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Responding with Confidence in a Crisis

IRVING LOW

The current business environment is a dynamic one in which risks can escalate at tremendous speed, particularly with the rapid dissemination of information through the Internet and social media platforms. Even small or obscure companies can unexpectedly be propelled into the headlines if an incident goes viral.

Against this context, it is evident that even though most companies have taken precautions and implemented what might appear to be an adequate and effective risk management framework, unforeseen events can and will occur.

In recent months, companies from different industries in Singapore have experienced crises of varying degrees. Some of these affected reputation and market value, such as the short-seller attack against the SGX-listed Noble Group. Some were physical, such as the two consecutive power outages at SGX late last year that disrupted trading at the bourse.

All too often, the fallout extends further than expected. Companies could be hounded by media inquiries, while the government's reactions may increase the visibility and degree of disruption arising from the crisis.

Social media speculation is especially prone to uncontrolled escalation. A case in point is the cyber-attack on Sony Pictures Entertainment in December 2014. The media frenzy only added to the disruption of business operations.

Clearly, regardless of the industry or type of crisis, companies need to have plans in place for coping with such events. Even if matters escalate, there is a greater chance of containment with a crisis management framework in place that is closely aligned with the company's risk management framework.

IMPROVING CRISIS AWARENESS

Crises are rare incidents and are usually one-off. In companies where resources are scarce and day-to-day priorities are pressing, it can be challenging to devote time and effort to something that may or may not happen.

Even so, boards should adopt a forward-looking approach. A good start would be by defining what constitutes a crisis. This definition should be closely linked to the company's risk appetite. Certain events, especially those involving loss of human life, automatically fall under the definition of a crisis. Others, such as incidents involving product defects, may initially seem minor, only to later develop into a major public relations quagmire.

The board should, therefore, understand how various risks may develop into a crisis. The BP Deepwater Horizon oil disaster in 2010 is an example where risks and safety incidents were identified over a period of time but not rectified, eventually contributing to a catastrophic spill.

Boards should also be aware that crises can arise from within the company. For example, McDonald's in the UK and the US suffered significant financial loss and reputational damage when employees rallied for increased minimum wages and better working conditions in late 2014.

If not identified and dealt with, disgruntled employees can act to the company's detriment, often by leaking confidential and invariably damaging information to the media.

BUILDING CAPABILITIES AND CULTURE

A strong crisis management framework, integrated with a risk management framework, is crucial to helping a company ride out a crisis. However, no framework is able to capture, anticipate and deal with every scenario. It is, therefore, critical to develop reaction and response capabilities at all levels of the company.

As most companies recognise, one of the most important capabilities is communication. During a crisis, communication must be a top priority. A lack of clear and open communication would obviously result in loss of stakeholder trust. Companies must respond quickly and positively. Here, stakeholders may include employees, members of the public, the communities in which the company operates, customers, business partners and shareholders.

During a crisis, immediate and transparent communication from senior figures in the company can make a huge difference. For example, when the accounting practices of commodities trading company Olam were questioned by Muddy Waters, the Olam chief executive officer (CEO) called an urgent board meeting to consider response options. Within 24 hours, Olam had issued an official rebuttal while providing regular, on-point media updates to provide the company's perspective.

In contrast, when the discovery of widespread brake defects in Toyota's cars resulted in the recall of millions of cars and closures of manufacturing plants in North America, its CEO did not make a public announcement until late into the event. In fact, the way in which the company handled and communicated the crisis exacerbated the crisis.

MAINTAINING STAKEHOLDER CONFIDENCE

What all these events show us is that when a crisis occurs, a timely, structured and transparent response is essential to maintain stakeholder confidence and stabilise operations.

Stakeholders will judge a company not by how it performs during optimal conditions, but by how it responds to a worst-case scenario.

If a company is unable to quickly and effectively engage its stakeholders, it is very likely it will lose their confidence. This loss will sometimes have a long-term impact on its performance and even its survival.

Although the chance of a crisis occurring may be low, boards should be prepared well in advance with an effective crisis management framework. By the time a critical event occurs, it will be too late. ■