"No comment". Those two simple words can shatter a company's reputation and cost it millions in lost sales. So how can you turn a corporate crisis into competitive advantage?

In October 2001, news of potentially harmful bacteria found in a McChicken Burger in Buenos Aires, Argentina, spread across South America via television and the internet. Although no one was proved to have been made sick or placed at risk, the incident cost McDonald's several million dollars in lost sales and damaged brand equity (Turpin, 2002).

Effective or ineffective communication during the first hours - or even minutes - of an emergency can have dramatic implications for the image of a company (Dawar and Pillutla, 2000). A study of 2,645 consumers conducted by the advertising agency DDB Needham showed that a company's handling of a crisis ranked as the third most important influence on consumer purchasing, after product quality and handling of complaints (Marketing News, 1995).
Crisis-management experts are unanimous in concluding that it is not a matter of if a company will be faced with a crisis, but when and how well-prepared executives will be to weather the storm (Albrecht, 1996). Indeed, no company is immune to a potential crisis created by flawed products, blackmail by unscrupulous consumers, dishonest acts by employees or managers, the sudden death of a senior executive, terrorist acts or natural disasters. In any one of these situations, saying the “right” thing, showing real concern and compassion with actions that are consistent can save companies much trouble. Even if management perceives the crisis as “unfounded” or “unfair” because of below-the-belt attacks or because they underestimate the problem at hand, years of efforts aimed at building a strong brand and reputation can be ruined in the time it takes to say “no comment”.

The new context
The importance of communicating effectively in times of crisis is further reinforced by the growth of “instant information” networks. Thanks to the internet, dissatisfied employees, angry customers and other disappointed stakeholders can easily spread information and false facts about products, services, suppliers and other business partners almost instantaneously. The proliferation of dedicated television news channels, such as CNN, BBC World and Al-Jazeera, and the increasing number of radio networks specialising in instant news, means that information is increasingly delivered “live”, making it harder for corporations to take the lead and control the quality of information disseminated to the global public. Rumours and false information can spread around the world as fast and as widely as the truth.

From analysing a number of recent business crises, including McDonald’s in Argentina, the recall of Bridgestone/Firestone tyres in the US, tainted Coca-Cola cans in several European countries in 1999 (Steger and Lehmann, 2001), the mismanagement in 2000 of the Snow Brand milk scandal in Japan (Cordon and Vollman, 2001) and the 2001 Swissair bankruptcy, we have drawn several lessons on how to prevent a communications crisis.

Six steps for crisis planning
The best way to deal with a crisis is to defuse the problem before it turns into a disaster. The example of the Y2K computer-virus scare provides useful lessons for managers. Although the issue may have been somewhat exaggerated by the media, the message definitely caught the attention of many companies (Mitroff and Anagnos, 2000). The most cautious firms took preventive action one or two years ahead of time and, as a result, the crisis never materialised. This example illustrates how crises can be anticipated and managed properly by assessing the risks and planning for worst-case scenarios. Although there is no real recipe for effective crisis prevention, we suggest six steps towards planning for and defusing a crisis.

1. Assess one’s own vulnerability: The first step is to assess the company’s level of exposure. For example, every airline executive is trained to handle a major catastrophe. On September 2, 1998, when Swissair Flight 111 crashed into the Atlantic Ocean, killing all 229 people on board, every executive in the company was fully trained and prepared to deal with the situation. Swissair’s concern, compassion and fast action for the victims’ families were managed in such a professional manner that the international press lauded the company’s attitude as exemplary.

2. Anticipate potential emergency responses: Preparing optimal responses is the second important step in the crisis-prevention plan. Certain questions must be anticipated and proper answers worked out, preferably with the help of professional media specialists. Typical questions include: who should be in charge, depending on the situation? Do we have a trained
team in place? Do we agree on the chain of command? How shall we inform the different stakeholders? Developing early-warning alert systems can also help develop the right responses and nip a crisis in the bud. Back in the mid-eighties, Kao, a Japanese cosmetics company, put in place its “ECHO” system to make it difficult for problems to go unnoticed or unreported. Through a complex computer and communications network linking hotlines to management, the ECHO system enables Kao to monitor consumers’ complaints as well as employee and retailer feedback. Kao’s consumer information centre receives about 400 calls a day from all over Japan. The centre not only responds immediately to consumers’ questions, comments and complaints but also uses the feedback as a valuable company asset and pools it to ensure maximum utilisation, to correct problems and to prevent crises.

3. Allocate roles and responsibilities: Having a crisis communication team already in place is no longer a “luxury” reserved for leading multinational corporations. Members of the crisis team should typically include senior executives who can speak knowledgeably and convincingly about the different functions of the company’s business. Securing a team of legal advisors and outside crisis counsellors also helps. However, it is vital to keep a balance between these two types of advisors. In the case of the Firestone crisis in 2000 (created by defective tyres on Ford vehicles), experts close to the case suggest that executives could have handled the crisis more effectively if they had not favoured the advice of lawyers over that of the crisis advisors. The roles and responsibilities of the different parties involved must be clearly planned, not only to take fast action on problems that may surface, but also to be able to speak with one voice if disaster strikes.

4. Know who is who: Before a crisis strikes, corporate executives must know which journalists and media to rely on and who is likely to cover their company story. As the management of McDonald’s in Argentina discovered, it is also crucial to appreciate how journalists and media professionals perceive each other in their own circles. It is often tempting for executives to rely on professional journalists with whom they have developed good personal relationships instead of understanding who are the most influential opinion leaders in the media likely to cover their industry. Managers must be able to appreciate the credibility of these journalists within the media world. In other words, reporters perceived as “good journalists” by management may be perceived differently by their peers in terms of professionalism and credibility.

5. Rehearse for effective action: Just as there is no point in running basic military training when the forces are engaged on the battlefield, executives must be committed to rehearsing their plans for effective action, fine-tuning and maximum readiness. Following the 1984 gas leak from Union Carbide’s pesticide factory in Bhopal, India, which killed more than 3,800 people, many chemical companies such as BASF and DuPont revisited all crisis scenarios and safety procedures, and produced detailed action plans for every factory employee. Today, these companies are taking full advantage of all available communication tools, and they run regular drills to train crisis teams how to react in dramatic situations.

6. Prepare recovery plans and monitoring processes: Companies need to consider how to come up quickly with safer products and how to orchestrate organisational changes. Marketing departments should analyse consumers’ perceptions of how the company is handling the crisis, as well as how sensitive the public is to press reports and media coverage. Despite all precautions taken to prepare for a major crisis, unexpected events may happen. As Benjamin Disraeli (England’s first and only Jewish prime minister) once remarked: “What we anticipate seldom occurs; what we least expected generally happens.” This is where corporate executives find themselves most vulnerable. When Swissair planes were grounded in various countries in 2000 because of the company’s imminent bankruptcy, airline executives were severely criticised by the media for leaving thousands of stranded passengers to fend for themselves. Swissair executives perceived this crisis as unfair (this scenario was not part of their “crisis manual”) and were too reactive. The situation was poorly managed and Swissair’s reputation was severely damaged (Steger, 2002).

When unexpected events take them by surprise, most executives’ immediate reflex reaction is one of “shock and defensive retreat” (Fink et al, 1971). Quickly pushing emotions aside and immediately acknowledging that a problem exists remains the right thing to do. The inability of top management to grasp the outside world’s perception of a problem is often the major trigger of poor crisis management.
When disaster strikes: communicating in a crisis

Six steps for dealing with a crisis
Each crisis is unique. However, generic and effective crisis management procedures can be fully integrated in the company’s regular business activities. Here are six steps learned from the various case studies we have analysed.

1. Stay on top of the situation: The most common and worst possible mistake when a crisis happens is an emotional reaction leading to denial. In the words of one senior executive we interviewed: “At the beginning of a crisis, the emotions are so high that it is difficult to think logically... However, it is key to quickly put things in perspective and sort out the essential information from the non-essential in order to properly estimate the magnitude of the problem. Before talking to the media, one must get the facts right and figure out how much time is left to manoeuvre... It is critical to quickly size up the situation, evaluate your options, act selectively and in harmony with the rest of the team before assessing progress.”

It is crucial for management to mobilise the right people, allocate responsibilities and make rapid decisions. A major question is whether the CEO should be the main spokesperson for the company in a crisis. Different types of events call for different responses. Not every crisis requires the CEO to go and talk to reporters. But, in all cases, the CEO should be kept informed and be kept close to the action, ready to intervene should the crisis deteriorate further.

“What might have started as a routine product recall quickly turned into one of the biggest auto safety crises in US history”

2. Take full responsibility: Too often, the biggest failure of management is putting the blame on third parties or abdicating responsibility. On June 14, 1999, school children in Belgium reported feeling ill after drinking Coca-Cola. The Belgian government immediately ordered Coca-Cola Belgium to recall the product. The company complied with the order, but maintained that independent laboratory tests did not show any harmful substances in its products. On June 15, Spain and France accused the soft-drinks maker of selling tainted products. Coca-Cola did not accept any responsibility for the incident, and the corporation even suggested that the people who had fallen ill had succumbed because of the mass hysteria (The New Yorker, July 12, 1999). However, the incident cost Coca-Cola and its biggest bottler, Coca-Cola Enterprises, about $250m.

Similarly, on July 1, 2000, a few days after a problem had surfaced at one of the Snow Brand factories in Osaka, Japan, the company president declared at a press conference: “I could have acted more promptly if I had been involved in the discussion... Low-fat milk is an unprofitable product for our company, so the incident will have little impact on our profitability” (Daily Yomiuri, July 7, 2000). A few days later, a company spokesman said that he could no longer keep track of the number of complaints because there were just too many: “The whole company is in a state of panic. The management has not told me anything about what they will do next. Our sales staff are in a difficult position because we have not been kept informed of the developments” (Daily Yomiuri, July 10, 2000). It took 12 days for Snow Brand to voluntarily suspend operations at its 21 factories. By the end of July 2000, the company president was forced to resign along with seven members of the executive board.

3. Act quickly: Speed is also critical in handling a crisis, and corporate executives should be aware that consumers are increasingly impatient and demanding when it comes to explanations and suitable actions. Responding to seven deaths that resulted from Tylenol capsules laced with cyanide in 1982, Johnson & Johnson was praised for its decision to pull Tylenol from the shelves within a three to four-day time frame. Today, the same management team would probably be pilloried by consumer associations and the media: why did it take Johnson & Johnson so long to respond to consumer safety concerns?

Executives need to realise that perceptions of speed and expectations of what needs to be done have evolved considerably in the minds of consumers and in the media. As highlighted earlier, the element of speed is further reinforced by the availability of instant information created by the internet and real-time news networks.

4. Be open and transparent: Although management may know little about the incident, it must be committed to acting openly and honestly. Stakeholders have legitimate concerns and information needs. They need to know exactly what the company knows in order to judge for themselves if the right decisions are being taken.

Bridgestone/Firestone and Ford both greatly damaged their reputations in 2000 by failing to be open and transparent. Safety organisations in the US began voicing concerns after nearly 150 deaths and 525 injuries were linked to the failure of Firestone tyres. Most of the tyres in question were original equipment on Ford vehicles, primarily the Explorer, although some were used as original equipment on other manufacturers’ cars or as replacement tyres on a wide variety of models. But when executives from Ford and Bridgestone/Firestone appeared at a press conference, officials insisted
that there was nothing wrong with their tyres. Instead, they blamed car owners for poor tyre maintenance, saying that this had caused the tyres to lose their tread, which could then lead to an accident.

What might have started as a routine - albeit rather late - product recall quickly turned into one of the biggest auto safety crises in US history. Charges of criminal negligence and cover-ups were brought against both firms. Consumer confidence in both brands immediately plummeted and the firms suffered significant drops in sales. The crisis is estimated to have cost Ford more than $3bn. The recall and associated lawsuits are said to have cost Bridgestone/Firestone more than $600m.

5. Manage the stakeholders: As stressed by several executives we interviewed, there is a high risk of corporate managers focusing too much on the media in times of crisis, often at the expense of other, less visible stakeholders. Media representatives are likely to phone the office directly and persuade management to answer questions. They may even invade the company premises. The most common trap is forgetting the employees. As Woods Staton, CEO of McDonald's Argentina, recalled: “Pressed by the media, it took us almost a day to realise that we also needed to inform all our own employees. Customers were coming to our restaurants and asking questions about the safety of our products. It took us another day to provide all our staff across the country with all the answers to the most frequent questions asked by our consumers.”

An important learning point suggested here is that the chain of command must permeate throughout the organisation down to the most remote locations in times of crisis. Employees, as well as shareholders, the board and the relevant public authorities must not be forgotten and must be included in the corporate communications plan. Detailed step-by-step instructions must be thought through and communicated in a simple language to all the parties concerned. A well-publicised toll-free number can also help ensure that employees have access to accurate information from a single corporate source.

6 Stick to your guns: When there is an information vacuum, the media typically goes elsewhere for information. Even if executives do not have all the information, it is always essential to prepare a written statement. In the middle of a crisis, the worst enemies are silence, detachment or a bunker mentality. In the written statement, it is important to remember that you want to provide accurate and credible information, and you should direct it at your different stakeholders: the media; the general public; and your own people. Do not change your story. Communicate all the bad news at once, and speak with one voice.

Seizing the opportunity

In Chinese, the word “crisis” is composed of two characters; one represents danger, the other represents opportunity. Sensing urgency and seizing the moment is indeed an opportunity to turn a crisis into a competitive advantage. By handling the McChicken Burger crisis smartly, McDonald’s was able to regain its spot as the third most admired brand in Argentina within weeks (Turpin, 2002).

In order to turn a crisis into a competitive advantage, however, the situation must be properly managed. Being prepared, putting things into perspective, staying on top of the situation, mobilising the organisation, avoiding placing blame, taking full responsibility, doing the right things fast, being open and transparent, managing all the stakeholders and sticking to a consistent story can save companies a great deal of trouble. If this is done successfully, then crisis management can be a great source of competitive advantage.

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