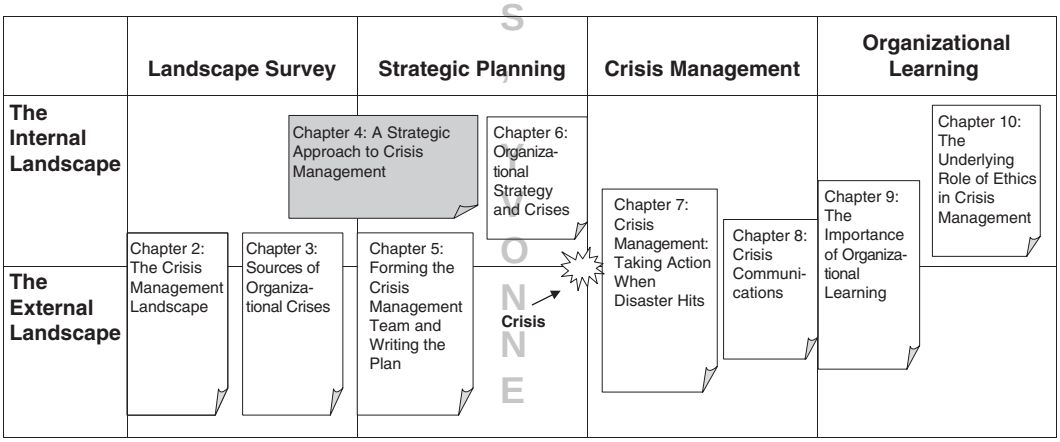
CHAPTER 4

A Strategic Approach to Crisis Management



Opening Case, Part 1: The Professor, "Arrogant Amy"

Dr. Amy Bishop arrived on the campus of the University of Alabama at Huntsville (UAH) in 2003 with impeccable credentials. She had a Ph.D. from Harvard and was by all means a rising star in the field of neurobiology. Her new position was that of a tenure-track assistant professor, a job that would require her to teach and conduct research. A tenure-track professor at UAH has six years to make a case for the long-term stint known as tenure. An assistant professor who is not deemed to be a good fit may be denied tenure, at which time the assistant professor begins anew at another institution.

In general, a tenure-track faculty member must be a good teacher and provide a steady stream of research scholarship in the form of peer-reviewed publications. In addition, *being collegial* is a term used frequently on university campuses. Albeit

subjective, the notion of collegiality means that faculty members are respectful of their students and peers. Put a bit differently, a faculty member must be likeable, although agreement with everything that is said at the university is not required. Indeed, one can disagree with another colleague's viewpoint but still be respectful and courteous to that colleague. Professors who are overly confrontational or arrogant may find it hard to attain tenure at some institutions. Amy Bishop's arrogant and abrasive style rubbed many people the wrong way, earning her the informal nickname "Arrogant Amy." She was even known for introducing herself as "Dr. Amy Bishop, Harvard-trained" (Wallace, 2011).

Bishop's personal style of carrying herself did not go over well at UAH. Initially, she was described by colleagues and students as funny and extroverted, but she was not universally liked. Students complained that her exam questions went beyond what was covered in the course. A petition was circulated by students complaining about her exams (Dewan, Saul, & Zezima, 2010).

Her relationship with graduate students was also volatile. It was generally known that most students simply did not last long working for her in the laboratory, and many transferred to another lab before completing their degrees. One student was dismissed from her lab in May 2006. The student promised to return notebooks and keys the next day, but Bishop called the campus police to address the situation (Dewan et al., 2010).

Her erratic behavior was noted by a member of her tenure committee, who commented in a report that she was literally "crazy." When given a chance to restate the word *crazy,* the faculty member did not change his stance, stating "I said she was crazy multiple times and I stand by that. . . . The woman has a pattern of erratic behavior. She did things that weren't normal. . . . She was out of touch with reality" (Wallace, 2011).

In March, 2009, the university decided not to accept her application for tenure. Bishop's research was cited as being a low point. She had published one peer-reviewed paper in each of 2004, 2005, and 2006, but none in 2007 and 2008. Then, in 2009, she had three peer-reviewed papers, although one of them was published in a journal that was not considered of very high quality. In addition, her teaching failed to measure up to the standards desired by UAH (Bartlett, Wilson, Basken, Glenn, & Fischman, 2010).

At this point in her career, it would be expected that Amy Bishop would need to move on to another institution. The career prospects, though, can be difficult for some professors, as many in the higher education industry see not getting tenure as being the ultimate rejection from that colleague's peers (Wallace, 2011). In addition, career mobility for a faculty member who teaches and researches in a very specialized field can be limited. For some professors, there may be only one or two positions each year for which they are truly qualified (Bartlett et al. 2010). Dr. Bishop decided to appeal the tenure decision and requested that various faculty members write letters of support on her behalf. She was the main source of income for her family and she desperately needed the job; the family was already experiencing financial problems and had discussed declaring bankruptcy (Wallace, 2011). Despite her efforts to appeal the tenure decision, her request was still denied. Dr. Bishop would need to seek employment elsewhere.

Opening Case Part 1 Discussion Questions

1. What can colleges and universities do to help their new faculty be successful in their jobs?
2. Some take the viewpoint that the institution is at fault if a faculty member fails to attain tenure. Discuss this statement in terms of its merits.
3. Faculty members who are not granted tenure are often given a final one-year contract before they are required to leave. What potential crisis could emerge during that person's last year on campus?

Opening Case Part 1 References

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Introduction

Effective crisis management requires that managers understand both the sources of crisis events and the strategies needed to identify and plan for them. A crisis event rarely occurs "out of the blue." Instead, it usually follows one or more warning signs. Typically, a series of precondition events occur before a crisis can commence. These events eventually lead to the "trigger event" that ultimately causes the crisis (Shrivastava, 1995; Smith, 1990). Recall that in 1984, deadly methyl isocyanate gas leaked from a storage tank at a Union Carbide plant in Bhopal, India, initially killing more than 2,500 people and injuring another 300,000. The trigger event for this crisis was the entry of water into a storage tank that subsequently caused the unit's temperature and tank pressure to rise. Numerous preconditions contributed to the origin of this accident. These included shutting down a refrigeration system designed to keep the gas cool, failing to reset the tank temperature alarm, neglecting to fix a nonfunctioning gas scrubber, and not performing the maintenance and repair on an inoperative flame tower designed to burn off toxic gases (Hartley, 1993). Each of these four systems was designed to help alert plant workers and contain the toxic effects of a gas leak. Each of them was inoperable the day of the accident.

In the evolution of a crisis, the warning signs may not be identified until it is too late, either because decision makers are not aware of them or because they do not recognize them as serious threats. Sometimes managers are simply in denial. Some assert that a crisis cannot happen to their organization or that the probability of it occurring is so low that it does not warrant spending the time and resources

required to prevent it (Nathan, 2000; Pearson & Mitroff, 1993). In some cases, the warning signs are ignored altogether, even though these preconditions are signaling an impending crisis. For example, Toyota's unintended acceleration problem with its Camry model was preceded by a year's worth of problems with stuck accelerators (Institute for Crisis Management, 2011). All of this underscores the importance of assessing crisis vulnerability, the practice of scanning the environment and identifying those threats that could happen to the organization.

In this chapter, we examine crisis management from a strategic point of view. First we overview the challenges managers face as they assess the external environment, particularly in terms of its uncertainty. We then proceed to the heart of identifying potential crises and employ the SWOT (strengths, weaknesses, opportunities, and threats) analysis, a tool that is widely used in strategic planning. We close this chapter with a short discussion on the link between organizational culture and crisis planning.

A Strategic Approach to Crisis Management

Crisis management requires a *strategic* mind-set or perspective (Chong & Park, 2010; Preble, 1997; Somers, 2009). Therefore, understanding effective crisis management requires that we first understand the four key distinctions of a strategic orientation perspective.

1. It is based on a systematic, comprehensive analysis of internal attributes, also referred to as strengths and weaknesses; and of factors external to the organization, commonly referred to as opportunities and threats. Readers familiar with strategic management recognize this process as the SWOT analysis. Approaching this process in a systematic manner is important because it ensures that potential crises are not overlooked. Thus, we must look both inside and outside the organization as we determine the risk factors that must be confronted.

2. A strategic orientation is long term and future oriented—usually several years to a decade into the future—but also built on knowledge of events from the past and present.

3. A strategic orientation is distinctively opportunistic, always seeking to take advantage of favorable situations and avoiding pitfalls that may occur either inside or outside the organization.

4. A strategic orientation involves choices, and very important ones at that. Because preparing for every conceivable crisis can be costly, priorities must be established. For example, resources must be spent to ensure safety in the workplace. The expenditure of resources, however, does take money directly off the bottom line. Because this approach is strategic, the expenditure may ensure the overall well-being of the firm in the long run. Therefore, some expenditures should not be viewed solely as cost items, but as investments in the future longevity (and safety) of the company.

Because of these distinctions, the overall crisis management program must include the top executive and members of his or her management team. The chief executive is the individual ultimately accountable for the organization's strategic management, as well as any crises that involve the organization. Except in the smallest companies, he or she relies on a *team* of top-level executives, all of whom play instrumental roles in the strategic management of the firm (Carpenter, 2002; Das & Teng, 1999).

Strategic decisions designed to head off crises are made within the context of the strategic management process, which can be summarized in five steps (Parnell, 2013):

1. *External analysis.* Analyze the opportunities and threats or constraints that exist in the organization's macroenvironment, including industry and external forces.
2. *Internal analysis.* Analyze the organization's strengths and weaknesses in its internal environment; reassess the organization's mission and its goals as necessary.
3. *Strategy formulation.* Formulate strategies that build and sustain competitive advantage by matching the organization's strengths and weaknesses with the environment's opportunities and threats.
4. *Strategy execution.* Implement the strategies that have been developed.
5. *Strategic control.* Engage in strategic control activities when the strategies are not producing the desired outcomes.

Crisis management is an important consideration in each step, in different ways. In the first step, managers identify the sources of crises that exist in the firm's external environment. Typically, the organization's external opportunities and threats are identified to determine specific vulnerabilities of concern. The threat of online viruses and other denial-of-service (DoS) attacks, for example, may suggest that the firm invest in upgrading firewall and virus protection measures so that its website is not taken offline by hackers (Robb, 2005). Also related to technology is a new opportunity: the use of social media outlets in addition to the company's regular Web page. Facebook pages for organizations are common as firms seek to demonstrate their human side to the public. This move can be important when a crisis does strike, because the company can use more personalized media outlets to communicate its side of the story (Jacques, 2009).

Government regulations, formed in response to a previous crisis, are part of the external environment. Following a salmonella outbreak and subsequent recalls of tomatoes in 2008, the U.S. Food and Drug Administration strengthened inspection and other measures to reduce the likelihood of a similar crisis in the future. Initially, the agency focused on tomatoes as the culprit. Later, various types of peppers were also part of the investigation (O'Rourke, 2008). Food-related firms from growers to producers to restaurants should consider how this crisis evolved and what strategic changes might be appropriate (Zhang, 2008). Ultimately, those in the food

manufacturing industry must be knowledgeable concerning what is now labeled *food traceability,* a term that requires all parties processing food to have the ability to track inputs through the entire supply chain (Schrader, 2010).

The second step focuses on vulnerabilities within the organization that may result in a crisis event. Typically, the organization's internal strengths and weaknesses are identified to determine what vulnerabilities may be present. A poorly trained workforce, for example, could lead to a workplace accident. Likewise, dubious advertising claims about one's competitors could result in litigation. Aging equipment is another common area of weakness.

The Chalk's Ocean Airways crash mentioned in Chapter 3 is an example of a company with certain strengths that made it a popular small airline over many decades. In 2003, the airline had been cited in the *Guinness Book of World Records* as the world's oldest continuously operating airline (Scammell, 2003). The company was a novelty in south Florida because it flew vintage seaplanes to the Bahamas, a feature that made it popular with local Bahamians who found the arrangement convenient when returning home. Indeed, flying in seaplanes in a time of modern aviation was a strength that the airline possessed. It was a visit back to nostalgic times. Unfortunately, the vintage seaplanes also embodied a weakness that was not apparent to its mechanics: structural fatigue cracks caused by years of use. "This accident tragically illustrates a gap in the safety net with regard to older airplanes," said Mark Rosenker, National Transportation Safety Board (NTSB) chairman. "The signs of structural problems were there—but not addressed. And to ignore continuing problems is to court disaster" (Vines, 2007, p. 14).

The third and fourth steps concern the development and execution of the firm's strategies at the various functional levels. Indeed, some strategies are more prone to crisis events than others. For example, a strategy that emphasizes global expansion into less stable emerging nations engenders a greater risk of crisis than one that has a strong domestic market orientation. This is not to suggest that potential crisis-laden strategies be avoided, but rather that they be evaluated closely within the strategic decision-making process.

The final step involves strategic control. This is an evaluative process through which the organization's managers engage in a serious assessment of the outcomes that are occurring or have occurred in the organization. Once the assessment is completed, the organization must take action to counter undesirable or unanticipated outcomes that emanate from the strategy's implementation. When a strategy is executed as planned, control may be minimal. When execution difficulties exist or unforeseen problems arise, however, the nature of strategic control may need to change to crisis prevention or even crisis response. Monitoring mechanisms must be established so that corrective action can be initiated when necessary. Strategic control is useful in crisis management because it often signals that a problem may be forthcoming. For example, accounting controls can signal whether there is embezzlement taking place in the organization. Figure 4.1 depicts how these five strategic steps fit within the crisis management framework. Note that Chapter 3 provided the foundation for the second step in the process—examining the external landscape. This chapter builds on that discussion and also focuses on Steps 2 and 3. In the next section, we examine the nature of environmental uncertainty as it pertains to the strategic and crisis management process.

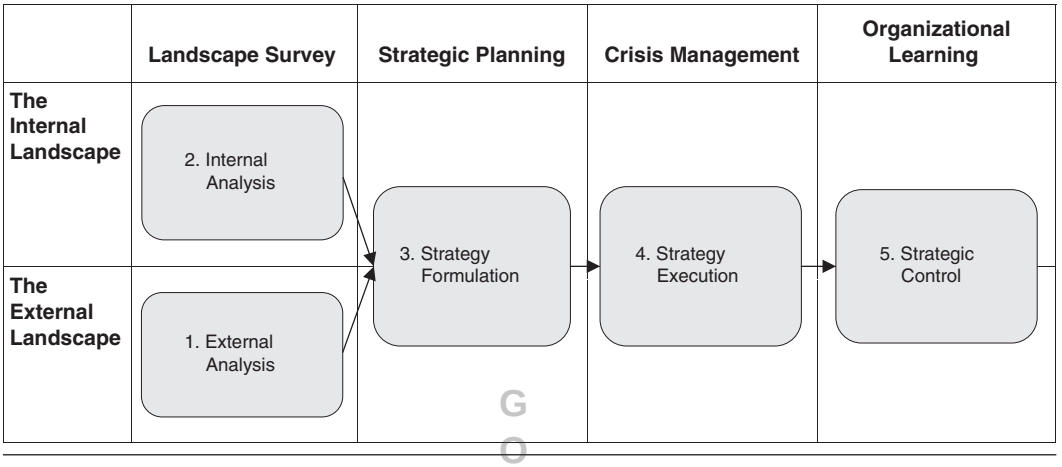

Figure 4.1 A Strategic Approach to Crisis Management

Understanding Environmental Uncertainty

Chapter 3 discussed a number of external sources of crises: political–legal, economic, social, and technological forces. Preventing crises would probably not be so complex if the top management team always had perfect information. Unfortunately, this is not the case. An important step in the strategic management process—analyzing the external environment—presents one of the most critical challenges for preventing crises: understanding and managing environmental uncertainty.

Managers must develop a systematic process to obtain information about the organization's environment. Ideally, top managers should be aware of the multitude of external forces that influence an organization's activities. Uncertainty occurs when decision makers lack current, sufficient, or reliable information and cannot accurately forecast future changes. In practice, decision makers in any organization must be able to render decisions when environmental conditions are uncertain.

Environmental uncertainty is influenced by three key characteristics of the organization's environment. First, the environment can be classified along a simple–complex continuum. Simple environments have few external factors that influence the organization, and the strength of these factors tends to be minimal. Complex environments are affected by numerous external factors, some of which can have a major influence on the organization. Most organizations fall somewhere between these two extremes.

Second, the environment can be classified along a stable–unstable continuum. Stable environments are marked by a slow pace of change. City and county municipalities typically fall under the category of stable environments. Unstable environments are characterized by rapid change, such as when competitors continually modify strategies, consumer preferences change quickly, or technological forces develop rapidly. The computer hardware and software industries reside in unstable environments.

Third, environmental uncertainty is a function of the quality or richness of information available to decision makers (Starbuck, 1976). This information

function usually does not present a problem for established firms operating in developed countries. In these settings, information sources are of higher quality and richness; they include business publications, trade associations, and well-developed governmental agencies. In emerging economies, however, reliable data on items such as market demand, economic forces, and consumer preferences may not be as readily available.

Considering these three environmental characteristics, uncertainty is lowest in organizations with simple and stable environments, and where the quality of available information is high. In contrast, uncertainty is highest in organizations whose environments are complex and unstable, and where the quality of information is low (Duncan, 1972). The relationship between uncertainty and the prevalence of organizational crises can now be seen: as uncertainty increases in organizations, so does the likelihood of crises. Hence, organizations whose core competencies are tied closely to technology tend to experience the greatest complexity and instability. Following the terrorist attacks of September 11, 2001, airlines were added to this category because of increased regulatory pressure and fears of further attacks.

Organizations in environments marked by low uncertainty should be managed differently from those marked by high uncertainty. When uncertainty is low, greater formality and established procedures can be implemented to increase predictability, improve efficiency, and lessen the frequency of crisis events. When uncertainty is high, however, procedures are difficult to develop because processes tend to change more frequently. In this situation, decision makers are often granted more freedom and flexibility so that the organization can adapt to its environment as it changes or as better information on the environment becomes available. While this freedom and flexibility may be necessary, it can create a crisis-prone environment. The reason is the possibility of experiencing what management scholar Karl Weick (1993) labels as "cosmology episodes." Such episodes are characteristic of many crisis events in which the stakeholders involved have encountered a situation unlike any that has been experienced before. Indeed, one of the characteristics of a crisis is its low probability of occurring, and yet, if it does occur, it can appear to be unique and unparalleled. The term *cosmology episode* was originally applied to the 1949 forest fire at Mann Gulch, Montana, that resulted in the deaths of 13 smokejumpers. The event consisted of a unique interaction of weather, fire, and geography that trapped the smokejumpers fighting the fire (Weick, 1993). Despite the fact that the smokejumpers were experienced and the original fire was not considered large, the events that unfolded were new to those involved and ended in tragedy.

A number of techniques are available for managing uncertainty in the environment. The first consideration, however, is whether the organization should adapt to its environment or, in some cases, attempt to influence or change it. Urban hospitals represent a classic example of adapting to their environments when the surrounding neighborhoods where they are located become crime ridden, a common problem for many urban facilities. Moving the hospital is usually not an option because, geographically, it is located to serve a specific community. To keep it safe from the crime in the external neighborhoods (and hence, free of specific crises),

measures are taken to ensure the safety of the buildings and the patients. Employing extra security guards, installing perimeter lighting, using security cameras, and utilizing metal detectors are all methods of adapting to the environment.

Occasionally, a business may seek to change its environment to protect it from a crisis. Farmers have been known to use special cannons to ward off approaching hail that might damage crops. These anti-hail cannons send a loud popping noise into the air, directed squarely at the storm at hand. Although the practice stems back to the 1890s—and is not entirely validated by science—a resurgence of this practice has occurred in both Europe and the United States (Griffith, 2008). Even automaker Nissan has used this unusual method for dealing with hail. The company has a production facility in Canton, Mississippi, with a storage area of 140 acres. Hail is a major concern because of the body damage it can cause to an automobile. To respond to this threat, Nissan installed its anti-hail system using sound-producing hail cannons. Using weather-sensing equipment—when conditions are right for hail—a sonic wave is fired into the air every five and a half seconds to prevent the forming of hail (Foust & Beucke, 2005). Not everybody is happy with the arrangement, however, as the cannons have created a secondary crisis: local neighbors have been complaining about the excessive noise and have petitioned the Madison County Board of Supervisors to make Nissan stop the practice. However, county officials have not found Nissan in violations of existing laws, although they did ask the company to explain to the board how the cannons are supposed to work (Chappell, 2005).

Other techniques for managing uncertainty can also be used. One is buffering, a common approach whereby organizations establish departments to absorb uncertainty from the environment and thereby buffer its effects (Thompson, 1967). Purchasing departments, for example, perform a buffering role by stockpiling resources for the organization lest a crisis occur if they become scarce. Likewise, even companies that follow lean management practices are learning that some buffering is necessary lest there be an interruption within their supply chains (Ganguly & Guin, 2007). Of course, establishing a crisis management team and engaging in formal planning is also a form of buffering. If a crisis occurs, the team takes on a mitigating role by managing the ordeal.

Another technique is imitation, an approach whereby the organization mimics a successful key competitor. Presumably, organizations that imitate their competitors reduce uncertainty by pursuing "safety in numbers." The concept of imitation is paramount in crisis management as companies seek to learn what other organizations are doing to avoid crises. The literature on high-reliability organizations (HROs) has helped to achieve this goal by extolling how those in high-risk environments manage to stay incident free (Bourrier, 2011; Roberts & Bea, 2001).

Imitating the successful crisis management techniques of other organizations can be advantageous as well. The crisis management plans for many universities and government agencies are publicly available on their websites. One can learn much by studying the examples of these plans. However, imitation must be undertaken with an understanding of the differences that exist between the two organizations. Managers must account for the specific internal and external factors unique to their own organizations, which is why assessing crisis risks must begin with an

examination of the organization's internal and external environments. Imitating an ineffective strategy or structure can also reduce the effectiveness of crisis management (Bertrand & Lajtha, 2002).

Environmental Scanning

Keeping abreast of changes in the external environment that can lead to crises presents a key challenge. *Environmental scanning* refers to collecting and analyzing information about relevant trends in the external environment. A systematic environmental scanning process reduces uncertainty and organizes the flow of current information relevant to organizational decisions. In addition, scanning provides decision makers with an early warning system about changes in the environment. This process is also an important element in risk identification. Because organization members often lack critical knowledge and information, they may scan the environment by interacting with outsiders, a process known as *boundary spanning*.

Environmental scanning is meant to be future oriented in that it provides a basis for making strategic decisions. It also must not be too general in nature (Kumar, Subramanian, & Strandholm, 2001), but specific to the needs of the organization. Hence, the goal is to provide *effective* environmental scanning to produce information relevant to the firm (Groom & David, 2001). Although managers may possess information that could mitigate a crisis or prevent it from occurring, they still need to act on that information and make the appropriate decisions.

The infamous crisis that erupted between Royal Dutch Shell and the environmental activist group Greenpeace illustrates that important cues can still be ignored by management. In fact, this incident has been labeled a "predictable surprise," one that had plenty of warning indicators, yet still caught the company off guard (Watkins & Bazerman, 2003). The incident involved Shell's plan to sink an obsolete oil platform, the *Brent Spar,* in the North Sea. On April 29, 1995, however, Greenpeace activists boarded the platform and announced they would block its sinking because of radioactive contaminants that were stored on the structure. Shell responded by blasting the protestors and their boats with water cannons, a move that turned out to cause a major public relations crisis for the company. After the water cannon incident, opposition to Shell's plans grew in Europe, leading to a boycott of Shell service stations in Germany. Protestors damaged 50 German gas stations, firebombing two of them and riddling one with bullets (Zyglidopoulos, 2002). Less than two months after the initial Greenpeace protest, Shell gave in and abandoned its plan to sink the *Brent Spar.*

Watkins and Bazerman (2003) note that Royal Dutch Shell was surprised by the turn of public opinion against it. This occurred despite the fact that the company had an abundance of information indicating that protests by Greenpeace likely would involve the physical occupation of the platform by activists. Even other oil companies protested Shell's plans. The case illustrates that misreading external signals can still occur even when those signals prove to be reliable.

Environmental scanning should be viewed as a continuous process (Herring, 2003). Top managers must plan for and identify the types of information the

organization needs to support its strategic decision making. A system for obtaining this information is then developed. Information is collected, analyzed, and disseminated to the appropriate decision makers, usually within the functional areas of the firm. This information must be acted on, however, as the A. H. Robins case illustrates.

In the early 1970s, A. H. Robins manufactured the Dalkon Shield, a plastic intrauterine contraceptive device (IUD). More than 4 million IUDs were implanted in women by doctors who were swayed by the optimistic research reports offered by the company (Hartley, 1993). However, warnings from the external environment began to surface almost immediately after the product was introduced. Women were afflicted with pelvic infections, sterility, septic abortions, and in a few cases, death (Barton, 2001; Hartley, 1993). An analysis of information coming in from the external environment would have prompted most companies to shut down production of the IUD, but A. H. Robins persisted in marketing the product. It continued to promote the device as safe, even though management knew there were problems. In the end, the company was sued by thousands of victims. Eventually, the firm's poor financial standings resulting from lawsuit payoffs led to a sale of the company to American Home Products in 1989 (Barton, 2001).

Large organizations may engage in environmental scanning activities by employing one or more individuals whose sole responsibility is to obtain, process, and distribute important environmental information to their organization's decision makers. These individuals continually review articles in trade journals and other periodicals and watch for changes in competitor activities. They also monitor what is being said about the company on the Internet, including blogs and other social media outlets. Alternatively, organizations may contract with a research organization that offers environmental scanning services and provides them with real-time searches of published material associated with their organizations, key competitors, and industries. In contrast, decision makers at many smaller organizations must rely on trade publications or periodicals such as the *Wall Street Journal* to remain abreast of changes that may affect their organizations.

A potential lack of objectivity can be a concern when managers evaluate the external environment because they perceive selectively through the lens of their own experiences, professional expertise and operating departments. Managers with expertise in certain functional areas may be more interested in evaluating information pertaining to their functions. The problem with this viewpoint is that key elements from the environment may be ignored—elements that may pose future risks that could develop into a crisis. For example, cutting the budget of a human resource (HR) department to trim overall costs may sound tempting to the chief executive officer (CEO), but lapses in HR can lead to poor training and loosely enforced safety rules, both of which can lead to industrial accidents (Sheaffer & Mano-Negrin, 2003).

In an example of functional bias based on CEO background, Massey Energy has long suffered from a tarnished reputation based on its disregard for safety regulations set forth in the coal mining industry (Barrett, 2011). Under the direction of its former CEO, Don Blankenship, the company performed well financially, but apparently at the expense of miner safety (Fisk, Sullivan, & Freifeld, 2010). The result was a string of mining accidents, some involving fatalities. According to David McAteer,

a governor-appointed investigator of the company's mining accidents between 2000 and 2010, "No United States coal company had a worse fatality record than Massey Energy" (Barrett, 2011, p. 51). During that decade, Massey had 54 mining fatalities. The company did not respond effectively to the external environment for cues to prevent a crisis. Rather, Massey responded by alerting mine staff when inspectors were about to descend on the mine (Fiscor, 2011) and by keeping separate books to cover up safety violations from in-mine safety reports required by federal law (Ward, 2011).

A key problem associated with environmental scanning is determining which available information warrants attention. This is why developing sensitive indicators that trigger responses is so important. Consider the December 2004 Asian tsunami. Although an earthquake had been detected, scientists were unsure of the exact size of the resulting tsunami and were unable to share their observations with countries that would soon be affected because the governments in those countries lacked environmental scanning systems (Coombs, 2006).

Identifying Potential Crises Using the SWOT Analysis

The first step in assessing the likelihood of a crisis specific to a particular organization is to conduct a survey of the internal and external environments. This process involves the collection of data and perspectives from various stakeholders. The data are then integrated into an overall assessment of specific crisis threats that appear to be most prominent. Typically, each threat is ranked in terms of its likelihood and potential impact on the organization. Those crisis threats at the top of the list become the focus of prevention and mitigation efforts.

In strategic planning, the SWOT analysis is the tool used to determine an organization's strengths, weaknesses, opportunities, and threats. The SWOT analysis should also be used to assess crisis vulnerability during the strategic planning process (Chong, 2004). For example, in 2003, the Pacific Area Travel Association (PATA) provided a framework for its members to use to identify crisis threats to their organizations, most of which are involved with destination tourism. The use of the SWOT analysis to identify such threats is a major planning tool in assessing crises vulnerability (Parnell, 2013; Pennington-Gray, Thapa, Kaplanidou, Cahyanto, & McLaughlin, 2011). In the sections that follow, we identify the four facets of the SWOT analysis and how they are linked to potential crises.

Strengths

Typically, internal strengths would not be thought to contribute to a potential crisis. As Veil (2011, see p. 125) notes, however, a track record of organizational successes can blind management to perceiving warning signals from potential crises.

Location is a key strength in some organizations, particularly those in destination tourism. Certainly, lodging establishments can be worthy retreats for tourists when they are located in exotic places, such as on islands and beaches. However, a coastal location can turn into vulnerability when a hurricane, typhoon, or tsunami occurs. Such was the case for many tourist hotels in South Asia when an earthquake

occurred off the coast of the island of Sumatra in Indonesia. This event triggered a devastating tsunami that caused widespread damage and up to 250,000 fatalities in the South Asian region. Many of the victims were staying at resort hotels that were unprepared for such an event (Cheung & Law, 2006).

Management researchers Gilbert Probst and Sebastian Raisch identified a number of organizational strengths that can eventually lead to problems. For example, excessive growth, what many would deem is a desirable performance outcome, can be offset by problems with high debt and an overemphasis on expanding through company acquisitions. In this respect, strength can lead to a crisis. Likewise, a strong leader in the organization can lead to a top-down culture in which the followers put blind faith in the leader and fail to approach the leader's strategies with skeptical questioning (Probst & Raisch, 2005). This situation is further exasperated when boards of directors rubber-stamp the CEO's agenda, often failing to challenge top management with tough questions and instead exhibiting groupthink, further putting the balance of power dangerously in favor of the CEO (Zweig, 2010).

Table 4.1 provides examples of internal organizational strengths that could conceivably result in organizational crises.

Table 4.1 Examples of Internal Organizational Strengths and Potential Crisis Events

Internal Strength	*Corresponding Potential Crises*
Extremely fast company growth	■ Loss of managerial control over operations can occur, particularly when the company has multiple locations over a wide geographic area. This condition can eventually result in defective products and/or poor service quality. Franchises are especially prone to this type of crisis. ■ Rapid growth can also lead to high debt and cash flow problems.
Unique differentiating product or service characteristic	■ If the product or service offering is new, its uniqueness could later result in a product or service defect. For example, some types of elective or unique surgeries (such as gastric bypass) can later lead to physical problems. Dietary supplements have also come under attack.
Charismatic organizational leader	■ Some charismatic leaders have led their organizations into financial ruin because their boards did not challenge them. ■ Some leaders become so influential that they take on a godlike status and are not challenged by stakeholders. Some successful athletic coaches exemplify this behavior.
Company both large and successful	■ Employees may feel they are not compensated enough, particularly if the company is recording "record profits."

(Continued)

Table 4.1 Continued

Internal Strength	*Corresponding Potential Crises*
	■ Environmental activists search for any evidence that suggests the company is harming the natural environment. Large companies make good targets because they are more visible to the general public. ■ Social-minded stakeholders claim the company does not share its wealth with those who are in need. ■ The government will watch the company more closely and look for ways that it may be hiding income, polluting the environment, harming natural resources, or hiring or firing employees illegally. ■ Lawmakers will look for *any* wrongdoing on the part of the company so they can establish a reputation among their constituents.

Weaknesses

While the link between crises and strengths may not be obvious at first glance, the connection between organizational weaknesses and crises is both intuitive and well established. Weaknesses identified in the SWOT should be examined in light of their potential for breeding crises in the organization. For example, an emphasis on the human resource management (HRM) function is directly related to the potential for crisis events in the organization (Lockwood, 2005). Specifically, when good human resources (HR) practices are ignored by an organization, a crisis is more likely to occur. The infamous Rent-A-Center case illustrates how the link between HRM and employee lawsuits can develop. In this example, Rent-A-Center eliminated its HR department when its new CEO, J. Ernest Talley, took over in August 1998. The company also changed to a less female-friendly workplace, according to depositions from more than 300 company officials over a 47-state region. Talley's own anti-female policy became well known within the company, including several quotes indicating that women should not be working at Rent-A-Center (Grossman, 2002). Without an HR department, women who felt discriminated against had no internal recourse. Charges of discrimination began to increase, plunging the company into a class action lawsuit on behalf of female employees, eventually resulting in a $47 million verdict against Rent-A-Center (Grossman, 2002).

A related HR issue is the decision by some companies, particularly in the retail and service sector, not to offer fringe benefits to their hourly employees. Typically, this strategy is followed by companies that employ a cost leadership strategy, an approach that seeks to offer basic, no-frills products and services to a mass market of price-conscious consumers (Parnell, 2013). Hence, efforts are made to keep costs as low as possible in the production and service-offering process. In the manufacturing sector, companies typically have achieved lower costs via economies

of scale and automation of processes through technology innovation (Crandall & Crandall, 2008; Parnell, 2013).

There are potential crises associated with this strategy. For one, there is the irony that these same employees are on the front lines every day and offer the first contact a customer has with the products and services of the company. Ceteris paribus, organizations are better off when these employees are well trained, loyal, and reasonably satisfied with their employment. In addition, large and successful companies are more likely to be criticized for their wages and benefits, as the example of Wal-Mart so often illustrates (Ehrenreich, 2001; Fishman, 2006; Institute for Crisis Management, 2011).

Table 4.2 provides examples of internal weaknesses that could conceivably result in organizational crises.

Table 4.2 Examples of Internal Organizational Weaknesses and Potential Crisis Events

Internal Weaknesses	***Corresponding Potential Crises***
Poorly trained employees	■ Industrial accidents in the workplace ■ Poor service to the customer ■ In manufacturing settings, defective products
Poor relationship with a labor union	■ Labor strikes during contract negotiations as well as a larger amount of grievances resulting from day-to-day operations ■ A secondary crisis: negative publicity in the media
Poor ethical orientation of top management	■ White-collar crime and cash flow problems ■ If the organization is large, potential publicity problems
Aging production facilities and equipment	■ A greater number of machine breakdowns, resulting in lost productivity and higher operating costs ■ Likely industrial accidents and poor product quality
Understaffed or nonexistent Human Resource Department	■ Discrimination against protected groups and sexual harassment charges ■ Higher operating costs due to industrial accidents (a result of poor training), employee absenteeism, and turnover
Not offering a competitive fringe benefit package to employees	■ Negative publicity from both internal and external stakeholders

(Continued)

Table 4.2 Continued

Internal Weaknesses	*Corresponding Potential Crises*
	■ Lack of employee loyalty, which could lead to hiring only marginal employees and a cycle of turnover
Haphazard safety inspections	■ Industrial accidents coupled with increased workplace injuries
	■ The larger the organization, the more likely negative publicity may result
Employee substance abuse	■ Increased industrial accidents, workplace injuries, and product quality problems
Lack of a crisis management team and plan	■ Slow and ineffective response to crisis events
	■ Negative public perception because the firm is seen as being unprepared

Opportunities

A SWOT analysis also looks at the organization's opportunities existing in the external environment. While it may not seem readily apparent that organizational opportunities could be a potential source of crises, a closer examination suggests otherwise. The assessment of opportunities can generate strategic alternatives a company may pursue to expand its market share. Problems can surface and escalate into a crisis, particularly as the firm considers globalization options.

One opportunity that most businesses, both small and large, have acted on is the expansion of the Internet, both technologically and socially. Many have responded to this opportunity by shifting to an online sales format. Numerous firms have evolved to assist companies in making this transition, as the learning curve can be quite steep. However, companies that generate online sales are open to crises associated with cybersecurity, including theft of personal records of consumers as well as denial of service attacks (DOS) by hackers.

Table 4.3 outlines three possible scenarios in which a strategic response to opportunities may breed a crisis.

Threats

External threats are a common source of crisis. Some of these factors can be opportunities in some organizations but threats in others. Consider the example of location discussed earlier in this chapter. In some organizations, threats emanate from geographical considerations. For example, in parts of the United States such as Florida, weather concerns such as hurricanes are included as part of the risk assessment (Kruse, 1993). Other regions of the United States such as California are vulnerable to earthquakes. Urban areas of any country can be subject to crises that are different from less populated areas. Events such as riots, power outages, and bad weather can be especially hard on more populated regions.

Certain industries also face external threats. One industry that may be on the horizon for a host of health-related crises is the indoor tanning industry.

Table 4.3 Examples of External Organizational Opportunities and Potential Crisis Events

Strategic Alternatives That Emanate From Opportunities	***Corresponding Potential Crises***
Expand product availability by moving from a brick-and-mortar to a "brick-and-click" arrangement	■ Offering products online can lead to denial-of-service cyberattacks by hackers. ■ Hackers are usually external to the organization, but a disgruntled employee could become one as well.
Expand company manufacturing facilities to another part of the world (greenfield venture)	■ Here, the company builds and owns its manufacturing facility in a host country. While the quality and process can be more controlled than through a licensing approach (see the next option), there is also the risk of outside interference from the host country. ■ In some cases, companies have been taken over by the host country's government and become state owned.
Outsource to another company outside the home country	■ Because jobs in the home country are usually lost, the company could incur negative publicity from external stakeholders, particularly former employees, labor unions, politicians, and municipalities that hosted the business. ■ If the outsourcing is through a licensing agreement, there is the possibility that parties in the host country may pirate proprietary information. ■ The product from the outsourced company may be defective. This situation creates a two-pronged crisis. First, the defective product itself creates problems received by the final consumer. Second, there is the public image problem because of the firm's decision to outsource overseas in the first place.

Evidence is growing of the health risks associated within this industry ("Indoor Tanning," 2005). In addition, there is an emphasis on keeping teenagers out of tanning booths altogether because of the long-term risk of developing skin cancer (Johnson, 2004; Rados, 2005). The industry has been likened to the tobacco industry, which has a history of denying that cigarettes were harmful to the consumer's

health, despite a long string of research indicating otherwise. Like the tobacco industry, the indoor tanning industry has been working hard to dispel any links to skin cancer (Loh, 2008). As with tobacco processors, executives in the indoor tanning industry downplay the health risks associated with moderate usage. Nonetheless, the warning signs for crises are clear for this industry, with a dawn of litigation about to begin.

Table 4.4 overviews various external threats that can evolve into a crisis.

Table 4.4 Examples of External Organizational Threats and Potential Crisis Events

External Threat	*Corresponding Potential Crises*
Changing demographics of the surrounding neighborhood	■ The organization may become a target for crime, such as vandalism or robbery. ■ Sales revenue may decline.
Severe weather	■ The building and facilities where the organization is located may be damaged by wind, snow, or flooding. ■ Sales revenue may be interrupted while the building is being repaired.
Dysfunctional customers or employees	■ There could be an incident of workplace violence.
Poor-quality components from a supplier	■ The components that are assembled into the final product will cause that product to be defective as well. ■ If the component was outsourced to an overseas supplier, negative publicity is likely to follow.
Consumer activism due to poor products or some other activity of the company	■ Consumer lawsuits may develop in the case of poor-quality products. ■ Boycotts of the company's products and services can result.
Extortionists	■ Product tampering may occur. ■ Online extortionist may threaten the company's website with a denial-of-service attack.
Earthquake, wildfire, or other natural disaster	■ Structural damage to the building and information technology systems can occur. ■ Injuries and fatalities could occur to employees and customers.
Rumors/Negative publicity	■ Loss of revenues due to boycotts and negative company publicity may result.

Table 4.4 Continued

	■ Negative attention could appear on the Internet through hate sites, blogs, and other social media outlets including Facebook and YouTube.
Terrorism	■ Direct physical attacks on buildings can result in damage, injuries, and fatalities. ■ In addition to the items mentioned, attacks outside the organization may disrupt the supply chain.

Organizational Culture and Crisis Planning

Despite the fact that crisis planning is an important part of the strategic management process, not all managers are convinced that its role is important. And yet, an organization's crisis vulnerability is linked to its cultural norms and assumptions (Smith & Elliott, 2007). In other words, being diligent about crisis planning involves a cultural shift. As a result, organizations often do not have effective crisis management plans because their managers have not cultivated a mind-set that values this process (Weick & Sutcliffe, 2001). Many managers are engrossed with "putting out today's fires" and do not think they have time to plan for tomorrow's contingencies. Therefore, they have not developed the critical tools needed for a comprehensive crisis management plan (Simbo, 2003).

Thus, not all establishments have adopted a culture of crisis preparedness. At one end of the scale, many managers carry an "It can't happen to us" mentality (Nathan, 2000; Pearson & Mitroff, 1993). Coupled with this attitude is the notion that "nobody gets credit for fixing problems that never happened" (Repenning & Sterman, 2001). Other managers are reactive concerning crisis events by contemporaneously planning and managing as the problems unfold. Some organizations, because of their cultures, seem to develop blind spots and completely miss the cues that signal a crisis is on the move (Smallman & Weir, 1999).

Other managers are more proactive in their conduct. They plan for future potential crises by presupposing what could be their worst-case predicaments. Yet another group of managers includes battle-scarred victims who have experienced organizational crises and are now involved in proactive planning so they can manage future crises more effectively (Carmeli & Schaubroeck, 2008).

Indeed, there is a "way of thinking" and a "way things are done" in every organization. Long-term members understand it well and newcomers usually learn it quickly. Organizational theorists refer to this phenomenon as *organizational* or *corporate culture. Culture* refers to the commonly held values and beliefs of a particular group of people (Weitz & Shenhav, 2000). Organizational culture is a more specific concept in that it refers to the shared values and patterns of belief and behavior that are accepted and practiced by the members of a particular organization (Duncan, 1989).

An organization's culture exists at two levels. At the *surface level,* one can observe specific behaviors and artifacts of the organization such as accepted forms of dress, company logos, office rituals, and specific ceremonies such as awards banquets. These outward behaviors reflect the second level of organizational culture—a deeper, *underlying level* that includes shared values, belief patterns, and thought processes common to members of the organization (Schein, 1990). The underlying level is the most critical to understand because it lies at the core of how organizational members think and interpret their work. Embracing a culture of crisis planning must occur at the underlying level first before it will be evident at the surface level. Indeed, as crisis expert Timothy Coombs (2006) put it, crisis management must become the DNA of the organization.

An organization's culture serves as the basis for many day-to-day decisions in the organization. For example, members of an organization whose culture values innovation are more likely to invest the time necessary to develop creative solutions to complex problems than will their counterparts in organizations whose cultures value short-term cost containment (Deal & Kennedy, 1982). An innovative organization is more likely to "do its homework" and take the steps necessary to prevent crises from occurring. This homework includes setting up crisis management teams, developing plans, and practicing mock disasters, which are drills to help the organization learn how to manage a crisis more effectively. Of course, culture also contributes to the success of the firm's crisis management response. Indeed, as Marra (2004) points out, organizational culture helps determine the success of crisis communications, a main facet of the overall crisis management process.

In the realm of crisis management, there appear to be "crisis-prepared" cultures that support crisis planning, as well as those that do not, sometimes labeled "crisis prone" (Pearson & Mitroff, 1993). Managers should seek to develop and support crisis-prepared cultures in their organizations.

Summary

The entire crisis management process should be viewed from a strategic perspective and should be part of the organization's overall strategic planning process, including (1) an external analysis of its opportunities and threats, (2) an internal analysis of the firm's strengths and weakness, (3) a strategy formulation stage, (4) a strategy execution stage, and finally, (5), a strategic control emphasis.

Analyzing the external environment presents a critical challenge for preventing crises because it involves assessing environmental uncertainty. Uncertainty occurs when decision makers lack current, sufficient, reliable information about their organizations and cannot accurately forecast future changes. Uncertainty is lowest in organizations whose environments are simple and stable and where the quality of available information is high. It is highest in organizations whose environments are complex and unstable and where the quality of information is low.

Environmental scanning refers to collecting and analyzing information about relevant trends in the external environment. A systematic environmental scanning

process reduces uncertainty and organizes the flow of current information relevant to organizational decisions while providing decision makers with an early warning system for changes in the environment.

The SWOT analysis enables management to identify the crisis threats that are specific to their organization. Ironically, it is not just organizational weaknesses and external threats that can lead to crises. The firm's internal strengths and external opportunities, under the right circumstances, can breed crises as well.

Finally, the organization's culture influences the enthusiasm that exists for crisis management. Developing a crisis management plan may involve changes to the company's culture, including changing the way management and staff view crises in general.

Questions for Discussion

1. Why should crisis management be part of an organization's strategic planning process?
2. What are the four types of uncertainty that exist in the external environment? How is each one linked to a potential set of crises?
3. What is environmental scanning? What tools are available to help management scan the environment in such a way that it would yield information useful to identify potential crises?
4. How can an organization's strengths be a source of crises?
5. How can organizational opportunities be a useful tool in identifying potential crises?
6. How can a company change its organizational culture to better embrace enthusiasm for crisis management?

Chapter Exercise

Identifying potential threats to an organization is an effective method to prepare for future crises. Consider the college or university that you are attending and perform a crisis vulnerability assessment of your institution.

Using the SWOT analysis approach, identify potential crises that reside in each of the four areas of strengths, weaknesses, opportunities, and threats. Assess each crisis threat in terms of its likelihood and potential impact.

Opening Case, Part 2: The Professor, "Angry Amy"

On February 12, 2010, Amy Bishop attended one of her last department meetings at the University of Alabama at Huntsville. She had been denied tenure and felt betrayed

by her peers and department dean. She sat silently while various routine agenda items were discussed, including the course schedule for the upcoming semesters. Thirty minutes into the meeting, Dr. Bishop stood up and abruptly began shooting her colleagues across the table. Using her 9-millimeter handgun, she fired first at department chairman Dr. Gopi K. Podila, killing him instantly. She then shot and killed professors Maria Ragland and Adriel D. Johnson Sr. Three others in the room were wounded in the shootout (Bartlett et al., 2010). When Dr. Bishop's gun jammed, she left the conference room, throwing the revolver and her blood-splattered jacket into the trash in the restroom. She called her husband and instructed him to pick her up (Wallace, 2011). Those who survived the shooting moved the conference room table to the door so she could not regain access. Within minutes, though, Bishop was apprended by the police and taken away in a squad car.

A Checkered Past

After Bishop's arrest, information began to surface about her past. Of particular significance was the fact she had shot and killed her 18-year-old brother in 1986. At the time she was 21 and a student at Northeastern University. According to the story given by her mother to the police, Amy accidently shot her brother while they were in the kitchen of their home. After the shot was fired, Bishop ran out of the house with the shotgun and headed toward town. At a Ford dealership, she pointed her gun at an employee and told him she needed a car because she had been in a fight with her husband and that he was looking for her. Bishop quickly left the dealership, though, and police found her near a newspaper distribution agency, still holding the gun. Police ordered her to drop the gun, which she refused to do. Another officer snuck up behind her and disarmed Bishop. When she was taken into custody, she told police that she had a fight with her father earlier in the day, which was true (Dewan et al., 2010).

A fateful sequence of events then transpired. Police officers of the Braintree (Massachusetts) Police Department began the questioning process as to what had happened with the "accidental shooting." During the questioning, her mother arrived and told Amy not to answer any more questions. The booking process was stopped, and the investigation was never continued. Amy Bishop was never charged with a crime, and for 24 years, the event remained a secret to her employers. That fact that it was her shotgun blast that killed her brother has never been disputed. However, a formal investigation into the death was never conducted either, leading some to believe that the incident may not have been just an accident. On June 16, 2010, the case was reopened by the Norfolk District Attorney's office in Canton, Massachusetts, and a grand jury indicted Bishop on a charge of first-degree murder in the death of her brother, Seth (Wallace, 2011).

While the death of her brother occurred in 1986, another bizarre event involving Bishop occurred in 1993. A pipe bomb was sent to Paul Rosenberg, a former supervisor of Bishop's at the Children's Hospital Boston. Rosenberg had been in charge of the lab where Bishop was working and felt that she was not up to the standards of the workplace. He was instrumental in her departure from the lab, leaving both

Bishop and her husband angry with him. Bishop was on the verge of a nervous breakdown, and her husband James wanted to seek revenge against Rosenberg, according to records from the Bureau of Alcohol, Tobacco, and Firearms, which was looking into the investigation.

Bishop departed from her job on November 30, 1993. On December 19, 1993, a suspicious package, which the house sitter found inside the front storm door, arrived at Rosenberg's home. The package showed six 29-cent stamps but no postal markings on them. The white cardboard box was a foot square and 3 inches deep. Ironically, Rosenberg had been to a seminar on letter bombs earlier and suspected the package might be a bomb. He called police and they confirmed his suspicions (Wallace, 2011). Bishop and her husband Paul were both questioned but were never charged due to lack of evidence.

An incident at an International House of Pancakes in Peabody, Massachusetts, also revealed a tendency for dysfunctional behavior. Another woman in the restaurant had taken the last booster seat when Bishop approached her and demanded the seat for one of her children. Bishop shouted profanities at the customer and then physically struck her in the head. When the manager asked her to leave she responded, "I am Dr. Amy Bishop." Bishop was charged with assault and battery and disorderly conduct. She pled guilty and was given six months probation (Herring & Levitz, 2010).

The Problem of Background Checks

What is troubling about Bishop's past is that none of it was uncovered in the background check that was conducted by UAH as part of her hiring process. This is not to say that UAH was negligent, however; rather, the institution lacked the information that would have revealed a troubling past. Normal background checks in academia usually reveal employment history, job responsibilities, tenure in the prior position, reason for separation, and names of references. When it comes to a candidate's criminal history, it may be more difficult to uncover. This is because the federal Fair Credit Reporting Act and many state laws restrict revealing a candidate's criminal history. Furthermore, criminal records are kept on the state and country levels, which makes information more difficult to find (Cadrain & Minton-Eversole, 2010).

For Bishop, the history of her past was even more elusive. No arrests or convictions were ever made in the death of her brother or the questioning in the pipe bomb case. The incident at the International House of Pancakes did not appear on her record either. Police ran their own background check on Bishop after she had been apprehended, which also came up empty (Jonsson, 2010).

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Opening Case Part 2 Questions

1. If a criminal background check can only be conducted in certain states, how can a university protect itself from a prospective professor with a violent past? Research the state (or county) laws where you reside and determine the process of conducting background checks in your locale.
2. As of the writing of this book, Bishop's case had not gone to trial. Provide an update as to the status of her case.

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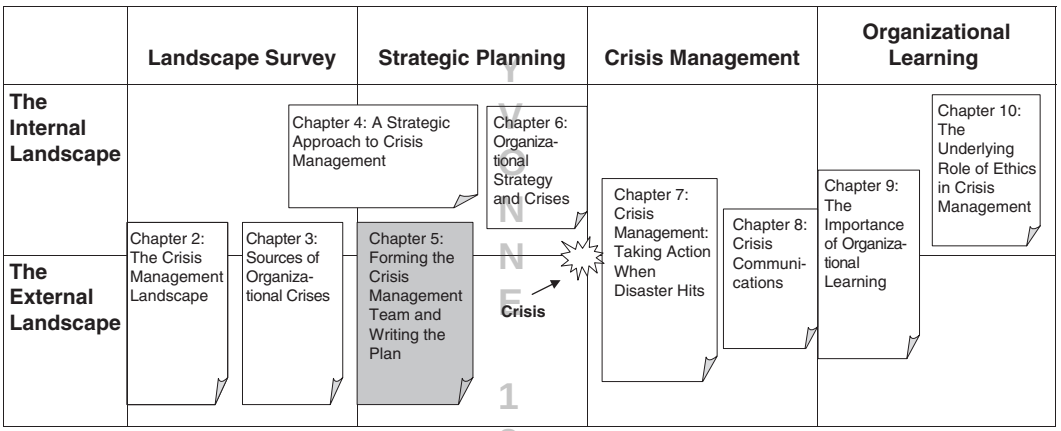
CHAPTER 5

Forming the Crisis Management Team and Writing the Plan



Opening Case: Roof Party at Local College Goes Terribly Wrong

Years ago an odd and obscure event occurred at Concord College, a small public institution nestled on top of a mountain in southern West Virginia. Four students somehow gained access to the roof of the student union building and proceeded to have a small party of their own. With lawn chairs, a bit of music, and of course, some alcohol, the little get-together seemed harmless and uneventful until two of the students got a little too close to the edge of the roof, and fell. Although the ground was only 12 feet below, both students were knocked unconscious and lay motionless, just underneath a window to the faculty dining room.

Almost immediately, emergency providers were on the scene tending to the injured students. Meanwhile, another student who was passing by noticed the commotion and became very distraught, as she knew one of the victims. This student was in her third trimester of pregnancy and suddenly began to have contractions. With the emotional excitement of the events, and her impending delivery of her own baby, it appeared she had gone into labor. Now, three students—not two—were receiving attention from emergency providers. Because of the commotion, traffic began to move slowly on the road in front of the student union. Campus police moved to the area and redirected traffic.

The college's crisis management team arrived on the scene and was looking into matters as well. After confirming the identities of the students involved, they began to monitor the activities of the emergency providers. The situation was highly unusual. To make matters even more perplexing, one of the two remaining students who had been on the roof of the student union had disappeared. Emergency providers and the police were told of this missing student, but he could not be found. It turned out that he had become distraught and was sitting by himself at the stairs of the administration building, some 300 feet away. The head of the crisis management team—not the police—eventually found this student.

But there was more to come. Approximately one hour after the students had fallen off the roof, the two student victims, the pregnant student, and the distraught student suddenly appeared perfectly functional again. The police and firefighters left the scene and the crisis management team calmly went back to their normal duties. Concord College had just completed its annual mock disaster training exercise.

Opening Case Discussion Questions

1. Could this crisis have been averted if the university had an effective security management system?
2. What is your reaction to the crisis management team's response?
3. What improvements could you suggest for future incidents like this one?
4. What crisis management insights can we gather from this incident?

Introduction

The crisis management team (CMT) and the crisis management plan (CMP) are the core of an organization's crisis planning efforts. The team meets together first and then develops the plan. Later, the plan can be tested through mock disaster drills such as the one discussed in the opening case. This chapter explores all three of these processes in detail. We begin with the mechanics involved in forming the crisis management team. Next, the crisis management plan is outlined. We close the chapter by examining the components of crisis management training, including guidelines on how to conduct a mock disaster.

Forming the Crisis Management Team

Before any crisis planning can occur, the crisis management team must be formally organized. While discussion about crises can take place at any time without a team, the CMT is the most effective and appropriate starting point for serious crisis planning.

Goals of the CMT

The basic mission of the CMT is to plan for potential crises and manage the ones that eventually occur. Encompassing this mission involved five specific goals. These are overviewed in Figure 5.1.

1. *The CMT identifies the crisis threats the organization is facing.* Every organization faces threats that are unique to its industry and in some cases, to its geographical location. The CMT considers these factors as it evaluates the specific risks that are likely candidates for a crisis. In planning for a crisis, the team cannot formulate a response for every potential crisis, so it must be flexible (Clark & Harman, 2004). Most threats cluster into crisis families (Coombs & Holladay, 2001; Pearson & Mitroff 1993). This understanding can simplify the threat assessment phase because managers can plan responses to potential families (categories) of crises rather than to each individual crisis that might erupt.
2. *The CMT develops the crisis management plan.* The CMT develops a crisis management plan that addresses the potential crisis threats identified in the first step. The plan also contains key contact information of vendors and other important stakeholders. In many cases, the plan is posted on the organization's website.

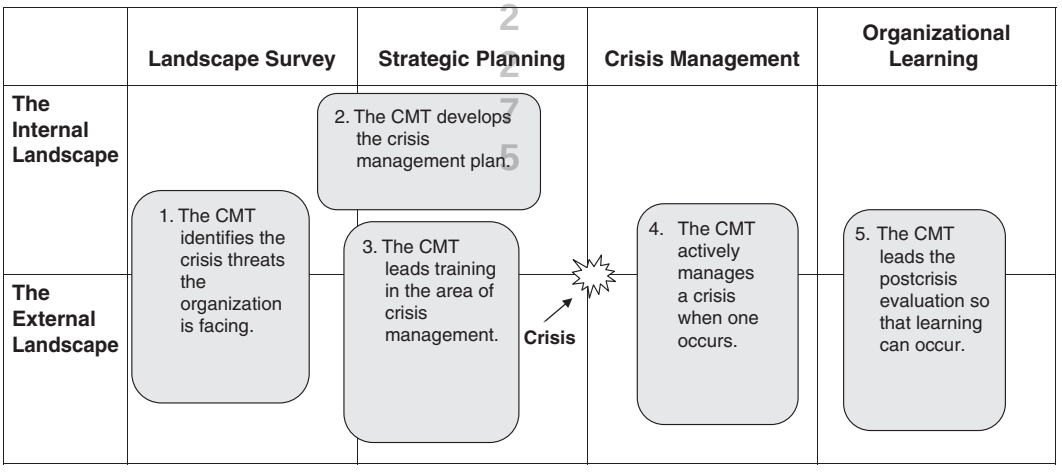


Figure 5.1 Goals of the Crisis Management Team (CMT)

3. *The CMT leads training in the area of crisis management.* The CMT oversees the crisis training efforts in the organization. Two levels of training are made available, one for the CMT, and one for the organization members at large. Team training should occur at regular scheduled intervals. The content of training usually revolves around reviewing the crisis management plan and conducting simulated drills (Coombs, 2007). Simulated drills are necessary because the team really does not know how well it can function in a crisis unless the plan is tested periodically (Clark & Harman, 2004). Training activities need to be coordinated between the internal and external landscapes. For example, it is necessary when setting up a mock disaster drill to contact stakeholders in the external landscape, such as fire departments and emergency medical service (EMS) organizations.
4. *The CMT actively manages a crisis when one occurs.* When a crisis does occur, the CMT is activated and placed in charge of managing the event. This phase of the team's experience is most crucial because it reveals performance levels in two areas: (1) How well was the crisis handled, and (2) how well did members of the team work together? The evaluation of these two areas is addressed in the fifth goal, mentioned next.
5. *The CMT leads the postcrisis evaluation so that learning can occur.* After the crisis, a postevaluation session is recommended to determine how well the crisis was managed. Specifically, the CMT seeks to find answers to the following questions:
   - What did we learn from this crisis that will help us prevent a similar one in the future?
   - If the same crisis did occur again, what could we do differently to mitigate its impact?
   - What aspects of the crisis response were performed well?
   - What aspects of the crisis response need improvement?

Scheduling the evaluation sessions is the most important factor in the postcrisis evaluation phase. Such sessions must be held soon after the event while the details of the crisis are still familiar to everyone. Waiting too long can lead to forgetfulness (Kovoor-Misra & Nathan, 2000). This forgetfulness can lead to the loss of valuable insights on how to make crisis management function better in the future.

Team Member Characteristics

The CMT has been referred to as the "nerve center of the crisis management process" (Gilpin & Murphy, 2008, p. 134). As a result, CMT members must have a specific and complementary set of individual characteristics that allow them to work well in a group setting. To accomplish this difficult task, a team is necessary, one whose composition is diverse and includes members from different parts of the organization (Barton, 2001). The characteristics of an ideal CMT member are discussed next.

Ability to Work in a Team Environment

CMT members must like people and enjoy working in a group. This is not an assignment for an employee who prefers to work on projects independently. Above all, CMT members must realize they are part of a team working toward shared goals (Coombs, 2007).

Ability to Think Under Pressure

CMT members should be able to think under pressure (Clark & Harman, 2004). Employees react to stress in different ways, and some do not manage it effectively. For CMT members, however, stress should be a motivator, a sort of adrenaline shot that makes them want to manage a crisis environment (Chandler, 2001).

Ambiguity Tolerance

We always prefer to make decisions when all needed information is readily available. However, in a crisis situation, decisions are typically made in conditions of uncertainty. Ambiguity tolerance enables a decision maker to be effective, even when desired information is not available (Chandler, 2001).

Good Listening Skills

Team members need to be able to listen effectively to the stakeholders and victims presenting their sides of the crisis story. Listening for what is said is important, but being intuitive and listening for the untold story is equally critical.

Verbal Skills

Good speaking skills are a must. Some of the team members may be assigned to talk to members of the media, an assignment that requires excellent verbal skills. Among team members, communication intentions should also be clear. This ability goes back to stress tolerance, because some team members may not communicate as effectively when they are under stress.

Critical Thinking Skills

This characteristic includes the ability to analyze problems and evaluate alternatives by examining the pros and cons of each option (Coombs, 2007; Gilpin & Murphy, 2008). Understanding the accumulation of details to an event and how they lead to a crisis is essential (Roux-Dufort, 2009). Critical thinking is a savvy skill that implies one does not believe everything he or she hears. Instead, combined with the skill of good listening, one is able to understand the hidden messages that many people convey in their verbal and written communications.

Team Composition

Team members should represent the major functional areas (e.g., marketing, production, finance, etc.) of the organization (Coombs, 2007). Representatives from the following areas are recommended:

Company Chief Executive Officer or President

The chief executive officer (CEO) or president should always have an active interest in the CMT, although the size of the organization will dictate the capacity in which the top executive should serve. In smaller organizations, this person would be on the CMT. In larger organizations, a vice president for administration or operations may serve as the representative of upper management (Barton, 2001). Podolak (2002) advocates that this person should also serve as the team leader; however, not all crisis management experts agree on this. The CEO does not always serve as the company spokesperson during a crisis, although that is certainly an option. This role is often held by a member of the public relations department or the designee who typically communicates with the media. The CEO might not need to address the media if a better-trained staff person is available. "Only in the most egregious of crises—when lives are lost, when the story remains on the front pages for days—does the media and the public even expect to see the CEO" (Pines, 2000, p. 15).

Human Resources

It is always advisable to have a representative from human resources (HR) serving on the CMT. First, HR serves as the liaison with employees. Individual employees can be affected by a crisis in a number of ways, and HR is there to ensure their interests are represented in the crisis management process (Lockwood, 2005). Second, HR has knowledge areas that can be useful during a crisis. These areas include next-of-kin details, number of employees in each site of the facility, and language and cultural barrier knowledge that is especially important if the company operates globally (Millar, 2003). HR should also have a network of trauma counselors on contract in the event of a major crisis involving injuries and/or a loss of life.

Accounting and Finance

A crisis can have affect on cash flow, stock valuation, and cash disbursement, so a representative from finance is appropriate. There may also be a need to secure funds quickly for relief operations. This accountability becomes particularly critical if funds are to be disbursed abroad.

Security

The head of the organization's security or police force should be a member of the CMT. Many crises will involve the services of this department, such as in the

case of a workplace violence incident. This department also serves as a liaison with law enforcement departments outside the company whose help may be needed.

Public Relations

This functional area goes by different names in different organizations, such as public information, public affairs, or community outreach. During the crisis, this department relays the information and viewpoints of the organization to its public stakeholders. Hence, the official company spokesperson to the media usually resides in this department. The public relations department also works to help predict public perception of the organization and issues related to the specific crisis at hand. Usually, these departments have established ties with various media outlets so that a crisis event is not the first time the spokesperson and the media will have had contact.

Legal Counsel

An attorney should be a member of the CMT to provide legal expertise, particularly when deciding how much information should be disclosed to outside stakeholders during a crisis. With this in mind, the legal counsel and public relations director must work together and be in agreement about how much disclosure is appropriate.

Operations

The core operations of the organization should be represented on the team. In a manufacturing facility, the plant manager would be the logical choice. At a major university, several core areas require representation, including food service, housing, registrar and records, the director of plant and facilities, and the academic departments.

Outside Consultant

Some organizations may opt to employ an outside consultant during the initial start-up of the CMT and the subsequent plan. The rationale is that a learning curve exists for those organizations new at crisis planning, and a consultant can help ease the learning process. In other cases, a consultant may be brought in to offer advice concerning certain types of crises. For example, in cases involving workplace violence, a psychologist with appropriate experience can advise the CMT on both mitigation and prevention of such a crisis (Simola, 2005).

Virtual Crisis Management Teams

Virtual teams are now quite common in organizations, especially among multinational corporations (MNCs). A 2010 survey of MNCs found that 80 percent of

the respondents were members of a virtual team (Sadri & Condia, 2012). Virtual teams face a number of challenges that need to be addressed. Table 5.1 provides an overview of these challenges.

Table 5.1 Understanding the Challenges of Virtual Teams

Trends That Encourage the Use of Virtual Teams	***Challenges Confronting Virtual Teams***
■ Company strategies moving toward outsourcing and strategic alliances ■ Widespread use of Internet technologies ■ Shorter project and product cycle times ■ Need for faster, high-quality decisions ■ Restrictions on corporate travel accounts ■ Threat of terrorism	*Loss of nonverbal cues.* Communicating over the Internet, through meeting software, or teleconferencing reduces the richness of communication. Cues gained in face-to-face communication are lost in virtual environments. *Reduced opportunities to establish working relationships.* With a reduction of face-to-face time with colleagues, it is more difficult to build working relationships. *Time zone differences.* Work schedules of organizational members are different from each other. Even the assigning of timed deadlines will need to be accounted for from one time zone to another. *Complicated and unreliable technology.* Although companies should have a standardized intranet system, the performance may vary from location to location. Moreover, the quality of system performance and power availability may be compromised in some locations. *Difficulty in building consensus.* The lack of communication richness, the distance of organizational members from each other, the asynchronous nature of virtual communications and the unreliability of the intranet system will cause decision making to take longer. The process could also be more frustrating as well to organizational members. *Different cultures.* For MNCs, cultural differences are always a challenge, even in face-to-face communications. Ironically, in the virtual environment some of these challenges may be minimized because communication relies more on the written language. However, differences in meanings of words and expressions must still be accounted for.

Source: Adapted from Nunamaker et al. (2009), 114.

Given the growth of virtual teams and the expansion of the boundaries of organizations in general, CMTs must also be prepared to operate in a virtual manner. One of the first challenges that must be addressed is the location of the command center. Will it be at company headquarters or close to the origins of the crisis? A backup command center should also be designated in case the main command center becomes inoperative. This situation occurred during the September 11, 2001, terrorist attack when the New York City Office of Emergency Management lost its state-of-the art center. After the first tower caught fire and collapsed, the emergency operations center was unusable because of its location across the street from the tower (Davis, 2002).

Trust can enhance the effectiveness of virtual teams (Kimble, 2011). Trust building must occur before a major crisis develops. Hence, virtual teams of any type should engage in regularly scheduled activities that help team members work together and establish their expected roles (Nunamaker, Reinig, & Briggs, 2009; Sadri & Condia, 2012). Another recommendation for virtual teams is to utilize videoconferencing if facilities are available. The rationale is that richer forms of communication are possible such as the ability to observe verbal and visual cues (Chandler & Wallace, 2009).

Potential Problems Within CMTs

As in any group or team that works together, problems can arise. As previously mentioned, care should be taken to select team members who have good interpersonal skills and can work effectively as a unit. "If a team is dysfunctional before a crisis occurs, that team will have a dysfunctional response during an incident" (Barton, 2001, pp. 17–18). A number of problems can occur within the CMT. Bertrand and Lajtha (2002) summarize the common problems faced by the team:

Not Understanding the Symbolic and Sacred Aspects of a Crisis

A crisis is more than just an event; it is an attack on a specific stakeholder or institution, whether inside or outside the organization. Crises are perceived as "symptoms of underlying problems" and, as such, can be viewed as "policy fiascos" (Bovens & 't Hart, 1996). Crises "challenge the foundation of organizations, governmental practice and even societal cohesion" (Lagadec, 2004, p. 167). As a result, certain stakeholders may feel threatened by these events and perceive them to have deeper significance. For example, when a large company is involved in an environmental accident, the event is not just "an accident." It is perceived to be a big corporate giant exploiting the natural environment for its own gain.

Bertrand and Jajtha maintain that CMT training needs to include understanding the symbolic impact of a crisis. Hence, when media and community stakeholders appear to act irrationally, the CMT should seek to understand the reasons why they act that way. Put differently, most stakeholders do not try to act irrationally. From their point of view, their behavior is reasonable.

Not Being Able to Make Decisions Because of a Lack of Information

Many managers are effective at making some decisions when key information is lacking. Although complete information is preferred, decisions are frequently made under conditions of high uncertainty. When the organization is thrust into a crisis, the CMT must be able to make difficult decisions. This reality is a part of the charge that comes with their service on the CMT.

Lack of Interest and Involvement of Senior Management

It is difficult to promote a crisis preparedness atmosphere if the senior managers are not on board. As Bertrand and Lajtha (2002) lament, "Why do many top managers devote so little time to crisis management planning and training when the return on the small investment may be huge—and even commercially life-saving?" (p. 185). A central theme of this book is that crisis management is a key part of the strategic management process; top management must be supportive and involved.

Lack of Psychological Preparation Provided to CMT Members

Crisis team members bring their own emotional baggage to the meetings. Some are more adept than others at handling the stresses and fears of working on the team. The fatigue factor will also play a role, earlier for some members, later for others. In most cases, however, there is no forewarning as to what the CMT is about to face. Training for the psychological aspects of these assignments should be included.

In summary, "Crises are characterized by the absence of obvious solutions, the scarcity of reliable information when it is needed, the lack of adequate time to reflect on and debate alternative courses of action" (Bertrand & Lajtha, 2002, p. 185). While it is easy to list the functional departments that should be represented on the CMT, it is much more sobering to realize the intensity of the challenges team members must face.

Several other challenges can surface with the CMT, including groupthink, operating in different time zones, verbal aggressiveness, and the presence of a Machiavellian personality.

Groupthink

Janis (1982) identified *groupthink* as a problem in the decision-making process of groups and teams. Groupthink occurs when the team does not consider all of the alternatives and potential scenarios associated with a problem. While group cohesiveness can be a positive, too much can foster an atmosphere of groupthink. The rationale is that group members, unwilling to speak up and question the status quo or the leader or the conventional wisdom, remain passive so as not to upset the equilibrium of the group. Groupthink can be particularly present in crisis situations (Chandler & Wallace, 2009). In the crisis management literature, Lintonen (2004) discusses how groupthink influenced the European Union's (EU) adopting sanctions against Russia during the Chechnya crisis.

There are several ways to combat groupthink on the CMT (Simola, 2005). Crisis teams can benefit from an outside consultant who can offer crisis management expertise and also challenge the group on erroneous assumptions. The team leader should be impartial, being careful not to state his or her personal preferences before a decision has been made (Cho, 2005). Above all, alternative viewpoints should be fostered as a means of combating poor decision making. "The presence of team members who view the problem differently may stimulate others in the team to discover novel approaches that they would not have considered, thereby leading to better decisions" (Gomez-Mejia & Balkin, 2012, p. 323).

Practicing in Different Time Zones

When a crisis spans times zones, coordination problems can surface. For the multinational corporation with locations worldwide, it is necessary to negotiate different time zones and languages. Perhaps a key factory has been hit by a typhoon, tsunami, or earthquake. Or a facility on the other side of the world has caught fire. Coordinating relief efforts to get the facility back on line is made more difficult because of the obvious logistic and time complications. One remedy is using the partially distributed or virtually distributed crisis management team discussed earlier.

Verbal Aggressiveness

Chandler (2001) warned of team members who can become overbearing or even hostile. Such people should be screened out as CMT candidates early in the team selection process because they can obstruct group decision making and hamper open communication. Specific criteria should be established for membership on a CMT.

Machiavellian Personality

This person's main goal is simply trying to look good and advance his or her personal agenda. Chandler (2001) also recommends avoiding this person and instead looking for a team player who has the heart for solving problems. If the rest of the CMT is especially compliant, groupthink could possibly result if the Machiavellian type is present.

The Crisis Management Plan

Once the CMT is in place, efforts can be made to construct the crisis management plan. The CMP is not just a plan that exists on a company website or is stored in a notebook on a shelf; it is a systematic way of thinking about organizational crises. Top management support is also important in the development of the CMP (Pennington-Gray, Thapa, Kaplanidou, Cahyanto, & McLaughlin, 2011).

In managing a crisis, flexibility is favored over a rigid step-by-step procedure. In technical operations, such an approach is necessary for the diagnosis and remedy of certain problems. In a crisis, however, when human, technical, and other unknown elements are integrated, some degree of flexibility is required to discern and act on the situation. Having a standard operating procedure (SOP) manual is essential for all members of the team. Moreover, it should be compiled and put into a pocket-sized book that can be readily available for immediate use when a crisis occurs.

Plans should not be compiled just for the sake of meeting a compliance regulation (Bertrand & Lajtha, 2002). While this provides motivation to write the plan, it does not set the proper tone. Ultimately, a plan should encourage the crisis team to think critically about what could happen and plan for mitigation efforts for a crisis that does occur. The problem with writing a plan just to have one is that it may not be reviewed on a regular basis, if at all. An outline of what should be included in a CMP is provided in the Appendix at the end of this book.

Basic Components of the Plan

The CMP is likely to be found on the organization's Web page as well as in a hard copy notebook. The degree of detail can vary, but a concise plan is usually preferable to a longer one (Barton, 2001; Coombs, 2007). Again, this ensures that an element of flexibility is present in the crisis response. The following components are recommended for the CMP.

Cover Page

The cover page includes the name of the organization, general contact information, date of distribution, and the company logo. The page also labels the document as the crisis management plan. A disclaimer may be added stating that the document is confidential, and unauthorized use is prohibited.

Table of Contents

Although the document should not be too lengthy, a table of contents should be included. Crisis plans that are located on the organization's website should include appropriate links to sections within the document, as well as to appropriate websites for emergency providers and other crisis websites that could be useful.

Crisis Management Team Members

Team members should be listed along with their respective departments and contact information, including e-mail addresses, office phone, home phone, and cell phone numbers.

Team Member Responsibilities

This section will vary in its degree of detail. Larger and more complex organizations such as a research university should include more detail than a small

organization such as a community high school. CMT members are selected as representatives from their functional areas of the organization, so it is expected they will be operating within their areas of expertise during the crisis. Two decisions that need to be determined before a crisis are (1) Who is in charge of the team, and (2) who are the designated company spokespersons to the media? It is also important to keep the team format flexible so it can adapt to the particular crisis at hand.

Activation of the CMT

The crisis management plan should include the procedures for activating the CMT. While some may view this as a formality, it is important to plan even this part of the event. Usually, the team will be activated by a team member or at the request of a key internal stakeholder. It is important that employees in the organization know who the CMT members are, as well. In some cases, employees may contact a team member instead of the police if they are not sure if an event is really a crisis. It would then be up to the CMT to determine whether police involvement is necessary.

Command Center Locations

The command center is a prearranged meeting location where the CMT gathers in the event of a crisis. The plan should clearly label both this location (the primary command center) and the alternate command center in case the primary one is damaged in some way—perhaps due to weather or a fire. Care should be taken not to locate the alternate command center too close in physical proximity to the primary one lest an event such as a flood or fire causes both centers to be unusable.

If the crisis involves a crime or physical damage to some aspect of the building facilities, an incident command center may be set up near the location of the actual crisis. This would be the case when emergency response providers are working a particular event while the CMT is meeting at the command center. With this type of arrangement, clear communication links will be needed between the incident command center and the CMT at the primary command center. Such a scenario could occur if there is a hostage situation in one location of the complex while the CMT is meeting in another part. It is common for these types of separate command center arrangements to occur on college and university campuses because the sprawling complex of buildings that exist.

Response Plans for Specific Crisis Situations

The CMP will have a list of prospective crisis events that could likely occur at the organization. This section is the longest in the CMP because specific crises are identified and a response plan is offered for each of these events. The plan should list the potential crisis at the top of the page and then follow with a series of bulleted steps on how to manage that event. For example, most CMPs have a response page for a bomb threat that is called in to the organization. Hotels are required to have an evacuation plan for their guests and employees. In fact, for hotels, a fire is typically the most serious crisis because mass causalities are possible (Gonzalez, 2008).

The length of the response plan will vary according to the crisis. Individuals who write response plans should attempt to be thorough yet concise, remembering that too many steps in the response plan can limit flexibility. Table 5.2 lists common crisis events addressed in CMPs at colleges and universities.

Table 5.2 Potential Crises for American Colleges and Universities

Type of Crises	***Past Examples***
Fires	2007: An off-campus fire at an Ocean Isle, North Carolina, beach condominium kills seven university students during their fall break. 2000: A Seton Hall University residence hall fire kills three students.
Athletics scandals	2011: A former Penn State football coach is accused of sexually molesting young boys within the campus athletic facilities. 2006: Three members of the Duke University lacrosse team are falsely accused of sexual offenses against a young woman at a team party. Although the charges were unfounded, the scandal proved damaging to the university and the students. 2004: The University of Colorado football program is plagued with a scandal involving sex, drugs, and alcohol for new recruits.
Safety of overseas students	2011: A Michigan State University student refuses to leave Egypt when the university formally made plans to evacuate its students in February during the political unrest. The student even achieves a short-lived celebrity status when her hometown media seeking her observations of the uprising interviewed her. After the evacuations are complete and the student realizes the impending danger, she threatens to report to the media that she "had been abandoned" by her university (Friend, 2012).
Major crimes	2010: A disgruntled biology professor, Amy Bishop, kills three of her colleagues in a department meeting at the University of Alabama at Huntsville. 2007: Four Delaware State University students are shot, three fatally, in a schoolyard near the university. 2007: Virginia Tech massacre results in 32 fatalities; victims include both faculty and students.
Floods: Because colleges and universities sprawl over a large geographical area, they are especially prone to flooding.	2009: A threatening flood closes the campus of Valley City State University in North Dakota. With three weeks left in the semester, the university has to deliver all remaining face-to-face courses online. 2003: Floods cause almost $2 million worth of damage at the University of Georgia's College of Veterinary Medicine. 1977: A flood ravages Toccoa Falls College, also in Georgia, killing 39 people and injuring another 60.

(Continued)

Table 5.2 Continued

Contagious diseases	College and university students are commonly cited for being at a higher risk for influenza and meningitis because of the close living conditions associated with residence halls.
Building mold	A number of colleges and universities throughout the United States have been affected by building mold problems. The university where the authors reside had a mold outbreak in the 2003. The result was the complete evacuation of the building for an entire semester while the building was cleaned and the problem resolved.
Weather-related crises	2005: A number of colleges and universities in New Orleans, Louisiana, and the surrounding region are closed long term after Hurricane Katrina devastates southern Louisiana and Mississippi. 2008: A tornado rips through the campus of Union University in Jackson, Tennessee, destroying several residence halls and trapping 13 students in the rubble (Penny, 2011).
Alcohol-related deaths	A major problem at many colleges and universities is the abuse of alcohol among students, sometimes resulting in binge-related deaths.

Distribution of the CMP

The CMP should be made available throughout the organization. There was once a time when distribution was often limited to CMT members. Unless there is proprietary information or confidentiality concern, however, the plan should be posted on the company's intranet at a minimum. For example, many colleges, universities, and school districts post their plans online for public viewing as well.

Crisis Management Training

The CMT is charged with the oversight of training in the area of crisis management. Training can range from simple meetings that review the CMP to providing classroom instruction on certain aspects of crisis management. Training can also include conducting smaller disaster drills that test a segment of the crisis response to taking part in elaborate mock disasters when a crisis is simulated so the team can practice its response. If the organization is large, the human resource management department (also referred to as *human resource development* in some organizations) may be better equipped to lead training exercises in crisis management (Moats, Chermack, & Dooley, 2008).

Regular CMT Meetings

The CMT should meet on a scheduled basis several times a year. Such meetings provide training opportunities as well as opportunities for team members to interact and bond. Both academic institutions and business organizations should consider meeting at least twice a year, although more meetings will be necessary in the initial stages of team development. Also, specific crises that may be threatening the firm will warrant more frequent meetings. Potential training activities that can be held during meetings include reviewing the CMP, conducting tabletop exercises, planning for larger-scale disaster exercises or mock disasters, and presenting new material on crisis management.

Reviewing All or a Part of the CMP

Reading the CMP refamiliarizes team members with the material. In addition, if editing errors are discovered, they can easily be corrected during the meeting if the document file is projected on a screen for all to see. When changes are necessary, they should be carried out during the meeting with the new plan revised and posted on the organization's website the same day. A hard copy of the CMP should also be kept up to date in case electronic access to the plan is not possible during a crisis.

Conducting Tabletop Exercises

This type of training occurs in the meeting room and involves a discussion of how the team would respond to a specific crisis. It is a form of a disaster drill, but without the realistic scenarios that are characteristic of a mock disaster. A tabletop exercise can be an inexpensive way to rehearse for a real disaster (Careless, 2007). Of course, the term *tabletop* is important because the training never leaves the meeting room; hence, there are some limitations in such an exercise. Still, their use is common and the benefits are clear.

A training workshop can be held in conjunction with a tabletop exercise. Workshops may last for several days and address a specific type of crisis. For example, workshops combined with tabletop exercises have been used for training against coastal terrorism (Richter et al., 2005). Cognitive mapping has also been used as a tabletop exercise. In this exercise, participants are asked to draw spatial maps of a developing crisis and then develop scenarios for managing the event (Alexander, 2004). Such an exercise is useful for those involved in disaster response activities.

Presenting New Material on Crisis Management

This training approach can be flexible. A video can be shown, a guest speaker brought in, or the team can take part in a video conference. The objective is to learn new material that will assist the team in its response to a crisis.

Disaster Drills

While a mock disaster is more comprehensive and tests the overall team response, a disaster drill is a smaller exercise that addresses one aspect of the crisis response (Coombs, 2007). Drills are meant to test a part of the crisis response. Examples of training drills include:

- *Sending an emergency phone message and e-mail to all the employees in the organization.* This drill is practical because an alert of a crisis may need to be sent at a moment's notice. Perhaps a tornado has been spotted in the area or an individual with a gun is seen in the facility. The drill should also include sending text or voice messages to each employee's cell phone.

- *Conducting a building evacuation drill.* This is perhaps the most common drill; it reminds many of us of the standard fire drill. Building evacuations frequently occur in schools as part of their regular scheduled training.

  While evacuations are relatively simple in schools and other settings, they can be more complicated elsewhere, such as in a nursing home. Residents of nursing homes may also need to leave the area after a building evacuation, especially if there is threatening weather, such as a hurricane or flooding. An inadequate evacuation of a nursing home can result in patient deaths. Indeed, after Hurricane Katrina, two nursing homes in Louisiana were charged with negligent homicide in the deaths of 34 residents (Dewan & Baker, 2005). Two items essential to an effective nursing home evacuation include clear travel routes and adequate hydration provisions for the patients (Castle, 2008).

- *Testing a procedure that is unique to the facility.* A library is an example of a facility with unique crisis scenarios. Libraries house collections of materials that are at risk for roof leaks, pest infestations, fire, theft, mold, security problems, and accumulations of dust and dirt (Yeh, McMullen, & Kane, 2010).

  A common crisis scenario for a library is the loss of documents and books due to water damage. In light of this possibility, some libraries practice unique water drills. The Stetson University Law Library held a drill scenario in which a water sprinkler head had malfunctioned and was spraying water onto shelves of books. The personnel practiced draping the shelves with plastic tarps as quickly as possible (Rentschler & Burdett, 2006).

- *Conducting an active shooter exercise.* These drills involve the simulation of an armed individual on the premises of the facility. They need to coordinate with local law enforcement agencies and other emergency providers to assist in the drill. Shopping malls are often utilized for this type of exercise, and for good reasons. On October 21, 2010, a man claiming to have a gun barricaded himself in a store at the Roseville Galleria in California, later resulting in a fire that caused substantial damage to the mall. On January, 8, 2011, a gunman killed six people at a strip shopping center in Tucson, Arizona (Bell, 2011).

One mall operator, the Cafaro Company out of Youngstown, Ohio, has conducted six active shooter exercises at its facilities, including one at the Meadowbrook Mall, in Bridgeport, West Virginia, in January 2011. The event involved two "recently fired employees" who demanded to see the mall manager. The role-playing involved shots being fired. Participants included nearly 200 volunteer shoppers, the West Virginia State Police, the county sheriff's department, a local hospital, and teams from the U.S. Federal Bureau of Investigations (FBI) (Bell, 2011).

■ *Accessing and using firefighting equipment.* Such equipment is required in all buildings, but training employees to use the equipment properly may be inconsistent. Local fire departments are usually willing to provide such training onsite. In addition, the fire department can also learn more about the unique features of the building, helping it compile a "preplan," a prearranged response to a fire in that particular building.

■ *Conducting a lockdown drill*: Securing the classroom(s) or building by locking the doors and requiring students (or employees) to stay inside, rather than exiting the building as in a fire drill. The intended purpose of a real lockdown is to protect the occupants of the room (building) in the event of a shooting or related incident. Lockdown drills became more frequent after the Columbine, Colorado, massacre (Kass & Marek, 2005), and their practice has increased as a result of the Virginia Tech massacre and other incidents of school violence. Such drills are not limited to schools, however. Incidents of workplace violence also require that employees be in a secure place in the event of a shooting. Thus, a lockdown drill would be advisable in nonschool settings as well.

■ *Activating sheltering in place.* A variation of the lockdown drill involves not only securing the building, but moving occupants to a more central location for additional security. In the United States, this type of drill, called "sheltering in place," has been practiced in school systems close to the nation's ports (Jacobson, 2003). Because ports have been identified as potential terrorist targets, population centers near these ports need to be prepared. Sheltering-in-place drills can include the shutting down of heating and air conditioning systems as well as sealing air inflow openings near windows. Such a move would be likely in response to a chemical or biological terrorist attack.

■ *Conduct shower drills.* In a very specialized drill, companies that use hazardous chemicals are being encouraged to conduct "shower drills" (Hayes, 2011). The danger in these environments is that a dangerous chemical may come in contact with a worker, resulting in the need to flush the chemical off the skin as quickly as possible. Shower units that offer privacy can be positioned in work areas and should offer adequate water pressure at comfortable temperatures for 15 minutes, the required Occupational Safety and Health Administration (OSHA) standard.

The Mock Disaster

A mock disaster is a scenario that is recreated so that a number of crisis management participant–stakeholders can respond to it. It operates in real time, in a setting

that is as realistic as possible to a real crisis. A mock disaster is more comprehensive than a disaster drill. Mock disasters are widely recognized as essential in testing an organization's disaster plan (Perry, 2004).

Purpose of a Mock Disaster

A mock disaster can serve a number of purposes. Its practicality is enhanced by the number of people who can participate, the media attention that is received, and the usefulness of testing the organization's crisis response. The following section explains the intended purposes of the mock disaster:

To activate and test the working of the CMT. This type of exercise involves the full activation of the CMT as well as the appropriate emergency providers in the community, such as law enforcement, fire departments, and emergency medical services. One of the most important goals is to ensure that the CMT is alerted to a crisis in a timely manner. The working dynamics of the team can also be evaluated. Do team members work effectively as a unit? Are there any interpersonal problems that need to be addressed? Is there anyone who is not a good fit to serve on the team?

To test communication networks and equipment. A mock disaster should test the communication systems that will be used during an actual crisis. Telephone systems, mobile radios, the intranet, social media messaging, and the Internet should all be activated and used during the drill. In addition, local fire and police departments may have special equipment they need to test. For example, robots are used in certain firefighting situations and in bomb removal and detonation. A mock disaster is an excellent opportunity for testing this type of specialized equipment.

Banks should test their crisis readiness on a regular basis. Several years ago, the Farmington Savings Bank (FSB) staged a mock disaster to test the components of its backup information systems arrangement. The bank has 13 branches in central Connecticut. The scenario involved working with its disaster recovery provider; which supplied a trailer, a power generator, and 20 personal computers (Arnfield, 2009). After conducting the training exercise, bank executives learned that if more than 10 phone lines were in use, the satellite link did not function properly. In addition, slow bandwidth affected the printing of documents stored on the disaster recovery server. Remedying these problems was relatively easy, but identifying them through the disaster drill was the only way to identify them in the first place.

To test the effectiveness of the command center. If the command center has never been used for an actual crisis, it should be activated during the mock disaster. When Concord College held its first mock disaster (see the opening case for this chapter), a major shortcoming was discovered with its primary command center. The problem was that all radio communications were funneled into one large room, the same general area where the media were also assembling. When mock reporters heard the reports coming in from the incident command center, they demanded an explanation from the president of the college, who just happened to be listening to the same reports in the command center (Crandall, 1997). After the drill, a new command center in a different building was designated with a separate room for media briefings.

To develop working relationships with local fire and police departments. In the event of a real emergency, the local fire and police departments will be the first responders to the event. Developing relationships with these agencies before a crisis occurs is recommended. The mock disaster is an excellent vehicle for accomplishing this goal.

To build team cohesiveness and camaraderie. A CMT may actually function quite well in a noncrisis setting. Regularly scheduled meetings and training sessions are low-stress contact points. A mock disaster, however, adds a sense of urgency and purpose to the working relationships of the CMT. After working together on a large-scale exercise, which can be physically and emotionally challenging, team members may find they are more cohesive and appreciative of each other.

To learn where the organization's crisis response needs improvement. A well-designed mock disaster should test the key areas of crisis response and be rigorous enough to expose weak points. At the Stetson University Law Library, the mock disaster discussed previously revealed that response times to a water leak emergency needed to be improved (Rentschler & Burdett, 2006). A mock disaster at the Arco Chemical plant in South Charleston, West Virginia, revealed that media briefings were being rushed; not a good situation given the fact that this particular drill involved a sinking barge full of chemicals spilling its contents into the Kanawha River (Swift, 2004).

Another common area of weakness during a crisis is message overload; too much information going through the system can be hard for employees to interpret. "A common failure is basic system overloads. . . . Are too many messages being sent? Are people not understanding all the messages? Are they not coming in chronological order?" (Morton, 2011, p. 26).

A mock disaster can also alert the CMT where additional training is needed. For example, all mock disasters should include holding a staged press conference and answering hypothetical questions from reporters. Training other employees in this function in addition to the official spokesperson is recommended. The company spokesperson may not be available during a crisis that requires a response to the media. Mock disasters can be useful in determining how "polished" these backup spokespersons are and whether they need additional training.

Guidelines for Setting Up a Mock Disaster

A mock disaster should be planned like any other project. There should be a person in charge, a set of goals and objectives, a delegated list of duties, and a timeline for scheduling the drill. Specific considerations are discussed next.

Determine the objectives of the drill. A mock disaster tests some response systems, but not the organization's entire crisis response capability. The CMT should determine several key areas that need to be tested and include those in the plan. All mock disasters should test communication capabilities and interviews by the media.

If specific equipment is part of the crisis response, then it should be tested as well. The *Exxon Valdez* oil spill in Alaskan waters is known for the massive amounts of oil that damaged the environment. What is less well known is

that Exxon had a response plan for an oil spill in that area. Unfortunately, the boat that was designated to set up perimeter booms around the spill was being repaired at the time of the spill (Hartley, 1993). The role of equipment, then, is paramount in certain areas of crisis response. Testing that equipment should be part of the mock drill.

Develop a scenario that represents a potential crisis at your organization. As addressed in previous chapters, crisis assessment activities reveal potential crisis events that could occur in the organization. Some of these crises have geographic considerations, such as earthquakes along the whole west coast of the United States, volcano activity at Mount St. Helens and Mount Rainier, hurricanes in the southeastern United States, terrorism at various targets throughout the world, and wildfires in drier locations in the western United States. Some potential crises are industry specific: chemical spills (production industries), *E. coli* outbreaks (food industries), school violence (education), and computer hacking and viruses (any industry that depends on online sales). Thus, the mock disaster should involve a scenario that represents a real crisis the organization might face.

Be sure the top leaders in your organization are supportive and involved in the drill. Without their support, the project will not reach its full potential. Support and participation in the mock disaster shows employees that management takes these activities seriously. In the opening case, the president of the college was a member of the CMT and active in the mock disasters and training held at the school. His enthusiasm helped carry the drills through to successful implementation and completion. It also showed that he cared about instilling a culture in the organization that supported crisis planning.

Include as many parties as possible in planning the mock disaster. Despite their seriousness and intensity, mock disasters also have a social aspect to them in that groups of people are working together on a common project. This is not to imply that such drills are meant to be festive or partylike, but they are social gatherings even if the objective is serious. Hence, including as many individuals as possible who have a link to the drill is advisable. Enthusiasm for the drill can be high because participants are taking part in a social exercise while engaging in activities outside of their normal routines. Participating toward a common goal is also a satisfying experience.

Include local police, fire, and other emergency services. Fire and police departments spend a great deal of time in training activities. Most will be receptive to taking part in a mock disaster because it serves as a training opportunity for their departments as well. It is also beneficial in that CMT members can become acquainted with some of the key players within the emergency services departments.

Use mock reporters. Mock reporters are standard in any disaster exercise of this scope. The realistic scenario of being interviewed by the media can be unexpected and intimidating. Local university journalism students make a good source of mock reporters, because many will be working for the media in the future.

Sometimes the experience of working in a disaster exercise can lead to working on a real disaster. Mock reporters are used regularly at Syracuse University in disaster training. In 2002, however, the simulated chemical spill that was supposed to occur was replaced by the real thing. Two hours before the mock disaster, a real crisis developed when brown puddles of unknown origin formed inside the university's biological research center. The real crisis resulted in the building being evacuated and the arrival of a hazardous material team, along with police and fire personnel (Strupp, 2002).

Use mock victims. Including mock victims with injuries is also useful in this type of exercise. Once again, local colleges and universities may be helpful (Crandall, 1997). The drama or theater department can supply "victims" who can be made up to look injured. This activity provides useful practice for these students who work both on and off stage.

Invite the media to come to your drill. In addition to using mock reporters, inviting the local media is an excellent idea as well. The training event can be featured in the local newspaper and on the television evening news. The publicity generated is usually well received because it shows the organization is being proactive in its crisis management efforts. In addition, local reporters can offer advice from their perspectives, some of which may be quite useful to the CMT.

Be sure all of the employees and local community are aware of the drill. The mock disaster should be well publicized to all employees and the local community so that citizens do not mistake the drill for a real crisis. One of the authors lives near a large military base that occasionally conducts mock exercises in the community. One such drill involved the use of a military team descending on an abandoned motel. Helicopters were flying overhead and soldiers were maneuvering around the facility. The drill was so extensive that spectators gathered across the street to watch. Fortunately, advance notice had been given to the community, and many were expecting this event as a form of entertainment for the evening. Several years later, the local fire department torched the entire facility in a dramatic blaze as a training exercise. Again, the community knew to expect a spectacular fire that night.

Guidelines While the Mock Disaster Is in Progress

Planning a mock disaster is an extensive process. The actual drill should proceed well if the guidelines presented here are applied. In addition, it is important that care be taken not to create a real crisis during the drill. Such events do occur and can result in injuries. If the fire department is involved, it will likely have a safety officer who helps ensure that injuries do not occur. Nonetheless, problems can develop, and anyone planning such an exercise should be aware of such possibilities. Case in point: in 2007, an elaborate search-and-rescue drill involving about 400 people was held off the coast of Newfoundland. The objective of the drill was to respond to a scenario in which a ferry was on fire. The drill involved evacuating passengers from the ferry into lifeboats. The drill took a realistic turn, however,

when several passengers on one of the lifeboats were overcome by exhaust fumes and had to be airlifted by helicopter to a hospital (Brautigam, 2007).

A second consideration during a mock disaster is to remember that mistakes will be made during the drill. This is not a bad thing as long as serious damages and injuries are avoided, because one of the purposes is to identify crisis response weaknesses. Those involved should record any mistakes and discuss them during the debriefing meeting held after the mock disaster. One animal shelter staged a mock disaster involving the evacuation of all animals from the facility. Such an incident would be required if a natural disaster such as a hurricane was threatening. A number of small problems developed during the drill, including a fight between two dogs that were being held by volunteers in the waiting queue and a cat that escaped from its cage. Moreover, the volunteers who helped with the mock drill were plentiful but untrained in how to carry out their required roles, complicating the process considerably (Irvine, 2007). Hence, formal training for the volunteers was warranted.

A third guideline, which may be useful for catching mistakes, is to record the drill. When Concord College staged its first mock disaster, two photographers made video recordings. One cameraperson was at the incident command center, where the disaster scenario took place. The other recorded the meetings in the main command center, where most of the CMT was meeting. This arrangement was later useful for evaluation because CMT members at the command center could view what was happening at the incident area, and vice versa (Crandall, 1997).

Guidelines for After the Mock Disaster

Immediately after the drill, food and refreshments should be provided for all of those who participated. This step is highly recommended, as most participants will be exhausted. This social gathering also gives individuals time to reflect, relax, and build camaraderie.

Within one week of the drill, it is recommended that a debriefing meeting be held to discuss what was learned. Some teams may choose to debrief immediately after the mock disaster. This may be feasible if the drill did not last too long. Otherwise, it may be better to debrief on another day when the CMT is refreshed and mentally alert. Care should be taken not to wait too long after the event, however, lest team members forget some of the finer learning details of the drill. The lessons learned from the mock disaster may result in changes to the crisis management plan. These changes should be made soon in the master document and in any additional associated locations such as the organization's website.

Summary

This chapter emphasized the importance of forming the crisis management team and writing the crisis management plan. The CMT is charged with developing a list of threats that face the organization and overseeing the compilation of the CMP. The CMP revolves around addressing these threats as well as providing other guidelines for how the organization should respond to a crisis.

The CMT also leads the training needed for crisis response. Regular meetings should be held to keep members familiar with the crisis plan, as well as to provide training for specific crisis events. Testing the crisis response of the organization is also important. Tabletop drills are short and confined to usually one room. A disaster drill is larger in scope and involves testing a single component of the organization's crisis response. A mock disaster is larger in its inclusion of stakeholders and the number of crisis components being tested. All of these exercises fine-tune the CMT so that it is ready if and when a crisis occurs.

Questions for Discussion

1. Discuss how groupthink can be a problem for a crisis management team. What can be done to prevent groupthink?
2. How are problems associated with the crisis management team different from those associated with other committees?
3. If you were the crisis management team leader, how would you ensure that the team members regularly review the crisis management plan?
4. Why is it a good idea to require your suppliers to have a crisis management plan?
5. What types of disaster drills are regularly practiced at your place of employment? If none are used, what would you propose for a disaster drill exercise?
6. What scenarios would make a good mock disaster where you work or go to school?

Chapter Exercise

All students and practitioners in the area of crisis management should be able to write a crisis management plan. In addition, the ability to organize a training program and a mock disaster is desirable. This course exercise is designed to be a comprehensive project that accomplishes each of these goals.

General Guidelines

1. Students in the class should be assigned to teams of four to six members. Each team should work with the management team of a local organization to compile a crisis management plan. For this first step, the instructor should serve as the liaison between the organization and the student team.

2. Employed students already have an entry into their organizations. These are potential companies for the project also and can be pursued with the approval of the instructor.
3. Each team should design a mock disaster for that particular organization. Keep in mind that the purpose of this drill is to test the organization's CMP and its crisis response capabilities.
4. Each team should formulate a crisis training program schedule for the organization.
   - Indicate how often meetings should be held and what training modules should be provided.
   - Designate which training is for the CMT only and which should be company-wide.
5. Each team should present its CMP, mock disaster plan, and training program schedule to the class. If possible, a representative from the respective organization should also be present.

Specific Guidelines

1. In organizing the CMP, remember that many such plans are already posted on the Internet. College and university plans are readily available for review and can provide useful insights on how to organize your team's plan. In addition, the Appendix at the end of this book provides an outline of areas that should be addressed in your CMP.
2. Remember that a landscape survey of the internal and external environment is necessary to assess that organization's crisis vulnerability. This is performed with a SWOT analysis (see Chapter 4). Include this information in the plan as well.
3. Be sure the plan is realistic for the organization you have selected. Do not address crisis scenarios that are unrealistic.
4. Designate a backup command center in your plan and explain how a virtual command center would be arranged.
5. Be sure to prepare a timeline for the mock disaster. Identify what should occur two months before the drill, one month before, two weeks, two days, and so on. Use a timeline that is feasible for your particular mock disaster.

Mini Case: Industrial Accident

On April 2, 2010, an explosion and fire erupted at the Tesoro Corporation, a refining company in Washington State. The explosion killed five workers immediately, while two died later in the hospital. The resulting fire took 90 minutes to extinguish

and at times reached the height of the refinery tower ("U.S. oil refiner fined," 2010). The accident occurred while workers were performing maintenance on a heat exchanger. Because heat exchangers contain highly combustible material, they can easily explode if not properly inspected and managed.

The company conducted an internal investigation and blamed the accident on a chain of events that caused hydrogen to react with the carbon in the steel pipes. The occurrence, also called a hydrogen attack, eventually caused the pipe in the heat exchanger to crack (Pipken, 2010). The incident was also investigated by the Washington Department of Labor and Industries. The six-month investigation resulted in the issuing of 44 citations and a $2.38 million fine for safety and health violations ("Washington state fines Tesoro," 2010). Specifically, the department concluded that Tesoro had:

- Disregarded a number of workplace safety regulations
- Continued to operate equipment that was failing and should have been replaced
- Purposely postponed maintenance
- Inadequately tested for potential damage to equipment, including the heat exchanger that exploded
- Failed to protect workers from injury and death

The Tesoro Corporation refinery in Anacortes, Washington, had been previously fined $85,700 in April 2009 by the Washington Department of Labor and Industries. The agency found the company guilty of 17 serious safety and health violations that had the potential to cause a worker death or serious injury. In addition, the state inspectors found 150 other deficiencies that did not ensure that the company adhered to safe work practices ("U.S. oil refiner fined," 2010).

Accidents are no stranger to the refining industry. In 2010, the U.S. Chemical Safety and Hazardous Investigation Board were examining 18 major accidents in refineries and chemical plants. Of these cases, seven of the accidents were at refineries. There are in excess of 10,000 chemical plants in the United States, but only 150 refineries ("U.S. oil refiner fined," 2010). The high concentration of accidents in the industry is alarming. According to John Bresland, chairman for the Chemical Safety and Hazardous Investigation Board, "This is a significant and disturbing trend that the refining industry needs to address immediately" ("Six workers die," 2010, p. 3).

One of the problems in the refinery industry (as well as other industries, such as coal mining) is the lack of effective enforcement of existing regulations. What results is a situation in which companies challenge citations from regulatory agencies, often for years ("Regulatory flaws," 2011). The company then is not required to make any changes while the citation is in the appeal process. In essence, the company does not have to upgrade older or unsafe equipment that might have been the target of a citation. This practice becomes a bit of a game; the company hedges that it can postpone equipment upgrades and eventually pay fines instead of buying new and safer equipment, which can be costly. The first option results in less cash expenditures than the second option. Unfortunately, as we found in this case, it can also compromise worker safety and lead to fatalities.

Mini-Case Discussion Questions

1. It was noted that Tesoro conducted its own internal investigation. From a legal standpoint, why do you think this was an important item to note?
2. Postponing maintenance and operating older equipment can result in an accident to a worker. What examples are you aware of when an accident occurred because of these factors?
3. Companies often contest a government agency when they are cited for safety violations. This practice occurs in the refinery industry, as well as in coal mining. Instead of paying the fine or fixing the problem, the company fights the agency in an effort to stall the process of making improvements to equipment. What can be done to address this problem?

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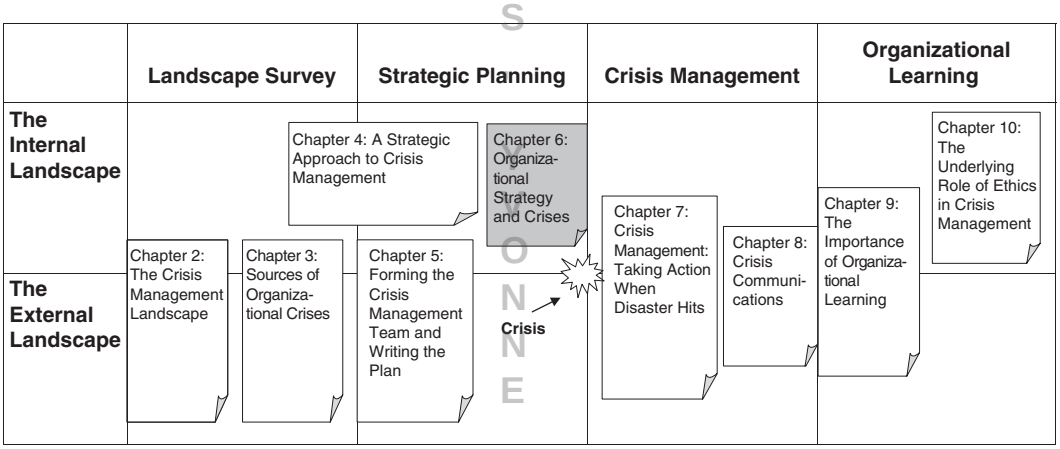
CHAPTER 6

Organizational Strategy and Crises



Opening Case, Part 1: The BP Gulf of Mexico Oil Spill

On April 20, 2010, British Petroleum's (BP) offshore drilling rig, the *Deepwater Horizon,* exploded in the Gulf of Mexico and caused the largest accidental marine oil spill in history. The ruptured oil well spewed nearly 5 million barrels of oil into the sea over three months (Friedman & Friedman, 2010). Eleven men working on the project were fatally injured, and 17 others were severely injured. This crisis resulted in major destruction to marine wildlife, and extensive economic harm was inflicted on the fishing and tourism industries. For BP, it was a public relations crisis nightmare.

Offshore Versus Deep-Water Drilling

Starting in the 1980s, the United States looked for a solution to its energy and national security needs through offshore oil production. Since World War II, the Gulf of Mexico has been a major area for offshore drilling. Most of the wells in this area were in shallower waters with depths around 200 feet or less (Schneider, 2011). However, as these wells were depleted, oil companies moved their efforts to deeper waters that were several thousand feet in depth. At the time of the BP oil spill, the Gulf of Mexico was estimated to hold 19 percent of the U.S. oil reserves (Griggs, 2011).

Deep-water drilling is a promising alternative for extracting oil reserves, but there are drawbacks. The most obvious difficulty is to drill and operate a well at such tremendous depths. The U.S. government defines a deep-water well as one that involves drilling in excess of 500 feet. In 2010, there were about 600 deep-water wells in the Gulf of Mexico (Tankersley, 2010). Because of the excessive depths of the wells, they are not accessible by human divers and must be reached by robots if there is a maintenance problem.

A special drilling rig is needed to bore an oil well in deep waters. Two types exist: the drillship and the semi-submersible (Cook, 2010). A drillship resembles an actual ship, with the drilling apparatus located in the center. The semi-submersible rig has large pontoons that can be filled with ballast so the rig can be partially submerged. This feature also helps the rig remain more stable amid the waves (Cook, 2010). The *Deepwater Horizon* was a semi-submersible rig that was used to dig the well on the Macondo slope of the Gulf of Mexico. Once the well was dug and capped, the rig would move on to a different site to dig another well. A different rig would arrive afterward at the Macondo well and extract the oil. Companies like BP do not own or operate these rigs; instead, they lease them from specialized companies such as Transocean, the largest offshore drilling contractor in the world (Barrett, 2011).

The Deepwater Horizon

The *Deepwater Horizon* was built in Korea and literally sailed to the United States, arriving for service in the Gulf of Mexico in 2001. The original price tag was $365 million and included a 28,000-ton drilling package (Elkind, Whitford, & Burke, 2011). But the rig was also designed for the use of its employees who would be working there on an extended basis. Amenities such as a movie room, a gym, maid service, a smoking cave, berths with carpeting, in-room Internet, and a 24-hour mess hall were all provided. When one is out at sea, a workplace needs to resemble home as much as possible.

The rig was a multi-use facility that included the drilling apparatus, monitoring facilities, a heliport, and accommodations for the employees. The most important function, however, was to drill for oil. Extracting the oil would be performed by a different rig; hence the *Deepwater Horizon* was better termed a drilling rig.

Understanding the Macondo Well

The Macondo oil well in the Gulf of Mexico was sunk 18,360 feet below sea level. BP leased the *Deepwater Horizon* at a cost of $533,000 a day from Transocean (Crooks, Pfeifer, & McNulty, 2010). Since the accident, critics have questioned BP's cost-cutting efforts. At a charge of a half a million dollars a day, it is easy to see why the company was concerned about expenses. Moreover, drilling the Macondo well had been fraught with problems, causing the project to fall behind schedule by some 45 days and resulting in a $58 million overrun of the budget (Elkind et al., 2011).

The Blowout Preventor

One of the key devices on a deepwater well is the blowout preventer (BOP). The BOP is a 40-foot stack of valves that sits on top of the well on the sea bed (McNulty & Crooks, 2010). It is designed to stop the flow of oil and gas from the well in the event of an emergency. If the BOP were to fail, dangerous oil and gases could spew from the well and move up the riser, which is located in the water and serves as the connection tube between the rig and the well. Once the gases have moved up the riser, they are emitted at the oil rig itself, which creates a volatile situation because the gases are highly flammable. A sufficient amount of gas and an ignition source could ignite an explosion. Because oil is rising up uncontrollably as well, the resulting fire would be fueled by the oil, creating a burning inferno that could last as long as the fire has a fuel source.

Because of the importance of the BOP, it must be built well and checked periodically. The maker of the BOP for the Macondo well was Cameron International, a company known for reliability. Indeed, the BOP must work perfectly because it is the main barrier protecting human life, capital equipment, and the environment (Hoyos, 2010). However, there was an incident involving the BOP after it had been installed. Four weeks before the night of the explosion, a worker had accidently bumped a control switch that moved a portion of pipe through the BOP. Later, chunks of rubber were found in the drilling fluid, indicating that "something" had been compromised in the BOP. However, no further action was taken on the matter (Cook, 2010).

Cementing the Drill Casing

The process of drilling a well involves boring a hole first, then inserting a metal casing into the hole so that the shaft has structural integrity. In other words, the metal casing keeps the bored hole from falling in on itself. Before a well can be capped, the area between the bored hole and the outside of the casing must be filled with cement. Filling this gap helps to center the casing in the hole, and it prevents dangerous hydrocarbon gases from entering the shaft (Cook, 2010). In addition, the bottom of the well where the shaft is still open is filled with cement to keep these gases from entering. Thus, the shaft is now protected with cement from the

sides and the bottom. The goal is to seal the shaft tightly so nothing can enter it until the next oil rig arrives to extract the oil. At that point, the shaft is reopened to allow oil to flow up to the rig. Until then, the shaft must not become a conduit for hydrocarbon gases and oil.

The cementing process also accomplishes another goal, to keep the metal casing of the drill shaft completely centered in the bore. However, cement alone is not enough to keep the long shaft in place. Carbon-steel liners are also used to correctly position the metal casing in the hole. The design of the well called for 21 centralizers, but only six were available for installation. Instead of waiting for more to arrive, BP decided to work with six. It should be noted BP officials made this decision, although another company, Halliburton, was contracted to do the cement work. Although a Halliburton official warned that not using the full 21 centralizers could cause a problem with the integrity of the shaft, the work proceeded with only six (Elkind et al., 2011).

The Negative Pressure Test

Before the *Deepwater Horizon* was allowed to move to its next job, a negative pressure test had to be conducted on the well. This test measures whether or not the well is sealed completely. If the well has a good seal, then no change in pressure should occur. An increase in pressure from the well indicates that a good seal has not been attained, meaning that hydrocarbon gases and oil could leak into the shaft. When the test was conducted, the results were confusing. What added to the problem was that BP did not have a standard procedure in place on how to conduct the negative pressure test, nor was there guidance on how to interpret the results (Cook, 2010).

When the test was first run, the well was exerting pressure on the drill pipe, indicating that hydrocarbons were leaking into the pipe. The test was run again just to make sure it was not a mistake, but the same results occurred—pressure was occurring, which meant a good seal was not attained. Somewhere, the cement had not done its job. Or had it? A discussion ensued among BP, Halliburton, and Transocean staff. One engineer suggested that it might be a false reading. A third test was run, this time a line that connected to the main drill shaft. The crew theorized that this line should also show an increase in pressure if there was indeed a leak because the entire setup was a closed system (Elkind et al., 2011). The feeder line showed normal pressure. The BP staff concluded the system was not leaking, a decision that would prove to be fatal in just a few hours.

Opening Case Part 1 Discussion Questions

1. Even though BP did not directly own the oil rig in question, why do you think it received the most blame in the media?
2. What are the advantages and disadvantages of outsourcing?
3. This case illustrates that a testing procedure may not always produce reliable results. Have you experienced problems at work where established testing procedures were not adequate and led to problems?

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Introduction

Effective crisis management requires a strategic mind-set; top managers must be alert to the crisis vulnerabilities that may occur. This chapter examines the links between organizational strategies and crisis planning. The relationship between these two functions is reciprocal. Crisis management should be part of the strategic management process, but the strategies selected can influence the frequency and types of crises that follow. This chapter begins by examining the strategy–crisis nexus. We then explore the intricate relationships between corporate-level strategy and crises, and between businesses-level strategy and crises. The chapter concludes with a discussion on strategic control and how it can be used to forecast and prevent future crises.

Strategy and Crises

Strategy refers to top management's plans to develop and sustain competitive advantage so that the organization's mission is fulfilled. *Strategic management* is a broader term and involves top management's analysis of the environment the organization operates in, as well as the plan for implementation and control of the strategy (Parnell, 2013). Much of this analysis is similar to what must be done to heighten crisis preparedness in an organization. Hence, there is a strong and necessary link between the strategic management process and crisis management (Pauchant & Mitroff, 1992; Preble, 1997; Smith, 1992).

The prevalence of organizational crises can be related to a firm's strategy. Simply stated, some strategies are more crisis prone than others. For instance, a company

following a corporate strategy of growth through acquisitions may be setting itself up for certain types of calamities (Probst & Raisch, 2005). Hence, a firm's strategy can foreshadow the type of crisis that may occur.

The Multiple Levels of Strategy

Organizational strategy can be examined from corporate and business levels. The corporate strategy (also called the *firm strategy*) reflects the broad strategic approach top management formulates for the organization. Specifically, corporate strategy answers the questions: (1) In which industries will the firm compete, and (2) what growth pattern will be followed? The business strategy (also called the *competitive strategy*) outlines the competitive pattern for a business unit—an organizational entity with its own mission, set of competitors, and industry. These strategies are crafted so that each business unit can attain and sustain competitive advantage, a state whereby successful strategies cannot be easily duplicated by rivals (Cockburn, Henderson, & Stern, 2000; Parnell, 2013). As we will see, the choice of strategies can influence the types of crises the organization may face.

Corporate-Level Strategies

There are two steps involved in corporate strategy development. The first is to assess the markets or industries in which the firm operates. The second is to identify a strategy to manage the firm's size, an approach that often—but not always—incorporates growth. Both of these dimensions and their links to crisis planning are discussed next.

Industry Dimension

At the corporate level, top management defines the corporate profile by identifying the specific industries in which the organization will operate. Three basic profiles are possible: (1) operate within a single industry, (2) operate in multiple, related industries, or (3) operate in multiple, unrelated industries. Each profile has its own inherent advantages and disadvantages and also brings with it the potential for different types of crises.

Single industry

An organization that operates in a single industry can benefit from the specialized knowledge that it develops by concentrating its efforts in one business area. McDonald's, for instance, continually changes its product line while maintaining a low per-unit cost of operations by concentrating exclusively on restaurants. Wal-Mart benefits from discount retail expertise derived from keeping its cost structures low, as well—a benefit that is passed on to consumers. Both of these companies

are successful and play leadership roles in their respective industries. However, a drawback to their success is that they are easy targets for critics and, as a result, can be subject to negative public opinion. For McDonald's, critics in the 1990s pointed to bulky packaging practices (Adams, 2005; Sethi & Steidlmeier, 1997), and more recently, to concerns about nutrition (Morrison, 2012).

Wal-Mart's impressive growth has created a love–hate relationship with its external stakeholders. The company's obsession with cost containment has also resulted in lower prices, but with lower wages and limited benefits for employees. Wal-Mart pressures its suppliers to keep their costs down as well, promising them volume if they meet specific targets. However, many suppliers struggle to meet the cost targets, and some choose other options. Snapper, the maker of quality lawn equipment, pulled out of its partnership with Wal-Mart, fearing that it would ultimately reduce the quality of its products because of cost trade-offs. The irony is that despite the many benefits Wal-Mart provides to the economy and society, many people simply do not like the company (Fishman, 2006). Because Wal-Mart operates only in discount retail, its high visibility makes it vulnerable to crises, particularly those associated with public relations.

Multiple, Related Industries

Because firms operating in a single industry are more susceptible to sharp downturns in business cycles that cannot be offset by other business units in the firm, they can be prone to economic crises. As such, an organization may operate in more than one industry to reduce uncertainty and risk. It may diversify by developing a new line of business, or acquire other businesses with complementary product or service lines, a process known as *related diversification*. The key to successful related diversification is the development of synergy among the related business units. Synergy occurs when the two previously separate organizations join to generate higher effectiveness and efficiency than each would have generated separately. This is not always easy, however, particularly if one of them has experienced a major crisis, such as that which occurred when Dow Chemical acquired Union Carbide in 1999. Union Carbide's Bhopal, India, gas leak disaster in 1984 created a "guilt by association" crisis for Dow, which immediately became the target of protests from groups that wanted to clean up the old Bhopal facility because of groundwater contamination (Baldauf, 2004).

Consider the case of Atlanta-based ValuJet, one of the first budget airlines in the United States. On May 11, 1996, Flight 592 plunged into the Florida Everglades, killing all passengers and crew. Safety violations in the cargo area mistakenly allowed the introduction of oxygen containers that exploded in flight. The airline blamed its Miami subcontractor, SabreTech, for loading full oxygen containers that should have been empty (Englehardt, Sallot, & Springston, 2004). Not surprisingly, SabreTech blamed ValuJet for the mistake, while the Federal Aviation Administration (FAA) and the National Transportation Safety Board (NTSB) put the scrutiny on ValuJet. In fact, the airline was already under an FAA safety review prior to the crash.

The investigation of the crash cause was headed by the NTSB and revealed that safety practices existed, particularly in terms of subcontracting maintenance to

SabreTech. Immediately after the crash, the FAA forced the airline to ground half of its flights while it looked into the airline's day-to-day operations. The agency also found deficiencies in maintenance and ordered the airline to stop flying on June 17, just over a month after the crash of Flight 592. In August 1997, the NTSB found ValuJet at fault for not overseeing the work of its subcontractor, SabreTech. The final NTSB report produced four years later blamed ValuJet, SabreTech, and even the FAA for lax oversight (Englehardt et al., 2004).

The background of this case is important because it shows why ValuJet, seeking survival and growth, merged with AirTran and adopted a new name as part of its rebuilding effort (Beirne & Jensen, 1999). Changing the name of a company can palliate some of the negative crisis associations from the past. In the instance of ValuJet, the crisis was removed even further when Southwest Airlines acquired AirTran in 2010. Such transformations have also been carried out by Philip Morris, now Altria, and Anderson Consulting, now Accenture (Keating, 2012).

Another interesting example is Alpha Natural Resources, a coal company based in Abingdon, Virginia. On June 1, 2011, Altria acquired Massey Energy, a company with a less-than-stellar reputation (see Chapter 3). Massey Energy was notorious for safety violations and incorporating a culture in which wrongdoing was overlooked (Barrett, 2011). The challenge for Alpha was to remain profitable, protect miner safety, and assimilate the cultures of the two companies. The decision to acquire Massey was a strategic one, and industry watchers hope that Alpha's oversight will put an end to the string of mining accidents experienced under previous leadership. As part of the deal, however, Alpha also acquired the liability from Massey's negligence associated with the accident at Upper Big Branch that killed 29 miners in 2005. In the largest settlement ever for a mine accident, Alpha accepted the obligation to pay a total of $209 million, a figure that includes $1.5 million for each of the 29 victims who died and for two other miners who were injured (Tavernise & Krauss, 2011). Clearly, this acquisition has been an expensive one for Alpha.

Multiple, Unrelated Industries

A business may choose to operate in unrelated industries because its managers wish to reduce company risk by spreading resources across several markets. These firms pursue an unrelated diversification strategy by acquiring businesses not related to the core domain. In terms of potential crises, this strategy also has its challenges. By attempting to expand their core competencies, firms may find themselves in unfamiliar territory, thereby heightening crisis potential. This scenario happened to the once-respected A. H. Robins Company when it departed from its core product line to pursue the marketing of the ill-fated Dalkon Shield, an intrauterine contraceptive device known as an IUD. The product was later associated with health problems and was ultimately withdrawn from the market. The legal fallout was so devastating that A. H. Robins had to enter bankruptcy and was later acquired by Wyeth (D'Zurilla, 1998).

Problems can arise when firms are diversified simply to achieve short-term bumps in stock value. A host of abuses can result, but most notably, ethical issues

whereby managers seek to artificially inflate the value of the firm, as in the cases of Enron and Tyco (Hosmer, 2011). Table 6.1 summarizes this discussion on industry involvement and crisis risk factors.

Growth Dimension

After an organization's corporate profile is determined, its corporate strategy must be established. Three possibilities exist: an organization may attempt to increase its size significantly (growth), remain about the same size (stability), or become smaller (retrenchment).

Growth Strategies

Most firms seek to grow, but this strategy can be realized in several ways. Internal growth is accomplished when a firm increases revenues, production capacity, and workforce. This type of growth can occur by expanding the business or creating new ones. External growth is accomplished when an organization merges with or acquires another firm. Mergers are generally undertaken to improve competitiveness by sharing or combining resources.

Table 6.1 Industry Dimension Involvement and Risk Factors

Industry Dimension Involvement	***Risk Factors***	***Examples***
Operate in a single industry	High visibility of the company makes it a "target" for criticism from external stakeholders.	• McDonald's • Wal-Mart
Operate multiple businesses in related industries (related diversification)	The acquiring company must be careful when it acquires a company previously damaged by a crisis.	• Union Carbide/Dow Chemical • ValuJet/AirTran • Massey Energy/Alpha Natural Resources
Operate multiple businesses in unrelated industries (unrelated diversification)	Potential exists to operate outside of the company's original core area, thus opening it up to a crisis. Business may be viewed as a portfolio, creating an incentive to falsify income statements and balance sheets so that it will look attractive to investors while driving up stock prices and bringing in bonuses for top executives.	• A. H. Robins • Tyco • Enron

When a company increases in size, it becomes more noticeable to the public. A surge in popularity means the public generally likes the product or service being offered. However, it also means the company is more vulnerable. Growth strategies include the potential for becoming a target of social media or even extortion because the firm is larger and more visible. The Wendy's severed finger incident (see Chapter 3) illustrates such an extortion attempt. Although no payment was made, Wendy's suffered a 2.5 percent decline in sales for the quarter (Langston, 2006).

Another type of crisis can occur when a company enters into a strategic alliance as part of its growth strategy. Strategic alliances—often called "partnerships"—occur when two or more firms agree to share the costs, risks, and benefits associated with pursuing new business opportunities. Such arrangements include joint ventures, franchise or license agreements, joint operations, joint long-term supplier agreements, marketing agreements, and consortiums. Strategic alliances can be temporary, disbanding after the project is finished, or can involve multiple projects over an extended period of time (Parnell, 2013). Many strategic alliances fall under the category of global outsourcing, thereby creating a unique set of crisis vulnerabilities.

The late 1990s and early 2000s witnessed a sharp increase in strategic alliances (Reuer, Zollo, & Singh, 2002). There are many examples of partnerships, especially when technology and global access are key considerations. IBM and Apple Computer have exchanged technology in an attempt to develop more effective computer operating systems. General Motors (GM), Ford, and Chrysler are jointly conducting research to enhance battery technology for electric and alternative fuel cars powered by electricity, hydrogen, and other sources of alternative energy. Perhaps the most dramatic example of strategic alliances is occurring in China, where every major automobile manufacturer in the world is working with firms in the Chinese auto market to build vehicles (Casey, Zamiska, & Pasztor, 2007; Chu, 2011).

Strategic alliances enable a firm to expand its reach into new markets while utilizing the expertise of a partner firm and risk as well. Yet, strategic alliances can also be vulnerable to crises, especially if the partner firms do not agree explicitly on the contribution each will make to the alliance or if they do not have an agreed-upon approach to identify vulnerabilities and an action plan to address crisis management. For example, in 2000, Amazon.com and Toys"R"Us signed a 10-year deal to join forces in a strategic alliance. Amazon agreed to devote a portion of its website to Toys"R"Us products, while the toy retailer agreed to stock certain items on Amazon's virtual shelves. Although the arrangement was supposed to be an example of how Internet retailers can work effectively with their traditional counterparts, the deal deteriorated several years later and ended up in court in 2006. Toys"R"Us argued that Amazon broke its original commitment to use its company as its sole provider of toys and related products, while Amazon contended the toy retailer did not maintain an appropriate selection of toys (Mangalindan, 2006).

Stability Strategies

There are times when a company may seek to retain its present size, at least on a temporary basis. A stability strategy may be pursued temporarily when there is

significant political and/or economic stability. Many firms in the United States adopted a wait-and-see approach in the early 2010s when the economy struggled to recover from the mortgage crisis and the regulatory environment became more cumbersome. Such a path may also be taken after a period of excessive growth. Early in its history, computer maker Dell pursued a period of stability strategy after achieving a 285 percent growth over a two-year period so that the company could address needs for new facilities and managers (Burrows & Anderson, 1993). Indeed, growing too fast can create its own set of crises, including potential for the premature demise of the company (Probst & Raisch, 2005).

A stability strategy may also be advisable in other instances. If a firm's industry is not growing, then internal growth must come at the expense of rivals, a difficult proposition. The costs associated with growth may not justify the benefits. Moreover, a small firm known for quality and excellent service may choose to remain small so it can provide a high level of personal customer attention. While growth is usually desirable, stability may be pursued temporarily or even over the long term in certain instances (Parnell, 2013).

Retrenchment Strategies

Retrenchment strategies seek to decrease the size of the organization and usually follow a downturn. Certainly, an economic crisis—a significant decline in sales—represents one such scenario. However, a retrenchment strategy often follows an acute crisis. For example, a major fire, negative publicity, product recall, or a breach of ethics by management can all be factors that lead to a decrease in revenue and therefore the need to retrench.

Consider Enron's ethical malaise. The company eventually imploded, although one could argue the demise occurred in a series of stages; hence some degree of retrenchment was evident. But the more typical scenario involves a partial retrenchment in response to a crisis that does not lead to the ultimate dissolution of the company. Instead, after a period of retrenchment, a buyer may come along and rescue the company from its deteriorated condition, after which a period of growth may occur.

Retrenchment can take one of three forms: turnaround, divestment, or liquidation. A turnaround is the most conservative approach, whereas liquidation is the harshest. A turnaround seeks to transform the corporation into a leaner, more efficient firm and includes such actions as eliminating unprofitable outputs, pruning assets, reducing the size of the workforce, cutting costs of distribution, and reassessing the firm's product lines and customer groups (Parnell, 2013). From a crisis management perspective, a turnaround strategy also includes any strategic initiative that management deems necessary to improve the company's performance in a specific area.

Denny's restaurants needed a turnaround—particularly in its human resource management practices—after agreeing to pay $54 million to resolve several racial discrimination lawsuits stemming from incidents in the early 1990s. Although social media outlets were not yet popular, the late-night television comedians at the time were poking fun at the chain on a regular basis. Show hosts Arsenio Hall and

Jay Leno attacked the company as an example of southern bigotry and intolerance. The crisis that gathered the most news coverage involved the poor service that six black Secret Service officers received at an Annapolis, Maryland, Denny's in 1993. The agents alleged humiliating and discriminatory service while their white colleagues enjoyed hearty breakfasts (Adamson, 2000). However, these setbacks illustrate how a company can not only withstand a crisis, but can benefit from it in the long run. "A decade ago, the restaurant chain Denny's was nearly synonymous with racism," according to Ray Hood-Phillips, chief diversity officer at Denny's. After the devastating lawsuit, the company viewed its turnaround as requiring "a holistic approach to diversity" (Brathwaite, 2002, p. 28). This move involved changing the culture of the company through intensive diversity training, better recruiting practices, and a more valid performance appraisal system.

Some turnaround strategies may result in a reduction in the size of the workforce. If layoffs are implemented, management must be prepared to address their effects on both departing employees and survivors. Employees may be given opportunities to leave voluntarily—generally with an incentive—to make the process as congenial as possible. When this occurs, those departing can be the top performers who are most marketable, leaving the firm with a less competitive workforce. When layoffs are simply announced, morale is likely to suffer considerably. For this reason, turnarounds involving layoffs are often more difficult to implement than anticipated (Murray, 2001). Furthermore, layoffs should not always be an option of first choice because of the devastating consequences they can have on employees, their families, and the local community (Macky, 2004). Instead, the decision to reduce the workforce should be based on the long-term cost adjustments that are needed at the firm (Gandolfi, 2008).

If layoffs are utilized, several actions can mitigate some of the negative effects. Top management is encouraged to communicate honestly with all employees, explaining why the downsizing is necessary and how terminated employees were selected. Everyone, including those employees who remain in the organization (i.e., the survivors) should be made aware of how departing employees will be supported. Employees should also be encouraged to partake of services available to them, including educational retraining funds through the government and company outsourcing services. Although these measures will not eliminate all the harsh feelings associated with layoffs, they can help keep the process under control.

A number of executives are widely recognized as "turnaround specialists" and may be brought in as temporary chief executive officers (CEOs) to lead the process and orchestrate such unpopular strategic moves as layoffs, budget cuts, and reorganizations. In addition, crisis management consulting firms are abundant and can advise on the specifics of crisis management planning and communicating with the media. Robert "Steve" Miller, a major player in the Chrysler turnaround, has served as CEO of Waste Management and the automobile parts supplier Federal-Mogul, as well as a consultant on turnaround issues to such companies as Aetna. According to Miller, the CEO in a company seeking turnaround should be honest with employees from the outset and seek their input. He or she should also spend time with customers. As Miller put it, "Listen to your customers. [They] are usually more perceptive than you are about what you need to do with your company" (Lublin, 2000).

Divestment—selling one or more business units to another firm—often occurs when a firm's leaders believe the organization is facing a crisis. Divestment may be

necessary when the industry is in decline or when a business unit drains resources from more profitable units, is not performing well, or is not synergistic with other corporate holdings. During the aforementioned Denny's turnaround effort, the firm also pursued a degree of divestment by selling its Coco's and Carrows restaurants (Kruger, 2004).

Liquidation terminates the business unit by selling its assets. Liquidation is by definition a last-resort response to a severe crisis. In effect, it can be viewed as a divestment of *all* the firm's business units and should be adopted only under extreme conditions. Shareholders and creditors experience financial losses, managers and hourly employees lose their jobs, suppliers lose a customer, and the local community suffers an increase in unemployment and a decrease in tax revenues. Hence, liquidation should be considered only when other forms of retrenchment are not feasible.

Business-Level Strategies

Whereas the corporate-level strategy addresses industries in which a firm competes, the business-level strategy focuses on whom the company should serve, what needs should be satisfied, and how a business should develop core competencies and be positioned to satisfy customer needs. The challenging task of formulating and implementing a strategy for each business unit is based on a number of factors (Parnell, 2013).

The first step in formulating a business strategy is to select a broad or generic strategy to compete with rivals and then fine-tune it to accentuate the organization's unique set of resource strengths (Campbell-Hunt, 2000; Parnell, 2013). Porter's (1980) generic strategy framework serves as a good starting point for assessing business strategies. According to Porter, a business unit must address two basic competitive concerns. First, managers must determine whether the business unit should focus its efforts on an identifiable subset of the industry in which it operates or seek to serve the entire market (i.e., the industry) as a whole. For example, many specialty clothing stores in shopping malls adopt the focus concept and concentrate their efforts on limited product lines primarily intended for small market niches. In contrast, most chain grocery stores seek to serve the "mass market"—or at least most of it—by selecting an array of products and services that appeal to the general public. Second, managers must determine whether the business unit should compete primarily by minimizing its costs relative to those of its competitors (what Porter calls a "low-cost strategy") or through differentiation, distinguishing itself by offering unique and/or unusual products and services (Parnell, 2006).

Low-Cost Strategies

Businesses that utilize low-cost strategies produce basic, no-frills products and services. They provide their products and services to an entire market and appeal primarily to price-sensitive consumers (Parnell, 2013). High-profile companies that follow low-cost strategies include Wal-Mart and Southwest Airlines. Businesses using low-cost strategies are susceptible to price competition from other firms,

particularly large rivals. This continuous pressure to reduce costs may cause a firm to cut corners, ultimately leading to a crisis situation.

Trimming costs can create crisis challenges for companies that follow low-cost strategies. For example, regional or commuter airlines typically pay lower wages and require less cockpit time than their national and international counterparts. Pilots at United and other major airlines are required to log 5,000 to 7,000 flight hours before stepping into the cockpit. However, smaller airlines like JetBlue require 4,000, and some commuter airlines hire pilots with fewer than 1,000. Relaxing this requirement creates a cost advantage for commuter airlines but can also create safety concerns. As of 2010, seven of the past eight U.S. crashes resulting in fatalities involved small carriers (Pasztor & Carey, 2009). The experience factor in the cockpit is a major factor in several recent commuter crashes and has prompted the FAA to take a stronger look at the safety practices of these airlines.

While this example illustrates how the low-cost strategy can translate into low prices, it also reminds the customer that there can be a "high cost to low prices," an adage that author Charles Fishman (2006) made famous in his book on Wal-Mart. Fishman's critique of the big box was intense:

> Wal-Mart's brilliant, obsessive focus on a single core value—delivering low prices—created what became the largest and most powerful company in history. And yet the drive for low prices is also the cause of the troubling elements of the Wal-Mart effect: low wages, unrelenting pressure on suppliers, products cheap in quality as well as price, offshoring of jobs. (Fishman, 2006, p. 14)

We do not seek to debate Fishman's claims in detail. Instead, we point out that all strategies, including the low-cost strategy, carry with it certain crisis vulnerabilities. Companies that follow a given strategy can learn how to hedge against these crisis vulnerabilities accordingly.

One of the strategies associated with cost containment is to engage in global outsourcing. As Fishman (2006) notes, the suppliers to Wal-Mart, as well as to most of the big box discount stores, have also engaged in global outsourcing. Companies that utilize global outsourcing usually do so to take advantage of labor cost differentials between the home country, where company headquarters resides, and other nations with lower production costs. However, the potential for crisis is ever present. Consider the case of Mattel in the late 2000s. Following a string of defective toys imported from China, Mattel issued recalls for millions of Chinese-made toys, many of which contained small magnets or lead paint. Shortly after announcing one of the recalls, an owner of a Chinese toy factory involved in much of the production committed suicide at a factory warehouse (Casey et al., 2007).

China has been recognized largely for its ability to produce products at low costs (Buehlmann, Bumgardner, Lihra, & Frye, 2006). Quality has improved markedly over the past two decades, however, thanks to modernization in both equipment and production practice. Nevertheless, some quality concerns in toys, tires, and agricultural products remain. In the Mattel case, the company initially blamed faulty Chinese workmanship but later accepted responsibility for the problems and suggested that a design flaw was a contributing factor. Critics charged that Mattel's

excessive efforts to control costs placed children at risk. Although this might be an overstatement, it is clear that the cost control dimension of Mattel's competitive strategy created a breeding ground for this type of crisis.

Differentiation Strategies

Businesses that utilize differentiation strategies tend to be larger firms that are seeking to meet the demands of an entire industry. The key characteristic of a differentiator is its ability to produce products and services that can be readily distinguished from those of competitors (Parnell, 2013). As a result, differentiators, although cost conscious, place a greater emphasis on quality than those companies following low-cost strategies. Competing on the basis of cost and/or price is not as high a priority.

Businesses emphasizing differentiation may be more threatened by abrupt shifts in consumer tastes. When oil prices spiked in 2008, consumer preferences shifted away from sport utility vehicles (SUVs), large cars, and trucks to smaller, more fuel-efficient alternatives. Carmakers like Ford and GM developed and emphasized vehicles that were stylish and fun to drive, not necessarily fuel efficient. When the average price of gasoline hit $4 a gallon in the United States in 2008, they faced a strategic crisis. At the same time, venture capital began pouring into start-up firms around the world, racing to develop vehicles that consume less gas or utilize alternative, cleaner, and cheaper fuels (Stewart, 2008; Taylor, 2008).

When gasoline prices spiked to $4 a gallon again in 2012, carmakers had begun to develop plug-in hybrids and fully electric vehicles (EVs). With the introduction of new vehicles, however, a new array of crises can ensue. As mentioned in Chapter 1, the Chevy Volt has had problems with battery fires after accident testing, forcing GM to offer loaner cars to Chevy Volt owners while the company worked to fix the problem (Terlep, 2011). Differentiation implies going into new territories, and with that will come new crises as well.

Johnson & Johnson (J&J) has long been the example for excellent corporate social responsibility and crisis management savvy. Indeed, it could even be considered a differentiator in that it used its corporate credo as a basis for guiding the company through a difficult crisis in the 1980s. J&J responded effectively to product tampering crises in 1982 and 1986, creating a response standard against which other firms would be judged. However, J&J's stellar reputation for corporate responsibility was drawn into question in 2009 and 2010. On April 14, 2009, the company learned that some of the raw materials used to make children's and infant Tylenol formulas were tainted with *Burkholderia cepacia* bacteria. Although J&J denied using these materials, the company used other raw materials that were part of the same batch. Nonetheless, J&J continued shipping the medicines until June 4, the day that Food and Drug Administration (FDA) investigators cited the firm for violating good manufacturing practices. J&J did not launch a recall of the bottles until August 21 and did not make the recall public until September. J&J internal testing revealed no contamination, and the FDA linked no side effects to the products in question (Rockoff, 2010a).

In September 2010, U.S. officials charged J&J with failing to swiftly and adequately inform regulators about a nationwide withdrawal of the over-the-counter pain reliever, Motrin. Rather than issuing a product recall, J&J instigated a "phantom recall" by commissioning a contractor to secretly purchase all stocks of the product (Brewster, 2011). Federal Drug Administration deputy commissioner Joshua Sharfstein acknowledged that pharmaceutical companies have no legal obligation to inform the FDA when recalls are initiated, nor does the FDA have any legal authority to dictate the procedure utilized by the company. Nonetheless, J&J head Bill Weldon acknowledged that the company "let the public down" and "should have handled things differently" (Jack, 2010). In the end, the recall cost J&J an estimated hundreds of millions of dollars in lost sales alone (Rockoff, 2010b).

The first children's Tylenol products returned to the shelves in mid-November 2010, but J&J had to address a decline in consumer confidence, encroachment of rival brands, and cheaper private-label brands that had thrived during the recession. According to an annual survey administered by Brand Keys, consumer loyalty to Tylenol dropped 7 percent during the year. Perrigo, a leading manufacturer of store-brand nonprescription drugs, gained nearly 20 percent in market share during the crisis (Rockoff, 2010b). Clearly, the damage had been significant to J&J, which was once held in the highest esteem.

Focus–Low-Cost Strategies

A focus strategy literally "focuses" on a specific niche in an industry. The focus strategy can take a low-cost or differentiation direction. The focus–low-cost strategy seeks low overall costs while meeting the needs of consumers in a narrow segment of the market (Parnell, 2013). Businesses following a focus–low-cost strategy tend to be smaller than those adhering to a low-cost strategy. The reason is that more resources are needed by a company to successfully reach an entire industry; therefore, smaller companies are not equipped for such an endeavor. However, smaller companies can be successful operating in market niches.

Like the low-cost strategy, the focus–low-cost can also result in customer complaints on the quality of products and services. If there is a perception that the company is being "cheap," a backlash may result. Consider the case of Spirit Airlines, a budget carrier based in Miramar, Florida. This company operates in the ultra-low-cost niche of the airline industry. Specifically, the strategy involves the "unbundling" of services, which means options to the passenger are priced separately. The ticket is one price, carryon bags that go in the overhead bin are $45, water is $3, there are fees to change reservations, and so on (Nicas, 2012). However, despite the fact that their prices are lower compared to other carriers, passengers often feel nitpicked by the company for all of the hidden charges, a problem that has been voiced by many passengers via social media outlets.

In 2012, Spirit found itself in a crisis when it refused to refund a $197 ticket to a passenger with cancer. The incident received national attention on the Internet when his doctor told the passenger, Jerry Meekins, who has esophageal cancer, that he could not fly. Meekins had booked a ticket from St. Petersburg, Florida, to

Atlantic City, New Jersey, but had not bought insurance, thinking he would be able to make the flight (Watson, 2012). When the airline refused to refund the ticket, the story went viral and made the airline look like an unfeeling company pitted against the small consumer. A "Boycott Spirit Airlines" page appeared on Facebook with more than 21,000 "likes" (Miller, 2012). Public perception was not in favor of the airline and even resulted in two Atlantic County, New Jersey, assemblymen asking Spirit Airlines to change its refund policy (Watson, 2012). After considerable attention from the media, CEO Ben Baldanza reversed his decision and allowed the refund (Nicas, 2012). Still, damage had been done to the airline's reputation.

It should be noted, though, that the Spirit Airlines' refund policy is similar to that of other airlines. What made the Spirit Airlines case so noticeable stemmed from three factors. First, the victim was a veteran of the U.S. Marine Corps. A strict business decision to deny a refund to a member of the armed forces seemed anti-patriotic to many. Second, Spirit has had a high number of customer complaints in the past. Kate Hanni, the executive director of FlyersRights, commented on Spirit's approach to customer service: "They're the worst airline in the U.S. They put no money back into customer service, which is a black hole at Spirit. Spirit Airlines has a history of cruelty toward their passengers, but they continue to treat them like meat in a seat because their fares are so low they are confident people will continue to fly with them" (Miller, 2012).

Finally, Baldanza tried to justify his decision to not refund the ticket, maintaining that it would not be fair to the other passengers who fly with the airline. Public relations consultant and author Fraser Seitel commented that the airline could simply have transferred the ticket to Mr. Meekins's daughter, whom he was flying to see, a move that might have generated positive publicity for the airline (Miller, 2012). All three of these factors created a recipe for disaster and explain why the media and public for a public relations crisis targeted Spirit Airlines.

In terms of crisis management, Spirit Airlines may have more at risk than some of its rivals in the airline industry because the nature of a focus strategy implies that the company is relatively small and therefore has more at stake. As one *Wall Street Journal* writer stated, "Spirit is still small—carrying just one percent of the nation's fliers—and one public relations fiasco, such as a plane crash or lengthy labor strike, could damage its profitability and growth, according to industry analysts" (Nicas, 2012, p. A1).

Focus-Differentiation Strategy

Because companies pursuing a focus strategy tend to be relatively small, there is more at stake in terms of the overall risk to the firm when a crisis occurs. Put differently, larger companies such as Wal-Mart have more buffering power than do their smaller rivals to counter the jabs of a crisis. Hence, a major crisis can decimate a company following a focus strategy.

The Chalk's Ocean Airways case addressed in Chapter 4 illustrates how one major crisis can put a company out of business permanently. This company followed a focus-differentiation strategy in that it offered vintage seaplane flights

between the Bahamas and south Florida. The selective nature of its strategy made it vulnerable to a crisis, and when Flight 101 went down just minutes after takeoff, it ended the life of what was once the nation's oldest airline.

Odwalla is another company that follows the focus-differentiation strategy (see Chapter 3). In 1996, a nonpasteurized fruit juice it marketed caused the death of an infant and made dozens of people violently ill (Levick & Slack, 2011). Fortunately, the company overcame the crisis by offering an immediate apology and promised to fairly compensate all of the families affected. It also changed its juice processing to include flash pasteurization, a process that kills any bacteria that may be present in the juice. Even Bill Marler, the attorney representing the victims and their families, had good things to say about Odwalla: "If you look at what people remember (from the case), everyone remembers the positive stuff about what Odwalla did" (Levick & Slack, 2011, p. 15). Odwalla not only survived but has performed well since the crisis.

Crises can threaten restaurants operating in a market niche. Established in 1951, Bullock's Bar-B-Q is a popular eatery and the longest-operating restaurant in Durham, North Carolina. Famous patrons include Dolly Parton, Garth Brooks, Kris Kristofferson, and Joe Biden. On April 20, 2010, more than a dozen patrons reported ill effects later determined to be salmonella. Business declined 80 percent shortly after the outbreak. Sam Poley, Durham Convention and Visitors Bureau's marketing director and a former chef himself, recruited an overflow crowd of chefs and restaurant owners for lunch at Bullock's on May 7 to show their support. Steps can be taken to reduce the likelihood of salmonella poisoning, but it is virtually impossible to eliminate the possibility of an outbreak. As Poley put it, "Every chef knows, there but for the grace of God go I" (Wise, 2010).

After the investigation of the incident, the Durham County Health Department said the likely cause of the salmonella bacteria was a commercial product, pasteurized egg whites, and not improper food handling by employees. However, tests by the North Carolina Department of Agriculture and Consumer Services could not confirm that the egg product was contaminated with salmonella. According to several blog comments also related to the story, the people who were sickened were not eating at the restaurant but consumed the food as a takeout order ("Officials," 2010). In cases like this, the product might have been held at an improper temperature before it was consumed, thus creating an environment for bacteria growth. Restaurants that offer takeout options must consider this reality as one of their crisis vulnerabilities. The Bullocks example illustrates how a small niche-oriented business can be affected by a crisis outside of its control. Fortunately, Bullocks recovered and is doing well.

The case of Chi-Chi's restaurants did not have a happy ending. As mentioned in Chapter 3, Chi-Chi's suffered a major crisis when its Beaver Valley Mall location near Pittsburgh, Pennsylvania, was identified as the source of a hepatitis A outbreak. Chi-Chi's was a differentiator focused on Mexican food, a difficult niche to serve effectively (Lockyer, 2004). The crisis erupted rather innocently and was completely unnoticed. Employees were chopping green onions for the salsa, not knowing that the ice packed with the product had melted and soaked the onions

for hours. The ice, unfortunately, was laden with the hepatitis A virus (Veil, Liu, Erickson, & Sellnow, 2005). What resulted was the sickness of more than 660 people and three fatalities. This crisis, along with severe competition and bankruptcy, sealed the fate for the 27-year-old chain (Lockyer, 2004). Another focus-oriented business had become a victim of a crisis.

Combining Low-Cost and Differentiation Strategies

Porter suggested that combining low-cost and differentiation strategies is not advisable and leaves a business "stuck in the middle" because actions designed to support one strategy could work against the other. Indeed, differentiating a product can be costly, and doing so can erode a firm's basis for cost leadership. Moreover, some cost-cutting measures may be directly related to quality and/or other bases of differentiation. Following this logic, a business should choose *either* low-cost *or* differentiation, but not both. Although combining the two approaches can be challenging, some businesses do so successfully.

Consider two examples. McDonald's was originally known for consistency from store to store, friendly service, and cleanliness. These bases for differentiation catapulted McDonald's to market share leader, allowing the firm to negotiate for beef, potatoes, and other key materials at the lowest possible cost. JetBlue Airways was launched in 2000 to provide economical air service among a limited number of cities. JetBlue has minimized costs by such measures as squeezing more seats into its planes, selling its tickets directly to customers, and shortening ground delays. Although commonly thought of as a discount airline, JetBlue has also distinguished itself by providing new planes, satellite television on board, and leather seats (Parnell, 2013).

Businesses that pursue a combination strategy also share the crisis vulnerabilities associated with pursuing either low costs or differentiation. Put another way, companies like McDonald's and JetBlue are susceptible to crises associated with attempts to lower costs and provide distinctive service. Hence, the combination strategy is not only more difficult to execute from a strategic standpoint, but it can also place greater strains on crisis management.

Strategic Control

Just as strategic control is a part of the overall strategic management process, it should also be a tool in the crisis management process. The goal of strategic control is to determine the extent to which the organization's strategies are successful in attaining its goals and objectives. The strategy implementation process is tracked, and adjustments to the strategy are made as necessary (Picken & Dess, 1997). It is during the process of strategic control that gaps between the intended and realized strategies (i.e., what was planned and what really happened) are identified and addressed.

Overview

The process of strategic control can be likened to that of steering a vehicle. After the accelerator is pressed (executing the strategy), the control function ensures that everything (the organization) is moving in the right direction. When a simple steering adjustment (managerial decision) is not sufficient to modify the course of the vehicle, the driver can resort to other means, such as applying the brake or shifting gears (other managerial decisions). In a similar manner, strategic managers can steer the organization by instituting minor modifications to prevent crises or resort to more drastic changes in response to an ongoing crisis, such as altering the strategic direction altogether (Parnell, 2013).

The need for strategic control is brought about by two key factors. First, there is a need to know how well the firm is performing. Without strategic control, there are no clear benchmarks and ultimately no reliable measurements that indicate how the company is doing. A second key factor supporting the need for strategic control is uncertainty. Because managers are not always able to forecast the future accurately, strategic control highlights when environmental uncertainties have upset the performance of the organization. For example, one of the authors of this book found himself in a crisis when a major weather event shut down the facility he was managing. The result was a significant loss of revenue for about a week. The strategic control system in place was able to identify the financial extent of the crisis and its impact on the firm. Although a loss of revenue was recorded, the control mechanism was able to show that the poor performance was not the fault of the manager, but the weather.

The extent of that crisis was easily measured by comparing the results to those of the previous year's revenues for the same time period. Because the manager was being held accountable for sales and profits based on a projected budget, provisions were made not to penalize him because of the inclement weather. Indeed, in some environments managers are told to "suck it up" and work that much harder so that the *original* forecast can be reached. This practice is not reasonable and penalizes managers for forces beyond their control. In fact, it ignores the important role that strategic control can add to understanding the situation better.

The Strategic Control Process

The strategic control process generally follows five steps (Parnell, 2013):

1. Top management determines the focus of strategic control by identifying the internal factors that can serve as effective measures for the success or failure of the chosen strategy. In addition, the external factors that could trigger responses from the organization are identified.

2. Benchmarks are established for the internal factors with which the performance of the organization can be compared after the strategy is implemented.

3. Management measures and evaluates the company's performance, both quantitatively and qualitatively.
4. Performance evaluations are compared with the previously established standards.
5. If performance meets or exceeds the standards, corrective action is usually not necessary. If performance falls below the standard, then management typically takes remedial action.

Step 1: Identify Factors to Track

First, strategic control encompasses external and internal dimensions. Although individual firms usually exert little or no influence over the external and industry forces (see Chapters 2 and 3), they must be continuously monitored because their shifts can have strategic ramifications. Specifically, strategic control consists of modifying the company's operations so it can be defended more effectively against external threats that may arise or become known before a crisis emerges. Recall the six broad trends in the crisis management landscape identified in Chapter 2:

1. Crises have become more transboundary in nature.
2. Terrorism remains an ongoing threat.
3. Social media and the Internet intensify the effects of a crisis.
4. Human-induced missteps are at the core of the majority of crises.
5. Environmental damage and sustainability of resources cause crises to have a global impact.
6. Globalization increases the risk of organizational and societal crises.

A major shift in one or more of these factors can alter the strategy of the firm and, therefore, its crisis management preparedness. In Chapter 3 we reviewed the concept of the PEST analysis, a tool in the strategic management toolkit that looks at the political, economic, social, and technology trends in the macroenvironment. Understanding these external factors is necessary in devising a firm's corporate and business strategies.

Step 2: Develop Standards or Benchmarks for the Factors

Top management must identify factors that serve as surrogates of company performance. These indicators often include factors related to revenue, expenses, and profitability, but may also include machine breakdowns (if applicable), quality scores, and indicators involving employee well-being such as accident rates, tardiness, absenteeism, number of sick days taken, and workplace injuries. Predesignated goals or benchmarking against other companies should be established for each of these items. Assessing these performance indicators can help identify early warning signs that a crisis may be looming.

Step 3: Measure Performance Both Quantitatively and Qualitatively

Firm performance may be evaluated in a number of ways. Management can compare current operating results with those from the preceding quarter or year. A key problem with performance measurement is that one measure can be pursued to the detriment of another. The common goals of growth and profitability versus safety concerns come to mind. Many crises in organizations are caused by accidents due to poor training and faulty equipment. Expenditures in these areas decrease short-term profits, yet a single accident can severely hurt the long-term viability of the firm or even close it down.

A number of companies have begun using a *balanced scorecard* approach to measuring performance; measurement is not based solely on traditional quantitative factors but on an array of quantitative and qualitative factors, such as return on assets, market share, customer loyalty and satisfaction, speed, and innovation (Kaplan & Norton, 1996, 2000). A weight and specific means of measurement is assigned to each indicator. For example, customer satisfaction may receive a weight of 10 percent and may be determined by the average score in a survey. The key to employing a balanced scorecard is selecting a combination of performance indicators and measures tailored specifically to the firm and its strategic position. Including indicators that can predict potential crises, such as level of customer satisfaction, accident rates, or product quality measures, should be considered. A list of possible indicators is presented in Table 6.2.

Table 6.2 Balanced Scorecard Indicators and Potential Crises

Indicator to Include on the Balanced Scorecard	***Potential Crises That It Represents***
Number of accidents in a work section or unit	Accident and safety issues; potential employee lawsuits
Absenteeism by employee in a work section or unit	Motivational problems; substance abuse; abusive supervision
Number of grievances (union setting) or employee complaints in a non-union work environment	Morale problems; abusive supervision; potential for workplace violence
Employee satisfaction survey	Problems with morale, supervision
Machine or work section downtime	Major production interruption due to accidents, fire, or major machine breakdown
Percentage of defective products	Potential for recalls; negative publicity
Negative media reports on the Internet and social media outlets	Adverse publicity; consumer boycotts
Customer complaints	Negative media attention; future loss of revenue
Returned or defective product rates	Negative media attention; injured customers

Step 4: Compare Measurements With Predesignated Goals or Benchmarks

The process of comparing results with predesignated goals or benchmarks can help identify an impending crisis. For example, a common item to monitor in industrial settings is the presence of dust. Under some conditions, dust can cause an explosion that can level a building. West Pharmaceuticals in Kinston, North Carolina, experienced a dust-related blast that killed six people and injured many others in 2003. The irony of this explosion was that the company had a regular cleanup program for dust in the processing area. However, a suspended ceiling installed several years before had accumulated a large amount of dust that lay out of sight of the regular cleanup. It was this dust that fueled the fatal explosion (Dawson, 2003).

Because of the threat of dust explosions, industrial and pharmaceutical companies are continually aware of the dangers that can occur. Hence, dust levels are regularly monitored to ensure an explosion does not occur. At chemical plants, temperature and pressure are continually monitored against established norms. An increase in temperature can cause a gas to expand, ultimately increasing the pressure of that gas in its holding tank. Hence, a pressure gauge on a tank holding a lethal chemical is a mechanism for control. When the gauge indicates that the pressure is above the normal range, the operator must make a decision on how to prevent the release of the chemical that is contained in the tank. Several options are available: the temperature of the tank can be lowered, or the chemical can be moved to another tank.

In a well-maintained chemical plant, control mechanisms such as pressure and temperature indicators can signal employees to take measures so the release of the dangerous chemical does not occur. Suppose that the same scenario exists, except that the temperature of the chemical starts to rise and there is no way to move it or alter the temperature of the tank. After a period of time, the tank pressure release valve opens and the dangerous chemical spews into the atmosphere as a lethal gas. At this point, strategic control enters a more acute phase during which the factory must now contain the leak, protect the employees, and warn members of the community that a gas leak has occurred. Unfortunately, the scenario just described is exactly what happened at the Union Carbide plant in Bhopal, India, when methyl isocyanate spewed out of its holding tank after reaching a pressure that the tank could not contain. This incident, discussed in Chapter 3, is an example of control mechanisms that had gone awry. It remains the worst industrial accident on record (Carroll, & Buchholtz, 2012).

While certain industrial measures must be made to help prevent accidents, it is also important that financial controls be measured and taken seriously so that managerial fraud can be prevented. Tyco offers one of the most vivid examples of managerial fraud by a CEO. Although the company had controls in place, they did not stop the theft of $600 million from within the company in 2002. Tyco CEO Dennis Kozlowski abused his power, and managerial controls failed to stop his "spider spinning a web of deceit" (Coombs, 2006, p. 56) in the following areas:

- Kozlowski hid transactions from the board of directors, but then told lower-level managers that the board had approved those same actions.

- He gave a $1 million party for his wife. The party was held in Sardinia and featured an ice sculpture of David (the statue) urinating high-priced vodka. The party was charged to Tyco.
- He misused the Tyco compensation program by exploiting relocation, bonuses, and automobile expenses. (Coombs, 2006)

It is not enough just to have controls. Controls must be taken seriously, as this now infamous case illustrates.

Step 5: Take Corrective Action

Strategic control emphasizes continuous improvement whereby managers seek to improve the long-term efficiency and effectiveness of the organization. In other words, control is not viewed as an action necessary only when a firm is in crisis. Rather, managers should think critically when considering what strategic controls to enact and look for opportunities to enhance performance even when operations seem to be going well. In this regard, crisis management can be viewed as an outgrowth of strategic control. In Chapter 9 we discuss an outgrowth of this type of strategic control: organizational learning.

The notion of strategic control highlights the link between a firm's strategy and the subsequent crisis events that may occur. When a crisis occurs, the top management team should not only address the situation but should consider strategic changes that may lessen the likelihood or severity of similar crises in the future. Hence, the public relations dimension is important when a crisis occurs, but a serious look at the appropriateness of existing strategies is also in order (Guiner, 2008).

Identifying crisis events in the early stages is not always easy. Acknowledging the sales declines brought about by a product boycott is not difficult to realize, but sensing the early warning signals so that action can be taken to mitigate their effects can be. Some warning signs are universal, such as product return rates. Others are more organization specific, such as absenteeism levels and number of grievances.

Exercising strategic control requires that performance be measured, compared with previously established standards, and followed by corrective action, if necessary. Not meeting a performance indicator is often an early warning sign that a potential crisis may exist. Generally speaking, corrective action should be taken at all levels if performance is less than the standard unless extraordinary causes of the discrepancy can be identified, such as a halt in production when a fire shuts down a critical supplier. Whenever possible, it is desirable for managers to anticipate possible corrective measures *before* a strategy is implemented. Doing so lowers the likelihood that threats and problems turn into crises.

Summary

A strategy is a top management plan to develop and sustain competitive advantage so that the organization's mission is fulfilled. Organizational crises can be related to a firm's strategy. The corporate strategy of the firm seeks to define the industries

in which the company should compete and the growth trajectory that should be pursued. The decisions the organization makes in these areas will influence the types of crises it may face in the future.

The business strategy defines how the firm will operate given its chosen industry. The generic strategy framework is a useful starting point for crafting a competitive strategy. Low-cost, differentiation, and focus strategies carry embody unique crisis vulnerabilities.

The strategic control process is necessary to signal when a crisis may be eminent. By design, controls communicate to management when something is wrong. However, management must be willing to take controls seriously and abide by the rules of control parameters. This chapter illustrates how failure to abide by controls can lead to industrial accidents and management fraud.

Questions for Discussion

1. What crisis vulnerabilities exist when a company competes in:
   - A single industry?
   - Multiple, but related industries?
   - Multiple, and unrelated industries?
2. What types of crises can occur when a company is following a growth strategy?
3. What relationships exist between retrenchments strategies and crises?
4. What types of crises might a company encounter when it is following:
   - A low-cost strategy?
   - A differentiation strategy?
   - A focus-low-cost strategy?
   - A focus-differentiation strategy?
5. What are some examples of when controls failed in an organization and a crisis erupted?
6. What would a balanced scorecard look like where you work?

Chapter Exercise

The low-cost strategy has linkages to crisis vulnerabilities that have been widely publicized in the media. Several examples were given in this chapter on how a low-cost strategy can create its own set of crises. In this exercise, form teams of three to four students and propose a balanced scorecard for a company following a low-cost strategy.

To begin, select one of the following companies:

- Wal-Mart
- Spirit Airlines
- Motel 6
- IKEA
- Aldi
- Nucor Steel

Each of these companies follows a predominantly low-cost strategy. Conduct an Internet search and determine the types of crises these companies have faced in the past. Check YouTube and other social media outlets as part of your effort.

From your research, prepare a balanced scorecard for your company. In addition, list the types of crises the company might face. Use the example of the balanced scorecard found in this chapter as a guide for the one you develop.

Opening Case, Part 2: The BP Gulf of Mexico Oil Spill

Shortly before 10:00 P.M. on April 20, 2010, a series of unusual events took place aboard the *Deepwater Horizon*. The lights started to glow so brightly that some of them burst. The generators were speeding up their revolutions, giving the rig a strange humming sound. Computer monitors began to shatter and the gas alarms were buzzing. Something was amiss. A dangerous gas cloud had surrounded the rig, followed by a series of explosions and a violent shaking of the rig. It lost power, an intense fire soon developed, and orders were given to abandon the ship. After years of successful drilling service, the *Deepwater Horizon* had encountered a fatal crisis. Only a few months before, the *Horizon* had set a new world record, drilling down 35,000 feet to another BP well in the Gulf (Cook, 2010). Now it was about to be completely destroyed.

Abandoning the Ship

According to *Transocean Investigation Report* (2011), there were 126 people onboard the rig. These included the *Deepwater Horizon* crew (employed by Transocean), the BP well site team, employees from other contractors, and visitors from both Transocean and BP, who ironically, were there to celebrate the rig's safety record. Some of the crew proceeded to the lifeboats as instructed. Others had to jump 100 feet to the waters below. Eleven workers probably died immediately or soon after the explosion and fire began.

The *Deepwater Horizon* had a prearranged plan in place for the crew to exit the vessel in the event of an accident. As is with most sea vessels, in the event of an emergency, the crew is to meet in designated areas (called "muster stations") so that their exit can be arranged. On the night of the explosion, the crew proceeded to their muster stations, at least as best they could. Some muster stations such as the galley and the movie room had been damaged in the explosion. Upon learning

this, orders were given for those affected to arrive at the lifeboat stations instead (*Transocean Investigation Report,* 2011).

The *Deepwater Horizon* was equipped with four lifeboats, each capable of holding 73 people. In addition, there were six self-inflating rafts that could accommodate 25 people each. With this capacity, the rig was well equipped to evacuate everyone, even if some of the lifeboats and rafts were damaged. In fact, on the night of the accident, only two lifeboats and one raft were utilized (*Transocean Investigation Report,* 2011). The other two lifeboats were not accessible because of the fire. According to the Transocean Report, four people jumped before the lifeboats were launched, 100 abandoned the vessel using two of the lifeboats, seven exited on one inflatable raft, and four jumped after the raft was launched. After the crew abandoned the *Deepwater Horizon,* they proceeded to a nearby ship, the *Damon B. Bankston,* a supply vessel that assists the rig. Once onboard, 17 of the survivors were airlifted to nearby hospitals for treatment.

The Fire

The resulting fire burned intensely for 36 hours. Feeding the fire was a column of oil and hydrocarbons rising from the well, past the BOP and into the riser. From there the volatile mixture made its way to the rig, where it fueled an intense fire that could not be extinguished with conventional water streams. In fact, the only way to stop the fire was to find a way to disconnect the fuel source. Locating it was not difficult, but finding a way to stop the flow would prove impossible. The BOP was the mechanism in place that was supposed to be the last resort of safety. When all else fails, the BOP is designed to cut off the flow of oil and gas by severing the pipe casing using a mechanism called a "blind sheer ram." This piece works by cutting through the metal pipe and sealing it shut (Schneider, 2011). However, the BOP had failed.

While the fire burned, relief ships nearby directed streams of water on the rig to try to cool the vessel and extinguish the blaze. Efforts to shut down the fuel source never materialized. After 36 hours of burning, the *Deepwater Horizon* slowly began to list to one side and then slid into the sea. The Gulf of Mexico had extinguished the blaze. But the Gulf was not spared from what was to happen next. As the rig sank, another new crisis unfolded: crude oil began gushing into the Gulf and would continue for some 87 days.

What Went Wrong?

What had malfunctioned to cause the conflagration? It appeared that a dangerous hydrocarbon gas had permeated the area around the rig. This gas then encountered an ignition source, causing the explosion. Because oil was also feeding up through the riser, the fire had a continuous fuel source. But why did the gases escape? The suspect points in the investigations that followed would focus on the BOP and the integrity of the cementing process on the well casing. Had mistakes

been made in the sealing of the well? Had safety issues been compromised? During the investigations that followed, each of the three major companies involved in the disaster blamed the other. In Chapter 7, we examine this blame game in more detail.

Opening Case Part 2 Discussion Questions

1. Describe a time when a major appliance at home or a piece of machinery at work malfunctioned. What warning signs occurred before the machine ceased to work properly? Was it because a faulty repair had been completed earlier or was it simply because of the age of the machinery?
2. If you have taken a cruise on a ship, describe the training you received on how to find your muster station and what you needed to know in case of an emergency.
3. Describe a time when you had to exit a building, a ship, or some other structure, either for a drill or because of an actual emergency. Was the exit well planned on the part of the authorities? Was there anything that could have been done differently?

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