

This does not represent every crisis, but those business news editors determined of interest to their readers

OVERVIEW

If you just look at the overall numbers for the year, 2010 was not a terribly bad year for business and other types of organizational crises.

But when you look past the “smaller numbers” you see the deadliest year in decades. Earthquakes, tidal waves, floods, volcanoes and a host of other natural disasters, along with oil rig and coal mine disasters, workplace violence and plane, train and bus crashes killed an estimated quarter-million people world-wide.

Not only was the year devastating for families and friends, it caused \$222-billion in economic loss, which is greater than the total economy of Hong Kong, according to Geneva based insurance company Swiss Re.

In fact, while American business leaders fret about the risk of terrorism and ignore the more likely causes of crises, natural disasters killed more people worldwide, than have been killed by terrorists in the past 40 years, according to a report by the Associated Press.

The quake that struck Haiti in January 2010 killed more

than 220,000 people and not only leveled buildings but it wiped out the island nation’s economy.

A month later, an earthquake 500 times stronger than the Haiti trembler, rattled a less populated and better built area in Chile and another 1,000 people were killed.

Flooding killed another 6,300 people in 59 countries in 2010.

If that wasn’t enough, a volcano in Iceland spewed tons of volcanic ash into the atmosphere paralyzing air traffic in Europe for days and costing individuals and businesses millions of dollars.

ICM definition of a business crisis

Any problem or disruption that triggers negative stakeholder reactions that could impact the organization’s financial strength and ability to do what it does.

In the United States, the Federal Emergency Management Administration (FEMA) reported a record 79 major disasters, compared to an average 34 per year.

These “sudden crises” not only disrupt lives, but they account for a major part of one-third of all business crises.

Smoldering Crises

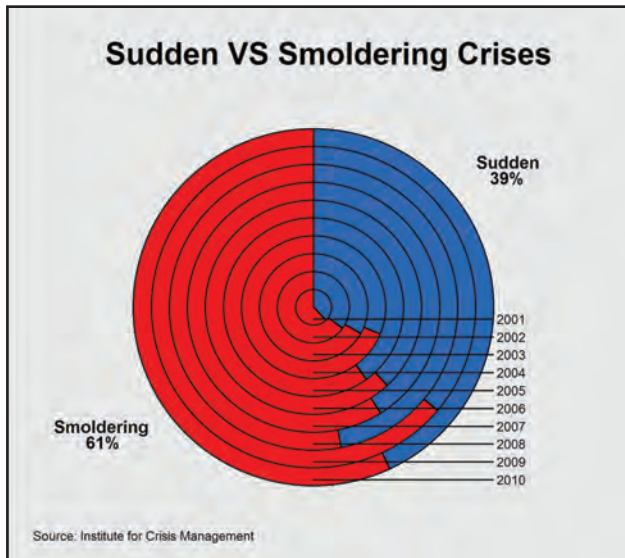
The two most damaging corporate crises were what the Institute for Crisis Management call “smoldering crises” – problems that could have been spotted and fixed before they became real, public crises.

Some will argue that the explosion on the BP oil rig Deepwater Horizon was a sudden crisis – an explosion that killed eleven and triggered a major oil spill in the Gulf of Mexico.

ICM maintains there is ample evidence there were a series of human errors and ignored problems, that had they been dealt with when they first occurred, could have prevented the disaster that cost BP so much money and additional damage to its reputation.

The Toyota “unintended acceleration” crisis, like the Firestone ATX tire debacle 20 years earlier, was a clear-cut example of a smoldering crisis. There were repeated indications of a problem with stuck accelerators for more than a year before the first headline grabbing deaths of a California police officer and his family.

The Los Angeles Times reported that more than 100 deaths resulted from the Toyota defects.



A smoldering crisis is a problem that starts out small and someone within the organization should recognize the potential for trouble and fix it before it becomes a public issue. A sudden crisis is just that.

Toyota was plagued with “corporate denial” that there could be anything seriously wrong with the engineering of their top selling world class cars.

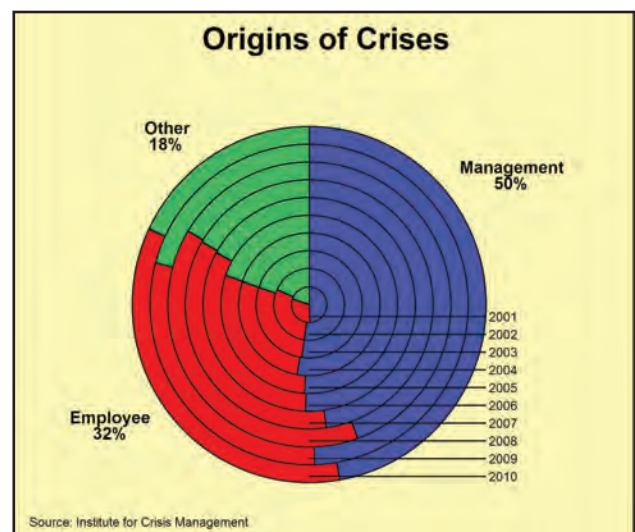
Their crisis was compounded by their own slow response, then attempts to blame others, including their suppliers and drivers themselves.

Northwestern University marketing professor Tim Calkins summed it well, “If you look at what they did, it was clear they didn’t really understand the magnitude of the issue and the potential PR risk.”

Auto companies recalled about 20-million cars and trucks last year led by Toyota’s 7.1-million vehicles recalled to repair or replace faulty gas pedals, floor mats, defective brakes and stalling engines.

Origins of Crises

Hand in hand with smoldering crises, is the consistent finding, year after year, in the Annual ICM Crisis Report that the majority of business and other organizational crises are caused by someone in a management or leadership position.



Executives and managers are responsible for at least half of all crises, on average, while employees are credited with causing 32% and outside forces triggered the remaining 18%, on average, during the past ten years. Managers and outside forces caused slightly fewer crises in 2010.

Defects and Recalls Double

The percentage of defects and recalls was down slightly from the year before, but the recalls that did occur made BIG headlines.

Besides cars and trucks, everything from baby cribs to over the counter drugs were recalled, and Johnson and Johnson was the biggest and most frequent headline in that category.

As the year drew to a close, Johnson and Johnson was served with a number of subpoenas from federal prosecutors related to repeated recalls of Tylenol and other consumer health products.

J & J CEO William Weldon told Congress his company “let the public down” with a series of quality issues that led to recalls of tens of millions of bottles of Tylenol, Motrin, St. Joseph Aspirin, Benadryl, Roloids and Simply Sleep Pills.

To make matters worse, investigators discovered J & J had tried to quietly buy up 88,000 containers of possibly defective Motrin, rather than issue a public recall.

In October 2010 GlaxoSmithKline paid \$750-million to settle a U.S. Justice Department lawsuit accusing one of the world’s largest pharmaceutical makers with selling contaminated and mislabeled drugs, including Paxil and Avandia.

Abbott Laboratories was forced to recall 359-million testing strips used by diabetics. The strips could give falsely low blood sugar readings.

Pfizer got in on the recall action, recalling 19,000 bottles of Lipitor, after complaints of an “odor” in some bottles.

AstraZeneca lost a case brought by the federal government and settled for \$520-million. The company was accused of illegally marketing it’s antipsychotic drug Seroquel for uses that had not been approved.

Scores of companies suffered hits to their good name and reputation with recalls of everything from pet food to toys in fast food restaurant children’s meals.

Two-million baby cribs from seven major manufacturers were recalled all in one day. The U.S. Consumer Product Safety Commission banned the sale of drop side cribs.

More than a million baby slings were recalled and two-million Graco strollers were recalled after four babies died in similar strollers.

McDonald’s pulled 12-million tainted Shrek glasses and Chuck E. Cheese recalled 1.2-million light-up rings and toy eyeglasses. Fisher-Price recalled another 11-million items for infants and toddlers.

GE Coffeemakers and front-loading washing machines along with 1.7-million Maytag dishwashers added to the recall headache.

A half-billion eggs were recalled after about 1,600 persons suffered salmonella poisoning. The owner of one of two suspected egg operations, Jack DeCoster had paid millions of dollars in state and federal fines over the past 20-years for health, safety, immigration and environmental violations at his farms.

Not only do the producers of “bad” food get a black eye, but the stores and restaurants who sell it suffer financial and reputational damage.

Taco Bell is one of those restaurants impacted by salmonella tainted food that sickened at least 155 customers in 21 states.

SEVEN TYPES OF CRISES INCREASE

ICM monitors negative news coverage of 16 broad crisis categories, and in 2010, seven accounted for a larger percentage of the crisis pie than they did the year before, while four crisis types declined in number.

Mismanagement, linked to so many business crises in 2009, was down by half in 2010, while white collar crime, financial damages, workplace violence, business damaged or disrupted, environmental damage, sexual harassment and whistle blowers all claimed a bigger percentage of the overall crisis picture in 2010 compared to the year before.

Defects and recalls, and workplace accident injuries and deaths were both down slightly from the year before, although the defects and recalls were fewer they involved big name companies and big time headlines.

The Crisis Categories Compared 1990 – 2010 (% of total crises each year)

	<u>1990</u>	<u>2007</u>	<u>2009</u>	<u>2010</u>
Facility Damage	5.5	7.0	7.0	11.0
Casualty Accidents	4.8	7.0	11.0	10.0
Environmental	7.8	2.0	2.0	3.0
Class Action Lawsuits	2.2	9.0	7.0	7.0
Consumer Activism	2.8	4.0	9.0	5.0
Defects & Recalls	5.4	4.0	8.0	6.0
Discrimination	3.3	3.0	3.0	3.0
Executive Dismissal	1.3	1.0	1.0	1.0
Financial Damages	4.2	4.0	5.0	6.0
Hostile Takeover	2.6	0.0	0.0	0.0
Labor Disputes	10.3	9.0	8.0	8.0
Mismanagement	24.1	11.0	16.0	8.0
Sexual Harassment	.4	1.0	1.0	2.0
Whistle Blowers	1.1	1.0	1.0	2.0
White Collar Crime	20.4	19.0	18.0	20.0
Workplace Violence	3.8	15.0	4.0	9.0

Manufacturing plant damages were up in 2010, but the number of deaths and serious injuries was down slightly.

Two brothers died and two others were seriously injured in an explosion at a small chemical plant in West Virginia. 21 workers were injured when a U.S. Steel Plant oven exploded near Pittsburgh.

An explosion and fire killed three people and critically injured four others at an oil refinery in Washington State.

The latest disaster there came a year after Washington State Department of Labor and Industries found “multiple” and “serious” violations at the plant.

Five died when a power plant under construction exploded near Middletown, Conn. killing five and injuring a dozen more. The blast was so powerful it could be felt by homeowners miles away.

18 people died and 50 more were injured when fire roared through a clothes factory in Bangladesh. Authorities said this was not unusual in a country where clothes factories are the largest export business.

Heavy manufacturing was not the only source of workplace disasters. A sewage treatment plant worker in Sewickley, PA was overcome by fumes and died, and three co-workers were hospitalized after trying to rescue him.

A 22-ton roll of steel fell off a Kendall Transportation truck in southern Indiana and smashed a passing car crushing three people to death and injuring another.

In almost every case above, no one was available or willing to talk to reporters in the hours after the incidents and in every case a state or federal investigation followed.

The U.S. Trucking Industry has a relatively good safety record, but when something does go wrong, it makes headlines.

An Alabama trucking company, Hester Inc. of Fayette, AL, was ordered to cease operations by the Federal Motor Carrier Safety Administration, after one of their drivers slammed his big rig into a van, killing 10 members of a single family and himself.

The president of the company, which had 26 drivers and \$3.6-million in revenue the year before, told a reporter "I don't owe you any explanation."

Workplace Violence

The workplace was a lot more dangerous in 2010 than it had been the previous year, and if you were an officer of the law, it was even more dangerous.

59 federal, state and local officers were killed by gunfire in 2010, 20-percent more than the year before. Overall deaths in the line-of-duty were up 37-percent last year, including traffic related deaths.

You didn't have to be a cop to face death by gunfire. A surgeon at the world renowned John Hopkins Hospital in Baltimore was shot by the son of an elderly patient, who then turned the gun on his mother and himself. The doctor survived.

A woman suspended and escorted out of a Kraft Food plant in Philadelphia, came back a short time later with a pistol. She killed two and critically injured a third worker.

Domestic violence is often manifested in the workplace. A former employee of an Albuquerque, NM fiber optics company stormed into the office where his girlfriend worked, killing five and wounding four others before turning the gun on himself.

A biology professor at the University of Alabama-Huntsville killed three associates over a tenure dispute.

A Manchester, Conn. warehouse driver was caught stealing beer and went on a rampage killing eight co-workers, wounding two others then killing himself.

Mass murder was not unique to the U.S. A British taxi driver cruised around his hometown of Seascale, England firing out the window, killing 12, wounding 25 others before shooting himself.

Guns were not the only weapon of choice in workplace violence incidents.

A 19-year-old woman stabbed another woman in an anger management class in Seattle, WA. Five men, armed

with knives slashed nine students at a vocational school in Beijing.

But, perhaps the most unique workplace violence weapon was a small private airplane. A Texas software engineer, mad at the Internal Revenue Service, flew his plane into the Austin headquarters of the IRS. Of the 190 employees inside, only a handful were injured. The pilot died.

ICM's Top Ten Lists

Most Crisis Prone Industries in 2010

1. * Petroleum Industry
2. Ship Building & Repair
3. * Automobile Industry
4. * Banking
5. * Air Transport
6. * Pharmaceutical Cos.
7. * Security Brokers
8. * Computers
9. Coal Mining
10. * Software

* In top ten previous year
(Ranked by percentage of database)

Eight of the top ten most crisis prone industries have been on the list two years in a row. Ship Building and Repair was new to the list, and that category was thrust in to the negative news limelight, in part, by the explosion of the Deepwater Horizon drilling rig.

Oil Rigs to Coal Mines

Coal mining has never been far from the top ten, but last year it broke into the upper tier of bad news industries.

The year before a record low 34 U.S. miners died in separate smaller incidents. But 2010 made up for that.

Federal inspectors found "outlawish" safety violations before and after a methane explosion killed 29 miners in a Massey Energy Company mine in West Virginia.

It was the most lives lost in a U.S. mine accident in 40-years, and prompted the FBI to initiate a criminal investigation.

It didn't help the company, when Massey CEO Don Blankenship grabbed the lens of an ABC TV camera and threaten, "If you're going to start taking pictures of me, you're liable to get shot, who are you?"

Another mine explosion killed 46 in Central China and that made bigger headlines than the rescue of 115 miners in a flooded mine in northern China two months earlier.

There was another huge mine collapse in Chile later in the year. It was at or near the top of the news around the world for 69 days. But it was a feel-good story, with the rescue of all 33 miners.

It was also a text-book example of how to manage a crisis. There was cooperation between the government and the mining company, as well as scores of agencies and other companies providing equipment, technology and human expertise and the media was not ignored.

There were another score of smaller mine incidents with two or more deaths and in most cases the coverage lasted a few days each time.

Most Crisis Prone Businesses 2010

1. BP PLC
2. Toyota Motor Corp.
3. Massey Energy Co.
4. * Goldman Sachs Group, Inc.
5. * Hewlett Packard Co.
6. British Airways PLC
7. Johnson & Johnson
8. Transocean Ltd.
9. Wal-Mart Stores Inc.
10. Halliburton Co.

***In top ten previous year
(Ranked by number of database records)**

Air Lines & British Air

It was a relatively safe year for commercial aviation in the United States, but not so in other parts of the world.

158 died in the crash of an Indian jetliner, 152 died when a Pakistani jet crashed while trying to land at Islamabad. 43 died in northeast China while another 90 perished in an Ethiopian Airlines crash just after take-off in Beirut.

A Cuban state airliner crashed in the mountains, killing 68. There were as many more crashes elsewhere in the world killing four to 21 passengers.

In the U.S. a two-foot hole opened in the fuselage of an American Airlines jet just after take-off from Miami. The plane landed safely and the 160 persons on board escaped injury.

However, Boeing, the maker of the jet, was the target of news coverage and subsequent investigations.

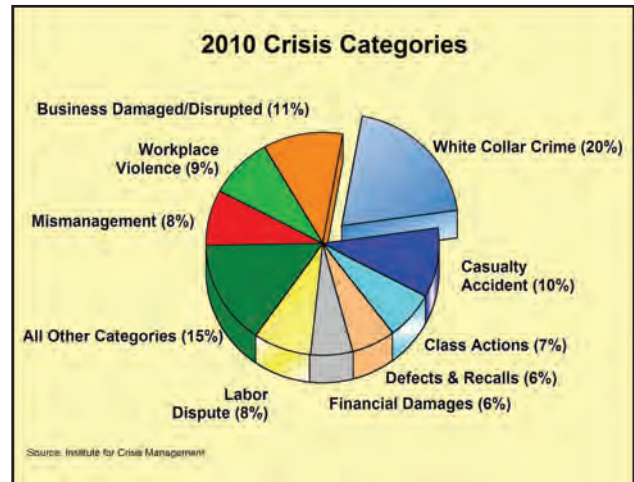
Rolls-Royce, maker of jet engines, was thrust into the headlines after their A380 engines malfunctioned four times before one disintegrated on a Quanta flight from Singapore to Sydney, with 430 people on board. The plane landed safely, but Rolls-Royce did not. Quantas filed legal action against the engine maker.

But the airline industry suffered most from customer service issues. British Air crews went on strike forcing the cancellation of 1,000 flights.

Then, volcanic ash from Iceland shut down air traffic for six days costing European airlines at least \$1.7-billion.

Add to that irate passengers who faced more intrusive pat-downs by U.S. security agents, and a \$200,000 fine against Southwest Airlines for bumping more passengers than any other U.S. carrier.

And how could we forget the 16-hour “flightmare” on Virgin America Flight 404, diverted to an alternate airport after a 5 ½ hour flight from Los Angeles to New York City and a long time in a holding pattern before diverting to another smaller airport, where the passengers and crew were held in the plane for another 4 ½ hours.



“Other” category:	Environmental	3%
Discrimination	Hostile Takeovers	0%
Sexual Harassment	Whistle Blowing	2%
Executive dismissal	Consumerism	5%

Shootings, hazing, faculty disputes, student pranks and school transportation accidents put public schools, universities and colleges in the bad news headlines, but a problem at the University of Louisville was a harbinger of a growing crisis category – potential loss of student, staff and patient personal information through data base carelessness or hackers.

U of L administrators apologized to more than 700 patients of University Hospital when it discovered their names, social security numbers and other private health information has been entered into a computer without any password protection.

Hackers will continue to make news and create major headaches as they infiltrate corporations, small businesses and government agencies.

A company that guarantees federal student loans was hacked early in the year and personal data on about 3.3-million people was stolen.

Security experts said a network of 74,000 virus-infected computers was used to attack 2,400 financial institutions, pharmaceutical and energy companies.

Computer companies took hits on their reputations in 2010. Dell paid \$100-million to settle federal civil charges that it used fraudulent accounting to meet Wall Street earnings target.

And, Hewlett-Packard CEO Mark Hurd, accused of sexual harassment, resigned, and then shareholders filed suit against the board.

MEET ICM'S NEWEST CONSULTANT



ICM has significantly expanded its expertise and services with the addition of one of the country's leading experts on crisis leadership. Erika Hayes James, Ph.D., has joined the ICM crisis management team, bringing her talents as a teacher, and business leadership consultant to our crisis communication planning, training, and consulting company. Read her published research articles, and view video clips, visit <http://www.erikahayesjames.com>. ICM President Smith says the addition of James and her experience, knowledge and skills allows the company to add custom crisis leadership development programs for our clients.



Institute for Crisis Management

President Larry Smith and our experienced Senior Consultants bring nearly 50 years experience in the media, industry government & public relations to help clients plan, train, prevent and when necessary, manage their crises.

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