

The background of the entire page is a blue-tinted image of two microphones. One microphone is in the foreground on the left, and another is slightly behind it to the right. The background is a soft, out-of-focus sky with light clouds.

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Crisis scenario and role-paying exercise

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CRISIS, RISK AND REPUTATION MANAGEMENT

Phase one

You are a member of the senior management team (SMT) of the China office of a global industrial technology company. Corporate Headquarters is in Europe. The global strategy for growth has required the establishment of new factories in areas where there are cost and market advantages. In China the company is doing well and has a strong sense of optimism about the future. Management has been setting up a new factory in Chengdu. This will open in one month. In the meantime the company has rented a temporary production and warehouse facility in Xi'an which has been operating for one year.

You learn from a friend that the owner of the company's temporary facility, a well-known local businessman who is politically well connected, has been arrested by state security, but not charged. Your warehouse manager in Xi'an tells you that he suspects that that the owner has paid bribes to government officials to overlook health and safety failings in some of his other factories.

Questions:

1. Is this a potential crisis? If so, what would you suggest be done?
2. What arrangements and procedures would have to be in place by your company for you to be confident that the owner's arrest has no connection with your facility?
3. If you were standing in for the CEO (sick, or on holiday), would you tell Corporate Headquarters about the arrest?

Phase two

A week has passed. In an unrelated move, Corporate Headquarters decides to cease operations at the temporary facility in two weeks' time, and to take immediate steps to begin to transfer production to the new factory in Chengdu, which is now ready a month earlier than planned.

Your workers in Xi'an are unhappy about what they regard as inadequate compensation and severance pay, despite the fact that the severance arrangements conform with their contracts. As a result they occupy the temporary factory, taking your local management hostage inside the factory. They threaten to continue this action unless their severance pay is doubled.

Questions:

- 1. What do you recommend should be done?**
- 2. Are there circumstances in which you would think it sensible to issue a public statement? If so, how and what should be said?**
- 3. If the hostile occupation of your temporary facility continues and you become unable to meet your contractual obligations to your customers, what do you think might be done?**
- 4. Do you think that Corporate Headquarters in Europe might be able to help with this situation in any way?**

Phase three

Three months have passed. A negotiated settlement assisted by the local authorities and backed up by the court has meant that the workers accepted a revised compensation package slightly larger than that originally offered. The new factory in Chengdu is now working successfully. Your customers have stayed loyal to your company because of the steps you took to ensure their product needs were satisfied, despite the difficult situation. You anticipate sufficient increases in revenues over the next two quarters to cover the loss of the last quarter which was a result of the workers' actions in Xi'an.

But you now learn that your supplier for a key component has agreed to stock your competitor and arbitrarily break his contract with you. In an effort to justify himself, the supplier gets a journalist to place stories in the local press claiming that employees in the finance department of your company were demanding paybacks from suppliers and that such practices are rife in foreign-owned firms operating in China.

Questions:

- 1. While you have contingency plans in place to use an alternative supplier you can activate without delay, how do you protect your reputation from the malicious gossip and accusation of corrupt practices? Do you have any recourse under Chinese law?**
 - 2. How can you ensure that the rest of your supply chain is secure?**
 - 3. Do you think that Corporate Headquarters might need to get involved? If so, how?**
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REMEMBER

- New business arrangements 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.
- Due diligence with regards to suppliers has become increasingly important for reputational and legal reasons. All reasonable steps need to be taken to ensure that they are obeying the law as well as respecting the environment and the rights of their workers before engaging them as suppliers.
- 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

HAVE A PREPARED MIND

is the most important principle. Embed the ethos. Think through the possibilities.

LISTEN

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

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).