KFW DEG

»» Board Guidance: Crisis management

Various definitions for crises exist. In short, it can be described as an extraordinary event substantially threatening a company's operations, business or reputation. Crises can be caused by a variety of different factors, either internal or external, which will have different effects on the affected company and may require different responses.

Crisis management in the context of COVID-19

Regardless of how companies have thought about crisis management in the past, the effects of the global Coronavirus disease ("Covid-19") pandemic are challenging, on a global scale, and the manner in which people live their lives and businesses operate. Covid-19 is a reality for all organisations and will continue to cause or reinforce new forms of corporate risks and crises far beyond those on which you may have already built your crisis management and business continuity plans.

It is probably safe to assume that this pandemic will pass, eventually, but it is now also appropriate to assume that this may not be a once in a lifetime event and that similar pandemics may become a reality on a more frequent basis than heretofore, some less extreme than Covid-19 and others potentially more extreme.

Regardless of the cause, however, a crisis requires immediate and appropriate action by a company's management and board of directors ("the board") to mitigate the significant realities of crises and to prevent irreparable harm to a company's viability, short and long-term business perspectives and reputation. The company will move to "crisis management mode".

Ideally, there will be a crisis response plan in place laying out the critical roles, responsibilities and authority to ensure that critical decisions can be taken and that crisis management efforts are coordinated and communicated adequately.

At a minimum, this plan should now be revisited and stress tested against the realities and impacts of Covid-19 and strengthened to ensure that it is fit for purpose and capable of directing the company in responding to such future shocks. The revised plan should then be communicated widely among the organisation's management group. If there is no crisis response plan, one can still be developed at this stage and further adapted as the situation develops.

The board's role during a crisis

The board has an important role during a time of crisis. It should provide the CEO and management team with guidance and support, and advise on reacting to and managing the situation.

There should be constant two-way communication between the CEO and Chair, and the Chair and the board, to ensure that all directors are informed as the situation develops. While board members will be keeping abreast of management's execution of the crisis plan and its impact on mitigating the effects of the crisis and company performance, it is also important that directors give management sufficient space to take the actions required and embed the results without unnecessary intervention.

Provide guidance to management.

› The board should provide necessary guidance and support to the CEO and the crisis response team. Directors' experience and expertise allow them to act as a support system and sounding board to management and to bring a different perspective to the immediacy and importance of handling a crisis appropriately.
› Board members should be available to give guidance at any time and to communicate regularly with the CEO. It might be helpful to appoint a board member as a liaison to communicate with management.
› Whenever necessary, external advisors, such as external legal counsel or other specialists should be retained to advise on dealing with specific challenges.

Check on the company's performance.

› In order to protect shareholder and stakeholder interests during a crisis, the board will require more frequent and current information on key risk and performance indicators. This will include a stronger focus on liquidity, cash management, risks and stress testing.
› To ensure that directors have the most relevant information, individual operational or regional managers have to be aware of the type of information that is needed and at what intervals.
› Directors in turn should be prepared to meet more often. Meetings do not have to take place in person but could and should also take the form of a video or telephone conference. Regardless of the format, directors have to continue to ask pertinent questions and to challenge and support management in formulating strategic responses to safeguard the company's health.

---

[1] The information in this document was compiled by DEG's Department for Sustainability and Corporate Governance with input provided by Board Excellence. With this document, DEG aims to provide some first guidance on crisis management. DEG will not accept any responsibility and liability for actions undertaken on the basis of this text.

Supervise management's response to the crisis.

› Given that the board is usually more removed from the immediate crisis management, it can provide practical observation and alternative viewpoints on the actions taken by senior management. The board can also give feedback on proposed actions before their implementation.

› Even in times when rapid response is of the utmost importance and decisions are required in the absence of full information, the board (as well as the crisis response team) should take the time to assess whether certain actions and communications are achieving the intended results or if corrective action is necessary.

Note: The board should actively support and encourage management in dealing with the crisis but should not be slow to act if the CEO or any member of the senior management team is struggling to cope under extreme pressure and that struggle is likely to lead to a detrimental outcome or outcomes for the company and/or its stakeholders.

Communicate with external stakeholders.

› While the board's role is usually oversight in nature, directors may be asked to communicate with certain external stakeholders in times of crisis. The board should ensure that there is a consistent message at all times and that communication is accurate and proactive. External communication should form part of a larger communications framework adapted to the particular situation.

Important aspects of crisis management and critical actions

Clearly define responsibilities.

› Roles and responsibilities for key persons and functions should be clearly defined and separated. Processes should be defined outlining how decisions are taken and by whom. This ensures that middle management and employees know whom to report to, what information to provide and whom to listen to. Unclear responsibilities cause confusion and hamper the organisation's ability to react quickly to changing circumstances.

Communicate clearly and transparently.

› A central aspect to any crisis response is communication – both internal and external. Your employees might be worried both about their health and about job security. Your shareholders and external stakeholders such as lenders will want to know what is being done and how the crisis is affecting the company's liquidity position and its ability to continue operating. Accurate and timely information and communication is important to (re-)establish trust and to ensure the support of stakeholders.

Create a crisis response team.

› It may make sense to create a crisis response team, which deals with the crisis directly. Functions that should be closely involved in any crisis management activities may for example include the CEO, CFO, CRO, Head of Communications, Head of Human Resources, Head of IT, affected business areas, investor relations, in-house and/or external counsel. The board might choose to create a "crisis committee" or task the risk committee with focusing on crisis management.

Note: For a COVID-19 crisis response team, it is particularly important to bring in team members who can take action in areas related to health and safety and human resources. Guidance on dealing with health and safety and social aspects of the crisis is provided by DEG, amongst others, and can be found on DEG's website.

Define actions and priorities.

› A crisis response plan provides a framework and orientation for all areas of operations and different entities of a group. It defines roles, responsibility and authority, critical actions and reporting lines.

Some critical actions:

- Ensure there are **policies in place to safeguard employees' health and safety** and to ensure responsible behaviour in line with national and local guidelines.[2]

- Determine if **business continuity plans** are in place. These should include considerations around workforce disruptions as well as supply chain disruptions and legal obligations.

- Don't forget to also **test the implications for the organisation of consequential movements** of significant numbers of personnel created by the need to replace essential individuals who are suddenly unavailable, and the impact such changes will have on the integrity and efficacy of the organisation's internal control and risk management frameworks.

- **Carefully assess liquidity and cash management** and take necessary action. Scenario planning and stress testing can help to better outline possible actions.

- **Determine key person risks and ensure succession plans are in place,** which would allow for a quick (interim) transition if necessary.

- Rigorously **stress test your succession and business continuity plans** for additional risks created by an extreme crisis, e.g., where a key person in any core role AND your two or three preferred replacements or successors become unavailable simultaneously for health or other reasons, and what reaction might be required from management and/or the board of directors in such a scenario.

- **Ensure the board has appointed or designated a deputy chair** to lead the board in case the chair becomes unavailable, and that there's clarity on replacements for the deputy chair should that individual also be incapacitated simultaneously; ensure that the company's articles, constitution or governance arrangements allow for delegation of such authority; put similar arrangements in place for board committees;

- **Ensure the board's functioning**. Make sure there are secure ways for the board to communicate and receive information. Adapt board's and committees' meeting schedule to needs and topics to be discussed.

---

[2] For more information and guidance see, for example, COVID-19 guidance for employers compiled by DEG.

- Where larger numbers of employees are operating remotely during the crisis, **ensure centrally that access to and integrity of information systems and data are secure** at all times, employees are alert to the dangers of cyber risk and organisation policies and standards on cyber security, and electronic communication is facilitated only through secure company email and other communications systems.

- Where urgent decisions have been required and made during the crisis for the benefit of the organisation but on the basis of incomplete information, **reverse stress test the decisions made and related outcomes** as further information becomes available to ascertain if supplementary related actions are required.

Post-crisis assessment of response

Once the crisis has passed, management and the board should conduct a review of the company's crisis management. This allows the leadership to identify potential areas for improvement, which, if implemented, will strengthen the company's preparedness and allow it to better weather the next crisis.

DEG launched an emergency support programme designed to assist our clients in business continuity planning and other areas. More information is available on DEG's website.

DFIs such as DEG can assist our clients in strengthening their company's corporate governance and risk management. More information is available on DEG's website.

For more information/ feedback/ questions, please contact your counterpart at DEG or contact us at:

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

Sustainability and Corporate Governance Department
Kämmergasse 22
50676 Köln, Germany
Telefon +49 221 4986-1575
erik.wessels@deginvest.de
veronika.seibt@deginvest.de
www.deginvest.de

References
Deloitte. 2019. *Stepping in: The Board's Role in Crisis Management*. [online] Available at:
https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/risk/deloitte-uk-risk-global-on-the-boards-agenda-crisis-management.pdf
IFC. 2020. *Navigating through Crises: A Handbook for Boards*. Washington DC . The International Finance Corporation. [online] Available at:
https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/resources/guidelines_reviews+and+case+studies/navigating+through+crises+a+handbook+for+boards
IOD.2020. *The corporate governance of coronavirus – what boards should consider*. [online] Available at: https://www.iod.com/news-campaigns/news/articles/The-corporate-governance-of-coronavirus---what-boards-should-consider
Klemash, S., Smith, J. and Lee, J. 2018. *The Board's Role in Confronting Crisis*. [online] Available at:
https://corpgov.law.harvard.edu/2018/10/07/the-boards-role-in-confronting-crisis/
McNulty, E., Marcus, L. 2019. *What Boards can Do to Prepare for Crises*. Harvard Business Review. [online] Available at:
https://hbr.org/2019/06/what-boards-can-do-to-prepare-for-crises
Osler, Hoskin & Harcourt. 2016. *The Board's Role in Crisis Management*. [online] Available at:
https://www.osler.com/osler/media/Osler/reports/risk-management/Board-of-directors-role-in-crisis-management.pdf