Crisis Management for Companies

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Crisis happens more than we imagine.

They are not always easy to see unless they affect our own lives.

What is Crisis?

- A crisis is anything that has the potential to significantly impact an organization.

What is Crisis Management?

- The overall coordination of an organization's response to a crisis, in an effective, timely manner, with the goal of avoiding or minimizing damage to the organization's profitability, reputation, or ability to operate.
- Crisis management involves identifying a crisis, planning a response to the crisis and confronting and resolving the crisis.

Crisis management has four objectives:

- Reducing tension during the incident;
- Demonstrating corporate commitment and expertise
- Controlling the flow and accuracy of information
- Managing resources effectively

The Crisis Life Cycle

- Stage one: The Storm Breaks
- Stage two: The Storm Rages
- Stage three: The Storm Passes

1- The Breaking Crisis

- Control seems to be slipping out of the company.
- Lack of solid detail about the crisis. Hard-to-provide information demanded by the media, analysts and others.
- Temptation to resort to a short-term focus, to panic and to speculate.
- For a period of time, everyone loses perspective.

2- Spread and Intensification of Crisis

- Speculation and rumours develop in the absence of hard facts.

- Third parties- regulators, scientists and other experts – add weight to the climate of opinion.

- Corporate management comes under intense scrutiny from internal and external groups.

3- Rebuilding Needs

- To manage reputation. There are opportunities in a crisis to build positive perceptions of the company or product that last beyond the crisis period.

- Company communication/ culture. The company embarks on a long-term programme to tackle management issues and communication problems that exacerbated the crisis.

Problems and Challenges in Crisis Decision-Making

- Surprise and hesitation. The shock of a crisis can create a delay in response that allows your critics and the media to fill the gap with negative comment and speculation.

- Pressure and stress must be channelled by the discipline of a crisis strategy.

- Mistaking information distribution for communication.

- Treating key audiences as “opponents”.

- Good crisis management is essential, but never a substitute for daily risk management processes.

- Risk management processes should apply to all customers, although depth and detail may depend on the transaction and customer. Transactions involving credit or other types of financial risk should incorporate a risk management process.

The transaction's risk management process

A transaction's risk management process should focus on five areas:

- Knowledge of your client company and product.
- Knowledge of your customer/underwriting.
- Structure and documentation.
- External risk mitigation/portfolio management.
- Crisis management.

1- **Know your product**

- It's important to know your company's risk philosophy.

- What is the risk appetite for this product, geography, customer?
- Does the company's success depend on this single transaction?

- Companies and financial institutions usually know their products very well because they've developed them. However, selling a product in a new or

2- **Know your customer/ underwriting**

- Every company should have a KYC (know your customer) and/or underwriting process for assuming financial risk.

- Financial risk is not just providing financing to a customer; the potential for fines, duties or legal action or dependency on one customer for a substantial portion of sales are additional examples.

- Operational and reputational risks can also have financial impacts. Clearly, greater financial risk requires better risk management and higher compensation. The underwriting process should focus on a customer's capacity and willingness to meet financial obligations.

3- **Structure and documentation**

- There is no single formula for determining an appropriate deal structure. The goal is to achieve a reasonable balance between positive and negative factors.

- Elements of a good structure include: key risk identification and mitigants; proper identification of the legal entities involved; appropriate ties between cash flows and purpose; early warning signals; level of monitoring appropriate to the level of risk; remedies to act when mutual expectations are not met; and proper risk/reward balance and clear communication of expectations between all parties.

4- **External risk mitigation/portfolio management**

- External risk mitigation is an important risk management tool which can also support additional business generation through freeing capacity by distribution of risk.

- Risk mitigation techniques include funded and unfunded risk participations (where one party sells a portion of a transaction's risk to one or more third parties); insurance (a third party insures the transaction for certain events); credit default swaps (one party purchases credit protection from another party, similar to insurance in many ways); and collateral.

5- Crisis management

- Despite a solid risk management process, there will be problems because we cannot predict all crisis events and protect against them. Be prepared to deal with a crisis event and take action immediately – identifying and assessing issues and options and obtaining expert advice as needed.

Crisis Communications

- Good communication is the heart of any crisis management plan. Communication should reduce tension, demonstrate a corporate commitment to correct the problem and take control of the information flow. Crisis communications involves communicating with a variety of constitutes: the media, employees, neighbours, investors, regulators and lawmakers.