Familiar names. Each evokes mental images of embarrassment, destruction, pain, suffering and even death. All of these organizations, areas or people experienced major crises in which most of the world participated as virtual witnesses and which changed the individual, organization or area. Each of the crises began as a problem. In some cases (i.e., Enron, Arthur Anderson, New Orleans levees) the problem was ignored until something went wrong or people outside the organization said “enough” (i.e., Merrill Lynch).

In other cases (i.e., WorldCom, Sanford, Blagojevich), the nature, scope and/or severity generated intense customer, community, government, investor or media interest. In all cases, the problem escaped the organization and the people hired to identify, anticipate, eliminate and manage problems.

Crises have been described in various ways in crisis communication and management articles and books. While the words describing the event may differ, some features remain relatively constant. A crisis:

- Appears suddenly.
- Escalates in intensity.
- Demands quick reaction—to resolve and to communicate.
- Disrupts an organization’s routine and performance.
- Creates uncertainty, anxiety, and stress within and outside the organization.
- Threatens the organization’s reputation.
- Challenges the organization’s human, physical and financial resources.
- Focuses the media and other outside audiences on the organization.
- Increases government and regulatory interest in the organization.
- Alters the organization permanently.
Every organization suffers problems daily: labor grievances; customer complaints about products or services; employee-to-employee relationships; equipment breakdowns; service disruptions; and even minor explosions, fires and toxic spills. Trained employees and skilled managers handle these problems efficiently and effectively. People outside the organization (sometimes even inside in large, multi-site organizations) may learn about the event after its occurrence in a story emphasizing the quality manner in which the problem was resolved. Media may report on the event, but it’s over. Government may investigate, but it’s over. A problem becomes a crisis when it escapes the organization before employees and managers can control it. Based on that premise, this manual defines a crisis as…

… a significant disruption of an organization’s normal activities that interferes with its ability to conduct its business (make widgets, provide a service, etc.), impacts its bottom line, and stimulates extensive media coverage and public scrutiny.

Tragedy heightens human interest. Once the problem becomes a crisis, people within the organization are compelled to respond to outside stakeholders who are important to the organization. Those stakeholders want to know what is going on because each feels a sense of shock, anger, surprise, empathy, suspicion, or sympathy for the people or organizations affected by the event.

Remember what you did the morning the World Trade Center was attacked, or the day the tsunami devastated communities surrounding the Indian Ocean. Billions of people across the globe remained riveted to their TVs and computer screens, disbelieving as they watched the World Trade Center collapse or as they viewed the loss of entire villages in southeast Asia. The images intensified the emotion of the human tragedy. For those a bit older, do you remember where you were when the Challenger space shuttle exploded or when Sadat was assassinated or when President Kennedy and his assassin Lee Harvey Oswald were killed—right before our eyes?

Tragedy offers advantage to some. People within an organization in crisis are compelled to respond to outside stakeholders, some of whom seek to take advantage of the crisis. Competitors, attorneys, government regulators, politicians, activist groups or disgruntled employees may view the crisis as an opportunity to gain an advantage at the organization’s expense. Think back to attorneys soliciting clients before the emergency teams had secured the Murrah Federal Building in Oklahoma City. Think back to a governor and gun control advocates calling for stricter regulations and punishments within hours of the Wakefield, Massachusetts, and Port Arthur, Australia, shootings. Think back to the class action lawsuits following discrimination and harassment incidents at Mitsubishi or Coca-Cola.

Compelled to react, the organization becomes defensive and diverts human and fiscal resources away from its core business in order to respond to the actions of outside agents. The organization has lost control of the crisis and how the story of that crisis will be told to its important constituents. When reactive and defensive, an organization cannot be strategic. But by anticipating possible emergencies, and developing options for responding to those emergencies—by planning for a crisis—an organiza-
When a Problem Becomes a Crisis

A sudden crisis may be described as a disruption in the organization's normal routine and occurs with little or no warning, generating extensive news coverage and public scrutiny. An organization may foresee a sudden crisis occurring but it doesn't know when it will happen. Accidents and storms are two kinds of sudden crises. Other examples of sudden crises include:

- A business-related accident resulting in significant property damage: a fire, explosion or injury; illness or death of employees, customers, vendors, visitors, etc.; food poisoning; and collapse of structures or structural supports.
- The sudden death or incapacitation of a key executive, such as a travel accident, heart attack or massive stroke.
- Discharge of hazardous chemicals or other toxic materials into the environment (spills into rivers, streams, lakes, sewers or air).
- An accident or error causing prolonged disruption of land-line or wireless communication or computer or other necessary services, such as a truck colliding with a utility pole, a backhoe severing an underground cable, a crippling computer virus attack, or a bridge collapse (see Appendix B, Western Cape case study).
- A natural disaster that disrupts operations or endangers employees, e.g.: tornadoes; major thunder, ice or snow storms; and floods, hurricanes or tsunamis (see Appendix B, Northrup Grumman Hurricane Katrina case study).
- Workplace violence—against employees, supervisors, clients, customers, patients or other innocents (see Chapter 5: Edgewater Technology Case Study).
- An unexpected union job action or activist demonstration, which can result in a spontaneous slowdown of work, or an unannounced boycott of a product or company.
- An unexpected collapse of financial markets, such as the sudden and prolonged closure of a major stock exchange, a bank closure, etc.
The sudden crisis captures headlines and generates video footage with dramatic pictures in the major media and via the Internet. Flames rising hundreds of feet into the night sky, neighborhoods obliterated by storm winds, a killer stalking across campus, and the yellow tape around a crime scene capture the eye. Typically, people imagine sudden crises whenever crisis communication and management are discussed. In fact, smoldering crises are far more prevalent.

**SMOLDERING CRISIS** / A smoldering crisis may be described as a condition that is potentially damaging and of which someone in the organization has knowledge, or should, *but does nothing*. Smoldering crises start out small and often, but not always, internally. Someone in the organization should spot the problem, recognize its potential and take steps to fix it. But all too often, no one pays attention or recognizes the potential for future trouble.

The condition smolders like an ember in the fireplace until some change in the condition brings the ember to flame. Sexual harassment suggests many examples. A married executive and a married employee are having a consensual affair. Then something changes the relationship, perhaps the re-affirmation of the manager’s love for her spouse, bringing the affair to an end. The slighted employee blows the whistle on the executive, charging harassment. Co-workers report that they knew about the affair but said nothing, did nothing.

Examples of smoldering crises include:

- Violations of local, state, or federal regulations or business practices prescribed by the organization (see Appendix B, Parmalat case study).
- Undercover investigations by news media or law enforcement agencies (see Appendix B, Crayon Asbestos case study).
- Customer allegations of overcharging, illegal payments, faulty products or poor service.
- Personnel abuse or discrimination.
- Unresolved union grievances or an impasse at the bargaining table.
- Antagonism between the organization and one or more activist groups.
- A weakened financial situation, exposing the organization to takeover or bankruptcy.
- Poorly designed manufacturing or assembling processes that endanger employees, visitors, customers, vendors or neighbors.
- Unperformed but necessary maintenance on buildings or infrastructure.

An example of a classic smoldering crisis occurred when Firestone Tire & Rubber Company and Ford quality control engineers ignored growing evidence that Firestone ATX tires were flawed and failing, resulting in injuries and deaths. There were reports as early as 1993 that the ATX tire had a problem,
but it was not until early 2000 that a whistle blower called KHOU TV and tipped them off.

Some crises can be placed in either category, depending on the amount of advance notice and the time taken for a crisis to emerge (see Table 1.1).

**TABLE 1.1: SUDDEN OR SMOLDERING CRISES**

<table>
<thead>
<tr>
<th>Adverse government actions</th>
<th>Computer tampering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anonymous allegations</td>
<td>Damaging rumors</td>
</tr>
<tr>
<td>Competitive misinformation</td>
<td>Accusations of discrimination</td>
</tr>
<tr>
<td>Disclosure of confidential information</td>
<td>Equipment, product or service sabotage</td>
</tr>
<tr>
<td>Misuse of chemicals</td>
<td>Industrial sabotage</td>
</tr>
<tr>
<td>Threats by disgruntled employees</td>
<td>Investigative reporter activity</td>
</tr>
<tr>
<td>Serious injury or death of an employee</td>
<td>Judicial action against the organization</td>
</tr>
<tr>
<td>Licensing disputes with partners</td>
<td>A scandal involving an employee</td>
</tr>
<tr>
<td>Deep-seated labor problems</td>
<td>A highly-publicized lawsuit</td>
</tr>
<tr>
<td>Extortion threat</td>
<td>A security leak or security problem</td>
</tr>
<tr>
<td>False accusations</td>
<td>Severe weather</td>
</tr>
<tr>
<td>Incorrect installation of equipment</td>
<td>Sexual harassment allegation</td>
</tr>
<tr>
<td>Indictment against the company</td>
<td>Activist boycott or other demonstration</td>
</tr>
<tr>
<td>Consumer boycott</td>
<td>Strike or other work stoppage</td>
</tr>
<tr>
<td>Illegal actions by an employee</td>
<td>Terrorist threat or act</td>
</tr>
<tr>
<td>Indictment of an employee</td>
<td>Unethical behavior of an employee</td>
</tr>
<tr>
<td>Major equipment malfunction</td>
<td>Union organizing efforts</td>
</tr>
<tr>
<td>Neighbor protest</td>
<td>Whistle-blowing</td>
</tr>
</tbody>
</table>

Research by the Institute for Crisis Management (ICM) into business crisis events indicates that most crises also generate aftershocks, which become crises themselves. For example, lawsuits against pharmaceutical giant Eli Lilly following violent acts committed by people taking Prozac; federal indictments of Exxon following the Valdez spill; and gun control legislation following the Columbine High School and Port Arthur, Australia shootings.

Imagine this scenario: There's a flash fire and an explosion in the plant. One person is killed and three hospitalized. The next day, one of the injured dies in the hospital. That's an aftershock that brings the story back to the top of the front page and lead of the nightly TV news. A few days later, the first lawsuit is filed—another aftershock. Then, a whistle blower calls a reporter and tells her *why* there was an explosion—another aftershock.
OTHER TYPES OF CRISSES: PERCEPTUAL AND BIZARRE / Two other types of crises should be mentioned.

Perceptual crises are those in which there is no problem, or a relatively insignificant problem, but people think otherwise. The Intel Pentium Chip crisis in 1994 is an example of a perceptual problem. Intel’s highly touted and long-awaited new computer chip had a minor flaw in a coprocessor that delivered a feature that only the most sophisticated mathematicians would use. However, a message on the Internet alerted the media and the public. The result of the embarrassing publicity was that Intel spent approximately US$450 million to replace the faulty chips. Dow Corning’s silicone breast implants led to international adverse publicity, a US$4.5 billion allocation to settle complaints, and turnover of chief executives, although no evidence then or now supports the allegations that the implants cause immune system failures or other diseases.

Bizarre crises are those so extreme that the event is almost unbelievable. The infamous “finger in the Wendy’s chili” incident is one example. A Las Vegas couple paid a friend US$50 for his finger after he severed it in an accident. They put the finger in a plastic bag and took it to California. The man’s wife ordered a bowl of soup at a Wendy’s restaurant, then pretended to find the finger in her bowl with the intent of collecting a big settlement from the fast food chain. Another example is the decapitation of a student while “elevator surfing” in his residence hall.

FIGURE 1.1: ATTENTION FOCUSED ON NEGATIVE BUSINESS NEWS HAS GROWN STEADILY

This graph does not represent every organizational crisis, but a representative sample showing the negative news coverage around the world over the past 10 years, with a slight increase year-to-year from 1999–2008.
FALLACIES OF CRISIS MANAGEMENT  / There are five common fallacies in crisis management.

Fallacy No. 1: Most crises result from natural events (hurricanes and other violent storms) or from industrial accidents (fires, explosions). Ask someone to tell you what they mean by “organizational crisis” and most will respond with what is later referred to as the common sense notion by describing explosions, fires, oil spills and murder in the workplace. Fires, oil spills and explosions do occur, and they do receive prominent coverage, especially on TV news because of the dramatic visuals. Many such crises have a short media life; insurance often covers damage costs, business continuity plans get operations up and running quickly, and “aftershocks” (lawsuits, regulatory investigations) often generate little media interest.

The reality (at least in North America), based on ICM’s research into crisis events since 1990, is that such a description is false. ICM clusters specific crisis events into 16 categories (see below). The “stereotypical” events comprise a modest percentage of the total number of business crises. Examining the data collected for nearly 20 years reveals that natural catastrophes, casualty accidents, environmental disasters and workplace violence accounted for 39 percent of the crises in 2008, up from 22 percent in 1990, but accounting for less than one-third of all the crises faced by organizations. The reality of organizational crises is that about 60 percent of them are of the “smoldering” variety—someone doesn’t recognize the problem or knows about it and does nothing. Had something been done, the problem would not have become a crisis.

(expressed as percentage of total crises)*

<table>
<thead>
<tr>
<th>Category</th>
<th>1990</th>
<th>2000</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catastrophes</td>
<td>5.5</td>
<td>5.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Casualty accidents</td>
<td>4.8</td>
<td>4.9</td>
<td>9.0</td>
</tr>
<tr>
<td>Environmental damages</td>
<td>7.8</td>
<td>1.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Class action suits</td>
<td>2.2</td>
<td>28.4</td>
<td>5.0</td>
</tr>
<tr>
<td>Consumer activism</td>
<td>2.8</td>
<td>1.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Defects and recalls</td>
<td>5.4</td>
<td>16.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Discrimination</td>
<td>3.3</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Executive dismissal</td>
<td>1.3</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Financial damages</td>
<td>4.2</td>
<td>4.4</td>
<td>4.0</td>
</tr>
<tr>
<td>Hostile takeovers</td>
<td>2.6</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Labor disputes</td>
<td>10.3</td>
<td>11.3</td>
<td>11.0</td>
</tr>
<tr>
<td>Mismanagement</td>
<td>24.1</td>
<td>6.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Sexual harassment</td>
<td>0.4</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Whistle blowing</td>
<td>1.1</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>White collar crime</td>
<td>20.4</td>
<td>4.4</td>
<td>17.0</td>
</tr>
<tr>
<td>Workplace violence</td>
<td>3.8</td>
<td>4.4</td>
<td>17.0</td>
</tr>
</tbody>
</table>

*ICM tracks 16 broad categories of crises with an emphasis on U.S. businesses.*
Fallacy No. 2: The nature of organizational crises has remained relatively constant over time. Consistent with viewing crises as predominately natural catastrophes, accidents or workplace violence is the notion that businesses consistently experience the same kinds of crises during their lifetimes. This is not so.

One of the biggest changes is in class action lawsuits. Class action lawsuits barely accounted for 2 percent of all business crises in 1990, but soared to 28 percent in 2000 and 23 percent in 2001, then began dropping until they accounted for only 5 percent of all crises by 2008. Although not nearly as prevalent as in North America, legal action against organizations, even governments, is growing in other parts of the world.

Just from 1990 to 2008 the nature of crises changed significantly. The severity of different types of crisis categories fluctuated:

- Mismanagement ranged from 24 percent of all crises in 1990 to a low of 6 percent in 2001, 14 percent in 2004 and 2006 to 10 percent in 2008.
- White collar crime accounted for 20 percent of all crises when ICM began tracking this data, falling to 8 percent in 2001, then growing to 21 percent in 2006 and falling again to 17 percent in 2008.
- Labor disputes amounted to 10 percent of all crises in 1990, rose to a high of 12 percent in 2001 and 2004, and fell slightly to 11 percent in 2008.
- Environmental crises ranked 8 percent in 1990, dropped to 2 percent by 2001 and have hovered between 2 and 3 percent ever since.
- Defects and recalls only accounted for just over 5 percent of all crises in 1990, then peaked at 17 percent in 2000, dropping to 15 percent in 2001, all the way down to 3 percent in 2005 and up slightly to 4 percent in 2008.

Yes, the “big three” remain mismanagement, white collar crime and labor disputes, but the percentages change, meaning the percentages of the remaining 13 categories annually change. For example, crisis stories concerning catastrophes and casualty accidents fell from 1990 to 2000 but have slowly increased since. Crises caused by defects and recalls, however, have been steadily rising since 1990. Which crises will garner the most headlines in future years will vary year-by-year. What will not vary is that crises will occur, destroying organizations and shattering the lives of the people within them.

In the following graph, notice the difference between the ebb and flow of crises in the oil exploration industry with the earlier graph (Fig. 1.2) aggregating all industries.
The data in the Oil Exploration Crisis News Index graph (Fig. 1.2) aggregates all crises during the past two decades to provide an overall picture of business crises. Clearly some “bad stuff” happened in the oil business in the middle of the decade followed by relatively quiet years, unlike the overall graph which shows the number of crises for all industries remaining relatively high.

Changes in the nature of crises for individual industries have been documented as well. Every industry has its own pattern of crisis events. Compare the following pie graph of the nature of crises in the worldwide oil exploration industry with the chart of overall businesses (Fig. 1.3).
Catastrophes, class action lawsuits, executive dismissal, sexual harassment, whistle-blowing, white collar crime and workplace violence have all increased over the past 10 years. Casualty accidents, consumer action, defects/recalls, discrimination, financial damages and mismanagement have all decreased.

The pattern of crises in the oil exploration industry differs from those of other industries. Something different clearly is happening within the oil exploration industry. Knowing the manner of crises in an industry helps the organization focus its planning on predictable, dare we say, expected crises rather than on media-grabbing incidents that are unlikely to happen.

The point of discussing oil exploration is to demonstrate that the nature of organizational crises differs across industries, and that it is a fallacy to think that crises remain relatively constant—that what happens in one industry predicts what might happen in others. This point will be raised again in the discussion of vulnerabilities.
Fallacy No. 3: Employees and/or nature cause most crises. Again, this conclusion naturally follows the assumption that the predominant crises result from natural catastrophes, accidents and workplace violence. In fact, it’s management that causes most organizational crises: approximately 51 percent, compared to an average of 31 percent caused by employees and 18 percent caused by outside forces between 1999 and 2008.

FIGURE 1.4: ORIGINS OF CRISES

On average, from 1999 to 2008, more crises were triggered by management decisions, actions or inaction than by employees and all outside forces combined.

Bad decisions, false advertising, insider trading, stock manipulation and vendor kickbacks exemplify the types of management actions that cause crises. Martha Stewart’s insider trading is one example; Enron’s manipulation of its books to conceal debt that would decrease earnings is another. Mark Strenker defrauding his insurance clients then crashing his plane in Georgia to fake his death; the BreX company “salting” gold in its Canadian mines; a CPA stealing all of the monetary assets of an Indiana arts group, are others. The point here is that the very people charged with maintaining and improving the organization behave in ways that endanger and damage it.

With the spread of audio-video recording devices—from smart phones to mini-flip cameras—that can capture the actions of the unsuspecting, we expect to see an increase in the number of whistle-blowing crises, particularly whistle-blowing on managers’ behavior. The U.S. Federal Whistleblower Act
gives whistle-blowers a percentage of the settlement so there is an economic incentive to report illegal and/or unethical actions. In addition, the ability to record improper behavior reduces the power of the “he said-she said” argument.

**Fallacy No. 4: Most crises are sudden; they occur without warning.** This view is consistent with the common sense notion of business crises. However, ICM’s research suggests that two of three crises fall within the “smoldering” type, as you can see in the chart below.

**FIGURE 1.5: SUDDEN VS. SMOLDERING CRISIES**

From 1999 to 2008 two-thirds of all crises were the smoldering type. However, 2008 had a burst of sudden crises, including terrorist attacks on hotels, earthquakes in China, and manufacturing and construction accidents, lowering the percentage of smoldering crises to 64 percent.

Most crises resulting from personnel actions—executive dismissal, discrimination, labor conflicts, sexual harassment, white collar crime—have a history within the organization. That is, the conditions have existed for some time, have been known by someone, and may have been reported to supervisors who did nothing to correct the problem and prevent the crisis.

In one sense, there are no new crises. There is no crisis you will ever face that hasn’t already happened to someone else. There was nothing that happened 11 September 2001 in the attack on the World Trade Center, the Pentagon and that field in Pennsylvania that hadn’t happened, to some degree, before.
Planes had been hijacked in the U.S before as well as around the world. There had been terrorist attacks, including an earlier attack on the World Trade Center. Airplanes had flown into tall buildings in the U.S. and elsewhere around the world (a U.S. Army airplane flew into the Empire State Building during World War II). Buildings had caught fire, burned and collapsed. You might argue that the 9/11 disaster was bigger than anything before, but that does not make it “new.”

Fires, explosions, accidents, hostile takeovers, discrimination, violence in the workplace, terrorist acts and hostage-taking have all happened. The frequency of the occurrence may vary by industry, but they have all happened. Business disruptions occur. The point about “no new crises” is also significant to the discussion of vulnerability.

Fallacy No. 5: Heavy manufacturing is the most crisis-prone industry. The assumption that the manufacturing industry experiences the bulk of crises is consistent with the common sense notion of business crises. Certainly fires and explosions happen, and they are more likely to happen in plants that use a variety of chemicals in diverse processes, particularly if those processes involve heat. However, the most crisis-prone industries are not manufacturers.

| TABLE 1.3: MOST CRISIS-PRONE INDUSTRIES |
| (ranked by percentage of database records) |

<table>
<thead>
<tr>
<th>2001</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Computer software manufacturers</td>
<td>1. * Banking</td>
</tr>
<tr>
<td>2. Security brokers/investment companies</td>
<td>2. Food industry</td>
</tr>
<tr>
<td>5. Pharmaceuticals</td>
<td>5. Insurance industry</td>
</tr>
<tr>
<td>7. Telephone communication</td>
<td>7. * Automobile manufacturers</td>
</tr>
<tr>
<td>8. Automobile manufacturers</td>
<td>8. * Computer software manufacturers</td>
</tr>
</tbody>
</table>

*on most crisis prone list in 2007
When a Problem Becomes a Crisis

Bankers, stock and bond traders, and insurance providers top the list of industries experiencing crises during the past 20 years. Mismanagement, fraud and embezzlement, insider trading, price manipulation, churning, discrimination, and sexual harassment have been the causes of crises in these three industries.

Manufacturing companies do appear in the top 10 list. It is interesting to note, however, that auto, truck, and aerospace manufacturers appear because of labor unrest and strikes, not accidents. Commercial air carriers appear for the same reason. Oil and gas extractors appear because of environmental disasters, and computer software and pharmaceuticals because of defects and recalls. In short, no heavy industry appears among the top 10 crisis-prone industries because of the “stereotypical” crisis.

ASSESSING THE SEVERITY OF A SUDDEN CRISIS / Assessment of both potential sudden crises and smoldering crises will help you determine whether or not to initiate a full crisis response.

Most people handle problems every day. Sometimes they call them crises because they face so many or because certain problems create a lot of stress. However, not all problems become crises. When a problem that can disrupt the normal routine of the organization escapes the organization, the problem becomes a crisis.

The “escape” criterion comes from the Incident Command System (ICS), which is used by government emergency response agencies, fire departments, and oil and chemical companies in the U.S. ICS differentiates problems according to the extent of resources needed to bring the situation under control and the degree of impact the emergency situation is likely to have on the surrounding community. The more resources used and the greater the impact, the more severe the crisis. In other words, severity is a function of the organization’s capacity to control a problem. If the demand exceeds the ability to respond, the problem goes beyond the boundaries of the organization—it escapes.

Because the ICS has been very effective in managing emergencies, the same principles can be instructive in the assessment of both sudden and smoldering crises.

SUDDEN CRISIS ASSESSMENT / The following are classifications that distinguish between problems and crises.

SUDDEN LEVEL 1
On-duty employees trained to respond to and manage the problem can handle the situation.

Example: A careless employee left oily rags in the storeroom of your offices, and spontaneous combustion occurred over the weekend. A smoke detector sensed the flames, and the alarm alerted the building maintenance crew, who extinguished the flames before major damage was done to the offices and the building.
When a Problem Becomes a Crisis

The key to managing a Sudden Level 1 crisis is training: the extent to which your people know how to identify a problem and respond to it in an effective and efficient fashion.

**SUDDEN LEVEL 2**
Trained employees can handle the situation with assistance from managers and/or fellow employees, perhaps from different units within the same organization.

*Example:* The fire was extinguished but caused some damage to furniture, desks and other office equipment. Adjusting work schedules, sharing space and equipment, re-locating to other space within the building and permitting telecommuting or off-site work required coordination and decisions by managers (as is usually the case).

**SUDDEN LEVEL 3**
Employees and managers cannot control the situation, which requires the aid of off-duty or offsite people, possibly outside vendors, police, fire and/or emergency services agencies. Top management and key staff personnel (human resources, legal counsel, public affairs, insurance and finance) are needed to make decisions, coordinate activities and maintain connections with those outside the organization.

*Example:* The fire was not extinguished but traveled through the air vents to adjoining office areas. The fire department was called to put out the fire. Flames, smoke and water damaged several office areas. Local radio and TV stations followed the fire trucks to the scene to report the story.

**SUDDEN LEVEL 4**
The situation exceeds the organization’s capacity to respond, and outsiders are needed to take control. Local, state and federal emergency agencies take charge of various aspects of the situation. The business cannot operate.

*Example:* The fire could not be extinguished by employees; it traveled through the vents and engulfed most of the upper floors of the building. Although few employees were working in their offices, several were trapped and overcome by smoke and toxic fumes. Local emergency response agencies—police, fire and emergency services—were in charge. Because the fire threatened the surrounding neighborhood, federal emergency agencies had to be called in. The mayor was alerted to a possible evacuation of the neighborhood. The business could not re-open Monday morning. Vendors/suppliers could not make deliveries nor could shipments be made to customers. Employees became confused and anxious because of the disruption to their work routine. Many feared they would be forced to take a leave of absence or be laid off. Most were distraught about colleagues injured by the smoke and fumes. TV stations fed dramatic footage of the flames to the networks. Attorneys began soliciting employees and neighbors to sue the company. State and federal regulatory agencies began investigating the causes and consequences of the fire. Local and state politicians have promised legislation to tighten fire codes and increase regulation of fire detection and extinguishing equipment. They also promised their constituents that they would “get to the bottom of this to ensure nothing like this can happen again.”
NOTE: Different organizations use variations on the Level 1 to 4 classification system. Some use only three levels, and some give them color designations, instead of numbers.

When the capacity of the organization to manage a problem is exceeded, the organization needs plans to:

- Notify management and the appropriate outside agencies.
- Coordinate efforts between employees and outside agencies to contain and control the situation and integrate employee actions with those of management.
- Address the legitimate concerns of employees, investors, customers, neighbors, vendors, suppliers, distributors and the media—the conduit for informing most stakeholders.

What such a plan might look like will be discussed in chapter four.

SMOLDERING CRISIS ASSESSMENT / To assess smoldering crises, follow the pattern established for assessing sudden ones.

SMOLDERING LEVEL 1
This type of crisis can be handled by the manager(s) responsible for resolving an internal business problem.

Example: A disgruntled employee threatened to disclose to “the proper authorities” internal policies, which he felt were illegal and unethical. He said he would disclose all he knew to the authorities unless his grievances were resolved and his pay increased.

SMOLDERING LEVEL 2
Supervisors and executives can manage an internal business problem but may also seek assistance from other managers or outside consultants.

Example: The disgruntled employee filed a complaint with a government employment agency, which contacted the organization to investigate the allegations. The employee told his supervisor that he had documents that senior management would not want government agencies or the news media to see.

SMOLDERING LEVEL 3
The news media publicize an internal problem that has escaped the organization. The report on the problem will generate negative reactions from government officials, competitors, investors, consumer activists, labor unions, neighbors and other stakeholders. The problem can be contained, but containment will be costly, requiring specialized knowledge beyond that found within the organization. Outside assistance may come from corporate headquarters, outside legal and/or financial counsel, and various specialist consultants.
Example: An attorney for the disgruntled employee has claimed documented evidence of unethical and possibly illegal activities and will settle the dispute for an exorbitant fee. But if the employee is forced to file suit, the documents will be disclosed to the news media. The attorney has provided a copy of the documents. Corporate lawyers have concluded that the documents were illegally copied by the employee and represent stolen information.

SMOLDERING LEVEL 4
The crisis is very serious and likely to be disclosed publicly. Negative stakeholder reaction will have an adverse impact on the organization for a period of weeks, months, even years. Top management, along with many employees and external consultants, will have to be diverted from normal activities to resolve the situation. The financial impact on the organization will be substantial, adversely affecting its stock price, employment, and the payment of bills and debts.

Example: The dispute could not be resolved, and the employee’s attorney prepared to file suit. As part of the filing, the news media were alerted and briefed about the illegal and unethical practices of the organization. A producer of a news magazine contacted the organization seeking background information on its business and employment policies. The government employment agency ruled in favor of the employee.

CONCLUSION / Crises grow from problems whose solution exceeds the capacity of the organization, and which then escape the organization, causing outsiders to closely examine your organization. Unfortunately, several fallacies prevent people, particularly managers, from correctly understanding crises, crisis planning and crisis management. The result of this failure is that managers do not prepare their people for those circumstances that could overwhelm them and damage the organization.

Knowing the organization’s capacity to respond to problems is an important step in managing crises. Every organization should identify and prepare to manage “sudden” crises. Every organization should also be prepared to identify and manage those “smoldering” crises most likely to occur within their industry. Methods of identifying potential crises are the subject of the next chapter: Assessing Vulnerabilities.