

DR Abstract

Crisis Communications:

Is your company crisis-prepared or crisis-prone?

In May 2010, J.P. Morgan hosted a Beijing workshop about crisis communications, as part of its continuing education program for depositary receipts clients.

Corporate crises can take many forms, such as defective products, factory fires, employee strikes, environmental damage or a CEO's sudden resignation. Such crises can significantly damage a company's stock and DR price, and sometimes its market valuation can be depressed for many years after the crisis first manifested itself.

While crisis communications cannot reverse any adverse event that has occurred, with the right advance planning, people and coordination of resources it can help minimize the effects of a crisis by ensuring that shareholders as well as other key stakeholders don't overreact and ultimately worsen the company's situation. When a company communicates effectively during a crisis – particularly during its early stages – stakeholders are reassured that senior management is focused on addressing the situation properly.

Below is a summary of presentations and comments by the workshop's guest speakers, who were Philip Lisio, a partner with corporate communications consultancy Brunswick Group; Christine Chen, a counselor with Davis Polk's Shanghai practice; and Eva Wang and Richard Kline, partners of Wilson Sonsini Goodrich & Rosati.

Corporate principles are the foundation

At the heart of crisis management are the principles a company has established for itself and by which its board of directors, management and employees abide. These principles center on communication, financial management, strategy and corporate social responsibility. Absent sound corporate principles and adherence to them, a company can make itself vulnerable to crises. However, the combination of sound principles and effective crisis management and communications can prevent a near-term crisis from becoming a perpetual one. Put another way, a good reputation – one that has been deservedly earned over time – can be quickly restored after a crisis has passed.

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.”

Warren Buffet, Chairman,
Berkshire Hathaway

Crisis management and communications

Effective crisis management and communications serve to mitigate the adverse effects of a crisis on a company's business in the near-term and can ultimately protect its reputation longer-term. Like brands, corporate reputation is often one of the most important assets of a company; bear in mind too that at some companies the products and services are branded with the corporate name. Reputational damage affects sales and earnings and, consequently, share and DR (depository receipt) price. And depending on the nature of a crisis, the reputations of management and the board of directors can also be seriously impacted.

In today's uncertain world, there are two types of organizations, so to speak: those who have faced a crisis and those who will, sooner or later. The first step to being prepared is establishing a crisis response team, one whose members have clearly defined roles, are empowered to perform these roles during a crisis, and can act in a cohesive manner. Certain members of the team are responsible for communicating to all stakeholders the nature and scope of the crisis and how the company is responding to it. Each member of a crisis response team should have one another's home telephone and mobile numbers, as a crisis could occur outside office hours and often not everyone will be in the same location. Also, because anyone within an organization could be the first to encounter a crisis at a company, all employees should know they are responsible for reporting it immediately to the crisis response team (and local emergency services when the crisis concerns safety).

Members of a crisis response team usually include the following people: senior management, director of risk management, chief legal officer, director of human resources, director of public affairs, director of public relations and director of investor relations. Ideally, they will have participated in scenario planning and exercises before a crisis takes place.

Similar to a disclosure policy for investor communications, a company should have a crisis manual, which defines the processes and procedures that should be followed in the event of an emergency. These typically fall into the following categories:

- **Evaluation:** a set of criteria for evaluating the nature and scope of a crisis and its impact
- **Information:** clear methods to gather, record and, most importantly, share information with all members of the crisis response team
- **Procedures:** roles and responsibilities of each member of the crisis response team as well as lines of escalation
- **Holding statements:** pre-prepared public statements that can be customized for initial communications about a crisis
- Post-crisis assessment and recovery plan

Best practices in crisis communications

Members of the crisis response team who are responsible for communications must initially decide, in conjunction with other members, what, if anything, needs to be communicated outside the company. Then they must decide the following: who will act as a spokesperson, what messages will be communicated, to whom and by what means; how to react as the crisis shifts and in response to changing public perceptions; if influencers (other than the media) need to be contacted directly. Ideally, spokespeople should be experienced in crisis communications, otherwise training is essential.

Crisis communications are directed at various stakeholders, although opinion is strongly influenced by how the media defines and reports the crisis, often making it the most important one. In addition to investors and analysts, key stakeholders include customers, government, employees, public interest groups, corporate partners and suppliers. Generally speaking, the greatest control comes from proactive and timely engagement with all stakeholders, especially with the media. If the company does not get the facts to the media, someone else probably will, potentially with distorted facts. All facts, good and bad, should be discussed with the media. Also important, when speaking with each set of stakeholders, be sure the company's messages are consistent. If they are inconsistent, the veracity of statements will be questioned and trust in the company will likely be eroded further.

Crisis communications goals, tools and principles

When a crisis emerges, a company's primary goal is to communicate that it is taking the crisis seriously, is taking appropriate action to rectify the situation, and is undertaking a full investigation. Additionally, the company should acknowledge the effect a crisis has had on others and express empathy for them. If the investigation ultimately finds the company is at fault, a factual apology should be made as soon as possible, while avoiding compromising its legal position. Effective communication on these various fronts can send a strong signal to stakeholders that such a crisis is unlikely to happen again, which goes a long way toward restoring a company's reputation.

The main tools often used by a crisis communications team are press releases, speaking scripts, a Q&A document, a section of the company's website dedicated to the crisis, press conferences and one-on-one interviews with journalists. Be mindful that the media is borderless and operates 24 hours a day, 7 days a week. Also, opinion often moves in a wave-like fashion, requiring the crisis communications team to anticipate how news reporters and opinion makers will search for new story angles and to develop effective responses to them.

According to Brunswick, crisis communications should be governed by the following principles:

- All information must be factual and verified
- Avoid speculating when communicating with the public
- All statements and press releases for publication should be reviewed by legal counsel
- Once sufficient facts have been ascertained, an initial public statement should be made to deal with initial press inquiries
- Give spokespeople a basic script from which to work

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