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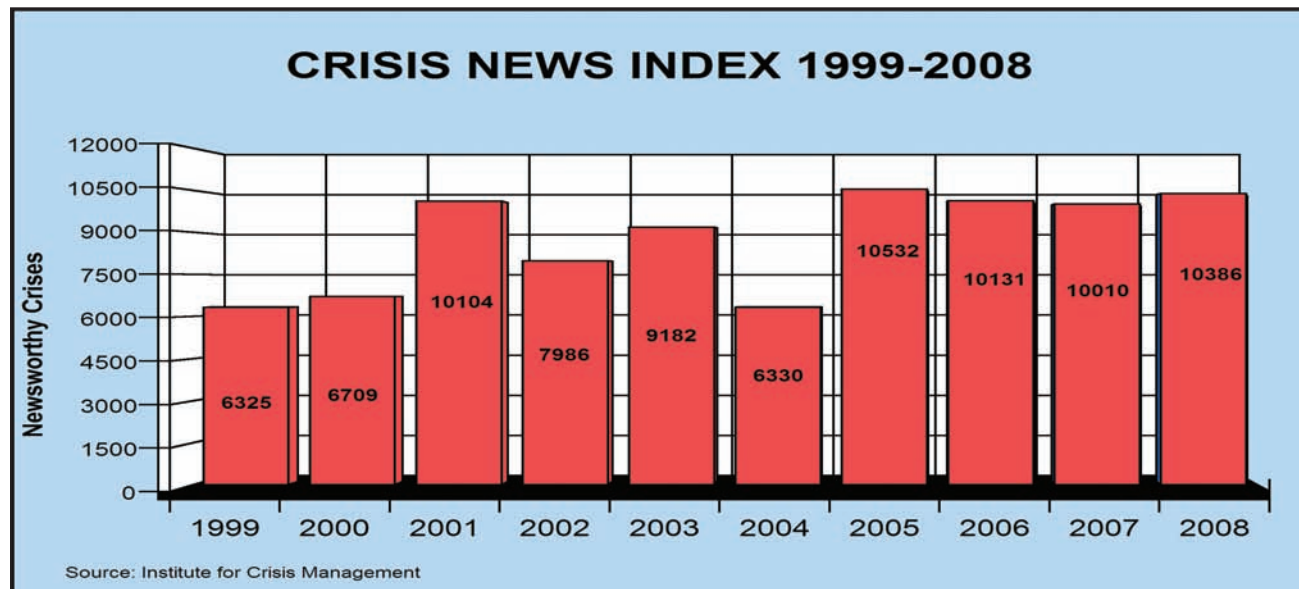
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Annual ICM CRISIS REPORT

News Coverage of Business Crises
During 2008

Volume 18, No. 1

May 2009



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

OVERVIEW

Business crises were up only slightly in 2008, compared to the year before. But there were significant increases in negative news coverage in eight of the 16 broad crisis categories ICM tracks.

The increases may be evidence of a number of factors. The impact of the internet and social media cannot be discounted. Stories move quickly on the internet forcing mainstream media to report on them or look deeper into them.

Plus, election year rhetoric emphasized the “bad news” day after day in the mainstream media.

The crashing economy, with all its subsequent stories (i.e. Madoff, GM, etc.) plus terrible natural disasters around the world contributed to a significant increase in workplace violence, financial damages, defects and recalls, business damages as well as casualty accidents in the workplace, hostile takeovers and even an increase in the number of environmental issues that drew public attention.

The first week of January 2008 saw tornadoes wreak death and destruction in four U.S. states. By May there were more tornadoes in the U. S., a cyclone devastated Myanmar, killing 78,000, and a 7.9 earthquake in China

killed 78,000 and left a million people homeless.

Boy Scouts were killed in a tornado in Iowa and more than 1,300 died when a Typhoon hit the Philippines. And that was just the first half of the year.

2008 was particularly difficult for companies and organizations that faced defects and recalls and economic challenges. In fact, it’s hard to remember that the underlying crises began making economic headlines in 2007.

Countrywide, Bear Stearns, Citigroup, E-Trade Financial, New Century Financial and Merrill Lynch, just to name a few, lost billions of dollars and untold business because of their involvement in the sub-prime meltdown. Mortgage defaults, falling home prices, chaos in commercial lending and the collapse of homebuilding picked up steam as 2008 began.

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.

The first hint of trouble in the sub-prime market began in late 2006, but the real bad news began to make headlines in the third and fourth quarter of 2007. And the multi-faceted economic crisis spread to almost every corner of the world and every type of for-profit and not-for-profit organization.

Citigroup cut at least 53,000 jobs and Bank of America eliminated more than 30,000 jobs. Federal regulators took over mortgage lenders like IndyMac and by mid-year seven banks had failed.

By September, the U.S. Government had seized AIG, Inc, one of the world's biggest insurers.

By August, 12 U.S. companies with at least \$1-billion in assets filed for bankruptcy protection. That's more than in the preceding four years combined. U.S. Bankruptcy Court data tracks filings from July 1 to June 30. Mid-2008 33,822 business filings were in the federal legal system from the last half of 2007 and the first half of 2008.

Starbucks closed 600 stores across the U.S., Disney shut 98 stores, Good Year closed 92 U.S. stores, Home Depot closed 15, Mrs. Fields, Bennigan's and Circuit City filed for Bankruptcy and DHL cut back U.S. operations.

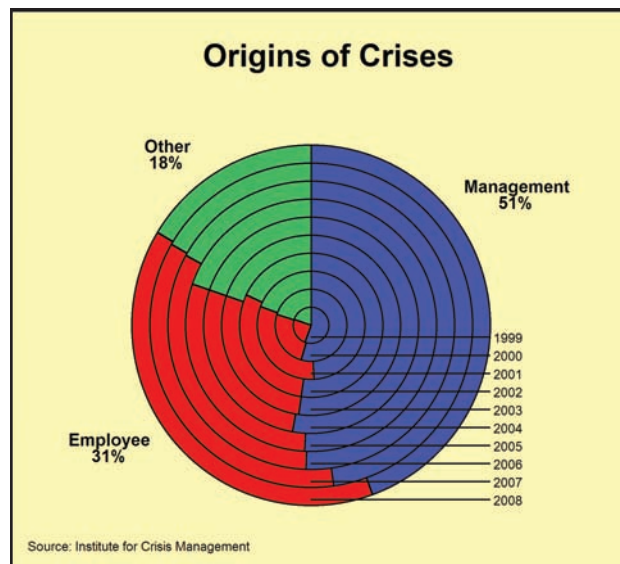
A Superior Court judge also ordered Starbucks to pay \$100-million in back tips to its California baristas.

Crisis Categories Compared 1990 – 2008
(% of total crises each year)

| | <u>1990</u> | <u>2007</u> | <u>2008</u> |
|-----------------------|-------------|-------------|-------------|
| Facility Damage | 5.5 | 7.0 | 10.0 |
| Casualty Accidents | 4.8 | 7.0 | 9.0 |
| Environmental | 7.8 | 2.0 | 3.0 |
| Class Action Lawsuits | 2.2 | 9.0 | 5.0 |
| Consumer Activism | 2.8 | 4.0 | 4.0 |
| Defects & Recalls | 5.4 | 4.0 | 4.0 |
| Discrimination | 3.3 | 3.0 | 3.0 |
| Executive Dismissal | 1.3 | 1.0 | 1.0 |
| Financial Damages | 4.2 | 4.0 | 4.0 |
| Hostile Takeover | 2.6 | 0.0 | 0.0 |
| Labor Disputes | 10.3 | 9.0 | 11.0 |
| Mismanagement | 24.1 | 11.0 | 10.0 |
| Sexual Harassment | .4 | 1.0 | 1.0 |
| Whistle Blowers | 1.1 | 1.0 | 1.0 |
| White Collar Crime | 20.4 | 19.0 | 17.0 |
| Workplace Violence | 3.8 | 15.0 | 17.0 |

CEOs were bailing or getting the boot in record numbers, too. According to consultant Challenger, Gray & Christmas, 370 CEO positions turned over in the first quarter of 2008, alone. Of 118 CEO resignations, the consulting company says many were probably "less than voluntary."

Federal authorities confirmed the indictment of hundreds of housing developers, mortgage lenders and brokers, lawyers, real estate agents and appraisers around the U.S., while two Wall Street fund managers were charged with separate crimes.



Executives and managers are responsible for more than half of all crises, on average, while employees are credited with causing 31% and outside forces triggered the remaining 18% on average in the past ten years. However, employees sparked more crises in 2008 than normal.

One trader at French bank Societe Generale was charged with a \$7.2 billion fraud. The CEO of a failed Ohio health-care financing company was convicted of a \$1.9-billion fraud that prosecutors compared to the Enron and WorldCom scandals.

And then there was food poisoning – beef, tomatoes, jalapenos, pancake mix, cereal and bottled water, along with melamine tainted eggs, milk and infant formula. China reported nearly 53,000 children were sickened by tainted formula. And, Florida's tomato industry was in near collapse, with nearly \$40-million worth of tomatoes people were afraid to buy.

Topps Meat Co. had been in business more than 60 years, but after recalling nearly 22-million pounds of contaminated beef in 2007, the company was forced out of business in early 2008. More than 5,000 creditors had unsecured claims of about \$1-million after the Topps bankruptcy was over.

Based on Centers for Disease Control data, the U.S. alone averages 371,000 hospitalizations a year and 5,700 deaths from food borne illnesses.

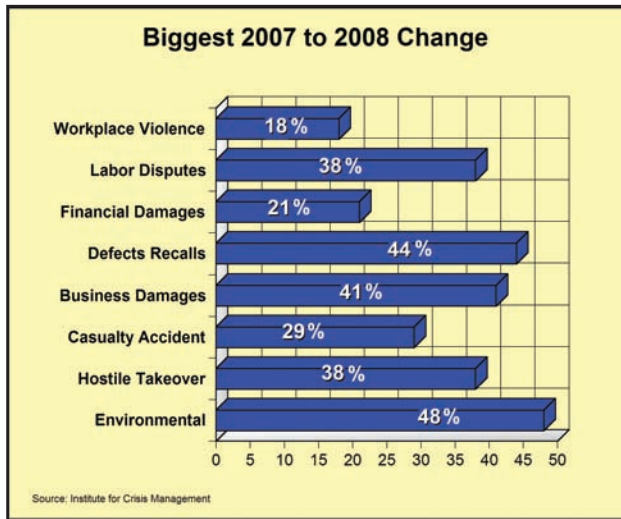
And here is a reason why all banks and most other organizations should have a crisis communication plan for computer and internet issues. HSBC Bank of Buffalo, NY experienced a systems crash that interrupted financial services and delayed payday for thousands of people for six days.

All of the financial, banking, investment and insurance issues, along with most of the product recalls and contaminated or tainted food and defective product problems were what ICM calls "smoldering crises."

EIGHT TYPES OF CRISES INCREASE

ICM monitors negative news coverage of 16 broad crisis categories, and in 2008 eight were up 18% or more.

Environmental incidents only accounted for three-percent of all crises in 2008, but was up 48% over the year before for a total of at least 305 cases.



The percentage numbers are relatively high, but the actual numbers of crisis events are relatively small.

Class action lawsuits increased slightly from 2006 to 2007, but soared in 2008. There were 525 class action cases that made headlines in the U.S. Class action lawsuits are still unique to the United States.

51 hostile takeovers were big enough to make headlines in 2008 and that was up 38% from the year before.

Defects and recalls were up 44% compared to 2007. There were 410 defects and recall issues that got the attention of editors.

MOST CRISIS PRONE INDUSTRIES

Eight of the ten most crisis prone industries repeated from the previous year.

The American Big Three and all of the top selling European and Japanese carmakers struggled with ever worsening “bad news” throughout 2008.

Product defects and recalls accounted for 15% of all crises in 2008, including recalls by GM, BMW, Nissan, Ford, Honda, Pontiac, Chrysler and Porsche.

There were major toy recalls, including problems with dangerous and tainted toys. China’s toy industry was devastated, as a result, and 3,600 factories were closed and thousands of workers out of work.

SUDDEN CRISES

2008 was a bad year for the airline industry, with at least six commercial aircraft crashes in various parts of the world killing 50 to 160 persons in each. That’s not

counting another dozen fatal private, tour and medical aircraft accidents.

On top of that, Air Canada had to deal with bad publicity after a co-pilot had a mental breakdown and had to be forcibly removed from the cockpit over Ireland.

ATA closed its doors, Continental cut 3,000 jobs, and at least three other international carriers failed.

American Airlines and Southwest were hit with multi-million dollar fines for safety violations and American, United, Delta and U.S. Airways were investigated for various violations, garnering negative headlines.

But the airline industry was not alone dealing with bad news. Operators of cruise ships, passenger buses, ferries, trains, hotels and amusement parks had to face the media, employees, customers and investigators when accidents, deaths, injuries and service disruptions struck.

TV cameras were live from construction crane collapses in New York City and Miami. 250 cranes are in use across New York City every day, according to Mayor Michael Bloomberg.

WORKPLACE VIOLENCE

Workplace violence made up 17% of all negative business and school news in 2008 and was up 18% over 2007.

An unhappy resident opened fire at a Kirkwood, MO city council meeting, killing five, including two policemen, a councilman and seriously wounding the mayor.

There were firearms attacks in a Toys ‘R Us, a bank, a Wendy’s, high schools and college campuses, six died after an argument with a plastics plant manager, and a passenger on a Canadian Greyhound bus was beheaded by another passenger.

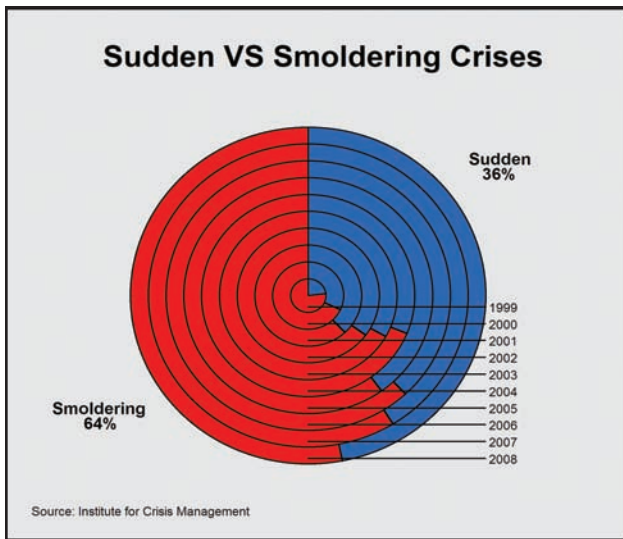
Louisiana and Texas were among the hardest hit states when Hurricane Gustav came ashore in September and the first day of the Republican National Convention was shortened and more than a million homes and businesses were without power in the New Orleans area.

Most Crisis Prone Industries 2008

1. * Banking
2. Food Industry
3. * Security Brokers/Investment Co.
4. * Petroleum Industry
5. Insurance Industry
6. * Automobile Manufacturing
7. * Pharmaceutical Companies
8. * Software
9. * Aircraft Industry
10. * Telecommunications

(Ranked by number of database records)

*In top ten previous year



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.

SMOLDERING CRISES

Two thirds of all business crises are what ICM calls smoldering crises. They are the kind of issues and problems that could be spotted and fixed before they ever get big enough and out of control.

Whistle-blowers helped the government recover at least \$9.3-billion from healthcare providers accused of fraud.

Most Crisis Prone Businesses in 2008 (Ranked by number of database records)

1. Madoff Investments
2. * Boeing
3. Societe Generale S.A.
4. * General Motors
5. Shijiazhuang Sanlu Grp.
6. Exxon Mobile Corp.
7. Bear Stearns
8. * Microsoft
9. AIG, Inc.
10. Lehman Brothers

***In top ten previous year**

Microsoft continues to be rated by a number of surveys as one of the best/top companies in the world, but it continues to rank among the top crisis prone companies, at the same time.

A U.S. District Court Judge ordered Microsoft to pay Paris-based Alcatel-Lucent \$511.6-million for infringing on two patents in a 5-year-old dispute.

Apple joined Microsoft on the hot seat in 2008. Rumors about CEO Steve Jobs' health had been circulating for months and the company had not dealt with those rumors effectively. In October a false report of a Jobs' heart attack sent Apple plummeting 11%.

Earlier in the summer a three-alarm fire damaged the Cupertino, CA headquarters of the computer maker.

Wal-Mart failed to make the most crisis prone list in 2008, after spending five years in a row on it. But it was not without trying.

The world's largest retailer kicked off the biggest day of holiday shopping, Nov. 27 with a stampede in a Mineola, New York store that left one man dead and seven others injured.

Wal-Mart eventually agreed to pay \$2-million and improve safety at its 92 New York stores.

A judge ruled against Wal-Mart in a class-action lawsuit finding the company forced employees to work "off the clock." The company settled 63 lawsuits from 42 states and agreed to pay \$325-million.

And the giant retailer made headlines in November when thousands of managers and department heads were summoned to mandatory meetings and told that voting for Democrat Barack Obama would be the same as inviting unions in.

After seven years at the top of the Fortune 500 list, Wal-Mart was toppled by Exxon Mobil Corp. In spite of the deepening recession and negative news coverage, Exxon reported a 19% increase in revenue in 2008 and a profit of \$45.2-billion.

The world's largest retailer had a 7-percent increase in revenue to \$405.6-billion and an annual profit of \$13.4 billion.

NON-PROFIT CRISES

You didn't have to be in the for-profit world to face crises and negative news attention.

The Lafayette, IN YMCA was sued by a woman who said her 61-year-old husband died in the Y's sauna.

Eastern Michigan University's President was fired and the school agreed to pay \$350,000 in fines for the cover-up of the rape and killing of a student. The President of West Virginia University resigned to end controversy about his improper awarding of a masters degree to the Governor's daughter.

A Purdue University panel found two cases of misconduct by a researcher and the President of the University of Evansville made news when he was arrested for driving under the influence and the President of an Iowa community college quit after a photo was published appearing to show him pouring beer into a young woman's mouth.



All Other Categories

| | | | |
|-------------------------|-----------|-----------------------------|-----------|
| Environmental | 3% | Executive Dismissals | 1% |
| Hostile Takeover | 1% | Sexual Harassment | 1% |
| Whistle Blowing | 1% | | |

Healthcare, particularly hospitals, both non-profit and for-profit, continued to make negative news in 2008, and many demonstrated their lack of crisis planning. Eighteen hospitals in California were fined for shoddy care, including surgical tools left inside patients and in one case a ventilator that was not turned on.

Hospitals in New York City and Raleigh, N.C. were sued after patients were left untreated for nearly a full day.

The daughter of a woman who died, unnoticed on the floor of psychiatric hospital, is seeking criminal prosecution and \$25-million. Hospital surveillance video shows her waiting for nearly 24-hours before she collapsed face-down on the floor of the Kings County Hospital emergency room. Staff and security officers stepped around her for nearly an hour.

At Cherry Hospital southeast of Raleigh, surveillance video shows hospital staff playing cards and watching TV while a 50-year old man chokes on medication and then sits dead, in a chair for 22 hours.

In both cases, patient care, or lack of it, was a smoldering crisis just waiting to erupt and in both cases management could probably have prevented the deaths and the damage to their reputations, if they had a **Management Early Warning System** in place. ICM teaches crisis planning and prevention, as well as helps organizations prepare crisis communication management plans and train staff to use them.

A management policy decision cost Indianapolis based WellPoint, Inc. \$11.8-million to settle claims from 480 California hospitals. The settlement resulted from

legal action after WellPoint failed to pay bills for patients whose coverage had been dropped after treatments.

A flash flood forced the evacuation of 160 patients and twice that many staff at the Columbus, Indiana Regional Hospital in June 2008.

It took nearly five months to restore the hospital to useable condition and cost an estimated \$125-million to repair and replace destroyed and contaminated facilities and another \$30-million for pay and benefits for the 1,750 employees.

There are some crises that can happen almost anywhere there are clients/customers/patients and a billing or IT staff.

An admissions clerk in a prestigious Manhattan Hospital was charged with stealing and selling personal information from almost 50,000 patients.

UCLA Medical Center fired at least 13 employees and disciplined several doctors for snooping in Brittany Spears confidential medical records while she was a patient in late January. It was the second time since 2005, UCLA staff were caught nosing through her records.

The most bizarre hospital crisis in 2008 was the death of a 34-year-old patient, trapped three-hours in an elevator. She was being transferred from the emergency room to the Intensive Care Unit when the elevator jammed.

The National Labor Relations Board frequently deals with hospital versus union organizers. The Nurses Professional Organization has been trying to organize Louisville's Norton Audubon nurses since 1989. In 2008 the NLRB charged Audubon with coercing nurses to vote against a union.

MSNBC broke a story in September about a study that says about 600 people are set on fire during surgery every year in the U.S.

They cited a study that confirmed 550 to 650 persons are injured in surgical fires each year, including 20-to-30 who suffer serious, disfiguring burns. Every year one or two patients die.

The fires are sparked by surgeons using lasers or electrosurgical tools while the anesthesiologist is pumping oxygen into the patient, or someone else is applying a topical cleanser.

This is a good example of what some will call a sudden crisis, because it happens "unexpectedly" and involves fire!

ICM would argue it is a smoldering crisis. It happens too often and is preventable. Medical managers know it is a possibility when heat or electricity is used in close proximity to air/oxygen and fuel (skin/hair/surgical gowns).

SOCIAL MEDIA

FaceBook, Myspace and Twitter are just the latest of the so-called Social Media that can make or break an organization. Late in the year Motrin became the poster child for how to get burned by the social media.

The pain reliever introduced an online and print campaign that showed mothers carrying babies in “baby body carriers” and called it a “fashion statement.”

Outraged moms and others took to Twitter and other social media to attack Motrin and within two days the ad campaign was cancelled and Motrin’s website carried an apology.

IT’S NOT TOO LATE, YET

If there is going to be a worldwide flu pandemic this year, it will most likely strike in September or October. You have until August to prepare and decide what you will do and how you will do it.

Clients have responded to our urging to plan for a pandemic in one of two ways – what do we need to do, or “We spent all that money getting ready for Y2K in 1999 and nothing happened.” And I reply, “That’s why you spent all that money, so nothing would happen!”

Pandemic planning is not that expensive, but failing to plan could cripple your business, non-profit, school, hospital, plant or even your church.

ICM Senior Consultants are waiting to take your call and help you get started on a pandemic plan.



Institute for Crisis Management

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

The **Institute for Crisis Management** specializes in Crisis Communication Planning, Training and Consulting, Risk Management and Media/Spokesperson Training and serves clients throughout the US and around the world.

RISK MANAGEMENT SERVICE

ICM offers risk management services with one of the most experienced risk management consultants in North America. Call 1-888-708-8351 and ask for Tom.

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