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Stepping in:
The board's role in crisis management

Introduction

A true crisis brings a punishing level of scrutiny and pressure that can be overwhelming if an organization is not prepared to manage it. A good crisis response is, of course, about swiftly fixing what has gone wrong, but it is also about being externally focused—communicating to stakeholders, shareholders, regulators—and it is about making big decisions that have a significant impact on the future of the organization.

In a crisis, when the stakes are high and scrutiny is intense, the board has a unique role. Stepping in may be uncomfortable, but stepping aside is not an option.

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Nearly 60% of respondents of more than 500 crisis management experts believe that organizations face more crises today than they did 10 years ago.[i]

Our own experience working with clients tells us that the frequency and velocity of crises is growing. Just think of the last decade that has brought us the banking crisis, the Arab spring, debilitating cyber-attacks on government, on political parties and on private companies, terrorist attacks, not to mention high profile governance failures.

In this increasingly volatile environment, it is no longer possible to say 'it can't happen to us' or 'we'd manage.' In post crisis reviews we increasingly see investors, regulators and other interested stakeholders scrutinizing the crisis planning that was in place prior to the event: how often were plans tested and exercised? How was senior leadership of the company involved with crisis management and its organization? How and when was the board involved?

Executives are responsible for the organization and establishment of a crisis management capability; boards are responsible for safeguarding the governance and viability of the organization. So crisis management should be a central preoccupation for the board of every organization, small or large, local or global. Why, then, do we see so few boards actively participating in, overseeing and assuring crisis management in the way they do other risks and contingency plans?

Note: We do not address any particular board governance model in this publication. Whatever the model; Anglo-American, Nordic, German or Japanese, etc., there is a common purpose, which is the strategic oversight of an organization's viability—its operational resilience, financial well-being and reputation. It is on this common purpose and responsibility that we focus here.

WHAT DO WE MEAN BY 'CRISIS'?

A crisis is not a 'bad day in the office'. It can make or break organizations and careers. It will always require an executive-level response.

The British Standards Institute (BSI)'s European Guidance on Crisis Management defines a crisis as 'an unprecedented or extraordinary event or situation that threatens an organization and requires a strategic, adaptive, and timely response in order to preserve its viability and integrity'.[ii] A crisis can emerge from an incident or from a longer-running issue. It is characterized by an acuteness of scrutiny, pressure and organizational impact with a need for speed in decision-making, action and communication.

There are variations to this, of course, differing based on an individual organization's purpose, objectives and scale. But common to every crisis definition is a recognition that a crisis can impact an organization's ability to meet its objectives.

WHAT DO WE MEAN BY CRISIS MANAGEMENT?

Crisis management is a special, strategic discipline that enables an organization to leave 'business as usual' behind, and to enter a different mode of governance and operations, designed to get decisions made, implemented and communicated quickly, with clear—but different—designated authorities.

Crisis management starts long before a crisis hits. It should be an integral part of the wider organization's resilience measures and not simply something to deploy when all other options have failed.

WHY SHOULD THE BOARD ACT NOW?

The board should take a keen interest in the crisis capability of its executive teams.

With its fiduciary duty and its responsibility to protect the interests of shareholders, this sits squarely within the board's mandate to oversee good governance and management of risk. It should be one part of the board's normal assessment of the ongoing viability and sustainability of its business.

The BSI[iii] refers to 'amplification' factors that can tip an organization from business as usual to crisis: the tempo of events, the complexity of the problems faced, the severity of the problem and a prevailing atmosphere of uncertainty. These are each excellent guideposts for boards as they consider whether what they face is a crisis, or not. Let's look at each of these in turn:

Increase in the tempo

Earlier thinking about crisis management used to center around a period in the earliest stages of a crisis before shock turns to anger: the small window where the benefit of the doubt wins out. Crisis experts advocated being proactive and 'getting out in front' of external interest in a story. Today, this window has all but closed as the move to consume news on social media has grown and minute-by-minute coverage of an unfolding situation is visible to all.

Today's crisis response needs to be sure-footed and well-practiced to win in this environment. The board needs to know its role in advance, not learn about it upon first contact.

Increase in complexity

Our inter-connected world brings increasing complexity and dependency with global supply chains vulnerable to disruption by international events—natural and man-made. Technology has altered the balance of risk between organization and individual. Lone individuals with the power of technology and social media, for example, can wreak havoc across an organization.

It is this complexity that makes it increasingly difficult to make sense of the core issues at play and the trade-offs that need to be made.

Today's crisis response demands more frequent moves from business as usual to a crisis management mode of working. The board needs to understand why, when and how the organization moves to a crisis response, and to be reassured that the response is effective.

Increase in severity

Across many geographies and markets, we see a trend towards greater regulatory intervention in business operations and larger sanctions when things go wrong. Perhaps due to the greater complexity mentioned above, the desire of public bodies to supervise and to sanction has grown.

The threat of large fines for violations, levied across national borders, and the scrutiny that rests on individual leaders, makes organizations more vulnerable to crisis, and makes crisis management a material and strategic concern for boards of directors.

Atmosphere of uncertainty

We are constantly being told that the world we live in is growing in uncertainty. Environmental degradation, disruptive technologies and economic and political nationalism—manifested through trade wars, populist resurgences across Europe and increasingly divided political debate—all contribute to an atmosphere of uncertainty for businesses across the world.

Organizations must prepare for critical situations that they can anticipate, and those that they can't. Planning for 'unknown unkowns' requires good process and strong leadership rather than a 'playbook' approach with pre-agreed decisions.

BEFORE A CRISIS

The board must challenge crisis planning activity. It must also have its own plans in place.

Take a broad view of risk

The list of potential crises that we can predict is limited only by our ability to conceive of them and so the board should not focus narrowly on 'domain risks'—those risks that are particular to the business, that are severe but plausible. The collective experience of a board should be used to bring a broader view of the environment and to ask 'what if this happened… what if our mitigation fails?'. Interrogate the impact of the 'what ifs' and seek assurance of financial and operational resilience to manage them.

Inquire if the organization has formally identified potential 'novel' or 'black swan' type risks. This is an area that most risk assessments miss, but can prove valuable when constructing crisis management plans and subsequent exercises.

Scrutinize the executive team's Crisis Management Plan

A strong crisis management policy should explain how the organization thinks about and prepares for a crisis as a distinct component of a wider resilience framework. It should have a clear definition of a crisis and should explain how strategic crisis management fits with the wider resilience framework. A crisis management plan must empower the right people and teams at the right level to make, implement and communicate decisions.

A clear escalation model is crucial in setting out different levels of a crisis, each of which with clear roles and responsibilities. Importantly, crisis plans should be only a handful of pages long. They are not a step-by-step guide for what to do next, but a set of rules within a framework in which good decisions can be made, implemented and communicated.

We see a trend towards adopting a playbook approach to crisis management, but this has it limits. Having helped many organizations in the midst of a crisis, we have learned that crises rarely unfold in the way the playbook predicts. Playbooks for executive-level teams often provide a false sense of security and a narrow view of the world. By their nature, crises are dynamic: good people, working to a sound process, are essential to fill the gaps that the crisis inevitably leave open.

Seek reassurance that the plan is simple but robust and that executive leadership is ***ready for anything*** that might happen… ***not ready for everything*** it can think of.

Ask about exercises

Having a plan is one step to a coordinated response, but plans need to be tested to make sure they are fit for purpose. Teams need to be familiar and comfortable using the plans. Crisis exercises are the best way achieve these goals and embed different ways of working. There are different ways to test, or 'exercise' your plan, suited to different teams and different levels of crisis maturity. Scenario walk-throughs are best for inexperienced teams and untested plans; table-tops offer a more discursive environment and simulations provide a fast-paced stress test involving multiple teams. The latter should be reserved for the most mature teams. Board members should individually attend these exercises either as a participant or an observer. We've seen that this can provide the board with first hand visibility into executive leadership's preparedness. Attending these exercises also allows board members to see if the executives are fit to execute their roles prescribed in the crisis plan.

Make sure a regular pattern of testing is in place and the outcomes are documented in a post-exercise report. The board should challenge the findings of the report and should focus on implementation of lessons learned.

WHEN A CRISIS HITS

The board should play a supportive internal role, not a public-facing one; it must retain its independence, but must also be prepared to intervene if the management team is compromised, or not acting in the interests of shareholders.

Active in the right way

Leadership in a crisis is not the same as in business as usual: demands become exponentially greater and it becomes harder for leaders to execute their role. Usual ways of working must be adapted, processes simplified, authority delegated. Directors should resist the urge to jump in and possibly hinder management's ability to do an already difficult job. We find that the board adds most value when it provides critical oversight, long-term planning and strategic support, and helps to engage key stakeholders such as government and business partners.

The ability of the board to fulfil this role relies on its strength of relationship and exchange of information with the executive team. This is often about having the right process that sets out how situation updates are provided, who will they be given to and how often.

Being the CEO of an organization in crisis can be a lonely place. Having the confidence and counsel of the board can be vital, and the Chair of the board is well-placed to be a 'critical friend' in these difficult hours, days or even months after a crisis strikes.

We are often asked whether and when the board should have a public role and act as spokesperson for the organization. Our advice is that this should be avoided, unless confidence in the capability or integrity of the leadership team is in question.

Times when greater intervention is needed

There are times when the board may need to play a greater role in a crisis, when management is unable to provide the necessary leadership. In situations involving corporate misconduct or specific governance issues, the board sometimes must take steps management cannot. The biggest role a board can play, and usually its last resort in a crisis, is to take the reins from management and step into an executive role. This is a very low probability event—and most boards are not prepared to take on this role, particularly in the full glare of shareholder and press scrutiny. Boards should plan for these events and agree their roles and responsibilities in advance, so that crucial time is not lost working this out in the heat of battle. It needs to set out who would assume which roles, what committees and/or working groups should be established, how decisions would be made, and what external support would be called upon.

POST-CRISIS

The board has a special role in helping the organization to 'return' to a new normal by investigating the cause of the crisis, looking for and acting on evidence of wider cultural problems that may have caused it, and identifying opportunities to change, in order to gain competitive advantage and greater resilience.

Review crisis plans, processes and competency

Lessons learned after the crisis are usually focused on the performance of the teams involved in the response—the crisis management team, the communications teams and other supporting country, business or functional teams. Did processes work? Did information flow well? Was communication with stakeholders adequate and timely? If not, why not, and what can be done to improve? This will usually lead to reviews of plans, training and testing of people. Where there is regulatory scrutiny or official inquiries, convened by third parties, this self-assessment will be an essential process to go through.

Take a deeper dive—ask the difficult questions

But the aftermath of a crisis gives the board licence to ask difficult questions, beyond its usual remit, in the effort to reassess resilience and vulnerabilities. How an organization performs when tired, stressed and defensive gives a new perspective that boards can benefit from exploring. Why did it come to this? What cultural traits across the organization exacerbated the situation? What is the long-term plan to achieve a more crisis ready culture?

When we are asked to provide a crisis post-mortem for clients, or to gather feedback on an exercise, we often hear about the organizational culture: 'how things are done here'. Culture should rightly mirror an organization's purpose and values. A Silicon Valley outlook in a public utility would not be ideal, and vice-versa, but ways of working in peacetime should not undermine the ability to work in a crisis. Then there are comments such as 'we have a good news culture' (we brush over problems) or, 'we like to be consultative' (we can't make a decision), or 'people are worried about raising problems' (we are scared of our leaders), 'to get on in this business you need to...' (incentives drive risky behavior). This is where the strategic view point, the authority, and the independence of the board can really come into its own.

Broaden the learning

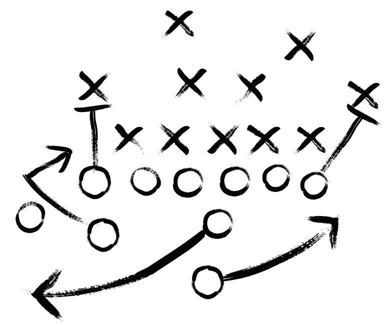
Often, a crisis at one organization can bring change for an entire industry, through regulation, changed consumer expectations or behavior. This may be unwanted or desirable, possible or inevitable. The board can support the move to a new normal by working with the executive team to understand what a favorable outcome is, and how it might get there. Furthermore, boards can learn from other companies on how they responded to and addressed a crisis; regular reviews of case studies can make an abstract or theoretical discussion practical and relevant.

Find the opportunity

No leader wants their organization to face the pressure of a crisis. But when looking back, a critical event can enable a transformation in the organization—for the better. The 'new normal' for the organization might look very different—in governance, strategy, regulation. Is there competitive advantage to be gained in making a change? What strategies, decisions and directions are now on the table for discussion that perhaps were not before? The board should be ready to support change, and direct change, or even be part of the change.

FINAL THOUGHT

A crisis response is firmly in the domain of the executive, requiring executive direction and hands-on operational intervention to make, implement and communicate decisions under the toughest of circumstances. But crisis response is also about being externally focused: stakeholders, shareholders, regulators and others will all be in the mix. With this scrutiny, and with the organization's viability potentially on the line, the board cannot be a bystander. Stepping in might feel uncomfortable but stepping aside is rarely possible. There are actions boards can take now to give themselves comfort that the organization is prepared to manage a crisis. As well as helping the executive, they will also help themselves.



QUESTIONS TO ASK	STEPS TO TAKE
Do we have a documented Crisis Management Organization (CMO)?	Establish one and evaluate it.
Do we conduct at least one board level crisis exercise each year?	Discuss with senior management the difference between an incident and a crisis. A crisis that threatens the viability of the business will involve the board—so test the CMO.
Should a particular board committee take responsibility for this?	Yes, if your company has a risk committee it could sit there. Or it may be worthwhile having a committee focused solely on crisis management to report back to the full board.
Do we have a plan to keep stakeholders informed?	Review your stakeholder list and communications plan. Do not overload the CEO/President in a crisis.
Who will communicate with key investors?	Probably either the Chairman, Senior Independent Director or CEO/President. Decide this before a crisis strikes.
Do we have a plan for disclosure in a crisis?	Make this part of the CMO action check list.
Do we understand the value of our reputation and steps needed to safeguard it?	Consider a reputation review, particularly in the context of principal risks.
Are the board and senior management ready now for a totally unexpected crisis?	Ask and answer this question at the board level at least once a year.

Q&A with Sir James Burnell-Nugent

Q: Sir James, what is your view on the role of the board in crisis management?

A: The enduring role of the board to oversee, assure, support and challenge applies to crisis management as a critical component of risk mitigation. The board need to understand what arrangements are in place and be satisfied with them. And they must be prepared and ready to play their part should a crisis arise.

Q: What about individual non-executive directors (NEDs) in crisis situations?

A: Support for the Chairman and management will be vital. Also time for thinking when management will be under immense pressure. Some NEDs may have particular expertise in the domain of the crisis, but this is best offered 'behind closed doors', away from the limelight, so as not to cause any confusion with stakeholders, especially the media.

Q: Are there some particular points for boards in the readiness of the crisis management organization?

A: As part of the board's regular reviews of principal risks, the board need to ensure that crisis management has been factored into mitigating the effects of a crisis, should any of those risks crystallize. The crisis management organization also needs to be ready for the totally unexpected crisis, unrelated to the risk register. Boards should review the crisis management organization, I would suggest, annually. They should also be prepared to find the time for their own participation in high level exercises.

Q: We see plenty in the media about the impact crises, particularly with cyber. How can non-executive directors help with preparation?

A: In addition to overseeing the organizational points I have mentioned, NEDs can help with horizon scanning. See if crises in other areas of business might strike your own company. Challenge senior management as to whether they are thinking about how what is happening elsewhere might affect them. Encourage management to think the unthinkable. One day they will be grateful!

Q: Should the board be concerned about reputational risk in a crisis?

A: Actually it is a greater challenge than that—boards should be concerned about a crisis that is driven by loss of reputation. These are the most dangerous 'black swans'—a reputational crisis, gathering velocity through social media, that threatens the viability of your business. Getting on top of such a crisis requires the swiftest and most decisive action. It is essential that executive and non-executive roles have been agreed in advance.

Q: Do you think the board has some work to do once the crisis has passed?

A: Yes. Management will be busy adapting to the 'new normal'. So this is the time for the board conduct a calm review of the crisis, how it was handled and how a future crisis can be prevented or managed better.

Q: Are you suggesting that unidentified reputational risk should be on a company's risk register?

A: Most definitely. My three key points are that reputational risk should stand alone, as well as being a party to all other risks; that a well-honed crisis management organization is a key component of risk mitigation for all principal risks; and that the crisis management organization should be tested and ready for the totally unexpected, as well as the possible.

Admiral Sir James Burnell-Nugent

Admiral Sir James Burnell-Nugent spent 37 years in the Royal Navy, his time culminating in being Commander-in-Chief Fleet—effectively the CEO.

He has worked within a portfolio of non-executive roles in the private and third sectors across defense, security, marine science, renewable energy, education, investment banking and various charities.

Whether as Chairman, Non-Executive Director or Senior Advisor, he has developed post-military expertise in leadership, good governance, strategy development, ethical behavior, risk management, crisis response and business development.

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