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RESEARCH REPORT

Crisis management and communication

Where has crisis struck?

How prepared are companies for crisis?

What should IR prioritize in a crisis?

A corporate crisis has affected one in three companies in the last five years: everything from the global economic downturn to company-specific employee disputes, regulatory investigations and hostile takeover attempts. Now, two thirds of companies have preparations in place for the next crisis.

As investor relations is intimately involved in communicating the impact of a crisis to the markets, this report looks at the IR lessons from past crises and the readiness for future crises, based on the responses of more than 750 IR professionals worldwide.

A RESEARCH REPORT FROM IR INSIGHT

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Global overview

During IR Insight's latest global survey of IR professionals, respondents were asked to rank a number of issues by their importance to how investors evaluate IR. Communication during specific events, such as crisis management and M&A, score the second highest (8.6 out of 10). Only the quality of information about a company's financial performance and strategy scores higher (9.1 out of 10).

On the evidence of this report, the high level of significance IR professionals attribute to crisis communication is in large part a legacy of the post-Lehman Brothers economic landscape. The global economic downturn has been the single biggest crisis in the last five years, reported by more than one in four respondents (28 percent).

Incidences of a more traditional crisis – a sudden CEO departure, say, or a natural disaster – are rare by comparison. No matter what form the crisis takes, however, the top IR lesson from veterans of crises past is to keep communicating.

The global economic downturn came as a shock to many. Today, most companies have made preparations for possible future problems: more than two thirds (69 percent) have a crisis communication plan in place. What's more, a significant minority (40 percent) conduct crisis simulation exercises, rising to more than half (54 percent) at those companies that also have an existing crisis plan.

Having these types of preparations in place has a positive impact on a company's perceived crisis-readiness. On the whole, IR professionals believe senior management at their company is reasonably prepared for an imminent crisis, giving them an average crisis-readiness score of 7.5 out of 10. That figures rises to 8.0 at companies that both have a crisis plan in place *and* conduct crisis simulation exercises, most commonly once a year.

Investor relations professionals, for their part, believe it is correct for them to prioritize corporate reputation during a crisis, rather than share price or shareholder retention.

Regions, sectors and cap sizes

A company's location and the sector in which it operates are strong indicators of its crisis experience and readiness. Asian respondents in the survey report the lowest incidence of crises out of the three major regions, even though Asian companies are more likely than North American or European counterparts to have both a crisis plan in place and conduct crisis simulation exercises.

Three quarters (77 percent) of companies in the energy & utilities sector have a crisis plan in place and more than half (56 percent) conduct crisis simulation exercises; in both cases, this is the highest percentage of any sector.

When it comes to past experience of a crisis, however, only one in four energy & utilities companies (26 percent) has experienced a crisis in the last five years, placing the sector near the bottom of the crisis incidence list, second only to business services (20 percent).

When it comes to market capitalization, the general trend is that larger companies tend to be more crisis-prone and are more likely to have formal preparations in place for dealing with possible future crises.

IR professionals, moreover, perceive senior management at larger companies to be better prepared for a crisis, although this trend is reversed where small companies have a crisis plan and crisis simulation exercises in place, and larger companies do not.

Methodology

This report is based on findings from IR Insight's global IR survey, conducted in Q4 2011 and Q1 2012. The survey is part of IR Insight's twice-yearly survey of IR professionals. Nearly 800 respondents took part in this survey and a total of 763 of them answered questions that contributed to the findings of this report.

Respondents in this report have been analyzed by geographical region, market capitalization and sector. The three main regions being compared are North America, Europe and Asia.

The four market capitalization bands are: small cap – less than $1 bn; mid-cap

– $1 bn to $5 bn; large cap – $5 bn to $30 bn; and mega-cap – more than $30 bn. All monetary figures throughout this report are quoted in US dollars, unless indicated otherwise.

The nine sectors used in this report are: financial services; consumer goods & services (including leisure & travel); energy & utilities; industrials; basic materials (including chemicals); pharmaceuticals, biotech & healthcare; real estate; technology, media & telecommunications (TMT); and business services (including transport & logistics).

Flooding and nuclear fallout: IR in the eye of a storm

Natural and man-made disasters are fortunately few and far between: only 16 of the 750-plus respondents have suffered a man-made or natural disaster during the past five years. Rare as they are, however, when such disasters *do* strike, the impact can be devastating and immediate.

Two companies that have been singled out for their response to recent crises are Agnico-Eagle Mines of Canada and GE of the US. Each company won the best crisis management award at the 2012 IR Magazine Awards in their respective country. The awards are based solely on the votes of domestic portfolio managers and analysts.

Crisis struck for both companies in 2011. In March, the earthquake and tsunami in Japan caused a chain of events at the Fukushima nuclear power plant, ultimately leading to radiation leaking into the atmosphere. The nuclear reactors, built and supplied by GE, soon attracted attention to the US conglomerate and caused an 8 percent drop in the share price. Right away, the company looked at how it could assist the affected people of Japan, through providing back-up power and financial assistance. Employees of the company also rallied around to offer humanitarian help as well as technical expertise.

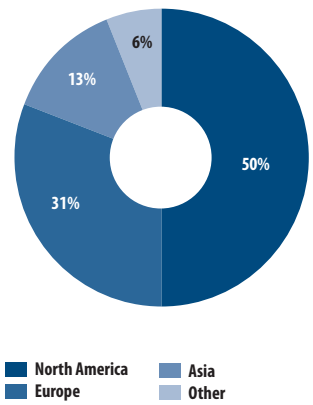
Meanwhile, the IR team helped investors to understand the financial implications of the crisis. 'We were very responsive and stayed up all night whenever we needed to, to respond to our global investors,' says Trevor Schauenberg, GE's head of IR. Third-party experts were drafted in to assuage sell-side analysts concerned about the company's limited liability for the radiation leak and, within a few days of the crisis, the likes of Citigroup and Barclays had published notes explaining the extent of the company's exposure: zero, according to the note from the Barclays analyst.

The company followed this up with its own release a day later via its online information portal, GE Reports. Armed with these reassurances the quick sell-off of GE stock began to settle down after a few days. 'We saw investor confidence return fairly quickly after an initial sell-off of stock,' confirms Schauenberg.

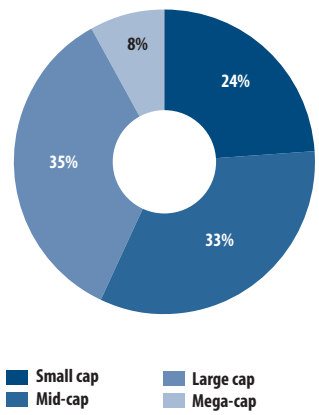
Later in the year, a flood at the Goldex mine in Quebec prompted the board of Agnico-Eagle Mines to order the closure of one of the company's prized assets, which was immediately written off at a cost of C$260 mn, causing a 20 percent fall in the share price. The company retained the confidence of the investment community thanks to the speed and openness with which it responded to the shutdown, according to Dmitry Kushnir, IR manager at the TSX-listed gold miner.

'We had a press release ready to go for investors and other stakeholders; we handled media interviews; we held an analyst call that addressed this. We were extremely proactive about contacting our major shareholders to explain the situation and rationale for our decision,' Kushnir told *IR magazine*. It helped that the company had a crisis communication plan in place, he says – but a plan can only do so much to prepare a company for what actually happens, when common sense must be the principal factor. 'In our circumstances, it was a matter of getting everyone involved over the weekend, any time of day,' says Kushnir. 'The biggest value for the Street is to be available and transparent; not dodge questions but answer them truthfully.'

Respondents by region

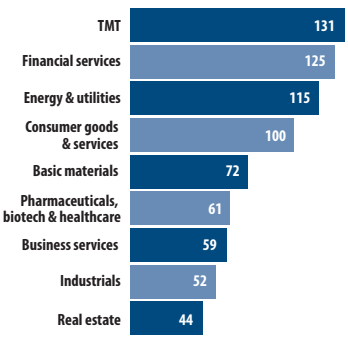


Respondents by company cap size

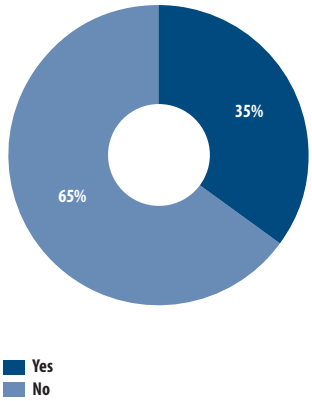


Sector response

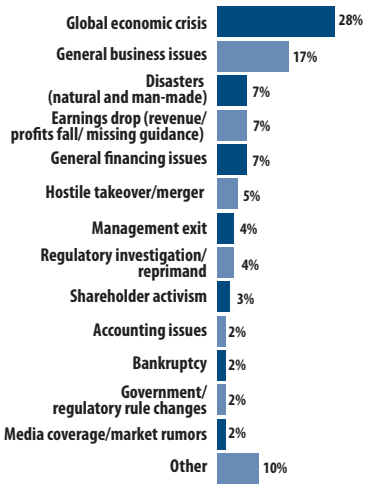
Number of respondents, by sector



Has your firm experienced a crisis in the last five years?



What's been your most significant crisis in the last five years?



Crisis frequency

Most companies have been crisis-free over the last five years. During that period, experience of a crisis peaked at companies in the financial services sector and the pharmaceuticals, biotech & healthcare sector

One third of companies had a crisis: most companies (65 percent) have been crisis-free in the past five years, while just over a third (35 percent) of respondents say they experienced a crisis at their company during that time.

North America is the most crisis-prone region: on a regional basis, North American companies had the highest incidence of a crisis (38 percent), marginally higher than the global average (35 percent). By contrast, crises were least common in Asia (27 percent).

Larger companies at higher risk: two in five mega-cap companies (40 percent) report having had a crisis in the past five years, a higher percentage than any of their smaller counterparts, although small-cap companies are close behind on 38 percent. Mid-cap companies are the most crisis-free (31 percent).

Financials and pharmaceuticals share common threat: companies in the financial services sector and the pharmaceuticals, biotech & healthcare sector are the most crisis-prone of any of the companies in the sample (both 41 percent). The constituents of these two sectors are twice as likely to have experienced a crisis in the past five years as companies in the business services sector (20 percent).

Crisis form

IROs take a wide view of what constitutes a crisis. For most, the global economic downturn, with its knock-on effects on business profitability and the difficulties of securing long-term financing, far outweigh occurrences of a natural or man-made disaster, a key executive resigning or an accounting scandal, all of which are quite rare by comparison

Global economic downturn is top crisis: the ongoing fallout from the global economic downturn – prompted by the collapse of Lehman Brothers in 2008 – has been the single biggest crisis experienced by companies worldwide over the last five years (28 percent).

That number jumps to 52 percent when combined with the impact the global downturn has had on individual business profitability and the difficulties faced by companies trying to secure debt financing and refinancing and, to a lesser extent, equity financing. In other words, the global downturn is the root crisis for more than half the companies in the sample.

Other disasters are very few and far between: bribery investigations and natural disasters, two examples of a traditional crisis in the pre-Lehman days, are relatively uncommon by comparison with the global downturn.

Besides the global downturn, the most common crises are (by descending order of mentions): natural or man-made disasters; dramatic earnings drop; hostile takeover/merger; key management exit; regulatory investigation/reprimand; shareholder activism; negative media coverage/market rumors; regulatory rule changes; accounting issues; bankruptcy.

When taken together, these 10 potential situations make up 38 percent of the crises experienced in the last five years, as reported by respondents.

Crisis focus

Half of IR professionals feel it is unnecessary to differentiate between the information they provide to investors, shareholders and the media. Those who *do* discriminate tend to shape the story to suit each constituency, although dealing directly with the media is less common and more fraught

IR audience demands consistent messaging: when delivering the company message during a crisis, just over half of respondents do not see a need to discriminate between investors/shareholders, sell-side analysts and the media.

Rather, transparency, communication and access to a company spokesperson are considered to be equally necessary for each constituency.

Message can be tailored to audience: for those survey respondents who *do* distinguish between the three, the popular perspective can be summarized as follows: investors/shareholders want to be informed about how the crisis will hit the share price and what is being done to address/fix the issue; sell-side analysts require information about the impact of the crisis on the underlying business (ie, revenue, cash flow, operations); the media are more focused on the overall impact of the crisis, paying particular attention to the human factor (such as employee injuries or redundancies).

Both sell-side analysts and the media routinely seek access to someone at the company, whereas shareholders often settle for a company press release that clearly sets out the facts of the crisis and the company's response.

Media relationships prove trickier: a significant number of IR professionals explicitly say they don't deal directly with the media. Those respondents who do have media experience believe it is important to be quick and get the facts out while at the same time ensuring the explanation is easy to understand. Company reputation is perceived as being more relevant to communications with the media than to communications with shareholders and sell-side analysts.

There is an underlying antipathy toward the media, irrespective of whether or not respondents routinely deal with them. The media are perceived as preferring a sensational story to reporting the facts and only really interested in getting a company spokesperson (preferable management) to go on record.

'Anything that will sell newspapers,' says one respondent from a Brazilian energy company. 'Often [the media] will take anything that they can get,' notes another respondent from an African consumer goods & services company (see *Key demands from investors/analysts/the media*, right).

Crisis foresight

Active communication is the principal lesson from those IROs who have experienced a crisis. Being quick with information, being transparent, being honest and being prepared are top considerations, too

Communication is critical in a crisis: active communication during a crisis is the single most important lesson learned by IR professionals, mentioned by more than one in five respondents.

Top 10 post-crisis lessons

By descending order of mentions

1.	Be communicating
2.	Be fast
3.	Be transparent
4.	Be honest
5.	Be prepared
6.	Be consistent
7.	Be conservative
8.	Be clear
9.	Be visible
10.	Be coherent

Other emphasis on getting that message across: most of the other lessons repeated by IR professionals flesh out how crisis communications should be conducted. These include being prompt with information in second place, followed by a commitment to being transparent and honest in third and fourth, respectively, as well as consistency and clarity of messaging at sixth and eighth, respectively. More actionable lessons include the importance of being prepared for a crisis (fifth), making management visible during a crisis (ninth) and the company communicating with its different stakeholders using one voice/channel (10th).

Manage expectations next time around: post-crisis, some IROs are determined to be more cautious about giving future forecasts and guidance (seventh). These respondents tend to have experienced a crisis linked to the global downturn or a specific business or finance-related issue.

Key demands from investors/analysts/the media

'Shareholders require confirmation their investment is not at risk/Analysts require information that will enable them to develop the impact on future earnings, particularly in the current financial year/The media require information confirming that the crisis has passed and how the key issues were addressed' – **basic materials (including chemicals), Africa**

'What's happening?/What are you doing about it?/Was anyone hurt? – **pharmaceuticals, biotech & healthcare, US**

'How will this affect the stock price?/How will this affect the financials?/How will this affect the people?' – **consumer goods & services, US**

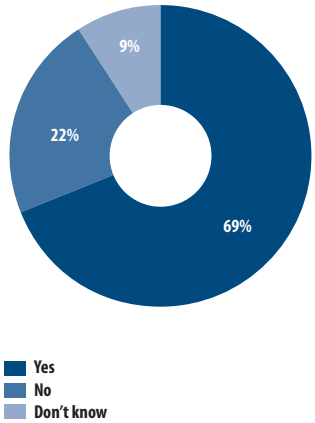
'Truth/Impact/Responsibility' – **leisure & travel, Asia-Pacific**

'Immediate communication of the crisis at hand/Immediate understanding of the crisis at hand/Quick response time' – **energy, US**

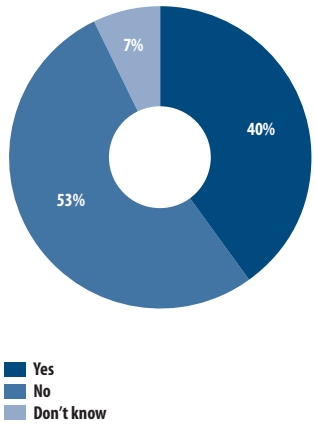
'Dividends sustainability/Top-line performance/Profitability'– **technology, Europe**

'Can they trust management (and the board) to resolve the issue?/What will be the impact on future performance?/Can they turn it into a sensational story?' – **consumer goods & services, Middle East**

Does your company have a formal crisis plan?



Does your department engage in crisis simulation?



Crisis plan

Most companies have a crisis plan. Above-average incidence of crisis planning is seen at bigger companies by market capitalization, Asian firms and companies in the energy & utilities sector. Yet experience of a crisis in the last five years does not appear to have a meaningful impact on company preparedness

Most companies have a plan: a little more than two thirds of respondents (69 percent) are aware their company has a formal company-wide crisis plan, compared with 22 percent who know their company does not have a plan and 9 percent who don't know either way.

Asia tops crisis-ready regions: a formal crisis plan is most likely at Asian companies (73 percent) and least likely at European companies (68 percent), although the figure for Europe is practically on a par with the global average.

Larger companies like being prepared: the likelihood of a company having a crisis plan in place increases as market cap increases. Just over half (56 percent) of small-cap companies have a formal crisis plan. This figure rises steadily across the cap sizes to nearly nine in 10 (87 percent) mega-cap companies.

Energy & utilities on high alert: companies in the energy & utilities sector are the most likely to have a crisis plan in place (77 percent). The least likely are companies in the real estate sector (54 percent). Nearly one in five respondents in TMT (19 percent) are not sure about their company's crisis planning.

Experience no call to action: the existence of a crisis plan rises to 72 percent at companies with prior experience of a crisis, just above the global average. This figure falls to 67 percent at companies that have not experienced a recent crisis, just below average. Yet this 5 percentage point difference is made up more by respondents who don't know whether their company has a plan (3 percent) than by respondents who actively know their company does not have a plan (2 percent), so there can be no inference that experiencing a crisis prompts a company to put a plan in place.

Crisis practice

While a bare majority of companies does not take part in crisis simulation exercises, a sizable minority does, commonly undertaking at least one crisis simulation exercise a year. Simulating a crisis is less popular than putting a crisis plan in place, although both practices show similar trends across regions, sectors and market cap sizes

Simulation not for everyone: two in five respondents (40 percent) participate in crisis simulation exercises. That rises to more than half (54 percent) at companies that have a crisis plan in place. Just over half of respondents (53 percent) say their department does not take part in a crisis simulation exercise and the rest (7 percent) don't know either way.

North America below average: half of Asian respondents (50 percent) participate in crisis simulation exercises, making Asia the only region of the three where it is standard practice for the majority of companies (43 percent do not participate in crisis simulation and the remaining 7 percent do not know either way). Crisis simulation is least common in North America (35 percent), making it the only region of the three to fall below the global average (40 percent). The participation level in Europe (44 percent) falls between Asia and North America.

Big companies planned and prepped: a company's market cap has a strong correlation with its appetite for crisis simulation. Less than a third of respondents at small-cap companies participate in crisis simulation exercises; this figure almost doubles for mega-cap companies (61 percent).

Energy & utilities leading the way: companies in the energy & utilities sector are the most engaged in crisis simulation as well as crisis planning. More than half the companies in the sector (56 percent) participate in crisis simulation, but this still falls well below the three quarters

that engage in crisis planning. Respondents in the industrials sector report the lowest instances of crisis simulation, at a little over one in five (21 percent).

Once a year: of the companies that *do* undertake crisis simulation exercises, half (48 percent) elect to do them just once a year, nearly a quarter (23 percent) up to twice a year and 14 percent more than twice a year. The remainder either conducts an exercise less frequently than once a year (5 percent) or on an ad hoc basis (10 percent).

Crisis perception

IR professionals perceive senior management to be reasonably prepared for a crisis. Senior management of companies that have a crisis plan and conduct crisis simulation exercises receive the most positive reviews

Senior management in top quartile for crisis-readiness: when respondents were asked to rate the level of senior management preparedness for an imminent crisis, senior management averaged a score of 7.5 out of 10. A quarter of respondents give their senior management a score of six or less, while 15 percent award a perfect score of 10 out of 10. The most popular score is eight out of 10, given by 27 percent of respondents.

European C-suite prepped for crisis: senior management teams are viewed most favorably in Europe, with an average score of 7.7. Respondents in North America and Asia both give senior management an average score of 7.3.

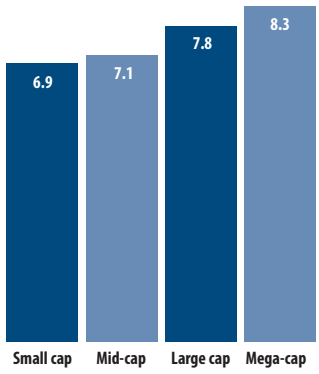
Bigger companies are better perceived: senior management is viewed as more prepared for a crisis as market cap increases, rising from an average score of 6.9 at small-cap companies to 8.3 at mega-cap companies. This doesn't mean a company's senior management is viewed as more or less prepared because of cap size, however, nor that cap size is the determining factor (see *Having a plan pays off*, above right).

Management in financial services scores highest: average sector scores range between seven and eight. Respondents in financial services give the highest score (eight out of 10) and the lowest is in real estate and pharmaceuticals, biotech & healthcare (seven out of 10).

Having a plan pays off: having a crisis plan in place has a positive impact on how IR professionals view senior management, pushing up the average crisis-readiness rating for senior management from 7.5 to 7.8. Conversely, senior management is viewed less favorably at companies without a formal crisis plan, scoring 6.3 on average, down from 7.5 overall.

Half of the respondents at companies without a crisis plan give senior management a score of six or less. What's more, the number of senior management teams scoring a perfect 10 drops from 15 percent to 4 percent at these firms.

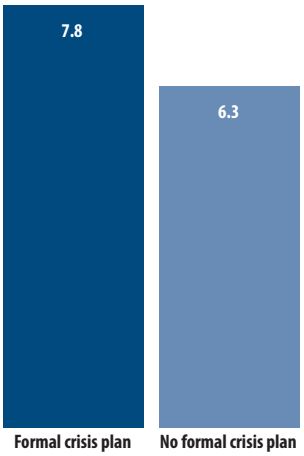
How prepared for a crisis is senior management at your company (out of 10)?



Global average: 7.5 out of 10

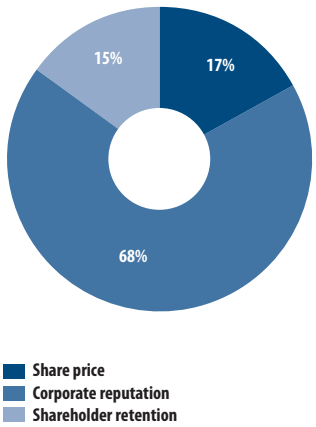
In a similar way, holding crisis simulation exercises has a positive effect on how IR professionals perceive the crisis-readiness of senior management. Just 13 percent of respondents whose company participates in crisis simulation exercises give their senior management a score of six or less. At these companies

Effect of crisis plans on perception of senior management readiness (out of 10)

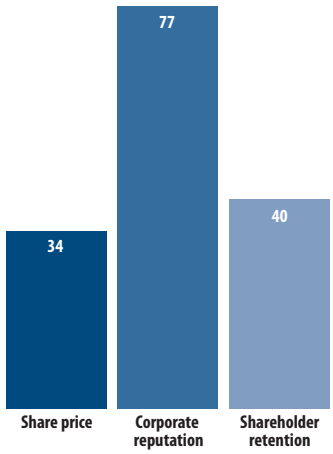


Effect of crisis simulation exercises on perception of senior management readiness (out of 10)

What would you prioritize in a crisis: corporate reputation, share price or shareholder retention?



Priority score (out of 100)



the average senior management score rises to 7.9, with 33 percent of respondents awarding a score of eight (up from 27 percent overall).

Having both a crisis plan and holding crisis simulation exercises even reverses the overall trend for IR professionals to have a more positive view of management at bigger companies. The score for small-cap companies that both have a plan and conduct crisis simulation exercises is 7.6. Meanwhile, the score for large caps that neither have a plan nor conduct simulation exercises is 6.4 (there were no mega-cap companies that have no plan and conduct no exercises).

Crisis priorities

During a crisis IR professionals would prioritize corporate reputation over shareholder retention or share price. This trend is evident across all regions, cap sizes and sectors

Reputation is primary concern: most IROs would prioritize corporate reputation retention. When asked to rank the three in order of priority more than two thirds of respondents (68 percent) cite corporate reputation as their top concern in a crisis. Share price is the first priority of 17 percent of respondents, only slightly more than shareholder retention at 15 percent.

Corporate reputation is the top priority across all geographical regions, market cap sizes and industry sectors: it is always cited by the majority of respondents as the first priority and its normalized priority score never dips below 67. Furthermore, corporate reputation continues to be the top priority for IR professionals when second and third-placed priority rankings are taken into account, as well.

To factor in the first, second and third priorities of each respondent, two points were awarded for a first priority, one point for a second and nil for a third. These points were then added up and the scores were normalized, so that 100 percent of first priorities would give a score of 100 and 100 percent of third priorities would give a score of 0. On that basis, corporate reputation has a priority score of 77 out of 100, far more than shareholder retention and share price, which have scores of 40 and 34, respectively.

As the above shows, however, taking into account all preferences switches around the positions of share price and shareholder retention in second and third place. This is because 49 percent of respondents choose shareholder retention as their second priority and half of all respondents (50 percent) select share price as their lowest priority of the three.

Reputation particularly important in Asia: geographically, Asia is the region that gives the highest priority score to corporate reputation (81) while Europe gives the lowest (71). Europe is also the region that gives shareholder retention its highest score (47 compared with 36 in Asia). North America closely follows the overall trend.

Larger companies have higher regard for reputation: there is a gradual and sustained increase in priority for corporate reputation as market cap size increases. Small caps average a priority score of 75; at mega-caps, it's 81. Also worth noting is that while the priority for share price decreases from small caps to mega-caps (from 37 to 25), it increases for shareholder retention (39 to 45). Just 7 percent of mega-cap companies view share price as their first priority.

Pharmaceuticals companies acutely aware of reputation: corporate reputation is given its highest priority by companies in the pharmaceuticals, biotech & healthcare sector (priority score 82); nearly three quarters of respondents from this sector cite corporate reputation as their first priority. By contrast, its lowest prioritization comes from respondents in the basic materials (including chemicals) sector, with a priority score of 67, which also gives the highest priority score to shareholder retention (47).

Real estate gives shareholder retention the lowest score (27), but more than 27 percent of real estate respondents choose share price as their number one priority – the highest percentage of first priorities outside of corporate reputation. The least

attention to share price is paid by companies in the consumer goods & services sector, with a score of 26, while its greatest focus is from companies in the business services sector (45).

Experience says something different: experience of a crisis in the last five years trends toward reversing the overall priority for corporate reputation, but only slightly. Respondents who have experienced a crisis give share price its highest percentage of first priorities (20 percent), while corporate reputation drops to 65 percent (from 70 percent of those who have not had a recent crisis). The priority score for share price and shareholder retention both increase slightly when respondents have had a crisis (32 to 34 for share price and 40 to 41 for shareholder retention), whereas the priority score increases slightly for corporate reputation among those respondents who have not had a crisis (moving up from 76 to 78).

IR Insight: Why is reputation everything?

The three areas of share price, corporate reputation and shareholder retention are recognized as not mutually exclusive. It is also understood that respondents' third-placed priority is not necessarily a low priority for them. In fact, these three areas of focus have been selected precisely *because* they are recognized as high-priority issues and their interrelationship makes it harder to choose between them. Crises are not times for easy decisions and forcing respondents to prioritize gives an insight into how IROs perceive their role during such times.

Of the three issues, shareholder retention is the one that naturally falls within the remit of IR. Share price is another issue IROs are directly engaged with. It is likely to be the responsibility of most if not all IR professionals to address both of these issues on a regular basis – so why the sudden shift to corporate reputation during a crisis?

It may be that protecting corporate reputation is not compatible with maintaining share price and shareholder retention during a crisis, thus prompting a simple choice between two options: either communicate openly and honestly about the impact of a crisis, risking a negative impact on share price and prompting some investors to sell, but looking out for the corporate reputation in the longer term; or prop up the share price and share register by pretending everything is fine and risk damaging corporate reputation at a later date. Put like that, the choice appears straightforward for any IR professional: share price and share registers can recover far faster than reputation.

Alternatively, respondents may have opted for the broader concept of corporate reputation as prioritizing share price and shareholder retention during another crisis on the scale of the global economic downturn seems an impossible and futile task for IR. It may also be that, even under anonymity, respondents would prefer to prioritize the area that appears the most laudable. But none of this explains away corporate reputation's dominance as the number one priority.

What the findings in this report suggest is that IR professionals see losing shareholders and falling share prices as more consequential factors of damage to corporate reputation than contributing factors to that damage. In their interdependence, corporate reputation affects share price and shareholder retention more than share price and shareholder retention affect reputation, so the best way to keep and encourage investors as well as maintain a healthy share price in the long term is to focus on corporate reputation during a crisis.

Crisis conclusions from storm-weathered respondents

Type of crisis: **Global financial downturn**

IR advice: 'The importance of proactive investor engagement' – **financials, Europe**

Type of crisis: **Flood**

IR advice: 'Tell investors the best you know from day one, acknowledging it is the best you've got but perhaps not highly accurate at that early stage' – **energy, Canada**

Type of crisis: **Liquidity**

IR advice: 'Centralize communication during a crisis but do not shut it down' – **financials, Europe**

Type of crisis: **Misrepresentation by the media**

IR advice: 'Be more open and accessible with the media' – **industrials, Asia-Pacific**

Type of crisis: **Business interruption**

IR advice: 'Communicate intensively with brokers, financial PR and other advisers to ensure they assist in dealing with information dissemination' – **basic materials (including chemicals), Middle East**

Type of crisis: **Shareholder activism**

IR advice: 'Focus on the big picture and ensure messaging links to it, rather than addressing small points raised by the activist' – **financials, Europe**

John Deverell, CEO of Keyhaven

All companies should expect a crisis, according to John Deverell, CEO of Keyhaven

When crisis strikes a company, the demands from investors, analysts and the media boil down to two things: getting the facts, and getting them fast. Often, though, the ability of IR professionals to meet those demands will depend upon the company's overall preparedness for crisis.

John Deverell is CEO of crisis and reputation management consultancy Keyhaven. In his experience, three factors regularly come as a surprise to companies that have experienced a crisis. The first is how long it can take for the corporate level to realize something serious is going on, particularly at large companies. 'What people throughout the business need to understand is what actually constitutes a potential crisis that needs to be reported up to that corporate level,' Deverell says.

As an illustration of this point, Deverell has been present when companies have put a group of employees around a table, given them an imaginary scenario and asked them whether it merits the CEO being informed at whatever time of day or night, or whether it can wait until Monday morning. The results, he says, will routinely differ from person to person.

"Every company will be hit by a crisis in due course"

Natural disasters

Of course, a massive oil spill will constitute a crisis to most if not all people. The same goes for a tsunami-triggered nuclear leak, a hotel bombing or a corruption allegation leveled at a CEO. But one of the things this report shows is that these big disaster-type crises are relatively uncommon – so what about missing earnings guidance, a takeover bid or a negative media story?

Multiple respondents give each of the above as an example of a crisis in the last five years and yet the most popular answer is the global economic crisis. Such a broad range of views would suggest that most IR professionals would disagree on what constitutes a crisis, too.

According to Deverell, human behavior at all levels of an organization can play a significant part in how a company responds to a crisis. When a crisis first breaks, for instance, the employees at the source often try to deal with it themselves, don't fully understand the impact of the crisis and can be reticent to report bad news up the chain.

Deverell's advice in that situation is: if in doubt, report it, because it's easier to scale back an overreaction than ratchet up an under-reaction. 'A CEO can always go back to sleep,' he says, reassuringly.

Equally, it is important to get buy-in from the top: senior management members need to make it clear they would rather be disturbed than not. The underlying message, in short, is that companies should have a mind set in place that means their employees are alert to the early signs of a crisis as well as aware of the need to promptly report the facts.

A matter of timing

The second surprise for companies is how quickly the pressure builds up when the crisis becomes public, especially from external sources – and the time this takes has shortened since the advent of social media. The way to buy time, says Deverell, is to put crisis management procedures in place before crisis strikes. 'These mechanisms are designed to get the facts to the right people to enable them to make sensible and mindful decisions in good time,' he explains.

Several findings in this report suggest corporates the world over are reasonably

prepared for potential risks. Most notably, two thirds of IR professionals know their company has a crisis plan in place, while only a third of companies have had a crisis in the last five years. But Deverell warns companies against complacency.

The way he sees it, a corporate crisis is a question of *when* rather than *if*. That means at least one in three companies is completely unprepared for a crisis. To that number Deverell would also add many of the remaining two thirds of companies, which will not, in his experience, have made a proper effort of validating and stress-testing their crisis plans.

What he would say to all companies, by way of reassurance, is that crisis planning and testing need not be a costly, time-consuming exercise, necessitating extensive business interruption. 'Very often I find it is immensely valuable just to get the key people who constitute the crisis management team at corporate level around a table for 20 minutes to do a bit of 'what if-ing',' he says.

Three steps

There's also no need to compile an extensive 'play book' for every scenario. It is impossible to prepare for every eventuality, and few people are likely to read such comprehensive tomes. Simply put, the steps for getting ready for a crisis are threefold: clarify what constitutes a crisis, identify the key people who can be given authority from the top level to deal with crisis, and establish what their roles are in a crisis.

Deverell was recently involved in a crisis involving a public company listed in London. The company's plan to close down a factory in China was interrupted by disgruntled employees who occupied the premises and took local management hostage. Prior to the incident, Deverell had worked with the company on rolling out a new crisis plan. With the CEO's buy-in, he had implemented four crisis-themed seminars, held over a six-month period, which were attended by top management from corporate headquarters and the business divisions, alongside the head of communications and the general counsel.

When the factory was occupied, the crisis was promptly reported to the responsible individuals and the company was able to take decisive action. Initially this involved coordinating with the local authorities to secure the release of management without harm. Then the company mitigated the commercial damage. In particular, this involved introducing a major customer to a competitor so that an order expected from the occupied factory could be fulfilled.

Subsequently, the major customer returned to the original company, and the company went on to make back its losses in the medium term.

Value call

The third surprise for companies is finding out how closely their value is linked to whether or not they deal with crisis effectively and quickly. Value has broad application in this context, ranging from share price to revenue and corporate reputation. In the factory example above, Deverell highlights the quick and counter-intuitive thinking that kept a major customer happy and thus helped protect the value of the company's business operations in China.

Crisis preparations do not only prove their worth during and after a crisis, however. Deverell's advice to IR professionals and senior management is to make a virtue out of it during discussions with investors on a regular basis. After all, it is the companies that prepare for a crisis that are more likely to recover quickly from shocks and should therefore be more valuable to investors.

'Companies get this right either by showing that in calm times they have the processes squared away and providing reassurance of that, or through dealing with a crisis effectively,' Deverell concludes. 'Every company will be hit by a crisis in due course.'

> *"It is immensely valuable just to get the key people who constitute the crisis management team at corporate level around a table for 20 minutes to do a bit of 'what if-ing'"*

ABOUT IR INSIGHT

IR Insight is the research arm of *IR magazine*, the leading voice in global investor relations. We regularly engage with the investor relations community and the investment community through extensive studies, surveys and detailed interviews with corporate IR professionals, investors and analysts.

The results of our rolling surveys of more than 1,000 IR professionals located in all major business centers across the world provide an unrivaled global perspective on the latest IR trends and industry best practices.

Our research publications include in-depth investor perception studies, which we produce in conjunction with *IR magazine*'s highly regarded annual awards in the US, Canada, Europe, Asia and Brazil. Each year, in each of these markets, we commission research among thousands of buy-side analysts, sell-side analysts and portfolio managers, asking the same question: which company has the best IR? The reports we produce uncover and explain the reasons for successful investor relations as well as the key drivers of investor sentiment.

To generate customized reports on your global peer group, please visit our website: www.InsideInvestorRelations.com/research.

IRInsight

SPONSOR'S STATEMENT

Keyhaven is a crisis management and communications firm providing solutions to companies and institutions. Our goal is to ensure crises of all sizes are either avoided altogether through appropriate preparation, or handled effectively and communicated in a way that protects value and reputation.

Keyhaven was established in 2011 as part of King Worldwide, the global financial communications and stakeholder management firm. It was set up to protect and enhance companies' reputations by comprehensively handling all aspects of crisis management and communications to investors, employees and all other stakeholders.

Keyhaven helps in three distinct phases:

- Before a crisis, by evaluating companies' risk and crisis management procedures and helping to build and develop policies, procedures and crisis plans.
- During a crisis, by handling all internal and external communications, and executing the strategy for practical and reputational crisis management.
- Post-crisis and on a continuing basis, by developing policies and plans and providing reputational support as required.

The Keyhaven capability includes the deployment of leading specialists in cyber, data and IP protection and strategy, anti-corruption, human rights and political and cultural intelligence. Keyhaven also retains top-level experts of public service, commercial and academic distinction. They have dealt with very high-profile crises and have unrivaled credibility. As risk and reputation management becomes an increasingly important differentiator in the eyes of investors, this comprehensive package addresses a growing corporate need.

Keyhaven is led by John Deverell, who has 30 years' experience in managing and communicating crises. For further information, please visit www.keyhaven.cc or contact John at info@keyhaven.cc or +44 20 7920 2320.

KEYHAVEN
mitigating risk, protecting reputation