

Effect of crisis communication plans on crisis aversion in selected Nairobi Securities Exchange Companies

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Abstract: This study aimed to establish the extent to which publicly listed companies in the Nairobi Securities Exchange (NSE) were adequately prepared for crisis situations by engaging in proactive crisis communication planning. It looked at the practice of crisis communication as a key component of corporate communication. Corporates will be faced with a crisis one time or the other. When this happens, the corporates are forced to act. For some, strategies have already been put in place on how to roll out crisis communication plans, while others deal with the crisis in an ad hoc fashion. The study sought to review the various crisis situations that NSE-listed corporates have gone through. It additionally sought to find out if NSE-listed corporates had written crisis communication plans. The study also evaluated the various strategies employed by NSE-listed companies during crisis communication in a bid to establish best practice for proactive crisis communication for NSE-listed companies. A systematic random sampling was carried out. Self-administered questionnaires were issued to the respondents and SPSS (version 21) software was used to analyze the data. The study found out that NSE-listed companies were actually engaged in proactive crisis communication with written crisis communication plans and proactive non-crisis stakeholder relations being undertaken in order to draw goodwill from stakeholders during an actual crisis situation. The study, however, recommends the need for the listed companies to carry out periodic review and test runs of their crisis communication strategies.

Keywords: Crisis communication, best practice, Nairobi Securities Exchange.

Introduction

In the business world, a crisis is either happening, or about to happen. It is no longer a question of ‘if’, but a question of ‘when’ (Derites, 2001). A crisis situation is one that threatens or challenges a corporate’s legitimacy, and has the potential of a negative outcome that may endanger a corporate’s reputation, profitability and survival. A corporate facing a crisis situation also stands to lose its reputational standing, which may in turn dent even the corporate’s profitability and continuity (Derites, 2001; Gainey, 2009; Low, Varughese, & Pang, 2011; Money & Gardiner, 2005; Thiessen & Ingenhoff, 2009).

During a crisis, if a corporate cannot assure its stakeholders on the maintenance of the status quo, then it will lose its stakeholders’ support. This is, however, a two-sided coin; a corporate that handles its crisis effectively will find itself gaining new supporters and customers who are running away from the corporates that are not handling crises strategically (Hayes & Patton, 2001)

Background of the Study

Crisis management includes a crisis communication plan which illustrates the two-way communication between an organization and its publics before, during and after the crisis. Nurmi and Darling (as cited in Heller & Darling, 2012) say that “effective crisis management involves forecasting, identifying, studying and acting upon crisis issues as well as establishing procedures that would enable a corporation to prevent or cope with a crisis” (p. 154). The crisis communication plan is part of a corporate crisis management strategy and gives the various sections that will need to be handled during a crisis, (Fearn-Banks, 2007). The advantage of having a pre-existing crisis communication plan is not only that the crisis will be handled effectively when it arises, but it also gives an avenue to detect crisis potential before one actually breaks out and mitigation measures can be applied.

Pauchant and Mitroff (as cited in Hayes & Patton, 2001) say that organizations that have prepared for a crisis will recover twice or thrice as fast as those which are not prepared. Proactive crisis communication not only saves the organization from the crisis, or at least minimizes the impact of the crisis, it also saves the

organization money. It is cheaper to deal with a crisis when a plan is in place than when random actions are being taken in a panic-stricken state. The unfortunate thing is that organizations spend so much time thinking and coming up with strategies but do not seem to give due attention to a crisis and opt to deal with the situation when it arises. In their study, Ritchie, Bentley, Koruth, and Wang (2011) conclude that proactive crisis communication planning should be a priority for a corporate in order to be prepared for an unknown future.

Globalization has made crises situations worse than what they were before. Due to the opening up of the global market, it is very easy for a customer to shift gears and start working with another corporate. If a corporate in Kenya goes through a crisis and loses public support, a corporate in Nigeria, South Africa or any other country will move in and fill the void. In order for corporates to survive, they heavily rely on public support which brings with it the need for responsible stewardship, exemplary knowledge of the technical aspects of operation, solid management of funds, and a delicate balance of conflicting public expectations.

The Nairobi Securities Exchange is the market whereby shares and bonds of publicly-listed companies in Kenya are traded. The NSE provides an avenue for idle money to be invested for more returns for both corporate and individual shareholders. NSE-listed companies raise their income from the trade of their shares and bonds to the general public or to corporates. This effectively means that NSE-listed corporates directly rely on their shareholders for profitability and survival. In order to keep the shareholders and stakeholders content, all operations of NSE-listed corporates need to be above board. (What is NSE, 2014)

Statement of the Problem

Corporates listed in the securities exchange have a lot more to lose when they are hit by lost investor confidence which can happen as a result of a crisis. If listed corporates do not or cannot see the potential of a crisis early enough to take appropriate action, then the consequences can be so severe as to bring the corporate to closure (Valackienė & Virbickaitė, 2011). The effects of crises to listed companies are too serious for the companies to ignore proactive crisis communication. It is of paramount importance that listed companies undertake proactive crisis communication planning to either avert or better deal with a crisis situation. In 2012, the Kenyan media reported that efforts by the top managers of the Nairobi Securities Exchange (NSE) to boost investor confidence have been a daunting task owing to increased cases of malpractice and violations of corporate governance principles by some market players. Several stockbrokers had collapsed amid claims of unauthorized trading of investors' shares. Due to this insecurity of investments, investor confidence was affected and, in turn, the willingness of investors to put their money in the Kenyan economy was at risk. Crises affecting listed corporates not only affect the performance of the listed corporate, but also of the Kenyan economy as a whole (Anyanzwa, 2012). It is with this in mind that this study sought to establish the extent to which NSE-listed companies have proactive crisis communication strategies.

Purpose of the Study

To establish the extent to which publicly-listed companies in the NSE are adequately prepared for crisis situations by engaging in proactive crisis communication planning.

Objectives of the Study

The study was guided by the following objectives:

1. to establish the kinds of crisis that NSE-listed companies have faced
2. to establish if NSE-listed companies had written crisis communication plans
3. to evaluate the various strategies that NSE-listed companies had for crisis communication in a bid to inform best practice for proactive crisis Communication

Literature Review

The study was informed by two theories: 1. **The Attribution Theory** - which seeks to answer the 'why' question in various circumstances, that is, why people do the things they do. In this study, the Attribution Theory sought to cement the importance of having a well laid out crisis communication plan. If the listed corporate is well prepared for a crisis situation, its crisis communication plan will be well thought out and well rolled out. When stakeholders ask themselves why the corporate acted as it did during the crisis, they will conclude that the corporate is a responsible corporate that cares about its stakeholders. This will maintain or alleviate the listed corporate's reputational standing among its stakeholders. If the listed corporate does not undertake proactive crisis communication planning, when a crisis hits, the corporate will face challenges when

handling the crisis. As stakeholders ask themselves the 'why' question, they will conclude that the corporate adopts a *laissez faire* attitude toward its stakeholders and the listed corporate will lose its stakeholders' support.

2. Situational Crisis Communication Theory (SCCT) - is a continuation of the Attribution Theory and it can be used to predict the reputational threat presented by a crisis in order to develop appropriate crisis communication strategies. As illustrated by the Attribution Theory, during or after a crisis, stakeholders will ask themselves if the corporate could have controlled or better handled the situation. If the stakeholders determine, by their own estimation, that the corporate handled the crisis well, then the corporate's esteem is maintained. On the other hand, if the crisis is not handled well, and the stakeholders perceive as much, then the corporate is brought to disrepute and sometimes eventual closure.

NSE-listed corporates are heavily dependent on their stakeholders' and shareholders' opinions and perceptions for survival. This is more so during a crisis since this is the time that shareholders and stakeholders can pull out. NSE-listed corporates therefore need to put in place crisis communication strategies, in advance, that will ensure that the corporate acts in a way that will create consonance in the minds of stakeholders and shareholders during a crisis, as premised by SCCT, so that when the stakeholders ask themselves why the corporate acted as they did during the crisis, as illustrated by the Attribution Theory, it will turn out that the corporates acted in the most responsible way possible given the situations. This act of having strategies in place is proactive crisis communication planning.

What is a Crisis?

Pfarr and Hosie (2008) say that a lot of literature does not give an accurate definition of a crisis but instead there is a tendency to merge a number of concepts to come up with an understanding of a crisis. Some of the descriptions given of a crisis include "disaster, negative event, catastrophe, problem or turning point, risk, chaos, vulnerability, safety and security" (Pfarr & Hosie, 2008, p. 252). The authors, however, go ahead to try to differentiate between crisis and a disaster citing a crisis as "a situation whereby the root cause of an event is, to some extent, self-inflicted through such problems as inept management structures and practices or a failure to adapt to change," while "a disaster is where an enterprise is confronted with sudden unpredictable catastrophic changes over which it has little control" (Pfarr & Hosie, 2008, p. 252).

Types of Crisis

Greyser (2009) gives various types of crisis that an organization can face. Some of these crises include: Product failure when a product; causes harm to its consumers; Corporate misbehaviour; an organization handles an issue in a manner that shows that it does not care about the public; Executive misbehaviour, when the chief officer of an organization is implicated or accused of wrongdoings that could impact the profitability of an organization and, lastly, death of symbol of company which leaves the stakeholders wondering if there is anyone who can fill the shoes of the one who led the company.

Crisis Management

When a crisis occurs, it is vital for the corporate to act with swiftness to contain the situation before it escalates to becoming an even bigger problem. Nummi and Darling (as cited in Heller & Darling, 2012) say that crisis management involves pre-empting looming crises, specific identification of what the crisis are, understanding the crises as well as coming up with ways to prevent or handle the crisis. Crisis management should be systematic in approach even as the corporate tries to get back to normal function as quickly as possible. Crisis management is an early detection or warning system that ensures that an organization has a response to a crisis while at the same time ensuring that the normal operations of the organization still go on (Heller & Darling, 2012).

Proactive Crisis Communication

The fact that a crisis will occur and will be witnessed globally, meaning the consequences are on a global scale, is not a call to corporates to just sit and wait for their organizational doom. Proper contingency measures put in place beforehand can curtail a crisis or make it easier to contain. A crisis is best handled as it approaches as opposed to dealing with it when it has already happened.

Best practice for crisis communication

Veil and Husted (2012) say that best practices for crisis communication are developed to improve and streamline the process of creation and implementation of a crisis communication plan. The guidelines developed can be used to improve the quality of crisis communication for concerned corporates. Seeger (as cited in Veil & Husted, 2012) refers to best practice for crisis communication developed by the National Centre for Food Protection and Defence (NCFPD), a United States Department of Homeland Security Centre of Excellence. Veil and Husted (2012) say that the best practices developed by NCFPD have been tested by various scholars.

Research Methodology

The study employed both a qualitative and quantitative approach that provided the researcher with both facts and figures, giving a deeper understanding of the crisis communication aspects (Silverman, 2012). The population for this study was 62 corporates listed in the NSE. The researcher used systematic sample design. The researcher collected the data using self-administered questionnaires to the corporate communication managers and corporate communication officers of the companies selected to be part of the research's sample. The questionnaires had both open-ended and closed-ended questions that enabled the researcher to capture both qualitative and quantitative aspects of the research. Open-ended questions assisted the researcher in getting an in-depth view of the situation on the ground, while closed-ended questions provided an easy way for data analysis (Babbie, 2008). The researcher pre-tested the data collection instrument among respondents who were not NSE-listed companies to look for and address issues such as ambiguity, overly sensitive or unclear issues.

Summary of the Study Findings

Return Rate

Out of the 56 questionnaires sent out, 35 questionnaires were returned completed indicating a 60.5% response rate. This percentage is considered a good response rate for research (Mugenda & Mugenda, 2003).

The findings of the study revealed that all the responding companies have at one time or another faced a crisis situation. The crisis situations faced included terrorist attacks, inter-tribal conflict/ post-election violence in areas where the organizations had operations, accidents, fires, system failures, among others. This is in support of Kavoor-Misra's (2009) deduction that crisis situations have become part and parcel of an organization's environment. Kavoor-Misra (as cited in Kavoor-Misra, 2009) says that crises take various forms. These crises bring with them many threats to the continuity of the organization. Crisis situations have the capacity to ruin a corporate's image and in dire circumstances, can cause the closure of the corporate. The way a listed company handles a crisis situation brings with it serious consequences for the corporate especially since the listed corporates rely on stakeholders and shareholders for financial support.

The study also revealed that all the NSE-listed corporates had identified the risks that could escalate into crises. However, a few of the corporates had not yet come up with mitigation measures for the risks. Additionally, although the majority of the NSE-listed corporates had risk registers that were systematic enumerations of the risks and their mitigation, a good number of the organization did not have risk registers.

Most of the NSE-listed corporates had clearly written crisis communication plans. For the ones who had not, plans were underway to develop the same. The corporates without the crisis communication plans had attributed this fact to Management's focus on other pillars as opposed to crisis communication.

An interesting point that came up from the study was that the Corporate Communication practitioners were divided on the practicality of referring to a crisis communication plan during a crisis. Most of them felt that a crisis communication plan was a key document to have, but some of them were of the opinion that during a crisis, situations are too dynamic to be handled using set strategies. In conclusion, most of the Corporate Communication professionals who responded to the study felt that their companies were well prepared to deal with any crisis situation.

Conclusion and Recommendations

Weiner (2006) describes crises as one of the circumstances that have the ability to truly test an organization. Crises bring with them various challenges including cancelled customer orders, questioning employees who ask unwanted questions, management of an organization are put squarely in the spot light, competitors swoop in and take over market shares, Governments and regulatory bodies start raising queries, not forgetting lawyers who present lawsuits against the company.

One of the statements posed to the respondents for reaction was ‘my company is well prepared to deal with any crisis situation’. The findings showed that 77.1 per cent of the respondents were confident of their corporates’ ability to handle a crisis situation. Based on the evidence provided, the researcher affirms that NSE-listed corporates hold crisis communication highly and are proactively handling crisis communication by planning in advance. The corporates have laid out plans and strategies which include cultivating relationships that can be used later to the advantage of the corporate. Some of the corporates have also effectively scanned the environment and foreseen which areas are prone to being faced with a crisis. This means that when there is a risk of a crisis, they will have already seen the crisis coming and are in a better place to handle the crisis. This is what proactive crisis communication is all about- putting measures in place beforehand so that a corporate is better placed to deal with a crisis situation. Some of the NSE corporates have however not come up with mitigation measures for the crises and have also not systematically captured the risk areas. There is a chance of forgetting some of the risks that will later escalate to crises which could have been easily avoided. In conclusion, the researcher agrees with the NSE-listed companies that most of them are indeed ready to deal with crisis situations. The researcher however advises the NSE-listed companies to refer to the best practice section of the chapter to ensure that there is nothing they are leaving out of their individual crisis communication planning.

The study recommends the need for NSE-listed corporates to carry out periodic reviews and test runs on their crisis communication plans. Majority (85.7) per cent of the NSE-listed corporates said that they had carried test-runs on their crisis communication plans, but only 28.5 per cent of the respondents had reviewed their plans in the past six months. Valvi and Fragkos (2013) advise that the test-runs be carried out every year. However, the researcher is of the opinion that, considering the fact that Kenya has in the recent past been faced with many security threats that translate into crises for organizations, it is important to review and run these crisis communication plans more often than once a year.

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