Demonstrating Resilience: The Board of Directors and Crisis Management

During a crisis situation, those threats posed to a company's value and reputation – or even its very existence – will typically go beyond the operational level as shareholders, regulators and legal authorities become involved. Under such circumstances, Board members are often challenged in ways that may be unfamiliar to them as they're drawn into a more active role. Rick Cudworth reviews how they should respond

While many of today's businesses will have some form of Crisis Management Plan in place, such plans frequently fail to address the direct needs of the Board. That's not a healthy situation. During a crisis, members of the Board are often required to support the executive management team with oversight, moral authority and strategic vision. Certain types of crisis – among them litigation, leadership controversies or even the necessary removal and replacement of top executives – could directly involve the Board of Directors.

That being so, ensuring that the Board and the business as a whole is ready and sufficiently resilient to deal with a crisis situation – be it foreseen or unforeseen – is an essential part of good governance. Let's examine the role of the Board in relation to crisis management, then, both in 'normal' times and during – and immediately after – a crisis.

Research tells us that companies can expect a value-destroying crisis event to occur at least once every five years[1]. An organisation's ability to manage such a situation can impact its ongoing survival and viability.

It's also worth bearing in mind that the cost of mismanaging a crisis can be enormous, both in individual and collective term.

As part of its governance responsibilities, the Board of Directors has a vital role to play in ensuring that the executive leadership and the business as a whole is ready. The starting point is to find out whether a Crisis Management Plan does exist. If the answer lies in the affirmative then confirming whether or not that plan adequately defines crisis management procedures for organisation, roles and responsibilities, information management processes, decision-making protocols and communication/co-ordination requirements is key. Each of these areas needs careful consideration before a crisis develops.

Definition of the structure

Defining an effective organisational structure for crisis management is absolutely critical. Put simply, this helps to ensure a more rapid, controlled and consistent response.

Typically, such a structure will distinguish between those individuals who need to act locally 'on the ground', those who require to communicate and co-ordinate across the organisation and with external parties (such as suppliers) and the crisis leadership team, the members of which need the necessary time to be able to think and act strategically and then manage the most senior stakeholders.

What's described here is sometimes referred to as the 'Gold-Silver-Bronze' structure that's commonly used by the Emergency Services and other front line responders when dealing with major incidents.

Crisis management organisation will encompass appropriate support including external assistance and the necessary crisis management office, in turn ensuring that adequate resources are demonstrably applied from the outset.

A particular feature of the response structure must be its ability to transform information flows and decision-making from the normal pace of everyday business into one which is much more able to make decisions at speed and operate under a high degree of uncertainty and ambiguity. Any failure to organise effectively is one of the most frequent reasons why businesses can struggle to stay on top of a crisis situation.

Different role in a crisis

From the public's perspective, the Board is seldom visible. However, a crisis – and notably a leadership crisis – can thrust Board members into the front line. A company and its Board needs to decide where operational issues end and 'corporate crisis' begins. Sometimes, the difference between an operational and an existential crisis isn't clear. One can become the other quite quickly.

The first category is usually the domain of C-Suite executives and those individuals who report to them. The focus here will be on occurrences such as supply chain disruption or weather events that complicate daily business flows. In contrast, a corporate crisis is one that might involve reputation, share price, major litigation, regulatory sanction or even a company's existence.

In preparing for, meeting and then rebounding from a corporate crisis, the Board isn't just in oversight mode. Its members have a direct responsibility to anticipate threats and make quick, far-reaching decisions. These may include pre-populating a crisis sub-committee with specific roles attending to legal, accounting, audit, public relations or industry issues. The process may include arranging for outside counsel or support, or deciding whom to include in sensitive external and internal communications and what (and how) to communicate to employees.

At a time like this, the Board's role may even include having to replace a CEO at short notice or someone stepping in to act in that capacity for a period of time.

The needs of the Board must be thoroughly considered and addressed in the Crisis Management Plan. This will include an assessment of exactly who will take on what role in support of the executive leadership and under what circumstances, how the Board will exercise governance and oversight during and immediately after the crisis and the actual degree of support the Board may need in fulfilling these responsibilities.

No time for 'on the job' training

Crisis experience may not be at the top of the checklist when Boards recruit new members. In truth, the prospect of dealing with a bad situation is probably not the reason people seek or accept Board appointments.

In the final reckoning, though, experience is still the best training and a valuable quality to build into a Board's mindset. It's hard to weather a storm with a group of people who came together with smooth sailing in mind. Nor is a crisis the right time to discover disharmony. Any cracks in the armour are going to become very visible and extremely costly.

The same necessity for experience is true for executive leadership and all those in the organisation who'll be involved in responding to a crisis. Advances in mobile communications technology mean that speed, openness, transparency and honesty are essential even when only limited information is available.

Given that a crisis is not an everyday occurrence, how then do you build the necessary experience? There's only one way forward. Regular, formal crisis simulations will not only enhance experience in handling real-life situations, but they can also rehearse and embed crisis decision-making protocols, information flows and communication and help determine how well the Crisis Management Plan – and those involved in its delivery – will really function during the hour of need.

As with the absence of consideration of the Board in many Crisis Management Plans, so too the Board is often not involved in crisis simulations. Not only do constituent members miss out on gaining possibly vital experience themselves, but other important areas will be overlooked. For example, an excellent opportunity to gain first hand assurance of the organisation's readiness to deal with extraordinary situations is missed, so too the chance to assilimate a thorough understanding of – and confidence in – the structures and support processes that would come into play.

Rick Cudworth: Resilience and Crisis Management Leader and Partner at Deloitte UK

Assessing lines of authority

The relationship between organisational crisis planning and Board crisis planning takes its cues from the relationship between the

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Reference

[1]Reputation Review (Oxford Metrica and Aon, 2012)

organisation and the Board. Historically, there have been important regional differences in this alignment, although they are appearing to decline. In North America, for example, the CEO is typically invested with significant strategic latitude and may also be the chairman of the Board. In Europe and Asia, the C-Suite may take strategic cues from a more prescriptive Board. Each business should assess these lines of authority and make sure the plan for action in a crisis corresponds to them.

Some CEOs will look to the Board during major threat events. Others may risk the tactic of micromanagement. To avoid misunderstandings when no-one has time for them, it's important to have regular and honest discussions about who expects what and from whom. Often, the end result here is best understood when enacted through simulation.

No matter what the Board's intended role is in crisis management, its members will need timely, accurate and objective information. Even for experienced crisis leaders, a key challenge and skill is to be able to stand back, look from the outside-in and assess how the situation will play out in the short and medium terms.

In addition to management information, the Board may look towards third parties for advice and support. Board members might also consider secure access to real-time operational data. These factors – in other words the 'What?', the 'Who?' and the 'How?' – demand to be considered in advance.

Specific Board considerations

When a crisis situation emerges, Board members may become full-time leaders and remain that way until the threat subsides. Individuals who join a Board of Directors may not expect daily conference calls to be part of the bargain, but such occurrences could turn out to be the most important engagements a person has during his or her tenure.

Who on your Board is expert in risk? Who is the steady PR hand? Who knows how to monitor social media and safeguard reputational risk? Who has been through something like this before?

If you build crisis capabilities into the make-up of a Board, define the role of that Board and agree upon operating protocols to be adopted during a crisis, it will be easier to staff the necessary sub-committees, determine the need for outside advisors and plan roles and responsibilities. Whether the solution is a phone tree or a written protocol, anything is far better than finding out no-one knows who's in charge when it matters most.

Key questions to be considered by the Board of Directors

Under normal business conditions
*Do we have a Crisis Management Plan in place with clear roles and responsibilities outlined? Who is responsible for it?
*Have our Executive Leadership Team members been adequately trained and do they take part in simulation exercises on a regular basis?
*Have our crisis management capabilities been subject to internal audit and external verification?
*What's our perception of our own organisation's 'crisis readiness'? Are we fully prepared and confident?

During and after a crisis scenario
*Do you know the role to be played by the Board during a crisis?
*Have members of the Board taken part in crisis simulation rehearsals?
*Is it clear which member of the Board will be responsible for which element(s) of the business during a crisis?
*Do you know which external advisors you may call upon to support the Board?
*As a matter of course, do you request an independent review in the wake of major incidents and events such that lessons may be learned and improvements made?