



The Guide to Corporate Crisis Management

Editors

Sergio J Galvis, Robert J Giuffra, Jr
and Werner F Ahlers

LAW BUSINESS RESEARCH

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and Werner F Ahlers

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Singing from the Same Song Sheet: How Collaboration Between Legal and Communications Can Mitigate a Crisis

Paul A Holmes and Eric M Wachter¹

Companies constantly have to manage known and emerging issues with significant legal implications that could threaten their businesses or damage their reputations, including product recalls; health, safety and environmental incidents; customer relations conflicts; labour disputes; security breaches; friction over cross-border transactions, investments or projects; lawsuits; regulatory actions; government inquiries and other matters. Naturally, when these issues arise, a typical early call is to the company's lawyers with the hope of containing exposure to liability, limiting the monetary damage and applying legal strategy to mitigate the potential impact. Sometimes, with skilful lawyering and a little luck, that call alone can be enough to stave off a situation.

Other times, an emerging issue has the potential to become a full-blown crisis, with reverberating implications for the company's reputational standing among its customers, business partners, investors, employees, government officials and community for months or even years to come. In such cases, strategic communications are critical, especially at the outset of a crisis, to managing and containing risks that cannot be resolved in a courtroom, government office or arbitral tribunal.

The challenge is that it can be difficult to identify the 'outset' with any certainty. Which issue is a routine, easily managed bump in the road? Which is about to evolve into a major, sustained and very public crisis? This is especially true in Latin America, where, for example, the public already assumes in certain countries, even if begrudgingly, that businesses may have to acquiesce to some level of government corruption or other fraud as a necessary component of doing business, such that a sudden public outcry and increase in government enforcement – as in Brazil's *Lava Jato* investigation – could be unexpected. Companies operating in the region also face widely varying regulatory and judicial regimes and often

¹ Paul A Holmes is CEO, North America, in the New York office and Eric M Wachter is a director in the Washington, DC, office of Finsbury.

inconsistent and non-transparent enforcement. Thus, it can be hard to forecast which incidents or practices may trigger intense scrutiny from government officials, the media, investors or the public, and which will pass as non-events. This uncertainty can lead companies to make early mistakes that may create, exacerbate or prolong a crisis.

This is one reason why, as a matter of regular practice, prudent companies pair legal counsel and communications advisers, among other key players, on their crisis management teams from the start. While every crisis is different, when a company's legal and communications advisers are not working in tandem, there is additional risk that the company's response could inadvertently turn a routine problem into a crisis that need not exist. A legal strategy that does not adequately consider how its tactics will be perceived and experienced by corporate stakeholders and the public is inherently flawed, and could very well generate avoidable problems. At the same time, public relations decisions made with insufficient understanding of the potential legal risk and lawyers' objectives can prejudice, or outright defeat, what otherwise might be a winning legal strategy.

Only by working in deliberate partnership can legal and communications teams give a company its best chance of identifying and navigating the legal and reputational landmines, both foreseeable and hidden, that line its path before, during and in the wake of a crisis. While the principles of effective communications management in a crisis are generally the same across regions, careful coordination across the organisation, and with legal and communications advisers, can be all the more critical in the often unpredictable legal, regulatory, political and media environment of Latin America.

In this chapter, we examine when a legal issue can become a communications crisis and describe the important role that strategic communications play in containing the reputational – and ultimately financial – impact of a legal or other corporate crisis. We then outline some of the most common communications and legal pitfalls that companies face, particularly at the outset of a crisis, in managing these situations. Finally, we offer best practice insights into how legal counsel and communications advisers can, and must, work together to avoid them.

The role of communications in a crisis

Identifying a crisis and determining a course of action

Every company faces challenges and issues in the normal course of business, whether legal, operational, financial, reputational or otherwise. Not all of them necessarily constitute a crisis situation. Simply defined, a crisis is any event or situation that poses a material threat to the operations, financial performance or reputation of the company and demands a rapid response.

A crisis can be sparked by a single event or set in motion by a complex set of interconnected issues that may have been simmering in the background for an extended period of time. This spark can include any of a range of events, including:

- a government investigation, major lawsuit or adverse regulatory action;
- a data breach;
- an allegation of executive or employee misconduct, malfeasance or corruption;
- a product recall;

- a health, safety and environment incident, such as a significant workplace accident, discharge of toxic materials or physical attack at a company site;
- a high-profile customer relations conflict;
- a disruptive labour dispute;
- tension with the local community around a workplace or project site;
- an unexpected change in senior company leadership;
- friction over a cross-border transaction, investment or project; or
- a hostile takeover bid or shareholder activism (and we could go on).

Importantly, there are distinctions between a short-term issue, a long-term issue and a crisis:

- Short-term issue: a negative event in the course of doing business that can be resolved quickly and appropriately without extraordinary measures.
- Long-term issue: a chronic or repetitive concern that raises policy or operational considerations and potentially could have an increasingly negative effect on the organisation's success or reputation in the future if not mitigated.
- Crisis: a significant development or event that requires an urgent and focused response because it generates intense scrutiny, threatens to disrupt the organisation's ability to operate, puts employees or others at immediate risk (e.g., loss of jobs or jeopardy to safety) or threatens long-term damage to the organisation's reputation or financial performance.

Whether arising through a single issue or a series of cumulative events, the common thread in defining a crisis is that the situation escalates, or is likely to escalate, beyond the specific problem at hand. Indeed, it threatens to reflect on the entire company, its culture, its credibility, its leadership or even its solvency.

It is important to understand how to determine if a situation is a crisis and to whom and how the situation should be escalated. A crisis can have many variables and degrees of severity. When assessing whether a situation is a crisis, consider these questions:

- Could the incident, or the company's response to it, put the company's reputation at risk?
- Is there potential for negative local, national or international media attention?
- Does the situation affect the ability of any part of the company to conduct business?
- Does the situation affect or have the potential to affect a large number of clients or employees?
- Could the situation put relationships with clients, employees, government agencies or the community at risk?
- Are employees or facilities at risk of harm?
- Has the company's (or a client's) confidential, personal or proprietary information been compromised in any way?
- Does the situation create a risk of significant liability, litigation, or regulatory investigation or enforcement action?
- Have negative mentions of the organisation on social media dramatically increased in a very short period?

If the answer to one or more of these questions is 'yes', the company may well be facing a crisis and should treat the situation as such. This means escalating the matter to a defined crisis management team, which should include senior leadership and legal, communications and relevant operational functions and advisers, and implementing crisis-response procedures.

Communications objectives in managing a crisis

An overriding communications objective in any crisis is to maintain the company's reputation. This requires understanding of not just the narrow issue or incident that may have caused the problem and how that problem can be addressed, but also of any larger questions or perceptions that the crisis may create among stakeholders about the company and its leadership.

Although a company will occasionally execute on a swift, savvy and informed crisis response that might actually work to enhance its reputation, these cases are generally the exception rather than the rule. More typically, the best outcome may be that a company's reputation ultimately remains unaltered or that it suffers minimal damage and recovers relatively quickly.

A recent analysis of eight of the most high-profile global corporate crises since 2010 – all of which involved intense, prolonged negative media scrutiny, public outrage, intervention by politicians and regulators, significant lawsuits, regulatory penalties and remediation costs and, except for one instance, the departure of the chief executive – found that the median company suffered a 33 per cent share price drop after the crisis hit.² While most ultimately recovered their absolute losses, the median firm in this analysis is valued today at 30 per cent less, compared to its industry competitors, than it would have been had the crisis not happened – a total loss of value of some US\$300 billion across the eight companies – and these companies continue to be valued at lower profit multiples than their peers. This long-term, persistent financial impact, caused by an erosion of public and investor trust, is what proper crisis management is meant to avoid.

In times of stress and crisis, people – and companies – often suffer from tunnel vision, clouded judgement and a siege mentality that make it difficult to assess and respond to an emerging situation rationally. Without a clear strategic goal, companies often find themselves consumed with reacting to the latest immediate challenge, rather than focusing on where they want to be on the other side of the crisis and how to get there. In today's wired age of 24-hour TV news, the internet, blogs and social media, like Twitter and Facebook,

2 'Getting a handle on a scandal: Corporate crises drive the media and politicians wild. But do they damage shareholder value?' *The Economist*, 28 March 2018, available at <https://www.economist.com/news/business/21739695-corporate-crises-drive-media-and-politicians-wild-do-they-damage-shareholder> (last visited 18 June 2018). The companies and crises analysed include: BP's Deepwater Horizon oil spill (2010); Brazilian energy giant Petrobras's involvement in the *Lava Jato* investigation (2014); Volkswagen's diesel emissions issues (2015); Valeant's allegations of pharmaceutical price gouging and publishing of inaccurate accounts (2015); Wells Fargo's charges of creating millions of fraudulent bank accounts without client consent (2016); Uber's series of issues relating to an alleged company culture of sexism, discrimination and harassment, charges of trade secret theft, internal turmoil and multiple senior executive departures and other public missteps (2017); Equifax's data security breach impacting 143 million clients (2017); and United Airlines's widely publicised forcible removal of a passenger from an overbooked flight (2017).

allegations – whether real or simply conjecture – can travel the globe in seconds and quickly become accepted as fact, intensifying this counterproductive tendency. Having a carefully considered plan in place – both for how to fix the problem itself and how to communicate about it quickly and effectively with a range of stakeholders – is what allows a company to focus on actually mitigating the problem rather than getting organised to respond.

In general, we believe 10 principles should guide any company's communications when facing a crisis:

- do no harm;
- make sure that any public statements are fully vetted and accurate. If you do not have all of the information yet, say what you can, but only what you know is true;
- reinforce that the company is taking the situation seriously – and, if possible, demonstrate how;
- avoid speculating about an issue before the relevant facts have been gathered;
- do not be afraid to acknowledge what you do not know;
- ensure that key stakeholders hear about the issue – or at least the company's perspective – from the company directly, not the media or other third parties;
- be responsive in working with the media, avoiding 'no comment' whenever possible. If it is necessary to refrain from responding directly to the question asked owing to legal or other strategic considerations, there are other options. For example, the company could focus on reinforcing messages about how it is approaching the issue.
- be empathic toward those who have been harmed or think they have been harmed – who may be the company's customers or employees;
- emphasise what the company is doing to correct the situation and prevent it from happening again; and
- accept that 'perception is reality' in a crisis and recognise the court of public opinion, regardless of who is technically or legally right or wrong or responsible.

A legal-communications partnership is critical for successful crisis management

Whatever the nature of the situation, effective crisis management requires a balance between insulating the company from legal exposure to minimise liability and preserving the company's reputation through transparency, cooperation and remediation. These sometimes competing imperatives put legal and communications advisers at the centre of a crisis response and, as such, demand coordination between the two functions. In many cases, the partnership between legal and communications is the keystone of crisis management, supporting all other components of the effort and often largely determining whether the company's response, as a whole, will meet its objectives.

When a crisis hits, timely decision-making and agility are critical to success. A crisis, by definition, leaves very little time for a company to catch up to fast-moving events and build the necessary response structure on the fly. That is why it is essential that a company have in place a core crisis-response team and crisis protocol that can be activated quickly when necessary, with key executives and advisers knowing their roles in advance.

This team – consisting at its centre of senior leaders of the legal and communications functions, along with external legal and communications advisers – should be agile and empowered to make decisions. The group should take the lead in assessing and monitoring the situation and developing a unified response strategy. It should serve as a convener of expertise from within the company that is relevant to addressing the particular situation and a reporting link between senior company leadership and the legal, communications and operational personnel who will execute the plan.

The core crisis management team might want to consider bringing other internal voices of expertise into the fold, as appropriate, to ensure that all necessary information and relevant perspectives are considered. Depending on the crisis, this could include representatives from operations, compliance, security, human resources, government relations, finance, facilities management, information technology or investor relations. It also should invariably include a representative from a relevant business unit, project or operating location to provide an on-the-ground vantage point from where the crisis may be unfolding.

Yet, even as input is solicited from others, the central legal-communications partnership should play a key role in developing the strategy, managing its implementation, adapting the plan in an often dynamic environment and ensuring that the company's actions and messages in all venues are consistent and aimed in the same direction. This includes, for instance, determining what form communications should take for various audiences – as in written or verbal, active or reactive – and who should speak with the media, all of which will vary depending on the issue. Lawyers, in fact, can be powerful and compelling experts who, working closely with communications experts to execute outreach appropriately and effectively, can help drive more balanced, informed and educated reporting on a topic. Regardless of the specific approach chosen, however, the legal-communications relationship must work seamlessly to give the company its best chance of navigating the situation effectively.

Common pitfalls to avoid: how legal strategy can affect corporate reputation

Even the most sensible and well-reasoned legal strategy can inadvertently damage a company's reputation or hinder a company's ability to manage its public response to a crisis effectively if it does not adequately account for public reaction. There are several common ways this can happen.

'No comment': how silence can create problems

Many lawyers' professional instinct is to divulge as little as possible to the public, both to protect legal privileges and confidentiality and to maintain a strategic information advantage over potential adverse parties. While this may be a legally safe position – and may be necessary to help ensure a company's public response does not get out ahead of the facts – this approach involves its own reputational risk.

Declining to comment may be interpreted as defensive stonewalling, a denial of the gravity of the issue or a sign that the company is not in control – potentially intensifying scrutiny from the media, government investigators or regulators, investors and others. This perceived lack of transparency could also drive a narrative that the company is not being

forthcoming or is seeking to hide relevant information to protect itself. In litigation, arbitration or government enforcement, this position basically cedes the floor to adversaries' allegations – regardless of their merit or veracity – allowing them to define the narrative among external audiences. If the company does not speak for itself, others will tell its story, often in a way that disserves the company or misrepresents its position.

Instead, communicating a company's corporate values, general perspective or commitment to better understanding the situation can help build trust with the public and other important stakeholders. There are many ways to do this without conceding legal liability or providing legally damaging admissions to adversaries. At the same time, it is important to make sure that any facts being communicated are accurate. The hasty dissemination of information that turns out to be wrong, inconsistent messages or remediation plans that ultimately are not pursued undermine the very credibility the company is trying to preserve – and also can lead to increased legal liability, government investigations and litigation, greater negative publicity, damaged relations with regulators, reduced cooperation credit from enforcement officials or even charges for obstruction or false statements.

The issue of determining a company's early response to a crisis also illustrates the importance of legal counsel who understand the value of strategically targeted communications and stand ready to sign off on messages that will help safeguard the company's reputation while presenting an acceptable level of risk to the legal strategy. Even as a situation is unfolding and the facts are uncertain, public statements that reinforce that the company is taking the matter seriously, working diligently to get to the bottom of it and cooperating with any government investigation, if accurate, usually are far better than public silence and can allow some breathing room until additional information can be determined and shared.

In short, responding to a burgeoning crisis with 'no comment' does nothing to help assure key stakeholders that a company is taking the situation seriously and working to address the problem in a responsible way.

Passing the blame

Deflecting responsibility for a serious issue to others might help minimise legal liability. It can be an effective courtroom tactic or a means of mitigating criminal or civil enforcement penalties through cooperation with government investigators. But pointing the finger at others, even when justified by the facts or law, also potentially brings collateral reputational damage that must be considered.

For instance, blaming stakeholders such as the company's own customers or business partners presents obvious risk to future business. Shifting responsibility to people in these groups can be tempting in cases where, for example, a customer's misuse of a product or own behaviour, rather than a design or manufacturing defect or the company's conduct, could have been an alternative cause of damage or injury. Similarly, companies often want to point out where another project participant's mistake led to the problem at hand. These arguments might win in litigation or shift the focus of a government investigation, but companies should be careful about making these claims publicly. Not only could the relationships with the customers or business partners in question be put in jeopardy, but other current or potential customers and partners, and the public more broadly, could come to

view the company as one that dodges responsibility, prioritises protecting itself over its customers or is not a trustworthy business collaborator.

Publicly foisting responsibility onto employees, especially lower-level staff, can have a similar reputational impact. Stakeholders demand accountability at the top when mistakes are made or misdeeds are committed, and, when they do not see that, they want to know why. In some situations, it might be perfectly appropriate to blame rogue employees for misconduct they actually committed in contravention of law, company policy or basic good sense. This approach can convey that the wrongdoing was isolated, not directed by senior executives, inconsistent with company policy and, if the employees in question have been terminated, extracted from the company. But, particularly in situations where wrongdoing is widespread or long-standing, it can exacerbate the reputational damage and strain credulity to blame a small group of lower-ranking employees while senior executives are protected. That is likely to raise questions about the company's leadership and demonstrate that it does not support its employees when the going gets tough and the public spotlight is on. This negative perception as an employer, in turn, could encourage employee departures or disclosures, or threaten the company's future talent pipeline, possibly for years to come.

While others in fact might bear or share responsibility for the company's issue, blaming them publicly is not a risk-free strategy. Companies should consider the impact of such tactics on their public reputation before proceeding.

Denying the obvious

While some facts of course can be in dispute, particularly in the early stages of a developing crisis, legal defences are at times perceived to go beyond the pale by denying what is, or seems to the average person, simply obvious. Obstinate refusals to concede widely accepted facts can make a company seem disingenuous and damage public trust. Vigorous denials might make sense to preserve a legal position, but companies must understand that, at some point, customers, reporters, politicians and other stakeholders might see the company's posture as senseless, undermining valuable credibility.

At the same time, strategic concessions on issues on which holding out could appear indefensible can be an important tool for signalling that the company is open to a reasonable and fair resolution of the situation. It also can be a sound long-term approach. At some point, unavoidable facts are bound to catch up to a strategy based on denial and avoidance.

Aligning legal and communications strategies in a crisis

The ideal scenario when dealing with an emerging issue or rapidly growing crisis is a tightly aligned legal and communications strategy and a crisis management team comprised of specialists from each area who know how to work together in close partnership to execute that strategy. It is this type of group, working in conjunction with a company's executive team and board, that simultaneously can advance a company's legal goals and corporate reputation, while helping to avoid the generation of new risk and preventing communications and legal from inadvertently working at cross purposes.

Some best practices for an efficient legal-communications crisis management partnership include:

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Between Legal and Communications Can Mitigate a Crisis*

- establishing a rapid response process and core crisis management team that includes representatives from legal and communications, among other relevant functions, to help ensure the company can respond quickly and robustly to emerging developments;
- sharing information on legal and communications strategies before engagement begins so each side of the partnership understands the other's objectives and intended results and all relevant perspectives can be considered;
- quickly resolving potentially competing priorities of the legal strategy and communications approach, but continuing to revisit these priorities as the crisis evolves and new issues arise. To avoid paralysis or uncoordinated action, this requires clear and efficient protocols for making decisions and obtaining executive approval for strategies and tactics when lawyers, communications professionals and relevant business unit leaders cannot reach consensus on how to reconcile inconsistent interests;
- working closely with legal counsel and communications advisers to determine how to tell the company's story in the most effective manner;
- gathering and verifying the accuracy of the facts and being disciplined in deciding what to disclose, accounting for, among other factors, the legal, reputational and business impacts of the release – or non-release – of particular information;
- ensuring that the organisation offers consistent messages in one voice, not just in public statements, but in comments to the press, legal filings, statements to courts, enforcement authorities and litigation counterparties and communications with customers, business partners, employees and investors; and
- maintaining constant communication among the crisis management team throughout the crisis so that new developments can be considered and addressed in a coordinated way.

While there is no silver bullet to stopping a crisis, a careful and highly disciplined response supported by an integrated legal and communications team can help mitigate – rather than exacerbate – the effect an issue will have on the organisation's continuing business and operations.

Appendix 1

About the Authors

Paul A Holmes

Finsbury

Paul A Holmes, CEO, North America, advises clients in areas including strategic and crisis communications, litigation support, public policy, regulatory issues and governance matters. He joined Finsbury in 2007 and has represented several of the world's largest companies in the financial services, media, retail, transportation, insurance and health-care sectors, among others. Before joining the firm, Paul had a long and successful career in international journalism. He has worked in more than 50 countries, covering conflict, politics and business. He was the political and general news editor at Reuters for five years. Paul is a co-author of four books on international affairs and an Ethics Fellow of the Poynter Institute of Journalism Studies in St Petersburg, Florida. He speaks fluent French, German and Italian and holds a bachelor's degree in modern languages from the University of Exeter in the United Kingdom.

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Eric M Wachter, a director in Finsbury's Washington, DC, office, provides strategic counsel and develops sound communications solutions in crisis and issues management, litigation, government investigations, and public policy and regulatory matters. Previously, Eric worked as an attorney at King & Spalding LLP, where he specialised in strategies to solve complex problems and tell clients' stories in litigation and government affairs. His litigation practice focused on high-exposure consumer fraud, product liability, toxic tort, commercial and administrative cases, including class actions and attorney general actions. He also worked in government advocacy and public policy, helping to guide clients through Congressional and other governmental investigations; appellate practice; and crisis

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management. Additionally, he served as associate director of the Anti-Defamation League's Washington, DC, regional office, where his portfolio included communications and media relations, government advocacy and operations in three states and the District of Columbia.

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Corruption investigations, expropriation, industrial accidents: corporate crises take many forms, but each can be equally dangerous for companies in Latin America.

Published by *Latin Lawyer*, edited by Sergio J Galvis, Robert J Giuffra, Jr and Werner F Ahlers of Sullivan & Cromwell LLP, and containing the knowledge and experience of 40 leading practitioners from a variety of disciplines, *The Guide to Corporate Crisis Management* is designed to assist key corporate decision-makers and their advisers in effectively planning for and managing corporate crises in the region.

Covering the impact of political instability, the role of communications in crisis response, approaches to bribery investigations and game plans in response to financial stress, this book provides guidance that will benefit all practitioners when an unexpected crisis hits.