CRISIS MANAGEMENT

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In light of the growing frequency of extreme weather phenomena and global pandemics, we must ask ourselves if this level of crisis management is the new normal. Crisis management throws boards understandably into short-term fire-fighting; however, it is extremely important for directors to keep their eyes and minds firmly on the longer-term purpose and values of the organisation.

Boards need to maintain a sense of perspective which will enable them to rise above the need to ensure immediate survival. This chapter offers some thoughts for board members to guide them in their deliberations during these kinds of crises.

What are boards of directors there to do as a top priority? They ultimately exist to take legal responsibility for the organisation. The board hires a senior management team to run the organisation on a day-to-day basis on their behalf. At a time of existential crisis, the board should remember that it is ultimately responsible. Without getting in the way of management, it may therefore feel that it needs to take a more involved role than under normal circumstances.

Specific issues for boards

During a crisis like a pandemic or natural disaster, the board needs to closely monitor management's actions, assessing whether management is taking appropriate steps and providing additional guidance, challenge, and direction where necessary. It also needs to demonstrate accountability to all stakeholders.

In particular, non-executive board members (NEDs) can potentially offer a more independent and objective perspective on board decision-making than may be possible for management. The latter will be immersed in solving the daily emerging operational problems. In contrast, NEDs can keep in mind a more holistic view of the business, the organisation's ultimate purpose, its values, and the likely impact of decisions on a broad range of stakeholders. These are key qualities in the midst of a crisis.

In order to do this, the board needs to remain well informed of developments within the organisation – as well as be attuned to the potentially rapidly changing external situation.

Some of the key questions which boards will need to ask, include the following:

Health and safety

- Safety first. Have we ensured our employees, customers, suppliers and so on are safe?
- Do we have appropriate communication plans in place?
- Do we have appropriate policies to protect employees, the company, and society at large?
- Do we closely monitor the guidance and requirements of government and the authorities, and ensure that they are fully complied with at all levels of the organisation?

Financial impact and cash flows

- What are the near-term and long-term impacts of the crisis?
- Do we fully understand and challenge the assumptions underlying revenue/cash projections?

- What are possible alternative financing arrangements?
- What are the options for possibly restructuring current debt obligations?

Risk oversight

The board will oversee management's efforts to identify, prioritise, and manage the principal risks to business operations during a crisis. In a crisis situation, the board will almost certainly need more regular updates from management between regularly scheduled board meetings. Depending on the nature of the risk impact, there may be key new roles for one or more board subcommittees. These may be newly formed crisis committees, which are specifically targeted on the crisis at hand. The board's consideration of, and decisions regarding, the crisis-related matters should be recorded and justified in meeting minutes.

- How is the board noting their deliberations and actions during the crisis?
- Should we constitute a crisis committee?
- What are the terms of reference (TOR) and objectives of the crisis committee?
- How often do the board and the crisis committee meet during the crisis?

Business continuity

The board should determine if business continuity plans are in place, and if they are still appropriate. Questions to consider are:

- Will our employees be affected? (pandemic/illness, adverse weather such as tornadoes, storms, flooding and so on)
- If so, what is the minimum staffing levels?
- Is remote work access possible across key functions?
- Is our supply chain affected?
- Have we assessed the risks associated with disruption to our supply chain?
- Do we have alternative sources of supply?

- Will our production/services be disrupted?
- What are the risks that the organisation cannot fulfil its contractual obligations?
- What are the relevant provisions in customer and other contracts we have? (force majeure, events of default and so on)
- Is any legal compensation available or owed?
- Do we have insurances covering crisis related losses?

Key person risks and succession plans

- Do we have succession planning for key persons in place?
- Is the planning deep enough? (In case of a pandemic, many managers could become ill.)

The board's functioning

- Is the board able to fully discharge its duties during the crisis? (different ways of holding board meetings, availability of board members, manage adverse weather conditions, manage pandemic lockdown and so on)
- Is the board appropriately organised to provide guidance and oversight as the crisis deepens?

Communications

A clear crisis communications plan will support the organisation to communicate internally and externally in a calm and thoughtful manner. This in turn will help build confidence with stakeholders.

- Do we have a crisis communications plan in place?
- Who are the key stakeholders to communicate with in a crisis?
- How do we communicate with them?

Reporting and disclosure

The boards of publicly traded companies in particular, but also other kinds of organisations, must consider whether they are making sufficient public

disclosures about the actual and expected impacts of the crisis on their business and financial situation.

- What public disclosures are we/should we be making?
- How often should we make public disclosures about the impact of the crisis?

Stakeholders

- How does this crisis affect our shareholders?
- How does this crisis affect broader stakeholders?
- Are we directing the organisation in a way that works for all key stakeholders?
- How does this affect the organisation's reputation and long-term prospects?

Remuneration

- Do we need to revise or suspend incentive or bonus plans in light of the crisis?
- Are the existing pay schemes encouraging the appropriate behaviours of pulling together in a highly cooperative manner?

Annual shareholder meeting

In a crisis such as a pandemic or natural disaster, the board will need to consider if the annual general meeting can go ahead. Should it be postponed or – if allowed by the articles of association – can it be conducted as a virtual-only shareholders meeting or a hybrid meeting (that permits both in-person and online attendance)?

When the crisis makes a substantial negative impact on the organisation, the board needs to consider the following

- What are our going concern and solvency (balance sheet and cash flow tests) positions?

- What are the interests of our creditors?
- When do we need the input and advice of an external insolvency expert?
- Should we accept any new sources of credit or customer orders? If we do, what personal legal and financial problems will that create for individual directors in the longer term?