DEVERELL ASSOCIATES

EXPANDING HORIZONS

john@deverellassociates.com
+ 44 (0)7713 501901
+ 44 (0)20 7924 6715
www.deverellassociates.com

CRISIS, RISK AND REPUTATION MANAGEMENT

Phase 1

You are part of the senior management team (SMT) of your Europe-based corporate headquarters. The company is global. It has operations in Europe, Asia-Pacific and the Americas. The SMT – including regional CEOs – has been called to corporate headquarters to discuss the detailed implementation of plans for expansion and cost cutting through relocating certain operations.

The company is privately owned. It has plans to list on a European exchange. It has a goal to double its revenue within the next three years through expansion into new markets. Guidance from the Board of Directors calls for reframing the corporate culture to prepare for public ownership and the demands and responsibilities that entails.

The strategy includes establishing new factories in China and Romania. These locations could bring significant cost-savings and increase revenues by opening up new markets. But they are environments which have been noted for corruption and opaque political and legal systems.

On the meeting agenda are plans to shift production from western to eastern Europe. This has already caught the attention of industrial sector analysts in London, Paris and Frankfurt, whose investment banks could in due course bid to handle the future share offering.

The situation could turn from a positive to a negative if a planned threat by militant union workers in Germany and France to blockade the factories there is carried out next week. Such a move would draw publicity. The outcome could form impressions of the management's capabilities in the minds of some people on whom the company may need to rely later.

Questions:

1. **What action can the SMT take to defuse the potential crisis of the blockade? For example, should the company seek a legal injunction to prevent the blockade?**

2. **What are the main briefing points that the company's investor relations officer should seek to promote to analysts? Are there relevant social media sites frequented by financial analysts?**

3. **What plans might corporate headquarters need to brief the media and who should be the company's spokesperson?**

4. **What are some of the new responsibilities and demands the company will face by going public?**

Phase 2

In China the company plans to build a production facility in Chengdu. The plans are under review by the municipal planning authorities, as are the construction and labour permits needed to start work. The facility is due for completion by the end of this year. In the meantime the company is renting a temporary factory in Chengdu to take advantage of relatively low costs and new markets.

Corporate HQ now learns from its CEO in China that Li Chen, the owner of its temporary factory, has been arrested. Information on why he has been arrested but not yet charged is scant and rumour-driven. It ranges from embezzling funds from government contracts, to paying bribes to local officials and to overlooking HSE failings in his other factories.

Mr Li is a successful entrepreneur. He read his engineering and MBA degree in Britain. Over time he has given valuable advice and opened doors for the company. There is nothing to suggest that his crimes are linked to his involvement with the company. But prosecutors have the power to question anyone and seize any evidence which they may feel is relevant to the case.

Can this situation be turned from a negative to a positive? The outcome could well impact the company's expansion plans and its ability to reach its revenue goals leading up to the IPO.

Questions:

1. How should the company navigate through this situation?

2. What questions and tasks would corporate headquarters want to put to the CEO in China?

3. Does corporate headquarters have any other tools or levers for dealing with the situation in China? How might it use them?

4. What, if anything, might need to be done to protect the company's interests elsewhere in the world in the light of possible developments? Might corporate headquarters itself be legally impacted in due course?

5. Is there a possible concern about the loss of the company's confidential and proprietary information? If so, is there anything to be done?

Luxembourg Criminal Code

Articles 246 and 247 of the Code prohibit, in general, corruptly soliciting, receiving, promising or offering any gift, reward or other advantage, whether directly or indirectly, as an inducement to a person to do or forbear from doing anything in respect of any matter in which a public body is concerned or in relation to his or her principal's affairs.

Article 10 of the law of 16 April 1979 on the Statute of Luxembourg Civil Servants prohibits officials from requesting or accepting, directly or indirectly, any material advantage which could place them in conflict with their legal duties.

The Law of 23 May 2005 prohibits passive and active corruption in the private sector.

Under the Code of Criminal Procedure, a Luxembourg national who commits a criminal offence abroad that would also be unlawful under Luxembourg law may be prosecuted and tried in Luxembourg.

COMMENT:

Luxembourg has a historically poor record of enforcing anti-bribery legislation and is under increasing pressure from the OECD to be seen to take a tougher stance in prosecuting corruption.

Unlike for example the UK Bribery Act, the Code does not explicitly hold CEOs responsible for the acts of nationals in other countries where Grand Duchy registered companies have operations, but equally there is nothing in the law to suggest that they might not be held accountable.

REMEMBER

• Deals often involve a high degree of risk. Businesses would never grow and prosper if they didn't take risks. But risks and their consequences must be fully explored before taking them on.

• Major crises are usually caused by coincidences of several contributing factors, of which your company may be only one. Where an international company is operational in two or more countries experiencing political tensions, they need to be aware that they may incur collateral damage.

• Written provisions must be put in place to protect whistle-blowers for revealing corrupt or morally questionable management practices.

• "Bad news" or "problems" exist in all companies. Senior management is often kept in the dark about such news for various reasons. A constant effort is required to ensure that information flows upwards to decision-makers – and in good time.

• To ensure that critical information flows to the top, a company must instil a culture where senior people are seen to be taking full responsibility for the actions of their subordinates and where subordinates know to seek out the guidance of senior people on serious issues.

• Risks involving money are a legal issue. Risks involving reputation are a moral issue. The penalty for the latter is always greater.

• A spirit of openness and honesty will always enhance your reputation. Any suspicions that facts are being hidden will do the opposite.

• It is vital to engage with the media at the earliest opportunity. The vacuum created by the failure to communicate will quickly be filled with rumour, misrepresentation, gossip and poison.

CONCLUSION: Seven principles of crisis management

LISTEN
to what stakeholders are saying – and then get the messaging right – quickly.

HAVE A PREPARED MIND
is the most important principle. Embed the ethos. Think through the possibilities.

HAVE A VALIDATED POLICY
which is understood and rehearsed. Don't overcomplicate or over-template it (there will never be a "black-book" for every situation). And just because you have extant procedures, never get complacent.

HAVE CONTEXTUAL AWARENESS
– put things in perspective relative to the local culture and politics.

GET THE RIGHT PEOPLE TOGETHER
quickly, ensuring that they know their roles before a crisis.

BE TIMELY, GET THE FACTS
and ensure the passage of information. But accept that you will have to take some early decisions without knowing everything (that's where judgment is so important)

OVERREACT
early and don't be reluctant to say that you have a crisis (it's easier to de-escalate in a timely way than to escalate too late in the day)

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