

Gerardo Mochales González

**Case Dual crisis
management challenge
at H&O**

Gerardo Mochales González

**Case Dual crisis
management challenge
at H&O**

Case Dual crisis management challenge at H&O

Gerardo Mochales González

Case Dual crisis management challenge at H&O

There is a teacher's manual intended as a pedagogical complement.
It is available to teachers who use this document as teaching material.
editorial@esic.edu

July, 2024

Case Dual crisis management challenge at H&O
Gerardo Mochales González

All rights reserved.

Any form of reproduction, distribution, communication
to the public or transformation of this work may only be performed
with authorisation from its copyright holders, unless exempt by law.

Should you need to photocopy or scan an excerpt of this work,
please contact CEDRO (www.cedro.org).

© 2024, ESIC EDITORIAL
Avda. de Valdenigrales, s/n
28223 Pozuelo de Alarcón (Madrid)
Tel.: 91 452 41 00
www.esic.edu/editorial
@EsicEditorial

ISBN: 978-84-1192-078-0

Cover design: ESIC
Layout: Santiago Díez Escribano
Printed by Gráficas Dehon

A publication of

esic
Editorial

Printed in Spain

This notebook has been printed with organic ink and sustainable paper.

X

W

D

Z

—

1. FIRST REPUTATIONAL CRISIS: CLIENTS	9
2. SECOND REPUTATIONAL CRISIS: EMPLOYEES	12
3. CASE QUESTIONS	13
APPENDIX 1: HEMINGWAY & OLD'S SYSTEMATIC PROCEDURE (SP) FOR LIQUIDITY RISK IDENTIFICATION AND PAYMENT SUSPENSION (REVISED JANUARY 2023).....	15
BIBLIOGRAPHY AND RECOMMENDED READING	17



Gerardo Mochales González

Holds a Ph.D in Economics from Universidad Complutense de Madrid and a double degree (National (National Undergraduate Award) in Economics and Business Administration from ICADE.

In addition, he completed an Executive MBA from 'Kellogg' Graduate School of Management-Northwestern University (Chicago) and later, a PDD-GMP at Harvard University (Boston).

He started his professional career at McKinsey & Company developing strategic consulting projects for various business sectors in Spain, USA, UK, Portugal and Holland. He then joined The Coca-Cola Company, where he was Marketing Director and then, Head of Marketing and Strategy (Brand Coke) at Atlanta.

Subsequently, he was appointed General Manager of Strategy, Marketing and Business Development at ACCIONA.

He is a lecturer in MBA, Executive MBA and International MBA programs and is actively involved in leading strategy projects with a strong international character.

*Original case by Professor **Gerardo Mochales** (Ph.D and MBA), developed as a basis for class discussion and not as an illustrative example of effective or ineffective management of an administrative situation. The data used in this case are based on the recreation of a hypothetical real situation of a series of fictitious companies, complemented by personal interviews with audit company managers.*

Original 1st July 2024.

Key words: crisis management, crisis management, reputational crisis, crisis communication.

Categories: corporate communication, marketing and communication, strategic marketing, strategic management.

The multinational audit firm Hemingway & Old (H&O) is one of the 'Big 5' in the provision of audit and tax advisory services for various sectors, with extensive experience in the industrial and energy sectors, sectors where national and international regulations and accounting and financial audit criteria require a high degree of specialization.

1. First reputational crisis: clients

H&O started in 2015 to audit in Spain the accounts of Solarensis, one of the leading companies in Spain in the design, manufacture and operation of photovoltaic renewable energy plants. Solarensis has just declared the suspension of payments in February 2023 due to financial problems related to its supply chain, regulatory changes and competition in the solar energy market.

Figure 1
RECREATION OF SOLARENSIS PHOTOVOLTAIC PLANT



Source: Own elaboration.

In addition to the financial challenges arising from Solarensis' suspension of payments, an additional complicating factor is revealed. During the COVID-19 pandemic, Solarensis faced significant delays in the delivery of panels from its Chinese supplier and partner, which represents a critical part of its supply chain.

These delays, caused by manufacturing and transportation disruptions due to pandemic-related restrictions and shutdowns, have negatively impacted Solarensis' ability to complete projects and generate revenue.

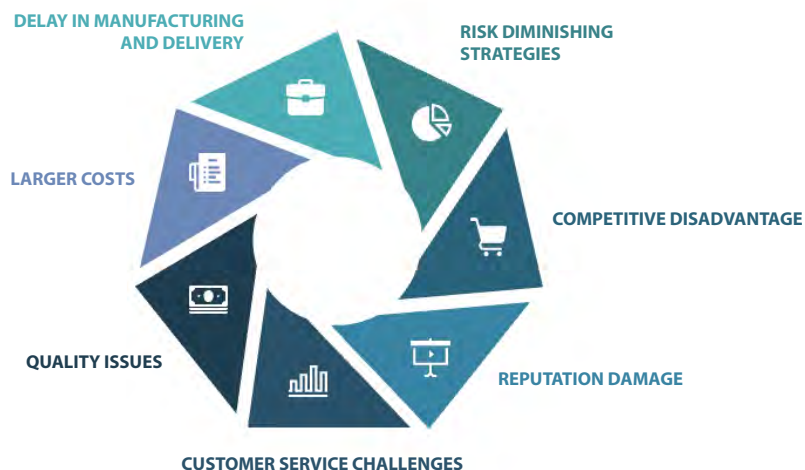
There are, therefore, several elements that need to be considered to delve deeper into the source of Solarensis' management and solvency problems:

- **Dependence on the Importation of Chinese Solar Panels:** Solarensis was heavily dependent on the importation of solar panels manufactured in China for its PV projects. These panels were essential to its ability to operate and meet contractual commitments to its customers and business partners.
- **Manufacturing and Delivery Delays:** Restrictions and shutdowns related to the COVID-19 pandemic caused significant disruptions in the manufacturing and delivery of Chinese solar panels. This resulted in delays in project completion and revenue generation for Solarensis, which in turn exacerbated its financial problems and contributed to its suspension of payments.
- **Impact on Financial Solvency:** Delays in the supply of Chinese solar panels directly affected Solarensis' ability to meet its financial obligations, including loan payments, supplier invoices and employee salaries. This additional financial pressure contributed to the company's receivership situation.

The disclosure of these elements related to the supply of Chinese solar panels adds an additional layer of complexity to the crisis facing H&O. The auditor must now explain not only how they failed to detect the warning signs of Solarensis'

financial crisis, but also how they failed to fully recognize the impact of the delays in the supply of Chinese panels on the financial stability.

Figure 2
IMPACT OF SUPPLY CHAIN INTERRUPTIONS



Source: Own elaboration.

For all these reasons, the receivership presents a significant crisis management scenario. Solarensis ranks among H&O's most prominent customers, and the company's financial situation is now under considerable scrutiny.

Stakeholders, including investors, shareholders and employees, are looking for answers and accountability, and H&O faces pressure to explain how they failed to spot the warning signs of Solarensis' financial crisis during their audits.

As a first step, the CEO of H&O Spain has just shared with its executive committee the systematic procedure (SP) just updated in January 2023 and which includes several steps of evaluation and analysis when predicting and identifying possible payment suspensions of the audited companies. By following these procedures, audit firms can effectively identify potential liquidity problems and payment suspensions, allowing them to take timely preventive and corrective measures.

A summary of the points included in the systematic procedure (SP) is described below (see Annex 1 for the extended versión):

1. Audit Planning
Risk Assessment and Review of Financial History
2. Information Gathering
Management Interviews and Review of Financial Documents
3. Analysis of Financial Indicators
Financial Ratios and Cash Flow Analysis
4. Business Continuity Assessment
Going Concern Principle Assessment and Financial Problem Indicators
5. Third Party Confirmation
Balance Circularization and Review of Contracts and Agreements