Directors, Boards and Crisis Management and Governance

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The theme of IOD's 2019 London Global Convention is 'Board's opportunities and Challenges for Corporate Governance and Sustainability'. One challenge for both governance and sustainability in our contemporary and uncertain business environment is how to cope with various crises that may arise, emerge or crystalize. Some of these may represent an existential threat and normal risk management and risk governance arrangements might not be appropriate.

To be alive is to incur risk. Directors should expect uncertainty, challenges and difficult situations. When certain risks crystalize, for example the insolvency of a company, legal provisions apply. There are procedures to be followed and specialists to whom one can turn for advice. Many individual and shared risks can also often be insured against. However, a feature of some crises is that the relevance and applicability of legal and regulatory requirements may be unclear and/or problematic. In addition, quick and/or collective responses may be required.

Different Types of Crisis

The term "crisis" is sometimes overused. When data breaches occur it may take some time to assess whether a loss of information is inconvenient or catastrophic. Certain challenges have potentially serious consequences for people and the planet. Where there is a window of opportunity to take mitigating action, but responses are slow or perceived as inadequate, we may have the makings of a crisis, such as when climate emergencies or crises are declared.

Mankind faces various situations, from antimicrobial resistance to extreme weather events that are sometimes referred to as crises. Unlike situations that might suddenly and unexpectedly arise, certain of these threats have been long predicted. They may need to be addressed by a combination of activities by multiple parties over a longer-time period than past emergencies that could be quickly tackled by a crisis management team. Their implications may also be such as to require more than "business as usual responses".

Compared with regular or normal levels of change, uncertainty and time pressure, crisis situations can make different demands upon board members. Some directors may be better equipped to handle them than others. This raises questions such as who should be involved and there may also be accountability, scrutiny and reporting arrangements to consider. Inappropriate responses can sometimes increase the negative impacts of a crisis, but appropriate handling and learning from them may create positive benefits.

Reviewing Crisis Management

Are current corporate crisis management policies and practices fit for purpose? Is there a crisis in corporate governance arrangements in terms of their ability to cope with uncertainty and marketplace turbulence, the variety, scale and implications of contemporary threats and a challenge such as climate change that requires collaborative action? Some directors may feel that corporate issue, risk and crisis management arrangements are adequate, but complacency should be avoided. Experience suggests that those involved in them do not always rise to the occasion when a crisis occurs.

The term "crisis" should not be used lightly, as difficult issues appear on many board agendas. Strategic importance, complexity, the level of threat and the nature of implications could be among the criteria for deciding if a matter should be referred to a board and considered a crisis. Hopefully, reviewed and tested crisis management and disaster recovery policies and arrangements will be in place and activated before a calamity arises or a danger crystalizes. When they do, will executives and directors be able to handle the responsibilities allocated to them?

Do schemes of delegation and management arrangements make it clear which directors should be aware, consulted and involved, when, by whom and by what means as a crisis unfolds. Directors may need to react quickly to certain developments, for example a hack or other digital catastrophe, a natural or man-made disaster, a change of law, regulation or Government policy, or the competitive adoption of a better business model.

Informing and Engaging Stakeholders

Both proactive and reactive steps may have to be taken, especially in multi-faceted areas such as climate change, global warming and

sustainability. In these arenas identifying acceptable board advisers can be problematic, as the expertise of specialists may be limited to the analysis of certain aspects of problems rather than the determination of corporate responses. Deciding when to inform those likely to be impacted by a crisis can involve difficult trade-offs between being seen to be open and transparent, while not being alarmist and worrying people before effective counter measures can be made available.

The implications of a single disaster can be profound and may involve a variety of stakeholders in different ways. There might be short, medium and longer term environmental, financial, health and other consequences to consider. Social and traditional media may quickly increase public awareness of an incident and amplify reputational and other damage if corporate responses are considered slow, inadequate, defensive or self-serving. The media can also be used to increase understanding and enable warnings and guidance to be issued.

Some evolving situations are described as crises and/or emergencies by those campaigning for action to gain the attention of people and organisations likely to be impacted by them. In many countries, stakeholder and wider public attention is now devoted to environmental, climate change, cyber and other threats that may have widespread and even global impacts, and may have possible consequences for the planet as a whole. Such threats may affect and their implications may be shared by most, if not all, companies. Addressing them may require collective responses and shared leadership and collaboration across national borders and other boundaries as well as within them.

Adequacy of Board Responses and Capabilities

Some directors and boards appear slow to understand and respond to multiple and inter-related challenges, and their accompanying opportunities and possibilities. As a consequence, we may face a crisis of governance when confronting concerns such as climate change and sustainability. This raises questions about what can be expected of relatively small groups of often very similar people who may have been selected and appointed in a previous era.

A board that meets for a relatively short period of time once a month to consider agenda items set out in an annual calendar of meetings agreed in the previous financial year, and ad hoc topics of which they often have limited knowledge and experience, may need help in monitoring evolving situations and determining multi-layered and holistic responses. Given the functional silos still found in many corporate organisations to whom should they turn?

What arrangements and contingencies should a board of a large enterprise that may operate internationally in a variety of markets put in place to cope with the various crises that could occur and the different challenges that might arise over the life-cycle of a crisis? Given what we know about the nature of different categories of crisis that could happen, and sometimes do, how can we ensure that legal, regulatory and governance frameworks are aligned and support effective individual, corporate and collective responses? Can they handle the possible consequences of crises and how stakeholders might react?

Adequacy of Governance Arrangements

Have we reached the limits of the ability of our current approaches to address a complex issue such as a climate change crisis or emergency and also meet changing stakeholder requirements? A negative answer

suggests new models and practices should be adopted and better support sought and provided. Some boards may need to move on from mainly leveraging corporate resources to also utilising collective capabilities and wider value chains. Corporate and crisis governance may need to become more capable, flexible, representative and resilient. Should boards focus more on anticipation and potential to respond?

Are new competences, practices and systems thinking needed in corporate boardrooms? Is more extensive crisis communications, governance and collaboration experience required? Should more directors be appointed who have been tried and tested in crisis situations? How should we assess board performance during crises? Should we include criteria specifically related to climate change, sustainability and the handling of difficult situations?

Some boards may be overlooking the human, social and environmental impacts of current approaches to growth and development. How many directors recognise that the activities of some companies represent a threat to themselves, external stakeholders and life on our planet? What could and should they do, individually, collectively and collaboratively, to mitigate risks they cause for others?

Key Questions for Directors

Despite the possibilities for alternative approaches that might better reflect their aspirations and context, many boards are reluctant to adopt new models of business, governance, operation, organisation and work. Some corporate governance practices seem a hindrance rather than a help, especially in relation to fast moving crises, complex issues and severe challenges. Do you have board and management colleagues who, while acceptable or tolerable in normal circumstances, you would not want with you in a crisis situation? Forewarned is forearmed. Some people are only found wanting when they are severely tested.

Who should be involved in handling crises that may impact upon the work of multiple board committees and management teams and might or should also require board involvement, direction and oversight? Who will add value and authority without causing unnecessary delay? How should the 'who, when and where' modus operandi of a board and its members change when directors are confronted with crisis situations?

Delegation to a crisis management team can speed up responses, but it may concern those who are not involved and might lead to recrimination and challenge when interests are ignored and/or there are allegations that the wrong calls have been made. In future there could be more rather than fewer crises that will need to be handled in parallel with other responsibilities. Board and director development activities should include crisis case studies that incorporate reviews of crisis dynamics, options, actions taken and consequences for different stakeholders.

Reviewing Current Arrangements

Many boards should review their strategies, policies and practices for managing potentially high impact risks, existential threats and both unexpected and severe crises. They should also review their sources of crisis counsel. They should take individual and collective steps to monitor related trends, assess and mitigate their impacts, address

their root causes and seize related opportunities. What do boards and companies have access to that could help others to handle possible crises and shared threats? What expertise and experience do their advisors have of coping with crises? Helping others to understand and address difficult situations could be a business opportunity.

Some crises can arise because of malevolence. Might digitally enabled networks and their governance be taken over by hackers? Will collaborative and collective arrangements, law enforcement agencies, and corporate, national and international laws and regulations be able to cope with possible future developments, events and scenarios? There are many crisis related questions for directors and boards to address. Many companies need more agile, diverse and fast moving approaches that can better respond to crises; and evolve and mutate to incorporate lessons learned, benefit from innovation and accommodate new options and possibilities.

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