

hot paper lantern

Money talks

Companies put shareholders at risk when they fail to respond to crises effectively. But what matters more - speed or quality of response?



Money talks: Crisis Response Index

With trillions of dollars on the line, should institutional investors be scrutinizing a company's ability to respond swiftly and effectively to a corporate crisis? According to data from Hot Paper Lantern's **Crisis Response Index (CRI)**, a new body of research that tracks shareholder value based on how and when a company responds to a crisis, the answer is yes.

In an always-on, digital-first world, managing a company's reputation is more challenging than ever before. During a crisis, CEOs and their leadership teams face intense pressure to make quick decisions that would otherwise never be made in haste, while communicators face the daunting task of publicizing those decisions with speed and accuracy.

The stakes are high and our CRI proves that even small delays and missteps in how a company responds to a crisis can wipe out billions of dollars in shareholder value. How and when a company responds to a crisis is directly linked to the performance of the stock price over the short- and long-term.

The CRI data is affirmation for any communications professional struggling to prove the value of building and maintaining a crisis communications function that can deliver the goods when the going gets tough.

“ Since the data shows that shareholders have the most to lose, crisis readiness must be a board-level issue. ”

Ted Birkhahn, President, Hot Paper Lantern



SUMMARY

Shareholders take notice: The speed at which a company responds to a crisis combined with the quality of the response (as measured by stakeholder reaction) profoundly impacts stock price. In a perfect world, a swift and effective response is ideal; however, if a company needs to sacrifice one over the other, taking more time to respond intentionally and with purpose outperforms a fast response lacking resonance.



QUESTION

What is the cost of (mis) managing your brand's reputation in a crisis?



HYPOTHESIS

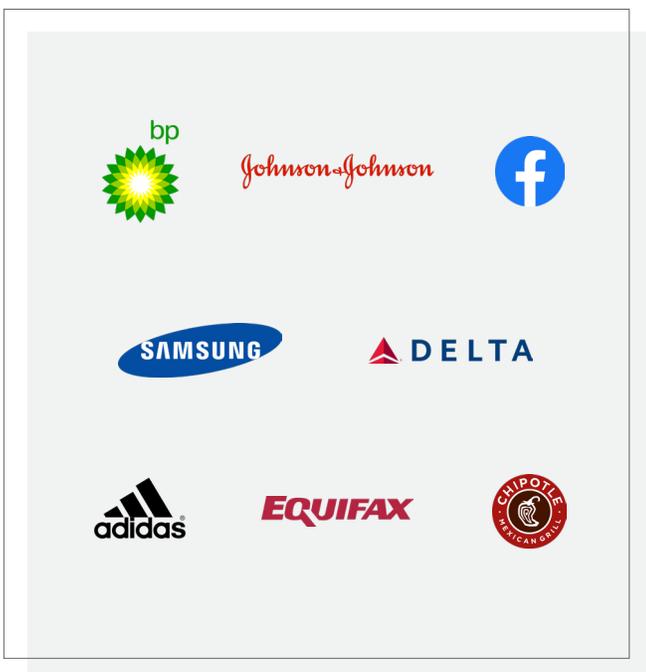
How and when you respond to a crisis has a long-term impact on shareholder value.

Inside the index

To create the Crisis Response Index and monetize the value of crisis management, Hot Paper Lantern researched 80 companies that all experienced a significant crisis event. Then, we analyzed over 450,000 media articles and 85,000 social media mentions about those crisis events. We did this analysis according to two criteria - speed and effectiveness - asking:

- How quickly did these companies respond?
- How effective was the response, as measured by sentiment analysis?
- Were companies being transparent, authentic, and empathetic in their responses?
- How were these responses resonating?

The Index is industry-agnostic, covering all major sectors with a fairly even distribution. Within the group, response times varied from minutes to months.



Industries:

- 17% Automotive & Aviation
- 15% Food & Beverage
- 15% Social & Digital Services
- 11% Retail & Apparel
- 10% Industrial & Manufacturing
- 8% Pharmaceuticals
- 7% Financial Services
- 6% Media & Entertainment
- 4% Electronics
- 3% Oil
- 1% CPG
- 1% Hospitality
- 1% Informational Technology
- 1% Telecom

Company sizes:

> 1,000 employees

Response effectiveness:

41% effective
59% ineffective

Response times:

24% in hours
50% in days
20% in weeks
6% didn't respond

Paying the price

Speed of response plays a major role in crisis management: companies that responded to a crisis within days saw an average decrease of 10% in stock price value compared to a decrease of only 4% when they responded within hours. Companies that waited weeks to respond saw a sobering 14% decrease.

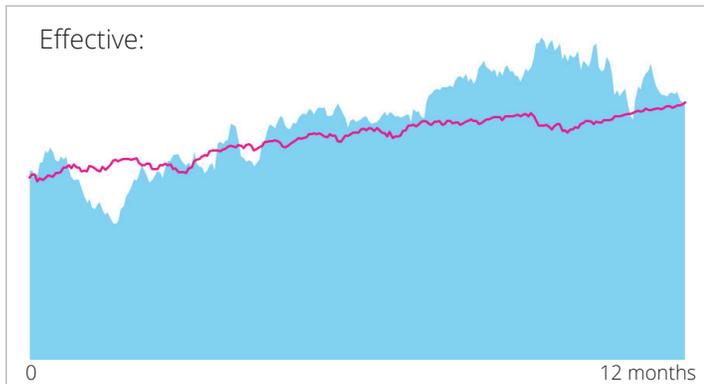
While speed is important, how a company responds should always take precedence even if it must sacrifice timeliness to do so. Companies that responded effectively – as measured through sentiment analysis of media coverage

and social media content – actually saw no change in their stock price in the two years following the crisis regardless of how fast it responded. On the flip side, an ineffective response resulted in an average decrease of 14% over the same period.

Interestingly, a CEO resignation has a positive impact in the short-term (stock prices up 1% 1m post-crisis) but a negative impact long-term (-12% 1yr after), indicating that while investors applaud the quick change, the bump is not long-lasting.

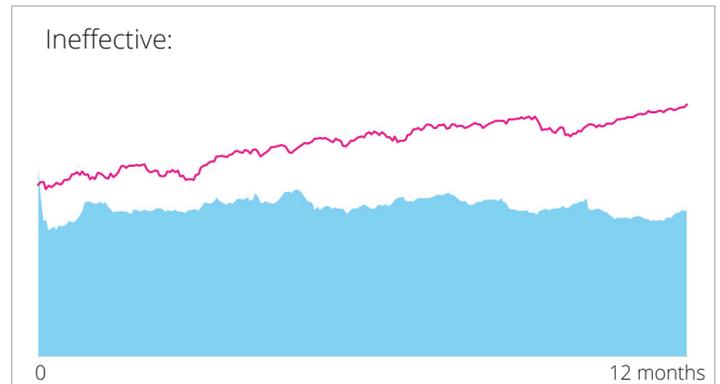
Effectiveness of response matters

0% avg. stock price value = **-\$0B** avg. market cap value



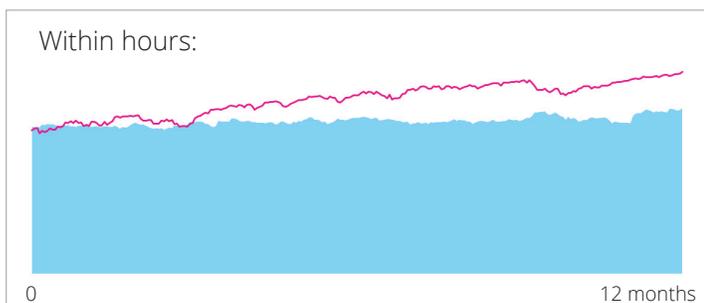
■ HPL CRI ■ US Indices

-14% avg. stock price value = **-\$16B** avg. market cap value

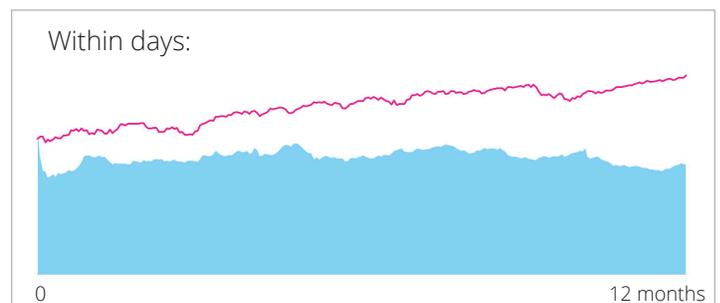


Speed of response

-4% avg. stock price value = **-\$4.6B** avg. market cap value



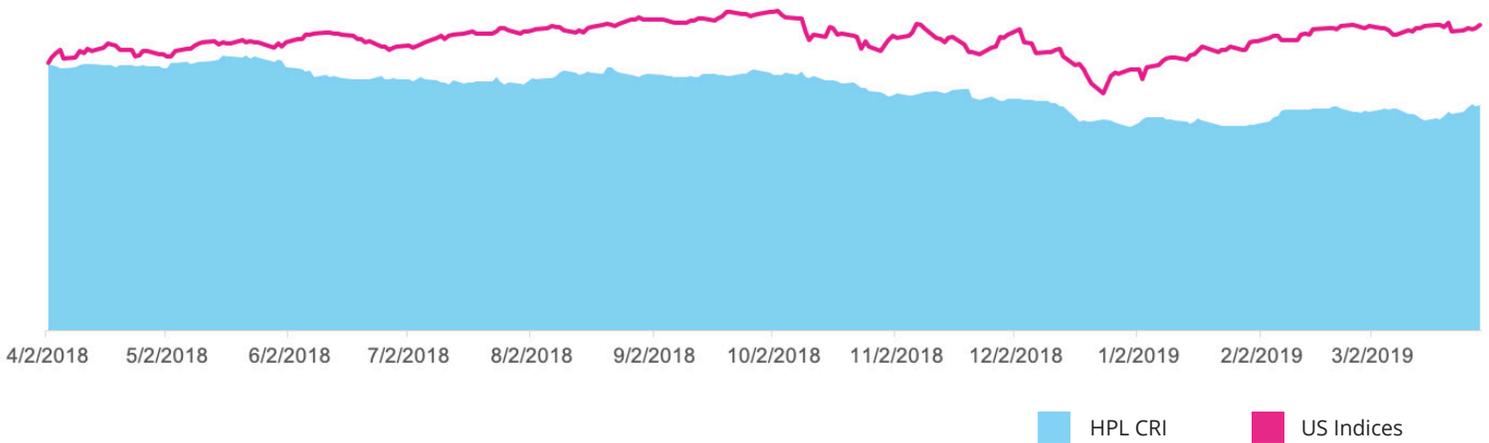
-10% avg. stock price value = **-\$11.5B** avg. market cap value



A 12 month snapshot

The research revealed that, on average, the stock price performance of companies in the CRI significantly underperformed against their peers in the Dow Jones

Industrials Average, S&P 500 Index, and Nasdaq Composite Index.



Quality trumps speed



Key takeaways



(Lack of) speed kills

Hours vs. days vs. weeks matter; when companies are slow to respond, shareholder value takes a major hit while those who respond swiftly retain more value in their stock price.



Quality over speed

Although speed is important, a poor or ineffective response will inflict far more damage on a company's stock price. A company should never sacrifice the quality and effectiveness of its response for speed. The data shows it's better to be late and good than quick and bad.



It's going to get worse before it gets better

Sweeping technology, societal and economic trends indicate that speed-of-response will continue to hamper a company's ability to protect shareholder value during a crisis.



A precarious state of affairs

There is no indication with the CRI that companies have improved at responding over time. A majority of companies still put shareholders at risk by being unprepared to deliver a timely and effective response in a crisis.

Our findings raise a number of questions. Should investors demand that companies stress test their crisis response practices? Should regulators provide oversight of those

stress tests? Do CEOs and Boards have an obligation to ensure that the company's crisis communications function is built to succeed in the digital age?

Methodology

For the purpose of this study, we focused our analysis on stock price as the key indicator of overall company performance.

By leveraging integrals of prices in our analyses, we were able to account for volatility in daily price fluctuations, and distinguish between concerted efforts by the company to raise public confidence or fluctuations that are a result of larger trends.

While we were unable to account for all possible variables, our analysis revealed clear correlations between crises and stock prices with public perception as the underlying connecting variable.

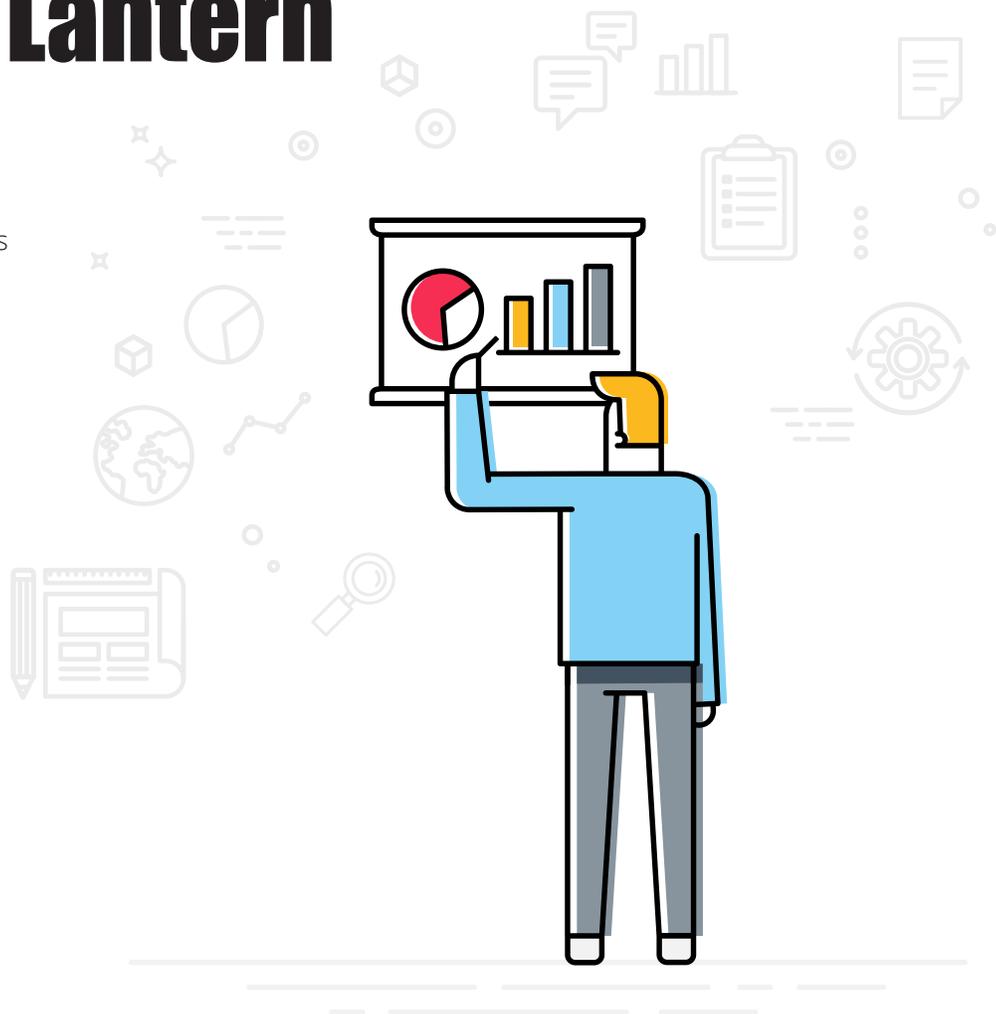
Accommodating for the economy

An increase in stock price is less meaningful if the entire economy is experiencing rapid growth or decline. To control for shifts in the broader landscape, we created an economic baseline by averaging three industry-standard indexes.

Our methodology allowed us to distinguish between a company's true performance and fluctuations in company stock price that were a result of macroeconomic trends.

About Hot Paper Lantern

Hot Paper Lantern is an integrated communications firm that specializes in helping companies build, manage and protect their brands. For more information about us, please visit www.hotpaperlantern.com.



Let's talk

Don't be shy. We won't bite.



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