

How Directors Can Improve Crisis Management

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By Tony Chapelle

Several high-profile boardroom crises this year have underscored the need for boards to be prepared to respond to a crisis and help minimize the damage to their companies.

Of course, different kinds of crises require different reactions. Yet experts and directors say there are a number of best practices that could help any board guide its managers through such events. Among that advice: Pre-plan clear lines of responsibility and respond quickly, decisively and truthfully.

Perhaps one of the worst-handled crises by a board this year has been at Hewlett-Packard. As the recent scandal involving CEO Mark Hurd came to light, the Hewlett-Packard board gave a variety of conflicting reasons for his departure.

“The more that I look at the HP decision-making crisis around Hurd, the more baffled I become,” says a crisis consultant to Fortune 500 companies, Helio Fred Garcia.

Last August, the board initially announced that Hurd had resigned and that he also was being sued for sexual harassment by a woman who had freelanced as an HP corporate host. HP said Hurd had not violated its sexual harassment policy but that he had submitted apparently false expense accounts in order to hide his relationship with the woman. Garcia found it odd, however, that the board still planned to pay Hurd a \$12.2 million cash severance package. Typically, if an executive were removed for violating corporate policy or if he quits, he wouldn't get severance.

Over the next days and weeks, the board's story changed. Some reports say they blamed it on his reaching a legal settlement with her without their knowledge. When that became known, the HP board had removed him, according to The Wall Street Journal. Hurd went on to become co-president at Oracle.

Then last week, the Journal reported that HP directors now claim another “actual” reason. They say that Hurd had violated confidentiality in 2008 by telling the woman that HP planned to buy Electronic Data Systems months before the deal was announced.

Whatever the reason, at one point, HP's stock slid 15%, or \$14 billion. To be sure, part of that was due to having lost Hurd, who greatly improved the company's operations and financials in his five years. Yet Garcia says that the board also shoulders much of the blame for its flip-flops.

“It was a board-generated crisis. The crisis was not that Hurd had had an unseemly relationship with a woman; it was that the board announced that he was leaving over being sued for something that he didn’t do,” Garcia says.

“The board fundamentally mishandled the CEO’s challenge. The metaphor from carpentry is ‘Measure twice, [but] cut once.’ If you make the CEO leave the company, but you have to go back and change the rationale once, twice, three times, that’s terrible.”

Recently at the National Association of Corporate Directors annual conference, experts and a director who’ve been through their share of board crises doled advice on best practices.

Garcia, who is president of Logos Consulting Group, cited a study done 17 years ago at Oxford University. The statistical analysis found that companies that manage crises well create an average of 22% higher market capitalization than those that don’t.

“The biggest predictor of harm is that board and management don’t care,” Garcia explained at the conference. Conversely, it’s important not to allow time to pass with your board appearing not to be handling the crisis. “They don’t expect you to know all of the answers. But they do expect you to show that you care,” Garcia said.

He emphasized that it’s vital to establish role clarity and a disaster plan ahead of the catastrophe. “Know who’s responsible for what, and have a process, because when there’s a crisis, it’s too late,” he said.

Holly Gregory, a partner at Weil, Gotshal & Manges, advised board directors about how to manage both themselves and their managers who are managing crises.

Directors need to understand that crises can magnify old conflicts between directors, she said, and those disagreements will drag down the board’s ability to make quick decisions. Also, Gregory said, it’s important not to respond to a crisis by refusing to communicate with stakeholders. “But you may say that you need more information before you make a statement.”

Reatha Clark King, who formerly served on a long list of boards including Exxon Mobil and Wells Fargo, advised that boards pre-plan so they and their companies will have “all friends on deck.” King said that it’s smart to cultivate all of a company’s stakeholders, such as legislators, employees, the media, regulators, stock exchanges and investors, before you need them.

After the NACD seminar, director Robert Potter added his favorite suggestion for boards during crises.

“Assuming no criminal or blatant offense, stand behind and support the management,” says Potter, a director at Molex and Zebra Technologies. “Unless there’s some flagrant failure, the board should not change management in the middle of a crisis.” At the same time, however, Potter says the board needs to thoroughly study the cause of

the crisis and its impact on various stakeholders. Indeed, some boards are huddling behind closed doors to prepare for crises before they occur.

For instance, in the wake of the BP oil spill in the Gulf of Mexico, the board and management team at American Electric Power (AEP) recently took stock of their readiness and even incorporated lessons from the BP experience.

Lionel Nowell, a director at AEP, who is also the former CFO at Pepsi Bottling Group, says that the company's crisis management plan includes demonstrating accountability for managing the mechanics, but also disclosing accurate facts as soon as they're available and acknowledging uncertainty to the media and other stakeholders when it exists.

"People want to know that your organization sincerely regrets the crisis and its consequences, and they want to be convinced of your determination to make things right," Nowell says.

But who should communicate with the outside world during a crisis? According to turnaround expert Peter Fitzsimmons of AlixPartners, it probably shouldn't be the CEO. "He's got enough to do. When you have a chairman of the board who appreciates the problem and has a very active hand in the solution, that person may be the focal point. Or it might be someone else who has the expertise."

Pre-Crisis Checklist

Crises fall into three broad categories of knowable and unknowable risks:

1. Risks that should be on the dashboard through an enterprise risk management process (examples: BP's wellheads' potential leaks, Toyota's safety issues)
2. Black-swan events that are totally off the radar screen (9/11, 2008 global financial crisis)
3. Convergence risk-business models failing (e.g. newspaper and book store industries' decline, growth of digital media)

Source: Lowell Robinson, chairman of American Consolidated Media Holdings who runs the Directors' Summit at the University of Wisconsin