

Practical Crisis Management

Crisis can hit a business with varying levels of severity and impact depending on the size, nature and complexity of both the issue and the firm; however the fundamentals of effective crisis management remain the same.

A crisis might be triggered by internal factors for example the actions of a rogue employee, internal control failures or product/ service issues or; its root cause might lie in external events perhaps criminal activity associated with its customers, third party claims or regulatory enforcement action.

Regardless, the negative impact on the firm is likely to include financial loss, reputational damage and regulatory and/ or criminal action (to suggest but a few).

Dealing with a crisis can also impact a firm's ability to maintain "business as usual". The additional drain on resources often at a senior level can impact service delivery, leading to an increase in errors, claims and complaints. Appropriate prioritisation of resources is therefore essential.

Crisis management, in simple terms, is the process whereby the firm will identify the risks, assess its position, manage and respond to the situation and lead the business to recovery.

Crisis Management Plan

Irrespective of the type or severity of the crisis, a Crisis Management Plan, tailored to suit the business, and flexible enough to be adapted to suit a specific crisis, is essential.

Firms small or large are just as likely to experience crisis at some point and being prepared enables swift action to be taken without any 'knee jerk' reactions.

There are a number of basic steps to consider as part of a crisis management plan. Whilst these are reflected as 'steps' below, it may be appropriate to complete steps in tandem, to vary the order as the need arises and to add additional steps to suit the situation.

1. Appoint a Crisis Project Manager

And a team representing all relevant key business functions and have them report regularly to the Board. The team should include the CEO as difficult and swift decisions are likely to be required. Financial as you may need budgetary approval for external assistance. HR as it may involve employee disciplinary process, Internal Auditor and so on. Ensure adequate resources are made available including cover if resources are taken from within the business.

2. Prepare a Crisis Management Plan

Consider your goals and how to achieve them. E.g. minimise loss to shareholders, avoid regulatory sanction or reputational damage. Ensure specific responsibilities for actions required and use a format which can be easily shared and progress tracked.

3. Engage Professional Advisors

Consider areas around legal, regulatory and PR. Ensure that you clearly identify who the advisors will be acting for and consider any potential conflicts of interest; especially with rogue employees or where an administered entity is involved which may have same board members as lead licensee. Consider Chinese walls where necessary and note that on some occasions more than one legal advisor may be necessary where conflicts are identified.

4. Disclosure

Consider timely and appropriately balanced disclosures. Who are the interested parties - public, staff, partners, stakeholders? Consider regulatory notifications and remember to provide updates on a regular basis. From experience an open, honest and transparent approach is beneficial and builds trust. Consider if shareholders should be informed immediately and if not, then at what point?

5. D&O Insurer Notification

Early notification to D&O insurers can avoid problems later on. If an administered entity is also involved, ensure that notifications are made to both insurers. Submission of a potential claim can create a difficult decision for Directors. The policy will almost certainly require prior consent for the appointment of professional advisors (legal, regulatory etc.); however by the very nature of crisis management, immediate action is often demanded.

Based on experience in this situation, if appointments are made ahead of consent from the D&O insurer, check the hourly rates before appointment, regularly ask for fee updates and challenge any unclear time on the clock. Keep evidence of the above and advise the insurer at the time of appointment of the actions you are taking and the reasons for proceeding (to prevent further escalation of situation). Each insurer is, of course, different however evidence of diligent behaviour is important.

6. Key Messages

Ensure that there are consistent key messages, both internally and externally. Rumours can be damaging, and staff should not be unnecessarily concerned, this is damaging to morale and hence productivity and can lead to unwanted resignations. Enquiries by third parties should be met with a controlled and consistent message.

7. Internal/External Investigation

Dependent on the nature of the crisis it may be beneficial to conduct an internal investigation with a defined scope and written report. This could take the form of an internal audit, HR or compliance process. Consideration of the outcome of the investigation at board level will demonstrate good governance. It should be considered that for more serious internal control failures, the appointment of third party to conduct a review, will provide a further layer of comfort to the board, shareholders and regulator.

8. Remediation, Enhance Controls & Training

The Crisis Management Plan should ensure that the remediation process is adequately managed and documented. Attention should be given to the review and enhancement of processes and procedures and updates to internal controls and ensure that any additional training needs are identified and appropriate training prepared and delivered. Monitoring of the effectiveness of the changes is also essential part of the follow up process.

Crisis Management Governance

Alongside implementation of the Crisis Management Plan, attention should also be given to effective governance:-

- Evidence board oversight
- Update the business risk assessment
- Maintain complete and up to date 'crisis' file
- Document all decisions made in writing
- Provide regular updates to relevant parties
- Co-operate fully with the authorities
- Be honest, open and transparent

In Summary

At some point your firm will almost certainly encounter a crisis. A good Crisis Management Plan will ensure that you are fully prepared and equipped to deal with the crisis in a controlled and co-ordinated manner.

We would be delighted to answer any questions you may have about CRISIS MANAGEMENT or any other areas of compliance, risk or governance. Just give us a call or drop us an email.



Sharon Alvarez
Director

Important - these notes are prepared for guidance and do not constitute advice. Should you wish to take any actions as a result of the content you do so at your own risk. For specific advice relative to your business you should contact Jo or Sharon and we would be delighted to discuss your needs.

Resolve have considerable experience in this area and are able to provide assistance with CRISIS MANAGEMENT as well as other compliance and governance matters, independent reports or remedial work. We can offer a flexible and practical solution. For further details please either contact us or visit our website www.resolvepartners.net.

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