Insight beyond information

EXECUTIVE BRIEFINGS
BUSINESS & MANAGEMENT: CRISIS MANAGEMENT

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When the mirror cracks from side to side

On the 8th January 1989, Michael Bishop, Chairman of British Midland, received a flustered call from his Secretary when she heard the horrifying sound of an aircraft crashing on the motorway close to her house. British Midland's flight BD 092 had only just departed London's Heathrow airport and was on its way to Belfast in Northern Ireland, with 126 passengers on board. 47 people died.

Mr Bishop was hardly prepared for what lay ahead but he was on the accident site within 30 minutes. When television cameras had him on frame, the scene in the background was out of a disaster movie. There was wreckage, dead bodies, blue lights of the emergency services flashing and ambulance crew ferrying the injured. The interviewer then posed the question, 'Well Michael, what do you have to say?" and Mr Bishop responded, "What a terrible thing. What a terrible thing." He went on to state that his company would compensate every victim well and beyond regulatory requirements and ensure that the enquiries to follow would be unencumbered and completely impartial. When he arrived his priorities were to get the relatives of the injured passengers and crew to hospital and provide immediate support to the bereaved. Every family was allocated a carer from British Midland who would organise somewhere for them to stay and look after their needs. The airline's PR manager was at the crash site through the night whilst other members of the PR department provided regular briefings in London and Belfast. Mr Bishop cut a highly sympathetic figure with his unpretentious account of the action he had taken in response to a profoundly distressing accident. The end result was that a small airline that could not have survived the weight of all the publicity emerged all the stronger thanks to the positive public perception Mr Bishop created. Ticket sales held steady and actually grew. Eventually, British Midlands was bought by Lufthansa for a sizeable sum.

Management consultants and academics have drawn upon the British Midlands experience to prepare several lessons that industry could use in the aftermath of a crisis. In summary, these boil down to three things. First, assess the threats a company might face. Second, assign responsibilities so that employees know what they have to do. These plans need to be updated regularly. Third, train the spokesperson.

But Mr Bishop did not come out of this tragedy intact because he followed these rules. He did so because he spoke the truth, empathised with the families of the bereaved, did not muddy the waters with legal jargon but stuck to the facts, and finally, did not try and hide his emotions. He felt genuinely sorry for what had happened and his expressions said so in no uncertain terms.

A crisis of this sort is from any benchmark, a rare occurrence. However, companies have to grapple with challenging predicaments from time to time. In May 2014, a study by the International Council on Clean Transportation (ICCT) detected that emission levels in some models of Volkswagen cars were several times higher than permissible under American laws. Volkswagen initially dismissed the charges as technical glitches. It wasn't until August of the following year when, presented with incontrovertible scientific evidence, it was forced to admit that it had installed an emissions-compliance "defeat device"– basically software that manipulated the engine's behaviour to produce lower emissions during laboratory tests. Several billion dollars in lawsuits and fines followed and the image of one of Germany's most eminent car makers suffered enduring damage. Clearly, the blame in this case lies with the management decision many years ago to resort to this ploy in the first place. But what could have subsequently been addressed with an honest confession and a few hundred million dollars in compensation has become a multi-billion dollar expense with, arguably, permanent loss of reputation and angry customers across the world. The blame for this lies with poor crisis management.

The simple truth is, when things go sour the buck stops with the CEO and the crisis management team to handle the situation in the best possible way. Some companies are unable to do so, with lasting consequences on reputation, stakeholder sentiment and future prospects. Many others muddle their way through as best they can. Companies do need a crisis manual and several PR firms specialise in this sort of thing. They even train CEOs to appear before the media and groom them to handle difficult questions.

Such training would have been helpful to John G Stumpf, who recently stepped down as Chairman and CEO of Wells Fargo & Company after his bank was accused of opening millions of customer accounts without authorisation in order to meet sales targets. In a publicly broadcast Senate hearing, Mr Stumpf made elementary errors trying to evade questions or provide generic responses. He showed neither contrition nor any indication of atonement. Most embarassingly, he sought to scapegoat low-level employees rather than accept blame at the top for what was fundamentally a flawed incentive and monitoring system. Within minutes he found himself stammering in the face of relentless questioning by Senator Elizabeth Warren who is known to be a banker's bane. Mr Stumpf somehow managed to look guilty and arrogant at the same time and it did not take long for the video to go viral. In the ultimate analysis, only 0.01% of the bank's profits emanated from the improper accounts and less than 2% of the employees were involved. What could have been dealt with as a relatively minor case of corporate wrong doing turned into a larger-than-life nightmare for America's third largest bank. Poor crisis management was perhaps largely to blame.

In India too, there have been cases of prominent food and consumer product companies facing regulatory inquisitions on account of alleged contaminants in their products. These include categories such as aerated beverages, chocolates, instant foods, medical devices and milk. Even in cases where the companies' factual assertions were ultimately proved correct, they lost public empathy and, in some cases, the regulators' confidence. Successful companies were those that issued a timely response in recognising the crisis and subsequently, putting in place a process to manage public perception. They engaged their consumers on social media platforms including Twitter and Facebook and issued timely and honest clarifications in response to consumer concerns.

Whilst the importance of processes is undeniable, in the final count it boils down to integrity and honesty. CEOs must believe beyond doubt that they need to do the right thing despite short term financial consequences. In practice however, this is much harder to do. When a crisis happens, inevitably legal teams take over and guide management on what can be said. This is mainly the reason that several CEOs have stumbled, or in the least hummed and hawed, during depositions or press interviews. In many cases, they have served no purpose in protecting either their own reputation or the interests of their company. On the other hand, Michael Bishop's press brief was spontaneous and his tiny airline came out with flying colours. CEOs must show compassion externally and leadership internally. In an environment where the bulk of the new millennials are active on social media platforms an attempted cover up, more than often not, backfires with serious long term repercussions.