

# Crisis management

**Stuart Lawson**

# Characteristics of leaders

- Trail blazer, visionary
- Courage even when attacked
- Find a use for everyone
- Resilience
- Introvert but effective
- Inspirational

# NAME YOUR FAVOURITE LEADER

Past or present, from any field and country

What made him or her special?

And why?

What characteristics did he or she possess?

# Questions

- What happens when you are blocked from being a leader in one company?
- How to break down silo mentality that causes inefficiencies.

# Emotional intelligence

- For human beings, no less than for other animals, emotions are the first screen for all information received
- Happiness, surprise, fear, sadness, anger and disgust
- May differ across cultures
- Motivation, direction, intensity, persistence

# Where is role of emotional intelligence?

- Technical skills easily learned and create core competences
- IQ and technical skills are threshold, emotional intelligence is critical to enabling leadership
- EI enables leader to effectively communicate and motivate 360 degree constituents

# What is emotional intelligence?

- Self awareness. Realistically understand ones strengths and weaknesses; drives and impact on others. Normal with candor and self depreciating humour.
- Self regulation. Controlling or redirecting disruptive influences. Creates trust and fairness. No hot heads.
- Motivation. Relishing achievement for its own sake. Always raising the bar and looking to keep score.
- Empathy. Understanding other people's emotional make up. Important for teams and cross cultural awareness
- Social skills. Building rapport with others to move them in the the desired direction. Persuade not intimidate.

# Charisma

- Ability to communicate a clear, visionary and inspirational message that captivates and motivates the audience
- Some characteristics, influential, trustworthy, leaderlike
- Powerful and reasoned rhetoric
- Personal and moral credibility
- Ability to rouse emotions and passions
- Sense of purpose, inspire
- Ability to connect



# Verbal

- Metaphors
- Similes
- Analogies
- Stories and anecdotes
- Contrasts
- Rhetorical questions
- Three part lists
- Expression of moral conviction
- Reflection of the group's sentiments
- Setting of high goals
- Confidence that they can be achieved

# Charisma other

- Sense of urgency
- Invoking history
- Repetition
- Talking about sacrifice
- Using humour
- Presentation skills
  - Speech structure
  - Clear pronunciation
  - Easy to understand language
  - Tempo of speech
  - Speaker comfort

# Crisis Management

# Overview

- What constitutes a crisis?
- What types of crisis, risk?
- Defining features of crisis
- Impact on decision making
- What actions can be taken to minimise impact.
- Importance of follow through, controls
- What determine the winners and losers?

# What constitutes a crisis?

- Normal inputs do not create the historical outputs
- Appearance of unexpected events with significant impacts on the business models across multiple sectors
- Dramatic shift in capital, foreign exchange and equity markets
- Difficulty in forecasting future events and the appearance of multiple scenarios with substantially different outcomes
- Forced revision of tactical and potentially strategic plans
- Outside the prior experience of most management teams
- Radical shifts in market share may occur
- Urgent action needed to avoid major damage and return situation to normal

# What type of crisis, risk?

- Global
- Macro economic
- Political
- Industry
- Technological
- Company
- Financial
- Physical/ safety
- Management
- Internal
- External
- Unique
- Systemic

# Defining features of crisis (normally not evident going into the crisis)

## ▶ Timeframe

- ▶ How much time to maneuver
- ▶ Long term paradigm shift?

## ▶ Extent

- ▶ Is it company, industry specific or across all sectors?
- ▶ Certain sectors contagious e.g. financial
- ▶ V, W, L?

## ▶ Depth

- ▶ How severe the impact, what impact on capital etc?
- ▶ Stress business models to point of breakage?

## ▶ Precedent or not?

# Impact on decision making

- Do nothing, initial shock, rabbit in the headlights
- Potential impact seen through prism of past experience
- Urgent crisis related crowds out other priorities (if dead in short term, long term not relevant)
- Historical measurement systems may not work
- Danger of information overload
- New risks replace or add to existing risk horizon
- Stress causes overreaction and inefficiencies
- Danger of denial or scapegoating

When to call it



# Kenya August 2<sup>nd</sup> 1982

- Attempted coup by air force, 000's killed
  - Physical security of staff
  - Emergency contingency procedures for destruction of checks etc
  - Back up of data, cross border risk.
  - Ability to service clients, including their cash needs.
  - Cross border closed
  - Trade finance moved to cash before delivery
  - Portfolio slips immediately into losses
  - Hard core remedial accounts appear

# Leveraged buyouts 1989/90

- Impact of recession on highly leveraged deals
  - 1980's peak of leveraged buyout activity in London
  - 1989, largest LBO to date, Euro 2 billion Avis buyout, extremely stretched covenants on high loan to value to stand alone, non recourse entity. Importance of complex loan document.
  - Rhythm of the standstill and restructuring process.
  - Critical nature of the counterparties
  - Need for multiple restructurings

# Milan 1993

- Tangentopoli and the scandals
  - Ferruzzi, major client, announces irregularities with accounts.
  - Debt to the group is frozen pending clarification.
  - Owner, manager Raul Gardini commits suicide.
  - Need to aggregate exposure and clarify security position.
  - Inability of lending officers to comprehend the extent and depth of the problem, especially as it moved to other elements in the portfolio.
  - Arrogant and blinkered view of scenarios by management of companies.
  - Need to service growth in multinationals whilst managing down remedial exposure

# What actions needed to minimise impact?

- Maximise relevant information gathering
  - May require completely new sources of information
  - Crisis is dynamic and shifting scope and trajectory as it evolves.
- Understand key drivers of new reality
  - Importance of triage to determine priorities, forced ranking in portfolio review.
  - Feedback to assess impact of remedial actions
  - Maintain relationships with external stakeholders
- Create steering committee to meet regularly (operational, management and PR processes combined)
  - Not necessarily existing executive committee
  - Small enough to reach quick decisions but with connectivity throughout organisation, shorten lines of communication.
  - Centralise control, especially PR
- Set triggers for next stage action
  - Do not allow hope for the best to interfere.
  - Decrease cycle time.
  - Create triage, prioritising action plan
  - Where possible isolate the crisis and maintain other business

Learn from crisis experience

# Actions continued.....

- ▶ External relationships become more important than ever
  - ▶ Government support from banks, subsidies etc.
  - ▶ Where relevant enhanced lobbying activity.
  - ▶ Customers and suppliers, balance cash flow with relationship
- ▶ Be prepared to revise potential scenarios
  - ▶ But only in light of relevant information
  - ▶ Keep tactical away from strategic
- ▶ Communicate clearly as widely as possible
  - ▶ In periods of uncertainty staff hunger for information, cognitive and emotional
  - ▶ Important to maintain credibility internally without sugar coating, including to HQ
  - ▶ Caution in relation to external PR

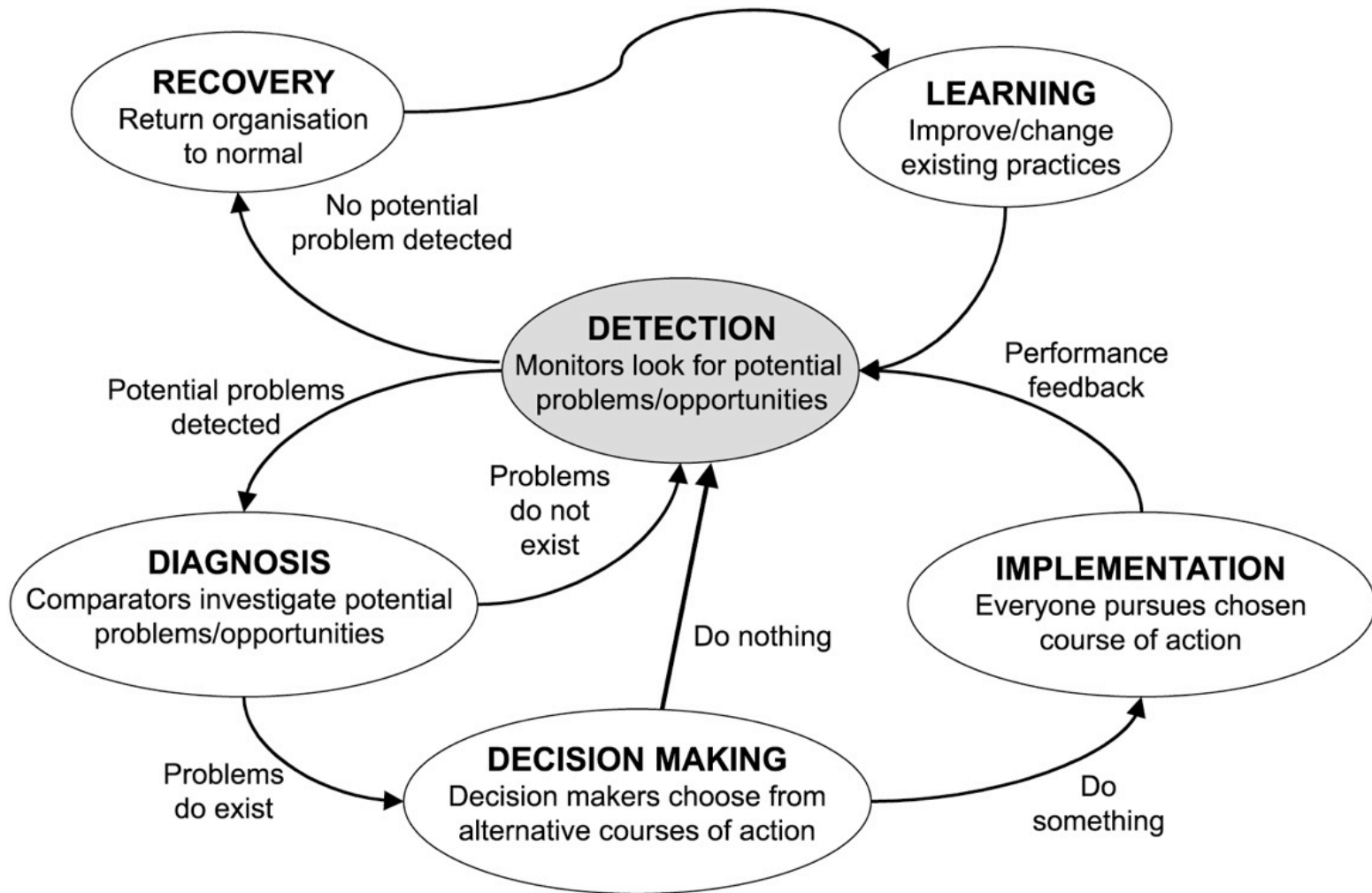
# Actions continued...

- Don't procrastinate, act! Take control of info war.
- Central role of CEO
  - Balance crisis with long term strategic
  - Analyse underlying structural issues
  - Lead risk manager and PR
- Maintain morale by adjusting KPI's
  - Create compensation for altered behavior
- Analyse position of competitors
  - Particularly in relation to clients, suppliers
  - How much do you want them to know?
- \* Ensure after action reports done, analysed.

# Actions for banks

- Urgent review of liquidity, exposure to liability concentration, data integrity
- Portfolio review, forced ranking, assigned actions and responsibilities with target dates.
- Stay, leave, increase: triage, by industry, by company, by product.
- Repricing and covenant review.
- Review of operational contingencies, eg back up sites.
- Stress testing with new assumptions, recommendations on trigger points for reserves.

# Cycle time



Source: Loosemore (2000) p. 46



# Importance of controls and follow through

- You can only control what you can measure.
- Importance of transparency
- Determine the key choke points
- Potential need for management replacement
- Use of internal control and audit
- When crisis passed, impartial analysis of actions to generate learnings.

# What determines the winners and losers?

- Reaction time and ability to adjust to new realities
- Financial resources
- Relationships with constituents
- External factors over which no control, luck!
- Dynamics with competitors
- Maintain core competences
- Flexibility and willingness to adopt new strategies and practices
- Leadership

Thank you!