

Crisis busters: When the unexpected happens

Six golden rules to managing a crisis

◀ From BUSINESSDAY 1

But the only way to reassure investors and customers — and restore the bank's reputation — was to make as much information available as possible, and be as forthright as possible, he says.

Gavin Anderson & Company's Ian Smith, who recently advised Qantas and helped the Federal Government with the T3 (and T2) share sales, says managing a company's reputation before a crisis — issues management — has become the biggest priority.

"The bottom line nowadays is there's a huge commercial impact in not managing your reputation," he says.

With 12 years in the crisis management business, and a background in journalism, Smith has seen a shift in the way companies prepare for negative events.

Five years ago, he says, 10 per cent of Gavin Anderson & Company's work would have been defensive work such as building relationships with customers and investors, and preparing crisis management plans.

Now about 60 to 70 per cent of its work is pre-emptive and the remaining portion is the "last-minute stuff". Or "the 'Oh shit' phone calls", as RMIT's Turnbull calls them.

Unfortunately, with the expansion of the internet and its 24-hour news cycle, there's not much time to make those phone calls any more.

Crisis management consultants such as Smith, and British-based Mike Regester, call it the "golden hour". "It's all about what you do in that first hour," Regester says.

Lahra Carey, of Lahra Carey Media & Communications, thinks giving yourself an hour is way too generous.

"It's the first few minutes which is responsible for where the company's reputation is ... and a reputation can take years to rebuild," she says.

In practical terms, depending on the type of crisis, Carey says you can use those crucial minutes to: make sure you're not hiding anything, choose a media spokesperson, ensure the company's website will be brought up to date, set up a 24-hour hotline, call some journalists, brief employees, draft an advertisement for tomorrow's papers, investigate the situation further and, finally — remain calm.

Tell that to GlaxoSmithKline, which seemingly sat on its hands for almost three years after two New Zealand schoolgirls demonstrated the company had overestimated the amount of vitamin C in some of its Ribena products.

The girls contacted the company with their findings, produced during a school experiment. But their claims were dismissed.

It was only after a New Zealand consumer affairs show took up their case that the New Zealand Commerce Commission charged GlaxoSmithKline

under the Fair Trading Act. Three years after the initial claims were made, in March this year, GlaxoSmithKline was ordered to pay \$NZ217,500 and run corrective advertisements.

"It was too little, too late," says Rupert Hugh-Jones, of crisis management consultancy Scaffidi Hugh-Jones.

"It was a slow-burning issue and it took a long time for the company to make a response and to recognise that it was a valid concern."

Astonishingly, Xavier of QUT says research shows about 60 to 70 per cent of company crises are smouldering, with the company oblivious, or choosing not to act.

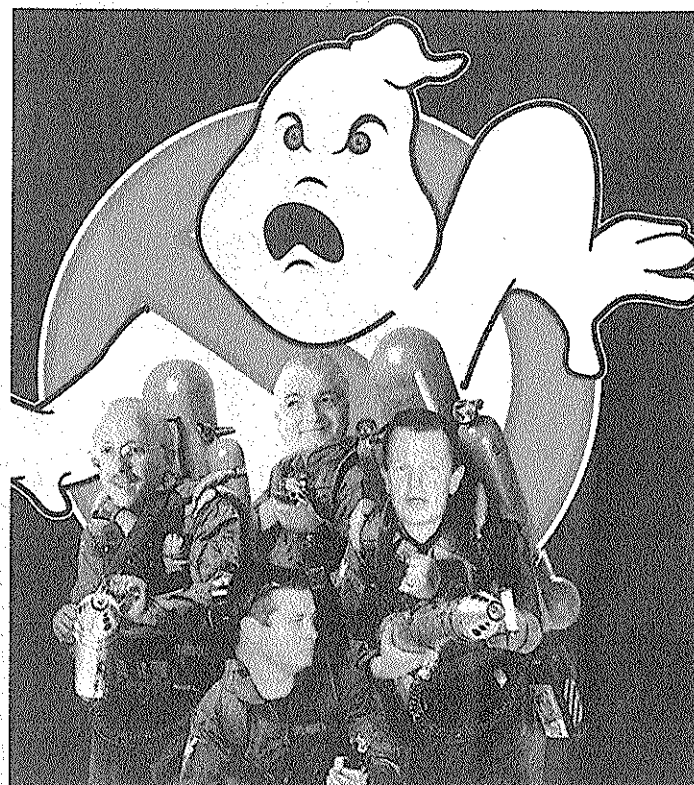
In contrast, University of South Australia school of management associate professor Robert Heath says his No. 1 crisis management strategy is to avoid it. "Cut it off at the pass," he says.

Heath says if the public can retain at least some confidence in a company, total disaster might be averted.

As if to prove the value of prompt, clever crisis management, he suggests the strategy might have worked for defunct US energy company Enron.

"I still believe that even though there was some obvious criminality, that they could have got through without the whole company collapsing."

At the other end of the scale, crisis consultant Sean Mulcahy — who along with lawyer partner Robert Hill represented Michelle Leslie when she was



arrested in Bali for possession of drugs — says he believes convicted drug trafficker Schapelle Corby would have escaped a 20-year sentence if she had been properly represented.

"We would have loved to have helped Schapelle," he says. "We could have helped her a lot."

Mulcahy and Hill, who started Frontline Crisis Management two years ago, were also instrumental in assisting so-called B1 and B2 — Jupiter

Mines directors Jeremy Snaith and David Evans — from escaping more severe punishment for their alleged antics on board an Etihad Airways flight to Abu Dhabi.

Mulcahy is now attempting to contact Australian DJ Nicholas Taylor, who was arrested in Bali on drug possession charges. He wants to offer Frontline's services.

After all, crisis management consultants need to earn a living too.

PETER SANDMAN'S TECH SPECS FOR FORGIVENESS

■ You have to acknowledge what you did. Hypothetical apologies ("what-ever I might have done that might have offended people, I'm sorry") don't cut it. And your list of your own misdeeds has to be complete. Apologising for peccadilloes while continuing to hide more serious infractions will backfire badly when the latter come to light later.

■ You have to allow time for others to criticise you. Pre-emptive apologies ("I'm sorry; now let's not talk about it") don't cut it either. Forgiveness requires a period during which you're busy saying you're sorry and your victims and critics are busy saying you damn well should be.

■ You have to accept responsibility. If a child breaks a lamp, "I'm sorry your lamp broke" won't do the job; "I'm sorry I broke your lamp" is the apology that's called for. Even if you decide you shouldn't accept legal responsibility, you can still accept moral responsibility.

■ You have to explain why it happened. That's part of taking responsibility, not a substitute for taking responsibility. Explanations for misbehaviour fall into two main categories: "stupid" and "evil". Since evil is harder to forgive, it pays to say so if you were stupid.

■ You have to back your apology with two kinds of efforts to "make it right" — compensation for those who were hurt by what you did, and policy improvements so it's less likely to happen again.

■ You have to be humiliated. This is the secular equivalent of the Roman Catholic doctrine of penance: the final step in forgiveness.

IN MANAGEMENT literature, US pharmaceutical giant Johnson & Johnson's response to the 1982 Tylenol poisonings has always been held up as the gold standard for crisis management.

J&J's handling of the incident is a page out of the six golden rules for turning crises into triumphs, or at the very least, getting through the storm.

Like many chief executives, J&J's CEO at the time, James Burke, could have gone down the direction of plausible deniability. He could have declared, hand on heart, the company had done everything prudently possible to stop trouble happening.

What J&J did instead was radical and refreshing, and ultimately it saved the company. It spent hundreds of millions on a recall and embarked on an enormous public information campaign.

It immediately called a news conference, posted a reward for finding the culprit, established 24-hour help lines to deal with inquiries, and instructed doctors to suspend supplies. When there were copy-cat poisonings, J&J did it again. Straightaway it stopped the production of capsules, and introduced tamper-proof caplets.

The fascinating part about this story is that the company turned a disaster into a triumph through some brilliant crisis management that, in the end, was really just a matter of common sense.

Business history is littered with examples of hamfisted business chiefs who damaged, or nearly destroyed, the reputation of their companies.

Some examples: the 1989 Exxon Valdez oil spill is recognised as the template for PR screw-ups. Its leaders initially refused to talk to media, and then blamed them for damaging the company's reputation.

Or take Union Carbide's poor handling of the poisonous gas leak at Bhopal in India that killed nearly 4000 people in 1984.

Australia too has had its share of PR disasters. Who can forget former PBL boss Eddie McGuire thinking he was at a



Collingwood footy club function when he talked about "boning" female talent? Or the PR disaster that ensued when Nine took to the courts to keep secret the revelation about McGuire's comments. What about the ABC's own goal when it spent \$100,000 on *Jonestown*, the biography of Alan Jones, then dumped it because it got scared of Jones suing? The book became a bestseller, with publisher Allen & Unwin picking up all that publicity. Or the way Pan Pharmaceuticals, faced with the recall of its products, refused to talk for a day and insisted it had done nothing wrong. Turning a bad situation into a catastrophe, it called a press conference and then cancelled it.

These cases will go down as textbook examples of bad crisis management.

PR specialists cite six golden rules:

1. Work with authorities and recall faulty products straightaway. If the company is stonewalling, agencies will step in.

2. Be upfront, providing the public with information and apologise. But won't an apology increase the risk of litigation? Not necessarily. There are hundreds of ways of saying

sorry without jeopardising your legal position, but in the end, you need to express regret and sympathy. Otherwise, you just come out looking like you're protecting your backside.

3. Go out of your way to show you are doing everything possible to solve the problem.

4. Identify your vulnerabilities, find ways to stop them blowing up, have a plan for what to do when the worst happens, and keep the plan updated.

5. Develop strong relations with employees and customers.

6. Keep competitors in the loop. That helps stop shock waves flowing through to the rest of the industry.

CASE STUDY AWB

AWB caught paying kickbacks to Saddam Hussein's regime

WHEN? 2005

WHAT HAPPENED? In order to sell wheat to the Iraqi Government, "single-desk" wheat exporter AWB Ltd agreed to pay inflated transportation fees on the wheat they supplied. To cover the costs, it changed the written down price of the wheat paid for through the United Nations' oil-for-food program. The issue was a "sleeper" but allegations AWB had paid kickbacks to Saddam Hussein's regime eventually had to be investigated.

WHAT WAS DONE? At the start, AWB executives were encouraged to apologise profusely but they chose not to accept the advice.

WHO CONSULTED? Initially advised by Peter Sandman. Later by Ian Smith, Gavin Anderson & Company

WHAT WAS THE RESULT? The Federal Government established the Cole inquiry, questioning AWB executives in public hearings. There may still be legal action against individuals. AWB has had to accept the Federal Government's recent decision to introduce new wheat harvest marketing arrangements for



Former chairman Trevor Flugge

2008-09. Its share price has recovered, somewhat, touching the \$4 mark in recent weeks, after a time near \$2.50.

CASE STUDY THE GOVERNOR-GENERAL

Governor-General Dr Peter Hollingworth's resignation

WHEN? 2002-03

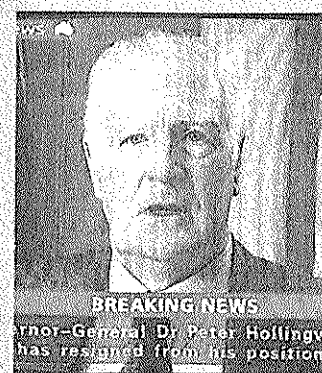
WHAT HAPPENED? The Governor-General was severely criticised over his handling of child sex abuse cases when he was the Anglican Archbishop of Brisbane during the 1990s. One of the issues was a decision to allow a bishop who admitted to having a sexual relationship with a young girl, several decades previously, to continue working.

WHAT WAS DONE? The issue stretched out, but Dr Hollingworth

expressed deep regret that some allegations of sexual abuse were not properly investigated. He appeared on *Australian Story*, discussing the issue. And there was also an Anglican Church inquiry into Dr Hollingworth's actions.

WHO CONSULTED? Mike Smith, Inside Public Relations

WHAT WAS THE RESULT? The *Australian Story* interview was not well received and the Anglican Church inquiry was critical of Dr Hollingworth's actions. There were increased calls for Dr Hollingworth's resignation and he resigned in May



Peter Hollingworth

2003 citing "misplaced and unwarranted allegations".