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ALERTS

Improving Responses To Crises: Incorporating ESG Considerations Into Effective Crisis Management

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Highlights

Incorporating ESG into a crisis management plan can help protect a company from further reputational and economic harm

Diversity of job function and seniority on a crisis response team can lead to more pragmatic and achievable plans of action

While transparency may assuage stakeholders' concerns, companies must consider potential liability and trade secret preservation in crisis management responses

"[C]limate risk is investment risk." With such strong pronouncements as this from an institutional investor, it is clear to see that environmental, social, and governance (ESG) considerations are playing an ever-growing role in the decision-making of businesses across numerous industries. This is particularly true as states such as California pass new laws requiring ESG disclosures and the Securities and Exchange Commission is finalizing similar rule proposals.

In today's complex and interconnected world, organizations face a wide range of crises that can have a profound impact on their reputation, financial stability, and long-term sustainability. These crises can be

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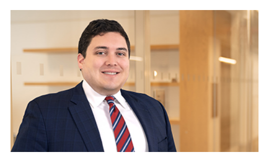

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anything from natural disasters and cyberattacks to supply chain disruptions and public relations issues. To effectively navigate these turbulent waters, a strategic approach is crucial. The best practice to ensure an effective response to any crisis is to have a crisis management plan that lays out key principles and guideposts. Such a plan may not be able to account for every potential eventuality; however, with a sound framework and underpinning, a plan will inform a company's decisions and actions in response to any crisis.

Incorporating ethical ESG principles can, and should, be a consideration when a company drafts its crisis management plan. ESG can be implemented at all stages of the crisis management process – from how the plan is stored and disseminated, to how the response team is selected, to how the team collaborates, and beyond.

Aside from the societal good that may result, implementing ESG principles into a crisis management plan may also serve to safeguard the reputational and financial strength of a company by reassuring investors and consumers about the values and direction of the company.

Crisis Response and Regulatory Enforcement

Regulators, investors, and the public at large are paying closer attention to ESG matters and requiring that companies be ethical citizens both locally and globally. These demands do not stop when a company is confronted with a crisis. Rather, the company is watched more closely. In these times of increased scrutiny, any action the company takes may be critiqued and examined. If a company shirks ESG principles, there is a risk for increased reputational harm. The damage to its public image, in turn, may lead consumers and investors to move away from the company and may gain the attention of regulatory enforcement. Therefore, it is important for a company to maintain its commitment to ESG in preparing for and responding to a crisis.

Responding to and Planning for Crises

This alert delineates key ESG concepts companies should consider when planning for and responding to crises.

Environmental

As companies were forced to adjust to remote work in the throes of the COVID-19 pandemic, it became apparent that national or global teams can be assembled and collaborate in a fully virtual and electronic environment. These principles should also be adopted into crisis management plans to reduce the potential environmental impact from crisis responses.

While these steps may seem small individually, in the aggregate, they can combine to create a meaningful impact. Additionally, these steps will help safeguard a company's reputation and perception as champions of environmental responsibility.

Remote collaboration is not only possible, it is widely used in a company's daily operations. This principle can be preserved when implementing a crisis management response. Companies with members of the crisis management response team in multiple locations – or who engage outside counsel or consultants – can continue to rely on the ability to collaborate live through videoconferencing and other forms of instantaneous communication. The need to gather all stakeholders in a centralized location to develop strategy has diminished – or been eliminated – by the advent of countless platforms that allow teams to work together from anywhere in the world. Not only will this virtual collaboration work to reduce emissions from travelling, whether by plane or car, to a company's headquarters, it can have many downstream benefits as well, such as reducing the energy used in the lighting and temperature controlling of large conference rooms or the waste associated with single-use utensils often used in catering meals for these large meetings.

Additionally, crisis management plans can be stored electronically, not printed into large hard-copy versions that often sit gathering dust in a drawer. While maintaining crisis management plans in electronic format will diminish the environmental impact associated with the use of paper and large printers, it will also allow these plans to be more adaptable. Crisis management plans that live in an electronic format are more easily updated and disseminated as the company learns from real world case studies or identifies potential areas of improvement in the current version of the plan. Rather than needing to continually print the latest version of the plan and disseminate it to all members of the response team, it is more effective to provide all stakeholders access to the electronic plan that can be constantly updated.

Social

Ensuring diversity among the members of a crisis response team can help boost unique perspectives and creative approaches to problem-solving. Maintaining diversity on the crisis response team should take two forms: (1) racial, ethnic, and gender diversity; and (2) seniority and job function diversity.

Racial, ethnic, and gender diversity on the crisis response team will allow for a broader array of experiences and perspectives. These unique viewpoints allow for a greater ideation process to develop potential responses and solutions to the issues faced.

Fostering racial, ethnic, and gender diversity on a crisis management response team may also have the added benefit of crafting a team that is diverse in terms of seniority and job function, which in turn augments the knowledge the team has of the day-to-day operations of the business. The focus on diversity has gained ever-growing prominence over recent years and decades; therefore, companies are more likely to find a larger diversity among lower and middle management. It is these employees who deal more intimately with the daily functions of the company rather than the overarching, big picture matters on which senior management often focuses.

Consequently, in putting together a diverse crisis management team, the company is more likely to call on these lower and middle managers – people who may have more exposure to and awareness of the daily realities of the company's operations. A greater knowledge of these processes will allow the members of the response team to truthfully relay the capabilities and limitations of the different aspects of the company, which in turn will allow for the development of pragmatic and achievable responses to a crisis.

Governance

Incorporating good governance into crisis management means being transparent, both internally and externally. In a time of crisis, an internal understanding of all facts and circumstances surrounding the challenge are critical. Attempting to shield certain facts from the crisis management response team will only prevent a complete and effective course of action.

External transparency can help to limit the scope and impact of the crisis. If a company is viewed as being less than forthcoming, the company's investors and clients may assume the crisis is larger than originally known. Concerns over the scope and impact of the crisis may cause investors and consumers to distance themselves from the company. Transparency regarding the circumstances of the crisis, the steps taken to address it, and the plan to avoid repeating it in the future will work to assuage these worries.

While transparency is important, it must also be balanced with the concern over potential liability and preserving trade secrets. However, these interests should not be employed in a blanket manner so as to give the impression of subterfuge or dishonesty.

Takeaways

ESG principles can and should be incorporated into crisis management planning. In doing so, companies can more readily respond to emerging concerns and do so more effectively. By garnering public trust and fostering creative problem solving, ESG principles can augment a company's performance in a crisis.

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