

From crisis to opportunity

*Get up to speed on
Risk Management
issues*

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From crisis to opportunity

You're in the midst of a crisis.

How can you recover control and extract value from the situation?

Highlights

- 1** Acknowledge the crisis: The most important thing is to admit that there's a crisis and assume responsibility for sorting it out. People may not like the truth, but they can't argue with it.
- 2** Communicate: Make sure that you've identified all your stakeholders. Communicate with them promptly and clearly, using the medium of communication they prefer.
- 3** Take control: Develop a plan to deal with the crisis and ensure that you're the one taking the initiative. Don't let the media drive the agenda.
- 4** Use the pain for future gain: Once you've got the crisis under control, use it as an opportunity to make all the changes you've always wanted to make.

Risks in a 'Connected' world

As our 11th Annual CEO Survey shows, the 'connected' world is facilitating new business models and new ways of working, opening up new markets and providing new means of interacting with customers. But it's also creating new risks.

- **Globalisation:** is facilitating the flow of capital, labour, goods, services and information across borders. But it's also making the containment of risk much harder. The sub-prime mortgage crisis is just one example of how risks can spread from one country or continent to others. Also, in the global business environment the jurisdiction of regulators can extend beyond national boundaries into areas whose cultures and business practices are very different.
- **Connectivity:** is enabling new forms of collaboration, including supply-chain networks and flexible webs of employees and contractors. But it's also making us more dependent on IT. Moreover, many companies outsource their IT to external technology providers, and outsourced IT processes are more vulnerable to political, regulatory and operational interruptions.
- **Community:** the growing emphasis on the integration of a company with its investors, regulators and other stakeholders is bringing business closer to the heart of the socio-political agenda. But it's also exposing companies to risks resulting from how their partners behave. Evidence that a supplier is using unsustainable materials, employing unacceptable working practices or manufacturing dangerous products can wreak havoc on a company's revenues and reputation alike.

Managing a crisis

- An unanticipated crisis can cause immense disruption, cost a lot of money to rectify and damage your company's image if you end up on the front page of the newspapers.
- It's often the simple things that cause problems. And there's usually a human element. Someone, somewhere does something, or fails to do something he or she should have done.
- You can take sensible precautions, like putting a crisis contingency plan in place, but you can't prepare for everything.
- So what should you do if you're facing a crisis? There are four key steps:
 - Acknowledge the crisis
 - Communicate
 - Take control
 - Use the pain for future gain

1 - Risks in a ‘Connected’ world

- **Don't bury your head in the sand.** Many crises arise because companies don't acknowledge the problems fast enough. If things don't make sense or appear too good to be true, they probably are – and, sooner or later, you'll have a crisis on your hands.
- **Own up to the crisis.** It's essential to assume responsibility for the situation you're in; hiding the truth will only make matters worse. It's also better to treat something as a crisis and then discover that it isn't than to underestimate the gravity of the problem and find out, too late, that you're facing a disaster.
- **Lead from the front.** Make sure that the right people are involved in sorting out the crisis, and that they're leading from the front.
- **Don't panic.** Don't react in a kneejerk fashion or look for scapegoats. Ensure that accountability is properly allocated and be ready to respond appropriately, as the evidence emerges.
- **Get an independent perspective.** Appoint an independent, external advisor or advisory panel to ensure that you consider every angle and help you make objective decisions. An external committee will also give you more credibility with regulators, stakeholders and the media.
- **Stick to your principles.** The first step in rebuilding your reputation is to act responsibly. Don't use the crisis to mask other bad news.

Calling on outside expertise

Rocked by the discovery of rogue trading on a huge scale, the senior management of a leading financial institution took immediate action. Within four days of unearthing evidence of the fraud, it told its investors what had happened. It also appointed a special committee of independent experts to investigate the problem and ensure that the cause and size of its losses were fully accounted for. The chief executive subsequently promised to undertake a full review of the institution's risk-management procedures and improve its risk controls.

Facing up to the truth

When the directors of a global engineering company saw the first warning signs of corruption amongst managers lower down the ladder, they paid little attention. But as soon as real evidence of wrongdoing surfaced, they reacted swiftly.

The chief executive publicly acknowledged the seriousness of the situation and appointed an independent team of lawyers and forensic accountants to investigate the allegations. He also reported the problem to the US Securities and Exchange Commission and spearheaded a drive to re-establish ethical standards throughout the company.

2 - Communicate

- **Be ready to talk.** You need to be open, proactive and prepared to communicate, even with people to whom you wouldn't normally talk. If you don't take charge of the messaging, others will do it for you.
- **Act fast.** Time is critical, so communicate early and often.
- **Be authentic.** Personalise your communications, get senior executives to speak about the issue, apologise where necessary and explain how seriously you're taking the situation.
- **Create a stakeholder communications plan.** Identify everyone who has a stake in the business, and develop a plan for communicating with them. What will they want to know? When? What medium do they prefer? Update your plan regularly. Don't get so caught up in the crisis that you forget key stakeholders like employees, suppliers, analysts and institutional investors – and listen to what they say. Consider hiring a PR agency to help you.
- **Be honest.** Ensure that you've got all the facts and can keep the promises you've made. If you say you've fixed the problem, make certain that you've really done so.
- **Be consistent.** Ensure that your internal and external communications are consistent. And once the crisis is over, stop talking about it or stakeholders will wonder why you're still discussing it.

Viral communications

When customers at a well-known restaurant chain were stricken with food poisoning, the company's crisis team immediately went to work. In addition to issuing press releases and securing live media interviews, they launched an information programme on the Internet, where the public could see a video message from the chief executive and get updates on the outbreak. They posted a similar message on television and YouTube. Once the cause had been identified, calm was restored, but the company's proactive communications strategy played a key role in minimising the overall damage.

Saying sorry helps

Irate airline passengers made their feelings very clear when they were left stranded on the tarmac for many hours as a storm tore through the US east coast. They were immediately on their cell phones, complaining to news outlets throughout the country.

The airline immediately apologised and offered to compensate every passenger, but it didn't stop there. Over the next few days, the chief executive issued profuse public apologies via all the major news networks and newspapers. He even posted a video on YouTube saying how sorry he was and explaining what he would do to fix the problem. This exemplary crisis communications programme earned the company plaudits and salvaged a situation which could have been disastrous.

3 - Take control

- **Assert your authority without being obstructive.** You need to ensure that you're taking the initiative – rather than the media or other third parties. Show that you're willing to listen and cooperate with regulators, but won't let anyone dictate what you do.
- **Hold onto the reins.** Make sure that everyone in the organisation understands who's taking the decisions. A crisis is a business issue that needs legal input, not a legal issue that needs business input. Legal advice can limit the damage, but it can't solve the underlying causes.
- **Keep the people you need.** Identify the people with sufficient authority and experience to help you resolve the crisis as well as managing the day-to-day business, and make sure they stay.
- **Hold your fire.** Curb the temptation to fire staff who may be implicated in the crisis but have knowledge you may need to solve it, unless they've been guilty of such wrongdoing that it would be inappropriate to retain them.
- **Get to the bottom of the problem.** Identify what went wrong and why. Root-cause analysis is essential to develop a plan for sorting out the crisis.
- **Cover all the bases.** Recognise that dealing with a crisis is very disruptive. Make sure that you allocate sufficient resources to deal with the crisis and maintain business as usual.

Rapid response

When a whistleblower alleged that several directors of a publicly listed mining company had received kickbacks after buying a licence to extract minerals in an Eastern European country, the audit committee immediately suspended the directors concerned, halted all trading in the company's shares and called in independent experts to conduct an investigation.

Once the independent experts had reported their findings, the audit committee sacked the offending directors, levied financial sanctions against other executives who were implicated in the scandal and enhanced the internal controls. Indeed, the committee acted with such speed and rectitude that the company's share price bounced back when trading in the shares resumed. Analysts also praised the way in which it handled the episode, and the company's reputation was preserved.

4 - Use the pain for future gain

- **Gain from the pain.** Once you've got the situation under control, use it to make lasting changes. Good executives see crises as opportunities for making major transformations.
- **Look at the big picture.** Don't just focus on the immediate problem. Consider wider strategic issues. Look at the organisation as a whole and identify what else needs to be changed, including anything that might normally be off-limits. In a crisis, nothing is taboo.
- **Make sure it can't happen again.** Once the initial investigation is over, and the crisis stabilised, get an independent view on the underlying causes and put preventative measures in place.
- **Rebuild to the latest standards.** If your house burns down, you rebuild it with the latest plumbing and wiring. The same holds true after a business crisis. Don't replicate the past. Use the occasion to build the best organisational structure, processes, control systems and information and reporting flows; and to make any cultural changes required to improve transparency and accountability.
- **Capitalise on the cost.** Managing a crisis is expensive. But if you handle it correctly, you can put your organisation in a stronger position than it was before the crisis took place.

Radical surgery

When a leading technology company uncovered evidence of bribery within its ranks, the directors dealt with the immediate problem. But they also realised that it was a symptom of bigger issues, including weaknesses in the company's risk controls. So they hired some risk-management experts and launched a wide-ranging remediation programme covering every business unit. They also used the crisis as an opportunity to initiate a radical overhaul of the company's internal audit function, to upgrade the quality of its supplier management processes and to reduce its reliance on external suppliers.

Better still, gain without the pain!

- *Learn from someone else's crisis without going through the pain yourself.*
- *Look at what's gone wrong, and why and how it's gone wrong.*
- *Ask yourself whether your business is exposed to the same risks (same geography, same industry, same business issues, same regulator, etc).*
- *Assess what you're doing to prevent the same thing happening in your own company.*
- *Bear in mind that when today's regulators find an issue in one company they will also expect to find similar problems at competitor companies. Make sure you get there first!*

How PwC can help

PricewaterhouseCoopers works to solve complex business issues – locally and globally. Our teams draw upon skills in finance, regulation, risk, tax, investigation and enforcement people, operations and technology to capture opportunities, navigate risk and deliver lasting change across business networks.

When it comes to managing a crisis, the challenge is to move quickly to recover control and extract value from the situation. The help you might need in a crisis could range from regulatory experts, to forensic investigators, to risk and internal control experts. We advise and we implement. We help you:

- Understand the facts behind the crisis by providing an impartial perspective or performing an independent investigation.
- Plan and manage your communication with the media, regulators and other stakeholders.
- Manage through a crisis with the confidence that you are taking the right measures to remediate the problem and avoid relapse.
- Identify opportunities offered by the crisis to achieve significant changes that bring lasting value to your organisation, such as process efficiency improvements, enhancement of governance and control structures and sharpening your risk management capabilities.

We take the time to listen and have the courage to debate different points of view – based on independent and challenging insights, supported by facts and industry benchmarks.

For more information please contact one of our partners on the next page, or visit **www.pwc.com/getuptospeed**

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Get up to speed - Other topics

Being smart about the risks you take

Most risk management systems aim to avoid risk. But if a business doesn't take risks, it can't grow. This paper looks at how you can make risk work for you and how to take the right risks and manage them successfully.

Building a risk-aware culture for success

Establishing a culture in which the right people do the right thing at the right time, regardless of the circumstances, is critical to an organisation's ability to seize the right risks and avoid the wrong ones. This paper explains organisational culture, how it can support your business strategy, goals and risk appetite and how important it is to get this balance right.

Hands up! Who's responsible for risk management

Most companies have responded to more regulation and increasing scrutiny from stakeholders by establishing independent oversight functions and additional layers of control. This paper looks at the steps you can take to make risk management and compliance a part of your day-to-day business, and reduce unnecessary overheads while at the same time adding value to your organisation.

How to see it coming: Linking risk and performance management

Many companies could enhance their corporate performance dramatically by using key risk indicators that look forward, rather than focusing on the past. This paper provides guidance on how to eliminate reporting silos and build a more rounded picture of what's happening in your business.

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