Issue: Crisis Management

Crisis Management

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Pub. Date: February 9, 2015
Access Date: April 25, 2024
DOI: 10.1177/2374556814563286
Source URL: https://businessresearcher.sagepub.com/sbr-1645-94879-2646787/20150209/crisis-management

Can businesses effectively prepare for the unpredictable?

Executive Summary

For CEOs, the world is a scary place. Growing technological complexity, the advent of an interconnected global economy in which a disaster in one region can reverberate in others, and the increased use of social media contribute to the number of crises that businesses face. How a company limits the damage is the focus of the burgeoning field of crisis management—a field that did not exist 25 years ago. Crisis managers agree that executives should plan for crises long before encountering any and strive to build an organization that is less vulnerable to them. But many note that planning will get a company only so far; the unexpected things that can go wrong are too great. Experts disagree about the importance of public communication: Does apologizing for a mistake help? It can, but only to a degree. As one expert put it, when a crisis hits, CEOs "pretty much have to accept that you're going to lose," at least in the short run.

Overview

General Motors CEO Mary Barra, left, arrives on Capitol Hill in June 2014 for a congressional hearing about GM's investigation into deadly safety problems. How an executive addresses a crisis can have lasting effects on a company's reputation and financial results. (Mark Wilson/Getty Images)

From corporate CEOs to heads of government agencies and nonprofit groups, leaders whose organizations face a crisis can't escape critiques of how they react under fire.

Mary Barra, who became CEO of General Motors (GM) in January 2014, has received a fair amount of praise for her handling of a crisis emanating from faulty ignition switches—even though the problem led to more than 50 deaths, the recalls of millions of vehicles and accusations of a high-level, years-long cover-up at the Detroit automaker. Under Barra's leadership, GM is "effectively writing a new book by setting higher industry standards for future recalls by automakers," said Philip Elwood, vice president of the Washington, D.C.-based crisis management firm Levick. [1]

Longtime National Football League (NFL) Commissioner Roger Goodell, meanwhile, has received mostly brickbats for his attempts to quell public outrage over domestic-abuse allegations involving several NFL players and the blind eye that the NFL seemingly turned to those incidents. When Goodell attempted to manage his league's growing crisis at a press conference, his inept answers to reporters' questions actually inflicted "more damage" on the league instead, said Levick senior strategist Gene Grabowski. [2]

And in Hollywood, where hackers allegedly linked to North Korea broke into computers at Sony Pictures Entertainment, Amy Pascal, the company co-chair, left her job in February 2015. Her private emails released two months earlier included racial jokes about President Obama. [3]

A business crisis is loosely defined as an unforeseen event that threatens an organization's ability to operate, carry out its mission or remain profitable—generally because the reactions of customers, shareholders or other stakeholders result in lost sales, a declining stock price, lawsuits, increased regulatory scrutiny and, usually, negative media coverage. External triggers can range from a hurricane that shuts down a key manufacturing plant to an advocacy group's protests over worker pay and factory conditions. Internal causes also run the gamut, from a manager's financial misconduct to a flawed production process that allows toxic food onto the market.

While businesses have faced crises as long as business has existed, "crisis management" as a specific activity and a profession arose only in the past few decades. The reasons for that emergence are unclear. However, many experts cite the growth of a 24/7 news cycle, which has brought ever greater public exposure to scandals, failures and danger, along with a strong push by the public relations industry over the past three decades for businesses to proactively manage public perceptions.

No question—businesses today face daunting challenges. Increased technological complexity; a global economy in which a disaster in one region has repercussions in others; social media that can spread both facts and unsubstantiated rumors worldwide in seconds; and a growing commitment by advocacy groups to confront businesses over claimed social, consumer and environmental harms all contribute to increasing the number of sticky situations that businesses must navigate, analysts say.

Very complex technology, such as nuclear power plants or massive computer systems, are subject to cascades of often unpredictable errors that can bring down huge systems on which a business—and sometimes millions of its customers—depend, says Matthew Seeger, a professor of communication at Wayne State University in Detroit. "The world actually is becoming a scarier place," he says.

While any organization can find itself in crisis, some industries are more at risk than others, notes Clarke Caywood, a professor of integrated marketing communications at Northwestern University's Medill School of Journalism in Evanston, Ill. The most at-risk include "anybody who makes something that people ingest, anything that moves" such as cars or airplanes, "and anything that has water

National Football League Commissioner Roger Goodell addresses the media in October 2014 in the wake of a string of high-profile incidents, including a domestic violence case involving player Ray Rice. Goodell has been criticized for his handling of the league's crisis. (Andrew Burton/Getty Images)

associated with it" because water can flow and spread harm. Problems in such businesses are most likely to harm or kill individual people, and incidents of individual harm draw the levels of public attention that can quickly turn a problem into a crisis, he suggests.

Moreover, "when a crisis reaches a certain magnitude and gets public attention and media attention, at that point you will be judged not only on what originally caused the crisis but on how you have handled it," creating the kind of "reputational crisis" that GM and the NFL have faced recently, says Daniel Diermeier, a professor of public administration at the University of Chicago's Harris School of Public Policy.

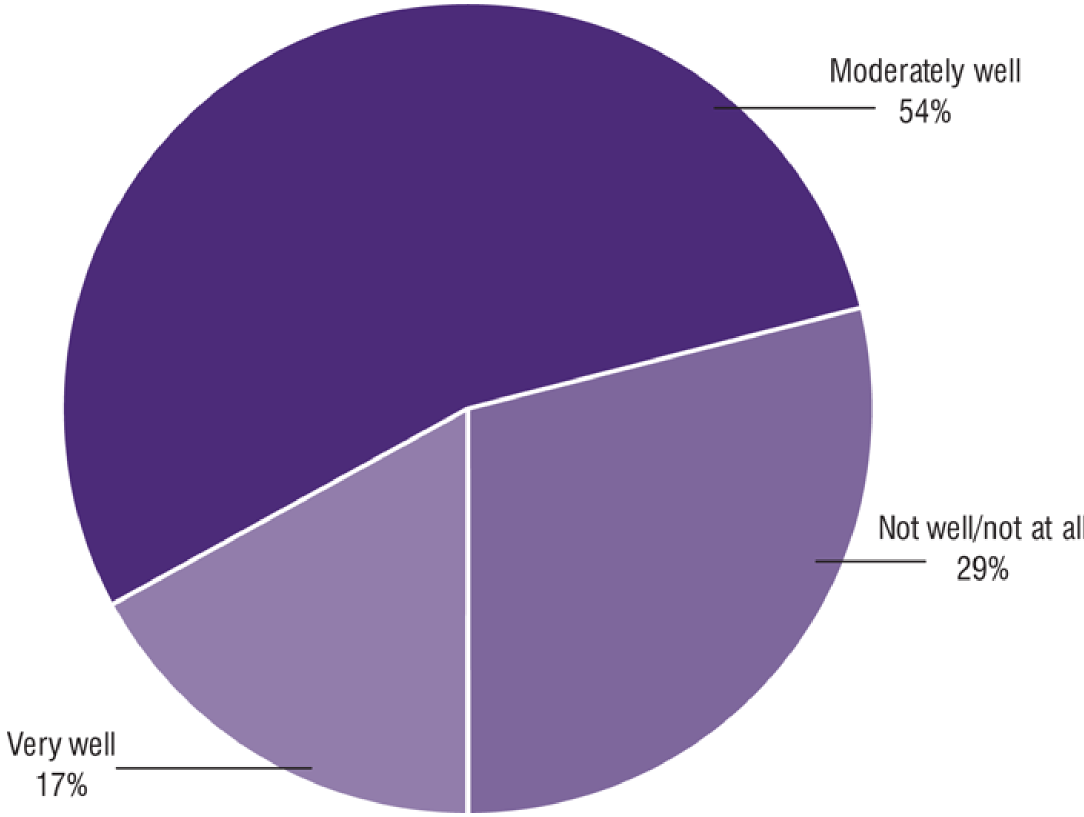
Crisis management as a professional field has existed for only about the last quarter century. It was created mainly as an offshoot of the public-relations industry after several high-profile organizational crises in the 1970s and '80s caught the attention of an increasingly around-the-clock media world and alerted businesses to dangers they might face if their problems made the

When it comes to broad principles, at least, professional crisis managers offer surprisingly congruent ideas. They largely agree that top executives should think seriously about crises long before encountering one—leaders should both draw up a basic plan for how the business will manage crises and strive to build an organization that is less vulnerable to them. For example, one way to limit vulnerability to crisis is to continually monitor the quality of one's operations, says Northwestern's Caywood. If small problems go unnoticed at a manufacturing plant until they lead to product flaws, "you don't want customers or government regulators noticing it before you do," he says.

Jonathan Bernstein, president of Monrovia, Calif.-based Bernstein Crisis Management, likens the task to firefighting: "The people who save organizations the most money are fire inspectors. They save billions. But they don't get the glory," he says. "It's the same thing with crisis management. We're the fire inspectors. Unfortunately, lots of people in the field have only been crisis responders. In fact, they're what the public usually sees of crisis management, and it's missing the most important part."

Directors Say Boards Understand Crisis Response Plans

Directors: How well does your board of directors understand your crisis communications response plan?



Source: "PwC's Annual Corporate Directors Survey," PricewaterhouseCoopers, 2013, p. 24, http://tinyurl.com/l9kffqq

According to a survey, 71 percent of corporate directors believe their boards understand company crisis communications response plans "moderately well" or "very well," while 29 percent say their boards do not sufficiently understand the plans.

One increasingly common tactic intended to armor businesses against external attacks—corporate social responsibility (CSR) programs—occasions more debate. In the CSR trend that's strengthened over the past two decades, companies attempt to build a reputation for philanthropy and a commitment to social causes as a hedge against public backlash in a crisis. Especially since the late 1990s, many companies have developed such programs, but experts disagree about their effectiveness as reputation protection. (See Short Article, "The Age of Private Politics?")

For example, a study asked consumers to evaluate a crisis scenario involving a fictitious company. The researchers, led by Chicago's Diermeier, found that "previous virtuous acts," such as funding cancer research, got a company only so far if trouble struck. A reputation for such general social responsibility bought some initial goodwill from consumers as long as the business's leaders hadn't yet made any public statements about the crisis. But once executives made comments that consumers viewed as defensive, the study participants gave the company negative marks, no matter how philanthropic its reputation, Diermeier said. [4]

Experts also debate what can be accomplished through public communication about a crisis and by a company owning up to its problems.

"If a company says, genuinely, [to people who have been harmed], 'You're right. This was happening and we commit to never doing this again,'" that response "can be just as powerful for putting an organization in a positive light as the egregious act was at putting it in a negative light," argues Erika James, a professor of organization and management at Emory University's Goizueta Business School in Atlanta.

James cites as an example the Spartanburg, S.C.-based Denny's restaurant chain, which responded to several racial-discrimination lawsuits brought against it in the 1990s by acknowledging its mistakes and overhauling its systems, including its employee-recruitment and training programs, to focus on diversity. In the 2000s, Denny's has won kudos from Forbes and Black Enterprise magazines as a minority-friendly business.

While apologies aren't necessarily a bad idea, executives should not expect an apology to get their company off the hook, says Eric Dezenhall, CEO of Washington, D.C.-based crisis management firm Dezenhall Resources, who has been an adjunct faculty member at Georgetown University's McDonough School of Business. "My students love apologies. They say, 'If Nixon had apologized then everything would have been OK.' This takes my breath away; he'd have been run out of town that day."

Social media complicates crisis managers' tasks: It "spreads news faster and also documents it," says William "Rick" Crandall, a professor of management at the University of North Carolina, Pembroke. "What can be unfortunate is that the two sides of a story don't come out together" in the social-media age as they were more likely to when most stories were initially reported by journalists, Crandall says. One side—usually but not always that of an individual victim—may easily become accepted truth before the other side is even heard from, and "people make their minds up based on just that one aspect of a situation," he says.

All in all, though, taking the long view of crisis and crisis management allows for a relatively optimistic conclusion about what executives can expect when disaster comes knocking, according to Dezenhall.

"In the short term in crisis management, you pretty much have to accept that you're going to lose," he says. When news of a crisis breaks, public and media outrage run high, lawsuits are sometimes filed, investors may dump stock and congressional investigators can come calling. But eventually, Dezenhall says, "most organizations do recover."

Surveying a world in which a crisis might lurk around any corner, managers are dealing with several questions:

Weighing the Issues

Can top managers effectively position an organization before a crisis hits?

It's conventional wisdom that no leader should wait until a crisis strikes to plan for managing it. The devil is in the details, though, and many specialists point out that neither planning a crisis response in advance nor cultivating a solid overall reputation guarantees a successful outcome.

Crisis-vulnerability assessments help managers foresee troubles that could be ahead, says Crandall of UNC, Pembroke. He recommends doing a traditional business analysis identifying strengths, weaknesses, opportunities and threats—known as SWOT—to uncover unrecognized risks. "Don't skip any of the four," he says.

"Even a strength can turn into a crisis," says Crandall. "A strong, charismatic leader" might lead a company successfully for years but become a liability when, "later in a career, the person gets a kind of godlike following that leads people to overlook risky behavior they might otherwise question."

In the 1990s, for example, after winning plaudits for his aggressive merger-and-acquisitions strategy, then-CEO and now convicted felon Dennis Kozlowski dragged his diversified holding and investment conglomerate, Tyco International, into scandal when he was accused of skimming off millions in unauthorized payments from the company. [5]

Fast growth is another strength with crisis-causing potential, Crandall says. "Some organizations can't cope with the rate of their growth, and quality problems ensue or people rise to management positions who shouldn't really be there."

In 2010, for example, Akio Toyoda, president and CEO of Japan's Toyota Motor Corp., blamed the company's rapid growth for a rash of safety problems. [6]

Maintaining a steady focus on ethical standards and product quality in all company activities can help avoid some crises, many analysts say.

Northwestern's Caywood says that Ford Motor Co. may have experienced fewer flawed-product crises than General Motors, especially in the 1980s, because Ford had adopted "total quality management." This management strategy stressed continual improvement of products and processes, a strategy it began using in the 1980s shortly after a rush in the '70s to develop a cheap subcompact to compete with imported autos resulted in severe safety problems with that car, the ill-fated Ford Pinto. [7]

It's a "hard truth" that an external misfortune seldom is the trigger of a business crisis, says the University of Chicago's Diermeier. Rather, most crises are a "direct consequence of company actions" taken with too little consideration of their risks, he said. That makes it vital for all decision-makers in an organization to view themselves as "stewards of the company's reputation," examining every decision with an eye to its potential for triggering problems with customers, investors, regulators or the public, Diermeier wrote. [8]

The lack of such consideration has led to high-profile corporate disasters, such as the 2007 recall of Thomas the Tank Engine toys. That setback triggered a two-thirds drop in the stock price of Oak Brook, Ill.-based RC2 Corp. after the company was found to have sold Chinese-made toys contaminated with lead. [9]

Research on the disaster communications of the U.S. Geological Survey, the government agency that must warn the public about earthquake risks, and other organizations demonstrates that public trust in what a company or agency says in times of crisis "must be built in advance of a crisis," says Timothy Sellnow, a professor of communication at the University of Kentucky in Lexington.

For business, that finding translates into a recommendation to "move quickly and efficiently to communicate with customers about minor product recalls,” to “demonstrate that the company's primary objective is customers' safety” even in small things, Sellnow says. Establishing such a reputation during everyday operations “builds trust if a situation that's more dangerous happens down the road.”

One recent academic study suggests that effective marketing can establish enough consumer goodwill to sustain a company during a crisis. A January 2014 paper by economists from the University of Maryland, University of Michigan and Brown University examined the public response to BP after the massive 2010 oil spill in the Gulf of Mexico caused by the explosion of the Deepwater Horizon offshore oil-drilling rig, then being leased to the London-based petrochemical company. [10]

Fire boats battle the blaze on the Deepwater Horizon offshore oil-drilling rig in the Gulf of Mexico on April 21, 2010. Eleven people died and millions of barrels of oil spilled. (U.S. Coast Guard)

Beginning in 2000, a decade before the spill, BP conducted a years-long “green advertising” campaign dubbed “Beyond Petroleum.” The economists found evidence that BP's efforts to build a green reputation through the ad campaign “significantly softened the impact of the spill on BP retail margins,” as well as on the amount of market share lost by BP gas stations in places where the company had spent the most money running green ads. [11]

But while managerial focus on reputation building and crisis planning can help when disaster strikes, such efforts wrongly focused can waste energy and give a misguided sense of security, some analysts say.

“Overplanning is basically an opiate,” says D.C.-based crisis manager Dezenhall. “If you're a petrochemical company, and you have a leak, who do you call for help? Write that down. Detailed plans almost always go out the window” in an actual incident anyway, he says. “Plan for the likely. Don't sit down and think of 72 things that could go wrong. Think of three that are likely to go wrong.”

Is honest and open communication the best policy in a crisis?

Telling the truth, and telling it soon, is a crisis strategy many experts recommend. They caution, however, that it's all too easy to confuse false reassurances with open communication and to view talk as a way to solve a crisis, when only actions can actually do so.

Academic research on disaster communications, mostly by public agencies, has debunked some “myths of crisis” that lead to faulty communication practices, says Seeger of Wayne State. Notably, research demonstrates that “people don't panic” in the face of disturbing facts but instead “respond rationally based on whatever information they have,” a finding that demolishes a commonly heard excuse for silence, he says.

Research on Twitter use during crises such as earthquakes and water-supply contamination shows that people want clear instructions with explanations of a situation and, especially, tips on how to protect themselves, says the University of Kentucky's Sellnow. Twitter users mainly retweet “whatever information they can get from sources that seem most reliable,” he says. “I'm convinced that we need to have confidence in people, that when they're given information, they will use it to make wise decisions.”

Executives hoping to lessen the negative consequences of a crisis by keeping mum are doomed to disappointment, according to

Chicago's Diermeier. In studies gauging consumers' reactions to hypothetical situations, companies that were silent in the face of bad news or allegations scored as poorly as those that responded defensively, such as by pooh-poohing allegations. Only an organization's “engaged” response—expressing concern about the situation, empathy toward people harmed and commitment to investigating the problem—drew a positive response, he said. [12]

A case in point, Diermeier wrote, was Southwest Airlines' response after a December 2005 accident at Chicago's Midway International Airport, when a jetliner slid off a runway during a snowstorm into a roadway and killed a 6-year-old boy riding in a car. The airline quickly set up an information hotline and Web page, and CEO Gary Kelly repeatedly expressed concern for the dead child and his family and stressed the company's dedication “to [pinpointing] the cause … of this accident and making any necessary corrections.” In the aftermath, Southwest's “stock price never faltered,” and public opinion of the airline's response remained “overwhelmingly positive.” [13]

When Minnesota's Department of Health informed Marshall, Minn.-based Schwan's Food Co. in October 1994 that dozens of salmonella infections were likely tied to the company's ice cream, President Alfred Schwan provided a communication model that others have followed, says Robert Ulmer, a professor of crisis communication at the Greenspun College of Urban Affairs at the University of Nevada, Las Vegas. Schwan's quickly and publicly shut down production; recalled all its ice-cream products, which were sold nationwide; set up a telephone information hotline; offered to reimburse worried customers who wanted to get salmonella testing from their physicians and announced new safety measures in line with the health department's findings. [14]

“They knew that a class-action lawsuit was coming, but they knew that they couldn't control that. So they concentrated on what they could control—their own response,” Ulmer says. The company recovered quickly, keeping most customers and continuing to expand soon after the incident, he says.

The three key statements for winning public trust, according to Ulmer: “This is what we know. This is what we don't know. This is what we're trying to find out.” Communication in the heat of a crisis “should always have this uncertainty in it,” because crisis is uncertain, he says. A typical mistake is to minimize problems in the interest of projecting a sense of control, Ulmer says. “People think they should say, ‘It's OK. It's no big deal,’” but there's good evidence that audiences don't buy such statements.

Nevertheless, it's action, not communication, that ultimately clears away the problems that trigger most crises, some crisis managers point out.

After the Denny's restaurant chain was accused of widespread racial discrimination in the 1990s, the company's decision to overhaul its corporate policies on diversity made the big difference, not the initial apology it made, notes Emory's James.

“At the end of the day, the only way to really address the problem is to address the problem,” she says.

Ever since March 1989, when the tanker Exxon Valdez ran into a reef on the Alaskan coast, spilling about 11 million gallons of oil, Exxon Corp. retains a reputation for particularly bad crisis management. [15] “In general, Exxon is known as a failure, as a profound failure in crisis communication,” said Wayne State's Seeger. “Obviously, the company survived, and it's profitable,” he said. “But its reputation and its image will be forever linked to the Valdez oil spill.” [16]

Dezenhall, however, argues that the common practice of judging companies as failures at crisis response based on their communications misses the point, because in most cases, the cause of a crisis is not something that was said but something that was done. As with most crises, “the PR war was over” just weeks after the Valdez spill, and “Exxon realized this.”

Because the company quickly stopped talking about the disaster, “I defy you to find anybody that will say Exxon did anything good,” Dezenhall says. “And this is not to say that they didn't do anything wrong.” Shortly after the spill, Exxon began preventive actions such as investing in double-hulled ships, he says. “And I ask you: What's more ethical? Do PR and say that you're doing the right thing? Or just start doing the right thing?”

Have social media changed the nature of crises and crisis management?

Social media can speed up the rate at which crises develop and spread news of them globally within minutes, but the changes are matters of degree, not kind, say some analysts. Others disagree. They say that, unlike older communication channels, social media not only give individuals greater opportunity to trigger crises but also make some standard crisis management approaches impossible.

“The principles of today's crisis communications are the same as those of the past,” although the tactics required differ somewhat, said Ann Marie van den Hurk, a North Carolina-based public-relations consultant. [17]

Despite fears to the contrary, most social-media flare-ups remain “headaches or warning flags” for organizations, even when they go viral, and they seldom rise to the crisis level, van den Hurk argued. [18]

She cites a 2008 incident in which an ad for the over-the-counter pain medication Motrin offended customers by implying that women might wear baby-carrier slings as a fashion statement. Many women took to social media, including Facebook, Twitter and YouTube, to call for a boycott. But while the anger went viral across social-media platforms, “people didn't stop buying [manufacturer McNeil Consumer Healthcare's] products en masse.

A worker cleans up after oil washed ashore at Alaska's Prince William Sound in 1989. Exxon is known as a “profound failure in crisis communication” for its response to the Exxon Valdez spill, according to Matthew Seeger, a professor of communication at Wayne State University. (Exxon Valdez Oil Spill Trustee Council)

… Their market shares didn't drop,” van den Hurk said. “A situation typically doesn't become serious unless it crosses over to other channels, such as the news media.” [19]

Businesses do need to learn social-media techniques, she added. They must recognize that “social media is a two-way conversation. People now expect to be heard and get a response from you.” [20]

A recent legal case in which a Northern Virginia-based rug-cleaning company, Hadeed Carpet Cleaning, sued the social-media business-reviewing site Yelp for defamation reinforces the principle that honest communication and fair treatment of customers is the best policy, even in the social-media world, said crisis manager Bernstein. [21]

In its suit, Hadeed argued that seven negative pseudonymous Yelp reviews of its services were false and that an investigation turned up no evidence that the reviewers had ever been customers. The rug-cleaning firm prevailed in the suit and again on appeal. The rulings, said Bernstein, hold “a couple of implications” for crisis management, underscoring the necessity for businesses to be honest in their own social-media use. “You absolutely must not ‘stuff the ballot box’ by leaving good reviews of your own organization under false accounts” or bad reviews of competitors, he said. “This was always unethical, but now the possibility of being caught, unmasked and facing legal action is very much a reality.” [22]

Other crisis experts say that social media and the Internet have changed the nature of crises and crisis management by making it harder for organizations to tell their side of the story.

The biggest change has been shifting the balance of power away from large organizations and toward aggrieved individuals, wrote Louis Capozzi, president of the industry group Public Relations Society of America Foundation. Before social media, a business could get its story out through the news media without facing a strong public response for hours or even days. With social media, “the period of response is reduced to the minutes … it takes a blogger to post an opposition piece or even the seconds it takes for a consumer to compose a 140-character tweet,” he wrote. “The social media user now has the upper hand.” [23]

Some analysts point out that social-media campaigns initiated by businesses themselves seem to go awry more easily than marketing communications in other media.

In October 2013, the United Kingdom-based utility British Gas took to Twitter—using the hashtag #AskBG—to answer questions about an imminent 9.2 percent rate hike that would raise heating costs for 7.8 million consumers by an average 120 pounds a year ($193 U.S.).

But misunderstanding the way social media work tripped the company up, wrote Dominic Cockram, founder of the U.K.-based crisis management firm Steelhenge Consulting. By inviting responses on the same day that higher rates were announced, rather than waiting for the initial shock to wear off, the utility's "hashtag was a gift for those affected to vent their anger," he said. "Within minutes, the … account was flooded with sarcastic, abusive and reputationally damaging tweets … quickly picked up by national newspapers." Tweeted one man: "Which items of furniture do you, in your humble opinion, think people should burn this winter?" [24]

Background

Crisis Management Begins

As long as there has been business, there have been business crises—high-impact events that threaten organizations' ability to continue in operation and to thrive.

Historically, external events that spelled an end—or at least a near-death experience—for companies have run the gamut from an aphid infestation that brought down much of the French wine industry in the mid-19th century to the automobile's invention, which spelled doom for some carriage makers and—at least so the saying goes—buggy whip manufacturers. Many organizations have also faced crises largely brought on by internal problems, such as unethical behavior or poor managerial decisions. For example, the Triangle Waist Co.—a women's blouse manufacturer in Manhattan—went out of business in 1918 after a factory exit door kept locked to prevent theft trapped workers in a shop-floor fire, killing 146 of them, mostly young women. [25]

But if crises have been around forever, the professional field of crisis management is relatively new.

Crisis management as a field of endeavor grew out of public relations, which emerged as a profession around the turn of the 20th century, says Wayne State University's Seeger. One of the first PR professionals to specialize in managing crisis-level problems was Ivy Lee, a reporter turned publicity manager born in 1877, whose stated philosophy for crisis management remains influential even today.

In 1906, Lee sent newspaper editors a "Declaration of Principles" for his New York City-based PR firm. "Our plan is, frankly and openly, on behalf of business concerns and public institutions, to supply to the press and public … prompt and accurate information concerning subjects which it is of value and interest to the public to know about," he wrote. [26]

Later that year, Lee put his principles into action in a high-profile job: helping the Pennsylvania Railroad manage negative publicity from a derailment in New Jersey that killed 53 people when a train plunged off a drawbridge. In a groundbreaking move, Lee persuaded the company not only to quickly disseminate details to the press but also to ferry reporters to the scene on a special train.

In 1908, the journalism trade publication Editor & Publisher approvingly described Lee's work as "never sensational, never libelous, always trustworthy." [27]

The press and public's approval of Lee dimmed somewhat a few years later, though, when he took on the job of redeeming the reputation of coal-mining companies owned by the wealthy Rockefeller family. In April 1914—in the eighth month of a bitter mining strike—the Colorado National Guard and guards employed by Rockefeller-owned Colorado Fuel & Iron Co. machine-gunned and eventually set alight a tent city in which more than 1,000 mining families lived. Two women and 11 children died. [28]

Hired by the Rockefellers to manage perceptions of the event, Lee distributed 19 reports to newspaper editors and other influential citizens laying out the facts of the incident as mine owners saw them. His work is credited with improving the Rockefeller image, but it brought accusations that he had abandoned his early principles concerning openness and honesty.

"The chief trouble with Ivy Lee is his disposition to wander from the fireside of truth," complained the San Francisco Star newspaper. "Testimony given before the Federal Commission on Industrial Relations—even that given by some of the mine owners—showed that Lee twisted facts, and invented some that he couldn't find outside of his imagination." [29]

In the early days of commercial aviation, "it was the job of every PR person who worked for an airline … to carry a bucket of white paint and a brush in his car at all times," wrote Los Angeles-based crisis manager Steven Fink. "In the event of a plane crash, that person's job was to rush to the accident scene and paint out the name of the airline before the news photographers showed up. This from the 'out of sight, out of mind' school of crisis management." [30]

Headline Crises

In the 20th century's second half, the challenges for public-relations professionals only grew.

In 1965, a book on automobile safety by 31-year-old Harvard-trained lawyer Ralph Nader—"Unsafe at Any Speed: The Designed-In Dangers of the American Automobile"—pushed consumer advocacy onto the list of business risks. Nader's book also led to a textbook example of poor crisis management by one of its subjects, Detroit-based GM. [31]

Nader alleged that the American auto industry designed cars to be stylish but cut corners on safety by failing to install relatively low-cost safety devices. A key example, he said, was GM's subcompact Chevrolet Corvair: The company's penny-pinching failure to use an inexpensive stabilization device helped lead to a number of accidents in which the car flipped over. [32]

In response, GM went on the attack, hiring investigators to comb Nader's history in hopes of discrediting him. But its attempt at crisis management backfired when Nader discovered the surveillance, complained that the company was harassing him and sued. The harassment complaint drew more public and congressional attention to his industry criticism than his book had done. [33]

In 1966, Congress passed two car safety bills authorizing federal regulation of the auto industry. GM settled the harassment lawsuit for $425,000, which Nader used to set up consumer-advocacy and investigative groups, including his Center for Auto Safety. [34]

Along with environmentalism—another product of the 1960s—consumer activism soon became a potentially crisis-triggering force “that organizations would ignore at their peril,” wrote Magnus Carter, a crisis manager based in the United Kingdom. [35]

Two high-profile incidents that dominated headlines for weeks in the late 1970s and early 1980s proved to be even sterner tests for crisis managers.

On March 28, 1979, one of two nuclear reactors at the Three Mile Island power plant south of Harrisburg, Pa., suffered a partial meltdown. The most serious nuclear accident in the history of the U.S. commercial power industry riveted public attention and provided a “side-by-side comparison of … good and bad crisis management,” wrote Los Angeles-based Fink. [36]

The plant's then-operator, Reading, Pa.-based Metropolitan Edison, badly erred when it made “the most reassuring statements it could” in the early going about the accident's seriousness, said Peter Sandman, a risk communications consultant from Brooklyn, N.Y. “This violated a cardinal rule of crisis communication. … Make your first communication sufficiently cautious” that later bulletins aren't forced to carry the insecurity-arousing message: ‘It's worse than we thought.'” [37]

The Pennsylvania Department of Health, by contrast, “adopted an appropriately cautious approach,” when it repeatedly warned people not to drink possibly contaminated local milk until the state completed a lengthy series of tests. As a result, “by the time the Health Department declared the milk safe to drink, virtually everyone believed it,” Sandman said. [38]

Another high-profile crisis in autumn 1982—the so-called Tylenol murders—“triggered the growth of crisis management as an industry, although it took a decade or so afterward to really gain momentum,” says Timothy Coombs, a professor of communication at the University of Central Florida in Orlando.

On Sept. 29, 1982, a 12-year-old Illinois girl died after taking two Extra-Strength Tylenols. Within days of her death, six more people in the Chicago area died after taking the over-the-counter pain reliever, manufactured by New Jersey-based Johnson & Johnson. Nationwide panic ensued, and drugstores quickly removed Tylenol from their shelves. Police investigators found lethal doses of potassium cyanide in Tylenol capsules in the victims' homes. But after discovering that the pill bottles came from different production facilities, investigators concluded that an unknown killer, rather than anything or anyone inside Johnson & Johnson's plants, was likely responsible for the poisonings. [39] (The killer has never been found.)

Marketing experts predicted that the Tylenol brand—Johnson & Johnson's top-selling product—would never recover. But CEO James Burke hired the New York City-based public-relations firm Burson-Marsteller, which was carving out a niche in crisis management, and undertook an aggressive campaign to save Tylenol. The effort included a virtually unprecedented nationwide recall of Tylenol capsules, an offer to replace consumers' pills with new ones in safer, tablet form, at a cost of more than $100 million, and a quick introduction of tamper-resistant packaging. [40]

Gloomy predictions to the contrary, recovery was quick. Johnson & Johnson's stock price bounced back in two months, and a year after the deaths Tylenol had regained most of its market share. [41] Johnson & Johnson's and Burson-Marsteller's handling of the incident was soon declared a model of crisis management, and the reputation persisted. “James Burke's response to the Tylenol murders in 1982 remains the gold standard in crisis control,” wrote a Fortune magazine reporter in 2007. [42]

Not all analysts are equally impressed. The company should not be credited for ordering an immediate product recall, for one thing, “since they didn't do it until Walgreens and CVS were already pulling it off their shelves,” says Washington-based crisis manager Dezenhall. “The reason the Tylenol case became known as the top example is really because the PR industry put on a road show” using the case to demonstrate the value of crisis management.

Crises Abounding?

Partly due to an accelerating, Internet-fueled news cycle, business crises and their management “just became much more visible” in the 1990s, says Crandall. Interest in crisis management services grew as managers “learned about what's happened to other companies.”

Some experts theorize that the actual number of crisis-level events has increased over time.

Partly based on the Three Mile Island accident, Charles Perrow, a professor emeritus of sociology at Yale University in New Haven, Conn., devised “normal accident theory”—the idea that the complex systems running the contemporary world are inevitably prone to unexpected

Drugstore clerk removes Tylenol capsules from the shelves of a New York pharmacy on Sept. 30, 1982, following seven deaths in Chicago. Crisis communications experts praised the quick response from manufacturer Johnson & Johnson. (Yvonne Hemsey/Getty Images)

and uncontrollable accidents, as individual failures interact in unpredictable ways. Crisis, in other words, has become normal. [43]

Over the past two and a half decades a fast-paced move to economic globalization has also increased businesses' vulnerability to crisis, Crandall says. As supply chains become international, hurricanes and other disasters can precipitate business crises thousands of miles away. That increases the need for careful planning, he says. “If you source products in Asia,” for example, “how do you choose a backup supplier that won't be affected by the same earthquake that could shut your main supplier's factory?”

Computer connectivity has also mushroomed to become a common crisis trigger. Massive amounts of personal and organizational data are vulnerable to theft, and malicious hacks or simple computer glitches can shut down nationwide or worldwide systems, from airline ticket sales to air traffic control.

Stories of data breaches that release the personal and financial information of tens of millions of consumers have become frequent. Most such leaks threaten at least short-term crises for companies, knocking down sales and generating alarmed headlines, but the duration and the severity of such bad effects are hard to predict.

In the immediate aftermath of retailer Target's mid-December 2013 announcement that a data breach had compromised information about 110 million customers, the chain experienced a 5.5 percent drop in transactions in its stores, which analysts blamed partly on consumer distrust following the information leak and partly on severe weather. A contemporaneous survey of Minnesota consumers found that 5 percent said they would stop shopping at Target because of the breach. [44] Target's share price—which had struggled throughout 2013—fell only slightly after the breach revelation, however. [45]

Some business analysts believe the public may be growing blasé about data leaks, making them less likely to trigger crisis-level problems. When home-improvement retailer Home Depot announced in September 2014 that a data breach had leaked information for 56 million customers, a prominent consumer-opinion survey found that the company's image suffered far less in the aftermath than Target's image had the previous year. On a scale of favorability running from 100 (most positive) to −100 (most negative), Target's rating quickly dropped from 20 to −29 after its 2013 data leak, while Home Depot's dropped only from 22 to 6—never plummeting into negative territory—and had recovered to 17 less than a month later. [46]

As data breaches become familiar news, consumers whose 2013 response was highly negative might respond in 2015 that “I heard this story once before … and the second time around it's just a little less interesting,” suggested Ted Marzilli, CEO of the survey company YouGov BrandIndex. [47]

At Sony, where hackers accessed and released personal information and emails as well as damaging company computer networks, the alleged connection to North Korea complicated matters. The company initially announced that it would not release the movie “The Interview,” a comedy about a plot to kill North Korean leader Kim Jon-un, because some movie theaters were refusing to show it for safety reasons. However, that move also brought a storm of criticism. Sony changed course and released the movie online and in a limited number of theaters. [48]

Months later, the company was still tallying its losses. In a preliminary report on its earnings for the quarter, Sony estimated the hack would cost it $15 million. However, the company also cautioned that it was able to report only a forecast for the hack cost and for movie division earnings, not actual results, because of the "serious disruption of its network and IT infrastructure." [49]

Workers remove a poster for "The Interview" from a billboard in Hollywood, Calif., on Dec. 18, 2014, after Sony canceled the release of the film. The next week, the company reversed itself and put the comedy out in limited release. (Michael Thurston/AFP/Getty Images)

Current Situation

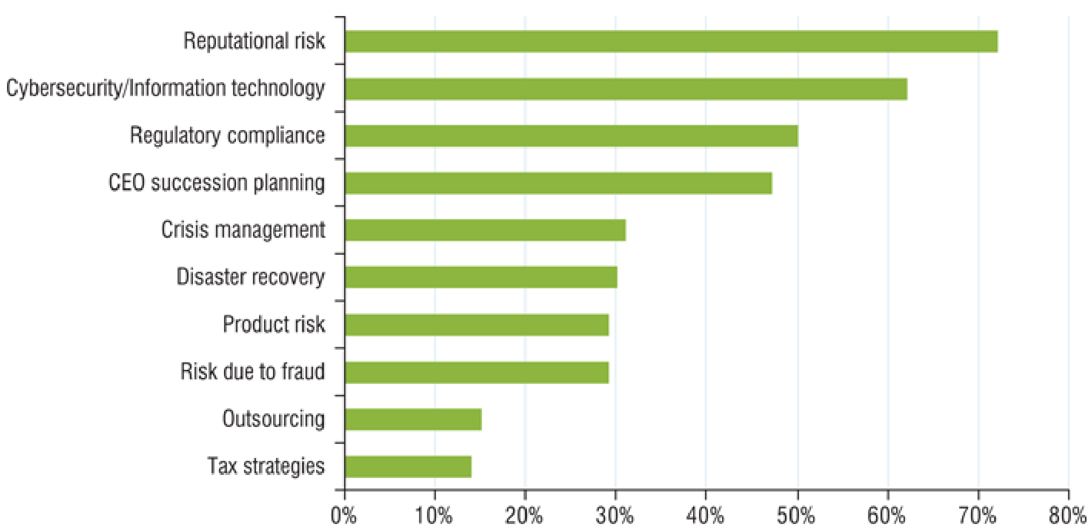
In the Mainstream

Crisis response and crisis planning are now accepted as routine business practices, at least at large organizations. Managers' awareness of crisis management has steadily increased over three decades during which the ranks of the crisis management profession swelled and news organizations have reported on a variety of crisis-triggering business difficulties. Nevertheless, the twists and turns of the highest-profile crises often play out for years, with the role of crisis management in companies' fate not nearly as clear as some

"Today, most business owners are realizing that they do need some kind of crisis preparation," says Crandall. "That wasn't true at all 20 years ago."

Boards Emphasize Reputation, Tech Risks Over Crisis Management

Most important risk issues to boards of directors, 2014



Source: "Concerns About Risks Confronting Boards: Fifth Annual Board of Directors Survey," EisnerAmper, 2014, p. 7, http://tinyurl.com/p4ob2xo

More than 250 corporate directors were asked in a survey, "Aside from financial risk, which of the following areas of risk management are most important to your board?" Thirty-one percent named crisis management. Reputational risk ranked as the most important issue (72 percent), followed by cybersecurity (62 percent), regulatory compliance (50 percent) and CEO succession planning (47 percent).

“It was a hard push to get even very large companies to realize it was important,” says the University of Central Florida's Coombs. Now, “among the really large companies—the Fortune 500—about 70 percent have [crisis management] plans in place while about 50 percent train [staff]. Smaller firms see it as a luxury, though. They don't necessarily have the time or the money for it.”

Advancing computer technology has made both planning and response easier and cheaper, says Caywood of Northwestern. “You used to go into offices, and the plans were dust-covered, but we've matured past that. And plans done electronically can be much more easily updated.”

Technology also makes it easier to keep an eye out for brewing reputational crises, Caywood adds. “Today, we have dozens of software programs” that can track an organization's mentions in social and traditional media, tag them as positive or negative and track trends. That gives crisis managers little excuse for being unaware of looming threats, he says.

The most important unsolved research problem for crisis theorists is how to calculate the actual effects on a business of a positive or negative corporate reputation, says Timothy Feddersen, a professor of managerial politics and decision sciences at Northwestern University's Kellogg School of Management. “We teach our students that corporate reputation matters,” he says.

Moreover, anecdotal evidence suggests that reputational changes sometimes do affect companies' financials. In one disputed but entertaining—and oft-cited—example, some analysts theorized that a 2009 drop in United Airlines' share price was triggered by Canadian musician Dave Carroll's songs about United breaking his guitar going viral on YouTube, Feddersen notes. [50]

Anecdotes are not evidence and are not quantifiable, however. Discovering the right metrics to “monitor the real impact of corporate responsibility on company performance” remains an important but elusive research goal, Feddersen says.

Long-Simmering GM Crisis

Some crises percolate for months or years before becoming known—and then they continue making news long after surfacing. Such is the case with a General Motors crisis that came to light in early 2014.

In early February 2014, GM announced it would recall several hundred thousand cars for an ignition-switch defect that could potentially turn off a moving car's electrical system and prevent its airbags from deploying. What at first seemed as if it might be a relatively minor issue soon turned into a full-blown crisis.

In the following weeks, the number of cars recalled rose to nearly 3 million. Suspicions emerged that some top GM managers may have known about the defect since the early 2000s—when company engineers first became aware of it—but dismissed the risks and kept the information from regulators and the public, even as they learned that the problem may have caused several fatal accidents. [51]

By April, with congressional hearings underway, GM had hired consultants, including a crisis-communications expert, a lawyer who specializes in sorting out the monetary claims of disaster victims and a former U.S. attorney, to conduct an internal investigation of the problem's history and potential solutions. [52]

Under CEO Barra, a 30-year employee who took the top job in January, the company committed itself to “completely chang[ing] the way they look at safety and recall,” the crisis manager GM hired, Jeff Eller, chairman of Public Strategies, an Austin, Texas-based business advisory firm, said in June. “It's a safety-driven culture now, not a cost-driven culture,” in which “silos of information” that had kept word of product problems from reaching top managers are being broken down, he said. As evidence, Eller cited the firing of 15 employees in connection with the ignition issue. [53]

Some critics, however, call GM's response insufficient, considering the widespread culture of denial and buck-passing turned up by the internal investigation team.

“Fifteen employees [fired]? Seriously? I just don't get it after reading the report since it was very clear this is a serious culture problem. Countless people came and went without dealing with the issue in any different manner than those that came before them,” wrote Detroit-based management consultant and business coach Tim Kuppler, a former vice president of quality at a GM supplier. [54] GM recalled about 30 million vehicles in 2014, for the ignition-switch defect or for other problems. [55] As of early February 2015, GM's victim-compensation program had received more than 4,180 claims and had certified 51 deaths as having been linked to the ignition-switch flaw. [56]

In announcing its 2014 earnings, GM said that the recalls would cost it $2.8 billion–$2.4 billion to fix vehicles, plus $400 million set aside for victim claims. [57]

It's still too early to judge whether Barra successfully shifted “a multigenerational corporate culture” away from secrets and silence and toward accountability and transparency, says Emory's James. On the plus side, Barra has “been very visible, she didn't shy away from responsibility, she put a human face on it, and was very candid in apologizing,” James says. Nevertheless, “we won't know for a few years whether there's any credence to what she's been saying.”

History is unlikely to provide many clues about how GM's saga will end, because each crisis is essentially unique, experts say. The truth is, when you've seen one crisis you've seen—one crisis.

“One of the biggest myths about crisis is that there's a playbook for success. A lot of people in the PR industry like to promote that idea, but it's a lie,” says Washington-based crisis manager Dezenhall. “If there were a playbook, everybody would use it.”

Looking Ahead

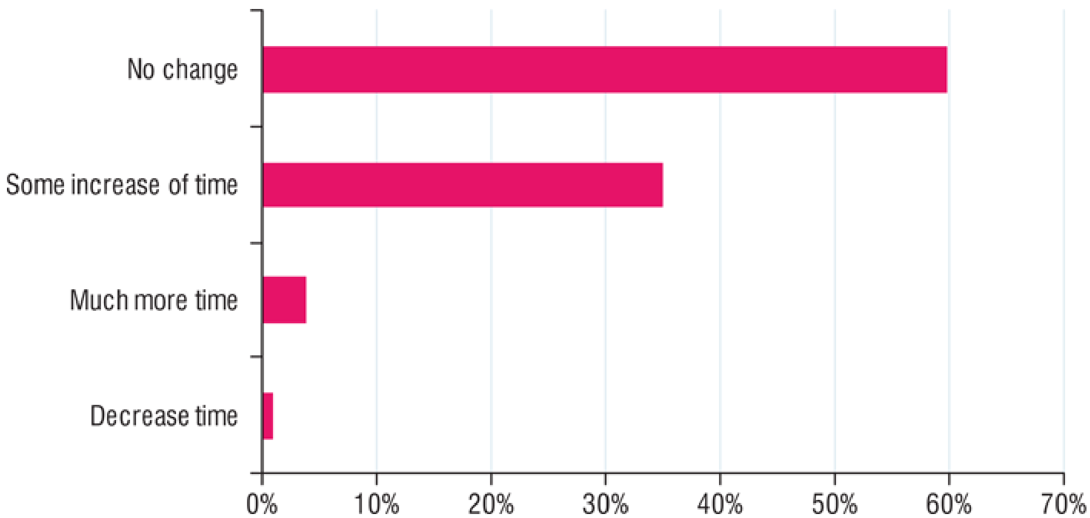
Crisis Boom?

Could the business world of the future be even more crisis-prone than the present? Some analysts suggest that, given current trends in technology, business and public attitudes, it wouldn't be surprising.

Rapidly advancing technological change that brings powerful new—and often somewhat mysterious—products to the marketplace can trigger a crisis for innovator companies if consumers and advocates balk. “Excitement about technological innovation can quickly turn to concern” and to opposition from activists or the public, wrote Chicago's Diermeier. [58]

Time Spent on Crisis Management About Right, Directors Say

Time directors say boards should spend on crisis management and planning, 2014



Source: “PwC's 2014 Annual Corporate Directors Survey,” PricewaterhouseCoopers, 2014, p. 17, http://tinyurl.com/m23qh5f

Sixty percent of company directors say they do not believe their boards should change the amount of time they spend on crisis management and planning. Among directors who want additional time devoted to crisis management, 35 percent seek “some increase” while 4 percent want them to spend “much more” time.

Nanotechnology—which uses the special properties of molecular-scale particles and structures—is among the emerging technologies whose increasing presence in commercial products and processes could spur business crises, Diermeier said. Nanoparticles are already incorporated in products ranging from sunscreen—where they break down less easily and feel less irritating to the skin than larger particles—to odor-combating socks laced with silver particles that inhibit bacterial growth. Activists point to possible environmental harms from silver particles that rinse out of socks in washing machines, because they could threaten helpful bacteria used in wastewater treatment plants or upset the ecological balance of streams. [59]

“Nanotech companies will need to win the battle for public opinion” by demonstrating that their products' benefits outweigh their risks if they hope to avoid calls for bans and other threats to their businesses, Diermeier suggested. [60]

There's also evidence that younger consumers are “looking for social responsibility, more of a moral dimension,” from businesses, Diermeier says. That trend, too, could lead to an increase in reputational crises for businesses.

Activists are already pursuing potentially crisis-triggering campaigns over moral or ethical issues, such as child labor or unfair international trade practices, he wrote. [61] And if today's young consumers continue to care about such issues, their interest could increase the power of advocacy groups to force businesses to change their ways, Diermeier says.

That's because for activist campaigns to have real impact, “someone other than an advocacy group has to act,” he says. If a new generation were to be motivated enough by social or environmental concerns to make different consumer choices, choose their employment based on companies' environmental records, or invest only in companies that stand by certain social principles “then the pressure on business would be much greater,” he says.

But a world with more crises might have its upsides, others say. “Some call crises windows of learning opportunity,” says the University of Kentucky's Sellnow.

“I think the future is about understanding that failures are a natural part of life, so we need to work at learning from them, to see them as an opportunity for renewal, growth, and change,” says UNLV's Ulmer.

Chronology

1960s–1970s	**Crises bring regulation.**
1965	Ralph Nader's book on auto safety draws an angry response from General Motors that helps galvanize Congress to regulate the industry.
1979	Reading, Pa.-based Metropolitan Edison electric company is blasted for poor crisis management after it underplays the severity of a meltdown at its Three Mile Island nuclear power plant near Harrisburg. Pennsylvania's state government wins praise for more cautious announcements about the nuclear accident.
1980s–1990s	**Crisis management establishes itself as a professional field.**
1982	Seven Chicago-area residents die after taking poisoned Tylenol capsules; Tylenol manufacturer Johnson & Johnson recalls the product nationwide, winning praise for its approach.
1984	Partly based on the Three Mile Island incident, Yale sociologist Charles Perrow devises “normal accident theory”—the idea that unforeseen and uncontrollable accidents are the norm for complex modern technology.
1989	A massive oil spill from the tanker Exxon Valdez off the Alaskan coast triggers a crisis for oil giant Exxon Corp., which is widely criticized for responding too slowly and for attempting to minimize the environmental disaster.
1994	Minnesota-based Schwan's Food Co. quickly regains lost sales after it responds to a contamination crisis with a nationwide recall of its ice cream and implementation of new safety methods.
1995	Netherlands-based Shell faces protests after it proposed sinking an oil-drilling platform in the North Sea and for complicity with the Nigerian government in the repression of environmental protesters.
1998	Shell adopts a corporate social responsibility program to protect its reputation after years of activist attacks, vowing to adhere to ethical, environmentally conscious business practices. … Sales drop for Oregon-based athletic apparel maker Nike, and it lays off workers after years of protests against its labor practices in Asian factories.
1999	As part of a corporate social responsibility program, Nike joins other apparel makers to form the Fair Labor Association, a coalition whose corporate members promise to police their own labor practices.
2000s	**Social media requires quick responses.**
2005	After a runway accident kills a child in Chicago, Southwest Airlines' stock retains its value and CEO Gary Kelly wins praise for managing the crisis by publicly expressing concern for the victim's family and committing the company to pinpointing the accident's cause.
2007	The stock price of Oak Brook, Ill.-based RC2 Corp. drops by two-thirds after the company recalls lead-laced toys made in a toxics-contaminated Chinese factory.
2013	When U.K.-based utility British Gas tries to calm customers' concerns about a rate hike by soliciting questions on Twitter, consumers hijack the company's #AskBG hashtag with angry tweets that draw the attention of the news media.
2014	The recall of 30 million vehicles between January and October brings accusations that automaker GM has swept safety problems under the rug for years. … National Football League Commissioner Roger Goodell is blasted for inept crisis management after several players are accused of domestic violence. … Sony Pictures computer networks attacked by hackers allegedly linked to North Korea, leading company to announce it would halt release of a comedy about the assassination of North Korea's leader; within a week, it reversed that decision.

2015 GM announces recalls cost it $2.9 billion in 2014. … Sony estimates the cost of the hacker attack at $15 million.

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Bernstein Crisis Management Inc., 700 S. Myrtle Ave., #404, Monrovia, CA 91016
626-825-3838
www.bernsteincrisismanagement.com
Blog by crisis manager Jonathan Bernstein about crisis news.

Corporate Watch
c/o Freedom Press, Angel Alley, 84b Whitechapel High Street, London, E1 7QX, United Kingdom
+44 (0)207 426 0005
www.corporatewatch.org
Liberal nonprofit that tracks trends in activist and public anti-corporate views.

The Crisis Blog
http://thecrisisblog.tumblr.com
Blog by author Steven Fink that discusses crisis news.

Institute for Public Relations
2096 Weimer Hall, Gainesville, FL 32611-8400
352-392-0280
www.instituteforpr.org
Nonprofit foundation that supports and promulgates research on crisis management, corporate social responsibility and reputation management.

International Crisis Management Association
Sovereign Court, 230 Upper 5th St., Milton Keynes, MK0 2HR, United Kingdom
www.icma-web.org.uk/index.html
International nonprofit membership organization that promulgates research and education on disasters and disaster management.

National Communication Association
1765 N St., N.W., Washington, DC 20036
202-464-4622
www.natcom.org
Scholars' group that supports research and learning on communications, including crisis communication.

Public Relations Society of America
33 Maiden Lane, 11th Fl., New York, NY 10038-5150
212-460-1400
www.prsa.org
Membership society for public-relations professionals, including crisis management specialists.

Steelhenge Crisis Thinking
16 St. Martin's Le Grand, 6th Fl., London, EC1A 4EN, United Kingdom
+44 (0)207 871 1565
http://crisisthinking.co.uk
Blog by staff of U.K.-based crisis consultancy group.

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