



Dealing with the Unforeseen



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Great companies might not be able to predict the future, but they are ready for whatever fate throws their way. The *FTI Journal* examines best practices from a region familiar with crises.

Anyone who predicted in the beginning of 2008 that some of the world's leading financial institutions would be wiped out, that others would require rescuing via massive government bailouts or that the global economy would teeter on the brink of a new Great Depression would have been laughed at.

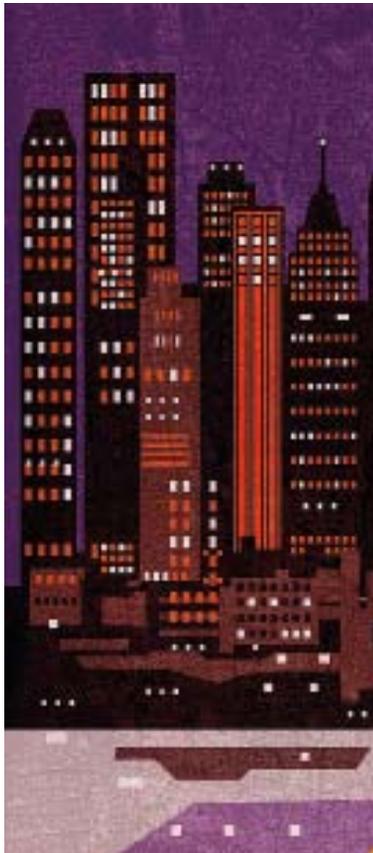
The size and speed of the financial tsunami last fall illustrated how ill-prepared the corporate world was for such a meltdown.



While there are now some early encouraging signs that the worst may be over, uncertainties still abound. This is precisely when organizations should assess their ability to handle the unforeseen and to make wise decisions in crisis environments.

From a corporate perspective, the most common crises are generally found in three key areas:

- Natural disasters – including floods, fires, typhoons and earthquakes;
- Environmental and health-related problems – including epidemics, accidental spills, hazardous material issues, nuclear or chemical scares, sudden reversal of government policy or the intervention of NGO environmental groups;
- Man-made events – including arson, sabotage, terrorism, aggravated labor issues and the public exposure of substantial



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corporate fraud or corruption, resulting in threats to the enterprise. In Asia, we are routinely exposed to all of these risks. Natural disasters have occurred and continue to occur in South Asia and elsewhere in the region, and there is always a threat that Tokyo or Osaka will experience a major earthquake.

China is particularly vulnerable to health-related problems, given its explosive growth and attendant environmental problems. Over the past year, China has experienced widespread chemical-related problems and issues involving tainted milk and other food products. These incidents have had a global impact since China is increasingly the workshop of the world. Within China, it was recognized that these issues could potentially pose a threat to the legitimacy of the ruling party, and possibly impact internal stability.

From a corporate point of view, these crises issues require careful planning, execution and sensitivity.

In Asia, one of the most common ‘man-made’ crises is in the area of significant and sudden corporate fraud. In the coming months, we are likely to see further disclosures and significant failures, particularly related to corporate malfeasance. Companies need to be able to react swiftly and effectively in order to preserve their brand, reputation or market valuation.

Many companies have developed plans to deal with business interruption and continuity plans, perhaps following the occurrence

of a ‘set piece’ event (e.g. a natural disaster or environmental crisis). Unfortunately, most organizations are ill-prepared to deal with the practical implications of substantial corporate fraud, terrorism or other man-made crises. Our experience is that the larger the company, the less likely it will be able to respond effectively and in a timely fashion to avert the fallout of a major crisis.

Larger companies frequently seek to identify risks and combat them by utilizing risk registers and other mechanical measures. These are helpful but not sufficient. The key after having conducted this process/exercise is to develop practical and realistic plans to actually deal with the problem in a hands-on manner.

How Prepared is Your Company to Handle a Crisis?

Company directors should be asking a number of questions:

- Do we have systems and protocols in place now?
- Have they been tested?
- Can we respond quickly and efficiently to a crisis?
- Do we have an effective infrastructure in place?
- Can we find the designated people who are part of our crisis containment team?

Directors need to know that in times like these, the company has sufficient resources, both internal and external, to respond to any major corporate emergency or challenge.

In the experience of FTI-International Risk, the first 48 hours from the onset of any crisis or emergency is the most critical period. The key to success is to support senior management in mobilizing resources, focusing them on resolving the core issue while also minimizing the impact to personnel or disruption to day-to-day operations. It is important, therefore, that the crisis containment team is activated at the earliest possible opportunity.

Where it is evident that management does not have the necessary knowledge or experience 'in-house,' organizations should seek the support of an independent risk mitigation consultant. For the first few days of the crisis, there is a need for someone, often an external firm, to act as the 'aggregate' to hold together the various disparate elements involved in the corporate response to a crisis situation. Organisations with matrix management structures are often ill-suited to deal with sudden and unpredictable events, which to be correctly addressed require a defined leader, and a clear chain of command with no room for equivocation, internal politics or finger-pointing.

While the size and composition of crisis containment teams in corporations varies according to their size and geographic disposition, they are usually comprised of elements of senior management, finance, operations and legal. Externally, specialist consultants in both crisis containment and crisis communications are often retained. Many public relations firms are not specialists in crisis communi-

CRISIS CONTAINMENT AND RESOLUTION

Throughout the handling of any significant crisis, the designated crisis containment team should be regularly addressing and readdressing the following issues:

- Is this an enterprise-threatening issue?
- Do we have sufficient resources in-house to deal with it?
- What is the likely long-term financial impact on the bottom line?
- Have we plugged all immediate and identifiable gaps to prevent further losses?
- Can the losses be recovered, or are they covered by insurance – fidelity policies, bankers' blanket bonds or a directors' and officers' policy?
- Which controls failed and are we still exposed?
- Who was involved / what damage has been done / what are we doing about it?
- Should an immediate report be made to the police or to other local authorities?
- Is there a requirement to report to regulators?
- Crisis communications – are we prepared to deal with the media even if we have not yet had time to plan?

Crises are, by their very nature, unpredictable, but with a well-designed and tested structure in place, companies can mitigate the damage to their reputations and their share value, while also preserving the loyalty of their customers and staff.

cations, and it is important to make this distinction.

The collective goal of the team should be to facilitate well-informed decisions that are implemented in a consistent and timely fashion. While crises come in all shapes and sizes, the response tends to follow a classic pattern: the initial step is to comprehensively assess 'Ground Zero' and to realistically estimate the damage or likely future or continuing damage to the entity. For example, in the event of a catastrophic fraud or corruption issue, this is often

determined via the swift examination of relevant documents, including phone records, emails and other computer files, meeting schedules, travel patterns, and so forth.

Ninety-five percent of the world's business records are estimated to be in some form of electronic medium. Therefore, electronic evidence recovery and e-discovery protocols are vital in the support of almost any corporate crisis.

Once the team has a better understanding of the situation, efforts can be made to identify possible options, and the relative merits and disadvantages of various courses of action can be discussed.

CEOs are unlikely to be able to manage a significant corporate crisis as well as normal business operations for more than five consecutive days, without failing at both. Therefore, it is imperative that senior management be presented with sufficient information and recommendations to make the best strategic decisions. It is equally important that they be kept sufficiently above the fray so as not to be over-involved in the minutiae to the detriment of the ultimate objective of 'seeing through the crisis and visualizing its resolution.' ■

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