

Trustee Workbook **3**

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Crisis Management and Maintaining the Public Trust

A hospital and its board can only be effective if they maintain the trust of those the organization serves. According to the Center for Healthcare Governance and the Health Research & Educational Trust's Blue Ribbon Panel on health care governance, maintaining the public trust is the board's most important responsibility:

"Whether public or private, for-profit or not-for-profit, part of a system or independent, all health care organizations must have the trust of their many publics to survive and achieve their individual missions. And it is the governing board of a health care organization that is ultimately accountable for maintaining the public's trust, whether its members are appointed, elected, self-perpetuating, volunteer or paid. Every other responsibility that a board has flows from this fundamental accountability and is best understood in this context."

Yet, a single public allegation of wrongdoing or other misconduct resulting in serious negative consequences can deeply damage or even destroy an organization because of its potential to erode the trust and support of its many constituents. Ironically, the truth of such allegations is not what counts most, but rather how the crisis is handled by the organization and its leaders, including the governing board.

The outcome of such crises often depends on whether an organization has a crisis-management plan in place and how it is managed by its leaders.

WHAT IS CORPORATE CRISIS?

A corporate crisis often results when an organization is accused publicly of violating the social norms of corporate behavior, thereby engendering public hostility. Although lawsuits, prosecutions and governmental hearings often result, they are the tip of the iceberg. The more perilous risk is erosion of public trust, leading to lost customers.

In the past, corporate crises fell into two broad categories: incompetent acts and intentional acts. Organizations facing a crisis typically had a window of opportunity to react and minimize any damage to their reputations because the major media delivered news to the public twice a day, in the morning and the evening. Today, social media and the Internet make information immediately and widely available. Bloggers and other activists use social media to air legitimate concerns as well as frivolous accusations. In an era when the public has become more skeptical of big business and other large institutions, corporate malfeasance makes headlines. In an effort to be the first to go public, even legitimate news media

often base their reports on allegations that first appeared in social media.

In a world of instantaneous and ongoing communication, more corporate crises result from claims that ultimately are proven false or actions that are simply beyond an organization's control.

Take, for example, allegations made late in 2009 that Toyota vehicles spontaneously accelerated due to an electronic problem. Although these allegations eventually were proven false, by the beginning of 2010, Toyota faced a public relations crisis, compounded exponentially by the changing delivery of news. The media locked onto Toyota's problems and publicized every issue that emerged. Coverage quickly went global, most notably to China, the top consumer of automobiles. Toyota was forced to issue international recalls for more than 8 million vehicles, and its reputation suffered worldwide.

ACTION AND REACTION

Regardless of the truth of any public accusation, how an organization reacts to it can make all the difference. Consider toy manufacturer Mattel's response to a recent crisis and how it affected the outcome.

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STEPS TO MANAGE CRISIS EFFECTIVELY

While every organization must have a plan that meets its unique needs, the following steps can provide the basis for any plan.

1. Establish a crisis-management team.

Every organization must ensure that the right leaders are in place and aligned to manage a crisis successfully. The crisis-management team should be small and, at minimum, include a senior executive and representatives from the legal, public affairs and public relations departments. The team should have a designated leader who ensures decisions are made and should be overseen by the CEO and the board, who have final approval over the organization's response.

In situations that likely will have broad or long-term repercussions, hospitals should consider issuing a joint communication from a senior executive and the board chair that demonstrates the organization's concern for stakeholders. It is also important that all board members are briefed immediately on the issue and their role in addressing it, because they likely will be approached by others in the community who want more information.

2. Define the crisis by quickly communicating accurate, critical information.

Reporters, bloggers and other activists often are first on the scene during a crisis. However, the sooner an organization takes charge of communication, the better it can minimize the damage. Although social media present new challenges, an organization must make every effort to be the main source of information during a crisis. This may require a response before all facts are available, but it is important for organizations to establish credibility and concern for those affected. If necessary, the organization can adjust as more information becomes known.

3. Make sure that the cause of the crisis has been mitigated.

In the summer of 2007, a French retailer informed California-based Mattel that an independent testing company had found high levels of lead in some of its toys. Mattel conducted an internal investigation, which confirmed the French finding and traced the problem back to a supplier in China.

Rather than wait for the Consumer Product Safety Commission to determine whether it was required to recall its toys, Mattel voluntarily recalled 1.5 million units, nearly a million of which had been sold or shipped to U.S. retailers. Although the recall was broader than necessary, Mattel decided to be cautious and also announced that it would review its own practices to ensure product safety. The company then flew a delegation to China to meet with manufacturers and suppliers to require them to sign a new safety contract.

In announcing the recall, Mattel explained the source of the problem and identified the supplier. CEO Robert A. Eckert told customers: "We realize that parents trust us with what is most precious to them. ... Our goal is to correct this problem, improve our systems and maintain the trust of families that have allowed us to be part of their lives by acting responsibly and quickly to address their concerns."

Although the company initially suffered some consumer backlash, Mattel's reputation and the value of its stock suffered no lasting damage. This case shows how even the perception of potential responsibility requires organizations to handle any crisis situation quickly and responsibly.

The epitome of successful crisis management remains the 1982 Tylenol crisis and Johnson & Johnson's response to it. Seven people in Chicago died after taking Extra Strength Tylenol capsules laced with cyanide. Although almost 30 years have passed, the basics of the company's response still hold true.

Johnson & Johnson put customer safety ahead of saving the product and executed a two-phase response. The first step was to manage the crisis; the second was to rebuild the brand. Board Chairman and CEO James E. Burke publicly demonstrated the company's

concern about the incident. Johnson & Johnson immediately told customers not to consume any Tylenol product until the extent of the tampering was known. The company stopped advertising and producing Tylenol and issued a nationwide recall of the product after additional tampering came to light. It offered Tylenol tablets to customers who previously had bought Tylenol capsules. The company also worked closely with the media, engaging in open, honest communication that kept the public fully informed of its actions and undoubtedly contributed to the Tylenol product's survival.

After the crisis, Johnson & Johnson executed an organized effort to recover market share, building on its effective management of the tampering scare. By year-end, Tylenol had reclaimed about two-thirds of its precrisis share of the pain-reliever market.

Despite its textbook performance in 1982, Johnson & Johnson stumbled recently when quality problems at its manufacturing plants prompted a series of delayed recalls involving over-the-counter drugs, including children's medicines. The company failed to follow its own playbook. The lesson: Corporations in crisis must act decisively to ensure that the public receives accurate and timely information.

Questions for Discussion

1. Has our hospital ever faced a significant crisis that went public? How did we handle it, and what did we learn?

2. Does our hospital have a crisis-management plan in place? If not, why not?

3. What is our board's role in helping our hospital manage crises effectively?

4. Do we address the board's role in crisis management as part of board orientation or ongoing board education?

5. If our board has been involved in helping our hospital address a significant crisis, did we evaluate how well the board fulfilled its role and responsibilities?

6. When a crisis strikes, what is the most important action our board can take to address it effectively?

Organizations must take steps to avoid additional harm. For example, Toyota seemed to do nothing early on despite frequent reports of sudden acceleration, which further damaged the public's perception of the company. Johnson & Johnson, on the other hand, immediately asked the public to stop using Tylenol while it determined the extent of the tampering.

4. The board must make sure the organization addresses system or process failures.

Using external independent counsel, the board should investigate the incident and make sure the organization addresses any failures or problems that contributed to the crisis. It also must ensure that similar failures are not happening in other parts of the organization, because it is not uncommon for problems that exist in one location to be present in others as well. For example, an explosion at BP's Texas City, Texas, refinery killed 15 workers in 2005. In response, BP's board hired an independent investigator, who uncovered safety deficiencies at the company's refineries. Despite this finding, violations at BP's facilities continued. Although the causes of the 2010 Deepwater Horizon explosion still are being investigated, BP's board will face tough questions about its oversight, given that board members knew about the safety deficiencies at the other facilities.

5. Identify the right representative for the job.

While many companies successfully have used a spokesman or spokeswoman from senior management during a crisis, they are not always the best choice. Hearing from top management shows the public that the organization is engaged fully in addressing the issue. However, consider the public backlash BP experienced after CEO Tony Hayward said, "I want my life back," and made other comments that cost the company valuable public support. Eventually, BP asked Hayward to step down as CEO. Without proper coaching, the wrong spokesman or spokeswoman can do more harm than good.

Managing Crisis to Regain Public Trust: One Hospital's Story

A crisis provides a unique opportunity for an organization to demonstrate its values and prove that it merits the public's trust. The hypothetical crisis below could occur in any hospital. Review the scenario and consider the questions that follow.

A medical staff physician tells a hospital vice president about significant compliance concerns that he believes he has identified. These concerns include that the hospital has followed a systematic course of billing government payers inappropriately for certain medical procedures and has implemented a practice of paying physicians for unnecessary medical directorships that appear to be designed to solidify referrals to the hospital from those physicians.

The vice president informs the physician that she believes that the billing allegations are not well-founded and offers the physician a medical directorship at a high compensation level. The physician accepts the directorship, and the vice president does not take any action with respect to the potential billing concerns.

A hospital employee, who is aware of the content of the meeting between the physician and the vice president, approaches the hospital's chief compliance officer and relays the content of that meeting and the employee's concerns with the potential billing problems and the medical directorships. In particular, the employee is concerned that the complaining physician was offered a medical directorship to placate him because he was upset that his colleagues were receiving medical directorships that he was not previously offered, and to keep quiet about his billing allegations.

The compliance officer, who had looked into similar allegations several years before, determines that she will investigate the allegations but does not make it a high priority because she assumes the allegations are baseless and does not further communicate with the employee.

After four weeks of not hearing from the chief compliance officer about her concerns, the employee takes some steps to reconfirm, at least in her mind, that the billing allegations have not been investigated or corrected and that the physician is being paid as a medical director for an unnecessary position. Feeling that the hospital has not taken her seriously or taken any action to correct what she perceives to be substantial regulatory noncompliance, the employee, a complainer who has been disgruntled for some time, takes her concerns to her manager and their vice president, who point out that the employee has been unhappy for a long time and that it might be time to part ways. The employee ultimately is let go with a large severance package. Three weeks later, the employee notifies the local newspaper of her allegations and posts her concerns on the Internet.

Regardless of the accuracy of the allegations by either the physician or the hospital employee, the hospital did not appropriately manage the situation to avert a crisis and avoid the erosion of public trust. Patients, community stakeholders and government regulators are faced with information that calls the hospital's reputation into question. The hospital board must act quickly and decisively to address this crisis.

Questions for Discussion

1. What actions should the board take to manage and defuse the crisis?
2. How should the board interact with hospital management to manage the crisis?
3. What role should the board take in publicly responding to the situation?
4. What action should the board take to ensure that a crisis-management plan is implemented or revised to prevent crises?

6. Empathize with the public and all affected groups.

Organizations that show compassion can help ease the concerns of those affected by a crisis. Johnson & Johnson empathized with the public nationwide, honestly addressed concerns, and made the situation right by recalling and replacing product and working with authorities to uncover the causes of the incident. Acknowledging and validating the public's concerns can help defuse negative reaction.

7. Take responsibility and explain your response.

Steps taken quickly to end or mitigate a crisis may be a sufficient response. However, successfully managing an ongoing crisis often depends on an organization's explaining how it will con-

tinue to respond. Environmental crises, for example, often require an ongoing response because they typically take a long time to rectify. If an organization does not discuss its plan publicly, the media will ask outside experts to address how the company should be responding. It is especially important during an ongoing crisis to keep trustees informed and aware of their continuing role in crisis management. Ensuring that the board understands key messages for stakeholders and whom to contact when interested individuals inquire can help keep communication consistent and focused.

8. Apologize publicly if the organization has done something wrong.

If a crisis results from an organization's acting intentionally or incompetently, it should apologize for doing so. Organizations may hesitate to apologize because of the potential impact on future litigation and should keep this in mind as they craft their response; however,

9. Communicate appropriately with key stakeholders.

Ongoing communication with key stakeholders is, perhaps, the most important action an organization can take. In addition to those directly affected, other key stakeholders include employees, customers, regulators and legislators. Establishing a dialogue early in the course of a crisis can help to further mitigate future liabilities for the organization. As the Tylenol crisis unfolded, Johnson & Johnson kept in close contact with the Chicago Police Depart-

boards and leaders must establish high expectations about quality, safety and compliance, and model behavior that meets those expectations. Trustees and executives cannot afford to ignore information that could result in crisis for patients or other stakeholders. Leaders must create a culture in which problems are reported. A board regularly should receive reports on its organization's risk profile and the steps that management is taking to mitigate risk organizationwide.

An effective compliance program is the foundation of a vigilant corporate culture. These programs recognize that organizations, like people, are expected to behave within accepted boundaries. A good compliance program should help uncover intentional and incompetent behavior and even inadvertent problems before a crisis results. Comprehensive internal controls and regular compliance audits also are essential elements of crisis management.

It is likely that every organization will face a crisis at some point, given the inevitable failures and errors of people and the systems within which they work. That's why a comprehensive compliance system, supported by strong controls and a culture of accountability, cannot be optional.

CONCLUSION

Many crises can be prevented and others significantly mitigated if boards and leaders ensure that a well-designed crisis-management plan is in effect. Even after crises occur, a plan that is executed effectively can position a hospital to minimize damage and lay a foundation to regain and maintain the public trust, a responsibility at the heart of effective stewardship and governance. **T**

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ment, the FBI and the media to keep the public informed. It was also the first to comply with the Food and Drug Administration's new anti-tampering regulations, which drew praise for the company in the aftermath of the crisis.

PREVENTION: THE FIRST STEP IN CRISIS MANAGEMENT

The most successful way to manage a crisis is to prevent it in the first place. The best crisis-management plans identify and resolve problems before they get out of control. While it may be difficult to anticipate problems an organization has never before experienced, good crisis management involves researching crises or near misses that have occurred in similar organizations. A corporate culture that is alert to risk, effective internal controls, adhering to a compliance plan and engaging in mock drills to assess crisis preparedness are all elements of an effective crisis-management plan.

As reform continues to unfold,