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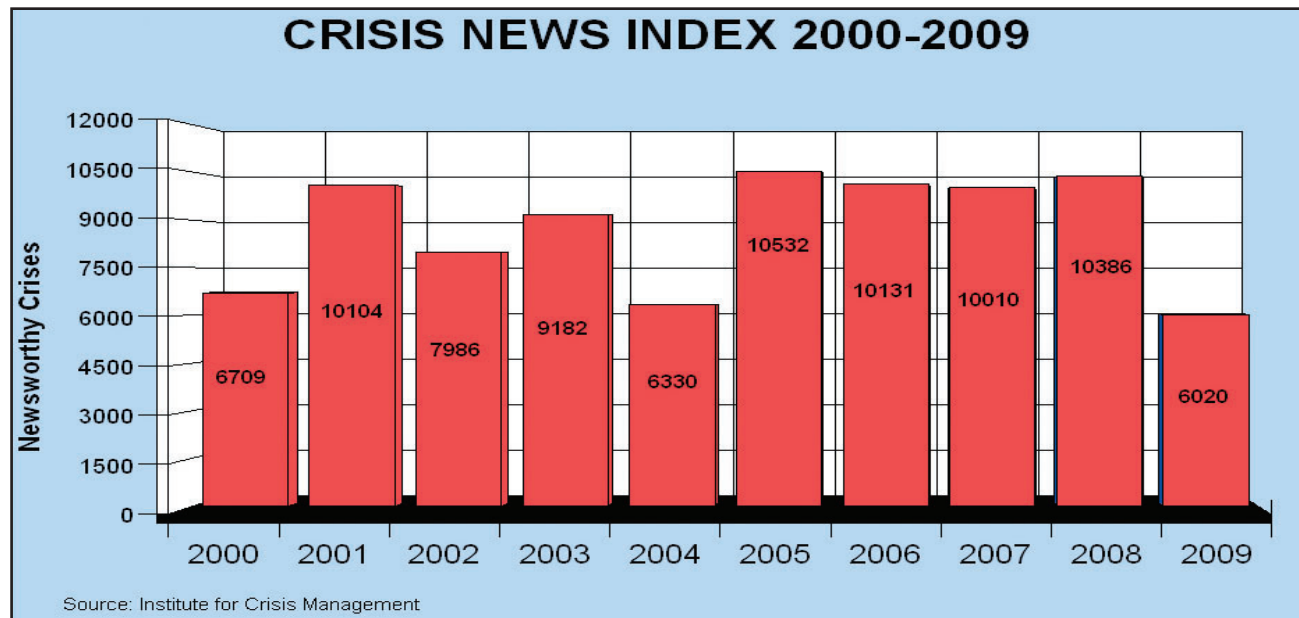
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# Annual ICM CRISIS REPORT

News Coverage of Business Crises  
During 2009

Volume 19, No. 1

June 2010



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

## OVERVIEW

The overall number of business crises were down significantly in 2009, and more in line with the years 2000 and 2004, but that did not mean it was a less tumultuous year.

The year began with the beheading of a Chinese coed on the Virginia Tech Campus, days after she arrived in this country to begin classes, and just two years after the mass slayings on the same campus.

That was followed with big bank failures, a 32-percent increase in the number of bankruptcies in the United States, major commercial airliner crashes, the failure of 140 American banks as a result of loan defaults, bad management and the recession, and recalls of drugs, cars, baby strollers and peanut butter.

The decrease in the number of crises reported did not mean the media was paying less attention. In fact, the media covered some of those “big” economic crisis stories in greater detail than ever.

And the impact of the internet and social media cannot be discounted. Stories move quickly on the internet forcing mainstream media to pay attention to issues and report on them when they might not have in the past.

The economic crisis, with all its subsequent stories—Madoff, Goldman Sachs, AIG, Lehman Brothers, big and small bank failures, upheaval in top management, outlandish multi-million dollar bonuses to heads of failing companies, and debate over what role the federal government and taxpayers should play – dominated the front pages of newspapers, not only in the U.S. but around the world, and filled hours of cable news every day.

1.43-million consumers and businesses filed bankruptcy petitions in 2009, the largest number of filings in seven years. But for all the bad news, there was a little good news for lawyers. Many law firms had to hire additional staff to handle the glut of filings.

### ***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 a looming massive economic crisis began brewing in the sub-prime market 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 in 2008 and roared on into 2009. Even the Readers Digest filed for Chapter 11 Bankruptcy.

The economic crisis did not erupt suddenly and unexpectedly. It had been smoldering for years and signs of impending disaster had been unrecognized or ignored by top executives and their boards.

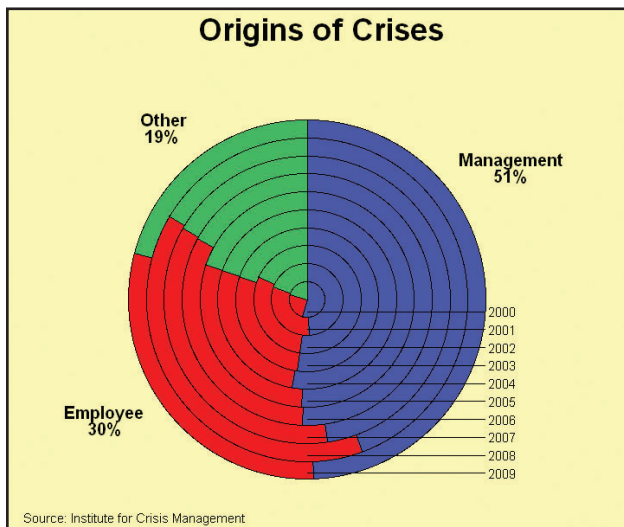
The 2009 data shows the number of smoldering crises were up significantly and there were fewer sudden crises, but the average over the past ten years still shows that two-thirds of all crises are the smoldering type, and most could have been spotted and prevented. Damage could have been minimized for those that could not have been prevented.

CEOs were bailing or getting the boot in record numbers in 2008 and some big names in big financial institutions and the automobile industry were shown the door in 2009 including the CEOs of General Motors and auto lender GMAC.

Nearly 4.3-million Americans lost jobs in 2009, including a number of CEOs, and some who's companies took federal bail-out funds.

Just more than half of all crises are caused by someone or several someones in management, and that number was up in 2009 over 2008 and 2007.

The CEOs of the top two meat producers in the U.S. resigned in 2009 and the Chairman of India's Satyam Computer Services quit in the wake of a management fraud.



**Executives and managers are responsible for more than half of all crises, on average, while employees are credited with causing 30% and outside forces triggered the remaining 19%, on average, during the past ten years. Managers and outside forces caused more crises in 2009 than in the preceding two years.**

The FBI confirmed it conducted more than 530 investigations of corporate fraud as a result of the financial meltdown, including 38 cases involving some of the biggest names in corporate finance.

### Defects and Recalls Double

The percentage of defects and recalls rose from 4-percent of all crises in 2008 to 8-percent of all crises in 2009.

125 food products ranging from ice cream to candy to pet food and even some Asian foods were found to be contaminated with salmonella and it came from one source - peanut butter paste from the Peanut Corp. of America. As news coverage intensified, a criminal probe was launched and the owner, Stewart Parnell, went into seclusion and the company padlocked its doors and filed for bankruptcy. Nine people died and at least 500 people became ill after eating the contaminated foods.

Victims of the contaminated peanut butter paste included Kellogg, NutriSystem, PetSmart, and Keebler, among 66 other food companies that used PCA paste.

Kroger recalled hamburger, mayonnaise and chicken wings among other items. Fischer-Price recalled lead tainted toys, and other companies recalled everything from strollers to cribs, bassinets, high chairs, baby food, flammable women's robes, Nokia battery chargers, Vicks nasal spray, cat food, Zhu Zhu Pets, some swine flu vaccine, Nestle cookie dough products, Hydroxycut diet pills, Tylenol Arthritis Caplets, and nasal spray Zicam cold remedy. State Farm Insurance Company even recalled 800,000 promotional teddy bears after reports a plastic eye came off of one and a child put it in her mouth.

The Maytag "repairman" was saved from working overtime after the company recalled 1.6-million refrigerators with electrical problems.

AM2PAT, Inc. sold \$7-million worth of bacteria contaminated heparin and saline syringes to hospitals infecting hundreds of patients and killing at least five.

The CEO of the company fled the U.S. to his native India and two former employees pleaded guilty for their part in shipping contaminated syringes.

In September, Tylenol recalled more than 20 children's medications. That problem was to rear its ugly head again in April of 2010.

Throughout 2009 General Motors and Ford recalled cars, trucks and SUVs for various fixes, but Toyota garnered the most headlines.

In January of 2009, the Japanese manufacturer recalled 1.35-million for seat belt and exhaust system problems. But by November, Toyota had to recall another 3.8-million vehicles for floor mat and sticking gas pedals. That story was to get even worse in the early months of 2010.

Those were the issues that got world-wide negative attention for Toyota, but hardly the only crises the world's largest automaker faced in that 12-month period.

The international car company lost money for the first time in 59-years and critics began to hammer away at the company's "quality" image.

And plaintiff's attorneys began filing lawsuits that did not get much media coverage outside of California, but certainly distracted company management.

Class-action lawsuits went after Toyota, alleging the company covered up evidence that some of its cars were particularly deadly in roll-over crashes. Auto industry writers were calling on Toyota to "come clean" and comparing them to Ford and the infamous Pinto design flaw that exposed the gas tank to rupture and erupt in flames when struck from the rear.

**SEVEN TYPES OF CRISES INCREASE**

ICM monitors negative news coverage of 16 broad crisis categories, and in 2009 seven accounted for a larger percentage of the crisis pie than they did the year before.

Mismanagement, white collar crime, class action lawsuits, financial damages and consumer activism all claimed a bigger percentage of the overall crisis picture in 2009 compared to the year before and most of those increases were tied to the economic crisis that impacted so many organizations.

Defects and recalls took a significant jump up, as did workplace accident injuries and deaths.

**Crisis Categories Compared 1990 - 2009**  
(% of total crises each year)

	<u>1990</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Facility Damage</b>	5.5	7.0	10.0	7.0
<b>Casualty Accidents</b>	4.8	7.0	9.0	11.0
<b>Environmental</b>	7.8	2.0	3.0	2.0
<b>Class Action Lawsuits</b>	2.2	9.0	5.0	7.0
<b>Consumer Activism</b>	2.8	4.0	4.0	9.0
<b>Defects &amp; Recalls</b>	5.4	4.0	4.0	8.0
<b>Discrimination</b>	3.3	3.0	3.0	3.0
<b>Executive Dismissal</b>	1.3	1.0	1.0	1.0
<b>Financial Damages</b>	4.2	4.0	4.0	5.0
<b>Hostile Takeover</b>	2.6	0.0	0.0	0.0
<b>Labor Disputes</b>	10.3	9.0	11.0	8.0
<b>Mismanagement</b>	24.1	11.0	10.0	16.0
<b>Sexual Harassment</b>	.4	1.0	1.0	1.0
<b>Whistle Blowers</b>	1.1	1.0	1.0	1.0
<b>White Collar Crime</b>	20.4	19.0	17.0	18.0
<b>Workplace Violence</b>	3.8	15.0	17.0	4.0

**LAWSUITS AND MORE LAWSUITS**

Still uniquely American, lawsuits exacerbate many organization's crises. In 2009 the U.S. Conference of Catholic Bishops reported the U.S. Roman Catholic Church has paid more than \$2.6-billion in settlements and related costs from sex abuse lawsuits since 1950.

Another big name, Eli Lilly, was accused of pay and promotional discrimination against African-Americans and the plaintiffs sought class-action station at mid-year.

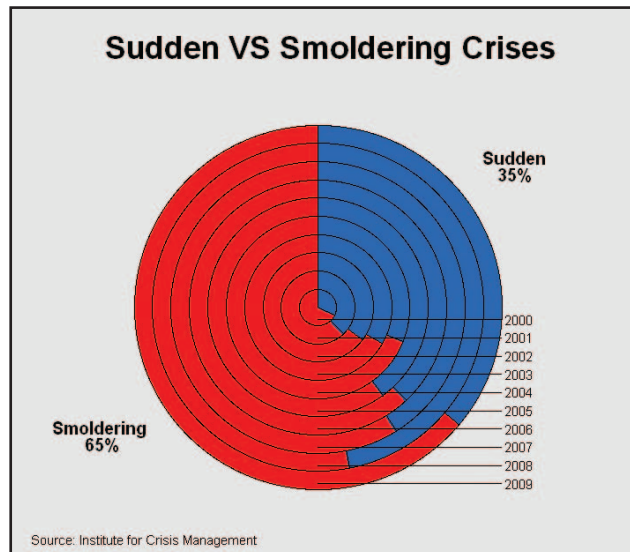
537 female engineers and managers at the Rolls-Royce jet engine plant in Indianapolis sought class-action status in a sex bias lawsuit against the company.

A former Miss West Virginia won a \$7.2-million verdict against nine individuals and internet sites who, she claimed, tried to sell pornographic videos they wrongfully claimed included her.

Lawsuits come in all shapes and sizes and most organizations facing legal action need a planned crisis response. A Pizza Hut franchisee in north Mississippi was hit with a \$1.1-million suit at mid-year, filed by 15 members of a local church. They all got sick after eating at the restaurant.

Not all big settlements result from lawsuits. Some of the biggest cash outlays come as settlements to federal criminal and civil investigations. Eli Lilly agreed to pay \$1-billion in a case tied to its anti psychotic drug Zyprexa. The company agreed to plead guilty to one charge although it would not admit to additional allegations in a related civil investigation.

Lilly was accused of marketing the drug to patients for treatment of illnesses the drug was not approved for.



***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.***

**SUDDEN CRISES**

While smoldering crises continued to account for the majority of business and organizational issues, 2009 had its share of big headline sudden crises.

The death toll in an Indonesian earthquake topped 700, while a strong quake in central Italy killed 207 and left more than a thousand injured. There were other major quakes with fewer casualties in other parts of the world, but still major disruptions to business, schools and people.

Back-to-back typhoons killed more than 600 and disrupted life in the Philippines in September and October. Nearly 200 died after a "monster" wave swept away villages and people in Samoa and typhoons wreaked

havoc on Taiwan and China. Another 200 died when a cyclone swept across eastern India and Bangladesh.

British Petroleum was still making news in 2009 from a refinery explosion that killed 15 in 2005. The US Occupational Safety and Health Administration ordered a record \$87-million fine against BP for failing to correct safety hazards at its Texas City, TX refinery. A 6-month inspection found the company had hundreds of violations of an earlier agreement resulting from the 2005 blast.

To further prove the point that a crisis can cause harm for a long time, a fire and explosion in a hazardous waste facility in Apex, North Carolina in 2006 made more news in July 2009, when a federal judge fined EQ Industries \$7.8-million for the harm the disaster caused to residents and businesses in the small community. The company had already lost its operating permit.

Coal mine tragedies will take a significant place in next year's Annual ICM Crisis Report, but there were major mine disasters in 2009, also. 74 Chinese miners died in a gas explosion in coal mine early in the year, then another 87 died in November coal mine blast in Northern China.

Meanwhile, in the US, a record low 34 miners died in separate smaller incidents.

The workplace was just as dangerous above ground. 64 workers in a hydroelectric plant in Russia either drowned or were crushed in an explosion that also disrupted electric power to several towns and major factories.

Bangladesh's biggest shopping mall was hit by fire killing seven and injuring at least 50 more.

More crises struck a US steel plant, construction sites, a wood furniture factory, the Slim Jim snack factory in Garner, NC where three people died, a bakery where a worker was electrocuted, and a blind man fell to his death when an elevator door stuck open.

### WORKPLACE VIOLENCE

Two years after the worst mass shooting in US history on the Virginia Tech campus, there were two separate murders, just months apart. Three Va. Tech students were killed in those two incidents.

But the biggest headline grabber was the murder of 12 people and wounding of 31 others at Fort Hood Army base, by a troubled Army Major.

In the spring there were five deadly mass shootings in the US, including the massacre of 13 immigrants taking a citizenship class in Binghamton, NY.

An estranged man killed his wife and wounded two of her co-workers then killed himself in her Portland, OR workplace. A man fired from an Orlando, FL engineering company two years earlier came back in November and killed one and wounded five others. Afterward he told police he attacked his former co-workers "because they left me to rot."

A teenage employee of an Albuquerque, NM Denny's Restaurant was killed in a robbery while the place was packed with diners.

A disgruntled patient shot and killed his doctor as other patients watched. 150 members of the Maryville, IL First Baptist Church watched a man walk down the aisle during a Sunday morning service and open fire, killing the pastor, while in Dendermonde, Belgium, a man walked into a day care waving a knife, killing two children and an adult and wounding ten more children.

Another man, went after his estranged wife in the North Carolina nursing home where she worked, ending up killing eight and wounding three more.

A 17-year-old former student opened fire in his German high school killing 15 students before police shot and killed him. In Des Moines, IA an ex-player came back to kill his former high school football coach.

And the prestigious Yale University was not spared. A graduate student's body was found stuffed behind a wall in a high security laboratory building where she worked.

### ICM's Top Ten Lists

#### Most Crisis Prone Businesses in 2009

1. \* Banking
  2. \* Security Brokers
  3. \* Aircraft Industry
  4. \* Investment Companies
  5. \* Petroleum Industry
  6. \* Pharmaceutical Cos.
  7. \* Automobile Mfg
  8. \* Insurance Industry
  9. \* Software
  10. \* Food service
- \* In top ten previous year  
**\*In top ten previous year**  
(Ranked by percentage of database)

All ten of the most crisis prone industries have been on the list off and on for years. There were no surprises.

Banking captured the most negative news coverage in 2008 and again in 2009 while security brokers moved up a notch from third to second in the same time span.

The aircraft industry moved up from ninth to third and investment companies came in ahead of petroleum companies that dropped one spot from the year before.

The food and restaurant sector dropped from second place in 2008 to tenth in 2009.

Meanwhile, there were a few repeats on the top ten most crisis prone business list, but most of the 2009 top negative news generators were new to the list, and all of the newbies were in finance, software and food service.

One of the biggest "food" crises of 2009 struck Domino's Pizza company in April, when two employees, both old enough to know better, found themselves in a Conover, NC Domino's restaurant with too much time on their hands. One used her camera phone to record her co-worker doing strange things with pizza fixings, including a close-up of him stuffing cheese up his nose.

They posted their 2-plus-minute video on YouTube on a Monday. Domino's was slow to respond, and by Wednesday more than a million people watched the "gross" video.

Ultimately, Domino's fired the two, and created their own YouTube video to combat the negative attention, and got past it with only temporary harm.

Peanut Corporation of America was accused of knowingly sending salmonella-laced peanut butter into the food chain, resulting in nine deaths, 637 illnesses, the closure of all three PCA plants, a bankruptcy filing, and criminal charges against the owner.

But the impact spread to other major sectors of the food industry and peanut butter sales fell 25 percent while those companies scrambled to distance themselves from the tainted peanut butter paste. Scores of snack and candy companies bought the peanut paste from PCA to use in the manufacture of all kinds of peanut flavored products.

Most Crisis Prone Businesses in 2009	
1.	* Madoff Investments
2.	Satyam Computer Services
3.	Bank of America
4.	UBS AG
5.	* General Motors
6.	Peanut Corp of America
7.	Merrill Lynch & Co.
8.	* Boeing Co.
9.	Goldman Sachs Group
10.	* Lehman Brothers
	<b>* In top ten previous year</b>
(Ranked by number of database records)	

Healthcare took it on the chin in 2009. A former surgery technician was accused of exposing 6,000 patients in Denver area hospitals to hepatitis C when she swapped her dirty syringes for hospital stock containing narcotics.

UnitedHealth Group, one of the US' largest health insurers, agreed to pay a \$50-million settlement after an investigation revealed the company had overcharged millions of Americans.

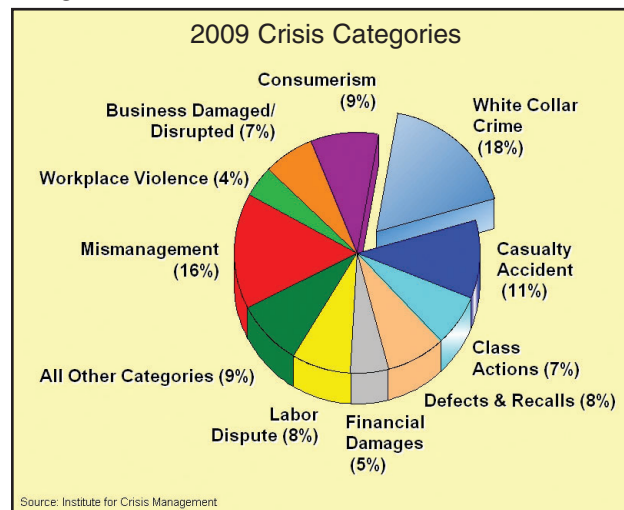
1,800 patients in a Tennessee Veterans Affairs Clinic were exposed to contaminated scopes when they had colonoscopies. Some or all of the scopes had not been properly disinfected.

CVS Pharmacy, operator of 6,300 retail stores was fined \$2.25-million for violating federal privacy laws in the way it handled and disposed of patient prescription records.

A Massachusetts doctor was accused of faking data he cited in 21 published studies in support of after-surgery use of Vioxx and Celebrex. Both were pulled from the

market after growing concern they both increased the risk of heart attacks, strokes and death.

It was discovered Pfizer, maker of Celebrex, had give the doctor five research grants and employed him in their speaker's bureau. The company denied wrong doing.



<b>“Other” category:</b>	<b>Environmental</b>	<b>2%</b>
<b>Discrimination</b>	<b>3%</b>	<b>Hostile Takeovers</b>
<b>Sexual Harassment</b>	<b>1%</b>	<b>Whistle Blowing</b>
<b>Executive dismissal</b>	<b>1%</b>	

A Winchester, KY Nursing home was sued after a family found a 95-year-old relative infected with bedsores and maggots.

An Air Force nurse was charged with killing three terminally ill patients and a former nurse was charged with injecting ten patients at a Texas dialysis clinic with bleach. Five died.

Administrators at a Madison, WI hospital got the top award for the most insensitive and potentially dangerous decision of the year, when a manager had a nurse called out of surgery to tell her she was one of 90 employees being laid off.

The biggest anticipated healthcare crisis of 2009 was the rapid spread of the H1N1 “swine flu” pandemic that spread across 214 countries in every part of the globe, killing at least 18,097 persons. As pandemics go, this one was very mild, compared to the 1918 pandemic that left half-a-million Americans dead and as many as 50-million world-wide.

From a purely financial impact basis, the world's largest drug maker, Pfizer, agreed to pay a \$2.3-Billion civil and criminal penalty for promoting and marketing four drugs for treatments of medical conditions the federal government had not approved.

## TIGER WOODS AND OTHER CRISES

Golfer Tiger Woods and late night TV host David Letterman each suffered self-inflicted embarrassment in 2009.

Letterman immediately took responsibility for his actions and except for a few days of bad jokes made at his expense, he didn't appear to suffer any long-term harm.

Woods, on the other hand, first dropped out of sight, and eventually lost most of his major sponsors and a study by two University of California, Davis professors concluded his actions cost shareholders of his sponsoring companies up to \$12-billion in losses.

## IT'S TIME TO PLAN AND PREPARE

Most of us have weathered the challenging economic times and business is starting to recover. Throughout 2009 many companies postponed crisis planning and training projects and as recovery speeds up, it's time to dust those projects off and get back to planning and training. As the 1971 Fram Oil Filter commercial said, "pay me now or pay me later." A little bit of spending on prevention and planning now, can save most organizations thousands, if not millions of dollars later.

ICM Senior Consultants are waiting to take your call and help you get started updating or creating an all new crisis communication plan.



## Institute for Crisis Management

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

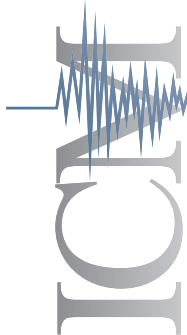
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