

A Matter of Survival

**A wise man thinks about crisis in times of
prosperity**

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Foreword

Be Prepared!

We hope this book will be useful. We hope it will become bent and battered and held together with strong tape. We hope you will scribble in the margins, make notes against particular points and use it as a working document that you will add to as your career develops.

This is not a theoretical document, or an academic treatise or a review of famous case histories. There is no bibliography at the end of this book, or list of sources or suggested reading lists. It isn't even one of the hundreds of self-help business management books available at any airport around the world.

This book is a pragmatic approach to how, as a senior communicator in your company, you can prepare your company's communications capabilities for the corporate crisis it will face at some stage in the future. Not tomorrow or the next day perhaps, but it isn't a question of if but when each and every company that exists comes across its own dark day of crisis. And on that day, nothing will be more important than the planning you have in place. And almost nothing will be as important as how the company communicates through that crisis.

The corporate and financial cost of not having a crisis plan in place can be crippling; a study by the Oxford Executive Research Centre in England, *The Impact of Catastrophes on Shareholder Value*, addressed the effects of highly publicised disasters involving publicly traded companies. It found that companies could be divided into two categories: recoverers and non-recoverers – understand that neither of those might mean the company ceased to exist, rather that they either did or did not recover successfully following the crisis.

The study quantified two revealing comparisons between the two categories of companies:

- The initial loss was 5% of capitalisation on average for recoverers; for non-recoverers that number was 11%

- Recoverers recouped lost value by the 50th trading day following the disaster, posting a 5% plus cumulative impact on shareholder value by that time; non-recoverers suffered a net cumulative negative impact of almost 15% up to a year after the incident.

So, the cost of bad management of a crisis can range from around 15% of the total shareholder value of the company to almost any figure north of there.

And, at the risk of fear-mongering, the causes and catalysts for crisis are growing. Aside from the traditional triggers – quality issues, health and safety failures, natural disasters, there are new crises in the 21st century – the global financial meltdown, the rise of the medical crisis such as SARS and Swine Flu and the now ever-present possibility of religious, political or ethnic terrorist activity.

But we have no need to dwell on the causes or triggers for crises. They happen, and in an increasingly inter linked world economy with instant and global communications they will happen in front of an increasingly large audience.

This book lays out how to prepare your company's communications assets to best deal with any crisis you may encounter. It is a crisis communications toolbox without which you will be very ill-prepared. It does not dwell on case histories since no two crises are alike and nor do we talk of particular industries since the approach to the communications needed in a crisis is, in almost all cases, exactly the same irrespective of the industry or the crisis.

This book is designed to help company spokespeople understand how a crisis surfaces, how the media work and how to work with the media. The objective of this book is to help to understand this public environment, recognise its sensitivity to issues, learn to establish credibility, how to control the flow of questions and answers and how to communicate messages effectively, often in difficult circumstances, to the relevant audiences.

Some good news...

With the exception of those crises precipitated by takeover efforts, most corporations can count on the

fact that crises do not usually involve corporate survival. In fact, with the exception of single-product companies, which are forced to pull their only product from the shelf, few companies fail to survive a crisis.

Most products also survive a crisis, even when recalls have occurred. Successful crisis management means that a company or product can recover quickly. Unsuccessful crisis management means longer recovery, and the possibility of less than full recovery. But seldom is the issue truly one of survival itself.

Crisis tends to feel like exercises in survival because of the anguish of negative media coverage. That coverage, particularly when there are deaths or injuries will trigger a falling share price, reduced employee morale and even the sudden defection of analysts, regulatory bodies, politicians and reporters who seemed to be friendly supporters of the corporation. These events, magnified by the media, create an environment that feels like collapse. But the situation will eventually turn around as corporate actions reduce uncertainty and time diminishes the outcry and surprise.

If we had to sum up the advice contained in this book, it would be simply said in two words – Be Prepared.

This book tells you how to prepare.

PART ONE: All about crises

Introduction

Most Crises Needn't Happen

Crisis management is a critical organisational function, an acknowledged discipline and well positioned in many corporations. At least that is what communication professionals are trying to tell us. And yet the truth is that most companies in rough waters, facing difficult situations or even in a full-blown crisis fail to act adequately. And the results of those failures can be seen nearly every day in the world's media.

It is surprising that after all we know, all we read and all we talk about crisis management the reality is that there has obviously been no real impact on the way management prepares for the unthinkable. They know; but simply do not act accordingly. Our thesis in this book is that most of the known crises could have been prevented in their magnitude if management had learned the lesson; dealing with crises is dealing with emotions. And only an honest, fast and broad based communication effort can smooth the waves of public anger and put the corporation back on track.

Are we preaching the wrong messages, are the books read upside down, is the language we use too abstract? Or is management unwilling or unable to draw the necessary conclusions and see their consequences. In other words, is management taking this responsibility seriously enough?

The impact of globalization

Increasing globalization is creating much closer ties between societies often with very different ethical, moral and religious beliefs. Couple this with the rapid growth and boundless proliferation of the global media and the sheer number of incidents bearing the potential to turn into crises increases very substantially. And we are seeing more and more severe crises happening around the globe. Why? For what reasons?

One reason, for sure, is the increasing inter-connections within our global village. People

everywhere see more, hear more and have quick and simple access to more and more information, right or wrong, faster than ever. Simple gossip turns to facts, so-called facts change to issues and the web transfers these to the most remote corners of the world and be sure – somebody, somewhere will turn this into a problem that might become a crisis.

And people are now far more critical than in the past, one reason perhaps, aside from the easily accessible, ever-present flow of news and comment from around the world could be the sheer scale and number of major corporate scandals we have seen in the recent past. From the US energy company Enron's corporate greed and astonishing bankruptcy, French oil company Elf and the political sleaze that led to a five year prison sentence for their ex-Chairman to the very swift decline of one the world's top five accounting firms, Arthur Andersen due to malpractice (and extraordinarily poor crisis management).

We saw America's most famous businesswoman, Martha Stewart, a household legend respected and loved by millions around the world sent to prison for insider trading, the German telecom industry practically destroyed by covert spying on competitor revelations, the US\$1 billion Satyam scandal in India, the milk and dairy poisoning of SanLu and the millions of Chinese made toys recalled due to lead paint under the Mattel, and other, brands.

And you will be able easily to add others to this list – without even going into the most recent global financial crisis which killed dead some of the world's most revered financial brands, exposed as poorly managed, unprofessional, uncontrolled institutions unworthy of the reputation they had developed over many years. – and all that at a global cost of trillions of whichever currency you care to choose.

Little wonder people are sceptical, that more and more they are challenging the way corporations behave, how they report and to whom, what they promise and what they deliver, how they act locally and globally. Behaviours and approaches acceptable just years ago can today become major corporate misdemeanours.

The challenge of Web 2.0.....

The World Wide Web now allows almost anyone to fight for almost any cause. Anyone today can take part in a worldwide discussion, regardless of whether he or she has the intellect or knowledge to understand the issue at hand.

Information became ubiquitous not long ago. The web offers the opportunity, the stage and an audience of billions. An amazing world, particularly for those looking for their time in the limelight, it gives everyone a megaphone if only for a few minutes. And in an audience of billions there is always somebody shouting and somebody prepared to listen to – and believe in – almost anything.

The gatekeeper function of the media, of corporations or of politicians is irrevocably lost. Today it is nearly impossible to hide, camouflage or play down any information. And there seems to be no enforceable, legitimate way to control or suppress information once it becomes available through the internet.

The consequence is not surprising; communication and the management of crises is more difficult, more complex and multi-layered. It requires specialists in communications who understand the dynamics of today's information world and the techniques to deal with the unthinkable.

And it is now more critical than ever for companies, private and public institutions, political parties and government bodies to be able clearly and simply to articulate their point of view about what they do and why they do it. And to know exactly to whom they need to be communicating.

Because the ability to communicate with the various constituencies of an organisation is fundamental to its well-being. And it becomes a question of survival at times when the normal agenda is turned upside down, at times of crisis. And the likelihood that corporations will be confronted with such difficult situations is mounting. For almost any global organisation it is no longer really a question of if, it is a question of when, a crisis happens.

Today people have a mind boggling array of goods or services to buy and use, new ideas and concepts to embrace or reject and an equally vast amount of scientific, technical, financial and political information

on which to base their selection or opinion. 24 hours a day, 7 days a week; just a click away.

And increasingly, customers will examine their choice in terms of what they hear, know or believe about the product or service and more importantly, about the company or institution behind it as well as the risks and benefits involved with their choice.

In most cases their choice is heavily influenced by the media. For better or worse, the media or more precisely, individual journalists are the bearers of good or bad news. They are the multipliers, the amplifiers and at the same time the filters of positive or negative information. They can make or destroy images.

For corporate and brand spokespeople today it is essential to be able to recognize, handle and positively influence a climate of opinion that surrounds their company or institution, that surrounds a particular problem or issue to be managed or to respond to the concerns, emotions and questions that will become important as the situation develops.

The best protection for difficult times, when the company is blamed or accused of wrongdoing, is a good image. And a good image will be the result of many years of comprehensive, intelligent and open communication with the company's key constituents, shareholders, customers and the public.

Communications is both an art and a technique: the art of dealing with the media in good times as well as in shifting tides of public pressure, a technique that helps company spokespeople to respond to concerns and emotions in a better way.

When management can't see the wood for the trees

Once upon a time, if a crisis occurred, management could hope to contain its impact within the affected market. Times have changed. Today's reality is seriously different.

When the Chinese toy industry was blamed – rightly or wrongly - by the media for the inadequate quality of their products the issue became almost immediately a worldwide debate about who was responsible; those who dictated the lowest price possible to the manufacturer and felt no need to control the quality of their merchandise or those who shamelessly used materials not appropriate to the standards of good manufacturing practices. Probably both. In the end workers lost their jobs, the industry its credibility and the “Made in China” label suffered a major blow.

Another example is the notorious SanLu corporation case. What caused agony and misery in such an unbelievable extent in China hit headlines all over the world. The guilty were fast identified, tried and sentenced. That's all well and good but what also has to be done is restore the public's trust in the industry by demonstrating that the proper measures have been taken to prevent such an incident ever happening again. There is very little information for the curious consumer as to how that is going to happen.

Did the SanLu corporation disaster come out of the blue? Not at all. Similar incidents – and, by the way, with the same chemical compound – have happened before. Nobody, not the dairy industry nor the authorities took any action at all. Intentional, careless or just too involved, too close to the situation to react appropriately? Sometimes, management simply can't see the wood for the trees.

And there are no local crises any more in our global community. In this world, the fatal error – repeated again and again – is thinking that one can hide or play down such an incident. Very dangerous thinking indeed, if not downright dumb. It begs the questions: did the people at SanLu receive any Public Relations

advice at all? Who forced them to act as they did once the scandal was discovered?

So, two enormously important factors have reshaped the way we must approach crisis management this century, in ways unimaginable twenty years ago: globalization and the internet. Global markets and the immediate availability of any and all information anytime, anywhere have generated the means to turn any crisis into a problem with global repercussions

And a crisis, no matter where it originates, is always extremely costly. Collapsing sales, often caused by boycotts, add to the costs of reparation and compensation for damages can put the very existence of a company at risk. But the unavoidable costs can be reduced to a minimum – by efficient crisis management.

Western authors writing about crisis management like to point out that the Chinese character for crisis also has the meaning of “chance”. Indeed, companies that survive a crisis sometimes emerge from it in a better shape – if they have made use of their chance and learned their lessons. It’s a painful and often expensive lesson.

In its medical meaning the term crisis signifies a turning point. In business life a crisis signifies a turning point too, since no company comes out of a crisis unchanged. The question then is whether the company has a better or worse standing thereafter. In short, it is a question of crisis management.

There are two myths about crisis: They always happen on a Friday afternoon, when nobody is available to deal with them, and they always happen unexpectedly, as a big surprise. These are myths.

The first is nonsense and the second simply the result of poor preparation and bad judgment. “Why should we prepare, practice, spend money, time, emotion and manpower on a phantom problem which might never happen to us?”

At the beginning of this book we spoke about responsibility. If management has the necessary vision and responsibility, if it looks into all the corners of its kingdom, it will know that sooner or later

something will happen. And survival is just a matter of careful preparation (we will come back to this later).

Basically we only know of two kinds of corporations: those that have gone through a crisis and those that will go through a crisis. Because it is only a question of time. We admit that there is a third category – a tiny category: corporations that are well prepared and, above all, are in luck.

And yet when a crisis hits it still seems to come out of the blue. The unexpected happens. And beyond damage to tangible goods or even human life or physical integrity it can smash a company's most valuable intangible asset: its reputation. An organisation's reputation – and by extension, its brand – only exists in people's mind. What can take years and years of careful cultivation to grow can be ruined, wasted in only a few days in the intense ordeal of a crisis. Organisations never have more to lose in such a short period of time.

The challenge with which crisis management is confronted has grown dramatically. And nevertheless, there are still too many companies without any provisions for emergencies. Even big, multinational corporations seem petrified when things happen off the agenda of their top management. And this is exactly what crisis management has to do: put the unexpected on the agenda.

Responding to an actual crisis, calming the uproar in the media, starting to rebuild the company's reputation and to regain the customers' trust is a hard exercise for the crisis management team – if such a team exists at all. The real management challenge, however, is the mitigation of, and preparedness for, crises. The best way to manage crises is never to suffer one through the use of a well-conceived and implemented crisis prevention program.

Above all, the crucial, decisive point is communication. Crisis managers are not engineers or security experts nor magicians. They are communication professionals. Of course, fires have to be put out first; care for those impacted by the crisis has to be taken by respective experts. But whether the company will suffer for a long period of time or reputation can be restored quickly and confidently is heavily influenced by communication –

communication that doesn't start after the crisis event but long before and independent of any crisis.

Crisis potential is limitless!

To build and nurture trust in your organisation is the most effective form of crisis prevention. Good and open communication – internal and external – is the basis for positive handling of an actual crisis.

Here is an excellent example of a company who to our knowledge is one of the best prepared and most responsible corporations when faced with a potential crisis.

There is hardly a company with a more likable and friendly image than the Swedish company IKEA. But this is not by chance. It's a reputation the company has deliberately built up over very many years. Here's a great example of why they have had that reputation from as far back as 1992. A major news magazine in Hamburg, Germany published an article in which it revealed that, following a customer complaint, one of IKEA's major product lines at that time, a wooden shelf, contained high doses of formaldehyde, a chemical compound said to trigger cancer, a carcinogenic. The research results, delivered by a reputable laboratory, seemed to prove the accusation.

The news gained nationwide momentum, dozens of media picked up the story and IKEA seemed to face a serious problem.

The information about the initial customer complaint and the test results of the publication put the IKEA management on alert and made their technicians as well as the PR function act swiftly, though without playing down the facts. The product was taken off the shelf immediately and at the same time a company spokesperson issued an apology to all customers who might have been affected, together with the offer to return the shelf for a full refund. Taking into account that thousands and thousands of shelves had been sold this could have turned out to be a very expensive promise. But surprisingly only a few, less than one hundred people, showed up to collect the money.

Within hours the company was able to identify the production site of the shelf and to stop further distribution. IKEA asked an independent laboratory to

test the product under various conditions and methods and it was proved that the products tested were without any traceable amount of formaldehyde. There was no health hazard at any time for any IKEA customers.

The company acted in a most responsible way; their technicians dealt with the product problem as they should – using an independent source to clarify the position; their communication people maintained an open and honest dialogue with their customers and the media who applauded the way IKEA dealt with the issue, keeping them, their readers and the IKEA customers informed at all times.

A good example of how to turn a potential media disaster into a winning situation. For sure, IKEA's good image helped enormously but so did the way they communicated throughout the crisis. The company was decisive, inclusive, open and honest; all of which led to a positive conclusion.

But too often we see the opposite happening. Investigative media inquiries or people pointing at risks or voicing concerns are seen as intruders, potential enemies and troublemakers. Not a clever strategy for long-term survival.

There are always people who knew things in advance, who had already said that not so long ago. Who'd pointed out the risks and problems but management didn't listen or decided the problem wasn't serious enough or just weren't bothered.

And the truth is: almost every crisis derives from a problem that will have already been identified by someone, either inside or even outside of the company. And that conclusion is based on comprehensive practical experience in this field.

The potential for crises is limitless. And you have to accept the fact that you cannot deal with every imaginable event. But what you can and should do is select the most likely ones, in general the home-grown ones, and prepare for them.

The essential is to sharpen the company's perception of possible emergencies and establish a management system that focuses on preventing crises. A system that enables the company to deal with such

emergencies no matter what form they take. Put crisis prevention and crisis preparedness on your corporate agenda!

Problem solving means crisis prevention

Not every problem is a crisis. A problem is a management task solved within a planned time frame or deliberately ignored if no immediate solution is at hand. All companies and organisations have problems. In fact, problem solving usually absorbs much of management's time, and a corporation's many bureaucratic systems and procedures are specifically developed so that problems can be solved in an orderly and timely way. Simply said: problem solving is what good management does; it's the unsolved problems that have a tendency to become crises.

A crisis is a situation which threatens severe damage to the company, its image, employees and constituents. It is a situation that causes an organisation to behave in a dysfunctional manner. Everything stops until there is resolution. The crisis overwhelms an organisation's ability to conduct business in an orderly fashion. That is, a situation in which the organisation has to devote inordinate resources – particularly the number and seniority of staff – to attempt to bring things back to normal.

But what is a crisis to you can be simply a problem to some-one else or of no consequence at all to the next person. How you perceive a situation depends entirely upon your viewpoint.