Crisis and reputation strategy and management

The article is a reprint from
The Company Guide November 2008

Crisis and reputation strategy and management

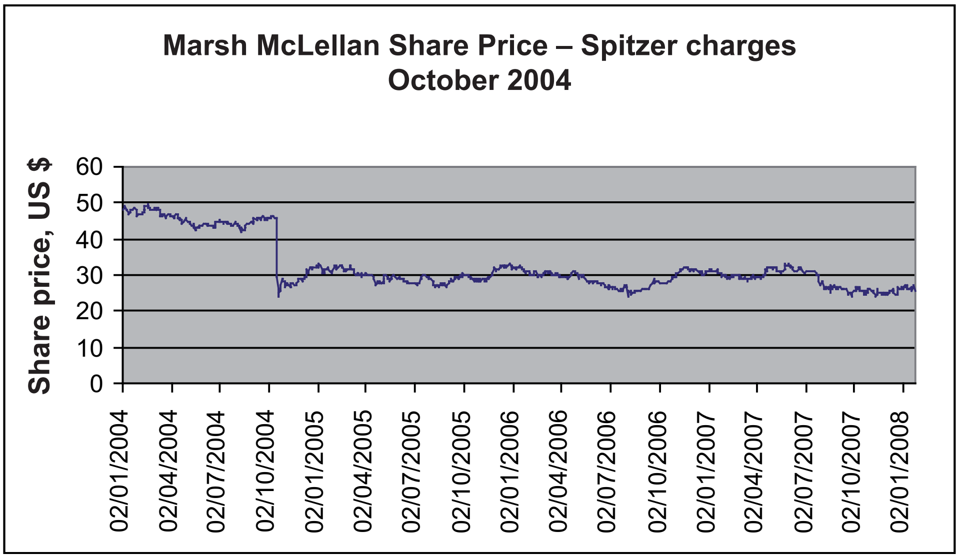
Anthony Fitzsimmons,
Chairman, Reputability Ltd

"It takes 20 years to build a reputation and five minutes to ruin it.
If you think about that, you'll do things differently."
Warren Buffett

Most companies should be able to come through most major crises without doing lasting damage to their business.[1] In reality however, major crises regularly result in considerable damage to the business concerned, its reputation and its leadership. Though some survive or even thrive, a typical outcome is a drop of around 30% in the share price for a prolonged period even if most financial losses are insured. The CEO may be fired and the company may be bought at a bargain price. Some go into terminal decline. This type of outcome is usually avoidable.

The graph shows what happened to the share price of one of the world's leading risk managers when a very small number of staff members were charged with bid-rigging, price-fixing, and accepting payoffs from insurance companies.

Such loss of reputation is a common element in post-crisis damage. Recent changes in UK company law, mean that directors are more likely to be sued for losses if they have taken inadequate steps to protect the reputability of the company.



1 Important, topical exceptions are major economic externalities such as an economic downturn or a credit crisis; and events that destroy uninsured assets, such as losing most of the company's cash in a bank crash.

The Anatomy of a Crisis

The story of a crisis typically has two parts. First, something happens. It cannot be undone. The oil storage depot blows up; a train comes off the rails and kills passengers; senior executives are accused of trying to pervert the course of justice; chocolate is contaminated by salmonella; bottled drink is contaminated with benzene. Dramas like these give the media a good story with plenty of "human interest" – and human interest gets public attention, sells newspapers and increases viewing figures.

For the first 24 hours, there will be a media frenzy as events unfold, but before long, a second story line will develop. It poses the question: "...and what does all this tell us about the company and its management?" The Commentariat, the media's ever expanding team of commentators, will get to work, interpreting events, giving opinions, apportioning blame and stirring politicians into action. The company at the heart of it all will get more media exposure than it would ever be prepared to pay for in its marketing and PR budgets. If the story grows an aspect of outrage or incompetence, the coverage will last for weeks or more.

The second phase represents both risk and opportunity on a massive scale. In normal times, the company leadership can maintain a modicum of discretion about the detail of what is going on internally, but in a major crisis, privacy disappears. Decisions and their effects are revealed to the public's gaze. There is no scope for being economical with the truth let alone misleading because any gaps are likely to be filled and inaccuracies corrected by well-informed leaks.

With the help of the Commentariat, the public sees every step analysed and second-guessed in real time. The media, politicians, the public and all other stakeholders are given the opportunity to discuss and judge how well – or poorly – top management is performing. Do they seem to know where they are going and what they are doing? What is their ethos? Are they humane or unfeeling? Are they decisive? Do they make good or poor decisions? Why did it happen? Has something like this happened before? If so, why is it happening again? Should someone be sacked, prosecuted or sued? In a nutshell, there is a public discussion of whether top management is competent, whether their behaviour is acceptable and what should be done about their shortcomings.

A major crisis is a destiny-determining public stress test of an organisation and its management. And it has always been so. Over 2000 years ago the Roman poet Horace wrote:

"Adversity reveals genius, while prosperity conceals it."

Adversity also reveals mediocrity while prosperity masks it. This is a key to understanding the outcomes of major crises. Those who excel receive the acclaim they deserve. Those whose performance is found to be wanting are removed. It would be unfair to highlight even a half a dozen names because the choice is so large, but people still remember Michael Bishop and his excellent response in the aftermath of the Kegworth crash.

Prevention is better than cure

Some major crises are genuinely unforeseeable – Donald Rumsfeld's unfairly infamous "*unknown unknowns – things we do not know we don't know*". Many more are foreseeable. It is not unusual to discover that the cause of a particular crisis and its possible consequences were already well recognised by the lower echelons of the organisation concerned. Nor is it unusual to find that company culture and internal incentives prevented the knowledge from being passed up to sufficiently high levels of management. The revelation of such inadequate cultures damages managerial reputations, particularly if a disaster or crisis is the result. Good reputational strategy and management ensure that internal weaknesses are known to management at the right level and dealt with before they cause damage.

Preparation is wise

When written, the Chinese word "crisis" is composed of two characters. One represents danger, and the other represents the idea of a turning point. The exceptional intensity of media attention creates a turning point fraught with danger. No-one wishes to be faced with a major crisis, but if one happens, the question is whether the outcome will be disaster or a turning point – some would say "opportunity"- from which the company's reputation grows. Few emerge completely unchanged.

Almost 2000 years ago, another Roman luminary Seneca the Younger wrote:

"Luck is what happens when preparation meets opportunity".

Unfortunately, many organisations do not prepare adequately for severe adversity. The reason may be that, as discussed in Nassim Taleb's writing on Black and Gray Swans, humans regularly under-estimate the likelihood of extreme events even though their effects may be severe.

Such thinking represents a serious strategy failure. Much can be done in preparation for the unforeseeable. Planning for the foreseeable brings self-knowledge that can be used to deal with the unforeseen. For example, the UK military had no plan to sail to the Falkland Islands in 1982. However, when asked if they could re-take the islands, it was their planning to mobilise against a possible Soviet invasion of Europe which gave them the self-knowledge to assemble the Falklands armada at very short notice.

For those who are inexperienced in planning for crises, it will be a major challenge to ensure that the company has the appropriate strategy in place. That is why it is vital to get together a team that collectively understands the dynamics of the business and of crises. A crisis strategy developed in this way should blend seamlessly with core company strategy. Planning ensures that resources can be found even in an emergency of an unforeseen kind.

Practice is also invaluable. Apart from testing crisis strategy and planning, exercises can provide vital experience in managing a crisis. Mistakes can be made in private with no risk of adverse consequences; and the de-brief allows lessons to be learned for the future.

The company's reputational starting point is also important as it determines the initial attitude of stakeholders including the media. A justifiably good reputation should be thought of as reputational capital that can be drawn on if something goes wrong. Johnson & Johnson is a company which, if faced with a crisis, would set out to deal with it from a position of reputational strength. On the other hand, a company can be handicapped by having to start managing the crisis from the back foot. A reputation that is better than justified may seem an advantage before a crisis, but it is likely to unravel in a crisis and become a separate source of reputational damage.

So it has all gone wrong…

When Sky News calls to ask about a massive explosion that has just taken place at your largest fuel storage depot, you know instantly that you have a major problem. But many emerging crises are not immediately recognisable for their potential. Potential food contamination problems regularly come into this category. A company needs to know how to recognise a potential crisis – and when to activate its crisis management system.

Those who have not adapted their strategy to guide the business through a major crisis and gone through planning and practice leave themselves massively exposed. The unfolding drama will give everyone concerned an adrenalin high, but it is casino crisis management. At stake are the company's reputation, its shareholders' money and the CEO's career. CEOs who lose in this casino will be left with an almost irreparably damaged personal reputation. Vengeful shareholders have an increasing ability to pursue directors they think culpable.

In a crisis, it is essential to become proactive very fast, because a crisis often reaches a tipping point within the first 24 hours. That point passed, it becomes much harder to change the trend of events and public opinion.

The pressure at the heart of a major crisis is far more intense than most people have experienced, and few understand the complexity or crisis dynamics. An immediate question is how to manage it. One key to success is to recognise that both the crisis and the business need the application of strategy and the attention of suitably experienced management until the drama is resolved.

Another important practical issue is command and control. It is usually clear that the stakes are exceptionally high. This may tempt the executive team to delegate management of the crisis but retain detailed control. This clogs decision-making. A decision delayed is effectively a decision not to decide. At best, the company will appear to the outside world as a lumbering beast, but it can easily seem dithering, unfeeling, unprofessional and sclerotic. In a crisis, it is essential that decisions keep up with the pace of events.

Crises turn reputations fast partly because the media act as a proxy for the more aggrieved stakeholders, testing and adopting their perspectives. This is one of many reasons why it is important to understand the business's stakeholders – and how each will be affected by what has happened. Perspectives attributed to some stakeholders, particularly those who have been injured or have lost money, will be pursued by the media. Other stakeholders – for example financiers, insurers, investigators, prosecutors and politicians – have the power to drive their own agendas and have a direct effect on company decision-making. The challenge is to understand, balance and if possible reconcile the interests of stakeholders. This demands a mix of strategic thinking, imagination, experience and technical know-how.

Everyone knows that good crisis communication is essential, but many still think that it is the core of crisis management. The reality is that actions speak far louder than words. Communication is important, but actions are more so. If there is any discrepancy between actions and words, the actions are more credible. And if fine words are not visibly followed by actions promised or implied, it is easy for the business and its leaders to lose the trust of its stakeholders. A reputation for untrustworthiness can be exceptionally damaging and particularly hard to reverse.

Conclusion

A major crisis changes destinies. Casino-style crisis management is no longer acceptable, and it is doubly unacceptable where management are custodians of the property of investors. Professional leaders make sure they have a business strategy and values that is fit to guide the company through any crisis. Through planning and regular rehearsal of handling strategies, they are well prepared even for the unforeseeable.

No crisis is welcome, because crises bring harm to the innocent, are dangerous and regularly destroy company value and careers. But as Thomas Edison, who brought the world the first commercial electric light bulb grittily put it,

"Opportunity is missed by most people because it is dressed in overalls and looks like work"

Those who are well prepared will recognise – and use – the opportunity that often lies within. ■

www.reputability.co.uk