Freshfields Bruckhaus Deringer

Containing a crisis

Dealing with corporate disasters in the digital age

Containing a crisis in a digital age

More than one-quarter of crises spread to international media within an hour and over two-thirds within 24 hours. Despite six out of 10 cases providing days if not months of notice, it still takes an average of 21 hours for companies to respond, leaving them open to 'trial by Twitter'.

Social media plays a significant role in spreading the story

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28% of crises spread internationally within 1 hour

20:59

On average it takes 21 hours before companies are able to issue meaningful external communications to defend themselves

...and more than 48 hours in 18% of incidents

23:59

69% of crises spread internationally within 24 hours and on average reach 11 countries

DEC 31

1 year later

53% of companies had not seen share prices regain pre-crisis levels

50% of communications advisers surveyed believe organisations are not adequately prepared to handle a crisis

Freshfields Bruckhaus Deringer LLP

Interconnected world

In today's interconnected and 'always on' world, news travels fast. The growth of social media has magnified the speed of news delivery and dramatically changed media consumption habits. Twitter, as well as being a delivery point for news, is now a source of stories in its own right.

When a crisis hits, this 24/7, multi-platform news environment presents organisations with a different communications challenge. In the past, a crisis might have played out in the media of one country and, in time, spread internationally. Today, a negative story can go round the world in minutes, putting organisations under even more pressure to plan for reputational crises and respond quickly when they arise.

This report draws on the views of the public relations (PR) industry which, together with the organisations affected by crises, and their legal advisers, is one of the few players with a genuine ringside seat on unfolding major reputational issues. This makes it uniquely placed to comment on how well organisations are adapting to tackling crises in the digital age.

More than 100 senior PR professionals were surveyed. They were asked to comment on the stages that led to the breaking of negative news, the early stages of trying to contain bad publicity, and specifically on:

- how well prepared large organisations are to tackle serious crises, both in traditional media and online, and whether certain types of crisis are better planned for than others;
- how many crises genuinely come out of the blue, and how much notice companies have to develop a response to those that don't; and
- how quickly and effectively they can balance the need to manage potential legal liabilities in virtue of what they say with the need to defend themselves in the media.

About the survey

In summer 2013, Freshfields commissioned a survey of 102 senior crisis communications professionals from 12 countries across the UK, Europe, Asia and the US. The aim was to better understand how large organisations handle crisis management. Those interviewed have advised on a total of over 2,000 significant reputational crises in the last year.

Bad news travels fast… and far

When discussing the most significant crises of the past year, those interviewed confirmed that news of corporate crises consistently spreads like wildfire and can have a devastating impact on the value, revenue and long-term reputation of the company.

Key findings

- News about almost two-thirds of crises crossed national boundaries, meaning that the impact of issues was restrained to the originating country in only one in three cases.
- Of those that spread internationally, more than a quarter had done so within an hour, and more than two-thirds within 24 hours.
- On average, information about a corporate crisis spread to 11 countries.
- Once the news had broken, it tended to stay in the media spotlight for months rather than days or weeks. More than half (53 per cent) were still in the public eye a month after the news first broke.
- In half of all cases, social media had a significant impact on how the story spread locally.
- In almost a third of cases, social media played a major role in how the story spread globally.
- National daily newspapers and social media were the two channels that maintained a high level of interest in the story following the first day of reporting (80 per cent and 74 per cent respectively).

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“Today, largely as a result of social media, the window to buy more time has virtually disappeared. The moment a negative story breaks it has the potential of spreading like wildfire to the other side of the world.

Chris Pugh
Partner – crisis management, Freshfields

The cost of a crisis

The inability to control reputational crises in the early stages can prove costly for a business, affecting its value, revenue and long-term reputation. In most of the crises referred to by respondents, the company suffered a major blow as a result of the situation they faced.

Key findings

- Six out of 10 (58 per cent) experienced a significant disruption to their operations.
- Just over half (53 per cent) said the company had suffered a loss of revenue while a quarter (27 per cent) said the company suffered a drop in share price.
- Only one in 10 companies (11 per cent) suffered no impact or were adequately prepared to deal with the issue.

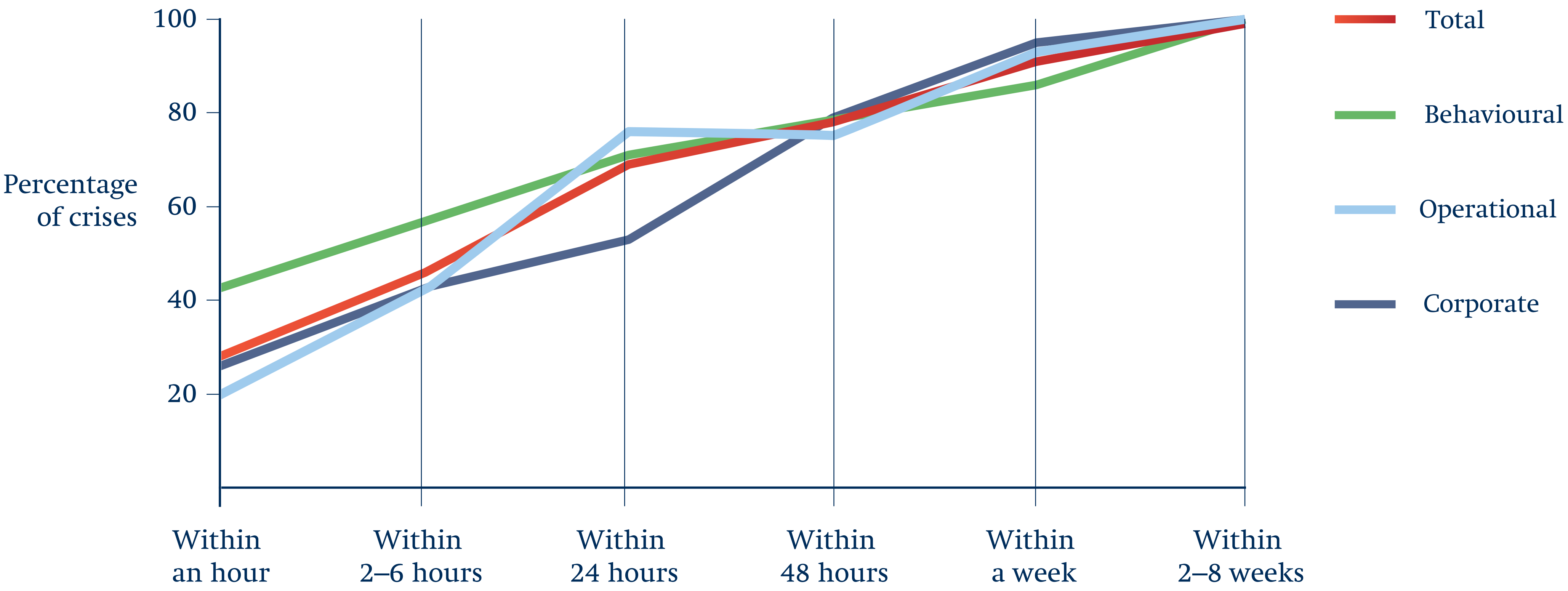
In the majority of cases – two-thirds – the impact of the crisis was temporary, but for the remaining third, it caused more serious long-term damage. This varied according to the crisis type. The survey looked at four categories:

- operational – events such as product recalls and environmental incidents;
- behavioural – illegal/questionable conduct by the company or employees;
- corporate – liquidity problems, material litigation; and
- informational – IT systems failures and hacking or loss of data.

Operational crises were thought to have had a more profound impact on revenue (74 per cent). They were also the most widely reported internationally. Behavioural crises were the fastest to spread through social media, over 40 per cent within the hour, double the rate seen for operational crises.

For corporate and behavioural, social media appeared less likely to spread the negative news (32 per cent and 38 per cent respectively, compared with 71 per cent for operational and an average of 50 per cent across all crisis types).

Speed at which news of a crisis spreads internationally



Speed is of the essence

According to the communication professionals, businesses are not moving fast enough to contain a crisis when it breaks.

Key findings

- In almost six out of 10 cases (58 per cent) companies had between a few days and several months' notice to pre-plan a response.
- In a further 13 per cent of cases they had at least a few hours.
- In just under three out of 10 cases (29 per cent) the crisis was a complete surprise.
- On average, companies took 21 hours to issue meaningful external communications and more than 48 hours in a fifth (18 per cent) of incidents.
- Only 15 per cent of companies managed to get a complete response out within the hour.
- More than four in 10 firms had no plan in place in case of a crisis.
- Only a third had relevant communications material ready, and just one in five had run a simulation exercise.
- Six out of 10 respondents believed the crisis should have been predicted.
- Half of organisations are 'very' or 'somewhat' unprepared to handle a crisis online.
- The majority said this failure to prepare effectively to handle the issue online left their clients open to 'trial by Twitter'.

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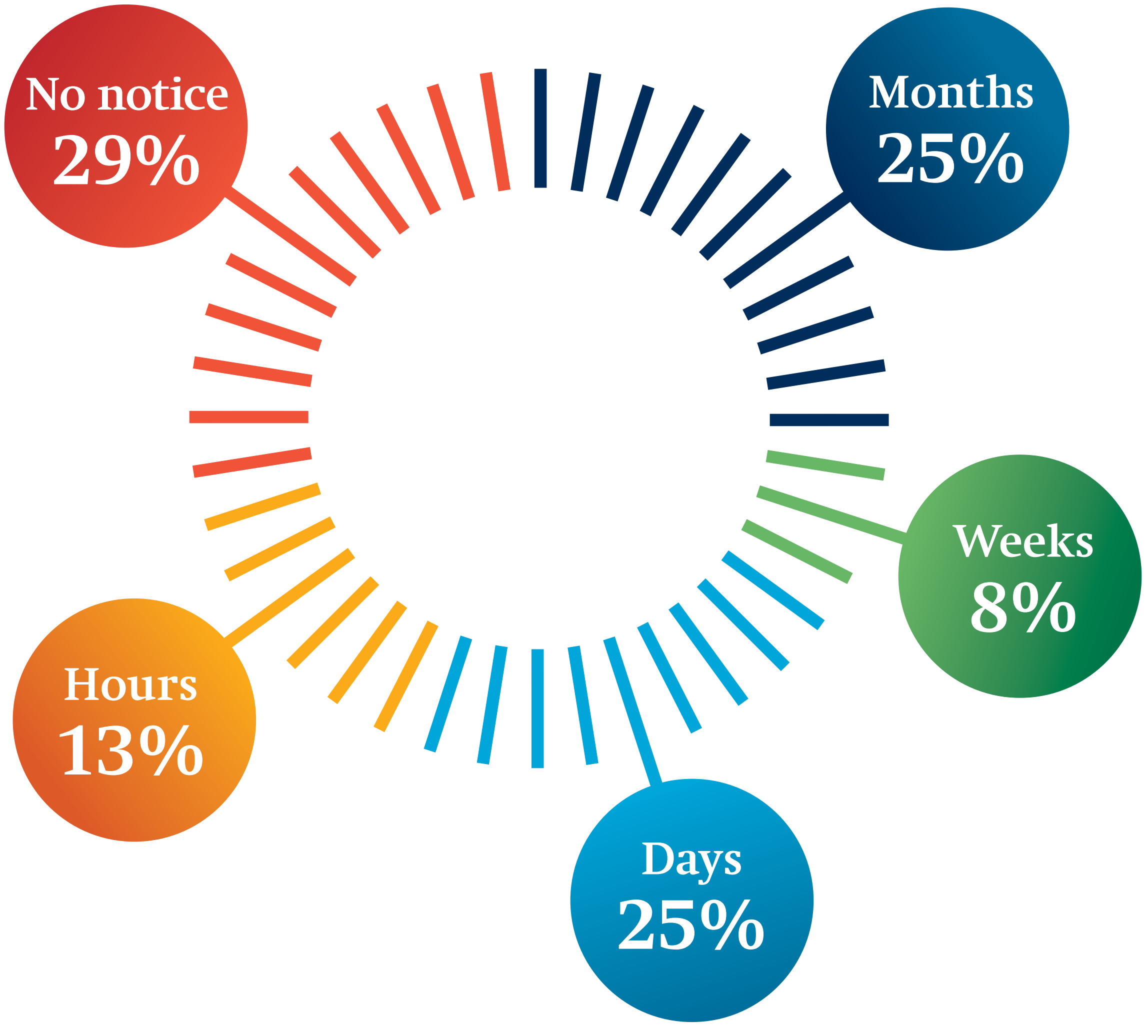
of communications advisers surveyed believe organisations are not adequately prepared to handle a crisis

Notice of a crisis breaking in the media



> In over seven out of 10 cases, companies have some time, regularly weeks and months, to plan the way they are going to respond.

Julian Long
Partner – crisis management, Freshfields

Forewarned should be forearmed

Although most businesses do have reasonable notice of a crisis, over 40 per cent had no contingency plan in place. The level of preparedness varied widely according to the type of crisis.

Of six common types of event, companies appeared least prepared for senior employee misconduct and bribery and corruption. Forty-three per cent of PR professionals, in both cases, said they were either poorly prepared or not prepared at all.

One in seven organisations (15 per cent) were said to have made no preparations at all for a product failure or recall, the highest for any category. At the other end of the scale, 94 per cent were prepared for an environmental incident and 82 per cent for a disaster leading to business interruption.

Given the growing prevalence of social media and the fact that companies are themselves increasingly adopting social media channels such as Twitter to proactively market products and services, the survey found the majority were ill-equipped and underprepared to cope with a crisis playing out online.

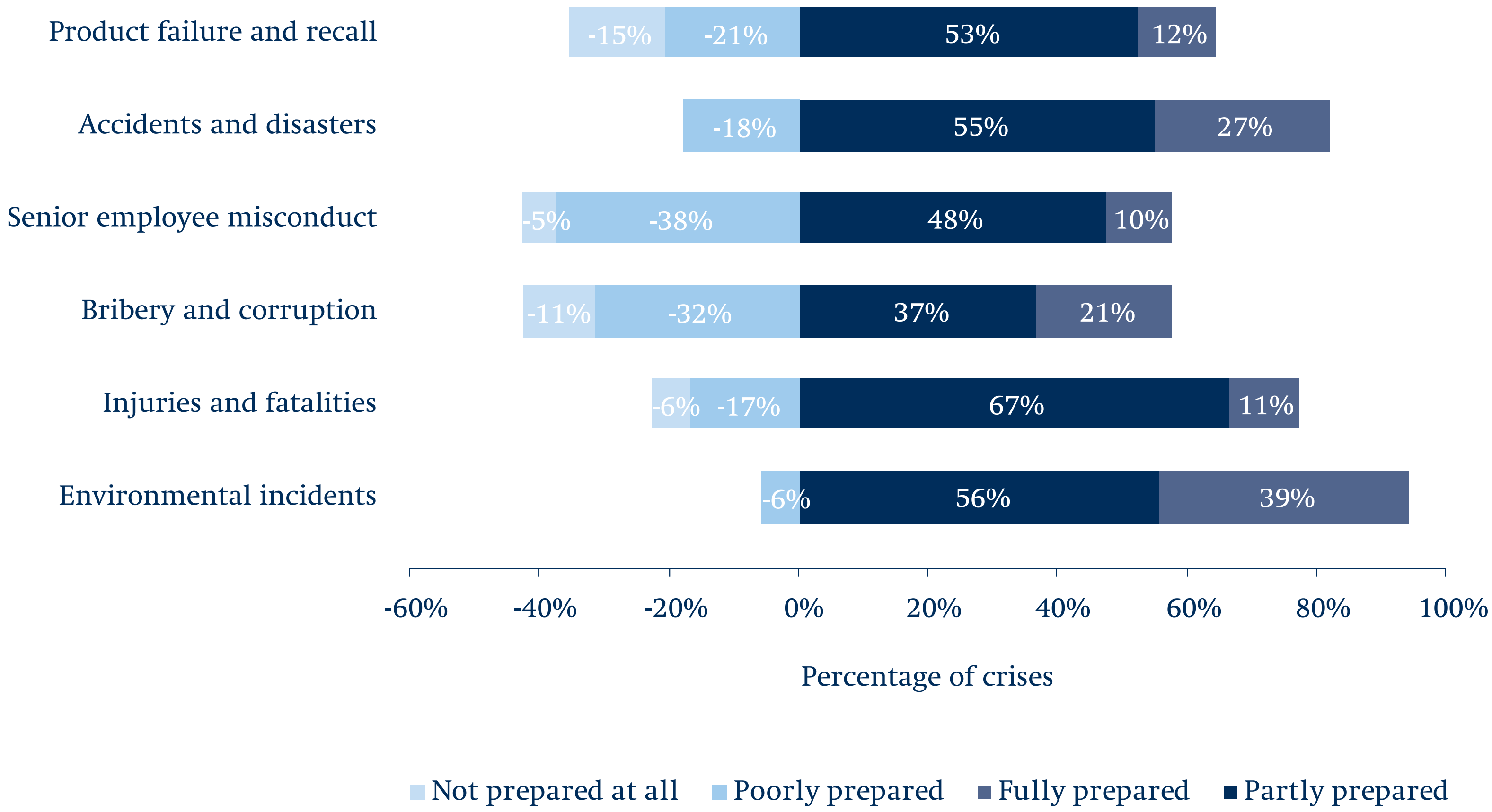
What is most worrying is that organisations seem to be much less prepared for dealing with the social media aspects of a crisis than they are with overall crisis planning. Overall, half of organisations were ‘very’ or ‘somewhat’ unprepared to handle a crisis online.

“

There is no longer such a thing as a ‘national crisis’. However, local business units, particularly in the case of product failures and recalls, often treat them as such. Failure to realise the potential international implications of a product recall and to escalate the issue can lead to a delay in engaging counsel and co-ordinating the appropriate international regulatory response.

Geoff Nicholas
Partner, Freshfields, Hong Kong

Preparation: a mixed bag



> Organisations seem to be much less prepared for dealing with the social media aspects of a crisis than they are with overall crisis planning.
>
> Harald Spruit
> *Partner, Freshfields, Netherlands*

The legal dimension

A corporate crisis raises many legal issues – from the need to manage potential liabilities to deciding what can be disclosed to the media.

More than half (55 per cent) of the experts consulted said the companies' legal advisers had a major influence on what was ultimately said to the media.

Assessing legal risks and agreeing a public response – one that won't come back to haunt a company – regularly prove challenging, particularly when these have to be executed at speed. The closer the communications and the legal teams work, the more effective the response will be, and potential delays avoided.

> "Companies must ensure that they balance the need to respond to the media at speed with appraising legal risk, otherwise those words could come back to haunt them.
>
> Norbert Nolte
> *Partner, Freshfields, Germany*

Knowing the risks, protecting your business

This latest study adds further insight into the findings of a major piece of research conducted by Freshfields and published in a 2012 report ‘Knowing the risks, protecting your business’ which looked at the impact on company shares of major international reputational crises.

Our previous study showed how companies typically benefit from a window of 24 to 48 hours, during which financial market reaction to a crisis is limited. Of the global reputational crises analysed, less than half (48 per cent) of affected companies saw share prices fall on day one. It rose to 54 per cent after two days. A month on, the findings showed a peak in negative sentiment, with six out of 10 companies affected. A year later more than half (53 per cent) had not seen share prices regain pre-crisis levels.

Crises can be, by their nature, unexpected. Yet the combination of the two studies shows that in the majority of instances, companies have enough warning to plan before the issue becomes public and also have some time to refine their messages before investors get spooked. This window of adapting pre-prepared material is extremely narrow as negative publicity, largely as a result of social media, starts to spread internationally within hours if not minutes.

Corporate executives, their legal advisers and crisis communications professionals are in a race against time to effectively tackle two key aspects of a crisis. The first is the operational side – taking control of a crisis by investigating it and taking concrete steps to resolve it. The second is the communications aspect – adapting planning quickly, to keep pace with social media to contain or influence any pieces that threaten to damage the company’s reputation. This has to be done while assessing legal implications.

The truly unexpected will inevitably mean companies have less to fall back on, but most of the time good preparation will make a real difference to how successfully a crisis is ultimately handled – and contained.

To discuss the findings of this research or the crisis management topic, please speak to your local Freshfields contact.

freshfields.com/crisismanagement