The list of potential crises that companies can find themselves facing today looms large—from major product recalls, data breaches, and health scares to natural disasters, terrorist events, and ailing business leaders, to name just a few. And thanks to social media, the speed with which news of a crisis (accurate or inaccurate) can spread has been reduced to mere minutes, making the company’s ability to respond quickly and effectively to a crisis increasingly critical. As postmortem media reviews of numerous crises have demonstrated, when a company’s response is deemed to have fallen short, a question that is always asked is, “Where was the board?” This is particularly true in cases where a crisis was preventable, early warning signs were ignored, or the crisis was attributable to the company’s culture or tone at the top. The message for boards: Crisis prevention is integral to crisis readiness and response.

While management has primary responsibility for crisis readiness and prevention, the board plays a crucial role in understanding and overseeing the company’s efforts—in particular: management’s crisis prevention activities; tone at the top, culture, and incentives; and the company’s crisis readiness, particularly whether it has a robust crisis response plan.

Crisis prevention. Crisis prevention goes hand-in-hand with risk management, as risk management involves identifying and anticipating risk events that could occur and become crises, and putting in place a system of controls to prevent such risk events and mitigate their impact should they occur. We are clearly seeing an increased focus by boards, particularly audit committees, on key operational risks across the extended global organization, e.g., supply chain and outsourcing risks, information technology and data security risks, etc. Among the questions audit committees are addressing with management are:

— Does the company understand its critical operational risks?
— What has changed in the operating environment?
— Has the company experienced any control failures?
— Is the company sensitive to early warning signs regarding safety, product quality, and compliance?
— How sound are the company’s disaster recovery plans?
— Is internal audit focused on the adequacy of controls around key operational risks?

Audit committees should probe to determine whether management has a sound system of controls in place to mitigate critical risks and avoid crises.
About The KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG’s Audit Committee Institute and Private Markets Group, the WomenCorporateDirectors Foundation, and more—the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more at kpmg.com/blc.

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