Crisis management: prevention, diagnosis and intervention

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Abstract Translate

This article deals basically with the dynamic environment of today's businesses. Despite all of the efforts a company puts forth to scan the environmental issues, crises can occur and have to be managed. The article first reviews several crises in businesses during the recent times, to define and identify the nature of a crisis. Then the anatomy of a crisis is presented schematically. Finally, by recommending certain preventive measures and interventions, the article concludes that acknowledging a crisis and communicating with the stakeholders are as important as planning the prevention, diagnosis, and intervention to solve crisis situations.

Full Text Translate

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Introduction

Strategic planning as a discipline has been concurrently taught and exercised in the past 40 years. This relatively new concept has been the major thrust in the management of US corporations. The art of strategic planning has helped the planners to forecast and cope with a variety of forces, issues and problems beyond their operating control. Nevertheless, all the non-foreseeable issues cannot be forecasted. Therefore, a certain productive function for the management of these issues and crises seems to be missing in a large number of companies. The strategic planning literature shows an experience curve in such forecasts, i.e. as mistakes are made, we learn from them. That is how contingency planning, scenario analysis and surprise management have evolved. The Johnson and

Johnson Tylenol case, and the Union Carbide tragedy in Bhopal, India, are examples recurrently referred to in the strategic management literature. The way these two companies dealt with a crisis issue has provided us with a certain level of knowledge and experience that can be used in similar situations.

We have also learned that it is no longer a question of "if" a business will face a crisis; it is, rather, a question of "when," "what type" and "how prepared" the company is to deal with it (Mittroff et. al., 1996). Whether it is a natural disaster, such as an earthquake, tornado or flood, or a man made disaster, such as accidents, wildcat strikes or product tampering, a business will eventually face some form of crisis.

The MIR space station, built and placed in operation by the Soviet Union in 1986, had a very limited mission and encountered anticipated mechanical problems, for which the planners had devised solutions. With the infusion of $400 million by the USA to jointly operate the system, MIR faced a situation in June 1997 that was not forecasted. An unmanned cargo ship hit the spacecraft, disabling the MIR solar panels, thus affecting the airconditioning and lighting functions. This was a crisis to deal with. Two measures were found appropriate: a space walk for temporary repairs, and a manned supply shuttle later to perform major repairs. The question is, could they have anticipated the problem? Well, as long as one's imagination allows, scenarios could be written. But would it be possible to provide all the answers at the time of the planning? Probably not.

There seems to be a fine line between issues analysis and crisis management. As for issues analysis, it is a process to alert management to emerging political, social and economic trends and controversies, and to mobilize the company's resources to deal with them. As such, an issue is a condition or pressure, either internal or external to an organization that, if it continues, will have a significant effect on the functioning of the organization or its future interests (Brown, 1979). A crisis, on the other hand, is defined as any unplanned event that can cause death or significant injuries to employees, customers, or the public; shut down the business; disrupt operations; cause physical or environmental damage; or threaten the facility's financial standing or public image (Clark 1995/1996).

For the purpose of this paper, crisis management is defined as a series of functions or processes to identify, study and forecast crisis issues, and set forth specific ways that would enable an organization to prevent or cope with a crisis (Darling et al., 1996). The premise of this paper is that crises can be managed much more effectively if the company prepares for them. Therefore, the paper shall review some recent crises, the way they were dealt with, and what can be learned from them. Later, we shall deal with the anatomy of a crisis by looking at some symptoms, and lastly discuss the stages of a crisis and recommend methods for prevention and intervention.

Crisis acknowledgment

Although many business leaders will acknowledge that crises are a given for virtually every business firm, many of these firms do not take productive steps to address crisis situations. As one survey of Chief Executive officers of Fortune 500 companies discovered, 85 percent said that a crisis in business is inevitable, but only 50 percent of these had taken any productive action in preparing a crisis plan (Augustine, 1995). Companies generally go to great lengths to plan their financial growth and success. But when it comes to crisis management, they often fail to think and prepare for those eventualities that may lead to a company's total failure. Safety violations, plants in need of repairs, union contracts, management succession, and choosing a brand name, etc. can become crises for which many companies fail to be prepared until it is too late.

The tendency, in general, is to look at the company as a perpetual entity that requires plans for growth. Ignoring the probabilities of disaster is not going to eliminate or delay their occurrences. Strategic planning without inclusion of crisis management is like sustaining life without guaranteeing life. One reason so many companies fail to take steps to proactively plan for crisis events, is that they fail to acknowledge the possibility of a disaster occurring. Like an ostrich with its head in the sand, they simply choose to ignore the situation, with the hope that by not talking about it, it will not come to pass. Hal Walker, a management consultant, points out "that decisions will be more rational and better received, and the crisis will be of shorter duration, for companies who prepare a proactive crisis plan" (Maynard, 1993). Making decisions while under the stress, excitement and dangers of a crisis situation is much harder than having to react to a crisis in terms of a preapproved framework.

It is said that "there are two kinds of crises: those that you manage, and those that manage you" (Augustine, 1995). Proactive planning helps managers to control and resolve a crisis. Ignoring the possibility of a crisis, on the other hand, could lead to the crisis taking a life of its own. In 1979, the Three-Mile Island nuclear power plant experienced a crisis when warning signals indicated nuclear reactors were at risk of a meltdown. The system was equipped with a hundred or more different alarms and they all went off. But for those who should have taken the necessary steps to resolve the situation, there were no planned instructions as to what should be done first. Hence, the crisis was not acknowledged in the beginning and it became a chronic event.

In June 1997, Nike faced a crisis for which they had no existing frame of reference. A new design on the company's Summer Hoop line of basketball shoes - with the word air written in flaming letters - had sparked a protest by Muslims, who complained the logo resembled the Arabic word for Allah, or God. The council of American-Islamic Relations threatened a global Nike boycott. Nike apologized, recalled 38,000 pairs of shoes, and discontinued the line (Brindley, 1997). To create the brand, Nike had spent a considerable amount of time and money, but had never put together a general framework or policy to deal with such controversies. To their dismay, and financial loss, Nike officials had no choice but to react to the crisis. This incident has definitely signaled to the company that spending a little more time would have prevented the crisis. Nonetheless, it has taught the company a lesson in strategic crisis management planning.

In a business organization, symptoms or signals can alert the strategic planners or executives of an eminent crisis. Slipping market share, losing strategic synergy and diminishing productivity per man hour, as well as trends, issues and developments in the socio-economic, political and competitive environments, can signal crises, the effects of which can be very detrimental. After all, business failures and bankruptcies are not intended. They do not usually happen overnight. They occur more because of the lack of attention to symptoms than any other factor.

Stages of a crisis

Most crises do not occur suddenly. The signals can usually be picked up and the symptoms checked as they emerge. A company determined to address these issues realizes that the real challenge is not just to recognize crises, but to recognize them in a timely fashion (Darling et al., 1996). A crisis can consist of four different and distinct stages (Fink, 1986). The phases are: prodromal crisis stage, acute crisis stage, chronic crisis stage and crisis resolution stage. These stages can be viewed in Figure 1 (crisis cycle flow chart).

Modern organizations are often called "organic" due to the fact that they are not immune from the elements of their surrounding environments. Very much like a living organism, organizations can be affected by environmental factors both positively and negatively. But today's successful organizations are characterized by the ability to adapt by recognizing important environmental factors, analyzing them, evaluating the impacts and reacting to them. The art of strategic planning (as it relates to crisis management) involves all of the above activities. The right strategy, in general, provides for preventive measures, and treatment or resolution efforts both proactively and reactively. It would be quite appropriate to examine the first three stages of a crisis before taking up the treatment, resolution or intervention stage.

Prodromal crisis stage

In the field of medicine, a prodrome is a symptom of the onset of a disease. It gives a warning signal. In business organizations, the warning lights are always blinking. No matter how successful the organization, a number of issues and trends may concern the business if proper and timely attention is paid to them. For example, in 1995, Baring Bank, a UK financial institution which had been in existence since 1763, suddenly and unexpectedly failed. There was ample opportunity for the bank to catch the signals that something bad was on the horizon, but the company's efforts to detect that were thwarted by an internal structure that allowed a single employee both to conduct and to oversee his own investment trades, and the breakdown of management oversight and internal control systems (Mitroff et al., 1996). Likewise, looking in retrospect, McDonald's fast food chain was given the prodromal symptoms before the elderly lady sued them for the spilling of a very hot cup of coffee on her lap - an event that resulted in a substantial financial loss and tarnished image of the company. Numerous consumers had complained about the temperature of the coffee. The warning light was on, but the company did not pay attention. It would have been much simpler to pick up the signal, or to check the symptom, than facing the consequences.

In another case, Jack in the Box, a fast food chain, had several customers suffer intestinal distress after eating at their restaurants. The prodromal symptom was there, but the company took evasive action. Their initial approach was to look around for someone to blame. The lack of attention, the evasiveness and the carelessness angered all the constituent groups, including their customers. The unfortunate deaths that occurred as a result of the company's ignoring the symptoms, and the financial losses that followed, caused the company to realize that it would have been easier to manage the crisis directly in the prodromal stage rather than trying to shift the blame.

Acute crisis stage

A prodromal stage may be oblique and hard to detect. The examples given above, are obvious prodromes, but no action was taken until an acute stage occurred. According to the Webster's New Collegiate Dictionary, an acute stage occurs when a symptom "demands urgent attention." Whether the acute symptom emerges suddenly or is a transformation of a prodromal stage, an immediate action is required. Diverting funds and other resources to this emerging situation may cause disequilibrium and disturbance in the whole system. It is only those organizations that have already prepared a framework for these crises that can sustain their normal operations. For example, the US public roads and bridges have for a long time reflected a prodromal stage of crisis awareness by showing cracks and occasionally a collapse. It is perhaps in light of the obsessive decision to balance the Federal budget that reacting to the problem has been delayed and ignored. This situation has entered an acute stage and at the time of this writing, it was reported that a bridge in Maryland had just collapsed.

The reason why prodromes are so important to catch is that it is much easier to manage a crisis in this stage. In the case of most crises, it is much easier and more reliable to take care of the problem before it becomes acute, before it erupts and causes possible complications (Darling et al., 1996). In an acute stage, management can only take action to control the damage. However, the losses are incurred. Intel, the largest producer of computer chips in the USA, had to pay an expensive price for initially refusing to recall computer chips that proved unreliable on certain calculations. The firm attempted to play the issue down and later learned its lesson. At an acute stage, when accusations were made that the Pentium Chips were not as fast as they claimed, Intel quickly admitted the problem, apologized for it, and set about fixing it (Mitroff et al., 1996).

Chronic crisis stage

During this stage, the symptoms are quite evident and always present. It is a period of "make or break." Being the third stage, chronic problems may prompt the company's management to once and for all do something about the situation. It may be the beginning of recovery for some firms, and a death knell for others. For example, the Chrysler Corporation was only marginally successful throughout the 1970s. It was not, however, until the company was nearly bankrupt that a management shake-out occurred. The drawback at the chronic stage is that, like in a human patient, the company may get used to "quick fixes" and "band-aid" approaches. After all, the ailment, the problem and the crisis have become an integral part of the body of the organization. Either the organization is so overwhelmed by prodromal and acute problems that no time or attention is paid to the chronic problems, or the managers perceive the situation to be tolerable, thus putting the crisis on a back burner.

Crisis resolution

Crises could be detected at various stages of their development. Since the existing symptoms may be related to different problems or crises, there is a great possibility that they may be misinterpreted. Therefore, the people in charge may believe they have resolved the problem. However, in practice the symptom is often neglected. In such situations, the symptom will offer another chance for resolution when it becomes acute, thereby demanding urgent care. Studies indicate that today an increasing number of companies are issue-oriented and search for symptoms. Nevertheless, the lack of experience in resolving a situation and/or inappropriate handling of a crisis can lead to a chronic stage. Of course, there is this last opportunity to resolve the crisis at the chronic stage. No attempt to resolve the crisis, or improper resolution, can lead to grim consequences that will ultimately plague the organization or even destroy it.

It must be noted that an unsolved crisis may not destroy the company. But, its weakening effects can ripple through the organization and create a host of other complications.

Preventive efforts

The heart of the resolution of a crisis is in the preventive efforts the company has initiated. This step, similar to a human body, is actually the least expensive, but quite often the most overlooked. Preventive measures deal with sensing potential problems (Gonzales-Herrero and Pratt, 1995). Major internal functions of a company such as finance, production, procurement, operations, marketing and human resources are sensitive to the socio-economic, political-legal, competitive, technological, demographic, global and ethical factors of the external environment. What is imminently more sensible and much more manageable, is to identify the processes necessary for assessing and dealing with future crises as they arise (Jackson and Schantz, 1993). At the core of this process are appropriate information systems, planning procedures, and decision-making techniques. A soundly-based information system will scan the environment, gather appropriate data, interpret this data into opportunities and challenges, and provide a concrete foundation for strategies that could function as much to avoid crises as to intervene and resolve them.

Preventive efforts, as stated before, require preparations before any crisis symptoms set in. Generally strategic forecasting, contingency planning, issues analysis, and scenario analysis help to provide a framework that could be used in avoiding and encountering crises.

Strategic forecasting

This technique primarily involves predictions. These predictions are based on assumptions that the organization is capable of adapting to new situations. Predictions can be made for an abrupt change when trends of the past are unusable for projecting the future. Many forecasting techniques are now available to managers which would project precisely but miss surprise events. These techniques consist of qualitative, opinion quantification, extrapolation, simulation and cause and effect methods. The essence of these forecasting techniques is to correctly predict and assess the impact of major or broad changes rather than to predict specific changes that may be overridden by the broader trends (Digman, 1995).

Contingency planning

Contingency plans are alternative plans that can be put into place if events do not occur as expected. Whereas forecasting is based on predictable, and thus reasonably certain events, the contingency plans an organization prepares are for less certain situations. Airline companies usually use their administrative and managerial staff in the event an employee strike is faced. When imports are curtailed, companies have alternative plans to buy from domestic suppliers. Many strategic decisions of a company are based on the framework provided by the contingency plans. When interest rates go up unpredictably, a company may refrain from expansion. When a firm is in a dominant market position and cannot find a take-over subject, it may start a stock buy-back program. As is evident, contingency plans are also based, to some extent, on predictable environmental changes. Obviously, having prepared contingency plans helps to not only safeguard a company against a crisis, but also to resolve crisis situations as they occur.

Issues analysis

This approach is related to and is very much similar to contingency planning. The purpose here is to alert company decision-makers to evolving trends in the external environment of a business. The business, on the other hand, steers its efforts to make the issue advantageous to the company. For example, the trend of environmental protection demonstrated that certain companies will eventually be forced to change methods of production, energy sources used and products manufactured. DuPont has changed chemical processing approaches, International Paper now recycles paper, Johns Manville no longer produces asbestos, and automakers have been searching for alternatives to internal combustion engines.

Scenario analysis

Scenarios are attempts to describe in detail a sequence of events which could possibly lead to a prescribed end-state, or alternately, to consider the possible outcomes of present choices (Grant and King, 1979). Also, the scenario is a hypothetical sequence of events designed to draw attention to causal processes and decision points (Smith, 1982).

Scenario analysis involves thinking about favorable and unfavorable situations that might arise, and the company's alternatives for preventing, facilitating or thwarting the precesses that caused the situations. Scenarios may pertain to management succession in the case of a plane crash or death, take-over attempts and other disasters. For example, in April 1993, a dozen executives from the USA died, along with Commerce Secretary Ron Brown, in a plane crash on the way to Bosnia to initiate trade relationships. A study shows that 34 percent of the companies surveyed had no succession plans.

A firm can very systematically take steps in its scenario analysis attempts. General Motors has prescribed seven steps:

1 develop a pair of scenarios (best case and worst case);

2 list alternative courses of action;

3 evaluate the outcome of the various strategies;

4 follow the same procedure for the worst case scenario;

5 combine (3) and (4) to analyze the desirability of each case situation;

6 evaluate the strategies for the second scenario of the first step; and

7 compare results for each of the critical factors analyzed (Naylor, 1983).

Crisis intervention

Crisis intervention occurs in several different ways. As we have discussed before, a crisis may be diagnosed when a symptom is present and can be traced and the source determined. When a symptom is "spotted" the executive's objective as a crisis manager is to seize control swiftly and calculate the most direct and expedient route to achieving a resolution of the crisis (Darling et al., 1996). When a company finds itself in the midst of a crisis, it must be prepared to admit the reality of the crisis situation. In 1984, rumors began to spread that Columbia Data Systems, a major firm in the early stages of the personal computer industry, had posted a significant loss on its financial statements, had begun laying off workers and was seeking Chapter 11 Bankruptcy protection. The response of Columbia was to basically do nothing, perhaps believing that by not acknowledging the situation, it would go away. Because their customers received no communications or reassurance from the company, they chose to believe the rumors, and stopped buying from Columbia. It took less than a year for the company to close its doors for good (McCune, 1994).

Refusing to acknowledge a crisis situation is the worst course of action to take. Quick decisive action needs to be taken. Dow Chemical's officials believe that the first 24 hours are the critical ones for a business facing a crisis. If the company does not quickly respond in that time to provide the public with genuine information, the firm will be judged "guilty until proven innocent" (Offer, 1996). Companies must be prepared to acknowledge a crisis, and move quickly to deal with it.

A very important step towards dealing with any crisis is effective use of communication. A business must be willing to open the lines of communication quickly to stakeholders. A company that freely shares information stands the best chance of weathering difficulties (Mitroff et al.,1996). Airlines have come to recognize the critical nature of communication during a crisis. US Air, for example, recognizes that when its crisis plan goes into effect, leadership within the company becomes a coordinator of aid and information to the families (Donoho, 1994). Information becomes critical to stakeholders during a time of company crisis. Companies need to communicate in terms of "long-term" crisis communication, as opposed to "short-term" communication (Gonzales-Herrero and Pratt, 1995). This means that you maintain your plan, and make communication statements that do not just address current crisis issues, but the information provided and the means by which it is communicated are handled with a mindset of how this will affect the company in the future.

Since it may not be easy to think in those terms during the crisis stage, it is imperative that companies attempt to set parameters for this during the planning stage. Martin Marietta, for example, recognizes the need to communicate during the times of crisis. The firm maintains communication at a central location from which it can immediately communicate to all of its key constituencies (Augustine, 1995). First impressions are of major importance when crisis strikes, and often getting the company's case across to key stakeholders is best done directly (Birch, 1994).

Keep people informed, and be honest. A survey done by Porter/Novelli, a public relations firm in New York, found that 95 percent of respondents said that they "are more offended when a company lies about a crisis than they are about the crisis itself" (Maynard, 1993). Johnson & Johnson increased its credibility by being honest in its communication during the Tylenol cyanide event (Mitroff et al.,1996). The Pepsi-Cola Company felt that an essential part of its recovery plan, during the event when a syringe was found in a bottle, was the use of cross-functional teams that examined the claims being made, sorted out the facts, and then forwarded accurate information to the sales force who was working hard to communicate those facts to customers (McKenzie, 1994).

Companies need to have an individual designated to be the primary spokesperson for the company during a crisis situation. This person should understand the values of the company, and be able to articulate those values while addressing difficult circumstances. The key is genuine, open communication, delivered by a credible source that can effectively convey a message of care, confidence and control. Although it would be preferable for a company to not experience a crisis, it can be argued that in some cases a crisis can actually become an opportunity for the company. As one executive has noted, "almost every crisis does contain within itself the seeds of success as well as the roots of failure. Finding, cultivating and harvesting that potential success is the essence of crisis management" (Augustine, 1995).

In 1983, Johnson & Johnson had a major crisis to deal with when some customers died from having taken cyanide-laced Tylenol products. The company responded quickly and forcefully. It spent a great deal of money on repurchasing millions of capsules from stores and customers, and on retooling its packaging, with safety and protection of the consumer in mind. Because the company displayed care for its customers and commitment to the corporation's ethical standards, the firm was clearly even more highly regarded after the episode than it had been before (Augustine, 1995).

Companies should recognize that when dealing with a crisis, a firm is really focusing on reputation management (McKenzie, 1994). It is an opportunity for a company to enhance its image from the consumer's point of view. Tetra Pak, a Swedish drink carton manufacturer, views the whole issue of crisis management as an extension of its corporate culture, stating in its philosophy that everything a company does is part of the public perception of the company (McKenzie, 1994). That includes how a company responds to a crisis situation. The company that tends to practice this philosophy can often find value emanating from a potentially negative situation.

A basic tenet of crisis management is that a company must demonstrate that it cares, particularly if there are injuries or deaths, and regardless of whether or not the company contributed to the accident (Maynard, 1993). In 1991, a driver of a truck crashed into a Luby's restaurant located in Ceylon, Texas, injuring a family. Although the company was not at fault, the company president immediately flew there, and remained for several days. The company donated $100,000 to a local fund for the family. Although the restaurant was closed for five months, all 42 employees were kept on the payroll. This obvious caring and considerate action by the firm was recognized by local consumers, and they patronized the restaurant heavily once it reopened (Maynard, 1993). A company must convey concern for customers, staff and the general population. That becomes easier if there is a genuine concern that permeates the corporate culture.

There are certain basic efforts that a company should make even before a crisis starts. These efforts focus on two steps a company can take: establishing a crisis management team, and appointing strategic teams for scenario analysis.

Establishing a crisis management team

It is important to establish a crisis management team, with a clear chain of command, well in advance of any crisis (McKenzie, 1994). The team should meet every six months or so to discuss potential crises and how to respond to them (Hoffman, 1996). These teams should be cross-functional, to get input from all aspects of the business, identify every possible disaster they can imagine the company facing, as well as possible responses, and identify potential crises and determine how vulnerable the company is to them. A full crisis plan should be developed for the crises that have the highest risk of happening to a company, while for lesser risk crises, a smaller contingency plan should suffice.

The plan development should focus on protecting people, communication and mitigating damage to facilities. Once the plan has been developed, all participants in the plan need to be kept informed, and regular review must take place. It is not a static environment that businesses operate in, therefore a firm must continually update and test the plan. One eclectic company designated five functional groups (operations, funding, personnel-logistics, technical support and communications), to be overseen by a disaster recovery manager with the assistance of a disaster recovery coordinator. Such an approach would work well in most types of organizations. The key is to get a variety of input from the various functional areas of the company, in order to more adequately cover all potential issues on which a crisis may focus, and to establish beforehand areas of responsibility and chains of command.

Appointing strategic teams for scenario analysis

Although this may appear to be a preventive measure, the people appointed will also gain the expertise to quickly react to a new crisis situation. This expertise is the result of contingency planning over a period of time in the absence of a crisis. The important thing here is the continuity of scenario analysis. Quite often, companies tend to discontinue the effort due to cost saving. It is evident that when a crisis arises, the company will usually spend much more to solve the problem than the cost of having a strategic team continuously in operation. The team analyses put to work and rehearsed can facilitate a significant pay-back at the time of a crisis.

Conclusion

The primary focus of this article is the fact that companies that prepare for crisis events are better able to handle them more efficiently and successfully. At this stage of progress in the art of strategic planning and contingency forecasting, it is quite feasible to address crisis situations ahead of time by issues analysis and scenario creation. Acknowledging a crisis, and communicating affectively with constituent groups, will reduce image and reputation damages. However, the primary success comes from prevention, preparation and intervention.

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Illustration
Caption: Figure 1; Crisis cycle flow chart

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