FOUR

The Systemic Nature of CM

MORE EXTENSIVE TRAINING AND PREPARATION FOR CM

The preceding chapters discussed the importance of conducting pre- and post-CM audits and also many of the issues associated with developing an organization's capabilities to manage a crisis. In this chapter, we will continue discussing capabilities, especially training exercises and procedures.

RESPONSIBILITIES AND ROLES

In Chapter 3, we talked briefly about the role of a CMT's facilitator. Here we shall consider the responsibilities and roles of the other members of a CMT (Figure 4.1).

The primary role of a legal counsel on a CMT is not to veto particular actions or declarations. Rather, a legal counsel is present mainly to advise a CMT of the legal ramifications of its decisions and actions. A

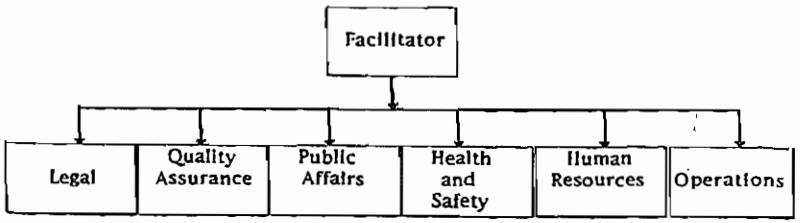

Figure 4.1. The CMT's roles and responsibilities.

legal counsel thus needs to be an integral part of a problem-detecting and problem-solving team. Thus, if the CMT as a whole decides to engage in an action that has serious legal ramifications, the legal counsel can recommend how the actions can be carried out with as little harm as possible. This is critical in those cases where the legal counsel disagrees with the CMT's actions.

Likewise, security's role is not merely to point out serious threats and potential breaches to an organization's security. It is on the team to suggest how such breaches might be controlled and to provide a technical perspective regarding the impacts of specific security procedures on the organization. This is especially important in the case of criminal activities in which security procedures that are too tight or severe can be viewed as punitive and hence encourage the very things they are designed to prevent. As

many organizations have discovered too late, strict security programs can alienate internal stakeholders, for example, employees, to such a degree that they may provoke violent responses. The principal question is how security can be designed with the cooperation of employees. We know of organizations in the food industry that have received cooperation from their labor unions in designing procedures to identify potential tamperers and saboteurs. In these cases, the union cooperated because the resultant losses of company products could threaten jobs.

The role of quality assurance (QA) is critical to the food and pharmaceutical industries. QA and Operations often play an invaluable role in averting potential crises. For instance, in food jars, crystallized sugar can look like pieces of glass. QA can help diagnose potential crises and defuse them with proper information to consumers. For example, claims of food poisoning and specific types of food sicknesses can often be defused. A case in point is hepatitis A, which requires an incubation period before the disease appears and can be properly diagnosed. Thus if a customer contends before the incubation period is over, that he or she developed the disease, that claim is false. QA also can join security to identify tampering efforts.

One of the most important roles of a CMT is that of health and safety. Ideally, every organization

should have maps and inventories of each of its sites showing the location of potentially hazardous and toxic chemicals, products, and the like. It should also have a complete listing of Haz Mat procedures plus detailed training in their proper use in order to handle any major spill or release.

Public affairs (PA) and corporate communications (CC) are the main communications liaisons with the media and other important external stakeholders, but they must train all the members of a CMT in how to respond to the media. PA and CC thus need to be integral members of the CMT, since they cannot be effective communicators unless they are familiar with the potential causes of various types of crises and the actions that the organization has taken to prevent or to contain them. PA and CC cannot function in a vacuum.

SYSTEMS THINKING

Most discussions of CM miss one of the CMT's most important functions: *critical systems thinking*.[1] There is no better way to illustrate such thinking than with two crises that took place at two important organizations, Sears and NASA.

A few years ago, Sears faced a financial crisis because its auto-repair stores were not bringing in

enough revenue. Thus the initial crisis was financial, and how Sears responded shows why that no action should be taken until the causes of the crisis have been determined and the effects on the organization of various responses can be gauged.

Sears undertook a series of actions designed to bring more cash into its stores, based on the following idea: Why not offer a bonus plan to our Auto Repair employees for bringing in extra business? Sears hoped that by this means it could reverse its negative cash flow.

The bonus plan worked, but not in the ways intended: Sears Auto Repair employees brought in more money by recommending unnecessary repairs to consumers. When news of this broke, Sears faced a worse crisis than the original one, by inadvertently damaging its corporate image as a company that its customers could trust. This loss of trust threatened to reduce Sears's financial revenues even more, thus exacerbating the very crisis that prompted the bonus plan in the first place.

What went wrong? Sears failed to consider the effect of the bonus plan on the whole organization. Such a plan would have worked only if Sears had fostered the kind of culture that produced trust in both its customers and its employees. No action ever takes place in a vacuum; instead, every action affects and, in turn, is affected by its key stakeholders.

Consider another example. NASA was faced with an unacceptable level of defects in some of its main programs. In an attempt to decrease the number of defects, it also introduced a bonus plan, in this case, to find defects. But this incentive also triggered an unanticipated negative response: A number of employees deliberately created defects so that they could identify them and collect the bonus!

Such examples can be multiplied ad nauseam. For instance, Honda executives were recently accused of demanding kickbacks from high-volume dealers in order to boost their fixed salaries. Because a profitable dealer could expect to make considerably more money than the corporate executives could, some executives demanded payoffs before they would ship cars to dealers. The problem was not only in the pay or reward system but also in the values of some parts of the Honda culture. Even a bad pay system does not justify blackmail.

No action, no matter how desirable it seems on the surface, should be undertaken until its potential positive and negative effects on the entire system have been determined.

AN EXAMPLE OF A SYSTEMIC MESS-UP

The following case shows the importance of a systemic approach to CM. Many of the organizations

with which we work are leaders in their fields. The subject of this case—we will call it Beta Group—is no exception. In addition to being a world leader in its field, Beta Group, like many companies in many industries today, is finding that its external relationships are becoming increasingly complex. Customers are vendors; competitors are partners; and partners are customers—sometimes all at once! Beta Group's crisis was caused by a failure to manage effectively this complex relationship. The incident caused severe embarrassment to the organization's CEO, jeopardized millions of dollars of current business, and threatened a thirty-year relationship with a customer/partner/competitor, not the sort of thing we expect to happen to leading-edge organizations.

Three incidents—a casual telephone remark from one CEO to another, the decision not to continue an existing partnership on an upcoming project, and the failure to anticipate the severity of the customer/partner/competitor's reaction—coalesced to create a serious relationship crisis between the two organizations, which jeopardized Beta Group's reputation with other customers and external stakeholders.

Two types of factors contributed to the crisis. The first was organizational, the structure and culture of Beta Group and the nature of its business. The second set of factors arose from the nature of the crisis management (CM) process itself. Organizations that

are unfamiliar with CM are especially susceptible to difficulties related to this second set of factors.

Beta Group's culture is intensely rational, an "engineering" mentality, and this rational/analytic worldview is combined with a strong emphasis on agreeableness. The organization's structure is highly decentralized and entrepreneurial, with a factory-driven business focus, and its success in recent years is attributed to this structure. Conversely, the potential weaknesses that this structure has created are the suboptimization of financial performance at the business unit level, an emphasis on the product rather than on the customer, an arrogance regarding technical competency, and the fragmentation of strategic objectives.

Some of the characteristics of Beta Group's industry also were important factors influencing the crisis. Like most large organizations, Beta Group has a diversified product line serving a broad array of customers. Most of its business is conducted in fairly stable environments, in which long-term relationships are a hallmark of success. Some of Beta Group's business, however, is conducted in a highly competitive environment characterized by high-risk, high-stakes business deals; fluid relationships; and deal-to-deal partnering. This is the area in which the precipitating events occurred.

The structure of Beta Group and the nature of its business combined to create competing objectives.

Peculiar to this crisis was the tension between the objective to maximize business unit performance and the objective to maximize account relationships. When one of Beta Group's divisions decided to discontinue a partnership with an organization—call it Z Company—that decision was not seen as creating a potential risk, even though Z Company was also a thirty-year customer. Because it did not have a crisis management program, Beta Group had no means of monitoring early warning signals of potential crisis and no way to evaluate systematically the possible risks.

To make matters worse, because of Beta Group's decentralized structure and entrepreneurial operating style, there was no reason to tell Beta's CEO about this decision. Then, when Beta Group's CEO was talking to Z Company's CEO about a separate project, Beta's CEO made a remark about working with Z Company on other, similar projects, which was interpreted by Z Company's CEO as reversing the decision made at the business unit level. At Beta Group, however, there was (1) no knowledge of the business unit decision at that time and (2) no intent to reverse the decision. In fact, when the "perception" of Z Company was brought to the attention of senior executives at Beta, the original decision to discontinue the partnership was reexamined. Beta finally decided that Z Company would understand the reasons for the decision and accept it.

But this was not what happened. In fact, Z Company's response was far worse than Beta Group could have imagined. The CEO of Z Company felt betrayed, and he ordered an immediate discontinuation of all business relations with Beta Group. For several months he refused all attempts of reconciliation. The discontinuation of business with Beta Group affected several of its business units and divisions, threatening millions of dollars of revenue. In addition, Z Company had sister companies that also had substantial relationships with Beta Group. For a time, it was feared that the wrath of Z Company's CEO could jeopardize those relationships as well. Finally, almost six months later, the two CEOs met. After several more meetings and a concerted effort by the executive management of Beta Group, most business relations have been restored.

This crisis illustrates just how serious the consequences can be when people fail to communicate clearly and accurately. Our analysis of the events indicates that there was no intention by Beta Group to misrepresent or mislead its longtime friend and ally. Yet that was exactly the perception of Z Company's CEO, and the consequences for the relationship between the two organizations could have been disastrous.

On closer inspection, it is clear that Beta Group's strengths with regard to conducting normal business

do not serve to contain, and may actually contribute to, crises. Many of these factors, both individually and collectively, reinforce the fragmented nature of Beta Group's organization: Individual business units are rewarded for maximizing their own special interests without regard to the effects on the organization as a whole. Thus the breach in relations between Beta Group and Z Company was due more to structural and cultural factors than to individual actions.

DEVELOPING A CRISIS AWARENESS

In order to prevent a crisis, an organization must determine what exactly it would be. One way of "developing a crisis awareness"—after conducting a CM audit—is as follows: Assemble the executives who will form the core of the organization's CMT, or whose endorsement is critical if the organization is to go forward. All executives are asked to write down examples of what they believe would constitute a crisis for their organization, whether or not anyone else agrees with them. External and/or internal group facilitators then ask each executive in turn to read one example from the list. Each is written on a flip chart so that all can see them. No disagreement is allowed at this point, so that the process will not be shut off or slowed down. The only discussion