Let the Response Fit the Scandal

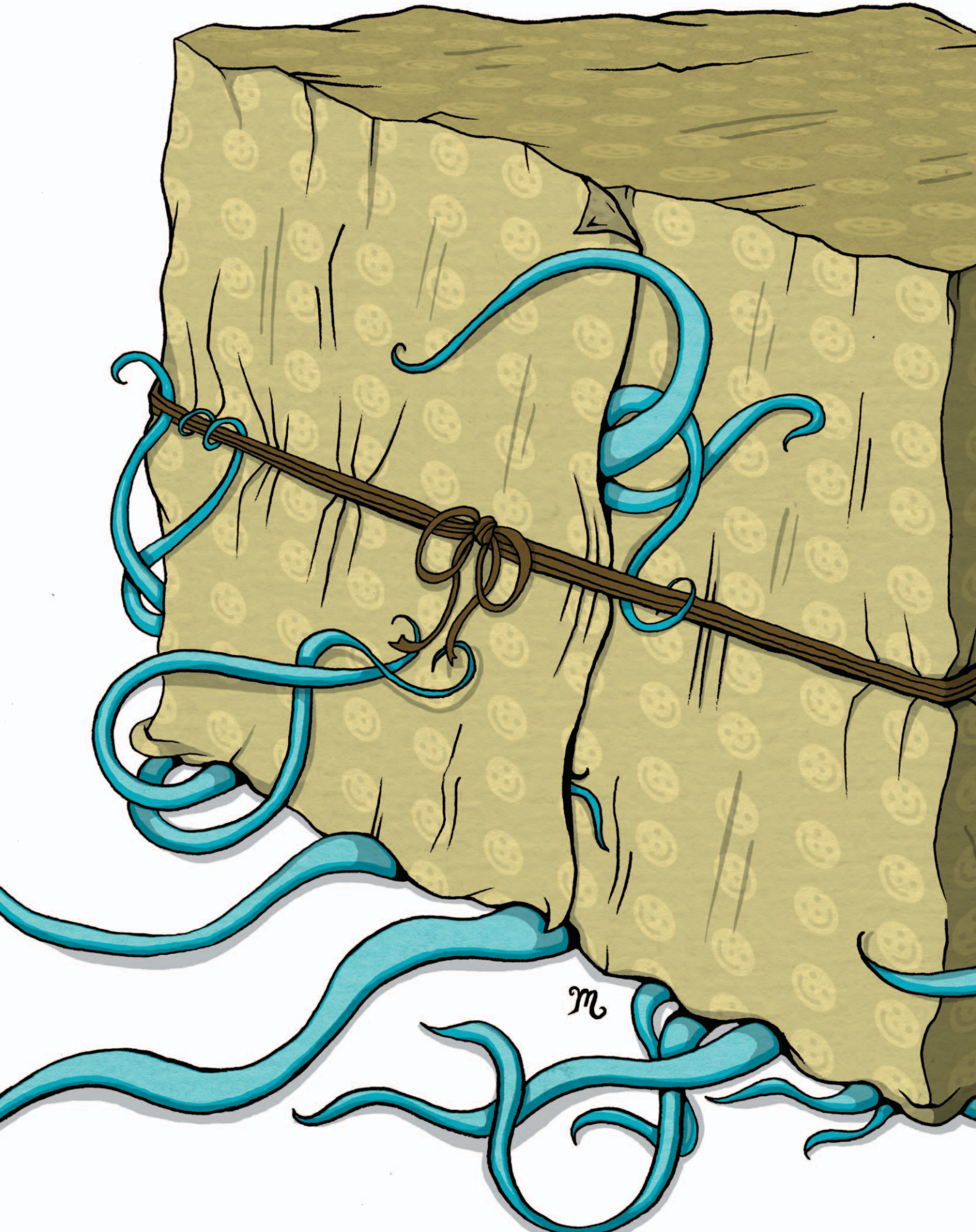
A step-by-step guide to tailoring your crisis response

by Alice M. Tybout and Michelle Roehm

Michael Miller

WHEN PRODUCTS FAIL or companies behave negligently, customers' perceptions and purchasing decisions will be adversely affected. Executives get that. But they're much more likely to be caught off guard by how far-reaching the aftershocks of a scandalous situation can be – and how varied the degrees of blame may be among the players involved.

Consider China's dairy industry scandal in late 2008. Tainted milk, infant formula, and other food materials sickened nearly 300,000 people and led to the deaths of several infants. Melamine had been added to the milk in an attempt to inflate its apparent protein content. Products from the Shijiazhuang-based Sanlu Group, a market leader in China's budget dairy segment, were initially thought to be the source of the troubles. But it soon became clear that an intricate web of players had contributed – some knowingly – to what the World Health Organization deemed one of the largest food safety crises in recent memory.



Dairy farmers, feeling the financial squeeze from rising cattle-feed costs and price caps on milk, shifted to a lower grade of feed, which led to lower-quality milk that did not meet large dairies' protein standards. Distributors, attempting to sidestep these content guidelines and sell the inferior product, added the melamine, a substance that can mimic protein but is dangerous for human and animal consumption. Several dairies, in turn, negligently allowed distribution of tainted milk products. All this was aided by lax oversight from Chinese quality-control officials and local government officers. Finally, global manufacturing companies such as Heinz, Mars, and Unilever became unwitting accomplices as they manufactured and distributed food items carrying the poisoned dairy ingredients.

Clearly, scandals can very easily extend beyond the original perpetrators and affect other companies in the value chain. They also may spill over to businesses outside the value chain that are viewed as similar to the alleged guilty parties. For instance, the dairy scandal and the recent pet food and toy-manufacturing scandals have in many people's minds rendered *all* Chinese products suspect.

With so many angles from which scandals might strike – and so many possible levels of perceived responsibility for wrongdoing, from accidental to negligent to intentional – a blanket approach to handling them just doesn't work. Although general guidelines for crisis management offer a useful starting point, the most effective responses are carefully and systematically calibrated to the characteristics of the brand, the nature of the scandalous event, and the company's degree of seeming culpability. They minimize brand damage and even, on occasion, provide opportunities for firms to deepen connections with customers by demonstrating concern and caring.

IDEA IN BRIEF

» **A blanket approach to scandal management won't work. There are too many angles from which scandals might strike.**

» **An effective response is one that's been calibrated to the characteristics of the brand, the nature of the event, and the parties being blamed.**

» **The authors offer a four-step framework (assess the incident, acknowledge the problem, formulate a response, implement the response) for crafting just-right reactions.**

A Framework for Managing Scandals

Drawing on more than 10 years of our own research, as well as studies by others, we've developed a four-step framework that allows executives to craft just-right, just-in-time responses to scandals. It offers managers a systematic way to gauge whether they should act immediately or sit tight and wait for the air to clear.

Step 1: Assess the incident. A scandal occurs when a negatively perceived event or action gains notoriety with a relevant audience. Not all negative events become scandals. The likelihood of a full-blown public scandal, in need of an equally public response, goes up when the incident is *surprising, vivid, emotional, or pertinent to a central attribute of the company or brand.* Applying these criteria, managers in the Chinese dairy supply chain might have anticipated that the news of tainted milk products would blossom into a crisis. The scandal received extensive press coverage because a large number of illnesses and several infant deaths struck an emotional chord and because a core benefit of dairy products – healthful nutrition – was compromised.

By contrast, if the incident is *unsurprising, difficult to portray in a vivid and emotional manner, or tangential to the company or brand,* reputation may go relatively unharmed, and the firm may make amends directly with the affected parties rather than respond publicly. In 2003, for instance, senior Boeing officials and a U.S. Air Force procurement staffer were involved in a corruption scandal. Boeing offered Air Force employee Darleen Druyun a position in its executive ranks while she oversaw the $20 billion lease of tanker aircraft. Following an investigation, Druyun confessed to setting contract terms that favored her future employer and sharing information about Airbus's bid with Boeing. Druyun and Boeing's CFO at the time, Michael Sears, were fined and sentenced to jail time, community confinement, and community service. The incident drew little public ire, however, probably because such conflicts of interest are viewed as commonplace – certainly nothing to get worked up about.

The spillover effect. A company's own good behavior does not guarantee protection from scandal. Damage may occur via spillover from other companies, particularly those perceived to be similar on attributes central to the scandal. When Vioxx was linked to elevated cardiovascular risk and Merck was forced to withdraw it from the market in 2004, Pfizer sought to capitalize on the scandal by positioning its COX-2 inhibitor, Celebrex, as a safer alternative. But many physicians perceived the Vioxx problem to be class related (associated with COX-2 inhibitors) rather than drug specific. As a result, Celebrex suffered along with Vioxx, whereas painkillers from other classes were unaffected. Meanwhile, dissimilarity on a scandal attribute appears to offer companies

protection from spillover. In 2005, when a severed finger was allegedly found in a bowl of Wendy's chili, competitors didn't take a hit, because the menu item was unique to that restaurant chain.

The rebound effect. When a scandal does spill over from one company to another, the public's attitude toward the original offender may actually become more favorable. As consumers see it, why penalize the perpetrating company for a behavior that may be more widespread? (Ironically, they're rarely so magnanimous toward the spillover victim.) Accordingly, damage to Mattel's brand due to the unsanctioned use of lead paint on toys produced in China was mitigated by the public's observation that other toy manufacturers – and companies in other industries – have experienced similar problems and found it very difficult to oversee all aspects of manufacturing in that country.

The customers' mind-set. There is often a yawning gap between managers' and consumers' perceptions of a potentially scandalous event. (See the exhibit "Mind the Gap.") Deep knowledge of the business encourages managers to be analytical when assessing the situation, and they have vested interests that lead them to interpret data optimistically. Customers' knowledge of the business is somewhat limited, so they tend to react more emotionally and construe events more cynically. When executives fail to understand the customers' mind-set, their response to a problematic situation may fan the flames of scandal. Such was the case when Intel reasoned that a computational flaw in its Pentium chip would be of little consequence to consumers, because the probability of error was remote and glitches would occur only when users performed highly complex computations. Consumers took a different view: They saw the flaw as symbolic of poor quality and filed a class-action suit. Intel ultimately recalled the chip at a cost of $475 million.

This may sound obvious, but it is critical for companies to look at individual incidents from the customer's perspective. To that end, they must convene a carefully designed and highly motivated executive crisis-management team – one that can infuse some reality into the scandal-assessment stage. Team membership, which may be largely preordained to save precious time when a disruption flares up, could include the CEO, legal counsel, heads of functions such as finance and operations, the firm's top PR person, and the VP from the corporate division experiencing the problem. As roles are assigned, some of these individuals should be given responsibilities that encourage viewing of the predicament from an outside perspective. For example, during Jack in the Box's *E. coli* scandal in 1993, Linda Lang, who subsequently became CEO of the corporation, was brought onto the crisis team and tasked with analyzing the disaster's consequences with respect to franchisees.

Step 2: Acknowledge the problem. If management concludes that the company is likely to be affected by a scandal, it should immediately acknowledge the problem, expressing concern for any parties harmed and outlining the steps the firm is taking to investigate and to prevent further damage.

Speed is important: Jack in the Box delayed commenting for several days following the *E. coli* outbreak linked to its hamburgers. In the wake

Mind the Gap

Typically there's wide disparity between managers' and customers' perceptions of a crisis involving a brand, product, or service. A company and its patrons may disagree on the severity of impact, who exactly is to blame, and the need for a quick response – or for any reaction at all. Here are some ways to close that gap.

1 Assess the Incident
Adopt the customers' point of view rather than management's perspective.

2 Acknowledge the Problem
Avoid premature statements related to the cause, focus on the process of investigation, and prevent further harm.

3 Formulate a Response
Evaluate the benefits and costs of the response in terms of customer relationships over the long run.

4 Implement the Response
Align scandal communications with customers' perceptions of the brand's function.

of the scandal, the parent company's stock lost 30% of its value, the Securities and Exchange Commission temporarily suspended trading of the stock, lawsuits were filed on behalf of hundreds of sickened customers as well as franchisees who saw their sales plummet, and within three years of the outbreak every Jack in the Box restaurant in Colorado was closed. It took the company years to fully recover. The chain didn't return to Colorado until 2007.

By contrast, when Trend Micro's flawed virus software update immobilized customers' computers, Akihiko Omikawa, EVP for Japan, responded quickly. Within an hour and a half, the company had removed the flawed file from its website and update servers, expanded its customer support staff, and held a press conference to apologize to customers and describe how the problem was being addressed. Savvy companies today not only monitor the web and social media for budding scandals but also use these platforms to acknowledge customers' concerns and keep people informed.

Although prompt acknowledgment is necessary, it is equally important that specific details be reserved for the next step of the response, when the company has a better understanding of what really happened. In the 1990s, Perrier damaged its credibility by issuing an immediate explanation for reports of benzene in its water – an explanation that was subsequently found to be incorrect.

To avoid this hazard, company spokespeople should limit their early comments to describing how the problem is being investigated, and executives should show that they're doing what they can to prevent further harm as the facts unfold. For example, while the investigation into the Tylenol poisonings was getting under way, Johnson & Johnson halted production and recalled 31 million bottles of the product. Corporate officials appeared on TV programs such as *60 Minutes* and *Nightline,* expressing horror at the tragedy; J&J announced a $100,000 reward for the capture of the "Tylenol killer"; and the company set up toll-free hotlines for customers and members of the media.

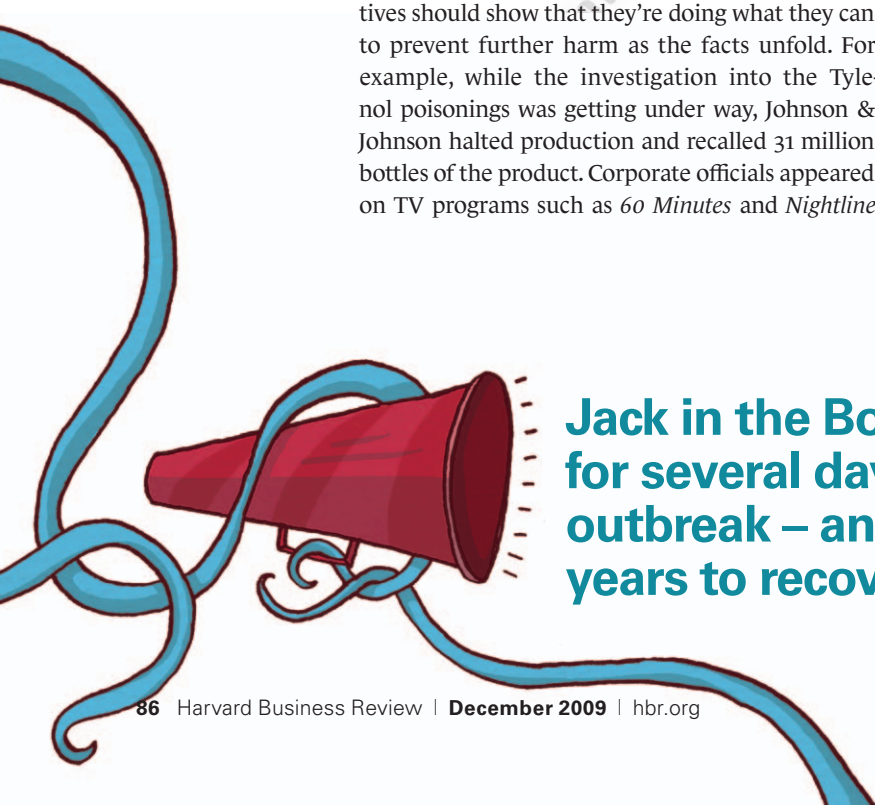
Step 3: Formulate a strategic response. After delivering an immediate yet measured reaction and getting the facts of the underlying problem firmly in hand, the senior team must craft a strategic response to the scandal. The most effective strategy will depend on several factors – among them, whether the allegation is false or true.

False allegations. If an allegation is proved false, the company should issue a strong denial. That's what Wendy's did once the finger-in-the-chili incident was exposed as a customer's ruse. "The police have conducted an investigation and filed charges and made an arrest. We believe that is a clear sign we have been vindicated," a spokesman for the fast-food chain said at the time.

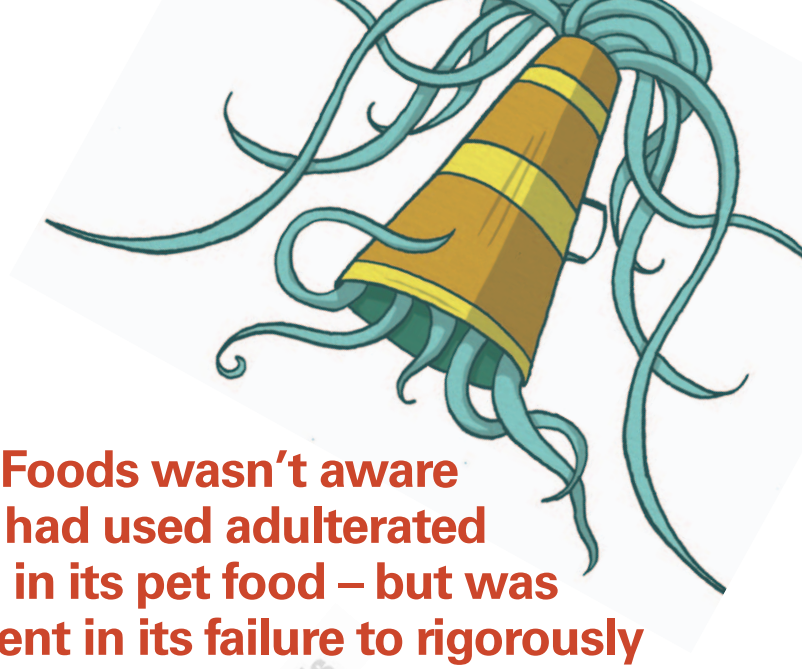
Denial is also a powerful weapon when a company is an innocent victim of spillover. After the Jack in the Box scandal erupted, other fast-food companies that sold hamburgers would have been well advised to reassure customers that they sourced and cooked their ground beef differently.

But denials must be wielded with care: If a company issues one when spillover has not occurred, it may experience a boomerang effect – that is, the denial might raise the very suspicion it was intended to correct. If Burger King (which doesn't serve chili) had responded to the Wendy's scandal by insisting in a press release that a similar event could not occur at Burger King because of its careful quality-control procedures, consumers might have wondered why the chain was so defensive – and concluded that Burger King's quality-control procedures were, in fact, probably lacking.

True allegations. If an alleged wrongdoing proves to be true, addressing it is more complicated and will typically involve some combination of expla-



Jack in the Box delayed commenting for several days after the *E. coli* outbreak – and it took the company years to recover.



nation, apology, compensation, and punishment. The precise mix of these elements depends largely on the perceived degree of calculation behind the ill deeds: Were they intentional, negligent, or accidental?

Let's examine the roles of various players in the pet food scandal of 2007, which has tragic parallels with the 2008 dairy debacle. At least 1,950 cats and 2,200 dogs died of renal failure, purportedly after consuming pet food containing melamine. Xuzhou Anying Biologic Technology Development Company, a Chinese supplier of wheat gluten used in the food, appeared to have *intentionally* spiked the gluten with melamine to pass chemical inspections for protein content. Menu Foods, a Canadian private-label manufacturer of pet food that used the adulterated gluten, was unaware of the contamination but was *negligent* in its failure to rigorously test its products and in its slow response to initial reports of pet illness. The company waited at least 10 days after receiving the first confirmed reports to launch an investigation; another 14 days passed before it issued a recall. Finally, companies such as Kroger and Procter & Gamble – which had contracted with Menu Foods to produce pet food products sold under their brand names, and which had no reason to suspect that their product quality was compromised – *accidentally* became associated with the crisis.

Menu Foods wasn't aware that it had used adulterated gluten in its pet food – but was negligent in its failure to rigorously test its products.

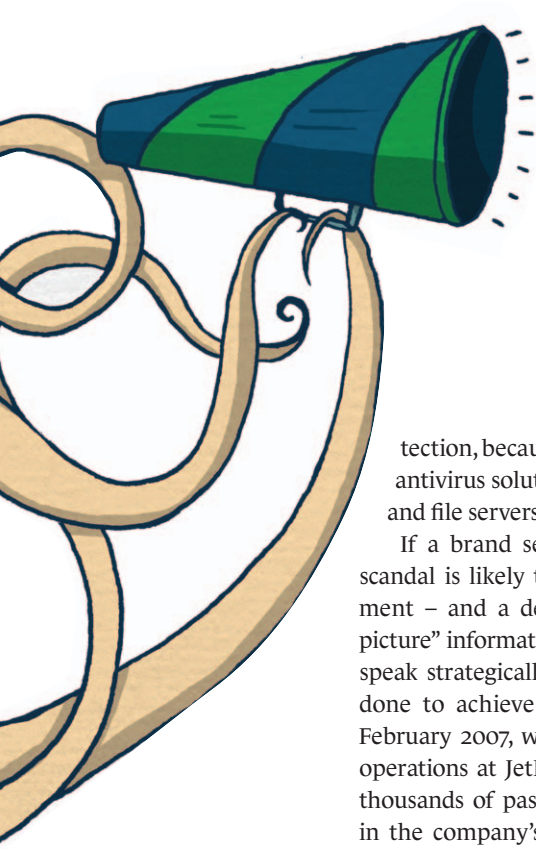
When a company's connection is accidental, sincere apologies may be all that are needed. Accordingly, Procter & Gamble ran ads for Iams and Eukanuba expressing deep regret that these brands were associated with the scandal. In instances of negligence, financial compensation may be required to appease those affected. Menu Foods may have miscalculated in its attempt to offset its negligence. The company was slow to offer compensation for expenses and losses that pet owners experienced, leading people to take matters into their own hands. Customers filed a lawsuit that resulted in a $24 million settlement in May 2008.

When involvement in a scandal results from actions that are perceived as intentional, the public may seek formal punishment of those responsible – the loss of jobs, for instance, or even jail time. Despite the fact that an inspection by the Chinese government found melamine on the premises of Xuzhou Anying Biologic, the company manager denied any involvement in the scandal. The government responded by shutting down the business and detaining its manager, actions that bereaved U.S. pet owners probably viewed as well justified in light of the company's deliberate actions.

As they formulate a strategic response, executives may want to role-play customers' reactions and quantify the possible costs of defections and lawsuits from parties who believe that it's unjust. As in previous steps of this process, getting into customers' heads is the best way to correct course when scandal hits.

Step 4: Implement response tactics. Once senior management has decided on a basic approach to dealing with the scandal, marketing and communications specialists may be called in to help the team figure out how to implement the strategy. The critical questions at this stage: Which issues should be addressed, and at what level of detail? Who should deliver the response, and with what kind of tone?

Answers to these questions must be based not only on the substance of the scandal but also on customers' perceptions of how the brand helps them achieve certain goals. Some brands are viewed as helping consumers pursue "promotion" goals, which are related to achievement and accomplishment. For instance, people patronize JetBlue to realize their travel aspirations in an affordable yet relatively luxurious fashion. Other brands serve "prevention" goals, helping consumers avoid bad outcomes. Trend Micro's antivirus and internet-security software products, for example, claim to provide companies the most comprehensive pro-



After thousands of customers got stranded, JetBlue's on-target messaging was undercut by its delay in acknowledging the problem.

tection, because the firm pioneered centralized antivirus solutions for gateways, e-mail systems, and file servers.

If a brand serves a promotion goal, then a scandal is likely to evoke sadness and disappointment – and a desire among customers for "big picture" information from spokespersons who can speak strategically about what should have been done to achieve a more favorable outcome. In February 2007, weather-related problems brought operations at JetBlue to a standstill and stranded thousands of passengers. The lead communicator in the company's response was then-CEO David Neeleman, who adopted an appropriately subdued and apologetic tone. A Customer Bill of Rights was created to ensure positive experiences for JetBlue travelers, even in the event of seemingly unavoidable future flight delays. The messages were framed in a sweeping manner with a focus on operational and customer policy changes rather than an emphasis on minute details. Unfortunately, these on-target messaging tactics were undercut by the company's initial delay in acknowledging the problem – a testament to the importance of managing *all four* steps of the response process well if a brand is to successfully bounce back.

If a brand serves a prevention goal, then the scandal may prompt anxiety and nervousness, along with a desire for granular information from a spokesperson who is knowledgeable specifically about what should *not* have been done – that is, how the negative outcome could have been avoided. In the Trend Micro scandal, for example, the executive vice president for Japan, who had firsthand knowledge of the elements of the failure that must be averted in the future, appeared on television to provide direct, specific answers to the public's questions. A letter was also sent to 100,000 corporate customers, carefully detailing and explaining process improvements that would serve to ward off future crashes.

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In these uncertain markets, the conditions are ripe for more corporate scandals, not fewer – and that's despite businesses' scrupulous efforts to become more transparent in their words and deeds. As managers struggle to recover from the global downturn, their focus on cutting costs increases the likelihood of cutting corners. Powerful networking technologies mean greater numbers of people will hear about and react to a scandal – and they'll do so with much greater speed than they could in the era of communication by broadsheet. This, combined with companies' keen emphasis on developing strategic partnerships and outsourcing their noncore business tasks, makes it more difficult than ever for senior executives to control behaviors outside the company.

In such an environment, executives cannot rely on preventative measures to protect them from scandal damage. They must be ready to respond, which means having an executive crisis team at the ready, a contingency budget set aside for crisis response, and – as we've outlined – a solid plan for working through the nuances of the specific scandal.

Alice M. Tybout *(amtybout@kellogg.northwestern.edu) is the Harold T. Martin Professor of Marketing at Northwestern University's Kellogg School of Management in Evanston, Illinois. She is a coauthor of "Three Questions You Need to Ask About Your Brand" (HBR September 2002).* **Michelle Roehm** *(michelle.roehm@mba.wfu.edu) is the senior associate dean of faculty and the Board of Visitors Professor of Marketing at Wake Forest University in Winston-Salem, North Carolina.*

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