

Essential Steps for Crisis Management and Crisis Containment



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Introduction

While international business expansion undoubtedly presents many opportunities, there are also a multitude of challenges that companies face when deciding to operate on a global scale. This is because today's international business environment is largely uncontrollable, highly uncertain and complex and constantly evolving, which exposes companies to multiple areas of risk. As a consequence, no organization, regardless of its size or strength is immune from a crisis that can strike unexpectedly, and that can have profound negative effects on its operations, can imperil future growth, profitability, and even the company's survival. Managers must recognize the necessity to develop the skills to handle any threat and challenge that will inevitably arise, and make it a priority to be ready to handle such a crisis, through careful and meticulous preparation.

A crisis is any situation or series of events that launch a group, team or an organization into a downward spiral, by threatening to harm people or property and negatively impact and damage an organization, its stakeholders, or even an entire industry if not handled effectively and efficiently, characterized by "high consequence, low probability, ambiguity, and decision-making time pressure," (J. Hale, Dulek, and D. Hale, 2005), and always creates three inter related threats: public safety, financial loss due to disruption of operations and loss of market share, and inevitably reputation damage, because it reflects poorly on an organization (Coombs, 2011).

Taneja , et al (2014) explain that according to Mitroff, crises can be divided in seven major families: economic which includes events or situations such as strikes, market crashes, and shortage of labor opportunities, informational, where there is a loss of important information or organizational records, public or confidential, theft through phishing attacks or social engineering or leaking of sensitive data, physical, which includes compromised major equipment, loss of suppliers or a major disruption at a key operating plant, human resources, could be the loss of a key executive or member of the team, vandalism, or workplace violence, reputational such as rumors and gossip which can hurt the reputation of the organization. The sixth family includes, psychopathic acts, i.e., unthinkable acts such as terrorist attacks, kidnapping or even tampering with products, and finally natural disasters, includes tornadoes, earthquakes, fire and flash floods, or outbreak of a disease

Companies must consider and prepare for each one, because by omitting any they potentially make their organizations vulnerable, through effective crisis management which can be divided into three phases: the pre-crisis phase, in which the company will aim to prevent and prepare for a crisis, the crisis response phase, when the management will actually deal with the crisis, try to contain it and limit its damages, and the post-crisis phase, concerned with the long term goal of recovery from damage and image restoration (Coombs, 2011).

Pre-crisis phase

The pre-crisis phase aims to prevent crises through risk assessment, which is “(...) the process of identification, analysis and response to the project risks (...)” (Petru, 2013), and consists of scanning and analyzing the environment in order to systematically identify, assess, quantify risks by amount of importance, and prioritize the respective environmental risks to the business, estimate the probability of a particular crisis occurring, its expected frequency and its potential impact on operations. Geo-political risks that can affect companies are political instability, geo-political conflict, regime changes, corruption, attitude towards foreign investors and governance risk, which is “the ability to exercise effective control over an MNE’s operations within a country’s legal and political environment,” (Political Risk Assessment and Management, 2005.), because conflicts may arise between the company’s objectives and those of the host governments, (such as the firm’s impact on economic development). Economic risks may include monetary and fiscal policies, fiscal sustainability, levels of government debt and deficit and interest rate shocks at the macro-economic level, and income distribution at the micro-economic level. Legal risks may include legislative changes and discriminatory government regulations. Social factors that can cause a crisis are social unrest such as riots and strikes and cultural differences. Environmental factors have to do with a country’s climate and geo-political location which can cause natural disasters in extreme situations. Risks at the global level are associated with the country’s economic associations, intergovernmental relations, terrorism and war, anti-globalization movement, environmental concerns, poverty, or cyberattacks. (Schaechter, 2013)

These risks can be assessed by using professional risk analysts who create firm-specific reports by relating risk attributes of specific countries to the particular characteristics and vulnerabilities of their client firms. Research should take into account that different companies may have very different degrees of vulnerability to risk and be affected differently. (Political Risk Assessment and Management, 2005) Data can be collected from local media, diplomatic sources, outstanding expert consultants, or other business persons who have had recent experience in the host country, or even on-site visits. In order to assess a country’s risk level, companies may look for evidence of present turmoil or dissatisfaction, indications of economic stability, and trends in cultural and religious activities.

Stakeholders must also be involved in the management of crises, by being made aware of identified potential risks through “risk communication”, which includes “conveying ongoing crisis events to stakeholders, decision making within the crisis management team, and organizational decisions regarding whether and what amount of information to share.” (J. Hale, Dulek, and D. Hale, 2005), in order to keep their stakeholders and employees informed and prepared to act in case of a crisis. (Taneja et al. 2014). When risks include public safety, local authorities and emergency services should also be informed, so that they can prepare and develop emergency plans. When operating in a multinational setting, these communication strategies must be account for language barriers, different communication channels, and cultural experiences which can differ from country to country. According to Fatima Oliveira, (2013), organizations must have a polycentric approach and be proactively educational, possibly enlisting local help of specialists who know the public relations culture of the country. She also explains that perception of risk can vary from culture to culture. For example, it was not before Mattel recalled toy cars in 2007, due to them containing amounts of lead in excess of permissible

levels, that safety issues started being taken seriously by Chinese toy producers, who had previously ignored these requests to use alternative materials, believing it an exaggeration of minimal risks. Findings of risks assessment can then be used to start elaborating an executable crisis management plan. (Coombs, 2011).

Employees too must be prepared to contribute to crisis management, by being knowledgeable and trained to use organizational resources, possibly through training sessions to make them “aware of protocols, procedures, and action plans to deploy when there is an impending crisis.” (Taneja et al. 2014). According to Coombs, (2011), there should be a pre-designated crisis team, multidisciplinary in nature, usually consisting of experts in “public relations, legal, security, operations, finance, and human resources,” and should know what tasks and responsibilities they are required to perform during a crisis. Training under different hypothetical scenarios at least annually will help team members react faster and more effectively, to make more effective decisions, take initiatives and improve their response capacities. According to Baubion (2012), two key skills which must be emphasized are the ability to think creatively and to exercise leadership, because crises are unpredictable and different in nature, requiring initiatives, and often unique and new approaches. Spokespersons who will handle communication during the crisis must also be pre-assigned, and ideally should be trained by the public relations department, and preferably possess media relations skills and effective communication skills. (Coombs, 2011). Multinational enterprises should be careful to select spokespersons who wear “the same cultural eyeglasses that the community affected by a crisis event wears” (Fatima Oliveira, 2013) meaning who speak the language, know the preferred communication style of the country, and are culturally attuned.

The crisis management plan must be tailored to the company’s strategy and goals. Through a business impact analysis, a company must analyze which business functions are critical to the organization’s mission, so as to prioritize them in case of a crisis, in order to ensure business continuity, the capability to “continue delivery of products or services, at acceptable predefined levels following a disruptive incident.” (Whitworth, 2006) Planning should include management of facilities, supply chain, human resources and the environment, and involve all stages of the development of operations, as well as all third parties upon whom an organization is critically dependent on, such as suppliers. (Smith, 2003.)

Finally, the organization can implement notification and monitoring systems to develop foresight capacities to be able to detect and better anticipate a crisis. These can consist of monitoring networks, early-warning systems, intelligence networks, horizon scanning or risk radars tools. They need to be designed with a wide scope to detect early and possibly weak signals that could prove important. For example, these systems can measure geopolitical tensions based on market forces. (Baubion, 2012).

Besides the implementation of a crisis management plan, another strategy suggested by Ki and Brown (2013), is for companies to actively use media relation campaigns to promote a positive image and perception of themselves, to create a good relationship with stakeholders, based on trust and commitment, which will shape how the public perceives the organization during the crisis, and lead them to be more forgiving after a crisis, minimizing attributions of crisis responsibility and the impact of the crisis on the company’s reputation.

Crisis Response Phase

When avoidance efforts fail and a crisis is triggered, the organization goes into “crisis mode” and enters the response phase, characterized by short decision time, complexity, and ambiguity, since risk of immediate damage is still present. Decisive action is needed, and efforts must be shifted into containing the crisis and minimizing damage by bringing the situation under control as quickly as possible. The organization traverses a path of “observation, interpretation, choice, and dissemination—repeating the process steps numerous times”, (J. Hale, Dulek, and D. Hale, 2005).

The first step towards crisis containment is to assess the situation by quickly gathering as much accurate information as possible. Because multinationals can be faced with crises that transcend boundaries, and which therefore require transnational cooperation, it is important to define the scope of the crisis, meaning whether it’s local, regional or global, It also must be determined which organizational areas are involved, which sectors are affected, as well as which stakeholders, because it is important to manage a crisis on all levels and to determine what different capacities have to be mobilized. (Baubion, 2012) After the assessment, the crisis management team will take over and perform its pre assigned tasks by mobilizing the necessary resources. Its composition will of course be modified for every crisis according to its nature (for example, information technology experts would be required if the crisis involved the computer system.) The crisis management plan however, is not a precise step-by-step guide, but more of a reference tool, which provides lists of key contact information, reminders of what typically should be done in a crisis, and forms to be used to document the crisis response.

The next step is to communicate the situation to the public and to stakeholders. This is important because stakeholder perception is critical to a company’s success and therefore should an equal, if not more urgent priority over the technical solution. (Smith, 2003). There will be an expectation of an immediate response, and a need for reassurance in the face of ambiguity. Effective communication happens when “information is disseminated quickly, accurately, directly, and candidly to critical stakeholders, including the media”, (J. Hale, Dulek and D. Hale, 2005). A quick, well structured response allows for framing of the crisis by preventing the spread of inaccurate information, and shows that the organization is in control and safeguards the reputation and trust that organizations have been built up. A company should always take responsibility by indicating awareness of the situation, and assure that more details will be made public when they are known, explain how stakeholders might be affected by the problem, describe corrective action being taken to reassure them, and address crucial legal, financial, and business implications of the crisis, (as well as humanitarian, and technical if any exist.) (strategic crisis management for business owners). Coombs (2011) also suggests that companies should also express concern and sympathy for any victims of the crisis, therefore their communication should include a clear rehabilitation and compensation statement.

However, multinational companies should keep in mind that cultural values greatly affect what type of crisis strategies should be applied. For example, a no-comment response is equated with wisdom in the Chinese culture, whereas in Western cultures, silence at a critical moment is interpreted as lack of control and uncertainty. (Fatima Oliveira, 2013).

In order to avoid inconsistencies, the pre-assigned spokespersons must be quickly briefed

on the key message to be conveyed, they must be in communication with each other and no one else in the company should be authorized to speak to the media (Coombs, 2011).

This can be done through a taped interview, through mass media, press conferences and press releases, or industry publications. Since the public will inevitably turn to the Internet for information, it would be wise to utilize some form of web-based response, such as the company's current web site, or a separate specially created informative web site. (Taylor and Kent's (2007) (crisis management and communications). Furthermore, crisis managers need to use social media, by monitoring opinions expressed there, and also by using these modern tools to share information and communicate with the public. (Baubion, 2012), using dedicated social media response teams and employees with social media training. Internal communication (print, electronic media, personal meetings, e-mails, phone-calls, bulletins, or Intranet sites) should keep employees informed, reassured, and ensure their participation. (Coombs, 2011).

Post crisis phase

When the crisis subsides, the business enters the final phase, the post-crisis phase, in which the risk is over and business is resuming as usual, so the crisis is no longer the focal point of management's attention although it still requires some attention. Now the company can focus its resources on recovering from the crisis and rebuilding trust and credibility by managing public perception. Recovery involves attempts to "learn from the event internally and "handle" the event externally." (Coombs, 2011). The post-crisis phase looks for ways to better prepare for the next crisis and fulfills commitments made during the crisis phase and also aims to repair any reputational damage sustained during the crisis.

A crisis should be a learning experience, and the crisis management efforts should be evaluated to see what is working and what needs improvement. In order to do this, an organization may appoint a crisis evaluation team, which should be different from crisis management team members, to assess handling of the crisis and recommend changes in crisis procedures. This will prevent crisis recurrence and damage, by integrating lessons learned into the organization's crisis management system, allowing to improve prevention, preparation, and the response.

Then, a company must identify and repair any damage that it has sustained during the crisis, most commonly reputational damage. Most frequently, the communication strategies used during the crisis are enough to safeguard reputation, but sometimes a strong reputation repair effort is required. In order to determine this, managers can evaluate effects of the crisis by comparing with pre-crisis benchmarks of public opinion and stakeholder perceptions of organizational legitimacy. Another method is to review the intensifying factors of crisis history and prior reputation. If an organization has a history of similar crises or has a negative prior reputation, the reputational threat is intensified.

This is also the time to fulfill any commitments made during the crisis communication phase, such as victim compensation and follow up communication. The organization should release updates on the recovery process, describe corrective actions being taken, and publicize possible results from investigations of the crisis. The amount of follow-up communication required depends on the amount of information promised during the crisis and the length of time it takes to complete the recovery process. (Coombs, 2011).

Conclusion

In conclusion, understanding of internal and external risks that may have impact on the organization and ensuring that these risks are managed can mean the difference between success and failure for a business, and therefore should be one of the first priorities of an organization's leadership, who must remain vigilant, so as to not be lulled in a false sense of security just because they have crisis management plans in place. Crisis management allows for renewal, stability, and growth after crisis situations, reduces earnings fluctuations, increases stakeholder confidence, protects the organization's assets and helps it meet insurance, legal and regulatory requirements, and avoids serious harm to stakeholders, losses for an organization, or end its very existence. In uncertain environments it can also give you an edge over competition if your business is not disrupted. However, the essence of risk management should be based on understanding risk more than on making presumptions, because it is related to uncertainty and is diverse in nature, which offers to each situation a degree of novelty. Creative thinking determines the approach of risk management not only as a business practice, but more, as a way of life and a more general mood, which carries the name of "risk culture". (Petru, 2013). Besides, by its very nature, crisis management is multidisciplinary, and has psychological, social-political, and public relations elements which must all be taken into account. (J. Hale, Dulek, D. Hale, 2005;). This means that a structured consideration of risk must be built into existing activities and be an inherent part of key decision-making processes. The crisis management plan must be continuously updated and philosophies must be able to change, to account for changes in external or internal factors and to be improved. (Baubion, 2012).

Multinational companies operating in a global context, face the additional challenge of being exposed to highly uncertain and complex business environments, where a crisis can be transcend geographical boundaries due to the interconnectedness between countries and organization in the context of an increasingly globalized world, and which can have multinational consequences, and they must take into account multicultural effects. They must constantly remember that multicultural elements permeate each aspect of a crisis and of the crisis response strategy.

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