Crisis management – easy to do badly, hard to do right

Differing experiences of Wal-Mart, Enron and Arthur Andersen

When Hurricane Katrina ravaged New Orleans in September 2005, there was one organization that stood head and shoulders above the others in helping the communities survive the chaos and devastation that followed.

Wal-Mart's high-speed response

Immediately after the hurricane struck, key Wal-Mart employees acted instinctively and decisively by opening up their stores and giving out vital supplies of food, water and clothing to victims in the area. In addition, the company's CEO, Lee Scott, sent $3 million of supplies by haulage and contributed a further $17 million in cash to the relief efforts. Because they had an effective crisis management process in place, Wal-Mart was able to re-open 113 of its 126 stores affected by the hurricane just 18 days after disaster struck.

In fact, Wal-Mart's response to Katrina began on 23rd August – a full six days before the storm hit New Orleans as members of the Emergency Operations Center tracked the tropical storm building off the coast of Florida. This head start allowed the organization to mobilize its truckers in order to get the necessary aid to the region. And because the Emergency Center had plenty of experience in dealing with natural disasters (four hurricanes in five weeks in 2004) they knew just what to send. When the US government was slow to bring desperately needed supplies and order to New Orleans, Wal-Mart was not. Thanks to their speedy response, the company gained massive support and silenced its many critics – at least for the time being.

However, not all organizations have been so successful in times of trouble. Enron's response (or lack of) during the shocking financial scandal of 2001 played its part in bringing the company down and Exxon Corp's poor handling of the Valdez oil spill has left many with negative perceptions of the company that will be impossible to shake off.

Andersen – right approach, wrong message

Another company that was affected by the Enron affair was Arthur Andersen, the accountancy firm who had a ''suspiciously'' close relationship with the fallen energy giant. And when the story broke about the shredding of key documents, Andersen faced intense negative scrutiny from both the media and with the industry. Unlike Enron, Andersen immediately launched a crisis management process. It created a list of media to which it would directly speak, set up a public information website, ran advertising campaigns and sent out the consistent message that its indictment was ''grossly political'' and that they had done nothing wrong. In terms of procedure, Andersen did everything right. However, the message that it sent out – that the company played no part in the scandal – was one that the public was simply never going to accept. Consequently the company folded and thousands

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of innocent employees lost their livelihood. Andersen's experience shows that effective crisis management is about more than just following procedure.

"Sudden" and "Smoldering" crises

So what would you deem a crisis? And how would your organization react to any of the events mentioned above? According to James and Wooten, a business crisis is:

> Any emotionally charged situation that, once it becomes public, invites negative stakeholder reaction and thereby has the potential to threaten the financial wellbeing, reputation or survival of the firm or some portion thereof.

They believe that there are two types of organizational crisis, sudden and smoldering:

1. *Sudden crises:* natural disasters, terrorist attack, plant explosion, workplace violence, product tampering, sabotage, hostile takeover, executive kidnapping, environmental spill, technology disruption.
2. *Smoldering crises:* product defects, rumors/scandals, workplace safety, bribery, sexual harassment, consumer activism, mismanagement, whistle blowing, class action lawsuits, labor disputes.

Because sudden crises are often seen as out of control of people's hands, there is often more public sympathy and understanding to the reaction of companies in the wake of these events. However, as Wal-Mart demonstrated, through firm leadership and effective processes it is possible to engender goodwill and positive publicity in the face of a potentially devastating situation.

The smoldering crises are often more damaging to an organization's reputation as they are perceived to be the result of management failings. They often start out as small internal problems that quickly escalate.

Five distinct phases

As well as categorizing crises into two distinct types, James and Wooten also highlight the results of other researchers in the field who have identified five distinct phases of a crisis:

1. *Signal detection:* Leaders should consider what their organizations vulnerable areas are, how these can result in a crisis, what situations or practices the company ignores that could lead to a crisis, whether the company acknowledges things that are uncomfortable to confront and how current systems or policies could contribute to a potential crisis situation.
2. *Preparation/prevention:* Questions asked should include whether a plan has been created to manage any crises, have appropriate resources been allocated, whether the current organizational setup will help or hinder during a crisis, has the company developed a culture of readiness when it comes to responding to a crisis.
3. *Containment/damage control:* Considerations in this area are about whether the company has a strategy in place for damage limitation, how is crisis-related information controlled, which stakeholders are most affected and what is needed to satisfy them and what messages should be conveyed to whom.

4. *Business recovery:* Leaders need to think about the short-term and long-term recovery plans, what are the critical activities that they need to engage in to recover from the crisis, what metrics should be used to evaluate the performance of the business recovery strategy, how leaders will communicate the end results of this phase.
5. *Learning:* Questions here should be around what the organization learned, whether it has changed its behavior to prevent future crises, if leadership reflected on past experiences and most importantly whether the organization has developed a ''memory'' in order to prevent future crises.

Of these phases, the most important two seem to be the preparation/prevention and learning. By ensuring you have systems and processes in place, you will be better placed to contain any crisis and effect a speedy recovery. Similarly, by learning from past experience you can make sure the same mistakes are not made. This phase is also useful in terms of communicating to the public. By explaining how you have learned from a crisis and describing the processes you have put in place to prevent a recurrence, you will go some way to restoring confidence in your company.

Leadership critical

In relation to these phases they set out six key competencies that leaders should demonstrate in order to use a crisis situation to promote organizational change:

1. building a foundation of trust;
2. creating a new corporate mindset;
3. identifying the firm vulnerabilities;
4. making wise and rapid decisions;
5. taking courageous action; and
6. learning to effect change from a crisis.

Whilst not every company is going to get it right every time, the examples above show the importance of having some sort of process or procedure in place to minimize the damage to company reputation. Those who have managed crises in a positive manner combined an effective system with fast responses and open and honest communication which included acknowledgement of responsibility. As Andersen showed, there is nothing the public dislikes more than a company that adopts a ''not my fault'' approach. By taking into account the leadership competencies and questions to ask during a crisis, you can make sure that your organization is prepared to manage any awkward situations that may come your way.

Comment

This is a review of ''Mea Culpa'' by Lotte Jeffs, ''The only lifeline was the Wal-Mart'' by Devin Leonard and ''Leadership as (un)usual: how to display competence in times of crisis'' by Erika James and Lynn Wooten.

''Mea Culpa'' looks at various organizational crises over the last 20 years, focusing particularly on the Enron scandal and resulting casualties. The exemplary actions of Johnson & Johnson in the wake of the Tylenol affair are also highlighted. This is all set within the context of the ISO standards requirements for this in environmental matters.

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Devin Leonard's article describes how Wal-Mart responded so effectively to the devastating effects of Hurricane Katrina. He highlights the value of the organization's Emergency Operations Center and includes account of some of the employees who played a part in the help operation in New Orleans. The article also offers some pointers on dealing with the aftermath of storm damage which makes it a valuable and interesting study.

The final article is an insightful piece on the importance of leadership during challenging times. James and Wooten identify two types of crisis (sudden and smoldering) and also set out some key competencies that leaders need to demonstrate in order to steer their organization through a crisis. There are many useful tips in here for setting up a crisis management procedure including a list of questions that leaders need to ask during various phases of a crisis. An essential read for anyone involved in business continuity although the information in here will be of interest to most leaders and senior management.

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