

## The Board's Role in a Crisis: Ready or Not?

If power and cell service to your plant were inoperable because of a devastating hurricane, how would you reach employees to confirm their safety and the status of the facility? If your company handled classified projects and a building's power grid failed in a natural disaster, would backup generators work if they couldn't be refueled? What if the building were unlocked after the back-up locks failed?

These real-life stories, shared at the April program of the NACD Carolinas Chapter, illustrate the unpredictable nature of crises. How can companies prepare for the unknown, and what is the role of the board? Panelists **Jim Hance**, director for The Carlyle Group, Cousins Properties Inc., Acuity Brands, Inc. and Ford Motor Company (and a former director of Sprint Nextel Corporation, Bank of America and Morgan Stanley), and **Linda Hudson**, chairman and CEO of The Cardea Group, director on the boards of Bank of America, Southern Company and Ingersoll Rand, and retired president and CEO of BAE Systems, Inc. – joined by Deloitte's **Henry Phillips** and **Theresa Drew**, moderator – shared their experiences and advice on crisis management.

Highlights included:

- **Understand what amounts to a crisis.**
  - “As a director, you know the company will have a crisis,” said Hance. “But what will that crisis be and how do you prepare?” He defined a crisis as an immediate problem that “requires the CEO of the company to be involved”.
  - Further, the measure of a company's response initially is how early the crisis is identified. With social media, the whole world may know about the crisis very quickly, so the company must be able to respond very quickly as well.
- **Prepare for the known but expect the unknown.**
  - According to Hudson, if your company hasn't thought through possible risks, then the company likely will fail in its response to a crisis. However, even if risks have been evaluated, there “isn't a high probability the crisis that happens will be what was originally identified”. Hance added that those companies with a robust enterprise risk management function will likely be more prepared for a crisis, whatever it might be.
  - During her time as CEO at BAE Systems, Inc, Hudson deployed **playbooks** that addressed key crisis management questions:
    - Who will identify the situation as a crisis?
    - Who is the team that is pulled together?
    - What is the escalation protocol?
    - Who calls whom (ex., customers, regulators, and other stakeholders)?
    - Who will be the public face of the company?
- **Board oversight is critical.**
  - “The board must be in the escalation cycle in a crisis management plan,” said Hudson. Hance agreed. He also added that the board should exercise policy oversight. For example, the board would not look at how passengers are removed

from planes; however, it would consider an airline's policy for bumping passengers as well as the company's culture.

- Phillips also emphasized the role of the lead independent director given that a crisis can be very emotional for board members closer to the company. In addition, Hance emphasized, "The CEO needs to have a sounding board, and this should be set up ahead of time."
- **Learn from each crisis and study your competitor's crisis to help prepare for your own.**
  - Each crisis is an opportunity to learn, whether it be your company's or another's. For example, panelists pointed out how well the CEO of General Motors handled the ignition switch crisis, genuinely connecting with affected people. Hance concurred, noting that other car companies were watching and learning. He also shared how Ford changed some of its processes after the Toyota crisis over sticking accelerators.
  - Unexpected events like 9/11 and Hurricane Katrina taught valuable lessons. For example, many New York banks used a switch in the World Trade Center. When the switch went down, so did the banks' ability to do business, according to Hance. Similarly, Hudson shared that after Hurricane Katrina, landline and cell phones stopped functioning. Now the company has satellite phones in each of its locations.
- **Use outside help judiciously.**
  - The panel agreed that, while legal help can be critical, it is also important to be open and honest, resisting any advice to keep silent during the crisis. Liability will follow, regardless. As for public relations firms, Hudson shared that your company "should tell its own story".
  - Depending on the industry, Phillips shared its important to ensure that the company has the right rolodex for a crisis. For example, does the company have a contact at the FBI in case of a cyber-attack?
- **Always do the right thing.**
  - The panelists agreed that the best defense in a crisis is to be sure the company deals with the personal side of a crisis. After Katrina, Hudson's company assisted employees with cash needs in their Mississippi locations who had no bank access. The company never asked for that cash back.
  - Hance noted that the board is likely to be criticized in a crisis regardless of whether the proper oversight was exercised. So, as a company, the best approach is simply "to do the right thing".

*NACD Carolinas would like to thank the panelists for sharing their experiences with attendees and Deloitte for its support of the program.*

*Kimberly Simpson is an NACD regional director, providing strategic support to NACD chapters in the Capital Area, Atlanta, Florida, the Carolinas, North Texas and the Research Triangle. Simpson, a former general counsel, was a U.S. Marshall Memorial Fellow to Europe in 2005.*