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WINTER 2011

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Crisis Management Preparedness

Many events can bring on a crisis—weather-related destruction, acts of terrorism, political, financial, industry-wide or reputational calamities to name a few. No matter the cause, all crises require management teams to demonstrate preparedness, focus and careful coordination to work through these unwelcome events.

By Cynthia Krus and Suzanne Sparrow

Although each crisis has its own distinct characteristics, there are a number of common elements that management teams should consider and plan for well before a crisis occurs. Taking the following steps helps prepare management teams should an unwelcome situation occur.

The Crisis Management Team

The Crisis Management Team (CMT) is the governing body for the crisis; it processes information, brings in others as appropriate, makes decisions, oversees communications related to the crisis and manages corrective actions. If the CMT has the most accurate information available, it will be in the best position to manage the crisis, communicate with appropriate constituencies and prevent uninformed or dissident employees or others from challenging the decisions of the CMT.

Determine a CMT. It often is not possible for the same personnel to manage business operations and a crisis simultaneously. Careful selection of a CMT will help ensure that managing the crisis does not overtake managing the business. Choose those trusted internal executives who can step away from daily operations to be primarily responsible for managing and overseeing the crisis response. The CMT members' colleagues should be able to carry on with managing the day to day business while the CMT members are focused on the crisis.

When determining who should be a member of the CMT, consider including an individual in each of the following positions:

- Senior executive with personal knowledge of and access to the board of directors;
- Senior financial officer with a deep understanding of financial results;
- Investor relations, public relations or communications officer;
- General counsel;
- Compliance officer (depending on the nature of the crisis);
- Officer with access to and a strong understanding of the company's historical disclosure and current data to ensure accuracy and completeness of current statements; and
- Independent director such as the audit committee chair (if any allegations are against management directly).



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Each CMT member should be responsible for making certain that appropriate communication to each constituent group is developed and delivered in a manner consistent with the overall messaging for the crisis. Each CMT member should have readily available contact information for his or her respective constituencies, or immediate access to the vendors or software that may be used to access larger groups, such as shareholders. Constituencies to be considered include:

- Board members;
- Shareholders (depending on investor base, different communications strategies for institutional or retail investors may be necessary);
- Lenders and debt investors;
- Rating agencies;
- Equity/Debt analysts;
- Press/Media;
- Employees;
- Business unit leaders; and
- Vendors.

The CMT should convene at least once a day, or more often if necessary, with its outside advisors to update the team on new developments, review proposed disclosures and set the strategic and tactical plan for the day.

Identify one person as the CMT lead, typically the CEO. The CMT lead often will be asked to make decisions under pressure and with less than perfect information. As a result, the CMT lead needs the confidence and authority to make the best decision he or she can with the information available at the time. In addition, the CMT lead must be able to effectively communicate these decisions. Importantly, the CMT lead must recognize that every decision will be later judged with 20/20 hindsight.

It is possible that when a crisis hits, key members of the CMT may not be onsite. Emergency contact information should be readily available for all CMT members. Establish backup communications systems so that every member of the CMT knows how to access each other through a variety of methods. Home phones, cell phones, SMS/texting or direct communication through BlackBerry PINs may be the only way to reach each other. It is important to make sure every member of the CMT has this contact information readily available, especially when traveling or at home.

Additionally, if a key member is not immediately available, it is helpful to have “backup” members identified. This will permit the organization to quickly establish an

operating CMT with a clear leader given the day’s current staffing. Accordingly, it is imperative to specifically designate a “chain of command” in the event that the chosen CMT lead is unavailable for any reason.

Be sure that everyone within the organization knows who is on the CMT, who the spokesperson is and to whom they should report incremental information as it becomes available. Make certain that the CMT is accessible, particularly if the CMT is required to relocate due to any impairments of the company’s physical property.

Communicate with the board. The CMT lead should be in close communication with the board of directors, either directly or through the chairman or CEO. The board members need to understand, in nearly real time, the facts relative to any allegations, the strategy for managing the crisis and the evolution of the matter as the crisis continues. It is the board’s obligation to oversee management. If a member of the board wishes to participate in CMT updates, this should be arranged. Ultimately, the board will be responsible for the actions of the company and its management team. As a result, it is important to make certain the board is aware and supportive of management’s strategy and the selected advisors.

Crisis Communication

Manage the message. The company needs to assume that the press has been notified of the crisis and prepare for an onslaught of reporters seeking to make contact with the organization and its partners at all levels. For this reason, it is imperative that the CMT identify one primary spokesperson to manage all press and oversee the communication to all constituents. Generally speaking, all other responsibilities of the spokesperson should be reassigned within the organization and among the CMT members to permit the spokesperson to manage the communications efforts and provide feedback to the CMT.

Designating a spokesperson will clearly establish the policy that no one else within the organization is permitted to speak with the press, constituents or others who need or want information about the crisis. Employees and others working with the company should be warned that press may seek to obtain insight on the crisis from lower level employees. Employees should be instructed to direct requests for information to the appropriate CMT member.

Establishing an Escalation Policy

In order to have the opportunity to prevent, detect and control certain kinds of “man-made” crises, it is imperative that an organization have an escalation policy to timely report potential red flags to senior management. An escalation policy should provide clear examples of the kinds of events that should be reported to senior management. It should also encourage employees to report concerns without fear of retribution or ridicule. Every business is different, so the list of potential escalation events should be tailored to fit each particular organization.

Some examples of events that should require some sort of escalation include:

- Security threats (e.g., bomb threats);
- Allegations that may expose the organization to legal liability or embarrassing press;
- Allegations that an employee, board member or business partner is involved in any sort of illegal activity or misuse of company assets;
- Inconsistencies between expected and actual assets, including cash, securities or property;
- Requests for private or unusual information about management, employees, board members, business partners or the organization’s infrastructure;
- Evidence of IT hacking or attempted unauthorized systems access;
- Unusual/disgruntled communications from a constituent; and
- Other unusual events, such as repeated hang-up telephone calls or onsite visitors who are concerning.

It may be useful to maintain a log of such events, particularly when one recurs, to better understand the pattern if anything actually transpires.

It is possible that the press will be helpful in disseminating the company’s perspective on the crisis. Maintaining professional relationships with key journalists within the community and industry is always a good idea, whether you choose to provide access to senior management or not. There is never an obligation to answer media questions; however, if a story is to run, it can be in the organization’s best interests to contribute its point of view.

There are many things to know about crisis communications and managing the press. Perhaps most important is setting the ground rules, but that is a separate topic altogether. Talk with your public relations team about these issues long before the crisis to allow the team and spokesperson to prepare and manage their interaction with the press most effectively.

For example, management team members may be tempted to fan the flames of a crisis with incendiary statements against their attackers to make them look bold or in control. Although public statements may need to be made, it is rarely productive to engage the opposition in such public debates. To avoid the pitfalls of these seductive conversations, litigation counsel and in-house counsel should participate in public relations strategy conversations along with the CMT lead, the spokesperson and other members of the CMT.

Talk to employees. As soon as the crisis is evident, management should address all employees to

- (1) Communicate that the company has an activated CMT that will be managing the crisis;
- (2) Ask that everyone continue to focus on running daily operations during the crisis;
- (3) Remind employees of the escalation policy to report any relevant information to the designated member of the CMT; and
- (4) Instruct employees that no employee other than the designated spokesperson is authorized to speak to the press or any unknown person on the matter. (Versions of this speech may also be given to vendors, business partners and other related parties.)

Monitor market information. Regardless of what the company says, or does not say, information and opinions about the crisis will be distributed via television, radio, internet, blogs, chat rooms, forums, industry gatherings, competitors, analysts, rating agencies, regulators and elected officials. It is imperative that the organization know what is being said and what questions are being raised to assess whether the information being provided by the company is sufficient, clear, complete and timely. CMT members (and their delegated staff) should monitor

their respective constituencies and report back to the CMT regularly (at least daily, if not more often). The information should be considered in real time and may require the development of additional messaging to address new issues.

Regulatory Action and Litigation

Expect regulatory action. In every crisis, the organization should assume that regulators will review the facts to determine whether there have been any violations of the laws or rules that the regulator enforces. Every industry is regulated differently, but obligations common to every regulator are monitoring happenings within the industry, identifying the bad actors and eradicating bad behavior or the actor. Be prepared for the call from the regulators and, depending on the nature of the crisis, consider contacting the regulators proactively to tell the company's story before the regulator has already read press accounts, analyst reports or other potentially inaccurate information. In-house and outside regulatory counsel should be fully informed and involved in these discussions.

Expect private litigation. If there is an injured party as a result of the crisis, whether or not it is the company's fault, there may be private litigation filed. Be prepared by contacting outside litigation counsel as soon as the crisis is identified and the allegations against the company are understood. The litigation team can monitor the courts and help the CMT manage its message so as not to worsen matters with public statements that harm the company's position in litigation.

Review public disclosure. The communications team should immediately review the company's public disclosure in light of the allegations against the company. Review public filings, press releases, Web sites, collateral materials, press interviews, blogs and any other disclosure controlled by the company. Depending on the nature of the business, the company may have business partners who made statements about the company or the relationship between the two organizations. Together with counsel, the CMT should determine whether existing disclosures should be updated to clarify or correct and establish the appropriate timing for such updates.

Every incremental disclosure in every setting, including filings, press interviews, conference calls, press releases

and one-on-one meetings, can impact future litigation as defendant and as plaintiff. Be sure the messaging is clear, consistent and completely thought through and researched. Repeatedly updating disclosure to correct inaccuracies often is far more damaging than waiting for complete information before disclosure.

Outside Assistance

When a crisis occurs, there is a natural tendency to bring in advisors, including public relations professionals, attorneys, subject-matter experts, who purport to know how to help management teams navigate the unfamiliar waters. Such advisors can be extremely helpful—and imperative during crises. Strong outside advisors can provide guidance from a broad perspective and without emotion, which can provide needed balance to the personal nature of a crisis, particularly one that challenges the company's reputation, business practices, ethics or disclosure.

Nevertheless, choose outside advisors carefully. Be sure they understand the culture of the organization and the ethics of the management team and board of directors. While the advisors may be experts in their fields, a management team knows more about its organization than anyone else. The company will be judged in the press by the advisors they engage (e.g., Hollywood PR firms representing troubled celebrities or lawyers representing high profile people). This can become the story and facts can be lost in the drama of “who they hired” and “what it all means.”

Depending on the nature of the crisis, it may be appropriate and necessary for the company to engage high profile specialty advisors. However, if the company has advisors who have worked successfully with the organization over time and are capable and qualified, it is possible that these advisors will serve the organization as well as or better than high profile, unfamiliar advisors brought in for the crisis. In addition to institutional knowledge, long-term advisors often have more invested in the company and more to lose if the outcome is unsuccessful.

If multiple advisors are engaged, it is essential that each advisor is committed to upholding the company's ethical standards and working effectively with the other advisors and those on the CMT. In the midst of a crisis, the last thing a CMT needs is feuding advisors who do not communicate, exclude the others from update meetings or create further conflict by insisting on controversial strategies. ■