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Tips to navigate through a crisis

MANAGING a crisis is never an easy task for any company, but by using appropriate strategies, companies will stand a fighting chance of recovery.

Lim San Peen, a partner at Pricewaterhousecoopers Malaysia (PwC) and the firms' Business Recovery leader, shares some key tips for companies which are in the eye of the storm.

The first key step is to recognise that the problem exists before it escalates.

"I think successful companies are those that acknowledge their problem early on," he says.

"Rather than being in denial mode, these companies will energetically apply themselves to resolve the crisis."

Crisis, according to Lim, demands the channelling of focus, attention and creativity into solving the problem. As such, a company's leadership needs to be swift and decisive in taking action.

But not all companies will voluntarily declare that they have a problem. According to Lim, those that are professionally-run tend to be more willing to disclose their issues compared to those that are owned and managed by families.

"In my experience, family-managed businesses are a bit more guarded. They are less likely to come forward to seek professional help," says Lim.

One reason, for this, he believes, is the emotional attachment to the company.

"I would imagine that for family-owned companies, the attachment to the company is stronger. Besides the historical links, there is that added emotional element that if they work harder, they can overcome the crisis," he explains, though he adds that this is a generalisation and cannot be applied to all cases.

The final ingredient to a successful recovery is to have a clear turnaround plan and get everyone on board to overcome the crisis.

"As the saying goes, 'it gets worse before it gets better'. In crisis management, it is common for restructuring experts to advise companies to prepare for the hard work that lies ahead," says Lim.

"There must be a turnaround plan and teamwork. Particularly with talent and employees – they are the ones who know what the company is going through," he adds.

"Ultimately, the aim should be to get them to collectively stand behind the company to work through the crisis."

Lim says companies that are professionally-run tend to be more willing to disclose their issues compared to those that are owned and managed by families

JONATHAN LOI/FocusM

Communicating with employees in a crisis

When a crisis hits an organisation, business owners often focus initially on communicating with their external stakeholders. But when things start to go downhill, it is equally important to keep employees in the know

by Lim Su Lin

IN the West, the 2007/08 financial crisis in America and Europe saw the collapse of Lehman Brothers, a 158-year old organisation and the (then) fourth largest investment bank in the United States.

The investment bank giant shut its doors in September 2008, filing what was then the largest bankruptcy case in US history, amounting to over US$600 bil (RM2.4 tril) of debt.

While Lehman Brothers' folding had rocked the financial industry to its core, the impact was just as hard on the company's employees, who were largely kept in the dark until the eleventh hour.

According to a report by *The Guardian* dated Sept 15, 2008, an internal communication memo was handed out to members of staff on the same day the bank filed for bankruptcy.

The memo read: "Our email earlier today provided high-level information regarding recent changes which have impacts on the firm. We will update you as soon as possible on these developments and their impact on the UK business.

"In the interim, it is important that we do not commit any financial obligations to third parties until the situation is clearer ... we realise this will contribute to uncertainty in the short term but this is a necessary precaution to protect your interests and those of the firm."

The same report described how some staff in the London office had broken down in tears as news of the firm's demise filtered through.

"It is terrible. Death. It's like a massive earthquake," said one 32-year-old employee, who had worked on Lehman's London trading floor.

"It's final. Everybody is just finishing up. I'll now try to move into another industry."

Giving employees a clear understanding of where the company is heading will not only help to allay their worries over job security, it will also encourage them to rally behind the company

They didn't see it coming

Though Lehman Brothers had been on shaky footing since early 2007, its chief executives had continued to tout its financial strength to the press and external shareholders, presenting a rosy facade of health, up to the day their creditors came knocking on their doors.

As a result, when the organisation finally filed for bankruptcy protection, it had already suffered a massive exodus of clients, drastic stock losses and major devaluation by credit ratings agencies.

While Lehman's sudden folding came as a shock to its external stakeholders, greater still was the impact on employees, who had also been kept largely in the dark about its underperformance.

"We really didn't see this coming," said one 26-year-old researcher working in the organisation's London office, as quoted in *The Guardian* report.

"On Friday we were still holding out hope that some bank would buy Lehman. The general understanding is that everyone is gone and everyone is clearing their desks."

Meanwhile, in the New York office, many had the same sentiments.

"We had nothing at all about when they will put us in the picture. If you didn't know what was going on, you wouldn't see anything unusual... Guys are standing, guys are talking, guys are at their computers," shared one upset staff member based on the trading floor.

"It is obviously not a good place to be [but] it has been getting worse and worse for so many months. I think we had a lot of hope but by Sunday, people were saying, it looks like it is game over. Kind of a slow realisation, you know."

Leaders tend to keep mum

As the fate of Lehman Brothers shows, no company, however large or well-established, is immune to a crisis.

Moreover, when a company goes through tough times, it can be difficult to tell whether it will be able to successfully weather the storm.

In such dire times, the way a company deals with its employees could mean the difference between salvaging the situation and making things far worse.

"Communication is a paramount point. In my experience, that is key because in any distressed organisation, people will be affected," says Stephen Duar Tuan Kiat, president of the Insolvency Practitioners' Association of Malaysia (iPAM), a membership body of professionals in the practice of business restructuring and turnaround management.

Besides heading iPAM, Duar is also the Restructuring and Insolvency leader at Ernst & Young Malaysia. His work involves helping companies at various stages of distress, from credit loan defaults right up to outright insolvency risks, to resolve their debt issues.

Having worked for more than 25 years in the corporate recovery field, he has seen many companies that delay seeking professional help until the crisis truly spirals out of hand.

"Based on my experience, they would normally wait until the banks knock on their doors, or when they start defaulting on their loan repayments or interest," he says.

Duar says he has seen many companies that delay seeking professional help until the crisis truly spirals out of hand

Significantly, these companies also tend to be reluctant to relay news of a crisis to their staff – the internal stakeholders.

"Most of the time, the business owners tend to keep it away from the people, or the employees. Instead, they would try to resolve it among themselves," he says.

Bad for employee morale

Keeping employees in the dark about a crisis situation is unhelpful for the company, even if the intention is not to raise undue alarm.

There is a simple reason for this: when an organisation is hit by a crisis, its energy and vibrancy is sapped severely. Things are likely to become tense and uncertain as the top management grapples to resolve issues.

Under such stress, it is only natural that morale levels will drop.

Employees may worry about whether the next paycheque will come in, or how soon they will be forced to clear their desks.

In such cases, it is important to let them know where the company's direction is going. Leaving them to play guessing games, says Duar, will only create greater unhappiness.

"When the company keeps things away from the employees, that's when they play guessing games. Many will ask, 'What is happening to us?' This is not good for morale," he says.

"If you keep your employees guessing, you are only making the problem worse. Rumours can be stronger than if you were to cascade the information down."

Bloomberg

Lehman Brothers' New York office. The investment bank giant shut its doors in September 2008, filing what was the largest bankruptcy case in US history, amounting to over US$600 bil of debt

Losing hearts and minds

As bad as this sounds, the buck doesn't stop at a deflated employee culture. The tipping point for a distressed company is when employees start looking for alternatives.

Besides talking to leaders of ailing companies, Duar and his restructuring team also engage with employees, from manager to rank and file, in order to "hear their side of the story".

He observes that employees who lack information about the company's situation are more likely to be frustrated and dissatisfied with the company.

In some cases, workers, even the top talent who are paid handsomely, may wish to leave. When this happens, Duar usually advises the company's top management to offer them a salary raise. But sometimes, even more money is not attractive enough to make them stay.

"Higher pay may not be the primary driving factor anymore. It is the satisfaction that makes them want to stay," he says.

"I would say the monetary part is very important. But so is loyalty. Workers are more likely to be loyal to leaders who understand them and have a clear direction and purpose for the company."

In a crisis, the top management might already be working on resolving issues, but if their efforts are not seen by the employees, the loyalty is more likely to dissipate.

"Sometimes, because the morale is so bad, everyone will already be looking for things outside. They are just hanging around in the company to survive temporarily [but] their hearts are no longer with the organisation," Duar says.

What are some of the steps that the board and top management can take to communicate effectively with employees during a crisis?

Topmost on the agenda should be to tell them what is going on and reassure them that there is an immediate plan of redress, says Duar.

"The company needs to fill employees in on the crisis, as well as inform them of the immediate stabilisation plan," he says.

Once this information is relayed, other details, such as the company's mid- and long-term strategy plans can be slowly cascaded down.

New business model

As it progresses through different stages, a company might even decide to rebrand itself or create a new business model to overcome the crisis.

But ultimately, relaying such information is less paramount than keeping employees updated on the company's immediate stabilisation plans.

"There needs to be clear communication. Employees should be updated weekly on what is happening and how the leadership is addressing the crisis," Duar says.

Giving employees a clear understanding of where the company is heading will not only help to allay their worries over job security, it will also encourage them to rally behind the company.

"In my experience, key talent becomes more motivated when they are kept in the loop. They see it as a chance to work with the board and leadership to turn the situation around," says Duar.

"Moreover, if the company is in a real turnaround situation, they may even see a brighter future for themselves there."

The takeaway

While companies might want to limit sharing information with their employees until things get on a more even keel, keeping silent on the situation is not the way to go.

Leaders might choose to sieve the details, but they should not neglect the importance of internal communication with their staff.

Outside the office, employees are regular folk, with families to feed and bills to pay. They will appreciate knowing what the company is going through and how they might be affected, rather than being kept on tenterhooks about the situation.

Communicating with employees in an open, timely and truthful way will not only help to raise their morale, but also encourage them to stay on and weather the storm. FocusM