Corporate Crisis Management:
Lessons from the Brink and Strategies for the Future

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My dear friends,

I am sure that you have faced crises in your working lives, and you have learned your own valuable lessons from them. Today, may I titillate your imagination by citing **two hypothetical situations**. What opinions I offer here are entirely those of my own and are not of any bank, whether hypothetical or real.

Put yourself in the position a Director of a bank just listed on the Stock Exchange with great fanfare. Your shares have been trading at an increasing premium to the IPO price, and the future seems bright. The bank's first Annual General Meeting is about to be convened. A huge crowd of shareholders fills the ballroom, waiting for the entrance of the Board of Directors. You have been waiting in the anteroom with your fellow directors for the Chairman and the Chief Executive to arrive. Fifteen minutes to go, and they have still not arrived. The relentless ticking of the clock becomes increasingly unnerving. With only five minutes to spare, the Chairman arrives, but he is alone. His face is ashen. Something is terribly wrong!

The Chairman then announces to those present in that small room, "**I have bad news for you. The Chief Executive cannot be with us today, his absence is likely to be extended. That is all the information I have at the moment, but it could have something to do with a large loan the bank had made**."

The AGM was supposed to be a celebratory occasion. Now, a pall of gloom had fallen over us. This is how crises often arrive: **suddenly, unexpectedly, and with devastating potential**. Crises never announce their coming; they simply appear, ready to test the foundations of everything you have built.

The Anatomy of a Crisis: A Case Study in Judgment

The hypothetical bank at the center of this storm was itself a new creation. It had been formed through the amalgamation of different banks, a massive undertaking that was still in its early stages. You were in the process of implementing new, unified risk management systems, and at the same time, the entire region had been grappling with the economic fallout of the SARS crisis. It was a time of great promise, but also of a time of significant underlying stress.

The crisis itself centered on a massive loan. As the details emerged, it became clear that this was not a simple case of procedural failure. In fact, the loan was granted according to the procedures and delegated authorities then applicable. The problem was far more insidious: it was a failure of judgment. The bank had not obtained sufficient information on the borrower's true net worth. It had relied on the borrower's good faith and honesty for repayment, which was supposed to come from asset injections into another company. The bank had accommodated requests not to take mortgage rights over properties, relying instead on shares as collateral, a move that exposed the bank to disproportionate credit and reputational risk for the potential rewards.

In that tense moment before the AGM, it was one of the bank's Independent Directors who provided the crucial first step. He suggested that the Chairman immediately announce the formation of a Special Investigation Committee to be chaired by the Senior Advisor and composed of the Independent Non-Executive Directors. The Special Committee would report back to the Board in three months. The Chairman made that public announcement at the AGM, a vital signal to the market and its shareholders that the bank would leave no stone unturned in getting to the bottom of the matter. The market's reaction was swift and brutal. The share price dropped the next day by nearly 30% the next day。

The Special Committee would work on all the documents and would interview many people, delving into every aspect of the loan, the decision-making process, and the corporate culture that had allowed the loan to happen. Exactly three months later, the Special Committee's Report was published in full, providing a complete account of the loan and Committee's recommendations for strengthening the bank's credit management and corporate governance.

From this crisis, a profound lesson was learnt. The key issue was not a failure of risk management systems, but a lapse in judgment by the people operating those systems. As the Special Committee's Report would have concluded, "**Systems can be put in place, but they are operated by people. So, it is essential to embed the values and principles of risk management... at the management and operational levels of the Bank**."

This crisis would teach us that procedures alone are not enough. It highlighted the critical importance of independent oversight and the need for the Board to be engaged before a situation escalates into a full-blown crisis. It would lead to fundamental structural reforms, including the elevation of the Chief Risk Officer to report directly to the CEO and the Board, and the creation of a new Chief Operating Officer role. We learn, through painful experience, that true resilience is built not just on rules and processes, but on a culture of accountability, transparency, and sound judgment. With the publication of the Special Committee's Report and the Board's endorsement of the reforms recommended, the stock price soon recovered. As the reforms took root over the years, the bank's stock price would maintain its upward trajectory, making it one of the best performing banks in Hong Kong

When Complexity is the Enemy: A Lesson from the Brink of Global Collapse

The next hypothetical lesson came a few years later, just as the world was beginning to feel the cold winds of the sub-prime mortgage crisis that would soon lead to the Global Financial Crisis of 2008. This time, it involved a global large foreign exchange portfolio most of which was in structured investments purveyed by global investment banks.

Imagine yourself as Chair of the Risk Committee of that bank but that the Committee was fortunate to have deep expertise because it had a former Chief Risk Officer of a major International Investment Bank and a former Banking Regulator from a major Western economy—all three of you were Independent Non-Executive Directors. As the market began to sour, the Risk Committee sought information from management about the structured investments in our portfolio, because they constituted the vast majority of its stated value. These were the infamous Collateralized Debt Obligations, or CDOs—incredibly complex instruments with cascading levels of seniority, hedged by credit default swaps that, as the world would later learn, all led back to a single entity in London.

The Risk Committee met with the Head of International Markets, who could only give a general description of these instruments. He could not explain in detail how they worked, or how the intricate chain of risks was transmitted to the ultimate market price. After many sessions, it became clear that the people managing the portfolio, like many others in the market at the time, did not fully understand the risks they were taking. You and the other two key expert members of the Risk Committee had to call on the Chairman to tell him, in no uncertain terms, "**If the staff cannot fully explain the instrument, the bank should sell it.**"

There would have been significant reluctance to sell the portfolio. A sale would almost certainly mean realizing a significant loss. It is a bitter pill for any management team to swallow. But the Committee insisted, intimating that this was a matter of principle, and that it could be a resignation issue for all three of its key Members. In the end, management relented. A working group was formed, and the bank began the process of divesting from these structured investments.

In the event, the bank made it just in time. Yes, there were significant losses, but the losses were far far less that the bank would have lost had it retained the portfolio. The bank was lucky, but it was a luck born of a simple, powerful principle: understand what you own. If you, as a director, or your management team cannot fully explain an investment or a strategy, you should not be in it. This experience would have taught you that independent directors must have the courage to act on principle, even to the point of resignation. It is better to accept a small, manageable loss than to risk a catastrophic one because of pride or a reluctance to admit a mistake.

A Framework for Navigating the Storm

So, what have we learned from these experiences? How can we, as directors, prepare our organizations for the inevitable storms that lie ahead? The lessons from these crises, and many others, can be distilled into a clear, five-stage framework for crisis management.

First is Preparedness and Prevention. This is the work we do before the crisis hits. It involves rigorous risk assessment to identify potential threats, detailed scenario planning to simulate your response, and the formation of a cross-functional crisis team with clearly defined roles. You must have pre-approved communication protocols ready to go, so that you are not drafting messaging from a standing start when the pressure is on.

Second is the Immediate Response. When a crisis strikes, the first few hours are critical. The guiding principle here must be transparency. You must disclose the facts as you know them, quickly and clearly, to prevent speculation and rumor from filling the void. Leadership must be visible, with senior executives addressing stakeholders directly. And you must have a clear-eyed prioritization of those stakeholders, protecting your customers, employees, and shareholders.

Third is the Communication Strategy. This runs parallel to your operational response. It requires unified messaging across all channels, from press releases to social media to investor relations. Your communication must be grounded in empathy, accountability, and full transparency. Acknowledge the harm that has been done, apologize sincerely, and clearly outline the corrective actions you are taking. Proactively engage with the media to shape the narrative, rather than letting the narrative shape you but you must never be a spin master, honesty will always be rewarded!

Fourth is Recovery and Stabilization. This is where you move from immediate damage control to long-term resolution. It involves implementing the operational fixes to address the root causes of the crisis. It means managing the financial impacts, reassuring investors, and stabilizing your share price. And it requires a concerted effort to repair your reputation and rebuild trust with your customers and the public.

Fifth, and most importantly, is Long-Term Learning and Governance. A crisis should never be wasted. It is an unparalleled opportunity for institutional strengthening. This stage involves a thorough post-crisis review to analyze what worked and what failed. It means updating your governance structures and compliance frameworks based on the lessons learned. It requires embedding a culture of crisis awareness throughout the organization, and continuously training your teams to ensure they are ready for the next challenge.

Underpinning this entire framework are three essential pillars: Speed, Transparency, and Empathy. In a crisis, you must act quickly, you must be open and honest, and you must show that you understand and care about the impact on people. Effective crisis management is not just about damage control; it is a strategic investment in resilience and reputation.

The Crises of Tomorrow: A New Convergence

These lessons from the past are more critical than ever, because the crises of tomorrow will be different. We are no longer facing isolated events. Instead, public corporations today face a convergence of interconnected crises, where a shock in one domain can trigger a cascade of failures across others.

We see this in four key areas.

First, **Geopolitical Crises**. The era of stable, predictable globalization is over. We now face a world of trade wars, tariffs, and sanctions that can destabilize global supply chains overnight. The conflicts in Ukraine, the Middle East (Iran, Palestine, Syria), the so called "Donroe Doctrine" now affecting the Americas from the Arctic in the North to the Cape of Patagonia in the South, and the ongoing rivalry between the U.S. and China create profound uncertainty in commodity prices and investor confidence, while a fragmentation of regulations across jurisdictions adds complexity and cost of compliance for every listed firm and every market.

Second, **Climate Change Crises**. This is no longer a distant threat. Extreme weather events are already damaging infrastructure and disrupting production. At the same time, we face significant transition risks, as stricter carbon regulations and ESG requirements increase compliance costs. Investors are demanding climate accountability, and a failure to act can trigger divestment and severe reputational harm.

Third, **AI-Driven Crises**. The rapid advancement of Artificial Intelligence presents a new frontier of risk. Biased algorithms, the misuse of generative AI, and a lack of transparency can spark a public backlash. An over-reliance on AI systems can lead to systemic failures if models malfunction or are manipulated. And the social impact of automation, including job displacement, can trigger labor unrest and reputational crises.

Fourth, **Cybersecurity Crises**. These are escalating in both frequency and sophistication through both State and Non-State Actors. We are seeing a rise in state-backed attacks aimed at espionage and sabotage. Hacktivists and ransomware groups are exploiting geopolitical chaos for financial gain. And the interconnected nature of our digital infrastructure means that an attack on a single point can have cascading effects across entire industries.

These risks are not independent. Geopolitical tensions amplify cyber threats. Climate disasters expose cybersecurity vulnerabilities. AI systems themselves become targets for manipulation. As directors of public corporations, we are uniquely exposed, because our shareholders, regulators, and the media demand accountability in real time.

So what is our duty in the face of this new reality? We must build resilience into our supply chains through diversification and nearshoring. We must integrate climate risk into our core governance and investor relations. We must adopt ethical AI frameworks that ensure transparency and fairness. And we must invest in advanced cybersecurity defenses and cross-border cooperation. Holistic scenario planning is no longer optional; it is an essential duty of the board.

Our Duty as Directors: Courage, Judgment, and a Commitment to Learn

In closing, the lessons from my own experiences and the challenges of the future point to a clear set of principles for us as directors. We must have the courage to understand what we govern. If you cannot explain it, you should not approve it. We must focus on embedding values, not just systems, because it is people who operate those systems. We must act with courage, willing to escalate on principle, even to the point of resignation.

We must embrace transparency, for it is the bedrock of trust and recovery. And we must learn continuously, treating every crisis as an opportunity to build a stronger, more resilient organization.

The question is not whether crises will come, but how we will respond when they do come, and they will come. Our duty as directors is to build resilient, ethical, and accountable institutions that can withstand the shocks of our time. The future depends on our willingness to learn from the past and prepare for a world of unprecedented, interconnected challenges. Let us commit ourselves to that task with the seriousness and dedication it deserves.

Thank you.

The 3rd Hong Kong Capital Markets Forum
28 January 2026