Coping with crises

When it comes to the crunch, many companies are not adequately prepared for events that can hit their reputation and even put them out of business.

When companies try to explain why they are not properly prepared to manage a crisis there are two common excuses – ‘We are small and not likely to have a crisis’, or ‘There are so many possible crises you can’t plan for everything’.

Both responses are dangerously wrong and can lead to costly reputational and operational damage. Bear in mind that a major study of Australian crises over a 10-year period found that one in four of the organisations affected faced costs exceeding $100 million, and more than a quarter of the affected organisations did not survive.

Think no further than the small South Australian smallgoods company that was prosecuted and went out of business after a four-year-old girl died and others had serious illness after eating contaminated Mettwurst, or the Victorian cheesemaker that was sold just weeks after a contamination outbreak costing three lives, or the high-profile brand of kitchen food processor now facing charges of injuring multiple users.

The reality is that consumer goods are right in the front line when it comes to potential crises. For example, a long-term analysis of product recalls in Australia shows that 35 per cent of all voluntary

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recalls involve consumer goods and food, almost equalling the single biggest sector (therapeutic goods) and well ahead of the other big classification, motor vehicle recalls.

**Red flag**

Obviously, not every product recall triggers a crisis, but some do, especially when they are badly managed, and every recall is certainly a red flag or warning sign of a potential crisis.

No company can ever develop a detailed crisis response for every possible eventual-ity, so how can organisations with limited resources and experience become crisis-prepared quickly and cost efficiently? One answer is focus initially on your 'natural' crises - those endemic to the organisation. In other words, industry- or company-specific crises that are reasonably predictable - the sort of risks that keep mindful managers awake at night. For example, a chemical company would be expected to plan for a possible leak, fire or explosion; a transport company should have a plan in place for a serious road or rail accident; and a hotel must be prepared for a highly publicised outbreak of food-poisoning.

**Obvious overlooked**

Sadly, some companies fail to adequately prepare for even the most obvious 'natural' crises.

Every food manufacturer should have strong plans for a major product contamination or recall, so the dairy giant Fonterra should have been well prepared for the suspectedbotulism contamination of milk product in 2013, which caused an international recall (and eventually proved to be a false alarm). However, the subsequent official investigation concluded that the organisation had failed to 'join the dots' between product contamination, consumer sensitivity and reputation. The report also found that while there were crisis plans at business unit and group level, the group plan had never been rigorously or regularly tested for one of the most likely risks, a global product recall.

Similarly, there could hardly be a more likely crisis for an oil exploration company than a major spill. Yet in the wake of the mishandled 2010 Deepwater Horizon oil spill in the Gulf of Mexico, BP CEO Tony Hayward is perhaps best known for his plea that he wanted to get his life back (dubbed by the New York Times as the 'soundbite from hell').

In a less-publicised interview a few months later, Hayward admitted that the company's contingency plans for such an oil spill were inadequate. 'We were making it up day to day,' he told the journalist, which is a sobering admission from an industry leader.

**Clear priority**

Then there is the risk of data breach, which should be regarded as a 'natural' crisis for just about every organisation. Some IT experts say there are only two types of companies: those that have been hacked and those that don't yet know they have been hacked.

While that might be an exaggeration, it clearly identifies a priority. So it was surprising to see how the boss of Sony responded after his company was hacked in late 2014, allegedly by North Korea in protest against a comedy movie depicting a fictional assassination attempt on its leader. CEO Michael Lynton tried to present the breach as a complete surprise and the company as a helpless victim. 'There's no playbook for this,' he said. 'You're on completely new ground. We were adequately prepared, just not for an attack of this nature, which no firm could have withstood.'

Sony shareholders and Hollywood celebrities compromised by the hack must have wondered how a cyber attack was 'new ground', and how a major corporation could have 'no playbook' and yet be 'adequately prepared'.

American management expert Karl Stocker once wrote that in most crises, what happened should have been on or near the top of the list of possible events. 'Why wasn't anyone prepared?' he asked. It's a good question, and one every company should ask.

**Not always true**

The other core element of preparedness is recognising that you may need to deal with crisis and reputational situations that are not true. For example, a woman recently posted a photo on Woolworths' Facebook page complaining about rotten avocados she claimed to have bought from its store in a Sydney suburb. However, sharp-eyed folks in Woolworths' social-media team recognised the photo from a two-year-old complaint and responded: 'Hey [name redacted], we think you may have taken your photo from another customer's Facebook post in 2014', along with a link to the original complaint, which earned praise at the time for a prompt offline response. The rebuttal went viral, with customers and social-media commentators applauding the company and pouring scorn on the failed scammer.

Contrast this with another case the same week in which a self-described gay pastor in Austin, Texas, said he would sue over a cake he bought from a Whole Foods Bakery. It was ordered with the message 'Love wins', but he claimed it was handed to him with the homophobic text 'Love wins fag'. But within a day, the store announced it would counter-sue for $100,000 in damages after releasing in-store security footage said to clearly contradict the pastor's claim.

Allegations of product fault are a 'natural' reputational risk for every food and consumer goods supplier, with the potential for harm just as real even if the claim is not true. The rise of social media has dramatically increased the capacity for complaints, real or otherwise. In one recent study, half of social-media users say they express complaints or concerns about brands or services on social media at least once a month. That's a massive amount of potential risk.

The best crisis management is taking positive action in advance to prevent a crisis. And for companies of all types and sizes, the key is to identify and prevent 'natural' crises and to minimise the impact and duration of any crises - real or perceived - that do occur.

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**Dr Tony Jaques** is an internationally recognised authority on issue and crisis management. The speaker and author is director of the Melbourne-based specialist consultancy Issue Outcomes (www.oucomeOutcomes.com.au) and editor of the newsletter Managing Outcomes.