

# ***Crisis Response Planning Inventory***

This checklist will be useful to directors seeking to quickly inform themselves regarding the extent of a company's crisis response planning and preparedness. It consists of a series of key questions to ask of management, and a brief summary of both desirable and troubling responses the director may receive.

## ***1. Does the company maintain “best practice” corporate governance standards?***

The quality of a company's governance will have a direct impact on many of the factors that contribute to business crises. Insistence on high standards in this area communicates itself throughout the organization as a commitment to doing things the right way, and as a refusal to cut corners. A well qualified, functioning independent board assures that the company's oversight will be given the necessary scrutiny, free from conflicting interests and relationships, and unimpeded by a reluctance to ask the hard questions. Effective governance will produce a greater degree of scrutiny of the company's business and management's actions, and more openness to the board's oversight role in assuring that material risks are identified and planned for. If the company has not adopted strong governance standards, it will be at greater risk of encountering crises of the sort that have filled the papers in recent years, and may find it difficult to implement a number of the recommendations of this handbook which are focused on assuring independence and integrity when a company responds to a crisis. See **Chapter 1—Sound Ethics and Governance Policies** (p. 14); **Potential Sources of Crisis at the Typical Company** (p. 20); and **Appendix 2—Failures of Leadership and Governance** (p. 106).

## ***2. Does the company insist on high standards of integrity in the executive office and throughout the organization?***

Many of the most notable crises of the past few years were the direct result of failures of honesty and integrity at the highest levels of the company. These events were allowed to occur in part because subordinate employees “went along” and either helped or did not report the problems when they first arose. Studies and experience have shown that leadership that sets the tone at the top at a high level has a demonstrable positive effect in establishing ethical behavior as the norm throughout the organization. Strong ethical standards will increase the likelihood that honest and thorough reports of impending problems are made to senior management and the board as soon as they are spotted, rather than remaining hidden. When a crisis does hit the company, its response will be less likely to be impeded by lying, blame-shifting, withholding of information, and similar behaviors. If the answer to this question is no, the company is at much greater risk of encountering crises that arise from dishonesty or illegal behavior, or which are allowed to grow to unmanageable size as they remain hidden. See **Chapter 1—Sound Ethics and Governance Policies** (p. 14); **Potential Sources of Crisis at the Typical Company** (p. 20); and **Appendix 2—Failures of Leadership and Governance** (p. 106).

## ***3. Does the company have a risk evaluation and management program***

Many companies have a formal enterprise risk management (ERM) program, while others approach the issue on a much less formal basis. If a company has such an ERM program and it is effectively executed, it will identify most, if not all, of the risks that crisis response planning should address. Without a thorough understanding of the particular risks the company faces, it is not possible to prepare a thorough crisis response plan. If a company has not engaged in a systematic review of the risks it faces on a regular basis, there is a greater likelihood that material risks facing the company will not be identified as objects of

planning until they develop into crises. Preparing a crisis response plan will require more work in these companies, and any plan produced will be more likely to overlook subtle and complex sources of risk to the company. See **Chapter 1—Identifying Risks** (pp. 15–19).

***4. Does the company regularly identify risks affecting its business that could develop into problems of crisis proportion?***

Effective crisis response planning requires a regular review of the company’s business and its environment to identify risks that could develop into a crisis, and to study them thoroughly enough that they can be described in some detail in a “crisis scenario” that identifies both the immediate causes and effects of a particular crisis event on the company, as well as second- and third-order consequences. What is required is enough information to support a detailed crisis response plan that would be effective to manage the situation to a favorable conclusion if it actually happened. Circumstances change frequently enough that this effort should be undertaken annually, at a minimum. If the company has not developed multiple scenarios addressing the most significant crises facing the company, it will have to spend the necessary time doing so when a crisis strikes, diminishing its readiness and increasing significantly the amount of work for the company’s board and management in the early hours and days of a crisis. See **Chapter 1—Identifying Risks** (pp. 15–19); and **Appendix 2—Checklist: Potential Sources of Crisis at the Typical Company** (pp. 102–106).

***5. What is the current list of crisis scenarios that have been identified for inclusion in the company’s crisis response planning? Who are the relevant stakeholder interest groups whose concerns must be addressed if a crisis arises?***

Management should be able to produce a listing of possible crisis scenarios on request. For each scenario, the company should be able to identify how specific stakeholder groups associated with the company—employees, shareholders, customers, vendors, lenders, print and electronic media, etc.—would be affected. The scenarios should also address the specific resources the company will need to respond to that scenario. The question to be answered by looking at this listing is whether it appears to be well considered and relatively complete. If a director can off the top of his or her head think of several plausible crisis scenarios that could impact the company, or a stakeholder group or two, that have not been addressed in the company’s crisis scenario planning, the company is only partially prepared and a more

thorough approach is indicated. The scenarios described in **Chapter 1—Anatomy of a Meltdown** (pp. 8–9) should be included in any public company’s listing. See **Chapter 1—Tasking the Crisis Response Team to Identify Crisis Scenarios** (p. 19); and **Chapter 2—Crisis Scenarios and Indicated Responses** (pp. 31–34).

***6. Who within the company is responsible for managing risk identification, crisis response planning and crisis response? Are they qualified and ready?***

It is becoming more frequent for companies to have a chief risk officer or a senior executive with another comparable title who is responsible for driving the risk assessment and management function and coordinating the crisis response planning and response process. In other instances, this function, if it has been separately identified, may reside with the CFO or the general counsel. In most companies it is presumed that the CEO will lead crisis response efforts unless unavailable or compromised due to conflicts of interest. Do both the CEO and at least some members of the board have experience in crisis response planning and response? Management’s risk management, crisis response planning, and response agenda should be subject to oversight and accountability by the board or a board committee. The most likely home is the audit committee; if the audit committee is getting overloaded, the governance committee or a finance committee might be a good place for oversight. If there are no clear lines of responsibility or oversight for the crisis response planning and response function, there will be a greater tendency for crisis preparation and planning to be ignored or short-changed by managers with other priorities, and for confusion to reign in the early hours and days of an actual crisis. See **Chapter 2—The Crisis Response Team** (pp. 28–30).

***7. Who is on the company’s crisis response team, and why?***

Management should be able to quickly identify the core group of individuals who would shape the company’s response to a crisis, and their areas of responsibility and competence. Ideally there should be one or more directors who have been identified as having relevant experience. The CEO and board should also know who would step in if the CEO is not in a position to lead the company’s response. The company should maintain current round-the-clock contact information for all of the individuals who may be called upon to respond to a crisis. This information should be readily available. The company should also maintain similarly detailed contact information and a communication

plan to support the exchange of information with the company's stakeholder groups. If the company has not identified both the crisis response team and how to reach them, the company is at significant risk that critical individuals will not be available to aid its response if a crisis strikes. See **Chapter 2—The Crisis Response Team** (pp. 28–30).

### ***8. Has the company performed crisis response simulations?***

The crisis management team at a well-prepared company will meet to discuss and update their plans at least once a year, and if there is a designated crisis management function, more frequently. Depending on the nature of the business and the scenarios that have been identified, a well-prepared company will run a simulated crisis response scenario at least once or twice a year. For mission-critical functions that require redundant systems, the tests may need to be more frequent. The anecdotes emerging from companies that have performed these drills—and, in doing so, encountered unanticipated obstacles to a full response—confirm that a company that does not test its responsiveness is at significant risk of delay, mistakes, and failure when a real crisis hits. See **Chapter 2—Crisis Scenarios and Indicated Responses** (pp. 31–34).

### ***9. Has the company invested in crisis response skills training?***

Even the most well-spoken, quick-tongued CEO, CFO, or general counsel, when put under the glare of live “News at 10!” cameras in the midst of a fast-breaking business crisis, is not going to be prepared to respond effectively on behalf of the company. The differences between a company spokesman who is media-trained and prepared and one who is not are usually

very plain, and painful, to see. If a company has prepared for crisis thoroughly enough to provide media training to its top two or three potential spokespersons, it is a good sign that planning and preparation for crisis management have been taken seriously for some period of time. Including experience in successfully managing crisis situations as a criterion for selecting or advancing senior managers will over time produce a more experienced leadership team. As a small industry has developed around the subject of crisis management, it is now possible to seek additional training on a broader set of skills than media communications. See **Chapter 2—Communications Plans** (pp. 34–35); and **Chapter 5—Communications in a Crisis** (pp. 91–96) .

### ***10. Does the company have a written crisis management plan?***

There is a broad range of activity that might support an officer telling a director that the company is well prepared for whatever crisis may come. Even if there is a thick binder on a shelf in the executive suite labeled “Crisis Response Plan” or “Crisis Communications Plan,” that may not be evidence that the company has engaged in a thorough process of crisis response planning. A crisis-prepared company will have a very thorough document, developed internally by its crisis response team, that addresses the full range of subjects described in this check-list, and that shows signs of being kept current. It will include all of the elements listed in **Appendix 5—Outline for a Crisis Management Plan** (pp. 110–111), will address multiple crisis scenarios and will include detailed written communications planning addressed to each of the company's stakeholder groups. See **Chapter 2—The Crisis Management Plan: A Blueprint for Action**.

## Checklist: First-Day Questions for a Board Presented with a Crisis

This checklist identifies the critical items of information needed to establish the nature and dimension of a crisis for the board and management, and to summarize management's first efforts at response. This is the information the board will need in its oversight of management's actions to address the crisis, and to support early decisions that will be made. It is likely that important elements of the information called for will not be immediately available. Those items should be flagged as uncertain or unknown, and then answered with the best estimate or conjecture that can be mustered at the time. For each item that cannot be definitively pinned down, management should be asked to provide an estimation of the worst-case answer that could be expected. The board, or the committee assigned to address the crisis, should be updated on these points by management on a regular basis as the crisis and the company's response progress, and as more complete and reliable information becomes available. The potential for bias in the information provided by management should be considered. See **Chapter 1—The Challenge of Getting Reliable Information** (pp. 20–22). Where possible, seek third-party verification.

### UNDERSTANDING THE CRISIS: WHAT ARE THE BASIC FACTS?

1. What has happened, in 100 words or less, sticking to the facts?
2. Is anyone injured or dead?
3. Does the crisis threaten the life, health, or safety of anyone?
4. What damage to the company and each of its stakeholder groups has occurred? What future damage does the crisis threaten? Stakeholder groups to consider include: employees, and, if applicable, union leaders, customers, vendors, business partners, shareholders, lenders, governmental authorities, communities supported or affected by the company's operations, their leaders, and the media.
5. What would the worst-case scenarios for the company and each stakeholder group be, given what is known today?

6. What can management identify as the causes of the crisis, in 100 words or less, sticking to the facts?
7. What actions have been taken by management and other company representatives to date in response to the crisis, including any "first responders" at the scene of the crisis before the company's response could be organized?
8. What actions have been taken by stakeholder groups to date in response to the crisis? What future actions might be expected?
9. What are the results of any communications with stakeholder groups?
10. What media reports about the crisis have surfaced or are expected? What public statements by company representatives have been made?
11. Describe the quality of communications and information flow supporting the answers to these questions? If there are problems, what is being done to respond?
12. Describe any governmental or legal issues that have arisen as a consequence of the crisis.
13. Provide a summary timeline or calendar indicating when critical events occurred, and identifying expected future events that will be relevant to the crisis and the company's response.

### THE COMPANY'S RESPONSE

1. Is this crisis addressed by prior company planning, and if so, to what extent? Provide to the board relevant portions of any crisis response plan, results of relevant training and simulation exercises, and any other planning materials that are available to guide the company's response.
2. Who is on the job as the company's crisis response team, what are their qualifications, what additional resources may be needed, and what is the current status of their engagement in responding to the crisis? Candidates for inclusion on the team include:
  - The CEO and his or her direct reports, including the CFO.

- The chair of the board and the members of any board committee charged with crisis response and oversight.
  - The company's general counsel.
  - Outside counsel with relevant competencies, such as SEC compliance, board counsel, criminal defense, regulatory agencies, etc.
  - A private investigation firm.
  - Public relations advisors.
  - The company's audit engagement partner.
  - The company's investment banker.
  - Industry experts.
  - A turnaround or crisis manager.
3. Has the company's response to date demonstrated as its first priority concern for the health and safety of individuals, and support for any individual victims of the crisis and their families? How is this priority being reflected in planning for future action?
  4. Is the ability of any member of the company's crisis response team, senior management, or the board to participate in the company's response compromised by the nature of the crisis, actual or potential conflicts of interest, or other issues? Is there any suggestion of fraud or illegal actions by any company employee?
  5. In order of priority, what decisions and actions by the company in response to the crisis have been identified by management, and what is the status of each? If immediate actions are required, what are they, why are they necessary, and what is proposed to be done?
  6. Is the company's crisis response team getting a steady flow of reliable information as needed? Are they able to communicate effectively among themselves and with the company's employees affected by the crisis? If there are problems in these areas, what is being done to correct them?
  7. What future adverse consequences of the crisis and the company's response have management identified? Is the crisis under control, or is it subject to getting materially worse as time goes on, and if so how? Are preemptive actions by the company possible in the near-term in order to slow or halt the progress of the crisis from bad to worse, and if so, what are they?
  8. What is management's immediate, near-term, and long-term plan of action to respond to the crisis at this point? Have detailed execution plans for these responses been developed, or are they under development?
  9. Does management have the necessary time and skills to run the business and manage the crisis? If there is any question, what is the proposed response?
  10. Are the company's communications advisors engaged? What communications will be needed with each stakeholder group? What is the message for each group, who is going to convey it on behalf of the company, how will it be done, and when? Are the company's representatives trained and prepared for this job?
  11. Is the company's ability to respond constrained by scarce but necessary resources, and if so, what can be done to assure their availability? These include: time, information, communications capabilities, manpower, expertise, cash, material goods, governmental action, and cooperation and support by employees, vendors, customers, lenders, and government agencies.
  12. What are the immediate and future financial demands of the crisis on the company? Is there any immediate or future risk that debt covenant defaults or other consequences of the crisis could prevent the availability of adequate funding? If everything that could go wrong does, would the company face a threat of insolvency?
  13. What are the legal issues associated with the crisis for the company, management, and the board that will be relevant to the company's response? Is there any risk of personal civil or criminal liability for any of these individuals, or the company, resulting from the crisis or any of the company's responses?