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Crisis Management: A Critical Tool for Public Trust

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In 1987, Chrysler faced a federal indictment for disconnecting the odometers on cars that were driven by certain executives then reattaching the odometer and selling the car as new. When the story hit newsstands, the public was outraged. Although Chrysler maintained that the practice was standard in the industry and not illegal, Lee Iacocca, then-chairman of Chrysler's board, held a press conference and acknowledged the allegations were true, apologized for the incident and promised it would never happen again.

Although Chrysler would eventually settle the lawsuit for $26 million, Iacocca's response successfully changed the public's perception. Before Iacocca's press conference, a Chrysler survey found that more than half of those who had heard about the odometer tampering "thought it was a serious problem." Following the mea culpa, a survey conducted by a third party found that 67% of those who were aware of Iacocca's response thought it was "sufficient to repair the damage done to Chrysler," and only 18% thought "Chrysler had not gone far enough."

The declaration stopped a mounting public backlash and put the negative story to rest. Although Chrysler continued to be in the headlines after Iacocca's press conference, the tenor of the news stories was remarkably positive.

In contrast, in the early 1980s, E.F. Hutton was investigated for its role in a check-kiting scheme in which it wrote checks on bank accounts that did not have sufficient balances to cover the check, depositing the amount necessary to avoid bouncing the check days later. It was, in effect, obtaining an interest-free loan. When the scheme was made public in 1984, management denied there was a problem, dragged its feet in response to investigation inquiries and hired a top-notch defense attorney.

Although editorials at the time postulated the scheme itself was not that serious (what was wrong with playing the float on a bank?), the company's arrogant approach to the allegations angered politicians and created a negative public perception. The unapologetic nature of the company's response continued even after an internal, "smoking gun" memo was uncovered. The standoffish approach proved to be insurmountable despite a number of reputation-saving actions taken later, including the engagement of an independent investigator and a shake-up of management. Although its stock price was not immediately damaged by the scandal, over time, Hutton's clients moved elsewhere. In 1987, Hutton was forced to sell to Shearson Lehman Brothers. The aftermath of the check-kiting scheme led to the demise of a company that had been in business since 1904. "When E.F. Hutton speaks..." was one of the best-known advertisements in the United States during its heyday.

In both instances, individuals within the company participated in intentional acts of dishonesty that resulted in significant fines for the companies. And yet the effects on the companies after the schemes were publicly disclosed were very different. The public lost trust in both companies based on their respective incidents, but Hutton's response further eroded the public trust, while Chrysler's response laid the foundation for it to be rebuilt.

What is Corporate Crisis?

Merriam-Webster defines crisis as "an unstable or critical time or state of affairs in which a decisive change is pending." A corporate crisis is often the result of a public accusation that the corporation has violated the social norms of corporate behavior, and the hallmark of a corporate crisis is the emergence of public hostility toward the company. Although the tangible fallout comes in the form of lawsuits, prosecutions and hearings before elected officials, the deeper and more dangerous peril is the loss of public trust that leads to lost customers and business. Indeed, E.F. Hutton's demise was ultimately due to loss of client confidence.

Historically, corporate crises have come from two broad categories: incompetent acts and intentional acts. But increasingly, and with the help of social media, crises have emanated from acts that are arguably benign or from accusations that are false.

For example, the allegations that first surfaced against Toyota in late 2009 that its vehicles spontaneously accelerated have largely been proven false. But in the beginning of 2010, Toyota was fully embroiled in a public relations crisis as a result of these claims. The Toyota crisis, like most recent crises, grew exponentially as a result of the changing delivery of news.

Until recently, information was disseminated in a rigid fashion. Each day, there were two news cycles: morning and evening. Corporations responding to crisis had a window in which to act: no additional reputation-harming news would hit the press until a prescribed time. But now, as social media continues to accelerate what was already a 24-hour news cycle, information can be instantly disseminated across the globe.

The media is no longer the exclusive source for news: bloggers, activists and other stakeholders have taken to social media as a way to air legitimate concerns as well as other, sometimes frivolous grievances. The media, anxious to maintain ratings, have altered their presentation of facts as well. In an age when the public is increasingly skeptical of big business, corporate malfeasance is a headline-grabbing story. In an attempt to be first to press, reports by legitimate news media are often based on allegations that originated in social media.

With Toyota and its acceleration allegations, the media locked in on Toyota's problems and publicized every issue that arose. The fact that the stories crossed international boundaries compounded Toyota's issues. Whereas before the information age stories were often isolated to a single nation, news has become a global endeavor.

The publicity in the United States spanned continents. Toyota was forced to issue global recalls for more than eight million vehicles to address the situation and its reputation was tarnished globally.

Regaining the Public Trust

A crisis is a defining moment for a company. Although no organization wishes for such an event, a crisis provides a unique opportunity for a company to demonstrate its values and prove that it is worthy of the public's trust.

The textbook example of great crisis management remains Johnson & Johnson's response to the Tylenol tampering incident in the fall of 1982. Seven people on Chicago's West Side died after ingesting Extra-Strength Tylenol capsules laced with cyanide. Johnson & Johnson's reaction was to put customer safety first, even though that appeared to put the company's bottom line a distant second.

Although the incident occurred during a simpler time, the fundamentals of the company's response are still applicable today. The company assembled a seven-member response team that looked to the company credo for guidance when responding the crisis, first determining how the company could protect the public and then determining how the company could save the product.

The result was a two-phase response: the crisis management portion and a brand rebuilding effort. Johnson & Johnson's chairman, James E. Burke, was front and center in expressing his company's concern -- something that had been rarely seen previously. His immediate plea instructed customers nationwide to not consume any Tylenol product until the extent of the tampering could be determined. The company ceased all advertising of Tylenol and stopped production of the product. The company recalled Tylenol capsules from the Chicago area, then after the discovery of additional tainted capsules, issued a nationwide recall, which encompassed an estimated 31 million bottles of Tylenol. To compensate those customers that had previously purchased Tylenol capsules, the company offered to exchange bottles of Tylenol capsules for Tylenol tablets.

Although these actions were important, Johnson & Johnson's close contact with the media, which kept the public fully informed of the company's response, was even more critical. Without honest, open communication, it is unlikely that the Tylenol product would have been able to survive such a blow.

When the crisis was over, Johnson & Johnson started the second phase. Soon after news of the Tylenol tampering crisis broke, one advertising executive had quipped in the first days following the crisis, "I don't think they can ever sell another product under that name." But the foundation laid by the effective crisis management provided the opportunity for the product to return to the market. By late December 1982, a New York Times article reported that Tylenol had reclaimed 67% percent of its pre-crisis pain reliever market share. By the end of December, Tylenol held a 24% market share for pain relievers, only 12% less than it held prior to the crisis.

Crisis Management Starts with Crisis Prevention

While people often think of crisis management as the actions taken by a company after an incident, in reality, it all starts with prevention. The most effective crisis management plan identifies and addresses a problem before it escalates out of control. Although it is difficult to pinpoint events that have never occurred at a company, similar situations have likely happened at other companies.

In this day and age of great scrutiny, companies must set high expectations of safety and compliance for all employees. Reports of potential issues cannot be ignored. One of the biggest black eyes for Toyota during its acceleration crisis was the fact that the floor mat issue, which Toyota initially suggested could be causing the accelerator to stick, had reportedly surfaced internally months earlier. Toyota had done nothing to address it. When employees sense that reported issues are not taken seriously, the company creates a culture where potential crisis-causing issues go unreported.

An effective compliance program is critical for establishing and maintaining a vigilant corporate culture. The development of formalized compliance programs stems from the fundamental recognition that corporations, like people, are expected to operate within accepted bounds of behavior. A well-designed compliance program should enable a company to uncover intentional and incompetent acts before a crisis occurs.

Indeed, the internal investigator hired by E.F. Hutton concluded, among other things, that the chief financial officer "failed to install the internal controls that would have spotted the abuses." While the make-up of a compliance system varies by company, the existence of such a system and the internal controls to assure its effectiveness cannot be optional. Without an effective compliance system, including a culture of accountability and strong controls, to curb the results of the inevitable human fallibility that every organization faces, a company will have a crisis -- it is just a matter of time.

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