

CRISIS MANAGEMENT: THE MODEL UNCHANGED BUT THE COSTS ARE SKYROCKETING

BY CLARKE L. CAYWOOD AND HUD ENGLEHART

To help managers with decision-making when their companies or organizations are in crisis, this essay identifies the three most common mistakes made by managers of deeply troubled companies and points to how managers might improve their behaviors as a way to improve their communication. More than ever, it may be necessary for leaders of organizations to put themselves and the organization on "crisis alert" status.

THE YEAR OF CRISES

Despite a surge in front-page coverage, there really is nothing new about businesses and institutions in crisis. Unfortunately, based on a review of more than a dozen of this year's headline-grabbing crises (see Exhibit 1), there may be nothing new about the way managers deal with them either.

Indeed, in case after infamous case, the evidence suggests that managers of deeply troubled companies repeated three fatal mistakes. They failed to recognize that the seeds of crises are sowed long before they reach headline proportion. They did not calculate the real cost of their troubles as part of crisis decision-making. Finally, they opted for self-defense rather than brand defense.

The mistakes are familiar outgrowths of a traditional crisis communications model – one built on the notion that companies can talk their way out of a problem. To the contrary, the recent spate of crises seems to prove the old axiom that "actions speak louder than words" and that companies would be well-served to adopt a crisis response model that puts communications in its place (i.e. in a position to tell a good story based on what a company does or plans to do rather than mouthing platitudes or issuing corporate-speak).

The footing for this behavior-based communications model is well established. Human nature supports the idea that credible behaviors hold greater sway with the public than non-credible (or incredible) statements. In fact, the widely recognized guiding R's of crisis response (see Exhibit 2 below) demand corporate "do" before corporate "say."

WHAT'S DIFFERENT?

In the summer of our nation's economic and ethical discontent, one wonders if there was some seismic shift in business practice or attitude that produced the crises of 2001-2002. In the years prior to the Enron-Andersen scandal, pressure to deliver quarterly results

Exhibit 1 Year of Crises	
Incident/Company	Alleged or Actual Action
Terrorist Attacks on U.S.	Hijacking of airplanes
Enron	"Off balance sheet" actions to hide poor results
Andersen	Failure to report accounting rule infraction; document destruction
ImClone	Insider trading by executives prior to public news of FDA action
Martha Stewart	Insider trading on ImClone and denial of action
Adelphia	Founding family misuse of corporate funds for personal use
R. Kelly	Video-taped sexual exploits of entertainer with under aged women
Catholic Church	Accusation of sexual abuse by priests and failure to correct over many years
Major League Baseball	Rumors of heavy steroid use
WorldCom	Misrepresentation of financial status
Jack Welsh	Affair with Harvard Business Review Editor
Transportation Security Admin.	Failure to protect airport and other transportation security with chaos over bureaucratic actions
West Nile Virus	Fear in general public of new mosquito-born disease
Anthrax	Failure of Department of Health and Social Services to provide timely information to public. U.S. Postal Service
Stock Exchanges	Growing public investor fear that equity investments are not safe due to reporting inaccuracies and failure of market regulators

intensified. This pressure was exacerbated by stock-based management incentive plans that tied compensation to equity price per-

formance. With a stake in the outcome, the argument went, managers would produce better results. Of course, few predicted that these practices would lead to billions of dollars of personal wealth and that, when this wealth was threatened by plummeting stock values, management would show as much zeal for protecting it as they did for acquiring it.

Meanwhile, post-Enron shareowners and customers are giving new meaning to "public permission to operate" by demanding levels of unprecedented corporate transparency. And every business is trying to come to grips with ethics and accountability in a culture in which people are guided by rules rather than by principles.

For all of this, one suspects that there is not much different about crisis itself. Bad things happen to good companies. Media decry mistakes, missteps or misdeeds. Stakeholders fear the performance of their investments. Customers question their loyalty. Congress panders. The public demands reform. And in the end, the outcomes are determined by how companies behave – by what they do, how they do it and when they do it.

Having said that, it would not be unreasonable to call the past year (Fall 2001 to Fall 2002 and perhaps beyond) the "Year of Crises" for American business. Scams and scandals dominate business news reports, and with each revelation of executive misconduct, corporations lose public confidence, a commodity already in short supply following a period of Internet "dot bombs" eroding stock prices.

Post-Enron has the feel of "post-Watergate." Like the political scandal in Washington 30 years ago, the business scandal in Texas and Chicago has spawned an era of reform. The SEC, NYSE, NASDAQ and Congress are moving to renew public confidence in business reporting. Ironically, communication has an elevated role in the aftermath because, NYSE Committee Member and Northwestern University professor Kurt Stocker told graduate students this summer, "the criteria for communication of material information has shifted from technical accuracy (driven by lawyers and accountants) to understandability ... and we are in a unique position to influence the outcome."

SAY AS I DO

What does this portend for crisis management theory and practice? The year's business events have put the spotlight on corporate behaviors and the penalties that companies pay when the behaviors and the communications do not match up. It is discernible evidence that companies have to align the two or suffer the consequences.

There is plenty of evidence to prove the point. In the case summaries below, note how history gave ample warning, what company managers decided to protect and what long-term costs the brand suffered compared to the short-term costs of litigation. Then check the

behaviors of company managers against the "Rs" in Exhibit 2 to see how well they fare.

MARTHA STEWART- R. KELLY – IS THE PERSON THE BRAND?

When talent, marketing skill and celebrity convene, there is money to be made ... and lost. Martha Stewart and R. Kelly rode their talents to untold riches in the 1990s. This year, the brands they represent took a tumble when the celebrities became embroiled in headlines alleging insider trading and child pornography.

As the head of a brand with the principal attribution of "perfection," everything must have seemed perfect to Stewart. Thirty-one books, a lucrative contract with Kmart, a CBS network slot, a new children's magazine, regular appearances in the nation's mainstream media and a successful IPO added up to a multimillion dollar market capitalization.

HUMAN NATURE SUPPORTS THE IDEA THAT CREDIBLE BEHAVIORS HOLD GREATER SWAY WITH THE PUBLIC THAN NON-CREDIBLE (OR INCREDIBLE) STATEMENTS.

In this sea of success, Stewart may not have noticed the icebergs. Kmart's bankruptcy put her in uncharted business waters. An unauthorized biography ("Martha, Inc.") painted her as a less than perfect employer. And a certain late night factor had taken hold as Leno and Letterman peppered their comedy with anti-Martha sentiment.

Confronted with insider trading allegations, Stewart probably wasn't thinking about her brand or her pocketbook when she decided to put herself first. She answered allegations with a made-up story involving a written agreement her broker. When the story proved false, she back-pedaled, citing a verbal agreement; and when that came in question, she raced for cover unwilling to address the issue in any public forum.

Had Stewart thought about her middle-income homemaker fans, she might have opted for a fact-based statement from the outset. Stewart's was not an uncommon or fatal "mistake" and the women in her audience probably would have forgiven the error of her ways. She might have reached the same conclusion if she had done her arithmetic. The questionable trade was valued at \$227,000. The lie caused her company stock to fall 60 percent or \$600 million. It also brought brand sales growth to a halt.

Like Stewart, R. Kelly must have felt above it all. His success in the recording business was the stuff of dreams. In the 1990s, he sold 23

Figure 2
The “Rs” of Crisis Management

Rs	Communication Message	Behavior Action
Respond 1	Some communication, even limited, is necessary: "Today, we were told that the company would be..." Most responses to most types of crisis can be anticipated and pre-checked within the company hierarchy for permission to release in advance of the emergency.	Not responding is a response that communicates as a failure to act. "No comment" or "The company was unavailable for comment" are unacceptable messages that communicate indifference. e.g. Martha Stewart initially failed to respond
Regret 2	Some form of human concern must be communicated with or without accepting responsibility if the facts are not fully known: We regret the harm caused to our customers and their families by our product..."	At a higher level of it may be necessary to express "outrage" as a stronger act. "If the facts are as they seem, we will not tolerate any error that could cause injury to..." e.g. R. Kelly attacked those who accused him
Resolution 3	Some promise to insure that the specific or general event is being investigated and some action is being taken to solve a problem. "We are shutting down the plant..."	Identify experts inside and outside the company who are cooperating to resolve the problem. Announce when more detailed information might be known, e.g. Andersen sought outside third parties to lend credibility to their firm.
Restitution 4	As the crisis unfolds and facts are known; the message must be conveyed that the organization is able and willing to "make good" to those harmed even if the promise is simply one that meets the normal warrantee and guarantees of the products or services."	Any early and rapid support for victims (flying of family members to an airline crash site) must be planned and initiated. Conditions of the restitution may not necessary commit the company, but again speak with actions the best behavior possible, e.g. the Catholic Church settled with some victims.
Reform 5	As the facts are gathered and known, some honest promise of action that will prevent any reoccurrence must be stated. "We have found that currently accepted industry and regulatory standards are not sufficient to protect our employees; we are improving our program..."	Take actions that demonstrate commitment to the long-term relationships you wish with stakeholders. Meet and exceed expectations by creating for the firm standards not yet required by law. e.g. the Catholic Church initiated new global plans for protection of children.
Responsibility 6	At sometime in the midst or after a crisis someone (a person) and the company must accept responsibility for either the specific event or for a management process that failed to prevent the crisis. "As CEO of this firm I accept that it was my responsibility to ensure that the investors of this company were protected..." In older terms "the buck stops here" must be stated.	Beyond reform and restitution the organization must establish and follow the highest standards of transparency. Accountability and responsibility must be understood as the daily actions of any organization that can and may have caused harm in its role as a company existing with the permission of society, e.g. The Catholic Church did accept responsibility compared to other crises.
Reputation/ Brand Rebuilding 7	To reestablish the reputation of the organization and its employee; the management must reaffirm it's intention to be considered a premier company among leaders in the industry. "Our reputation, will depend on our ability to promise and deliver the safest..."	A thorough audit of the activities of all stakeholders relevant to the strengthening of the reputation and corporate brand must be undertaken to identify other weaknesses or stress points in the organization. Again, the Catholic Church and the NYSE are rebuilding their reputations.

million records, released more Top Forty hits than any other artist, and won three Grammys and six Billboard Music Awards. On the darker side, Kelly had a decade-long history of aberrant sexual behavior that resulted in four civil suits filed by underage girls and a two-year criminal investigation by the Sexual Crimes Unit of the Chicago Police Department.

By mid-2002, with the *Chicago Sun-Times* in possession of a video claiming to feature the singer having sex with a minor, Kelly proba-

bly should not have been surprised to find himself on the end of a 21-count criminal indictment for child pornography.

Faced with the allegations, Kelly went on offense, blaming his enemies and calling the video a fake. But the move did not assuage teenage fans who knew his record, so he finally admitted a problem with women ... "but not young women." When that rang hollow, he resorted to a romp of self-pity that included a new song ("Heaven I Need A Hug") and a spiritual appeal

("church folks, you need to stop judging").

If Kelly had his calculator handy when the allegations first surfaced, he may have opted for the cost of a settlement, a long vacation and an "R. Kelly's Back!" album. Instead, with no regret, no resolution and no hint of reform, Kelly had other issues to deal with. His record company cancelled promotion of a new album. Fans boycotted his appearances. Collaborators deserted and key African-American leaders expressed outrage. Now, with his trial this fall, there may be no way to estimate the loss of future sales and income if he is convicted.

CATHOLIC CHURCH – PAYING ATTENTION TO PRECEDENT

Separation of church and state is an established principle in U.S. constitutional law. But as this year amply demonstrated, the public believes "separation" is a horizontal space between government and religion, not a vertical one where religion stands above the law.

In the case of the Catholic Church in the United States, there was a clear record of problems with pedophilia among its clergy. For at least a quarter century, the Church hierarchy dealt with the problem – several hundred times over – privately. Priests who were accused of abusing young people were quietly transferred to other diocesan assignments and victims were paid tidy sums in exchange for their silence.

When one of the most egregious cases came to light casting doubt on the leadership of Bernard Cardinal Law of Boston, the diocesan management responded with references to the confidentiality of the agreements and an implicit "trust us, we have the matter in hand." Neither, of course, was enough to assure alarmed Catholics that the Church hierarchy was doing what it needed to do to address the problem.

The Boston story made national news and created a national uproar. For days on end, one agonized claimant after another told newspaper and television correspondents about experiences with abusive priests. Those stories brought ambiguous responses from the U.S. Catholic Church, except in Chicago where a decade ago the late Cardinal Bernardin set a positive precedent for the Church in these matters.

Bernardin's successor, Francis Cardinal George, became an island of comfort for his flock by rigorously following precedent and the R's of crisis response. When claimants surfaced in the Midwest, George expressed his outrage and his regret, acting first as the voice of his parishioners, not his Church. He had a "fix" for the problem in Chicago, a review board with an established process for dealing with such child abuse issues, including turning assailants over to authorities.

Though no one can be sure if there was a long-term financial impact statement prepared for the Cardinal, he acted as though there might have been one. At stake were the viability of the largest

private school system in America, a multimillion-dollar charity operation and the emotional, financial and legal well being of the parishes in the diocese. By all counts, Cardinal George seems to have realized the magnitudes and figured that aggressive action was the way to respond.

IMCLONE-GREED COSTS MORE THAN MONEY

Almost everyone would like the ImClone story to have a better ending.

A small biotechnology company committed to the development of cures for cancer, ImClone rode a wave of investment excitement when Sam Waksal, the Ph.D. chairman and CEO, announced that a monoclonal antibody ImClone developed called ERBITUX™ was found to be effective in the treatment of colorectal carcinoma. The company eventually was added to the NASDAQ 100 Index. ImClone's fall from grace came almost overnight, a compressed case of deceit and crisis mismanagement.

As to the deceit, Waksal concealed from shareholders and the public the pending denial of an ERBITUX™ FDA application. Before public disclosure, Waksal, his family, two vice presidents and Martha Stewart sold more than \$60 million worth of their stock. Waksal, in a pique of either arrogance or unbelievable denial, hosted a multi-million-dollar Manhattan Christmas party for his celebrity friends, including Martha Stewart and Mick Jagger.

On December 4, 2001, when Waksal first knew about the problems with the FDA, ImClone stock was trading at \$75 a share. By January 9, 2002, ten days after the disclosure, the stock was trading at less than \$33 – nearly a \$1.5 billion equity decline. To the greedy, adding up those numbers might seem an incentive for deception. But for a management in a business committed to improving the human condition, it is hard to fathom a behavior that costs so much in shareholder dollars and human emotion.

As for mismanagement, when confronted with disclosure of the FDA's letter telling ImClone they faced serious roadblocks in their attempt to get approval for ERBITUX™, Waksal tried to downplay the news and issued a release stating that ImClone "remains fully confident in ERBITUX™ ..." Waksal tried the same gambit at the JP Morgan H&Q Healthcare Conference on January 9, 2002, trying to put a good face on the prospects for the company's miracle drug.

Waksal was forced to give up control of the company to his brother and was later arrested. The record still carries no expression of regret, either to shareholders or to patients eager for ERBITUX™ to be approved for treatment of their cancer. Today, ImClone trades at \$8.50 and ERBITUX™ is still a very long way from broad patient application.

CONCLUSION

What is most notable about the cases reviewed in this article is the utter lack of human expression in most of the company responses or non-response (R1). Companies and companies' managers are allowed to be angry and exasperated and horrified. In fact, there is some evidence to suggest that companies that try to sympathize with victims get empathy in return.

Yet, expressing regret (R2) is highly controversial. Lawyers fear that such an expression is a tacit admission of guilt. Risk managers side with lawyers because litigation costs money and damages can cost more restitution (R4) money. But wouldn't it be refreshing to hear a concerned, somewhat angry CEO say, "I'm not sure what caused this problem and I feel the deepest sense of regret for the victims and their families. This kind of situation is unacceptable in our company and I will personally see to it that we find the problem and fix it!" (Resolution, R3).

Sometimes, resolution and then more permanent reform (R5) can be a sticking point, particularly when crisis teams are managing by incident instead of taking a broader view. The exercise of looking ahead to a desired outcome and adding up the costs is a discipline that can recolor a decision.

And speaking of crisis teams, companies have to charge them with one responsibility (R6): protect the brand and reputation of the

company (R7). Protecting any other allied entity or individual dramatically lessens the chances of a satisfactory remediation for the reputation/brand and its stakeholders. They are easy questions, but they are difficult to ask when egos are in the room and on line: Is management or labor or legal position worth more than the brand and its customers?

Wonder how Worldcom or Andersen or United Airlines might ask those questions?

CLARKE L. CAYWOOD, Ph.D. is a graduate faculty member and former chair of the Integrated Marketing Communications Department at Northwestern University. Currently he serves as director of IMC's graduate program in corporate public relations. Previously he served as the head of integrated marketing at eMarketWorld and as an IBM advisor. He is the editor of *The Handbook of Strategic Public Relations and Integrated Communications*.

HUD ENGLEHART is the former CPRO at Mellon Bank and Lockheed and the former managing director of Hill and Knowlton. He serves on the advisory board of the University of Michigan Business School and is a faculty member of the evening program at Northwestern University's IMC program.

Both authors are principles of a communications consulting practice to senior management (www.FacultyInc.com).