“Smolder—v. 1. to burn sluggishly, without flame; 2. to exist in a state of suppressed activity.”
Webster’s Collegiate Dictionary

Mentioning crisis management to most informed people conjures images of fires, explosions, oil spills and product recalls. The error of this view is that these sudden crises represent roughly one-third of the crises covered by the business news media. The other two-thirds are smoldering crises, the ones that begin as internal problems somebody knows about before they escape their respective organizations and go public.

Communication managers often become aware of these smoldering internal problems via their information networks and sources. Ignoring the warning signs can be disastrous. Since 1995 Peru law has banned the production, sale or import of fireworks, but authorities ignored the importing of fireworks, resulting in the death of at least 290 people in a fire that swept the Mesa Redonda area of Lima two days before the new year, 2002.

The challenge for the communication manager is two-fold: (1) determine the crisis potential of the problem and (2) get top management to recognize the threat it represents and take action to resolve it, or minimize the negative impact exposure will have on the organization should the problem escape.

A smoldering crisis, initiated by a whistle-blower at a U.S. Veterans Administration hospital, provides a recent and detailed example.

**VETERANS ADMINISTRATION HOSPITAL WHISTLE-BLOWER CASE STUDY / JANUARY 2007**

In 2005, an employee of a small company was fired for cause and apparently set out to get even. Her former employer did business with 30 Veterans Administration (VA) Hospitals, so she began filing federal whistle-blower complaints with any federal office and agency that she could think of. Most discounted her allegations.

But an assistant U.S. Attorney for the Western District of New York took her complaint, began an investigation and eventually initiated a civil action against the company. Negotiations went on for more than a year, and finally a tentative settlement was reached.

During this time, the VA continued to renew and offer additional contracts to this company and its 150 employees who made eyeglasses for VA patients.

The company had not profited illegally in any way, and the quality of their work was never
questioned. However, they ignored a technical step in the delivery of finished glasses and were found in violation of their contracts.

A civil penalty of US$3.25 million was assessed, and the U.S. Attorney prepared a news release as part of the settlement that declared he had brought another “culprit” to justice. The whistle-blower got a percentage of that settlement.

Outside legal counsel warned the president of the family-owned business that he and his staff should prepare for media inquiries once the news release was posted on the U.S. Attorney General’s web site. The Institute for Crisis Management was asked to help.

After reviewing the history, the issues and the settlement provisions, ICM identified the key audiences:

1. Employees and their families
2. Managers/supervisors
3. Customers/VA
4. Investors (privately held, family-owned business)
   a. Two key banks
      i. Cash flow
      ii. Line of credit sources
4. Key vendors
5. Media in markets where the company operated and worked with local VA hospitals

Since the VA had not lost faith and confidence in the company, continued to renew contracts with them, and in fact, were about to sign additional contracts at additional VA facilities, and VA patients were happy with the company’s products and services, there was little reason to be concerned about public reaction. The public does not tend to pay much attention to issues that do not affect them, even indirectly.

For that reason, the important audiences were the first five.

The whistle-blower still had friends who worked for the company. As a result, it was important that management explain what had happened, why they settled even though they did not admit they had done anything wrong, and, most important, employees had to be reassured that the company was sound and that their jobs were not in jeopardy.

It was equally important that vendors be reassured the company was sound and would still need their materials and services, and in spite of a big cash settlement, would still be paying their other bills on time.
Managing the Smoldering Crisis

Since small businesses depend on good relationships with one or more local banks, it was crucial that this company meet with, explain the circumstances to, and reassure its local banking partners that they had not defrauded the taxpayers or cheated VA’s patients and would continue to be a good, dependable customer.

A statement was prepared for any media inquires that simply and in a straightforward manner answered the basic questions:

- What did you do wrong?
- Why did you do it?
- Why did you settle if you don’t believe you did anything wrong?
- Will a US$3.25 million settlement put you out of business?

A timetable was prepared to communicate with each of the key audiences. On the day the Assistant U.S. Attorney issued his news release in New York state, employee meetings were scheduled, and talking points (key messages) were ready. The president of the company outlined in broad terms what had happened, the terms of the settlement, why it was in the best interest of the company to settle rather than spend thousands of dollars in legal fees, and finally, he stressed the financial soundness of the company, the confidence the VA still had in the company and its employees and the fact that no jobs were in jeopardy.

Similar talking points were prepared and delivered in a face-to-face meeting with both banks. A call was made to each key vendor with similar messages. The marketing manager began calling his contact at each VA facility with similar messages and an additional thank-you for believing in them and continuing to do business with them.

All of this was timed to occur between the moment the U.S. Attorney’s news release was posted on the U.S. Justice Department web site and the earliest possible time it might appear in some public media outlet. The goal was to make sure each of the key audiences heard about the settlement from the company, not from someone else.

The government paid a national news release service to send out its release, and it was posted on the U.S. Department of Justice web site. One western New York business publication picked up the release and published it almost word-for-word. At least two antigovernment bloggers wrote about it. Not one single media outlet in the company’s hometown ever reported it.

About the time the settlement was being signed, the VA signed four more contracts with the company to expand its service to VA patients in additional communities.

When the employee meetings ended, a senior worker thanked the president for sharing the information and told his fellow workers, “Let’s get back to work.”

The bankers were appreciative of the briefing and continued to do business with the company.
MANAGING A SMOLDERING CRISIS / The key to managing a smoldering crisis is to use a problem-solving approach that:

- Identifies the problem.
- Estimates the potential impact of exposure in terms of audience reception and expected financial loss.
- Describes strategic reactions to the potential threat to prevent or minimize its impact.
- Converts your suspicions into an organized presentation to top management.

You will find that this approach will work for any smoldering crisis regardless of the seriousness of the problem. Each step in this approach will be briefly described. Examples of “Smoldering Crisis Worksheets,” including one for a negative news story, can be found at the end of this chapter.

STEP ONE: FACT FINDING
The first step in managing a smoldering crisis requires that you learn what is known, and not known, about the situation. Use the questions in the first section of the Smoldering Crisis Worksheet as starters:

- What is known at the present time?
- How long has it been going on?
- Who is involved?
- What are the sources of information?
- What is not known? What is being done to find out?

You're investigating at this point, trying to learn as much as you can about the situation—the potential crisis. Don’t try to get all the information at one time. Often in a smoldering crisis, such as a case of discrimination or government investigation, new developments over a period of time will cause the situation to escalate or diminish. Either way, add the new details to the collection of facts you’ve already accumulated.

STEP TWO: ASSESSMENT OF PUBLIC DISCLOSURE AND MEDIA COVERAGE
Once you have collected the relevant details for a situation that looks and feels like a Level 2 smoldering crisis, ask yourself, “Does this have a chance of becoming a Level 3?” (An internal problem that is likely to go public via the news media and generate negative reactions from government officials, plaintiff attorneys, competitors, investor or consumer activists, labor unions, etc., is a Level 3 crisis.) Don’t just use your own judgment. Check with your sources, asking them to rate the chances of the
If you think the story might break first on radio or TV, record a few hypothetical promotions for the next broadcast of the news:

“XYZ tells women they’re not welcome. We’ll have a live report from Louisville at 6.”

Even though completely fabricated, the headline and story leads are chilling. There’s no need to get carried away; just create an example of how the media would report the crisis. You don’t have to have a journalist’s background to imagine whether your local media would report the problem and where it might appear in the paper or newscast. Imagine yourself as the editor or news director receiving word of a potential crisis at a local organization. Use the following three tests to decide if the crisis story demands coverage and to determine its relative importance.

1. Visibility Test
   - How well-known is/are the organization and/or the people involved?
   - Does the story conflict with the public image of the organization/people?
   - What pictures will accompany the story?
2. Emotional Test

- What emotional response will news of this crisis generate in the reader/viewer/listener: anger, disgust, fear, grief, empathy, etc.?
- What will be the intensity of that emotional response?
- Will the emotional response generate continuing interest in the story?

3. Exploitation Test

- Do the people who have triggered the crisis seem to have been exploited, cheated or otherwise misled?
- Does the crisis include illegal activity?
- Does the crisis involve scandal?
- Does the organization/do your people have a record of illegal, unethical or scandalous behavior? If so, what was the reaction of your readers/viewers/listeners to that/those event(s)?

Good journalists will automatically apply one or all of these tests in deciding whether to cover the story and/or to continue to cover it. Of the three, from our experience, the exploitation test will stimulate the greatest media interest. The media want an event that generates a series of stories, sustaining and sustained by the readers’ or viewers’ interest. A smoldering crisis based on exploitation of an innocent promises a variety of stories, from the original description of the crisis to the human impact the exploitation had upon the individual victims, their families, the community and the reputation of the organization.

In the age of Google, a reporter, editor or news director can know about other problems your organization has faced within minutes. Some of those problems might be classified as “skeletons,” i.e., events for which the organization has some culpability.

Of course, a skeleton or two may not have escaped the organization—yet. Word of a current problem, however, may prompt a government worker or a disgruntled employee to tip off the reporter covering the story. Unfortunately, tip-offs are one form of aftershock that may complicate the task of controlling the coverage of the present crisis by adding one more storyline to follow. For example, the disclosure of Sherron Watkins’ August 2001 memo to Enron CEO Ken Lay informing him that she was “incredibly nervous” about the possibility of accounting scandals came weeks after the actual implosion of Enron. If you have done your fact-finding carefully, you may be able to anticipate the aftershock resulting from a tip-off. That is, you expect the skeleton to surface and have developed a strategy to counteract the impact. If you have not done your homework, the tip-off changes the nature of the coverage, putting you on the defense. Once you and the organization take a defensive stance, regaining control is very difficult.
STEP THREE: REACTION ANALYSIS

This manual has taken the position that “forewarned is forearmed.” Step two anticipates the reaction of the media and the people who report on your crisis. Step Three anticipates the reactions of your important stakeholders. They cluster into three groups:

1. Advocates: those who support the organization and are likely to continue to support it even if the crisis erupts.
2. Adversaries: those antagonistic to the organization and likely to intensify their antagonism should a smoldering crisis be reported.
3. Ambivalents: those who don’t know or don’t care about the organization and whose response to a crisis story can only be guessed.

Ambivalents do not appear on the worksheet because experience says that it is the reactions of supporters and opponents that will drive additional coverage. The worksheet focuses on those who support or oppose your organization. For analyzing the potential of a smoldering crisis, the two groups are sufficient. Remember, however, that when developing message and action strategies, the ambivalents should be considered.

Don’t feel constrained by the list of groups on the provided worksheet that might support or oppose your organization. The worksheet list is where you begin the problem-solving process. Move some of the groups around from supporters to adversaries or vice versa if necessary. Make a separate list, including groups relevant to your organization depending on the nature of the smoldering crisis. For example, women’s activist groups may be very vocal if the issue is discrimination or sexual harassment. These same groups may have little or nothing to say if fraud or insider trading is the smoldering crisis.

Once you have listed your supporters and adversaries, anticipate their reactions to the reporting of a crisis. You may actually engage representatives of the supporter groups in conversation, discussing the potential crisis: “If... how would you react?” For the adversarial groups, play the devil’s advocate when anticipating their reactions. How would you feel if you were an adversary and the news of the crisis broke? What would you say and/or do given those feelings?

Having anticipated stakeholders’ reactions, continue your reaction analysis by identifying strategies to minimize the negative impact of your adversaries’ actions. What words or actions can you initiate to block their actions? If blocking is not possible, what words or actions can you initiate to neutralize the negative impact? A quick hypothetical example may contribute to the explanation. Imagine that an insurance agency has a smoldering sexual harassment crisis. You would expect women’s activist groups to be vocal and vigorous in their negative reaction to the leaked story. Block or neutralize the impact of the story by inviting the activists to help you develop an antiharassment training program for your male agents and officers. Such a move is not guaranteed to eliminate the negative reaction, but the activists’ participation can blunt some of that impact.
Managing the Smoldering Crisis

Depending on the specific advocate group involved and its importance to the future of the organization, you may opt for personal visits and briefings, group meetings, courier delivery of personal letters, broadcast faxes, even e-mails. Adversaries may be contacted via mail or not at all.

Time is a pivotal consideration in any smoldering crisis. It may be heating up to a flash point sometime in the future, in which case you have some time to analyze and prepare. Or the problem may be more explosive, in which case you have little time to get ready. Regardless, you have to be fully prepared to begin disclosing your side of the story within minutes of its escape. First you disclose to your employees and management and then to other groups of likely supporters who are most important to the long-term success of the organization. In effect, you want to preempt your opponents in this conflict so that key audiences hear from you first.

The sooner advocates hear from you, the less negative the impact of your adversaries is likely to be. When people hear from you first, they will appreciate being informed and may give the organization the benefit of doubt. Winning the initial conflict of words will go a long way toward minimizing the damage to your organization.

Implementing your strategies and tactics to counter negative reactions requires resources—time and money. Create rough budget estimates of how much in terms of hours and financial outlay will be needed to get the word out quickly and accurately to the internal and external stakeholders you expect to be your supporters.

Compare the costs of preemptive strategies and tactics to the “guesstimates” of financial damages calculated in Step Four: Business and Financial Impact Analysis. Usually you will find the preemptive efforts to be a fraction of what the cost would be if little or no action is taken.

STEP FOUR: BUSINESS AND FINANCIAL IMPACT ANALYSIS

With estimates of the reactions of your advocates and adversaries, you can next imagine the effect of those reactions, particularly of your adversaries, on the organization. Converting your reaction analysis into dollars is a crucial step. You must make management concerned about the financial health of the organization to get their attention.

A senior executive of a financial services organization in Australia that faced the possibility of protests by consumer groups outside the company’s agencies all around the country demanded to understand the cost of the crisis to his organization before he agreed to hire an outside agency to help his communication manager in the crisis. Needless to say, the organization did not have an up-to-date crisis plan.

Demonstrating how the escape of such a smoldering crisis will negatively affect the bottom line is necessary if you are to grab the attention of top management in time to properly prepare. Two separate analyses comprise this fourth step: analyzing negative impact on the business and the expected involvement of management.

**Negative impact on business:** To estimate the negative effect on the business, assume that the smoldering problem goes public. You undertook no strategic blocking or minimizing. Revisit the likely
Managing the Smoldering Crisis

reactions of the media (extent and duration of the coverage) and of your opponents. Assume the worst-case scenario for both groups. Convert your suspicions into dollar (or equivalent) amounts.

What is the likelihood of an adverse impact on your organization? Place your assessment of the probability on a scale of 1 to 10, with 10 the most likely to occur.

What will be the cost of the most likely negative reactions? Remember, you’re estimating, but your estimates can have a degree of precision. Take the five most likely effects and calculate the costs to the business. For example, assume you’re a US$10-million-dollar-a-year charitable nonprofit. Individual donations account for 40 percent of your revenue. If donations dropped 10 percent during the next six months, calculate the dollars lost (US$10 million/2 x 0.4 = US$2,000,000 x 0.1 = US$200,000). What effect would a loss of that magnitude have on your ability to fulfill your charitable function? Maybe none; you could ride it out. On the other hand, maybe the loss would require a reduction in personnel, which reduces your ability to serve, which reduces the interest of donors and foundations, which…. You can see the downward spiral.

Or assume you’re a publicly traded financial services business. If the company has 100,000,000 shares outstanding, calculate the negative impact that a one-point hit would have on your stock price and on capitalization (100,000,000 x US$1.00 = US$100,000,000). How many point-drops can the organization take before credit agencies downgrade your bond rating, increasing the cost of borrowing; before competitors or partners make a takeover bid; or before debts exceed assets and bankruptcy becomes a form of protection?

A quick search of coverage of the crises of other organizations can provide clues to the costs of other items. Hungary announced that it would make a claim of A$181 million against an Australian mining company, Esmeralda Exploration, following a cyanide spill that devastated its rivers. As a result, Esmeralda went into voluntary administration.

Guide Lamp paid more than US$14 million in fines for the toxic spill into the White River in Indiana. Use this figure to calculate the cost of government fines for your organization. Does your organization have the resources to take a US$14 million hit in its operating budget because of improper waste management? That’s just the cost of the fine. Add to that the fees of attorneys defending your organization. Add to that management’s time diverted from successfully running the organization to defending it.

Management time involvement: Nothing disturbs senior executives more than spending hours, days or even weeks of valuable time resolving a crisis that has disrupted the organization’s normal business. Demonstrate to senior management the negative impact of a smoldering problem that becomes a public crisis: Tell them who will be involved and the extent of their involvement, measured in hours.

The cost of top management’s time is a direct cost. Calculate that cost for each executive by taking the annual salary divided by 2,000 (the number of hours worked in a 50-week, 40-hour-per-week year). An annual salary of US$100,000 equates to US$50 per hour. Factor in stock options and other perks, assuming these items may be known. Do this for every senior executive you believe would be involved in resolving the crisis (e.g., CEO, CFO, COO, senior legal counsel and manager of human
MANAGING THE SMOLDERING CRISIS

resources). To make the arithmetic easy, assume each of the Cs earns US$100,000, legal counsel earns US$80,000 and the human resources manager earns US$50,000. Now calculate the cost of a one-hour meeting these executives might have to discuss the crisis: US$150 + US$40 + US$25 = US$215. Doesn’t seem like much until you estimate the number of one-hour meetings required to respond to a smoldering crisis such as insider trading, or age discrimination, sexual harassment or fraud. Add to that interviews with criminal investigators, governmental regulators, plaintiff and defense attorneys, etc. How many hours has Bill Gates spent during the past decade fighting the federal government’s antitrust suit? Given his salary, what has been the direct cost to Microsoft? How much more will it cost in damages? What has been the cost to Exxon of fighting the lawsuits and governmental fines from the Valdez incident? Calculate the cost to your organization and ask whether the business can sustain that direct cost.

The idea is not to be overly dramatic, but to help you illustrate the bottom-line impact that smoldering crises can have if not prevented from escaping the organization. Doing nothing about a problem that may interest the media and your opponents will cost you, period.

STEP FIVE: MANAGEMENT RECOMMENDATIONS

When Step four is finished, you are prepared to take your suspicions and concerns to senior management. You’ve converted those concerns into the language of management: dollars.

The last page of the “Smoldering Crisis Worksheet” suggests an outline for your presentation. The outline reports the results of your analysis, both the hard facts found and the estimates you’ve calculated, beginning with a synopsis of the potential crisis. The presentation ends with your recommendations for action to smother the smoldering embers—to correct the problem or, at the very least, to minimize the negative impact with preemptive efforts. You’re making your case like an attorney rather than a communicator. Specifically:

1. Establish the precedents: Attorneys get their clerks to dig up similar legal and regulatory consequences from this type of smoldering crisis. You should do the same. How much coverage did the crisis get? How did the press portray the organization? How long did the coverage last? You will find that this exercise helps you build a compelling argument, especially if you can display some of the hair-raising headlines.

2. Focus on the financial impact: Demonstrate the media coverage. Anticipate the reactions of your enemies. Use the data from the worksheet to concentrate on the damage to the business should the smoldering crisis become public knowledge. Be sure to emphasize the cost of diverting management energies to defending the organization instead of running it.

3. Suggest realistic ways out of the crisis: Recommend tangible actions; for example, show outsiders that the organization does not condone illegal or unethical behaviors and that it has acted in good faith to stop them. Compare the costs of settling the problem while it’s still internal with the costs to the organization if it escapes. The attorneys may tell you that your recommendations will be interpreted as a tacit admission of guilt. Don’t buy that argument. Don’t let senior managers buy it either.
Attorneys are trained to settle disputes without any admission of guilt.

The desired outcome of your suggestions is for the public jury to understand that your organization took constructive action to resolve the problem. That point will be an important argument for the courtroom jury as well.

4. **Decline to do what the media want:** With some smoldering crises and the subsequent news coverage, you may recommend that the organization not be interviewed. The nature of the story and the slant of the reporter or producer guarantee that you won’t get balanced treatment. Remember, you don’t have to release any information or grant any interview unless it serves your strategic purpose. However, if you recommend that the organization decline to cooperate with the media, suggest that a written statement be released. The written statement should outline your position on all key points. Good reporters and producers will at least acknowledge your response.

If you release material to the press, be sure to share the information at the same time or before with the internal and external audiences you expect to be supporters. You want to maintain their loyalty throughout the stress of any crisis that may be triggered.

5. **Emphasize the importance of legal and communication teamwork:** Stress the point that the crisis can do serious damage to the organization unless legal and communication staff work together to either end the crisis or minimize the damage from its public disclosure. The message platform can be designed to fit the courtroom platform. The content of the organization’s public utterances on a negative news story can serve as major arguments once the crisis moves into court.

The internal conflict between legal and communication can itself become news. Should that occur, the organization has two stories to defend.

6. **Winning in the court of public opinion:** Your management needs to know that if this situation can’t be resolved before it escapes the organization, you must defend the organization in the court of public opinion as vigorously as possible. You want the resources to build a convincing case for your key stakeholders, those supporters who will influence the long-term future of your business. In any smoldering crisis, you have to be able to demonstrate that your organization made an honest effort at resolution. If the actions you recommend are taken, the organization can make a solid case to your supporters, and it may also be a convincing case for the ambivalents. The actions may even isolate or neutralize the adversaries.

7. **Conclude by talking in the terms of management:** Emphasize that top management and legal and communication staff will have to work as a team to prevent the crisis from seriously damaging the organization. Urge top management to end the situation before it goes public. Remind management of the costs, in direct dollars and in time. Finally, if public disclosure cannot be avoided, ask for the resources to take preemptive action to minimize the negative impact. You want to keep the loyalty of your supporters, isolate or neutralize the adversaries, and keep the ambivalents on the sidelines. Demonstrating the constructive action taken by the organization to stop the problem and to prevent its recurrence goes a long way toward winning in the court of public opinion.
CONSULTING WITH LEGAL COUNSEL / If your assessment of the situation is that it will escape the organization (become a Level 3 or 4 smoldering crisis), the first discussion should not be with top management. The first discussion needs to be with one of your organization’s attorneys, or with outside legal counsel. Everything you have developed through your analysis could become the subject of legal discovery should your adversaries file suit or take other legal action against the organization.

The only way the information and your conclusions can be protected is to talk directly with an attorney—and even then this protection does not always work. If you do this, the conversation and documents may be protected by attorney-client privilege. Therefore, start with the lawyers, but make sure your senior management knows this is what you will do and why. Your attorneys may also have useful insight into stakeholder reactions, the impact on the business, and the extent of management’s involvement, and this will sharpen your analysis.

One caution is that some attorneys want to control the information you’ve worked diligently to accumulate. You may be told not to say or do anything because action now will jeopardize the later court case. However, in a smoldering crisis, your objective is to win in the court of public opinion as well as the court of law.

If any attorney takes the “say/do nothing” stand when you’re facing a smoldering crisis, ask how long before the case would go to court. The response may range from 12 to 24 months, depending on the pretrial activities, the judge’s schedule and other factors. Tell the attorney that the organization may have less than 12 to 24 hours to win the public’s opinion once the smoldering crisis gets reported. Show them your estimates of the damage to the bottom line while the organization is waiting to win in court.

Unfortunately, the case will be prosecuted by the news media before a jury of your customers, investors, government regulators and other key stakeholders. The opinions of these audiences will directly affect the future of the organization.

If the attorney remains adamant that she/he will be the one who determines what the public statements will be and when they will be made, the best action for you is to end the conversation. Review your information. Check with a trusted colleague for their affirmation or denial of your analysis.

If, after review, you still believe in the strength of your analysis, then bite the bullet. Tell the attorney that doing nothing is not acceptable and that management needs to hear the case. Invite the attorney to participate in the presentation. Yes, you’re right, your job is on the line. But to do nothing also puts your job on the line, and you are already vulnerable because of your prior knowledge. In this scenario, who becomes the organization’s scapegoat? The one who knew and did nothing—you.
SMOLDERING CRISIS WORKSHEET / The following worksheet is to be used to analyze any serious problem that could become a crisis if/when it is disclosed to the public. A crisis is defined as a business problem that will cost the equivalent of more than US$500,000 in lost revenues, operating expenses, stock price value, regulatory fines and penalties, lawsuits or other business expenses that could have been avoided or minimized by prompt management action.

I. FACT FINDING

What is known at the present time? ______________________________________________________
__________________________________________________________________________________
__________________________________________________________________________________

When did this first occur? How long has it been going on? _____________________________________
__________________________________________________________________________________
__________________________________________________________________________________

Who is involved or implicated? What has their role been? _____________________________________
__________________________________________________________________________________
__________________________________________________________________________________

What are the related political problems, extenuating circumstances or other complications? ____________
__________________________________________________________________________________
__________________________________________________________________________________

Who else knows about the situation? What have they been doing about it? ________________________
__________________________________________________________________________________
__________________________________________________________________________________
What is likely to be the next negative development in this situation? How soon? _______________________
__________________________________________________________________________________
__________________________________________________________________________________

What is unknown? What is being done to find out? ________________________________
__________________________________________________________________________________
__________________________________________________________________________________

What are the sources of this information? How has it been verified? ______________________
__________________________________________________________________________________
__________________________________________________________________________________

II. ASSESSMENT

A. Likely Disclosure Scenario
How is the public most likely to become aware of the situation?
__________________________________________________________________________________
__________________________________________________________________________________

How soon?
__________________________________________________________________________________
__________________________________________________________________________________
### B. News Media Coverage Forecast

<table>
<thead>
<tr>
<th>Category</th>
<th>Space</th>
</tr>
</thead>
<tbody>
<tr>
<td>News Potential (1 to 10 for Front Page/Lead Story)</td>
<td></td>
</tr>
<tr>
<td>Follow-up by Local or Regional News (Specify)</td>
<td></td>
</tr>
<tr>
<td>National News or Network TV? (Specify)</td>
<td></td>
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<tr>
<td>Business and Trade Magazines? (Specify)</td>
<td></td>
</tr>
<tr>
<td>Most Likely News Hooks and/or Headlines</td>
<td></td>
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</tbody>
</table>
### III. REACTION ANALYSIS

<table>
<thead>
<tr>
<th>SUPPORTERS</th>
<th>LIKELY REACTIONS AND IMPACT ON THE BUSINESS</th>
<th>STRATEGIES TO MINIMIZE THE NEGATIVE IMPACT</th>
<th>TIME, MANPOWER, MONEY NEEDED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management, employees, families and retirees</td>
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<tr>
<td>Board members and/or external advisers</td>
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<tr>
<td>Investors, stockholders, security analysts</td>
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<tr>
<td>Vendors, suppliers, distributors, etc.</td>
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<tr>
<td>Customers—the ultimate consumers</td>
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</tr>
<tr>
<td>Local residents and business and community leaders</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Other key people or groups of supporters</td>
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<tr>
<td><strong>ADVERSARIES</strong></td>
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<tr>
<td>Local, state and federal regulatory officials</td>
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<tr>
<td>Local gadflies and consumer action groups</td>
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<tr>
<td>Local unions or national labor organizations</td>
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<tr>
<td>Competitors for the most profitable business</td>
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<tr>
<td>Dissident stockholders</td>
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<tr>
<td>Plaintiff’s attorneys</td>
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<tr>
<td>Investigative reporters</td>
<td></td>
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<tr>
<td>Adversaries in a different problem/issue</td>
<td></td>
<td></td>
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<tr>
<td>Other adversarial people or groups</td>
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</tr>
</tbody>
</table>
## IV. BUSINESS AND FINANCIAL IMPACT ANALYSIS

### A. Reaction to the Disclosure

<table>
<thead>
<tr>
<th>LIKELY BUSINESS AND FINANCIAL IMPACT</th>
<th>POTENTIAL (1–10)</th>
<th>SIX-MONTH COST ESTIMATE</th>
<th>SPECIFICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Losses in business, sales revenues, customers, income</td>
<td></td>
<td></td>
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<tr>
<td>2. Depressed quarterly earnings</td>
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<tr>
<td>3. Negative investor/stock market reaction</td>
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<tr>
<td>4. Lawsuits or class action suits</td>
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<tr>
<td>5. Disgruntled employee whistleblowing</td>
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<tr>
<td>6. Investigative news stories</td>
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<td></td>
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<tr>
<td>7. Market share loss to competition</td>
<td></td>
<td></td>
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<tr>
<td>8. Labor union actions</td>
<td></td>
<td></td>
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<tr>
<td>9. Government investigations/ fines</td>
<td></td>
<td></td>
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<tr>
<td>10. Other complications and likely aftershocks</td>
<td></td>
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<tr>
<td><strong>TOTAL</strong></td>
<td></td>
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</tbody>
</table>
## B. Top Management Involvement

<table>
<thead>
<tr>
<th>Executives Who Will Have to Be Involved</th>
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</thead>
<tbody>
<tr>
<td><strong>Time in Next 30 Days</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Time in Next Six Months</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Specific Responsibilities and Time Requirements Related to the Crisis</strong></td>
<td></td>
</tr>
</tbody>
</table>
V. MANAGEMENT RECOMMENDATIONS
(Maximum 15-minute presentation or three-page memo based on information from sections I through IV of this worksheet)

I. Synopsis
   A. What is known and not known about the potential crisis
   B. The complicating factors
   C. Most likely disclosure scenario and timing

II. If/When the Crisis Goes “Public”
   A. Immediate and six-month financial impact
   B. Executive involvement in addition to regular responsibilities

III. Business Impact Specifics
   A. Sales—lost revenues/sales
   B. Financial—investor/banker/stock market reaction
   C. Marketing—competitive inroads
   D. Regulatory—investigations/fines/hearings
   E. Labor relations—union activities
   F. Legal—lawsuits and class actions
   G. Human resources—disgruntled employee actions

IV. Crisis Containment Strategies
   A. Shutting this potential crisis down
      1. The likelihood—based on the situation and people involved
      2. The options—risks and costs
   B. If public disclosure cannot be avoided
      1. Response strategy—positioning our organization
      2. Possible tangible actions to help people directly/indirectly affected
V. Recommendations to Minimize the Business Damage

A. Preemptive disclosure possibilities

(Discuss the options and the risks in each instance.)

1. Sales force—distributors, agents, wholesalers
2. Marketing—consumers via advertising, publicity
3. Financial—investors and the financial community
4. Legal or government relations—regulatory agencies
5. Human resources—management and employees
6. Top management—board of directors, other key stakeholders

B. Public disclosure response plans

1. Sudden disclosure contingency plan
2. Anticipated disclosure—minimize negative reactions and business disruptions
   a. Sales and marketing communications
   b. Investment and financial communities
   c. Legal/government relations
   d. Management/employee communications
   e. Key stakeholders contact

VI. What It Will Take to Minimize the Damage

A. Crisis response team members
B. Action plan—timetable and deadlines
C. Budget requirements—return on investment

VII. Conclusion

A. We can avoid what other organizations have been through
   1. Examples of similar crises—business and financial impact
B. What is at stake?
   1. Potential business and financial losses for our organization
C. Recommendations

1. Strategy to shut this potential crisis situation down if possible
2. Action plan to minimize the damage if public disclosure cannot be avoided

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**NEGATIVE NEWS CRISIS WORKSHEET** / The following worksheet is to be used to analyze the indications that a negative news story that could disrupt your ongoing activities and have a significant adverse impact on your business is being developed by one or more news organizations.

**I. FACT FINDING**

What was the first indication that a negative story was being developed? Who alerted you? When? ______

__________________________________________________________________________________

__________________________________________________________________________________

What news reporter(s) and news organization(s) are involved? What are their phone and fax numbers and e-mail addresses? ______________________________________________________________

__________________________________________________________________________________

__________________________________________________________________________________

What does the story appear to be about? How prominent is your organization likely to be in the story?

__________________________________________________________________________________

__________________________________________________________________________________

What prompted the reporter to pursue the story? ________________________________________

__________________________________________________________________________________

__________________________________________________________________________________
Who else has the reporter contacted?

__________________________________________________________________________________

__________________________________________________________________________________

What other insights or background information did the reporter, or your source, provide?

__________________________________________________________________________________

__________________________________________________________________________________

What is the reporter’s deadline? When will the story run? What format (single story, several-day series, etc.)?

__________________________________________________________________________________

__________________________________________________________________________________

<table>
<thead>
<tr>
<th>WHAT QUESTIONS DID THE REPORTER ASK?</th>
<th>WHAT WAS YOUR RESPONSE?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
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<td>2.</td>
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<td>3.</td>
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<td>4.</td>
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<tr>
<td>5.</td>
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</tbody>
</table>
## WHAT QUESTIONS DID THE REPORTER ASK?  WHAT WAS YOUR RESPONSE?

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<td>6.</td>
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<td>7.</td>
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<tr>
<td>8.</td>
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</tbody>
</table>

What else did the reporter ask for (interviews with specific people, photos, other material, etc.)? ________  
__________________________________________________________________________________  
__________________________________________________________________________________  
__________________________________________________________________________________

What promises or commitments have been made to the reporter? What time commitments? ___________  
__________________________________________________________________________________  
__________________________________________________________________________________  
__________________________________________________________________________________

## II. ASSESSMENT

### A. The Reporter

1. What was the reporter’s attitude? How cynical or hostile were the questions? _____________________  
__________________________________________________________________________________  
__________________________________________________________________________________  
__________________________________________________________________________________

2. How biased did the reporter seem to be? How firm is the story’s news hook at this point? ___________  
__________________________________________________________________________________  
__________________________________________________________________________________  
__________________________________________________________________________________
B. The News Organization

1. What has been our previous experience with this news organization? Have they done negative news stories on us in the past? How often? How bad were they? 

2. When was our last contact with this news organization? What was that concerning? 

3. What other problems do we currently have that could trigger a follow-up story or a story by a competing news organization that feels it has been scooped? 

3. How much do you know about this reporter? How would you rate his/her fairness as a journalist?

__________________________________________________________________________________
__________________________________________________________________________________
__________________________________________________________________________________
### C. Additional News Media Coverage Forecast

<table>
<thead>
<tr>
<th>News Potential (1 to 10 for Front Page/Lead Story)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Follow-up by Local or Regional News (Specify)</td>
<td></td>
</tr>
<tr>
<td>National News or Network TV? (Specify)</td>
<td></td>
</tr>
<tr>
<td>Business and Trade Magazines? (Specify)</td>
<td></td>
</tr>
<tr>
<td>Most Likely News Hooks and/or Headlines</td>
<td></td>
</tr>
</tbody>
</table>
### III. REACTION ANALYSIS

<table>
<thead>
<tr>
<th>SUPPORTERS</th>
<th>LIKELY REACTIONS AND IMPACT ON THE BUSINESS</th>
<th>STRATEGIES TO MINIMIZE THE NEGATIVE IMPACT</th>
<th>TIME, MANPOWER, MONEY NEEDED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management, employees, families and retirees</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Board members and/or external advisers</td>
<td></td>
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<tr>
<td>Investors, stockholders, security analysts</td>
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<tr>
<td>Vendors, suppliers, distributors, etc.</td>
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<tr>
<td>Customers</td>
<td></td>
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<tr>
<td>Local residents and business and community leaders</td>
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<td></td>
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<tr>
<td>Other key people or groups of supporters</td>
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</tr>
</tbody>
</table>
IV. MANAGEMENT RECOMMENDATIONS  
(Maximum 15-minute presentation or three-page memo based on information from sections I through III of this worksheet)

I. Synopsis
   A. What is known and not known about the potential negative news coverage
   B. The complicating factors
   C. Most likely timing for the story

II. If/When This Negative News Story Breaks
   A. Immediate and six-month business and financial impact
   B. Executive involvement in addition to regular responsibilities

III. Business Impact Specifics
   (Possibilities based on discussions with people responsible for each area of activity)
   A. Sales—lost revenues/sales
   B. Financial—investor/banker/stock market reaction
   C. Marketing—competitive inroads
   D. Regulatory—investigations/fines/hearings
   E. Labor relations—union activities
   F. Legal—lawsuits and class actions
   G. Human resources—disgruntled employee actions

IV. Crisis Containment Strategies
   A. Shutting this story down
      1. The likelihood—based on the reporter and the news potential
      2. The options and risks
   B. If the story cannot be stopped
      1. Positioning the organization
      2. Tangible actions to reach/help people directly/indirectly affect
V. Recommendations to Minimize the Business Damage

A. Preemptive disclosure possibilities
   (Discuss the options and the risks in each instance.)
   1. Sales force—distributors, agents, wholesalers
   2. Marketing—consumers via advertising, publicity
   3. Financial—investors and the financial community
   4. Legal or government relations—regulatory agencies
   5. Human resources—management and employees
   6. Top management—board of directors, other key stakeholders

B. Response plans
   1. Premature news leak contingency plan
   2. Story break—plan to minimize negative reactions and business disruptions
      a. Sales and marketing communications
      b. Investment and financial communities
      c. Legal/government relations
      d. Management/employee communications
      e. Contacting key stakeholders

VI. What It Will Take to Minimize the Damage

A. Crisis response team members
B. Action plan—timetable and deadlines
C. Budget requirements—return on investment

VII. Conclusion

A. We can avoid what other organizations have been through
   1. Examples of similar news stories that were mishandled—business and financial impact

B. What is at stake?
   1. Potential business and financial losses for our organization
2. Management time that will be required

C. Recommendations

1. Strategies for minimizing the potential business damage of this news story
2. Plan of action, timetable and budget