

## IS YOUR BUSINESS PREPARED TO FACE A CRISIS?

We live in an unpredictable world and closely held businesses constantly face a variety of challenges, ranging from economic downturns and global pandemics to natural disasters, cyberattacks and supply chain disruptions. How a business handles these challenges will determine if the outcome is a minor strain on business operations or a major upheaval with devastating affects.



The key to handling any crisis is being proactive in planning for unanticipated disruptions. Closely held businesses should develop both a crisis management plan (CMP) and a business continuity plan (BCP) to guide them in the face of challenges. A CMP outlines how an organization will respond to a crisis with the goal of minimizing damage, protecting stakeholders, and restoring normal operations as quickly

as possible. A BCP focuses on how to maintain critical business functions during and after a disruption. Essentially, a BCP is about keeping operations running, while a CMP is about managing the immediate response to a crisis.

While implementing both plans is highly recommended, this article focuses on the BCF as the cornerstone of preparedness. When developing a BCP, owners/management should:

1. Identify any potential vulnerabilities in the operation relating to workforce, infrastructure or supply chain issues.
2. Develop contingency strategies for handling diverse challenges and disruptions.
3. Ensure all stakeholders have internal and external communications guidelines so there is one voice at all times, responding in a way that will not cause reputational harm.
4. Routinely evaluate plans as operations evolve, assess what works and what needs improvement.

# advisory

## Other key areas to address include:

**Financial Stability:** Auditing the financial health of the company on a routine basis is essential to the overall success of the enterprise. Businesses that diversify their offerings to reduce the reliance on a sole product or client are in a better position to mitigate damages and any sudden decreases in cash flow. Maintaining a cash reserve of at least 3-6 months of operating expenses is prudent, as is securing adequate lines of credit that may be accessed in the event of an unforeseen crisis.

**Supply Chain Management:** Retailers and manufacturers are constantly dealing with supply chain issues. When a crisis hits, a single breakdown can derail operations. To lessen the risks, businesses should avoid over relying on a single supplier. Sourcing materials, products or services from multiple vendors will hedge against breaks in the supply chain. In addition, utilizing tools and technology to monitor risks and improve visibility is an insurance policy for dealing with major disruptions.

**Technology:** IT continuity planning helps companies avoid costly downtime. Migrating data to cloud-based systems can prevent a shut down during a major disruption. However, companies must also strengthen their cybersecurity protocols and systems to prevent data breaches and attacks.

**Personnel:** Employees are the lifeblood of the business and prioritizing their safety and well-being to maintain morale and productivity is critical during a crisis. Companies should develop protocols to protect workers during emergencies and cross train employees to perform multiple roles to ensure proper coverage of key functions. Importantly, management should offer resources to help employees cope with stress and uncertainty.

**Insurance:** A comprehensive insurance program provides a financial safety net when disaster strikes. Management should routinely evaluate their policies and determine if they require more than the required General Liability insurance, including:

- **Business Interruption Insurance:** Covers lost income during closures caused by disasters.
- **Property Insurance:** Protects physical assets from damage due to natural events.
- **Directors & Officers Liability Insurance:** Shields board members and executives from being held personally liable in a lawsuit.

**Goodwill & Communications:** Fostering strong relationships and goodwill with customers, suppliers, lenders, and community leaders can provide businesses with vital support, and access to additional funding, during tough times. The importance of having a strong communications plan in place during a crisis cannot be overstated. It is imperative that businesses outline the process and protocols for keeping customers informed to prevent reputational damage and public relations nightmares.

*advisory***Summary**

The COVID-19 pandemic should have taught businesses valuable lessons about the importance of preparation. Unforeseen challenges are inevitable. However, with proactive planning that includes developing crisis management and business continuity plans, owners and managers will be better equipped to navigate even the toughest storms. After a disruption, key stakeholders should assemble and assess what went well and where improvements are needed. Regular crisis management training and a commitment to continuous improvement is a judicious practice for all leaders of the organization.

By building resilience through financial planning, innovation and technology adoption, workforce protection, proper insurance and strong relationships, you can safeguard your business and emerge stronger from any crisis. It is never too late to assess vulnerabilities and implement strategies that will position your business for long-term success—no matter what comes your way. Being prepared is not a one-time exercise, rather it is an ongoing journey.

For further information on crisis management and business continuity planning, please contact PLDO Principal Gary R. Pannone at 401-824-5100 or email [gpannone@pdlolaw.com](mailto:gpannone@pdlolaw.com).



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