle?

Is it a crisis driven by internal events (e.g., bad accounting, a major industrial accident), or by external events (earthquake, terrorist attack), or by basic business risk (impact of prolonged downturn in industry, pre-emptive competitive actions)? Though all can bleed together, the proximate cause of the crisis influences the board's choices in dealing with it.

Notification. Management needs to notify the chairman of the board or the designated lead director immediately and typically the board will meet as a whole to have the issues laid out and determine exactly who else must be notified right away. These may include regulators, safety officials, stock exchanges, and others, and if possible this list should be thought through in advance. It may be useful to have one director – a non executive chairman, or the lead independent director – ready to rally the rest of the board, track communications, and coordinate board action.

Identify immediate actions required. Thinking through the company's particular vulnerabilities in advance will indicate the immediate critical path: in most companies, protecting critical information systems must be done, but the issues faced by particular companies vary. In a trucking company, control of and communication with the fleet will be critical, where in a financial services company, securing liquidity and giving instructions to the originating teams are most critical. In a retail store chain, being sure the cash is safely accounted for can be critical. As corporate directors and executives assemble to consider emergency action, the issues faced in operating the company can be temporarily overlooked just when they need careful attention.

Identify the crisis response team. The board may hold an executive session to review its responsibilities, assess the situation, and discuss resources. If possible, assemble the emergency response team (financial and legal advisers, directors, key management, possibly communications counsel and other specialised players) in person or by phone and provide a briefing to everyone together. Much time and energy is wasted when critical team members get only partial information, and sometimes different and conflicting information.

Assess management's ability to perform. This may be the most critical issue facing the board in any crisis: does management have the capacity to lead the company through the crisis? If the CEO is disabled or dead, or if fraud or other illegal action appears to have occurred, the board must be ready immediately with an alternate leader. Though disastrous, the sudden loss of its CEO is a possibility that can and should be specifically planned for. Sometimes a battlefield promotion will be effective, but often the immediate solution may involve a board member familiar with the issues stepping in. Has the board thought through ▸▸

which members might have the capacity to handle the crisis? Sometimes identifying an understudy for leadership of each critical function in the company can be useful.

If management is not involved in creating the crisis, the board must nonetheless assess management's capacity effectively to handle the situation. The qualities that make an effective CEO in the normal course may not be those most important when managing crisis. Previously successful leaders can be paralysed by shame or self doubt related to the crisis, or may simply be too close to the situation to make the tough choices required. If the CEO must be replaced or temporarily relieved, that action will be easier to take unflinchingly if the board has already gone through the process of planning for emergency CEO succession.

If management does have the ability to lead the company through, the board must remain on high alert, providing the support the CEO needs to focus on the highest and best use of management time.

Functional roles may shift during the crisis, as all hands man the ramparts. What design makes the most sense? Often, it is possible to protect the CEO's ability to focus on critical operations by separating normal course operations from the crisis response activities. Sometimes the best use of the CEO is to focus on operations, and the board can assist with key customer relationships, or with managing relations with regulatory and investigatory bodies.

Plan for additional resources that may be required. Do the company and the board have the necessary assistance from counsel (corporate, bankruptcy, regulatory, independent counsel to the board), from financial advisers (investment banking, accounting) and from communications counsel and other special expertise? Relying on traditional advisers may not be sufficient, as corporate counsel, for example, may not be best equipped to advise in an environmental emergency, or may be too close to the company to give impartial advice as to the advisability of a possible bankruptcy filing.

Monitor financial resilience. Among the most important resources required to weather the storm is cold hard cash. How much cash does the company have? Review additional liquidity resources, the availability on current lending facilities, and any unpledged assets.

How much cash is needed? The answer to this is often more complicated than it seems, for two reasons. In the normal course, payables and receivables often are treated routinely, without much management attention. Actual schedules of expected inflows and outflows are often not prepared, and preparing such a thirteen week cash flow forecast is the first thing an outside turnaround manager will seek to do. It can be enlightening, and will provide a good sense of staying power.

Second, the crisis itself will create new demands on cash as company sales may be affected, trade terms changed, professional fees must be paid, and even sometimes fines and judgements must be paid. It will behoove the board to pay close attention to cash, to covenant compliance, and of course to solvency. If a bankruptcy filing must be contemplated, a well planned filing will do much to minimise its impact. A sudden filing due to lack of cash is to be avoided if at all possible. Pay heightened attention too to the timely payment of tax and payroll obligations and any benefit payments.

Ensure that a comprehensive communication plan exists. It is simple to say 'tell all' but more complex to do it well. Of course, calm consistent communication delivered quickly from the outset is critical, but it is worth paying careful attention to the communication plan for communicating with the public and the media, and with shareholders, lenders, and vendors as well as customers and employees. Special attention must be given to switchboard operators, security guards, employees in other legal jurisdictions, and those who speak other languages, as well as employees in transit. Importantly, the board needs it own communication protocol, with an identified spokesperson and a consistent process for handling the many requests that will come to board members for information.

Finally, it can be tempting to see a crisis as a point in time, but the impact of it typically goes on for a long time. Continuing vigilance is needed, and much fortitude. The rules for survival can be boiled down into the following. Plan, don't panic; focus on facts, not rumours or emotion; strive to discern the right thing to do and stick to it; communicate calmly, clearly, and often; accept responsibility without defensiveness; make decisions, and if wrong, make others; and ask for help, listen to all, acknowledge, appreciate, and act.

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If handled well, with dignity and respect for all, crisis can yield great opportunity. Effective leadership can often move from threat to survival to thriving, by capitalising on the tighter bonds and sense of shared purpose created during the emergency, and by celebrating the opportunity for all to rise to the occasion to show what they are made of, and to learn. When the crisis has passed, don't forget to review the plan to assess what worked well and what needs adjusting to be more robust. Another challenge, likely completely different, may be just around the corner. ■

Deborah Midanek is president of Solon Group.