Disaster Containment Strategies
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A crisis can hit any company. Here's how planning can minimize the damage.

Corporate crises are becoming more frequent and devastating for corporations. The Bhopal disaster cost Union Carbide Corporation over half a billion dollars and forced it into a restructuring that reduced its size by one half.

Johns-Mansville Company was led to bankruptcy by the more than 16,000 asbestos-related damage suits against it. Ten out of thirteen U.S. manufacturers of sports helmets were forced out of business due to large court settlements against them in product injury cases. Product liability claims cost U.S. businesses over $6 billion annually.

A classic example of how crises emerge is provided by the oil spill from the Exxon Valdez into Prince William Sound in Alaska. On March 24, 1989, the ship, steered by an unlicensed third mate and commanded by a captain under the influence of alcohol, ran aground on Bligh Reef. It spilled 267,000 barrels (nearly 11 million gallons) of crude oil into the ocean, wreaking havoc on marine life and the coastal environment.

Exxon initiated technical damage control of the spill within a few days. Lack of preparedness for handling such a major spill, on-site confusion among state officials and company managers, and bad weather delayed the clean-up operations.

Initially, the company underestimated the seriousness of the spill and said that environmental damage would be minimal. It promised to clean up the entire spill quickly and effectively. However, even after a month of concerted effort, less than 7 percent of the spilled oil was recovered, and less than one mile out of 300 miles of polluted beaches had been cleaned up.

On the public-image front, Exxon fared no better. Despite its large size, the company had traditionally maintained a low public profile. During the crisis, it continued to be cautious and guarded in communicating with the media and the public.

It did not make proactive attempts to satisfy the exploding information needs of its stakeholders. Exxon came under sharp criticism from the media, the federal government, the state of Alaska, and public-interest groups for allowing incompetent people to run the ship and for its tardy handling of the crisis.

What happened at Exxon can happen at any company. A company can be hit by a crisis spurred by industrial accidents, environmental pollution incidents, occupational health issues, hostile takeovers, terrorism, or harm caused by a product.

Like Exxon, other companies in crisis face adverse scrutiny and criticism from the outside, and confusion and indecision inside. A crisis can destroy the morale of employees, lead to embarrassing disclosures, cause a company's stock...
price to plummet, and prompt liability suits. Many of these problems can be ameliorated by effective crisis management. The following factors will influence how well your company survives a crisis:

- **Company reputation and image.** The response of customers to a crisis depends a great deal on their attitudes toward the company and its products before the crisis occurred. This attitude is shaped by the company’s reputation and image. Companies that are well known and “stand tall” in their industry and among their peers are more likely to rebound from crises than less well-known companies.

- **What other people say.** Another important factor that shapes customers’ decisions to return to the company in crisis is how others, particularly the media and government regulatory agencies, view the company’s crisis management efforts. Consumers trust these neutral agencies and believe in their expertise to judge public safety issues.

These assessments require the company to provide necessary information through free and open communications. In contrast, “stonewalling” or suppressing information about crisis events creates negative impressions among government agencies.

- **Crisis preparedness.** The ability to nip a crisis in the bud depends on how well a company is prepared to mobilize its resources to curtail damage. It is not sufficient to have “emergency plans” on paper. The plans must be realistic enough to be implemented in the confused environment of a crisis, and they must be backed with adequate resources and personnel. (See accompanying box.)

Most important, the decision to put the plan into action should not have to await permission from headquarters or the state. Getting such permission after the onset of crisis delays action beyond acceptable limits. In the case of the Exxon spill, local company officials waited more than twenty-four hours before getting permission to use their emergency plan and equipment. By then, bad weather had set in, making it impossible to take effective action.

## Taking Action When Crisis Hits

Being decisive is critical. However, in the rush to make decisions, companies often overkill or underachieve. There are four basic responses that companies in crisis tend to undertake:

- **A super effort.** This is characterized by aggressive technical damage control, immediate product recall, generous all-out efforts to provide relief to victims, and speedy recovery of lost business. Johnson & Johnson’s handling of the Tylenol crisis exemplifies a super effort.

- **Voluntary compliance.** The company in crisis voluntarily initiates actions to meet regulatory requirements for emergency management, hazard mitigation, public safety, and information disclosure.

- **Forced regulatory compliance.** The company does the minimum required by law only when forced to do so by regulators and the public. Exxon’s handling of the Alaska oil spill may fall into this category.

Due to initial delays by the company in starting clean-up operations, regulators from Alaska and the federal government took charge of the situation. President Bush appointed Admiral Yost, commander of the U.S. Coast Guard, to oversee the clean-up operation. Under his guidance the company had to develop a clean-up plan, which was then approved by state and federal agencies in charge of disaster mitigation and relief.

- **Denial.** Here the company denies that harm has been done, minimizes its impact, abdicates responsibility for it, and refuses to do anything about it. The actions of A.H. Robins to the initial...
What to Do Should a Crisis Hit

Communicating openly during crises is both difficult and dangerous. However, open and trusting communications are also the key to preventing “stonewalling” during crisis. A stonewalling response is caused by two factors.

First is the “siege mentality” that overtakes companies in crisis. The tendency is to protect all company resources and information, under the suspicion that everyone is going to attack the firm. This paranoia perception leads firms to clam up. The second factor that encourages stonewalling is the company’s unpreparedness to deal with crisis communications. Many companies simply do not know with whom to communicate or what information to disseminate.

Both these factors can be mitigated with communications planning developed before the onset of crisis. This can be done by developing a communication plan that identifies key stakeholders, their information needs, and how those needs can be filled. The advance communication plan should include the following elements:

1. **A crisis telephone directory.** Identify key stakeholders and their respective contact addresses and telephone numbers. These include, among others, customers, retailers, dealers, suppliers, banks, labor unions, and investment advisory and brokerage firms; local, state, and federal government agencies; consultants; the media; and community leaders.

2. **Spokespersons.** Establish spokespersons for dealing with external and internal inquiries. External inquiries involve media, government agencies, and business associates. Internal inquiries involve the board of directors, employees, foreign subsidiaries, plants, etc. It is important to ensure that all spokespersons of the company, whether at headquarters or at foreign subsidiaries, give out consistent information to the media.

3. **Press kits.** Prepare press kits containing background information on the company as well as all information about the crisis event that is known and can be made public. Include information on remedial measures, safety precautions, and constructive roles that outsiders can play in mitigating the crisis. Make this information available to the media, and provide regular updates.

4. **Feedback from the public.** Make provisions to tap into public reactions to the crisis. Establish a toll-free number for consumer complaints and public reactions. This feedback should be incorporated into the company’s crisis responses.

Dalkon Shield injuries are an example of this response. The company initially did not believe the claims by women and researchers about the harm caused to users of this contraceptive device. It even suppressed its own data showing harm to users.

Once overwhelming evidence of harm had accumulated, the company denied liability for damages on grounds that product defects that caused injuries had originated under the previous owners of the Dalkon Shield division of the company. It refused to pay for damages until it was dragged into courts and juries awarded victims large sums for compensation.

Of these four responses, the second, involving voluntary compliance, has been found to be effective under most conditions. Voluntary compliance gives the impression that a company is more concerned about public safety than about short-term profitability.

However, these responses have varying effects under different conditions. The voluntary compliance response is quite adequate for companies with good reputations and positive images. But this
response may be a minimum requirement for companies with low reputations who face negative reactions from the media. Such companies should adopt the super effort in a crisis.

Industry practice suggests that many well-reputed companies choose to deny harmful effects of crisis events. This is exemplified in Ford's handling of the Pinto case. Ford denied that the Pinto car had a design defect that made the fuel tank explode on minor impact. Despite internal memos and tests documenting this defect, the company refused to recall the car until it was forced by the courts to do so.

Companies can take positive steps to improve their ability to deal with crises. They must begin with improving their general public image, i.e., standing tall among their peers and in their industry. They must institute open communications with all stakeholders and the media. Finally, they should be willing voluntarily to recall harmful products and control damage from accidents or pollution incidents.

Advertising and public relations efforts should aim to distinguish the company not only from its competitors but from all other companies. Because the resources to create such distinctions are usually limited, it is important to have a clear strategy for making a company stand tall.

The first step is to identify a sharply focused theme that will characterize the firm's distinctiveness. This theme could be representative of the culture and values of the firm. For example, 3M Company is distinctive for its innovativeness, Marks & Spencer for the excellent value it offers to customers, and Merck for its research abilities.

The next step is to build this theme into the advertising and public communications programs of the company. Minor modifications could involve inserting a logo or slogan on the theme into existing advertisements and public communications documents.

The theme could also be given prominence in annual reports, public speeches by company officers, and company newsletters.

It is particularly important to create a distinctive image on social issues facing the company, such as environmental protection, consumer safety, occupational safety and health, technological hazards, doing business in South Africa, and race and gender issues. These topics receive extensive and immediate media attention; company positions on them are eagerly sought out and widely reported in the media. A clear stand on specific issues can be very influential in creating a positive public image of the company.

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How to Control Damage

What one does to control damage depends on the type of crisis faced. In a crisis involving product harm, a recall may be warranted. In an environmental pollution crisis, cleanup of pollution is necessary. In industrial accidents causing physical and material harm to people, adequate compensation must be paid to injured persons.

Product Recall

The product recall decision involves resolving economic, ethical, and public image dilemmas. The economic dilemma involves balancing the cost of the recall with the benefits of preventing further harm. Recall costs can be heavy and can continue beyond the immediate crisis. They include costs of redesigning the package, redesigning the product, testing substitute products, and redesigning production systems. The process may also involve gaining necessary clearances and permissions from government agencies.

The benefits of early recall are uncertain and difficult to calculate. Early recall reduces the chance of further harm and may also strengthen the firm's legal position in product liability suits. When there is high uncertainty about
the extent of damages, a recall is a possible option and serves as a good damage control mechanism.

For some products, such as drugs, an ethical dilemma can result if the product is a lifesaving drug. In this situation, an early recall could actually jeopardize the lives of those who need it to survive.

A recall can simultaneously be perceived positively and negatively. It can be viewed as a highly responsible act on the part of the company, reflecting a concern for consumers and a sense of social responsibility; it could also be perceived as an acknowledgment of a product defect. This acknowledgment can have a negative effect on company image if the defect is seen to be caused by factors under the company’s control. A recall must be presented to the public in a positive light.

Compensation for Damages
Every crisis creates victims who suffer health or material losses. These victims need to be compensated adequately and speedily. Usually, litigation over liability unreasonably delays compensation. For example, victims of the Bhopal disaster had not received any compensation for damages even four years after the event; it took that long for Union Carbide and the government of India to reach a settlement. Even after the settlement was reached, there was no administrative mechanism in place to distribute the money to victims.

Payment of compensation can be rationalized in several ways. First, even before liability issues are settled, the company should be willing to pay for some expenses, such as medical treatment, emergency equipment and personnel, and inquiries into the incident.

This should be done both as a humanitarian gesture and as a way to set a tone of social responsibility.

The amount of money spent on such immediate relief efforts is relatively small and can be treated as interim payment to victims.

Second, compensation can be expedited by quickly determining the liability for damages. This is often done through litigation, which takes an inordinate amount of time and money. Firms should explore nonlitigational, alternative dispute-resolution mechanisms, such as arbitration, joint conciliation, or third-party mediation by international organizations or social groups.

Unfortunately, too many companies have the mistaken belief that they will never face a crisis because they deal with safe products and technologies. This belief is patently false, because injuries have been caused by such seemingly harmless products as children’s pajamas, toys, and infant formula.

Even manufacturing plants that use relatively safe technologies often store large amounts of hazardous substances. Because no company is totally immune from a crisis, all can greatly minimize the negative impact by preparing for it.

Pollution Cleanup
Crisis involving environmental pollution, such as the Exxon oil spill in Alaska or the Ashland Oil storage tank collapse in Pittsburgh, require extensive clean-up operations. Unfortunately, such crises often create permanent damage to the environment.

Despite the best attempts to clean up, part of the pollution remains in the environment and dissipates by itself over many years. In these situations, it is important for companies to extend their clean-up effort beyond the immediate incident. They should undertake environmental restoration programs that convince the public they really care about the environment.

For example, it is now well known that less than 10 percent of the oil spilled in Alaska will be recovered through Exxon’s clean-up effort. The rest will either evaporate or remain permanently in the ocean. If Exxon wants to show a real commitment to maintaining the quality of our environment, it could undertake an environmental preservation program inside or outside Alaska, for example, in areas unrelated to the spill.