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Annual ICM CRISIS REPORT

News Coverage of Business Crises
During 2006

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OVERVIEW

If there was one significant lesson from the 2006 ICM Crisis Data Base of negative news coverage it was the long-term life of a crisis. Enron, Worldcom, Arthur Anderson, Tyco, Martha Stewart, ImClone, Merrill Lynch all began their public meltdown in 2001. Most of them were still in the headlines in 2006.

The Enron story hit its stride in 2002 and it was November 2006 before the last Enron executive was sentenced to 5 years in prison. In between, more than 16 executives pleaded guilty or were found guilty in lengthy trials that commanded worldwide headlines. The former Enron CEO was sentenced to 24-years and four-months. Enron founder Kenneth Lay was also convicted of 10 counts of fraud and conspiracy, but died before he ever served a day in prison.

WorldCom, the telecommunications giant, was still in the headlines from its 2002 scandals. Late in 2006 former WorldCom chief Bernard Ebbers drove his Mercedes to a federal prison in Louisiana to begin serving a 25-year sentence for his part in the \$11-billion fraud that drove his company into bankruptcy.

Overall business crises were down slightly from the record year of 2005. Fortunately 2006 was spared the tsunamis, earthquakes, hurricanes, and other natural disasters that

made 2005 the worst since ICM began tracking business crises news in 1990;

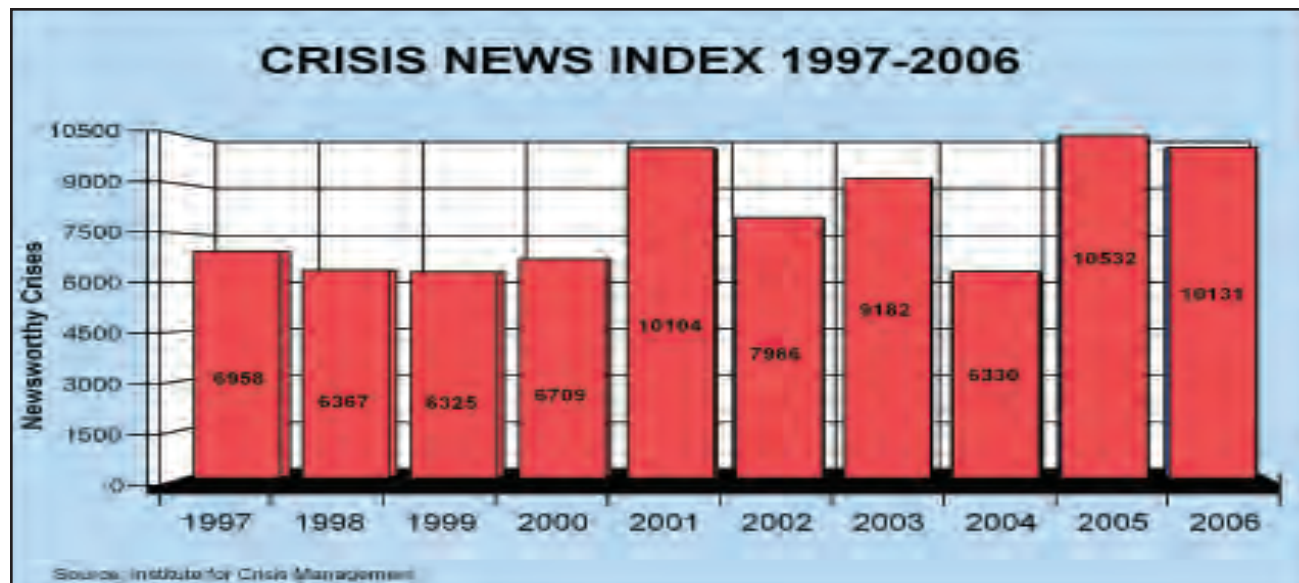
ICM definition of a business crisis

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

2006 reinforced the old axiom that those who ignore history are doomed to repeat it.

When ICM began compiling this annual report in 1990, mismanagement and white collar crime were the two most frequent types of business crises.

There are years it appears the corporate world "gets it." Doing the "right thing" is almost always the right thing to do. Then along come years like 2001 and 2002 when executives and other organization leaders defy reason and not only break the rules, but break the law. 2006 was another of those years. White collar crime accounted for 21-percent of all business crises in 2006



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

Crisis Categories Compared 1990 – 2006
(% of total crises each year)

	1990	2002	2005	2006
Catastrophes	5.5	4.0	14.0	9.0
Casualty Accidents	4.8	4.0	9.0	7.0
Environmental	7.8	2.0	2.0	2.0
Class Action Lawsuits	2.2	20.0	13.0	7.0
Consumer Activism	2.8	2.0	7.0	4.0
Defects & Recalls	5.4	13.0	3.0	4.0
Discrimination	3.3	3.0	3.0	4.0
Executive Dismissal	1.3	1.0	2.0	2.0
Financial Damages	4.2	3.0	4.0	4.0
Hostile Takeover	2.6	1.0	1.0	1.0
Labor Disputes	10.3	11.0	9.0	10.0
Mismanagement	24.1	11.0	9.0	14.0
Sexual Harassment	.4	1.0	1.0	2.0
Whistle Blowers	1.1	1.0	1.0	1.0
White Collar Crime	20.4	14.0	18.0	21.0
Workplace Violence	3.8	11.0	3.0	9.0

and mismanagement was the next worst crisis category representing 14-percent of all crises.

In 2006 there was plenty of evidence that judges are losing patience with dishonest and unethical business men and women. The former CEO of Computer Associates was sentenced to 12-years in prison for manipulating CA's earnings.

Freddie Mac, the home loan giant agreed to pay \$3.8-million in fines for making illegal campaign contributions. The chief executive of one of America's largest paper makers was sentenced to 15-years in prison for a failed \$300-million fraud trying to save his company from bankruptcy.



Executives and managers continue to be responsible for a fraction over half of all crises that strike organizations of all sizes, while employees are credited with sparking 29% and outside forces trigger the remaining 19%, on average, over the past ten years.

And, four former executives of Berkshire Hathaway's General RE Corp, and a former executive of American International Group, Inc. were indicted on charges they tried to manipulate AIG's financial statements.

You don't have to be one of the biggies to get caught up in this kind of scandal. A purchasing manager for a Louisville, KY based Masonic Home, bilked his employer out of thousands of dollars by billing the not-for-profit for medical equipment and cleaning supplies that were never delivered. He went to prison for three years and five months.

Public attention to executive dismissals were down in 2006, to only 2-percent of all negative news coverage, but according to Challenger Gray & Christmas, 2006 was a year of CEO bloodbaths. The consulting company said as many as six corporate executives were fired, forced out or left just ahead of the axe everyday that year. Much of that turnover was due to incompetence, mismanagement, unethical behavior or simply poor performance. Corporate executives have a lot in common with basketball, football and baseball coaches. Win or else!

Most Crisis Prone Industries
2006

1. * Airlines
2. * Software Makers
3. * Pharmaceutical Companies
4. Computer Manufacturers
5. * Natural Gas Companies
6. * Petroleum Refining
7. * Health Services
8. * Banking
9. * Security Brokers/Dealers
10. * Telecommunications

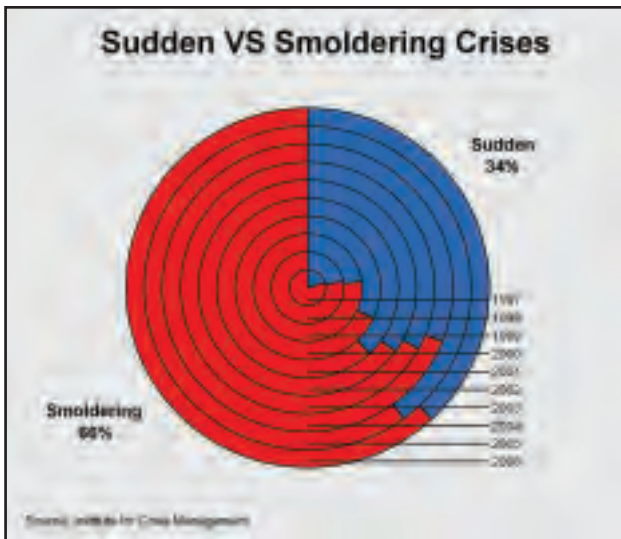
(Ranked by number of data base records)

*In top ten previous year

Nine of the ten most crisis prone industries repeated from the previous year. Only computer makers were new to the top ten.

They included Dell with its exploding laptops. Video of the exploding computer made the rounds of the web and Dell was slow to react. Then Sony's huge laptop battery recall impacted most laptop sellers and distracted Sony as it was launching its PlayStation 3.

If that wasn't enough to guarantee the computer industry a top spot, PRWeek called HP's spying on Board member leakers the best corporate soap opera.



Most executives and managers still think of fires, explosions and natural disasters when they think about crisis planning, but it is the smoldering crisis that is still more likely to hit your organization. On average, over the past ten years, two-thirds of all business crises are the smoldering type.

A smoldering crisis is a problem that starts out small and one that someone within the organization should recognize as potential trouble and try to fix before it becomes a public issue.

SUDDEN CRISES

Workplace violence was down slightly in 2005, but came roaring back with a vengeance in 2006. The actual numbers were relatively small, but it translated into a 151% increase from the year before. The U.S. Occupational Health & Safety Administration says there are nearly two-million workplace violence incidents a year and in recent years workplace homicides have killed 550 to 700 U.S. workers a year. It will be another year before OSHA knows how many workplace homicides there were in 2006.

If you don't count Vice-President Cheney's accidental shooting of a hunting companion, there were still plenty of sudden and unexpected crises.

It was a bad year for the Cruise Line industry. Dozens were injured, two critically, when the Crown Princess rolled onto its side. One died and 11 others were hurt when fire broke out on a cruise ship in the Caribbean.

A U.S. government study said at least 21 people were killed in school shootings in 2005 and nearly as many died in 2006, including six Amish girls at a small, rural school in Pennsylvania, and high school students died when a sleepy semi driver plowed into their bus near Huntsville, AL.

Hospitals were not any safer. A hospital pharmacy worker was fatally shot.

Fire in a Nevada hotel killed six. Ten were killed and 24 hurt when fire destroyed a Missouri group home. An explosion ripped through a chemical plant and destroyed nearby homes and businesses in Danvers, MA.

A gas leak in a downtown Milwaukee warehouse, killed three and injured 46. And a North Carolina chemical plant was leveled and 14 hurt, to start the year.

SMOLDERING CRISES

The airline industry led the top ten most crisis prone industries for the year. And the industry faced horrific sudden crises and even more smoldering crises.

There was some good news. The French Airbus A380 was finally cleared for commercial service, but on the day that was celebrated, police raided the headquarters of Airbus parent EADS launching an investigation into insider trading.

A year-end report from a Geneva based aviation organization concluded the number of air crashes around the world fell 12.4 percent in 2006, making it one of the safest in aviation history. But tell that to families of the 170 people who died when a Russian jet crashed in the Ukraine, or to the 49 families who lost loved ones when a Comair regional jet crashed in Lexington, KY.

But not all the airlines' bad news was sudden. Most of it was the smoldering type. U.S. Air came under fire for "profiling" when it ordered six Muslim clerics off a flight in Minnesota.

Delta was in its second year of bankruptcy and the federal Pension Benefit Guaranty Corp. granted its request to terminate its pilot pension plan. Earlier in the year a federal bankruptcy judge approved Delta's plan to cut \$50-million in health benefits for 42,000 retirees, spouses and survivors. This was a very contentious issue for much of the year.

Northwest continued in the top ten, dealing with issues ranging from strike threats and court injunctions to a new fee for premium (aisle) seats, still racking up significant losses, quarter after quarter as it worked its way out of bankruptcy.

Most Crisis Prone Businesses in 2006

(Ranked by number of database records)

1. * Enron Corp
2. Hewlett-Packard, Co.
3. * Microsoft
4. * Wal-Mart Stores
5. * Northwest Air
6. * Merck & Co.
7. Computer Assoc.
8. Goodyear Tire
9. * Boeing Co
10. Delta Air Lines

*In top ten previous year

Microsoft has only missed the top ten list twice since 1997. Boeing has been in the top ten 7 out of the past 8 years.

At mid-year Boeing was reporting booming airplane sales, but still suffered a \$160-million second-quarter loss because of \$1.1-billion in charges for defense-contract misconduct and production delays.

Boeing is one of those companies where management has trouble understanding that it pays to do the right thing. Much of the loss was due to a \$615-million settlement with the government for improperly hiring a former Air Force officer and misusing data from competitor Lockheed Martin in an effort to win government contracts.

Not only did Boeing lose money, as a result, but the scandals forced CEO Phil Condit to resign and a former CFO and the Air Force officer went to jail.



And then there's Wal-Mart, the company everyone loves to save money with, while bashing them for being successful.

Wal-Mart has taken it on the chin in recent years with allegations of low pay, poor employee benefits, price pressure on suppliers, and forcing its way into communities where existing business does not want them.

So, in 2006 Wal-Mart set out to defend itself and correct the perceived misinformation that plagues the giant. In the process Wal-Mart helped deliver a black-eye to one of the nation's top public relations companies, Edelman, with a poorly identified blog, funded by a Wal-Mart organization, AstroTurf.

But that didn't stop Wal-Mart from kicking up the heat in a web site battle with its union critics, while offending Christian conservatives with what they claim is a low-key outreach to gay-rights organizations.

And Wal-Mart lawyers ran up the billable hours in court through the year. A court in Pennsylvania ordered Wal-Mart to pay \$78.5-million for violating the state's labor laws by forcing employees to work through their rest breaks and off the clock.

A Kentucky judge granted class-action status to a similar lawsuit covering an estimated 145,000 Kentucky Wal-Mart workers.

In another strange case, the company settled a class-action lawsuit in Oklahoma, filed by the survivors of 73 former employees. They claimed Wal-Mart had taken out life insurance on their loved ones, and when they died, Wal-Mart collected the benefits.

Wal-Mart ended up paying up to \$50,000 per family and said it would no longer buy insurance on its own employees.

And if that is not bazaar enough, former Wal-Mart vice-chairman Tom Coughlin, a protégé of founder Sam Walton, pleaded guilty to charges he stole money, gift cards and merchandise from his own stores.

PHARMACEUTICALS

Merck continued to be the poster child for bad pharma news. Beginning with a 2004 decision to pull arthritis drug Vioxx from the market, Merck has been embattled with negative headlines, and more than 9,650 lawsuits, government inquiries and internal strife.

At mid-year, The New England Journal of Medicine reported the risk of heart problems was elevated throughout the time people took the drug and did not take 18-months of use to develop a threat, as the maker had claimed.

In the courtroom, Merck won some and lost some. By the first of October 2006, Merck & Co. had won five cases, lost four and a sixth "win" was over-turned and sent back for retrial. Thousands more cases are still winding their way through hundreds of courts. Merck was ordered to make payments ranging from \$13.9-million up to \$51-million.

Then, in what many have called a \$21-million PR effort, Merck's Board commissioned an investigation led by a former Princeton president and carried out by a pro-business law firm.

The company-financed investigation of itself concluded that Merck executives did not knowingly expose Vioxx patients to adverse side effects. New York Times reporter Alex Berenson wrote about the report, "It isn't going to change anyone's mind."

He added, the 1,700 page report "reads like a defense brief."

The report did reveal that some members of the marketing and sales team talked about "neutralizing" physicians who were critical of Merck or Vioxx.

In the middle of the more than two-year long battle over Vioxx, Merck was threatened with a new class action lawsuit, claiming that its second best-selling drug Fosamax causes rotting of the jaw bone.

Merck was not the only pharmaceutical company in crisis in 2006. For the third time in five years, Perrigo Co. manufacturer of store brand acetaminophen, recalled 11-million bottles after some were found contaminated with tiny metal fragments.

A fired employee of Eli Lilly & Co. claimed "It's like a plantation . . . at the manufacturing sites." His suit alleges Lilly paid black employees less than their white co-workers, passed them over for promotions and subjected them to harassment and name calling.

The year ended with the world's largest drug maker, Pfizer, stopping development on a new cholesterol lowering drug following unexpected deaths in human tests. The day the news was released, Pfizer stock closed down \$2.96 a share.

Bristol-Myers Squibb ousted its CEO after problems with the drug Plavix and poor stock performance.

ICM tracks 16 broad crisis categories

In 1990, ICM began monitoring 1500-plus print business sections of newspapers and magazines, business and financial wire services, regional business publications and industry and trade publications world-wide.

- Catastrophes
- Environmental
- Class Action Lawsuits
- Consumerism Actions
- Defects and Recalls
- Discrimination
- Executive Dismissal
- Financial Damage
- Hostile Takeovers
- Labor Disputes
- Mismanagement
- Sexual Harassment
- Whistleblowing
- White-Collar Crime
- Workplace Violence
- Casualty Accidents

Healthcare did not escape crises in 2006. Boston Scientific paid \$27-billion dollars to acquire Guidant in spite of pending government investigations and more than 100 class-action and individual lawsuits pending. The Indianapolis maker of medical devices ended up recalling 88,000 defibrillators and recalled or issued safety warnings for more than 200,000 pacemakers.

In court, a letter was introduced as evidence that warned doctors about a potential dangerous electrical malfunction in some of its defibrillators, but the letter was never sent because the company did not want to cause "undue alarm."

Two patients had died at that time.

Methodist Hospital in Indianapolis quickly made cash settlement offers in September, after a pharmacy technician mixed up adult dose blood thinner that was then given to at least six premature infants. Two died, four recovered.

Labor and legal issues also infected hospitals. The U.S. National Labor Relations Board was finally upheld by a federal appeals court and Jane Gentry was awarded \$400,000 for being fired by a Kentucky hospital because of her efforts to unionize nurses where she worked.

The same hospital company was sued by a psychiatric nurse after she was fired. She claims she was fired because she took legal action to protect herself from a disturbed patient who had assaulted her earlier.

A Los Angeles hospital closed its neonatal and pediatrics intensive care units after a potentially fatal infection sickened seven children. An unclean medical instrument was identified as the source.

Fraud reared its ugly head in a number of medical practices again in 2006 and Tenet Healthcare, the nation's

second largest hospital operator agreed to pay \$900-million to settle charges it overbilled Medicare, made illegal kick-backs to doctors and used the wrong billing codes to bilk the government.

Again, you don't have to be working for the biggest healthcare provider to do something stupid. The daughter of a 74-year-old man who froze to death after wandering away from an Indiana nursing home filed a lawsuit claiming the staff bathed him, changed his clothes and put him back in his bed after finding him dead, outside. A Sheriff's department report said "...the facility went to great lengths to hide the facts. . ."

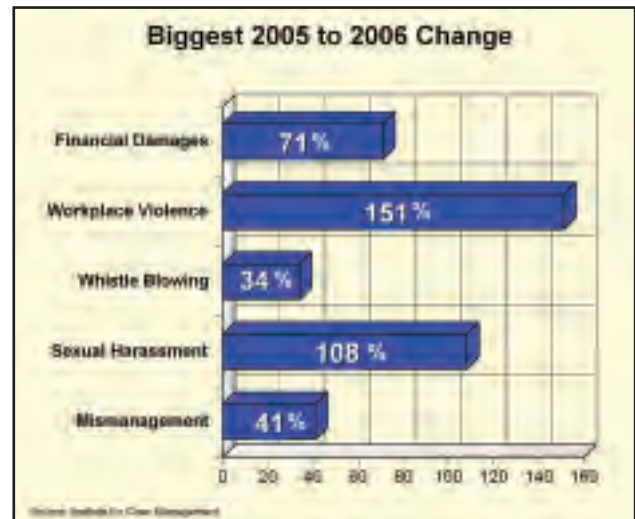
LESSONS LEARNED

Two-thirds of all crises should never make it to the level of "crisis." From the top of the management chain to the bottom of the organization food chain, everyone should always be on the lookout for those little problems or issues, that ignored, or under estimated, can grow into a full-blown public nightmare. This rule of crisis prevention applies to everyone from General Motors; to Genny's Diner and from the University of Virginia to the Westside Battered Women's Shelter.

However big or small your company, school, hospital, or non-profit, you should have a crisis operations plan, a communication plan and a business recovery plan, and in a perfect world, those three plans should be integrated into one document and it should be kept up-to-date and tested regularly.

Your reputation changes as the public perception of you changes. You cannot afford to waste a minute when your reputation is in trouble. Confront bad news, fix the cause and send your best spokesperson out to explain what you're doing.

Cision US, says proactive communication leads to a shorter period of negative news and then it fades faster.



To order a ten-year look at your own business, industry or organizations' negative news history, from the ICM Crisis Data Base, call 1-502-587-0327.

IT'S STILL NOT TOO LATE FOR PANDEMIC PLANNING

A growing number of companies and other organizations began to seriously plan for the next worldwide pandemic during 2006. The World Health Organization (WHO) and the U.S. Center for Disease Control (CDC) say it's not a matter of "if," but "when and how bad" the world will be impacted. The world has experienced a flu pandemic every 30-to-40 years since 1500. There were three in the last century, 1918, 1957 and 1968 and it was the 1918 pandemic that killed half-a-million Americans and as many as 50-million other people around the world.

Plan for that one, and anything less severe will seem like nothing at all.

Y2K planning was expensive. Pandemic planning is not. However, not planning could be very costly later, when you can least afford it.

There are four broad areas every organization should be planning to manage:

1. Cash flow or lack of it
2. Human resources issues/policies
3. Legal issues/contracts
4. Communication before, during & after a pandemic

What will you do if 20-to-40% of your workforce is out sick or afraid to come to work for up to three months? It's not too late to decide what changes to make to personnel policies, to review all contracts for loopholes that might cause you financial ruin in a pandemic, and decide how to recover quickly after experiencing a negative cash-flow for up to six months.



Institute for Crisis Management

**ICM President
Larry Smith** and our staff of experienced Senior Consultants bring more than 45 years experience in media, government & public relations to help clients plan, train, and if necessary, manage their organization's crises.

The **Institute for Crisis Management** is a company that concentrates on Crisis Communication Planning, Training and Consulting and serves clients throughout the US and abroad.

ICM develops communication strategies that can avert or at least minimize the disruption and financial impact of a sudden or smoldering crisis so the client business or organization can return to normal as quickly as possible.

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