Corporate Risk Contingency Planning

Business International Survey*

With political tensions growing in the Middle East and Central America and government upheavals occurring with depressing regularity in many parts of the globe, the world seems noticeably riskier for MNC operations. At times, political catastrophes have devastated company operations and exposed personnel to physical danger. The ongoing Iraq-Iran war, which has caught several companies in the crossfire, is only the most recent example.

Instead of Waiting

Prudent firms are developing contingency plans so that, should the lightning bolt strike, they are not wholly unprepared. A recent BI survey of a dozen MNCs shows that the overthrow of the Iranian government, which took many companies by surprise, represents a watershed in their thinking. For the most part, firms that were burned now have in place an orchestrated company policy to deal with this brand of political peril. Others are moving in this direction. With this article, BI begins a two-part series on corporate experience in preparing for such risks, including mechanisms to protect executives traveling to potentially hazardous areas.

Oil firms, international contractors and large general trading companies (especially Japanese ones), tend to be better prepared to deal with emergencies because the nature of their businesses forces them into risky areas. A major oil firm with operations in several Middle Eastern countries is a case in point. It has prepared contingency plans for several Mideast hotspots; one was carried out in Iran. The crisis blueprint is developed by the regional manager in conjunction with executives in the affected country and is reviewed by headquarters.

The Iranian evacuation plan shows how it works. The plan itself was written down; parts were distributed to employees with instructions on their responsibilities and on what steps to take. The pullout involved three stages: first, spouses and dependents were moved out; second, certain

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employees were given the option of staying or leaving; and finally, all but the key people were evacuated.

A communications pyramid was established for keeping employees informed about developments. Under it, a key person was responsible for contacting six or seven others, who would in turn get in touch with their own list, until every affected person had been reached. Certain houses were designated as collection points, where food, fuel, medicine and other necessities were stored. Provision was made for getting people to and from these areas. Alternate routes and backup transport plans for evacuation purposes were devised. The corporation contracted with a local private transport firm to guarantee it had enough vehicles; it also made available company vehicles and light trucks and had a plan in place to charter aircraft if necessary. Each employee had an open airline ticket and adequate cash, as well as a destination fixed in advance. Most important, the firm carried out dry runs to ensure that the scheme would proceed smoothly in the event of a real emergency.

Japanese Approach

A Japanese trading company with operations scattered throughout the world has had reason to bring its contingency plans into play on several occasions (e.g., in Nicaragua and Iran). Headquarters in Tokyo sets overall policy and holds discussion on the issue of contingency planning. Actual schemes are plotted only as a crisis begins to take shape. The approach varies from case to case, taking into account the circumstances peculiar to each situation, and the procedures are worked out in concert with managers at several levels of the corporate hierarchy.

Extensive communication and intelligence gathering among the involved parties take place throughout. For example, the Tokyo office collects information from various sources, including all the general managers in a region. The linchpin of the entire process is the regional general manager, who bears ultimate responsibility for plan implementation. Tokyo can make suggestions about the best plan of action, but the regional manager makes the final decision (with headquarters' approval, if time permits). Detailed instructions combining many features of the plans described above are worked out, again with the emphasis on protecting lives.

This company carries planning one step further than other firms interviewed by BI. It postulates alternative scenarios covering things that can go wrong or present a danger for personnel and equipment. Detailed procedures, including what set of events should trigger what type of evasive action by executives on the scene, are then drawn up for each.

A major U.S. contractor's contingency planning involves an execution manual that sets out steps to be followed in all projects and deals with many types of eventualities, including natural disasters and civil or political disturbances. A separate scheme is supposed to be devised for each project; in practice, however, a political risk contingency plan is drafted only when a sensitive situation develops. The project manager bears primary responsibility for the plan and would normally prepare it along with corporate support staff.

Deciding Who Does What

A spokesman for the firm told BI that the most crucial element in the process is to designate clear responsibility for each task—e.g., one person should destroy or remove sensitive papers, another should run the communications system, etc. At the time of the Iranian revolution, the company was carrying out several projects in the country. The project directors and the Iranian managing director stayed in close touch with the U.S. embassy and other intelligence sources. The firm's detailed contingency plans contained many of the same provisions as those in the oil company example noted above, such as the phased withdrawal of personnel and dependents and the communications pyramid. U.S. and third-country nationals were included in the arrangement, but the firm indicated that it would consider local nationals as well should they face political hot water if left behind.

The company was able to move back into Iran after the crisis and completed the projects using non-U.S. third-country nationals. It currently has plans ready for implementation at several other sites in the Middle East.

Another U.S. contractor, recently caught in the military conflict in the Middle East, had to act fast when the crisis suddenly flared up. A thorough contingency plan (containing procedures similar to those mentioned earlier) had been drawn up well before the emergency, and the company reviewed it periodically to make sure it was still germane. Involved in the decision making were executives at many points in the corporate hierarchy, from the president down to local senior executives, and even the head man at an office in a neighboring country that could assist in an emergency.

Getting people away from the endangered site quickly became the key priority (10 people were killed during the bombing). Altogether, 975 expatriates and their families were evacuated first to a neighboring country, then to a European intermediate point, then home. Fortunately, the plan provided for several forms of alternative transport (including chartered airplanes) so that the pullout was accomplished with minimum disruption and maximum speed.

One of the most difficult tasks in risk contingency planning involves deciding who should take responsibility for determining when to activate the plan should a crisis develop. At the heart of the dilemma is perception. A spokesman for one firm expressed the view of many companies. From a headquarters perspective, local management tends to minimize the severity of the problem. On the other hand, executives in the field believe that those in the home office are prone to exaggerating the situation.

Some companies, indeed, tend to be quite cautious. One such firm, which was involved in Iran at the time of the Shah's ouster, flew all expatriate personnel out before the situation deteriorated and has since closed down its operations there. Although headquarters pushed the button in this case, it left the nitty-gritty matters (like making sure evacuees had the proper papers) up to local managers.

The company has taken the same cautious approach in Central America, an area it feels is extremely shaky. The firm has removed all expatriates, and its Central American operations are now run by local nationals; expatriates from nearby countries fly in periodically and stay very briefly. In withdrawing its personnel, the company did not announce the repatriation even to its other departments. Executives on home leave simply did not return.

One thing all firms agree on is that numerous factors must be addressed. A consumer products corporation, which had no contingency mechanism in place at the time of the Iranian revolution, is now trying to establish corporatewide policies and guidelines for dealing with such emergencies. The company already has a crisis management team to handle kidnapping and similar isolated acts of terrorism. It thinks a similar approach might work for political upheavals, but it is finding that many additional factors must be considered, such as the type of corporate assets in the affected country; the fact that facilities may have to be written off; determination of who is in the best position to give the go-ahead for evacuation (headquarters or local management); or whether a public announcement should be made and risk precipitating local resentment or violence from terrorist or labor groups.

Keeping Quiet about It

The need to keep a low profile can be critical. One worldwide producer of food products interviewed by BI strongly believes that an approach that avoids arousing terrorists or other groups is the best means of protecting personnel and assets.

Top management at this firm sets general guidelines. Within these parameters, step-by-step procedures of an actual contingency plan (which is not written down) would be worked out between the home office and the local manager and counsel. The cast of characters at headquarters changes, but normally a corporate executive with primary responsibility for formulating all plans and the affected product division head would be involved. As a preliminary step, headquarters sends an employee specializing in security on regular visits to most establishments abroad to find and correct weak points.

Setting the Scene

A phased contingency plan would be drawn up as headquarters gets signals from abroad of possible social or political upheaval. The first stage includes obvious steps like adding to private local security forces and trying to get additional police protection if available. It would also involve measures setting the stage for possible implementation of an evacuation plan.

To get a good political reading of a particular country without arousing suspicion, for example, the firm would have an employee from a nearby country begin to make regular business trips there, with the underlying purpose of establishing a regular information source and an alternative communications system between parent and subsidiary. This intelligence gathering and monitoring would continue until a real danger might be imminent. During this same period, the country manager would institute a policy of letting key expatriates take a few days off for personal travel or to do business in neighboring countries. And the firm would also start to use its own transport facilities so that this procedure no longer seemed unusual.

In the second stage, the company would move to repatriate spouses and other dependents. Again, it would make every effort to make trips out of the country appear as normal as possible—e.g., plan them in conjunction with employees' home leaves. In the third phase, only a skeleton crew of expatriates—enough to keep operations going—would remain. Finally, all expatriates would be withdrawn, but operations would be closed down completely only in extreme cases.

One of the few companies that undertake crisis contingency planning for all operations—no matter where they are located—is a U.S. electrical equipment manufacturer. Its approach to political risk grew out of procedures it follows for natural disasters, which it found worked for other types of emergencies as well. Headquarters requires a political contingency plan to be formulated for all operations (manufacturing facilities as well as offices). The crisis blueprint is formulated at the local level and deals with both personnel and physical assets, with the emphasis on protecting lives.

Like in other companies, emergency measures are set in several stages. Several points are worthy of note. Someone at the local level is given authority to take action in the event of a crisis. Also, in terms of what to do with fairly liquid assets, a top executive is responsible for removing cash valuables. He is expected to take such precautions as contracting a local protection service (if available) before closing down or curtailing operations.

Another firm that takes a perspicacious approach—even though it currently has little invested in high-risk areas where a contingency plan might be called into play—is a chemical manufacturer. The issue of security and how to handle crises are regularly discussed at divisional meetings, with films and other educational tools used to raise executives' level of awareness and preparedness. A spokesman of the company stated that, should an emergency scheme be needed in any country, it would be drawn up by regional and division heads (all at headquarters) in conjunction with the foreign subsidiary head.

Broad guidelines have already been fixed. These include some outline of procedures to be followed, as well as a determination of who would be responsible for what in the event of an emergency and who at headquarters should be the key contact point. The crisis plan would be spelled out in more detail as the situation developed.