



Focus on Building crisis-ready boards

Peter Dent
Global Crisis Management Leader
Deloitte Touche Tohmatsu Limited

Dan Konigsburg
Managing Director
Corporate Governance & Public Policy
Deloitte Touche Tohmatsu Limited

It's different for boards

The view at the top is exhilarating. So is the weather. When crisis looms, board members are exposed in ways that may be unfamiliar – and drawn into an active role that's distinct from what management is going through.

Three out of four business leaders believe a crisis plan would benefit their organizations, yet barely half have a plan in place.¹ Even when there is an organization-wide crisis plan, however, that doesn't necessarily address the board's needs. Yes, the board supports the main plan with oversight, moral authority, and strategic vision. But the board needs a plan all its own for those moments that place it in the eye of the storm.

Threats to a company's value, reputation, or existence go beyond the operational level. Think about who outranks the board: shareholders. Regulators. Law enforcement authorities. If someone like that is involved, chances are the situation calls for a response at the highest level.

Then there are crises that directly involve the board or its members, such as litigation, leadership controversies, or even removing and replacing top executives. Making the board ready and resilient in the face of these threats starts with the composition of the board itself.

A different role in business means a different role in crisis

From the public's perspective, the board is seldom visible. Crisis, especially a leadership crisis, can thrust board members in front of media microphones. By that time, however, a lot should have happened behind the scenes.

A company and its board need to decide where operational issues end and "corporate crisis" begins. Of course, sometimes the difference between operational and existential crises isn't so clear. One can become the other quite quickly. The first category is usually the domain of the senior executives and the people who report to them – things like supply chain kinks or weather disruptions that complicate daily business. In contrast, a corporate crisis is one that involves reputation, share price, major litigation, regulatory sanction, or a company's existence. These may arise

from a number of sources: cyber threats, financial misdeeds, financial disruption, technological or industrial breakdowns, confrontations, or catastrophes that are outside anyone's control. And it may be up to the board to plan for the continuity of the enterprise in the case of an unforeseen disaster.

In preparing for, meeting, and rebounding from corporate crisis, the board isn't just in oversight mode anymore. Its members have a direct responsibility to anticipate threats and make quick, far-reaching decisions. That may include pre-populating a crisis subcommittee with people who excel in specific roles like legal, accounting, audit, public relations, or specific industry issues. It may include arranging for outside counsel or support, or deciding whom to include in sensitive external and internal communications, and whether to alert employees. The board's role at a time like this may even have to include replacing a CEO on short notice – or stepping in to act in that capacity for a time.

This is no place for on-the-job training

One valuable skill a board member may bring to a crisis is having been through one before. Whether an earlier trial ended well or poorly, whether the person in question earned the credit or bore the blame, firsthand experience ingrains more than knowledge in a person – it also instills confidence and poise under pressure. It's true that crisis experience may not be at the top of the checklist when boards recruit new members. A board member's crisis service on one board may seem to be a distraction from service on another. And the prospect of dealing with a bad situation is probably not the reason people seek or accept board appointments. But in the final balance, experience is still the best training and a valuable quality to build into a board's mindset. It is hard to weather a storm with a group of people who came together with smooth sailing in mind.

Nor is crisis the right time to discover disharmony. When the job suddenly expands far beyond quarterly reports and shareholder meetings, any cracks are going to become very visible and very costly. Only a dedicated crisis plan can set the board on a path toward crisis resilience, and only formal simulations can determine how well the plan and the people will really function when they have to.

¹ "Crisis Survey 2013" (Burson-Marsteller, 2013)

A world of crisis triggers

Crises can be malicious, accidental, or completely random. Most organizations are susceptible to threats from more than one of these potential triggers:



Know the lay of the land

The relationship between organizational crisis planning and board crisis planning takes its cues from the relationship between the organization and the board. Historically, there have been important regional differences in this alignment, though they are declining. In the United States, the CEO is typically invested with significant strategic latitude – and may also be the board chair. In Europe and Asia, the senior executives may take strategic cues from a more prescriptive board. Each organization 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 feeling micromanaged. To avoid misunderstandings when no one has time for them, it's important to have regular, honest discussions about who expects what from whom.

No matter what the board's intended role in crisis management is, it needs timely, accurate information. If some board members are accustomed to receiving the information management provides them with, this may require the development of new antennae, and a renewed willingness to ask tough questions. To maintain a 360-degree view of the threats it faces, a board may look to third-party or public data. It may also consider whether it should secure access to the real-time operational data that's usually the province of people lower down on the org chart. Deciding what information to watch is a matter of strategy; making it happen can become a question of technology and processes.

How to start

Know what you're getting into. Membership on a board of directors usually starts with an appeal to your experience, connections, or even vanity. The setting is august, the time commitment limited. But when crisis strikes, board members become full-time leaders – and stay that way until the threat subsides. People who join a board may not expect daily conference calls to be part of the bargain, but they may be the most important engagements a person has during his or her tenure.

Embrace the unglamorous part. Facing down reporters, regulators, and shareholders in a moment of high drama is only part of the crisis task. Before any of that happens, crisis management includes meetings, reading, briefings, and day-long simulation exercises. Before you can master the three-ring circus, you need to embrace the three-ring binder. This is work. But it pays off.

Identity is planning. 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? And who has been through something like this before? If you build crisis capabilities into the very makeup of a board, define the role of the board, and agree upon the operating protocols in a crisis, it will be easier to staff the necessary subcommittees, determine the need for outside advisers, and plan roles and responsibilities. Whether the solution is a phone tree or a written protocol, any solution is better than finding that no one knows who is in charge.

Special boards, special considerations

No organization, nor every board, has the same responsibilities – and in some cases, the right approach to crisis planning changes to match the circumstances.

Family-owned organizations

When the board reports to a family owner, crisis can also come from unusual directions – and it can include things the directors aren't accustomed to discussing with the family. A lack of succession planning is one vector for trouble. Crisis can also arise from ineffective family decision making or from emotional disputes.

Boards and families both tend to avoid these tough conversations until it's too late. It can help defuse problems if they get ahead of topics such as estate affairs, future leadership positions, family members' future plans, preparing the next generation, conflict mediation, and how closely the company's market position is tied to the personalities of the founders.

It can be hard to do two things at once – to recognize the divide between business and family matters while paying careful attention to the places where they overlap. One mechanism that can help address this is the creation of a family council that sits alongside the board of directors. On a higher level, though, the best tonic is open and honest communication.

State-owned organizations

A crisis may place considerable pressure on corporate governance of a state-owned entity (SOE), but it may also present a unique opportunity for independent directors to prove their value to the company. An SOE has particular obligations to a society and an economy – and when the contribution it makes comes under threat, experienced board members can play an important advisory role in the space between the organization and the government to which it reports.

If public-sector officials reach out to executives directly in a crisis, board members may feel their roles becoming diluted. It's also possible that government representatives on the board will feel unwilling to expose themselves to criticism by providing tough guidance when it's needed most. But if the board prepares for a central crisis role and asserts itself when the moment arises, members can use their experience to make calls that decision-makers above and below them aren't able to make. And when the crowded hour has passed, they can leave a legacy of stronger governance and better crisis resilience.

Boards in action

Serious violations, serious remediation

A global technology company faced a criminal investigation following charges of bribery and corruption. As police raided homes and offices, prosecutors made arrests, and the share price tumbled, the board's Audit Committee determined to get ahead of events and restore trust by carrying out a comprehensive investigation of its own. It established an independent Compliance Committee and retained outside legal and forensic help. Advanced analytics, personal interviews, transaction analysis, and business intelligence helped the company understand where violations had occurred and where controls had broken down – and indeed, the investigation did uncover improper acts. Though the potential fines were large, the World Bank and regulators in multiple countries credited the company for its transparent investigation and diligent remediation. Today the company is viewed as a leading practitioner of anti-corruption compliance.

No one knows when a turn of events will demand the best your organization can deliver. No matter what form it takes—whether it's front-page news or a quiet struggle only you know about—crisis is a moment of truth that tests your readiness, resilience, and character.