Crisis Management

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Abstract

This article examines the factors that influence a manager's determination of an event or situation as a crisis. Various strategies of responding to a crisis are explained along with factors that may influence the strategy chosen to ameliorate a crisis situation. The methods that companies use to prepare for future crises are also reviewed. Several past business crises and the scope of those crises are reviewed. The selection and execution of crisis response strategies to a recall prompted by Salmonella Typhimurium are examined along with specific actions that several companies in the food industry took in response to the situation. The role of United States Government agencies in the recall process is also explained.

Overview

The term "crisis" is used to describe a wide variety of events and circumstances. However, what comprises a crisis, or when a company decides that they are experiencing a crisis, is dependent on a number of variables.

- First, to what extent are there internal capabilities in place to deal with an event or situation that is disrupting business?
- Second, what is the magnitude of the event and what are the consequences of not successfully handling the crisis?
- Third, to what extent does the event impact other businesses, the surrounding community, or even the country where the company is located?

In an ideal world a company would be able to predict and be prepared for every possible event and thus minimize the perception that the event had turned into a crisis (Klein, 2007). The larger the company and the more experience that corporate staff have in handling a specific type of event, the less likely it is that the event will be considered a crisis. In a situation when there is a product recall, for example, some companies have considerable experience and probably have staff in place to deal with the recall. This is the case in the automobile industry where products have been recalled frequently over the last several decades. On the other hand, in a small company with limited staff, or one that

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has never faced a recall of its products, the event may well end up becoming a crisis.

Identifying & Predicting Crisis Situations

If the magnitude of the event is small and limited to one location, one product, or has little if any impact on day-to-day operations, it is likely that the event will not be viewed as a crisis. If the event is wide in scope and devastates operational capability, the event may very well be viewed as a crisis. In addition, if the negative consequences of not successfully handling the crisis are minimal then the event will not turn into a crisis. But if the consequences of failing to properly handle an event are extensive, it will likely be treated as a crisis ("Top managers lack confidence," 2009).

The geographical scope of an event or the economic scope of an event may also influence whether or not managers in a particular company will consider the event a crisis. A natural disaster that impacts several counties or states, for example, may be seen as a disruption but not particularly as a crisis. In such events there is federal, state, or local response to deal with many of the consequences of the event. There is also most likely some sort of insurance coverage in place to aid in the recovery.

If the event impacts only one company, or the supply chain in which the company operates, managers may consider the event a crisis. In other words, the more the consequences of the event fall singularly on a specific company or industry, the more likely it is that the event will be viewed as a crisis (Freda, Arn & Gatlin-Watts, 1999).

In case of the 2008 economic downturn, the collapse of the mortgage industry was viewed as a crisis, which in turn impacted the banking industry in general and many corporations that were dependent on the availability of affected monies (Verma, 2009). However, it could be argued that the media and politicians who continuously emphasized that the events as a crisis contributed to the effects of the downturn (Levinson, 2009). In this vein, the identification of the downturn as a crisis could be seen as strategic as it allowed congress to be persuaded into action and also presented certain opportunities to savvy businesses (Garmhausen, 2009; Maddock & Vitn, 2009).

Strategy Creation & Execution

Once a company has decided that an event is a crisis, a strategy must be executed to minimize the impact of the crisis. One of the first desires that corporate managers have is to control the damage to company operations, reputation, business relationships, and in some cases stock prices. This requires the ability to rapidly organize efforts and mobilize the right people for the job (Miller, 2006). Above all, speed is of the essence and the Chief Executive Officer (CEO) should play a key role (Kimes, 2009).

If operations are disrupted it is of course important to restore normal functioning as quickly as possible and remedy any defects that may be related to the current crisis. But the work is not finished there. During this time, a focus on reputation management, also known as image repair, may have more overall importance and value than an organization's functions. The CEO, with support from the crisis management team, is a key player in this part of the crisis drama. Much of the world outside the walls of the company views the CEO as the chief communicator for a company. In addition, the CEO's reputation is also on line (Gaines-Ross, 2009).

Corporate Crisis Examples

There have been long lists of companies that have each faced rather severe crises. In 1984, in Bhopal, India a Union Carbide chemical plant spewed pollution into the local community, a disaster for which the company has suffered consequences ever since (Haseley, 2004). In 1980, Proctor and Gamble introduced the Rely Super-Absorbent Tampon which was later linked to hundreds of cases of toxic shock syndrome and numerous law suits (Weinberger & Romeo, 1989).

The Ford Motor Company suffered embarrassment as well as class action lawsuit over the Ford Pinto, a small compact car introduced in the 1970s which had a tendency to burst into flames if hit from the rear (Weinberger & Romeo, 1989). In the late 1970s, the Firestone 500 series tires were blowing out and coming apart as people drove in their cars, which resulted in deaths and lawsuits (Gatewood & Carroll, 1981).

One of the most dramatic crises to ever befall an organization was the Space Shuttle Challenger explosion. It happened on January 28, 1986, just after lift-off. It was also televised around the world and especially in the classrooms of public schools in the United States. Among its crew was a schoolteacher, to be the first teacher in space. As Challenger exploded, millions of pupils were traumatized, the education community was outraged, parents were horrified, and of course politicians held their banners of anger high. The managers at NASA were tried and then convicted (Watson, 2006).

Application

Crisis Management in Product Recall Situations

During the industrial revolution, innovation and business soared forward at a rapid rate and there was little government intervention as to the quality and safety of the products that manufacturers were sending to market. After World War II this started to change. Federal authority to ensure the safety of consumer products, food and drugs, and transportation products was expanded. New laws were passed, federal agencies were created and the age of product recalls began.

The expansion of regulations and the growth of government oversight have certainly benefited the consumer. From a business perspective, this oversight and resulting recalls have caused a long list of dramatic organizational crises.

Government Agencies Executing Recalls

The United States Consumer Product Safety Commission

The United States Consumer Product Safety Commission (CPSC) is the federal agency responsible for ensuring the safety of consumer products including toys, baby accessories, electrical tools and appliances, household chemicals, and over 15,000 other products (The CPSC, 2009). The CPSC was created in 1972 when the Consumer Product Safety Act became law. The Commission issues hundreds of recalls every year and has prevented and removed hundreds of millions of items from the market in the United States (The CPSC, 2003).

The United States Food and Drug Administration

The United States Food and Drug Administration (FDA) has jurisdiction over most food products, human and animal drugs, therapeutic agents of biological origin, medical devices, radiation-emitting products, cosmetics, and animal feed. The scope of the FDA's monitoring activities is huge; covering over $1 trillion worth of products annually and involving not only manufacturing but also import, transport, and storage as well. The agency traces its roots back to 1862 as a division of the United States Department of Agriculture. In 1980, the FDA was moved to the newly formed United States Department of Health and Human Services where it took on its current role and structure (US FDA, 1998).

The FDA has executed over 3,200 food product recalls during the last 25 years, of which about twenty five percent were Class I recalls (recalls on products which pose a reasonable probability of causing serious adverse health consequences or death if eaten). There have also been hundreds of drug recalls resulting in some drugs being removed from the market permanently (US GAO, 2000). In some cases, when the FDA does not feel that companies with recalled products are responding appropriately or with due urgency, it will send United States Marshals to confiscation products (Weise, 2008).

The National Highway Traffic Safety Administration

The National Highway Traffic Safety Administration (NHTSA) manages safety recalls involving motor vehicles and motor vehicle equipment. Manufacturers can execute a voluntary recall or a recall can be ordered by (NHTSA). There have been thousands of recalls over the last several decades; while some were very serious, the majority was for relatively non-life threatening defects. The manufacturer is required to file a public report describing the safety-related defect or noncompliance with a Federal motor vehicle safety standard. NHTSA monitors every safety recall and the law requires that manufacturers provide safe, free, and effective remedies. Manufacturers are also required to attempt to notify owners of recalled products (NHTSA, 2009).

Product Recalls & Business Crisis Management

A product recall can be a serious crisis for many businesses, especially smaller to mid sized companies without in-house legal counsel or other staff that have experience in dealing with recalls. Many advisers suggest immediate and straightforward action and note that an off-the-shelf response plan may not be the answer to the crisis (Dezenhall, 2009).

There are numerous strategies that a company can take. They can be defensive or they can have a problem solving orientation. They can communicate openly or they can communicate very little or not at all to the public and their customers (Falkheimer & Heide, 2006; Huang & Su, 2009).

The Peanut Corporation of America Salmonella Scare

The recalls of the last few years that created rather serious business crises involved food products. In terms of analyzing a business crisis they are interesting because the products involved were part of a complex and lengthy supply chain. Fortunately, the supply chain management systems were very useful in helping to mitigate damage.

Much to the surprise of many, the American staple, peanut butter, was at the center of one of the largest, most widespread food recalls in history. Due to its use in the production of numerous other food products, the complexity and costs of the recall were multiplied across the industry. Over 2,500 products were recalled and the tainted products resulted in hundreds of illnesses and perhaps several deaths. The products all had ingredients manufactured by The Peanut Corporation of America (PCA) and were tainted with Salmonella Typhimurium (Cook, 2009; Schmit &Weise, 2009).

The PCA voluntarily ceased operations in February and shortly after that filed for bankruptcy and may be facing a criminal investigation. One of the PCA products, peanut paste, is commonly found in cookies, crackers, cereal, candy, ice cream and pet treats, among hundreds of other types of food products (Cook, 2009). On February 20, 2009, PCA issued a statement indicating it had filed for Chapter 7 bankruptcy and that it was no longer able to communicate with customers regarding recalled products (US FDA, 2009).

Not only was the PCA in a business crisis but other manufacturers that used PCA products were also thrown into the crisis. In addition, restaurants, school districts, nursing homes, and probably even the military had to deal with examining over 2,500 products and dispose of any that had hit the recall list. Thus the

PCA crisis spilled out of the corporation, into the supply chain, into the wholesalers and retailers selling any of the 2,500 products, down to the home and the mouth of the food consumer.

While the occurrence of situations which pose a threat to a business are somewhat inevitable, the way the situation is handled can mean the difference between a career-ending crisis and future success. As the salmonella outbreak unfolded, there was a congressional hearing about the contamination and the conduct of PCA. The House subcommittee wanted the President of PCA, Stewart Parnell, and the Blakely, Georgia, plant manager to testify. By refusing to do so, the PCA set a tone of non-compliance and portrayed a lack of concern for the situation. This, in addition to internal emails deemed unfavorable to the PCA, placed the association in a very bad position (Schmit, 2009, Feb 12).

The companies that used peanut products in their manufacturing process started weighing in publicly and quickly. Perry's Ice Cream initiated a voluntary recall of select products containing peanut butter that could have been contaminated with Salmonella. Dreyer's Grand Ice Cream announced that neither the company, nor its suppliers bought ingredients from PCA ("Processors respond," 2009). Unilever publicly stated that it did not use PCA products to make Skippy Peanut Butter, Slim-Fast shakes or bars, or its ice-cream products: Breyers, Good Humor, Klondike, Popsicle, and Ben & Jerry's (Angrisani, 2009).

Kellogg made public that it recalled several snack products which ended up costing the company between 65 and 75 million dollars (Schmit, 2009, Feb. 6). Kellogg was strongly criticized during the House subcommittee hearings but has stated that it will now do its own audits on those suppliers making products most vulnerable to bacterial contamination. Nestle officials contended that they had chosen not to use PCA products (Weise & Schmit, 2009).

Retailers Dorothy Lane Market and Costco made public that they had removed products from their stores and notified their customers using personal phone calls, letters, and automated calls (Gallagher, 2009). Wegmans Food Markets made public that it had contacted each of its suppliers to determine where ingredients came from and examined its private-label products, removing those products that were potentially contaminated from shelves. United Supermarkets published an online list of food products it removed from shelves (Angrisani, 2009). Food Lion and Wal-mart moved quickly and publicly discussed their quality control programs and the requirements they set for suppliers for food safety and testing (Garry, 2009).

PCA's general liability insurer, Hartford Casualty Insurance Company, filed a lawsuit in United States District Court for the Western District of Virginia's Lynchburg Division in early 2009 to determine whether it must pay claims for victims of the salmonella outbreak. The filing stated that one or more of the terms, conditions, exclusions or limitations in the policies exclude or nullify coverage for the salmonella claims against PCA. Hartford, which issued a primary general liability policy and an umbrella policy to PCA, was asking the court for declaratory judgment from the court to determine its extent of obligation (Fletcher & Casale, 2009).

This sole crisis example illustrates the wide range of responses that companies can assume during a product recall crisis. Retailers were quick to execute a plan and hope that the plan would be viewed positively by their customers. Food producers that used PCA products also moved quickly, but not all of them will escape further scrutiny for not have better quality control procedures in place. PCA, on-the-other-hand chose to be silent and to fold the company. One thing for sure, this business crisis is far from over.

Issue

Can a Company really be Prepared for a Business Crisis?

There are three obvious paths that companies can take to plan for a potential business crisis. Each has its benefits and each has its drawbacks. Business managers sometimes consciously choose their path while others sort of muddle through. Some companies do nothing and survive, others do nothing and perish.

Plan Making

Some companies plan and plan. They make plans. Then they make more plans. There are strategic plans, growth plans, marketing plans, business continuity plans, disaster recovery plans, general emergency plans, succession plans, and dozens of others. In many instances those plans serve companies very well – especially when they have a strong communication aspect built into them (Cagle, 2006).

One clear criticism of the process of making plans is that once plans are designed, documented, and bound, they often are put upon a shelf where they age and becine outdated. Staff come and go and many new staff members do not even know the plans exist let alone where they are kept (Greek, 1998). The old plans may have misinformation and not address current legal requirements.

Team Making

Instead of making plans, some companies train and develop staff that can respond to a variety of situations with a consistent corporate philosophy and a coordinated course of action. This requires developing individuals as well as teams. It also requires staff knowledge of the company, the industry in which it exists, and the potential threats which are present within the industry environment. In the PCA contamination case, it was clear that some of the proactive businesses had dealt with recalls and health issues in the past and knew how to mobilize their resources (Angrisani, 2009; Gallagher, 2009; Garry, 2009).

Risk Analysis

One method of selecting crisis action guidelines is to perform a sound risk analysis. To do so requires good research, thorough analysis, and above all, realistic and clear thinking. As research is best accomplished when bias is minimized and analysis is best accomplished when the researcher has not yet decided the answer they are seeking, realistic and clear thinking are the elements most necessary conducting a sound risk analysis (McConnell & Drennan, 2006).

Many of the companies in the supply chain in the PCA case were realistic. They came to grips with the fact that Salmonella was indeed a risk in the food business. The staff in the companies may even have had to respond to contamination situations in the past. The evidence was there for viewing; there had been numerous contamination cases over the last decade. In 2005 and 2006, for example, there were four large multistate outbreaks of Salmonella infections resulting from the consumption of raw tomatoes, mostly in restaurants (Bidol, et. al, 2007). Cases span the last decade with some being very localized and others being rather widespread ("Salmonella outbreak," 1999)

Conclusion

What type of event or circumstance constitutes a crisis will vary from company to company. What may be routine business operations for some companies may very well be a serious crisis for others. Both the perception of events and experience in dealing with events influence the evolution of a crisis.

If a crisis is in fact recognized, it is important to mobilize resources promptly in order to effectively control the damage. Necessary resources include experienced staff as well as outside assistance, if necessary. The CEO should be the leading spokesperson for the company when dealing with the media and the public. This shows that the company is serious about its efforts to address the crisis and can remedy any problems that may have caused the crisis.

As the government started regulating industries more strictly and setting standards for products and processes, more companies found themselves in the public spotlight because of product recalls for defects or safety issues. Regulations and standards now cover virtually every consumer product on the market in the United States. The government also works to keep unsafe products from entering ports in the United States and confiscate and destroy millions of pounds of items every year.

The process of planning and preparing to for future crisis can be complex and expensive. Planning certainly helps some companies but plans are often shelved and become outdated and ineffective. Having well trained staff with experience in crisis management and effective communication skills can help minimize the impact of a wide range of crisis situations.

Terms & Concepts

Government Oversight: The process of the government regulating or monitoring commercial and industrial activities.

Product Recall: The process of removing tainted or defective products from the market or offering to replace or repair major consumer items because of manufacturing defects or safety issues.

Reputation Management: The process of protecting the reputation of a company and minimizing the negative impact of events or circumstance on its reputation.

Salmonella: A food contamination that occurs in various strains and forms that can cause illness, require hospitalization, or even result in death.

Supply Chain Management Systems: Applications software which is integrated into a communications network that enables organizations to communicate about and support their purchasing, sales, and shipping needs.

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Essay by Michael Erbschloe

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