MANAGEMENT CHANGES IN CRISIS QUICKLY:

WHAT INITIATIVES CAN KEEP CRISIS AWAY IN A COMPANY?

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***ABSTRACT*- Crisis management is that art of making decisions to head off or mitigate the effects of an incident that threatens to harm, or has harmed, your institution's people, structures, ability to operate, valuables and/or reputation. This often means making decisions dynamically with situations as they unfold, often in unpredictable ways while you are under stress and you lack key pieces of information. For example; Evacuation after a called-in bomb threat, Denial of entry to suspicious persons etc. This paper will help illustrate the international management changes in crisis management and some appropriate Business Continuity to keep crisis far away from a company or institution.**

***KEYWORDS*- crises management, types of crisis, crisis leadership, successful & unsuccessful initiatives of crisis management, business continuity.**

I- PREFACE

Management in all business and organizational activities is the act of getting people together to accomplish desired goals and objectives efficiently and effectively. It comprises of planning, organizing, staffing, leading or directing, and controlling an organization or effort for the purpose of accomplishing a goal, according to Frenchman *Henri Fayol* (1841–1925). He was one of the most influential contributors to modern concepts of management. Also, *Mary Parker Follett* (1868–1933), another thinker wrote "the art of getting things done through people" in the early twentieth century. She described management as a philosophy. Some people, found this definition useful, but considered it far too narrow. Crisis management therefore is that process by which an organization deals with a major event that threatens to harm the organization, its stakeholders, or the general public. Three elements are common to most definitions of crisis: (a) a threat to the organization, (b) the element of surprise, and (c) a short decision time. *Venette* argues that "crisis is a process of transformation where the old system can no longer be maintained." Consequently, the fourth defining quality is the need for a change. It is a discipline within the broader context of management consisting of skills and techniques required to identify, assess, understand, and cope with a serious situation, especially from the moment it first occurs to the point that recovery procedures start.

Therefore, Crisis management consists of: Methods used to respond to both the reality and perception of crises; Establishing metrics to define what scenarios constitute a crisis and should consequently trigger the necessary response mechanisms; Communication that occurs within the response phase of emergency management scenarios. Crisis management is occasionally referred to as incident management; although several industry specialists such as *Peter Power* argue that the term crisis management is more accurate. The credibility and reputation of organizations is heavily influenced by the perception of their responses during crisis situations. The organization and communication involved in responding to a crisis in a timely fashion makes for a challenge in businesses. There must be open and consistent communication throughout the hierarchy to contribute to a successful crisis communication process. Crisis is also a facet of risk management, although it is probably untrue to say that Crisis Management represents a failure of Management since it will never be possible to totally mitigate the chances of catastrophes occurring.

II- EMERGENCY MANAGEMENT: TYPES OF CRISIS & CRISIS LEADERSHIP

During crisis management process, it is important to identify types of crises whereby different crises necessitate strategies. Potential crises are enormous, but crises can be clustered. *Lerbinger* categorized seven types of crises, while *Erika Hayes James*, an organizational psychologist at the University of Virginia's Darden Graduate School of Business, identifies two primary types of organizational crisis. She defines organizational crisis of leadership as "any emotionally charged situation that, once it becomes public, invites negative stakeholder reaction and thereby has the potential to threaten the financial well-being, reputation, or survival of the firm or some portion thereof."

A. TYPES OF CRISIS

1) Natural crises

Typically natural disasters are considered as acts of God, such as: earthquakes, volcanic eruptions, tornadoes, hurricanes, floods, landslides, tsunamis, storms and droughts that threaten life, property, and the environment itself. For example, the *Indian Ocean earthquake* on December 26th *2004* which was an undersea mega thrust earthquake that occurred with an epicenter off the west coast of Sumatra, Indonesia; killing over 230,000 people in fourteen countries, and inundating coastal communities with waves up to 30m (100 feet) high.

2) Technological crises

Caused by human application of science and technology, Technological accidents inevitably occur when technology becomes complex and something goes wrong in the whole system (Technological breakdowns). Some technological crises occur when human error causes disruptions (Human breakdowns). People therefore tend to assign blames on others because technology is subject to human manipulation whereas they do not hold anyone responsible for natural disaster. When an accident creates significant environmental damage, the crisis is categorized as mega damage. For example software failures, industrial accidents, and oil spills. Such maneuver will easily tear up even the most firm company into pieces which become hard to pick up for analysis.

3) Confrontation crises

These occur when discontented individuals and/or groups fight businesses, regime, and various interest groups to win acceptance of their demands and expectations. The common type of confrontation crises is boycotts, and other types are picketing, sit-ins, ultimatums to those in authority, blockade/occupation of buildings, and resisting or disobeying police (a political uprising). For example the *Nike boycott* which was a form of consumer activism involving the act of voluntarily abstaining from using, buying, or dealing with a person, organization, or country as an expression of protest. If such a resistance comes by your company, there will be no way of activities going on within the institution and therefore will be an emergency crisis alarm.

4) Crises of malevolence

This occurs when opponents or miscreant individuals use criminal means or other extreme tactics for the purpose of expressing hostility or anger toward, or seeking gain from, a company, country, or economic system, perhaps with the aim of destabilizing or destroying it. Sample crises include product tampering, kidnapping, malicious rumors, terrorism, and espionage. We all know that companies nowadays rival each other, so as to have the best customers or public attention; unfortunately it's a race of all companies of the same services for the same goal, which can end up in chaos.

5) Crises of organizational misdeeds

Crises occur when management takes actions it knows will harm or place stakeholders at risk for harm without adequate precautions. *Lerbinger* specified three different types of crises of organizational misdeeds: crises of skewed management values, crises of deception, and crises of management misconduct. With this, there will be more tensions and no trust worthiness amongst the staff, bringing them towards their downfall.

a) Crises of skewed management values

Crisis caused when managers favor short-term economic gain and neglect broader social values and stakeholders other than investors. This state of lopsided values is rooted in the classical business creed that focuses on the interests of stockholders and tends to view the interests of its other stakeholders (customers, employees). For Example Sears sacrifices customer trust.

b) Crises of deception

This is when management conceals or misrepresents information about itself and its products in its dealing with consumers and others. For example the Dow Corning's silicone-gel breast implant, which ended up in deception for less customers after the class-action lawsuits which claimed that this breast implant caused a systematic health failure such as cancer, lupus, rheumatoid arthritis.

c) Crises of management misconduct

Some crises are deliberate amorality and illegality. For example *Martha Stewart's*, (who was an American business magnate, media personality, author, and magazine publisher) fraud case. In 2004, she was convicted of lying to investigators about a stock sale and served five months in a West Virginia federal prison camp. Although the media widely speculated that the situation would effectively be the end of her media empire, Stewart began a comeback campaign in 2005, with her company returning to profitability.

6) Rumors

False information about an organization or its products creates crises hurting the organization's reputation. An example is *Procter & Gamble's Logo controversy.* This company received unwanted media publicity in the 1980s when rumors spread that the moon-and-stars logo was a satanic symbol. The accusation was based on a particular passage in the Bible, specifically *Revelation 12:1*, which states: *"And there appeared a great wonder in heaven; a woman clothed with the sun and the moon under her feet and upon her head a crown of 12 stars."* P&G's logo consisted of a man's face on the moon surrounded by 13 stars, and some claimed that the logo was a mockery of the heavenly symbol alluded to in the aforementioned verse, thus construing the logo to be satanic.

B. CRISIS LEADERSHIP

1) Sudden crises

These are circumstances that occur without warning and beyond an institution's control. Consequently, sudden crises are most often situations for which the institution and its leadership are not blamed.

2) Smoldering crises

This differ from sudden crises in that they begin as minor internal issues that, due to manager's negligence, develop to crisis status. These are situations when leaders are blamed for the crisis and its subsequent effect on the institution in question. James categorizes five phases of crisis that require specific crisis leadership competencies. Signal detection, Preparation and prevention, Containment and damage control, Business recovery and Learning**.**

a) Signal detection

This is the stage in a crisis in which leaders should (but do not constantly) sense early warning signals, that suggest the possibility of a crisis. The detection stages of a crisis include: Sense-making: represents an attempt to create order and make sense, retrospectively, of what occurs. Perspective-taking: the ability to consider another person's or group's point of view.

b) Preparation and prevention

It is during this stage that crisis handlers begin preparing for or averting the crisis that had been foreshadowed in the signal detection stage. Wal-Mart has been described as an emergency relief standard bearer after having witnessed the incredibly speedy and well-coordinated effort to get supplies to the Gulf Coast of the United States in anticipation of Hurricane Katrina.

c) Containment and damage control

Usually, the goal of crisis containment and damage control is to limit the reputational, financial, safety, and other threats to firm survival. Crisis handlers work diligently to bring the crisis to an end as quickly as possible to limit negative publicity to the organization, and move into the business recovery phase.

d) Business recovery

When crisis hits, organizations must be able to carry on with their business in the midst of the crisis while simultaneously planning for how they will recover from the damage caused. Crisis handlers not only must engage in continuity planning (determining the people, financial, and technology resources needed to keep the organization running), but will also actively pursue organizational resilience.

e) Learning

In the wake of a crisis, organizational decision makers adopt a learning orientation and use prior experience to develop new routines and behaviors that ultimately change the way the organization operates.

III- LITERATURE REVIEW: MODELS & THEORIES ASSOCIATED WITH CRISIS MANAGEMENT.

A lot of people always see companies like semi-gods, thinking that they are indestructible, their life span are eternal. Whereas, these companies do face both internal and external challenges everyday; which are often hidden to the public for a simple reason of future upgrade and business continuity.

A. Crisis Management Model

Successfully defusing a crisis requires an understanding of how to handle a crisis – before they occur. *Gonzalez-Herrero* and *Pratt* found the different phases of Crisis Management. There are 3 phases in any Crisis Management as below:

1. The diagnosis of the impending trouble or the danger signals
2. Choosing appropriate Turnaround Strategy
3. Implementation of the change process and its monitoring.

B. Management Crisis Planning

No corporation looks forward to facing a situation that causes a significant disruption to their business, especially one that stimulates extensive media coverage. Public scrutiny can result in a negative financial, political, legal and government impact. Therefore Crisis management planning deals with providing the best response to a crisis.

C. Contingency planning

Preparing contingency plans in advance, as part of a crisis management plan, is the first step to ensuring an organization is appropriately prepared for a crisis. Crisis management teams can rehearse a crisis plan by developing a simulated scenario to use as a drill. The plan should clearly stipulate that the only people to speak publicly about the crisis are the designated persons, such as the company spokesperson or crisis team members. The first hours after a crisis breaks are the most crucial, so working with speed and efficiency is important, and the plan should indicate how quickly each function should be performed. Providing incorrect or manipulated information has a tendency to backfire and will greatly exacerbate the situation. The contingency plan should contain information and guidance that will help decision makers to consider not only the short-term consequences, but the long-term effects of every decision.

D. Business continuity planning

When a crisis will undoubtedly cause a significant disruption to an organization, a business continuity plan can help minimize the disruption. First, one must identify the critical functions and processes that are necessary to keep the organization running. Then each critical function/process must have its own contingency plan in the event that one of them ceases or fails. Testing these contingency plans by rehearsing the required actions in a simulation will allow in the event of an actual crisis, for the team members act more quickly and effectively.

E. Structural-functional systems theory

This systems theory addresses the intricacies of information networks and levels of command making up organizational communication. This theory also identifies information flow in organizations as "networks" made up of members and "links". Information in organizations flow in patterns called networks.

F. Diffusion of innovation theory

Developed by *Everett Rogers*, this theory describes how innovation is disseminated and communicated through certain channels over a period of time. Diffusion of innovation in communication occurs when an individual communicates a new idea to one or several others. At its most elementary form, the process involves: (1) an innovation, (2) an individual or other unit of adoption that has knowledge of or experience with using the innovation, (3) another individual or other unit that does not yet have knowledge of the innovation, and (4) a communication channel connecting the two units.

G. Role of apologies in crisis management

There has been debate about this crisis management, and some argue that apology opens an organization up for possible legal consequences. "However some evidence indicates that compensation and sympathy are as effective as an apology in shaping people's perceptions of the organization taking responsibility for the crisis because these strategies focus on the victims' needs. The sympathy response expresses concern for victims while compensation offers victims something to offset the suffering."

H. Unequal human capital theory

James postulates that organizational crisis can result from discrimination lawsuits. James's theory of unequal human capital and social position derives from economic theories of human and social capital concluding that minority employees receive fewer organizational rewards than those with access to executive management. In a recent study of managers in a *Fortune* 500 company, race was found to be a predictor of promotion opportunity or lack thereof. Thus, discrimination lawsuits can invite negative stakeholder reaction, damage the company's reputation, and threaten corporate survival.

I. Crisis leadership

There are six leadership competencies which facilitate organizational restructuring during and after a crisis.

1- Building an environment of trust.
2- Reforming the organization's mindset.
3- Identifying obvious and obscure vulnerabilities of the organization.
4- Making wise and rapid decisions as well as taking courageous action.
5- Learning from crisis to effect change.

Crisis leadership research concludes that leadership action in crisis reflects the competency of an organization, because the test of crisis demonstrates how well the institution's leadership structure serves the organization's goals and withstands crisis.

IV- SUCCESSFUL & UNSUCCESSFUL INITIATIVES OF CRISIS MANAGEMENT: CASE STUDIES OF PARTICULAR COMPANIES.

Here at *Crisis* management we have one investment philosophy: Looking for value excellence at the right price is the only reliable way to build wealth, year after year with the least risk. *Chris Mayer* says that it doesn't change as fads come and go. He also helps you to find businesses with that value with critical and unbiased research.

A. SUCCESSFUL CRISIS MANAGEMENT

1) Tylenol (Johnson and Johnson)

In the fall of 1982, a murderer added 65 milligrams of cyanide to some Tylenol capsules on store shelves, killing seven people, including three in one family. Johnson & Johnson recalled and destroyed 31 million capsules at a cost of $100 million. The affable CEO, James Burke, appeared in television ads and at news conferences informing consumers of the company's actions. Tamper-resistant packaging was rapidly introduced, and Tylenol sales swiftly bounced back to near pre-crisis levels. When another bottle of tainted Tylenol was discovered in a store, it took only a matter of minutes for the manufacturer to issue a nationwide warning that people should not use the medication in its capsule form.

2) Odwalla Foods

In October 1996, an outbreak of E. coli bacteria in Washington State, California, Colorado and British Columbia was traced to unpasteurized apple juice manufactured by natural juice maker Odwalla Inc. Forty-nine cases were reported, including the death of a small child. Within 24 hours, Odwalla conferred with the FDA and Washington state health officials; established a schedule of daily press briefings; sent out press releases which announced the recall; expressed remorse, concern and apology, and took responsibility for anyone harmed by their products; detailed symptoms of E. coli poisoning; and explained what consumers should do with any affected products. Odwalla then developed - through the help of consultants - effective thermal processes that would not harm the products' flavors when production resumed. All of these steps were communicated through close relations with the media and through full-page newspaper ads.

3) Mattel Inc.

Mattel Inc., the toy maker, has been plagued with more than 28 product recalls and in summer of 2007, amongst problems with exports from China, faced two product recalls in two weeks. The company "did everything it could to get its message out, earning high marks from consumers and retailers. Though upset by the situation, they were appreciative of the company's response. At Mattel, just after the 7 a.m. recall announcement by federal officials, a public relations staff of 16 was set to call reporters at the 40 biggest media outlets. They told each to check their e-mail for a news release outlining the recalls, invited them to a teleconference call with executives and scheduled TV appearances or phone conversations with Mattel's chief executive. The Mattel CEO *Robert Eckert* did 14 TV interviews on a Tuesday in August and about 20 calls with individual reporters. By the week's end, Mattel had responded to more than 300 media inquiries in the U.S. alone."

4) Pepsi Corporation

The Pepsi Corporation faced a crisis in 1993 which started with claims of syringes being found in cans of diet Pepsi. Pepsi urged stores not to remove the product from shelves while it had the cans and the situation investigated. This led to an arrest, which Pepsi made public and then followed with their first video news release, showing the production process to demonstrate that such tampering was impossible within their factories. A second video news release displayed the man arrested. A third video news release showed surveillance from a convenience store where a woman was caught replicating the tampering incident. The company simultaneously publicly worked with the FDA during the crisis. The corporation was completely open with the public throughout, and every employee of Pepsi was kept aware of the details. This made public communications effective throughout the crisis. After the crisis had been resolved, the corporation ran a series of special campaigns designed to thank the public for standing by the corporation, along with coupons for further compensation. This case served as a design for how to handle other crisis situations.

B.UNSUCCESSFUL CRISIS MANAGEMENT

1) Bhopal

The Bhopal disaster in which poor communication before, during, and after the crisis cost thousands of lives, illustrates the importance of incorporating cross-cultural communication in crisis management plans. According to American University's Trade Environmental Database Case Studies (1997), local residents were not sure how to react to warnings of potential threats from the Union Carbide plant. Operating manuals printed only in English is an extreme example of mismanagement but indicative of systemic barriers to information diffusion. According to Union Carbide's own chronology of the incident (2006), a day after the crisis Union Carbide's upper management arrived in India but was unable to assist in the relief efforts because they were placed under house arrest by the Indian government. Symbolic intervention can be counterproductive; a crisis management strategy can help upper management make more calculated decisions in how they should respond to disaster scenarios. The Bhopal incident illustrates the difficulty in consistently applying management standards to multi-national operations and the blame shifting that often results from the lack of a clear management plan.

2) Ford and Firestone Tire and Rubber Company

The Ford-Firestone Tire and Rubber Company dispute transpired in August 2000. In response to claims that their 15-inch Wilderness AT, radial

ATX and ATX II tire treads were separating from the tire core leading to grisly, spectacular crashes. Bridgestone/Firestone recalled 6.5 million tires. These tires were mostly used on the Ford Explorer, the world's top-selling sport utility vehicle (SUV). The two companies' committed three major blunders early on, say crisis experts. First, they blamed consumers for not inflating their tires properly. Then they blamed each other for faulty tires and faulty vehicle design. Then they said very little about what they were doing to solve a problem that had caused more than 100 deaths, until they got called to Washington to testify before Congress.

3) Exxon Corporation

On March 24, 1989, a tanker belonging to the Exxon Corporation ran aground in the Prince William Sound in Alaska. The Exxon spilled millions of gallons of crude oil into the waters of Valdez, killing thousands of fish, fowl, and sea otters. Hundreds of miles of coastline were polluted and salmon spawning runs disrupted; numerous fishermen, especially Native Americans, lost their livelihoods. Exxon, by contrast, did not react quickly in terms of dealing with the media and the public; the CEO, *Lawrence Rawl*, did not become an active part of the public relations effort and actually shunned public involvement; the company had neither a communication plan nor a communication team in place to handle the event, in fact, the company did not appoint a public relations manager to its management team until 1993, 4 years after the incident; Exxon established its media center in Valdez, a location too small and too remote to handle the onslaught of media attention; and the company acted defensively in its response to its publics, even laying blame, at times, on other groups such as the Coast Guard. These responses also happened within days of the incident.

V- ANALYSIS

One of the foremost recognized studies conducted on *the impact of a catastrophe on the stockholder value* of an organization was completed by *Dr Rory Knight* and *Dr Deborah Pretty*. This study undertook a detailed analysis of the stock price (post impact) of organizations that had experienced catastrophes. The study identified organizations that recovered and even exceeded pre-catastrophe stock price, "*Recoverers*", and those that did not recover on stock price, "*Non-recoverers*". The average cumulative impact on shareholder value for the recoverers was 5% plus on their original stock value. So the net impact on shareholder value by this stage was actually positive. The non-recoverers remained more or less unchanged between days 5 to 50 after the catastrophe, but suffered a net negative cumulative impact of almost 15% on their stock price up to one year afterwards. The key of this study is that "Effective management of the consequences of catastrophes would appear to be a more significant factor than whether catastrophe insurance hedges the economic impact of the catastrophe".

Furthermore, politics and crisis go hand-in-hand nowadays. In describing crisis, President *Abraham Lincoln* said, "We live in the midst of alarms, anxiety beclouds the future; we expect some new disaster with each newspaper we read." Crisis management has become a defining feature of contemporary governance. In times of crisis, communities and members of organizations expect their public leaders to minimize the impact of the crisis at hand, while critics and bureaucratic competitors try to seize the moment to blame incumbent rulers and their policies.

Also, in the face of crisis, leaders must deal with the strategic challenges they face, the political risks and opportunities they encounter, the errors they make, the pitfalls they need to avoid, and the paths away from crisis they may pursue. The necessity for management is even more significant with the advent of a 24-hour news cycle and an increasingly internet-savvy audience with ever-changing technology at its fingertips.

Public leaders have a special responsibility to help safeguard society from the adverse consequences of crisis. Experts in crisis management note that leaders who take this responsibility seriously would have to concern themselves with all crisis phases: the incubation stage, the onset, and the aftermath. Crisis leadership then involves five critical tasks: sense making, decision making, terminating, and learning.

A brief description of the five facets of crisis leadership includes:

1- Sense making may be considered as the classical situation assessment step in decision making. **2-** Decision making is both the act of coming to a decision as the implementation of that decision. **3-** Meaning making refers to crisis management as political communication. **4-** Terminating a crisis is only possible if the public leader or company's leader correctly handles the accountability question. **5-** Learning from a crisis. Authors note that, a crisis often opens a window of opportunity for reform for better or for worse.

Finally, crisis management can be perceive as an opportunity, this is because to address such shareholder impact, management must move from a mindset that manages crisis to one that generates crisis leadership. Research shows that organizational contributory factors affect the tendency of executives to adopt an effective "crisis as opportunity" mindset.

James contends that most executives focus on communications and public relations as a reactive strategy. While the company's reputation with shareholders, financial well-being, and survival are all at stake; potential damage to reputation can result from the actual management of the crisis issue. Additionally, companies may stagnate as their risk management group identifies whether a crisis is sufficiently "statistically significant". Crisis leadership, on the other hand, immediately addresses both the damage and implications for the company's present and future conditions, as well as opportunities for improvement.

VI- RECOMMENDATION & CONCLUSION

In general, a reputation is how stakeholder perceives an organization. A reputation is widely recognized as a valuable, intangible asset for an organization and is worth protecting. But the threat posed by a crisis extends to behavioral intentions as well. Increased attributions of organizational responsibility for a crisis result in a greater likelihood of negative word-of-mouth about the organization and reduced purchase intention from the organization. Early research suggests that lessons designed to protect the organization's reputation will help to reduce the likelihood of negative word-of-mouth and the negative effect on purchase intentions as well.

A. RECOMMENDATION: POST- CRISIS

In the post-crisis phase, organization is returning to business, however crisis is no longer the focal point of management's attention but still requires some attention and follow-up communication. As noted, reputation repair may be continued during this phase.

The table below views Post-Crisis Phase Best Practices.

Post-Crisis Phase Best Practices
1. Deliver all information promised to stakeholders as soon as that information is known.
2. Keep stakeholders updated on the progression of recovery efforts including any corrective measures being taken and the progress of investigations.
3. Analyze the crisis management effort for lessons and integrate those lessons in to the organization's crisis management system.

Source: W. Timothy Coombs, Crisis management & communication (Table 8, 0ct 2007).

1st, crisis managers often promise to provide additional information during the crisis phase. The crisis managers must deliver on those informational promises or risk losing the trust of anxious publics. ***2nd***, the organization needs to release updates on the recovery process, corrective actions, and/or investigations of the crisis. The amount of follow-up communication required depends on the amount of information promised (to reporters) during the crisis and the length of time it takes to complete the recovery process. For example, West Pharmaceuticals provided recovery updates for over a year because that is how long it took to build a new facility to replace the one destroyed in an explosion. As Dowling (2003), the Corporate Leadership Counsel (2003), and the Business Roundtable (2002) observed, Intranets actually, shows how mass notification systems can be used as well to deliver update messages to employees and other publics via phones, text messages, voice messages, and e-mail. ***3rd***, Crisis managers agree that a crisis should be a learning experience. The crisis management effort needs to be evaluated to see what is working and what needs improvement. The same holds true for exercises. Therefore *Coombs* in one of his reviews of 2006 recommended that every crisis management exercise should be carefully dissected as a learning experience. The organization should seek ways to improve prevention, preparation, and responses. As most books on crisis management note, those lessons are then integrated into the pre-crisis and crisis response phases.

B. CONCLUSION

It is difficult to distill all that is known about crisis management into one concise entry. I have tried to identify the best practices and lessons created by crisis management researchers and analysts. While crises begin as a negative threat, effective crisis management can minimize the damage and in some case, allow an organization to emerge stronger than before the crisis. However, crises are not the ideal way to improve an organization. But no organization is immune from a crisis, so all must do their best to prepare for one in a future in come.

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