

# MANAGING RISK



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## RISKNotes

Providing references has become a minefield for employers. Provide incorrect information and a past employee may sue for defamation; provide too little information on an employee with a history of violence or harassment and a future victim may sue. Protect your company by:

- ✱ Allowing only designated employees to respond to requests for information.
- ✱ Opting for either full disclosure or no comment. Employers have no duty to disclose more than basic employment information; however, when discussing a past employee with a history of violence or inappropriate behavior, you may opt for full disclosure. Many states have laws protecting employers from defamation suits arising from providing references.
- ✱ Purchasing employment practices liability insurance (EPLI). General liability policies do not cover employment-related liability. Ensure your EPLI limits are enough to protect your company. A policy that includes defense costs within the policy limits, provides lower limits for settlement or court awards—consider increasing limits in this situation.

For information on minimizing EPL exposures, please call your account manager at The Addis Group.

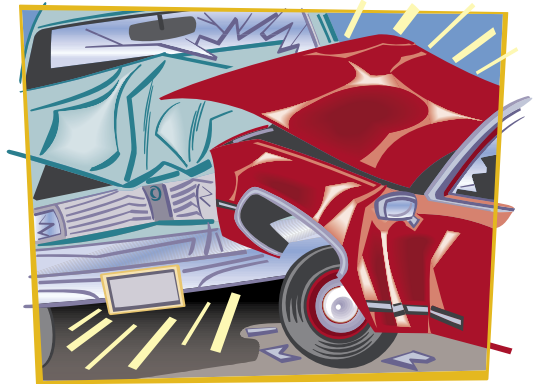
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- Crisis Management
- Scott Addis Makes the List of the 25 Most Innovative Agents

### *Risk Management*

## Driver Safety Programs Pay

Auto accidents account for the highest number of fatal work injuries—about one in every four. They also cause many lost work days—about one in four workers' compensation motor vehicle accident claims involves lost work days, according to Oregon State Accident Insurance Fund (SAIF) statistics. Of those workers' compensation auto accident claims that involve lost days, the number of days lost averages 61; the cost averages \$17,049.



Companies whose employees drive on the job can reduce their exposure in several ways: by pre-screening job applicants, by making safe driving a job requirement, by training drivers and by providing safer vehicles. We'll look at each of these steps in greater detail.

### *Pre-screening job applicants*

Driving records can help you spot those drivers likely to become involved in an accident. According to the Insurance Institute for Highway Safety, a study of California drivers found those with two convictions during a three-year period "were more than twice as likely to crash during the next three years as drivers with no [moving-vehicle] convictions. Drivers with three crashes on their records were more than three times as likely to crash."

Before making a job offer to anyone whose duties will include driving, we strongly recommend obtaining a copy of their motor vehicle records (MVRs) from the state department of motor vehicles. Use the MVRs to screen out applicants whose records indicate unsafe driving behaviors. Be sure to obtain applicants' prior written permission to avoid violating privacy.

### *Requiring safe driving*

Make safe driving a job requirement by including it in the job description. This tells applicants and employees how important safety is to your firm. Request MVRs on a regular

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# Crisis Management: Where Risk Management and Public Relations Meet

**Y**ou probably have a disaster management plan to help your company minimize the effects of a disaster. You've probably considered evacuation of employees and customers, data backup, and contingency plans for manufacturing your products or delivering your services. But have you considered the role public relations can play in managing a crisis?

Although people use the term "public relations" to describe everything from corporate image brochures to the duties of a sales clerk, "public relations" simply means using the mass media to get an organization's message to the public. Used effectively, public relations can prevent a critical situation from turning into a disaster that can do irreparable damage to the business's reputation and goodwill.

Consider the example of Odwalla, a company that built its reputation—and its business—on providing natural juice drinks to health-conscious people. In October 1996, 65 people, including many children, became severely ill after drinking Odwalla drinks containing apple juice contaminated by the E. coli bacteria. One child died from the E. coli infection.

The company was fined \$1.5 million for selling tainted apple juice—the largest fine ever assessed by the US Food and Drug Administration—and also had 20 liability lawsuits filed against it due to the contamination. These financial setbacks and damage to its reputation might have killed Odwalla. Instead, one year after the crisis, the company had recuperated—in fact, *San Francisco Magazine* named Odwalla "Best Brand Name in the Bay Area."

## *What Odwalla did right*

Instead of denying responsibility or ignoring the problem until forced to act, Odwalla

took immediate action. It immediately recalled all products containing apple juice and also recalled all other products made on the same equipment. It promised to pay the medical bills of those sickened by the E. coli bacteria, even before the contamination was definitely linked to its products. It issued apologies to those who became sick. The company co-founder and chairman visited some of the victims. It then began pasteurizing its apple juices to prevent future food poisoning. It upgraded its processing equipment and led the formation of an association for the natural juice industry that would examine food safety issues and recommend safe processing procedures. And throughout the crisis, it kept the public informed of its efforts by speaking openly with the mass media.

## *Crisis management vs. risk management*

Odwalla's quick action and openness has made it the classic example of effective crisis management. The picture today might be very different if Odwalla had approached the problem differently. If management had sought to minimize the company's expenses, it might have taken a very different strategy of denying liability for the contamination or of waiting to act until the link to its products was proven. Instead, Odwalla considered its philosophy and its customers in formulating its approach. In doing so, it protected its most valuable asset—its good name. And that's what effective crisis Management is all about.

Although you may never be faced with life and death problems, any company runs the risk that a problem with its products or services could affect its reputation. Having an action plan ready before crisis strikes will help you act quickly and correctly. To create a crisis communication plan, you must:



## **Crisis management not just for manufacturers!**

While product defects or product contamination cases get a lot of publicity, other companies can also face public relations crises. The proliferation of electronic recordkeeping has opened service companies to exposures for loss of privacy and more if a hacker obtains customers' credit card numbers, medical information or other private information. Such hacker attacks can cause negative publicity that can damage a company's reputation.

Other sources of negative publicity can include executive malfeasance, class-action lawsuits by employees or others, and more. Almost any company can fall victim to bad news, so be prepared to deal with it!

## *Before a crisis*

**1** Identify key audiences: These might include your employees, customers, prospects, stockholders, regulators, industry groups, local government, people in your community and the general public.

**2** Identify the media best able to reach your audiences in a crisis. These can include local and business newspapers, radio stations, local television stations, trade publications, investor publications, client newsletters, Web sites, e-mails to existing clients and telephone hotlines. Get the names, phone and fax num-

basis—at least once a year—for all employees whose jobs involve driving or who are given company cars. To minimize paperwork, have employees sign a consent form at time of hire, stating that they agree to allow the company to review their MVRs on an annual or as-needed basis, and that they agree to abide by the company's driving policy.

**Develop a company driving policy.** Department of Transportation statistics reveal that most accidents involve unsafe driving behavior. Your policy should require seat belt use for the driver and all occupants, prohibit driving while intoxicated (including while under the influence of prescription drugs that can impair reflexes, judgment or vision), and require safe use of cell phones and other mobile devices while driving. If feasible for your employees, you might want to ban the use of mobile devices while the vehicle is moving. Define the penalties for disregarding the company's fleet safety rules—from suspension of driving privileges to dismissal—and enforce them.

**Include your safe driving requirements in job descriptions for anyone who drives for work.** The more specific you make your requirements, the more effective they will be. For example, a company might state it will keep an employee's driving privileges under review after one moving violation in a three-year period. It could retain the option to withdraw privileges after two moving violations in the same period, or after one serious moving violation, such as an at-fault accident or driving more than 15 miles per hour above the speed limit, for example.

## Training drivers

Ensuring employees are familiar with your vehicles can prevent accidents. Although no special license is needed to drive a pickup truck or van, they handle very differently from a car. Even employees who drive only passenger cars have probably not taken a formal driver-training program since they were teens, if ever. If you have many drivers on staff, driver safety classes may prove a worthwhile investment.

## Choosing safer vehicles

Some factors that affect vehicle safety include:

**1 Vehicle size:** In general, the larger the vehicle, the safer. According to the Insurance Institute for Highway Safety, "in relation to their numbers on the road, small cars account for more than twice as many deaths as large cars.... Vans and standard-size pickups generally have the low death, injury, and collision claims results associated with large vehicles." The IIHS defines large vehicles as those with a wheel base of 110 or more inches.

Many companies are concerned with fuel economy. But buying larger cars doesn't necessarily mean you will spend more for fuel. A vehicle's size (its exterior dimensions) has more of an effect on its safety performance than its weight, which directly affects fuel consumption.

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bers and e-mail addresses of reporters whose beat includes your area or industry.

**3** Develop a plan for identifying customers, employees, wholesalers, distributors and retailers who may be affected by the problem.

**4** Name a company spokesperson. Direct all media inquiries to this person. He or she should be able to handle press inquiries, make statements and work with your public relations firm (if applicable). Therefore, this person should have the confidence of and immediate access to upper management.

**5** Train your spokesperson and CEO to deal with the media. Can they handle floodlights and intrusive questions? Role play crisis situations.

**6** Prepare one-page fact sheets on the company, its products or services, its finances (if publicly traded) and its mission. Keep these updated for easy distribution when the media make inquiries. When a crisis occurs, prepare a similar fact sheet on the problem and what the company is doing to resolve it.

**7** Interview public relations firms. Even if your firm doesn't use a public relations firm on an ongoing basis, you may want to identify a public relations firm able to handle communications in a crisis.

## After a crisis

**1** Alert the public and your key audiences to the problem.

**2** If people have been hurt by your company's services or products, show compassion. Issue public apologies. Provide direct aid where appropriate.

**3** Recall faulty products and potentially faulty products immediately.

**4** Find the cause of the problem. Look at manufacturing, suppliers, distribution, etc.

**5** Mobilize other companies in your industry to look for a solution.

**6** Keep the media informed of your efforts to resolve the problem.

## Tips for handling the press

**1** Respond to inquiries immediately. Reporters work on deadline, so if you fail to respond, your side of the story might not get told. A "no comment" or "the company failed to return inquiries" may be interpreted as evasiveness.

**2** Be honest. As the Odwalla example demonstrates, a company can survive bad news if it admits the problem and makes necessary corrections.

**3** Keep your answers short and simple. Think like an editor: long, boring speeches make bad news, whereas quick, pithy soundbites can make a story come alive.

Like your buildings or inventory, your company's reputation is a valuable asset that deserves protection. Public relations, used properly, can help you protect this asset. Manufacturing and production firms can also protect themselves by purchasing product contamination/recall insurance to cover financial losses due to contamination, recalls or extortion by threatening to contaminate a product. Food processors can buy foodborne illness coverage to protect themselves from liability claims arising from contaminated food products.

Some insurers also offer limited coverage for crisis communications. This coverage can provide insureds with funds needed to help control bad news in a crisis. However, a 2000 survey by Assurex found that only 6 percent of the Fortune 500 companies carried crisis communications insurance.

For more suggestions on protecting your reputation in a crisis, please call Jim Sheridan, manager of The Addis Group's Risk Management Services Division. □

# The 2004 Addis Group Leadership Forum



On November 4, 2004 The Addis Group hosted its fifth risk management seminar for 2004. The presentation was titled, “Workers’ Compensation Trends, Issues and Outlook.” Tim Wisecarver, president of the Pennsylvania and Delaware Compensation Rating Bureau, reviewed the changes in the 2004 experience rating plan as well as potential future developments and their impact on the marketplace in the years to come.

In 2005, The Addis Group will again offer risk management seminars, including “Gameplan for Aging,” “Workplace Violence,” “Mold in the Workplace,” “Business Continuity Planning” and others. Please visit our Web site, [www.theaddisgroup.com](http://www.theaddisgroup.com) for a list of topics and speakers. □

**2 Vehicle design:** Designs featuring strong occupant compartments (“safety cages”) and “crumple zones” in the front and rear protect drivers and passengers by deflecting crash forces away from the occupants. Other things to look for include side-impact protection, which usually consists of energy-absorbing padding inside car doors and side guard beams; head restraints high enough to support the heads of taller occupants; anti-lock brakes (which help prevent brakes from locking in slippery conditions, but provide no improvement in braking in dry conditions); and daytime running lights.

**3 Lap/shoulder belts:** All new passenger vehicles have safety belts. Look for lap/shoulder belts that are comfortable, since they’re more likely to be worn. Other things to look for include “automatic crash tensioners” and “webbing grabbers,” which reduce an occupant’s forward movement in a crash.

**4 Air bags:** We strongly recommend buying cars that have both front and side-impact air bags. Some models also have “curtain” airbags, to protect occupants in case of a rollover.

For more information on keeping your workers safe—on the road or in the workplace—please contact us. □

## Scott Addis

### Named One of the “25 Most Innovative Agents in America”

In August 2004 Scott Addis was selected as one of the “25 Most Innovative Agents in America” by The National Alliance for Insurance Education and Research and Rough Notes Magazine. Scott received the award in Dallas, TX at a reception on October 12, 2004.

Dr. William T. Hold, CIC, CPCU, CLU, President of The National Alliance explained that the award is “a way to support the independent agency system and to reveal some of the success secrets of the most innovative property/casualty agents in the nation. These individuals have had a lasting influence with their unique contributions to the insurance industry.” □



F. Scott Addis – President and CEO



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