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CRISIS MANAGEMENT:

Practical Tips on Restoring Trust

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*When the unforeseen occurs - an executive is convicted of a felony, a product is recalled for defects, a union targets your company for a boycott - the corporate image can suffer most. Here Mr. Wallace, who helped Beech-Nut recover from its fruit-juice scandal, offers seasoned advice on how to prepare for - and survive - scandals, controversies, disasters, and acts of God.*  
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Anyone who doubts that a fuzzy notion like "image" can have a sledgehammer impact on corporate performance need look no further than the recent Wall Street mess at Salomon Brothers Inc. What Salomon's new managers are recognizing is that business crises have a substantial half-life.

The pattern is familiar to those who have managed crises in the past: New managers come in, preventive controls are instituted, but again and again, just when management seems to have smothered the flames, something rekindles media interest. The company is once again scorched by the crisis, and consumer doubts resurface.

Our firm represented baby-food producer Beech-Nut Nutrition Corporation in the aftermath of its apple-juice mislabelling incident - a scandal that, in this case, threatened the company's very existence. The trials and sentencing of the responsible executives - several years after the incident - unleashed a torrent of media and consumer hostility.

Customer respect is hard-won and easily lost. But Beech-Nut was able to resurrect that trust and rebuild its market share back to pre-scandal levels. Johnson & Johnson's handling of the Tylenol tampering case often is cited as a model of crisis management. Yet other product lines or entire companies have been destroyed, largely by crises that squandered consumer trust; Chevrolet's Corvair auto and the insider trading scandals at Drexel Burnham Lambert are but two examples.

What distinguishes between organizations that weather crises and those that succumb? In many cases,

it's as much the way they handled communications as the nature of the crises themselves.

Three Types of Crises

Of course, not all crises are the same, but they tend to fall into three broad categories:

- ❑ **Product failures** - adulteration (Beech-Nut, Tylenol), design or manufacturing problems (the Corvair), misuse or abuse (spray-painted graffiti, drunk driving), or unanticipated long-term effects (the Dalkon shield, asbestos, tobacco, chloro-fluorocarbons).
- ❑ **Process failures** - industrial accidents (Union Carbide/Bhopal), sabotage (Pan Am's Lockerbie crash), environmental damage (the Exxon Valdez spill), illegal activities by employees or executives (Salomon Brothers, BCCI, Drexel), mismanagement (the savings and loans), or labor disputes (Eastern Airlines).
- ❑ **External assaults** - hostile takeovers, proxy fights, targeting by special-interest groups (Alar and apple growers, fur apparel), government action (the luxury tax's impact on yacht builders), false rumors (linking Procter & Gamble's corporate symbol to devil worship), economic recession, political unrest, terrorism, and war.

There is nothing complicated about the goals of crisis management. They are: Terminate the crisis quickly; limit the damage; and restore credibility. The challenge, of course, lies in accomplishing this.

Probably the most important principle in crisis management is planning. Typically, managements ignore this rule for two reasons. First is the "it can't happen here" mentality. History, of course, is a standing indictment of this position. The second is, "How can I anticipate the types of crises I might face?" Clearly, every crisis can't be anticipated. But would it have taxed the imagination of NASA's management, for example, to have foreseen the need for a communications plan in the event of a mission disaster like the *Challenger* explosion? When you look at an organization's vulnerabilities, it's surprising how much worthwhile contingency crisis planning can be done.

Some things can't be controlled, and some crises can't be prevented. A grim game of "what if...?" - assuming the worst-case scenario you can imagine - will, at least, point to what could happen.

GUIDELINES FOR RESPONSE PLANNING

How does contingency planning work? Here are some guidelines:

- ❑ Assemble a library of case histories of companies that have faced similar crises. Analyze them to determine what worked and didn't work for them.
- ❑ Identify potential opponents of your company's actions or operations (interest groups, community activists, and so on). Monitor their statements in the press or in government testimony.
- ❑ Find out what the public knows about your company and the issues that are likely to confront it. Where does the public get its information about your firm?
- ❑ Make sure you can quickly access reliable information from within the company; know who are the best sources for each area of vulnerability. Train them as spokespeople.
- ❑ Identify experts outside the company who will help validate or support the company's position.
- ❑ Have a system in place to monitor information being provided to the public by all sources.
- ❑ Establish strong, reliable relations with appropriate journalists. Be readily available to discuss corporate issues.

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TEN ESSENTIAL RULES

When the crisis comes, your company's crisis control program has the greatest potential for success if it incorporates the following ten rules:

1. **Develop a clear, straightforward position** in regard to the crisis and stick with it. In the Beech-Nut case we made one simple point - new management is in charge, and it has invested millions of dollars to ensure that the apple juice is now pure. That brief message was used in all company communications.
2. **Involve top management.** Management is usually preoccupied with the crisis, but the public and media don't always know it. When the *Challenger* exploded in 1986, NASA's senior management virtually ignored the press - five critical hours passed before the first press briefing and that was by a press officer, not a member of the management or technology staffs. The Roger Commission, which investigated the accident, reported that "for the first several days... NASA appeared to be withholding information from the public."

Exxon found that discouraging top management from travelling to Prince William Sound immediately after the *Valdez* spill was a critical mistake. In contrast, Union Carbide's chief executive faced possible arrest and imprisonment by visiting the company's Bhopal, India plant, and gained a great deal of public and media support for the company in the process.

It is crucial that top managers keep their emotions under control and be fully knowledgeable about the situation. If, as in the Salomon Brothers case, top management has been replaced, it becomes even more important to be visibly "in charge."
3. **Activate third-party support** for the company's position. This may come from Wall Street analysts, independent engineers, technology experts, or legal authorities - whoever has the appropriate credentials and credibility in the situation. When the aerosol industry faced declining sales because of chlorofluorocarbons' effect on the ozone, it brought in two top scientists to restore balance to the debate.
4. **Establish an on-site presence** if the crisis is not centered at headquarters. Beyond making sure top management visits, it is important to have ongoing

communications capabilities at the site. That is where the media will be, and it is virtually impossible to control communications by long distance, even with the best technology.

5. Centralize communications. Assign a communications "point person" and a support team for media relations related to the crisis. Do not permit anyone other than designated spokespeople or the assigned communications team to speak with the media about the crisis. Make sure the crisis team is kept informed, and has full and immediate access to anyone in the company. Depending on the extent of the crisis, free them from other responsibilities. Try to make sure the team is large enough and has sufficient resources to prevent exhaustion or "burnout."

6. Cooperate with the press. Controlling access does not mean being uncooperative or "stonewalling." Those who are authorized to speak to the media should be factual and candid about what they can and can't discuss. Concealing relevant facts is wrong - and harmful. Coverups almost always are uncovered, and they undermine the credibility of every other statement the company makes. Journalists will respect reasonable legal restrictions or a frank, "we're still trying to find out about that ourselves," particularly early in the crisis period.

Pay particular attention to wire-service and broadcast journalists. They are often the first source from which the public - and much of the other media - will get the story, and any inaccuracies are likely to be repeated by others. They are also the fastest way to get your point of view out.

Correct inaccurate reporting immediately and in every instance. Call or fax the journalist, and document exactly how the coverage is wrong. Don't wait for letters to the editor to be published.

Issue written statements whenever possible, particularly when the information is complex. Written statements are less vulnerable to misinterpretation.

7. Don't ignore employees. Keeping employees informed helps to ensure that the company's business proceeds as normally as possible. As representatives of the company, they are better able to handle inquiries from families and relatives when they understand the facts and the company's position.

8. Keep the crisis in perspective and within context. Often management underreacts at the start of a crisis, then overreacts when it builds. I've seen formerly vigorous managements enter into a state of psychological paralysis as a crisis unfolds. Don't hunker down.

Acknowledge where and how a crisis will affect the company over the long term, but also make clear what areas are unaffected. Point out the company's strengths. Review your other corporate communications to determine if they remain appropriate. Suspend advertising and other public communications that might make the company seem callous, but intensify those that demonstrate the company is still in control and still cares about its customers.

9. Begin positioning the company for when the crisis is over. Concentrate communications on steps the company is taking to rectify the crisis. Focus on what is happening now, rather than what went wrong in the past. Demonstrate good corporate citizenship.

10. Continuously monitor and evaluate progress. Survey employees, customers, suppliers, distributors, investors, and, if appropriate, the general public to determine whether your messages are getting across to them. Identify which aspects of the program are working and which are not, and make adjustments accordingly.

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Tim Wallace is Executive Vice President of Makovsky & Company Inc., a full service public relations firm headquartered in New York, with divisions in Finance (Financial Services, Investor Relations), Technology, Health Sciences and Professional Services.

In addition to Beech-Nut, Makovsky & Company has provided crisis management counsel to Citibank; the aerosol industry; J.B. Hanauer (a municipal bond brokerage); American Management Systems; KPMG Peat Marwick; The Sequor Group of Security Pacific Bank and many more.

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