CHAPTER TEN

Crisis Communication

Unlike many of the other topics covered in this book, a crisis is something *everyone* can relate to. The death of a close relative, the theft of one's car, or even a broken heart—all can become crises in one's personal life. Organizations face crises as well. Exxon's *Valdez* and Enron's and WorldCom's accounting scandals all became crises for the companies and people involved.

Thirty years ago, such events would have received some national attention but would more likely have been confined to the local and regional area where the events occurred. Today, because of changes in technology and the makeup of the media, any corporate crisis is covered in a matter of hours by the national and international media, and Webcast over the Internet—further hastened by an ever-growing population of online "bloggers" who document and critique companies' every move. Thus, a more sophisticated media environment, as well as a new emphasis on technology in business, has created the need for a more sophisticated *response* to crises.

This chapter first defines what constitutes a crisis. It turns next to a discussion of several prominent crises of the last quarter century. Once we define what crises are all about, the focus shifts to how organizations can prepare for such events. Finally, the chapter offers approaches for organizations to follow when crises do occur.

What Is a Crisis?

Imagine for a moment that you are sleeping in bed on a warm evening in southern California. Suddenly, you feel the bed shaking, the light fixtures swaying, and the house trembling. If you are from California, you know that you are in the middle of an earthquake; if you are from New England, you might think that the world is coming to an end. Or picture yourself on a friend's boat, out for a leisurely sail on a sunny afternoon. Two hours later you discover that you have been having such a good time that you didn't notice yourself moving farther and farther away from shore into open ocean. Storm clouds are gathering on the horizon, and the sun seems mysteriously to be setting a bit early.

All of us would agree that, in these situations, we as individuals would definitely be facing crises. If the earthquake turns out to be "the big one," or if your friend is a novice sailor and you are in fact drifting into a severe storm, these scenarios could turn life-threatening.

How do crises affect organizations? Organizations also face crises that occur naturally: A hurricane rips through a town, leveling the local waste management company's primary facility; the earthquake we imagined earlier turns the three biggest supermarkets in the area into piles of rubble; a tsunami devastates a coastal area, crippling the local tourism industry for months if not years in its aftermath; a ship is battered at sea by a storm and sinks with a load of cargo destined for a foreign port. While all of these incidents create havoc and most can't be predicted, they all can be planned for to some degree.

Natural disasters cannot be avoided, but there are many crises—those caused by human error, negligence, or, in some cases, malicious intent—that planning could have prevented in the first place. In fact, most of the crises described later in this chapter—such as those that beset Tylenol, Perrier, Pepsi, and several online retailers and banks—were *human-induced crises* rather than natural disasters. Such crises can be more devastating than natural disasters in terms of the costs they entail for companies in terms of both dollars and reputation.

All human-induced crises cannot be lumped together, however. One type includes cases in which the company is clearly at fault, such as cases of negligence. One example was the June 2000 sinking of a Panamanian tanker, the *Treasure*, which spilled 400 tons of heavy bunker oil off the west coast of South Africa and threatened 40 percent of the world's African penguin population. Financial or accounting frauds constitute another example of man-made crisis—a type increasingly exposed under the scrutiny of the 2002 Sarbanes-Oxley Act. A McKinsey & Company report revealed that more than 65 major financial crises took place between 1995 and 2005—nearly one and a half times the number that took place during the 1990s.[1] In these cases, a falling stock price and rising legal tabs are not the only aftereffects a company must weather; often the most serious impact is to the company's reputation and the subsequent loss of trust with key stakeholders.[2]

The second type of crisis includes cases in which the company becomes a victim, such as Barclays, Citibank, eBay, and other major corporations, which were targeted by online information theft attempts, discussed later in this chapter. The company falls prey to circumstances in these situations, just as when natural disasters unexpectedly hit. A company's role as either the perpetrator or the victim in a crisis is the distinction upon which public perception often hinges. The general public's attitude toward the company is more likely to be negative for crises that could have been avoided, such as the oil spills of the *Treasure* or the *Exxon Valdez*, as opposed to one that the organization really had no control over, such as the destruction of countless hotels and resorts when the December 2004 tsunami struck Southeast Asia or the devastating hurricanes that befell the Gulf Coast in 2005. In all situations, however, constituencies will look to the organization's *response* to the crisis before making a final judgment. Certainly, some human-induced crises, such as the Tylenol tragedy, end up actually increasing the overall credibility of the organization involved.

[1] Allan Schoenberg, "Do Crisis Plans Matter? A New Perspective on Leading during a Crisis," *Public Relations Quarterly* 50, no. 1 (April 1, 2005).

[2] Ibid.

Thus, to define *crisis* for organizations today is a bit more complicated than simply saying that it is an unpredictable, horrible event. For the purposes of this chapter, a crisis will be defined as follows:

> A crisis is a major catastrophe that may occur either naturally or as a result of human error, intervention, or even malicious intent. It can include tangible devastation, such as the destruction of lives or assets, or intangible devastation, such as the loss of an organization's credibility or other reputational damage. The latter outcomes may be the result of management's response to tangible devastation or the result of human error. A crisis usually has significant actual or potential financial impact on a company, and it usually affects multiple constituencies in more than one market.

Crisis Characteristics

While all crises are unique, they do share some common characteristics, according to Ray O'Rourke,[3] former managing director for Global Corporate Affairs at the investment bank Morgan Stanley. These include (1) *the element of surprise*—such as Philip Morris finding carcinogens in its filters or Pepsi learning of reports of a syringe found in a Diet Pepsi can; (2) *insufficient information*—the company doesn't have all the facts right away, but very quickly finds itself in a position of having to do a lot of explaining (the Perrier example later in this chapter is instructive here, in that it took the company over a week to figure out what was going on after reports of benzene contamination surfaced); (3) *the quick pace of events*—things escalate very rapidly (even before Exxon's crisis center was up and running after the *Valdez* incident, the state of Alaska and several environmental groups were mobilized); (4) *intense scrutiny*—executives are often unprepared for the media spotlight, which is instantaneous, as answers and results normally take time. Think of how much air time Martha Stewart received during 2004–2005.

What makes crises difficult for executives is that the element of surprise leads to a loss of control. It's hard to think strategically when overwhelmed by unexpected outside events. In addition, the media frenzy that typically surrounds a crisis can prompt a siege mentality to ensue, causing management to adopt a short-term focus. Attention shifts from the business as a whole to the crisis alone, forcing all decision making into the shortest time frame. For example, in the early 1990s, the public relations firm Burson-Marsteller was hired six days after the Perrier benzene scare began, and already it had to undo three different explanations from the company—none of which were true. Perrier's uncoordinated and off-the-cuff statements only increased the likelihood that the crisis would escalate. When panic sets in, this is typically what happens in organizations.

Part of the problem in dealing with crises is that organizations have tended not to understand or acknowledge how vulnerable they are until *after* a major crisis occurs. Lack of preparation can make crises even more severe and prolonged when they do happen. Let's take a closer look at some major crises from the past 25 years to bring our definition to life.

[3] Ray O'Rourke, presentation to Corporate Reputation Conference, New York University, January 1997. At the time of this presentation, O'Rourke was with public relations firm Burson-Marsteller.

Crises from the Past 25 Years

For baby boomers, the defining crisis of their time was the assassination of President John F. Kennedy. Virtually everyone who was alive at that time can remember what he or she was doing when the news was announced that President Kennedy had been shot. Generation Xers in the United States today probably feel the same way about the explosion of the space shuttle *Challenger* in January 1986. Certainly people everywhere will remember the terror attacks of September 11, 2001, in the United States as a defining moment of the new millennium. These events have become etched in the public consciousness for a variety of reasons.

First, people tend to remember and be moved by negative news more than positive news. Americans in particular seem to have a preoccupation with such negative news. Network and cable news broadcasts underscore this point. Viewers rarely see "good" news stories because they just don't sell to an audience that has become accustomed to the more dramatic events that come out of the prime time fare on television.

Second, the human tragedy associated with a crisis strikes a psychological chord with most everyone. A cable car detaching over the French Alps in 1999, American Airlines flight 587 crashing after take-off in New York City killing 265 people on board in November 2001, the terrorist attacks striking the London Underground and bus system in July 2005—such events make us realize how vulnerable we all are and how quickly events can make innocent victims out of ordinary people.

Third, crises associated with major corporations stick in the public's mind because many large organizations lack credibility in the first place. A public predisposed to distrust big oil companies could not be completely surprised by what happened to the *Exxon Valdez* or by Texaco's racial discrimination suit. Indeed, these events validated the public's suspicions, so they took as much pleasure in the turmoil these corporations faced as a result of their actions as they took sorrow in what the *Valdez* accident did to the environment and how Texaco treated minorities. In other cases, crises have such an impact on us because they take us by surprise. Consider energy behemoth Enron, ranked in 2000 among *Fortune*'s most admired companies and praised for its internal culture of collegiality and open communication.[4] A short time later, its collapse resulted in the largest bankruptcy in U.S. history as well as 11,000 employees losing their life savings—a total of $1 billion invested in the 401(k) plans attached to company stock.[5] As we look at other major crises, we will start to see more clearly why these events linger in the public psyche.

1982: Johnson & Johnson's Tylenol Recall

Johnson & Johnson's (J&J's) Tylenol recall in the early 1980s is held by many as "the gold standard" of product-recall crisis management. Although 25 years have

[4] Peter Lilienthal, "The Myth of CEO Accountability," *The Conference Board—Across the Board*, March/April 2003.

[5] Martine Costello, "Company Stock Slams 401(k)s," *CNN/Money*, December 10, 2001.

passed since the crisis, the lessons to be learned from it are still relevant. Johnson & Johnson's handling of the crisis was characterized by a swift and coordinated response and a demonstration of concern for the public that only strengthened its reputation as "the caring company."

In late September and early October of 1982, seven people died after taking Tylenol capsules that had been laced with cyanide. At the time, Tylenol had close to 40 percent of the over-the-counter market for pain relievers. Within days of the first report of these poisonings, sales had dropped by close to 90 percent.

Certainly the irony of something that is supposed to relieve pain turning into a killer made this episode one of the most memorable in the history of corporate crises, but many experts on crisis communication, marketing, and psychology have conjectured that it was Johnson & Johnson's swift and caring response that was primarily responsible for turning this disaster into a triumph for the company. Despite losses exceeding $100 million, Tylenol came back from the crisis stronger than ever within a matter of years.

What did Johnson & Johnson do? First, it did not simply *react* to what was happening. Instead, it took the offensive and removed the potentially deadly product from shelves. (In the end, 31 million bottles of Tylenol were recalled.) Second, it leveraged the goodwill it had built up over the years with constituencies ranging from doctors to the media and decided to try to save the brand rather than come out with a new identity for the product. Third, the company reacted in a caring and humane way rather than simply looking at the incident from a purely legal or financial perspective. Thousands of J&J employees made over one million personal visits to hospitals, physicians, and pharmacists around the nation to restore faith in the Tylenol name.[6]

Why did the company go to these lengths? Despite its decentralized structure, Johnson & Johnson's management is bound together by a document known as the "Credo." The Credo is a 308-word companywide code of ethics that was created in 1935 to boost morale during the Depression, and it is carved in stone at company headquarters in New Brunswick, New Jersey, today. It acknowledges: "We believe our first responsibility is to the doctors, nurses, and patients, to mothers and all others who use our products and services." Then-CEO James Burke made sure that the principles of the Credo guided the company's actions during the Tylenol crisis, helping J&J react to tragedy without losing focus on what was most important.

What is most amazing is not that J&J handled this crisis so formidably but that the perception of the company was actually *strengthened* by what happened. As Burke—who was brought in early as the lead person handling the crisis—explained, "We had to put our money where our mouth was. We'd committed to putting the public first, and everybody in the company was looking to see if we'd live up to our pretensions."[7] J&J management did, and the public rewarded them for it. Within three months of the crisis, the company regained 95 percent of its previous market share.[8] More than two decades later, Johnson & Johnson ranks consistently

[6] Harold J. Leavitt, "Hot Groups," *Harvard Business Review*, July 1, 1995, p. 109.

[7] Brian O'Reilly, "Managing: J&J Is on a Roll," *Fortune*, December 26, 1994, p. 109.

[8] Ibid.

on *BusinessWeek* and Interbrand's annual list of the 100 Top Global Brands, with a brand portfolio valued at $3.04 billion in 2005.[9]

1990: The Perrier Benzene Scare

Perrier Sparkling Water faced a contamination crisis of its own nearly 10 years after the Tylenol episode. While Perrier's contamination crisis did not lead to any deaths, or even reported illnesses, it still demanded resolution and an explanation from the public and the media. Perrier's actions during the 1990 benzene scare provide as many lessons in how *not* to handle a crisis as J&J's did of how to handle one effectively.

In February 1990, Perrier issued the following press release:

> The Perrier Group of America, Inc. is voluntarily recalling all Perrier Sparkling Water (regular and flavored) in the United States. Testing by the Food and Drug Administration and the State of North Carolina showed the presence of the chemical benzene at levels above proposed federal standards in isolated samples of product produced between June 1989 and January 1990.[10]

This press release marked the beginning of the end of Perrier's reign over the sparkling water industry. In 1989 Perrier, one of the most distinguished names in bottled water, sold one billion bottles of sparkling water, riding high on the wave of 1980s health consciousness. Then in January 1990, a technician in the Mecklenberg County Environmental Protection Department in Charlotte, North Carolina, discovered a minute amount of benzene, 12.3 to 19.9 parts per billion (less than what is contained in a non–freeze-dried cup of coffee), in the water.[11] After receiving confirmation from both the state and federal officials, Mecklenberg briefed Perrier Group of America about the contamination.

Two full days after the crisis broke, after recalling over 70 million bottles from North America (but before identifying the source of the contamination), Perrier America president Ronald Davis confidently announced that the problem was limited to North America. Officials had reported a cleaning fluid containing benzene had been mistakenly used on a production line machine.[12] The real cause of the contamination—defective filters at its spring[13]—was discovered less than three days later, and contrary to what Ronald Davis had previously announced, six months' worth of production would be affected, covering Perrier's entire global market.[14] The firm was forced to change its story.

Without an official crisis plan of its own, Perrier relied on the media to communicate its story during the crisis, which proved to be a fatal decision. The press only served to expose the lack of internal communication and the lack of global

[9] "Special Report: The Best Global Brands," *BusinessWeek*, July 25, 2005.

[10] Perrier press release, The Perrier Group, February 10, 1990.

[11] "When the Bubble Burst," *Economist*, August 3, 1991, p. 67.

[12] Ibid.

[13] "Handling Corporate Crises; Total Recall," *Economist* 335 (June 3, 1995), p. 61.

[14] Ibid.

coordination within the company. At a news conference in Paris, when Perrier-France announced that it was also issuing a recall due to the presence of benzene, the president of Perrier's international division, Frederik Zimmer, offered the explanation that "Perrier water naturally contains several gases, including benzene."[15] From the contradictory messages released to the press, it was clear that the U.S. operations were not communicating well—if at all—with their European counterparts. Moreover, yet another story emerged to explain the presence of benzene, and it contradicted the previous explanations: According to Perrier officials, "the benzene entered the water because of a dirty pipe filter at an underground spring at Vergeze in southern France."[16] All of this hurt the company's credibility.

The cost of the recall and eventual relaunch of the product—ushered in by a pricey advertising campaign—meant that customers found the new 750mL bottles selling at the same price as the old one-liter bottles. Perrier's pre-crisis 1989 market share of 44.8 percent had plummeted to under 5 percent by 2008.

The Perrier benzene crisis illustrates not only the consequences of having a *reactive* strategy to deal with crises but also the problems of not having a coordinated and fact-based approach to crisis communication.

1993: Pepsi-Cola's Syringe Crisis

Another beverage company, Pepsi-Cola, faced a highly publicized contamination crisis of its own shortly after Perrier's benzene episode. Pepsi's handling of the syringe hoax of 1993 starkly contrasts with the Perrier example. In addition to showing concern for the public and demonstrating resoluteness in getting to the bottom of the problem, Pepsi also skillfully leveraged two other critical constituencies—the government and, most important, the media—to help it combat the bogus tampering claims and win back the public's trust.

In June 1993, a man in Washington State reported that, after drinking half a can of Diet Pepsi the night before, he had discovered a syringe in the can the following morning when he shook out the rest of the contents into the sink.[17] This claim was the beginning of a major crisis for Pepsi-Cola.

The CEO of Pepsi-Cola North America, Craig E. Weatherup, did not let the surprise of the crisis overwhelm him when he was contacted at home by FDA Commissioner David Kessler and informed of the situation. His first action was to engage Pepsi-Cola's four-person crisis management team—made up of "experienced crisis managers from public affairs, regulatory affairs, consumer relations, and operations"[18]—to swiftly deal with the unfolding situation, including opening lines of communication with FDA regulatory officials, the media, and consumers. Internally, Pepsi prevented organizational chaos by updating employees with daily advisories to over 400 Pepsi facilities nationwide.[19] Unlike Johnson & Johnson's

[15] "Poor Perrier, It's Gone to Water," *Sydney Morning Herald*, February 15, 1990, p. 34.

[16] Ibid.

[17] David Birkland, "Couple Say They Found Used Needle in Pepsi," *Seattle Times*, June 11, 1993, p. 18.

[18] Sandi Sonnenfeld, "Media Policy—What Media Policy?" *Harvard Business Review*, July 1, 1994, p. 18.

[19] Ibid.

immediate recall of Tylenol from the shelves, by the next morning, Weatherup had decided *not* to recall the product—despite a flood of new reports to the FDA of dangerous objects found in Pepsi cans.

When television networks contacted the company looking for a response or any formal statements, Weatherup realized that the crisis was rooted in the disturbing imagery of syringes in cans—and decided to supply the media with an equally "visual" response. Weatherup had his staff prepare video footage of the canning process at Pepsi that showed how it would be virtually impossible to insert a syringe into the cans. Additionally, Pepsi later distributed a grocery-store surveillance tape of a woman stealthily dropping a syringe into her Pepsi can. After the footage appeared as the lead story on three major networks, no new reports of syringes were made.[20]

Weatherup also made several television appearances throughout the day, on *The MacNeil/Lehrer News Hour* and *Larry King Live*. In his last appearance, FDA Commissioner David Kessler accompanied him. Both men stressed the implausibility of the claims and the criminality of making false statements (five years in prison and up to $250,000 in fines).

Pepsi's highly visible work with the FDA in investigating the crisis boosted its credibility in the public eye. Additionally, without an investigative reporting team of its own, Pepsi found that the government agency was invaluable to the company during the crisis. The FDA established a center in 1989 to provide the agency with a team of forensic science experts who can respond immediately to all tampering incidents and provide expert advice and scientific evidence to FDA officials. It was an FDA investigation that provided the evidence used to convict a tamperer who had falsely claimed to find a mouse inside a Pepsi can when she opened it. Several days later, the FBI arrested four individuals for making false claims, and the contamination scare appeared even more like the hoax it turned out to be. In the end, 20 arrests were made, and the crisis was resolved.

Pepsi-Cola did not stop there, however. To ensure that consumers knew that the tampering claims were false, Weatherup took out an ad to address the concerns of employees and customers. As he explained, "On Monday, Pepsi will run full-page advertisements in 200 newspapers around the country, including the *Washington Post*. The ad reads: 'Pepsi is pleased to announce . . . nothing. As America now knows, those stories about Diet Pepsi were a hoax. Plain and simple, not true.' It ends with an invitation: 'Drink All The Diet Pepsi You Want. Uh Huh.'"[21] (See Figure 10.1.) Pepsi-Cola remains one of America's leading soft drinks, with a 31.7 percent market share,[22] demonstrating that negative publicity and crisis situations can be overcome when the crisis is successfully handled.

[20] Glenn Kessler and Theodore Spencer, "How the Media Put the Fizz into the Pepsi Scare Story," *Newsday*, June 20, 1993, p. 69.

[21] John Schwartz, "Pepsi Punches Back with PR Blitz; Crisis Team Worked Around the Clock," *Washington Post*, June 19, 1993, p. C1.

[22] Chad Terhune, "Market Shares Drop at Coca-Cola, PepsiCo," *The Wall Street Journal*, March 7, 2005, p. B10.

FIGURE 10.1
Diet Pepsi Ad Run to Counteract Tampering Claims in 1993

Source: Permission granted by Pepsi-Cola Company.

Pepsi is pleased to announce...

...nothing.

As America now knows, those stories about Diet Pepsi were a hoax. Plain and simple, not true. Hundreds of investigators have found no evidence to support a single claim.

As for the many, many thousands of people who work at Pepsi-Cola, we feel great that it's over. And we're ready to get on with making and bringing you what we believe is the best-tasting diet cola in America.

There's not much more we can say. Except that most importantly, we won't let this hoax change our exciting plans for this summer.

We've set up special offers so you can enjoy our great quality products at prices that will save you money all summer long. It all starts on July 4th weekend and we hope you'll stock up with a little extra, just to make up for what you might have missed last week.

That's it. Just one last word of thanks to the millions of you who have stood with us.

Drink All The Diet Pepsi You Want.
Uh Huh.

DIET PEPSI

The New Millennium: The Online Face of Crises—Data Theft and Beyond

With personal computers and the Internet now integral parts of the fabric of business, organizations face new challenges and the potential for crises that they have not dealt with before. The "I Love You" virus unleashed in 2000 cost businesses across a range of industries an estimated total of $10 billion in damages. Five years later, IBM released a report identifying the first viruses spreading beyond computers to attack and extract personal information from hand-held devices such as mobile phones and PDAs—the very tools upon which professionals, and certainly senior executives, rely to conduct daily business.[23] Companies of all kinds are also grappling with information security issues involving the theft or attempted theft of company and customer data.

[23] Rhymer Rigby, "Software Menaces Are Moving with the Times," *Financial Times*, July 22, 2005.

While all businesses need to be on guard against these new threats, Internet-based businesses in particular are on the front lines of the information security battle. In January 2000, CD Universe, an online retailer of music CDs, was blackmailed by an extortionist claiming to have copied the company's more than 300,000 customer credit card files and demanding compensation of $100,000 in return for not posting the information on the Internet.[24] When the company did not respond to his demands, he followed through with his threat and created a Web site where he placed the customer credit card files.

Hacking into Reputations

Today, the majority of online thieves are opting for more surreptitious tactics to steal confidential information. Viruses are now more commonly used to plant "Trojans" in personal or office computers—malicious software that steals sensitive information stored in a computer and relays it back to the criminal. "Phishing" is another popular tactic used by scammers who send spoof (but often legitimate-looking) e-mails to customers, posing as well-known companies and requesting personal information such as account passwords and social security numbers under the auspices of updating the company's online records.

The proliferation of such online security threats has resulted in crisis situations for myriad companies worldwide that now must redouble their efforts to protect against them to maintain the confidence and trust of their customers. The battle is not an easy one, especially as technological advances enable cyber-criminals to become more creative. George Samenuk, chairman and CEO of leading security software company McAfee, estimates that software piracy is costing the computer software industry more than $25 billion per year in lost revenues.[25] And according to the Federal Trade Commission (FTC), identity theft affects close to 5 percent of adults, costing businesses and consumers $53 billion annually.[26] Unfortunately, the threat is only increasing; in 2004, 246,000 identity theft incidents were reported to the FTC, almost triple the number reported in 2001.[27]

Why has the problem reached a crisis pitch for so many companies? Besides the reparations and damages businesses must cover for affected customers, doubts about online security have cast a shadow on many online retailer and banks' corporate reputations. And in the online arena, reputation may indeed be everything. A survey released in May 2005 by Gartner revealed that more than 42 percent of online consumers and 28 percent of people who bank online are "cutting back on their activity because of 'phishing' attacks and other assaults on sensitive data." Even more disturbing is the financial impact of this depleted confidence on online retailers and bankers—33 percent of those online consumers worried about fraud say they are buying less than they otherwise would if they weren't concerned; 77

[24] John Markoff, "Thief Reveals Credit Card Data When Web Extortion Plot Fails," *The New York Times*, January 10, 2000, p. A1.

[25] Kevin Mills, "Software Piracy Costs Computer Industry over $25 Billion a Year," *Irish Examiner*, June 17, 2005.

[26] Christopher Conkey, "A Radical Tool to Fight ID Theft—U.S. Is Allowing Some Fraud Victims to Obtain New Social Security Numbers," *The Wall Street Journal*, July 6, 2005, p. D1.

[27] Ibid.

percent of worried online consumers report using online banking less frequently; and more than 4 percent have completely given up online banking.[28] Even marketing can be negatively affected—with 80 percent of surveyed individuals citing a reduced trust thanks to online security issues, people are playing it safe and more than 85 percent delete "suspect mail" without opening it. More than likely, businesses' legitimate marketing e-mails are lost to consumers as a result of their personal defense mechanisms.[29]

What are companies doing to battle back? Some are responding more effectively than others. In May 2003, despite the heightened sensitivity of online consumers, Wachovia sent online banking customers an e-mail asking them to update their user names and passwords by clicking on a link—a widely recognized phishing tactic customers have been trained to ward against. While the request was legitimate as Wachovia was migrating customers onto a new system, a quarter of their customers questioned the e-mail and flooded Wachovia's call centers with calls.[30] More and more, businesses must understand and function within today's context of increased customer suspicion and make concerted efforts to quell those fears.

The most effective reactions have focused on clear, consistent communications disseminated to customers prior to and in the immediate wake of an online attack. Most important, communications should concentrate on consumer education. Citibank, for example, highlights ways to ward off phishing on its Web site, including a "Spot a Spoof" chart that outlines ways to identify fraudulent e-mails.[31] The company also has taken its preventative measures a step further: In May 2005, Citigroup announced its collaboration with the National District Attorneys Association (NDAA) to work with prosecutors nationwide to develop new strategies for the arrest and prosecution of identity thieves.[32] Companies also have begun banding together and increasing intercorporate dialogues to communicate best practices and experiences and better combat online security incidents. For example, in 2003, the Anti-Phishing Working Group was founded in the United States, comprising members from more than 400 companies.[33]

Internet service provider EarthLink has led the charge in increasing customer awareness since it became a phishing target in early 2003. In fact, it makes its consumer education products—including a "ScamBlocker" toolbar—available to all Internet users, not merely EarthLink subscribers, to promote a "better, safer online experience" for all.[34] ScamBlocker displays a rating for each Web site visited, which alerts users before they enter a page included on EarthLink's blacklist of fraudulent

[28] Riva Richmond, "Internet Scams, Breaches Drive Buyers off the Web, Survey Finds," *The Wall Street Journal*, June 23, 2005, p. B3.

[29] Ibid.

[30] Alice Dragoon, "Fighting Phish, Fakes and Frauds," *CIO*, September 1, 2004.

[31] Jeanette Borzo, "E-Commerce—Something's Phishy," *The Wall Street Journal*, November 15, 2004, p. R8.

[32] Citigroup press release, "Citigroup Teams with State and Local Prosecutors to Lock Up ID Thieves," May 5, 2005.

[33] Borzo, "E-Commerce."

[34] EarthLink Web site, http://www.earthlink.net/software/nmfree.

sites. For the greater good of the customer, EarthLink has gone so far as to share its blacklist with eBay to use in its own security toolbar.[35]

Perhaps the most noteworthy example of a data security breach, subsequent crisis, and following reputation-rebuilding process in recent years is that of ChoicePoint. In October 2004, the data broker realized it had been tricked into turning over personal data of hundreds of thousands of its customers to an organized crime ring. The police were informed of the security breach, but ChoicePoint executives made the mistake of failing to tell affected individuals until February 2005; to further exacerbate the crisis, they only told California residents because doing so was required by state law. It wasn't until Congress intervened that the company contacted nearly 130,000 more individuals. A $10 million fine to the FTC and $5 million to victims followed suit.[36]

If this example seems like a textbook example of what not to do in a similar event, it is—at least, in the early stages of the crisis. Since then, ChoicePoint executives have made huge strides in reversing the company's negative reputation and reestablishing it as a leader in privacy and information security. They established an Office of Privacy, Ethics and Compliance intranet to keep employees informed about all updates and new policies. A new consumer advocacy department works directly with consumers to handle their concerns; a risk and compliance framework that extends across the entire business cinches the company's ability to target messages to internal and external stakeholders. Demonstrating genuine efforts to educate consumers and safeguard against threats is an important first step for a company to rebuild the trust many customers have lost in recent years, troubled by the potential threats of online transactions.

Online Opinions: Louder Than Ever

Data theft is only one type of threat companies need to guard against online. Another dimension of the new face of crises is how the Internet can be used to create anticorporate, antibrand "communities" in which people can share information, opinions, and grievances about companies. One of the earliest examples of the influence of such sites is the crisis Dunkin' Donuts experienced in the summer of 1999, when a dissatisfied customer used the Internet to share his own bad experience at a Dunkin' Donuts store. When Dunkin' Donuts advertised coffee "your way," this customer was displeased to learn that it did not offer his choice of skim milk. Since the company did not have a corporate Web site where he could formally lodge a complaint, he created his own, writing: "Dunkin' Donuts sucks. Here's Why."[37]

While the site started out as a small section of this individual's personal Web page, it was not long before Yahoo! picked up the page in its consumer opinion section. Soon, it was generating 1,000 hits a day. Since Dunkin' Donuts had no

[35] Dragoon, "Fighting Phish, Fakes and Frauds."

[36] Richard Levick, *Stop the Presses: The Crisis and Litigation PR Desk Reference*, 2nd edition (Ann Arbor, MI: Watershed Press, 2008).

[37] Joanna Weiss, "Dunkin' Donuts Complaint-Site Saga Shows Business Power of Internet," *Boston Globe*, August 25, 1999, Online Lexis-Nexis Academic, April 2002.

official forum for customer suggestions or complaints, this fledgling site—out of the company's control—effectively became that forum. The complainant eventually purchased new Web space and the domain name www.dunkindonuts.org, moving the discussion to a place with a seemingly official name.[38]

It was a full two years after the site was launched that Dunkin' Donuts purchased it (after first writing a letter to the individual who created it, politely requesting that he close it, and then threatening him with a lawsuit) and built its own corporate Web site around it. Customers now have a wide variety of options for contacting specific franchise managers or company headquarters via e-mail or toll-free numbers to share feedback.

In the end, Dunkin' Donuts learned the value of offering its own Web-based forum for customer feedback and complaints, but it could have mitigated the crisis by acting sooner to take control of the situation. This example demonstrates the power of the Internet to make the voice of one individual louder than that of a major corporation, and it also highlights how search engines are a cost-free means to further raise the visibility of anticorporate sites, however small and "home grown" they may be at first.

Since Dunkin' Donuts' online debacle, corporate "hate sites" have mushroomed; London-based mi2g estimates that, as of December 2004, there were more than 10,500 sites targeting major global brands. This number is a huge leap compared with the 1,900 hate sites online at the end of 2000 or the 550 posted at the end of 1997.[39] The sites are so abundant that *Forbes* magazine compiles a list of the 100 best anticorporate sites, "honoring the very best in online rage" by using a ranking system based on the following criteria: ease of use, frequency of updates, number of posts, hostility level, relevance, and entertainment value.[40] Among the top-rated are the anti-Microsoft site www.MS-Eradication.org (modeled after the design of Microsoft's official corporate site), anti–American Express www.amexsux.com, or UPS-bashing www.UnitedPackageSmashers.com, featuring a photo gallery of damaged UPS-delivered packages along with the tagline: "turning parcels into pancakes . . . one package at a time."

In many ways, advocates and consumers alike now use technology to rally together and fuel or escalate a crisis—posing additional challenges for the corporation in question. Consider the thousands of text messages sent between mobile phone users in the Philippines to incite hundreds of thousands of protestors out into the streets, forcing out then-President Joseph Estrada in 2001.[41] In this way, the proliferation of online Weblogs ("blogs") has increased the visibility and reach of anticorporate sentiments. Twenty-three thousand new blog sites spring up on the Internet every day, enabling information to spread faster than wildfire—literally.[42] These electronic diaries often push a very specific agenda, one that can tarnish a

[38] Ibid.

[39] Jack Kapica, "Anti-Corporate Sites on Rise: Study," *Globe & Mail*, December 3, 2004.

[40] Charles Wolrich, "Special Report: Top Corporate Hate Web Sites," *Forbes*, March 8, 2005.

[41] William Foreman, "Text Messages Help Fuel Philippine Crisis," Associated Press, July 11, 2005.

[42] Adam Hill, "Reputation Management: Blogs Cast a Shadow," *PR Week Online*, July 1, 2005.

company's reputation if read and shared by any of the estimated 172 million adults who go online. In fact, a 2008 Harris Poll revealed that 77 percent of U.S. adults are now online, up from 74 percent in February/April 2005, 66 percent in the spring of 2002, 64 percent in 2001 and 57 percent in spring of 2000.[43] Because postings tend to remain online for long periods of time—and are often not removed at all—blogs also can have a much longer-lasting impact than those transmitted through traditional vehicles such as print, recycled to the curb the next day.[44] And with services like the Wayback Machine and Google Cache offering an archive of Internet pages dating back up to nine years, online information may never disappear entirely.[45]

The U.S. bicycle lock manufacturer Kryptonite experienced the influence of blogs first-hand, seeing sales plummet in 2004 after a blogger posted a video demonstrating how to pick one of its bicycle locks in under 30 seconds using a Bic pen.[46] Two million people read about the lock-picking tactic via blogs, causing Kryptonite to spend $10 million on replacement locks.[47] The company settled a class-action lawsuit, paying $3,000 for every stolen bike and issuing $10 coupons for any consumer who opted to keep the lock, on top of $690,000 in related legal fees.[48] Though the same information had been published in 1992 in industry magazine *New Cyclist*, it took "the blogosphere" to give the information legs and escalate the situation to crisis level. Then there is the example of Dell, whose reputation tanked after influential blogger Jeff Jarvis launched his "Dell Hell" diatribe (see Chapter 6).

While many companies do not yet have an official approach to dealing with bloggers, a good place to start is identifying the most vocal and visible bloggers covering topics related to the industry and proactively supplying them with accurate corporate information.[49] In 2005, General Motors launched its first official corporate blog, titled the GM "FastLane," written by GM vice president for global product development Bob Lutz.[50] "FastLane" took a bold approach, allowing consumers to post unfiltered feedback about GM, its products, or previous blog postings.[51] Many benefits resulted, including free insights about products that the GM marketing team could use and, even more important, a reputational boost for GM. Customers—particularly savvy Internet users who regularly research companies and products online—appreciate a company's solicitation for candid feedback. In times of crisis, this previously established credibility can be invaluable. The public

[43] http://www.centerformediaresearch.com/cfmr_brief.cfm?fnl=060621 (accessed April 30, 2008.

[44] Caspar van Vark, "Your Reputation Is Online," *Revolution*, March 4, 2004, p. 42.

[45] David Kesmodel, "Not Fade Away—Lawyers' Delight: Old Web Material Doesn't Disappear," *The Wall Street Journal*, July 27, 2005, p. A1.

[46] Christina K. Pikas, "Blog Searching for Competitive Intelligence, Brand Image, and Reputation Management," *Online*, July 1, 2005, p. 16.

[47] "Double-Edged Blog Power Puts Marketers on Guard," *Media*, July 1, 2005.

[48] Patti Waldmeir, "Blogs Are Shifting the Balance of Power," *Financial Times*, June 23, 2005, p. 11.

[49] van Vark,"Your Reputation Is Online."

[50] Andrew Bernstein, "The Blogosphere: Separating the Hype from the Reality," *PR News*, July 20, 2005.

[51] Ibid.

will more likely give the company the benefit of the doubt, listen to the corporate response before casting judgment, or—at the very least—know where to turn to get the latest information if a crisis strikes. GM regularly uses its blog in noncrisis situations to manage its reputation and defend itself against "media articles that we considered unfair, unbalanced or uniformed," explained Lutz.[52] With the power of the blogosphere and Internet growing exponentially, companies have no choice but to join the fray and jump online to manage their reputations and deflect potential crises.

In the "new economy," these phenomena, coupled with widespread public concern over information security, now have the power to affect a company's bottom line substantially. Companies must recognize the increasing influence of the Internet on a growing number of its constituencies (see Chapters 6 and 7 for more on media and investor constituencies, respectively) and must keep this dimension in mind in planning for and handling crises.

These are just some of the other major crises that organizations have faced in the past 10 years:

- On April 8, 2008, American Airlines begins grounding its M-80 planes due to complications arising from mandatory wiring inspections, which leads to more than 3,000 flight cancellations and widespread customer complaints about the company's handling of the crisis.
- In early 2008, German customers boycott Nokia after 1,000 employees are unexpectedly laid off from its Bochum plant so business could be outsourced to cheaper countries in Eastern Europe. Many of the employees learn of their layoffs not from Nokia managers, but from radio reports of the company's plans to cut staff and outsource.
- On October 23, 2007, the Federal Emergency Management Agency (FEMA) hosts a press conference on wildfires that had been raging in California. The press conference turns out to be fake; FEMA employees acted as journalists and pitched easy questions to then-Deputy Director Harvey Johnson.
- In 2007, a wave of pet food recalls due to contaminated ingredients leaves Menu Foods and ChemNutra in the middle of an image crisis—and an FDA investigation.
- During a snowstorm in mid-February 2007, hundreds of JetBlue passengers are stranded on runways in the New York metro area for up to 10 hours without being deplaned. The company ultimately has to invest millions in reparations and drafts a constitution of passengers' rights, designed to protect JetBlue customers in the event of future weather delays.
- In 2007, Whole Foods CEO John Mackey is caught denouncing his competitors—including one that he was in discussions to purchase—on Yahoo! financial message boards. The messages, which he posted anonymously, date back seven years; his reputation (and, in turn, that of the company) suffers from his lack of transparency.

[52] Kyle Wingfield, "Blogging for Business," *The Wall Street Journal Europe*, July 20, 2005, p. A9.

- Mattel recalls millions of toys throughout 2007 due to lead contamination and faulty pieces—errors largely due to poor oversight of the Chinese manufacturers, but ones that cost the toy company dearly in terms of sales and the resources needed to manage the crises.
- The University of Michigan suspends the sale of all Coca-Cola products on its campus in 2006 in after environmental concerns in India and labor issues in Colombia become public.
- Credit-processing firm CardSystems is hacked into in June 2005, exposing 40 million credit card account numbers from Visa, MasterCard, American Express, and Discover Financial—constituting one of the biggest breaches of consumer data security in history.
- Boeing Co.'s board of directors forces out CEO Harry C. Stonecipher in 2005 over his consensual extramarital affair with an employee.
- Merck & Co. recalls pain medication Vioxx in September 2004 in response to a study revealing that the risk of heart attacks and strokes tripled in individuals taking the drug for periods of more than 18 months.
- Accounting giant Arthur Andersen is convicted in 2002 for shredding tons of documents related to long-time client Enron Corp. While the Supreme Court overturned the ruling three years later in May 2005, Arthur Andersen's reputation is irreparably tarnished, and its workforce plummets from 85,000 to fewer than 200.[53] The firm no longer exists.
- Ford Motor Company recalls 6.5 million Firestone tires in August 2000 following a number of deaths and lawsuits surrounding Firestone tires on Ford Explorers.
- Coca-Cola issues a recall of its soft drinks in Belgium, France, the Netherlands, and Luxembourg in 1999 after more than 200 people report illnesses.

How to Prepare for Crises

The first step in preparing for a crisis is understanding that any organization, no matter what industry or location it is in, can find itself involved in the kinds of crises discussed in the previous section. While those listed may be some of the most noteworthy ones from recent history, those left out were likely just as devastating to the companies involved. Obviously, some industries—the chemical industry, pharmaceuticals, mining, forest products, energy-related industries such as oil and gas and electric utilities, and online retailers—are more crisis-prone than others, but today, every organization is at risk.

The terror attacks of September 11, 2001, proved to be an important test of many companies' crisis plans. For other companies, the attacks underlined the importance of having a plan in place. A survey of nearly 200 CEOs conducted by Burson-Marsteller and *PR Week* magazine in late 2001 revealed that a full 21 percent of

[53] Diya Gullapalli, "Andersen Decision Is Bittersweet for Ex-Workers," *The Wall Street Journal*, June 1, 2005, p. A6.

CEOs surveyed "had no crisis plan and were caught unprepared" by the events of September 11. Fifty-three percent acknowledged that their plan was good but "not totally adequate for such events." In response to the question of whether they had readdressed their crisis communication plan since the September 11 disaster, 63 percent indicated that they intended to do so.[54] Despite those stated intentions, the numbers may be even more troubling several years on. A Harris Poll in 2004 revealed that only 22 percent of *Fortune* 1000 companies said they were completely prepared to face a natural or manmade disaster; 79 percent said that more than half of their employees were unaware of their companies' policies and procedures concerning disaster planning.[55]

Many companies located in the World Trade Center also had been tenants of the Twin Towers at the time of a previous terrorist attack. In 1993, an explosion blew out three of the underground floors of the World Trade Center, forcing the evacuation of more than 30,000 employees and thousands of visitors from the entire complex and a rescue operation lasting 12 hours.[56] After the 1993 bombing, many organizations developed or refined their evacuation plans from the Trade Center. When the second attack occurred in 2001, this preparation helped save many lives.

For example, the World Trade Center's largest tenant, Morgan Stanley Dean Witter, cited its own evacuation plan as critical to saving the lives of all but 6 of its 3,700 employees on September 11. A Morgan spokesman attributed the smooth evacuation to companywide familiarity with the plan: "Everybody knew about the contingency plan. We met constantly to talk about it."[57]

Communications managers must follow these examples and prepare company management for the worst by using anecdotal information about what has happened to unprepared organizations in earlier crises. There are so many to choose from that managers should not be hard pressed to find crisis examples in virtually every industry from experiences over the last 25 years. Once the groundwork is laid for management to accept the notion that a crisis is a possibility, real preparation should take the following form.

Assess the Risk for Your Organization

As mentioned earlier, some industries are more prone to crises than others. But how can organizations determine whether they are more or less likely to experience a crisis? Publicly traded companies are at risk because of the nature of their relationship with a key constituency—shareholders. If a major catastrophe hits a company that trades on one of the stock exchanges, the likelihood of a selloff in

[54] Jonah Bloom, "CEOs: Leadership through Communication—The *PR Week* and Burson-Marsteller CEO Survey 2001 Finds U.S. Corporate Leaders Emulating the Strong, Open, Communicative Style of Rudy," *PR Week*, November 26, 2001, pp. 20–29.

[55] Mike Walsh, "Post-9/11, Does Your Company Know the Drill?" *PR News* 36, no. 60 (September 20, 2004).

[56] Carol Carey, "World Trade Center," *Access Control & Security Systems Integration*, July 1, 1997.

[57] Daren Fonda, "Girding against New Risks: Global Executives Are Working to Better Protect Their Employees and Businesses from Calamity," *Time*, October 8, 2001, p. B8.

the stock is enormous. Such immediate financial consequences can threaten the organization's image as a stable ongoing operation in addition to the damage the crisis itself inflicts.

While privately held companies do not have to worry about shareholders, they do have to worry about the loss of goodwill—which can affect sales—when a crisis hits. Often the owners of privately held companies become involved in communication during a crisis to lend their own credibility to the organization. So all organizations—public, private, and not-for-profit—are at some risk if a crisis actually occurs. The next section examines how a company can plan for the worst no matter what.

Plan for Crises

The person in charge of corporate communication should first call a *brainstorming session* that includes the most senior managers in the organization as well as representatives from the areas that are most likely to be affected by a crisis—for example, the head of manufacturing in some cases because of the potential for industrial accidents in the manufacturing process. It also might include the chief information officer because of the danger to computer systems when accidents happen. In the case of the explosion during the first World Trade Center attack in 1993, most of the organizations were service organizations. After the loss of lives, the loss of critical information was one of the worst outcomes of the explosion.

During the brainstorming session, participants should work together to develop ideas about potential crises. They should be encouraged to be as creative as possible during this stage. The facilitator should allow participants to share their ideas, no matter how outrageous, with the group and should encourage all participants to be open-minded as they think about possible crisis scenarios.

Once an inventory of possible crises exists, the facilitator should help the group to determine which of the ideas developed have the most potential to actually occur. It might be useful, for example, to ask the group to assign probabilities to the potential crises so that they can focus on the more likely scenarios rather than wasting time working through solutions to problems that have a very low probability of occurring. But even at this stage, participants must not rule out the worst-case scenario. The risk for an oil spill the size of the *Exxon Valdez* occurring was very low according to outside projections. Thus, neither the oil company nor governmental agencies prepared for the worst possible accident.

Determine Effect on Constituencies

Once the probability of risk has been assigned to potential crises, organizations need to determine *which constituencies would be most affected by the crisis*. Crisis communication experts spend too little time thinking about this question. Why is it so important? Since some constituencies are more important than others, organizations need to look at risk in terms of its effect on the most important constituencies.

When the World Trade Center came under attack on September 11, 2001, American Express CEO Ken Chenault phoned the company's headquarters across the street from the World Trade Center and instructed building security to evacuate employees immediately. As the day wore on, he contacted all his senior executives to check on their well-being.[58] Until Chenault was able to relocate the company's 3,000 employees to a new building across the river, AmEx's in-house communications staff worked from their homes to reach out to customers and let them know the company was open for business.[59] Two concerns guided Chenault in his actions following this crisis: employee safety and customer service.[60] Employees and customers, in this example, were the constituencies determined to be most affected by these events, and Chenault's actions reflected this determination.

Determining how to rank constituencies when a crisis actually happens is more difficult because so many other things are going on. But thinking about risk in terms of effect on constituencies in advance helps the organization further refine which potential crises it should spend the most time and money preparing for. During the Tylenol crisis, for example, Johnson & Johnson could rely on its Credo to help the company set clear priorities and deal with its constituencies. In the wake of several regulatory and legal scandals, Citigroup CEO Charles ("Chuck") Prince met with Johnson & Johnson when creating the three "Shared Responsibilities" that all Citigroup employees signed on to in March 2005—with the intent of setting behavioral standards that will prevent mishaps or offer a framework of values to guide responses to any that occur.

Set Communication Objectives for Potential Crises

Setting communication objectives for potential crises is different than figuring out how to deal with the crisis itself. Clearly, organizations must do both, but typically managers are more likely to focus on what kinds of things they will do during a crisis rather than what they will say and to whom. Communication takes on more importance than action when the crisis involves more intangible things such as the loss of reputation rather than the loss of lives.

Analyze Channel Choice

Once the ranking of constituencies is complete, the participants in a planning session should begin to think about what their communication objective will be for each constituency. Whether this objective will be achieved often depends on the effectiveness of the communication *channel* the company selects to convey the message.

Perhaps the mass distribution of a memo would be too impersonal for a message to employees in a time of crisis. The company might consider personal or group meetings or a "town hall" gathering instead. The choice of communication channel often can reflect how sensitive a company is to its constituencies' needs and emotions. What would be the most efficient and most sensitive way to communicate with consumers or their families during a crisis? Johnson & Johnson's caring and highly personalized reaction to the Tylenol crisis—involving a host of personal visits to hospitals and pharmacies nationwide—won the company

[58] Bloom, "CEOs: Leadership through Communication."

[59] "Corporate America's Reaction," *PR Week*, September 24, 2001, p. 10.

[60] Bloom, "CEOs: Leadership through Communication."

Pearson and Mitroff's Crisis Management Strategic Checklist

STRATEGIC ACTIONS

1. Integrate crisis management into strategic planning processes.
2. Integrate crisis management into statements of corporate excellence.
3. Include outsiders on the board and on crisis management teams.
4. Provide training and workshops in crisis management.
5. Expose organizational members to crisis simulations.
6. Create a diversity or portfolio of crisis management strategies.

TECHNICAL AND STRUCTURAL ACTIONS

1. Create a crisis management team.
2. Dedicate budget expenditures for crisis management.
3. Establish accountabilities for updating emergency policies/manuals.
4. Computerize inventories of crisis management resources (e.g., employee skills).
5. Designate an emergency command control room.
6. Assure technological redundancy in vital areas (e.g., computer systems).
7. Establish working relationship with outside experts in crisis management.

EVALUATION AND DIAGNOSTIC ACTIONS

1. Conduct legal and financial audit of threats and liabilities.
2. Modify insurance coverage to match crisis management contingencies.
3. Conduct environmental impact audits.
4. Prioritize activities necessary for daily operations.
5. Establish tracking system for early warning signals.
6. Establish tracking system to follow up past crises or near crises.

COMMUNICATION ACTIONS

1. Provide training for dealing with the media regarding crisis management.
2. Improve communication lines with local communities.
3. Improve communication with intervening stakeholders (e.g., police).

PSYCHOLOGICAL AND CULTURAL ACTIONS

1. Increase visibility of strong top management commitment to crisis management.
2. Improve relationships with activist groups.
3. Improve upward communication (including "whistleblowers").
4. Improve downward communication regarding crisis management programs/accountabilities.
5. Provide training regarding human and emotional impacts of crises.
6. Provide psychological support services (e.g., stress/anxiety management).
7. Reinforce symbolic recall/corporate memory of past crises/dangers.

Source: Christine Pearson and Ian Mitroff, "From Crisis Prone to Crisis Prepared: A Framework for Crisis Management," *Academy of Management Executive* 7, no. 1 (1993), pp. 48–59.

significant goodwill. In a time of crisis, constituencies crave information and are often more sensitive than usual to how information is conveyed to them. In the case of the Kryptonite lock-picking debacle, four days after the first blog was posted about the trick, Kryptonite issued a generic statement citing the locks as a "deterrent to theft" and noting that the new line of locks promised to be "tougher."[61] Hundreds of bloggers were unsatisfied with the empty answer and continued to

[61] David Kirkpatrick, Daniel Roth, and Oliver Ryan, "Why There's No Escaping the Blog," *Fortune*, January 10, 2005, p. 44.

write about the locks, prompting hundreds of thousands more to read about them, online and in print via *The New York Times* and Associated Press stories.[62] An estimated 1.8 million people read at least one blog posting about Kryptonite throughout the crisis, largely because Kryptonite failed to stage a swift, cohesive online response effort to battle the bloggers head on in their own forum.[63]

Assign a Different Team to Each Crisis

Another important part of planning for communicating in a crisis is determining in advance who will be on what team for each crisis. Different problems require different kinds of expertise, and planners should consider who is best suited to deal with one type of crisis versus another. For example, if the crisis is likely to have a financial focus, the chief financial officer may be the best person to lead a team dealing with such a problem. He or she also may be the best spokesperson when the problem develops. On the other hand, if the problem is more catastrophic, such as an airline crash, the CEO is probably the best person to put in charge of the team and to serve, at least initially, as head spokesperson for the crisis. In crises that result in loss of life, anyone other than the CEO will have less credibility with the general public and the media.

But managers should avoid putting senior-level executives in charge of communications for *all* crises. Sometimes the person closest to the crisis is the one people want to hear from. For example, the best spokesperson for a global company may be someone located in the country where the problem develops rather than a more senior manager from the head office due to considerations such as cultural issues, language differences, and local community concerns.

Assigning different teams to handle different crises helps the organization put the best people in charge of handling the crisis and communications. It also allows the organization to get a cross-section of employees involved. The more involved managers are in planning and participating on a team in a crisis, the better equipped the organization will be as a whole.

Plan for Centralization

Although organizations can employ either a centralized or decentralized approach to corporate communication for general purposes (as we discussed in Chapter 3), when it comes to crisis, the approach must be completely centralized.

Conflicting stories from Perrier's U.S. and European divisions created problems in the company's handling of the benzene contamination scare, further compounding that crisis. Decentralized organizations often find it more difficult to communicate efficiently between divisions, especially if they have not given interdivisional communication full consideration in a crisis-planning phase. Planning for centralization can help strip away layers of bureaucracy, keep lines of communication open throughout the organization, and dissipate conflict, all of which are especially critical in a crisis.

[62] Ibid.

[63] Ibid.

What to Include in a Formal Plan

Every communications consultant will suggest that you develop a detailed plan for use in a crisis. These are formal in the sense that they are typically printed up and passed around to the appropriate managers, who may have to sign a statement swearing that they have read and agree to the plan. This step allows the organization to ensure that the plan has been acknowledged by the recipients and permits questions and clarifications to be discussed *in a noncrisis environment*. The last thing you want to happen is for a plant manager's first read of the plan to be when a real crisis occurs.

Research on crisis planning shows that the following information is almost always included in a crisis plan.

A List of Whom to Notify in an Emergency

This list should contain the names and numbers of everyone on the crisis team as well as numbers to call externally, such as the fire and police departments. The list should be kept updated as people leave the company or change responsibilities.

An Approach to Media Relations

Frank Corrado, the president of a firm that deals with crisis communications, suggests that the cardinal rule for communicating with all constituencies in a crisis should be "Tell It All, Tell It Fast!"[64] To a certain extent, this recommendation is true, but one should be extremely careful about applying such a rule too quickly to the media. Perhaps a friendly amendment to Corrado's rule might be, "Tell as much as you can, as soon as you can," so that you do not jeopardize the credibility of the organization. For example, Perrier's hasty communication with the media, in the absence of accurate information, was a crippling mistake.

If the organization has done a good job of building relations with the media when times are good, reporters will be more understanding when a crisis occurs. Having a reserve of goodwill with the media is what helped Johnson & Johnson during the Tylenol crisis. Generally, the person who has the best relationships with individual reporters is probably the right person to get involved with them during a crisis. By agreeing ahead of time that all crisis-related inquiries will go to a central location, organizations can avoid looking disorganized.

A Strategy for Notifying Employees

Employees should be seen as analogous to families in a personal crisis. Employees finding out from the media about something that affects the organization can be likened to a family member hearing about a personal problem from an outsider. An organization should take pains to ensure that a plan for employee notification is created with employee communication professionals in advance and is included in the overall crisis plan.

[64] Frank Corrado, *Media for Managers* (New York: Prentice Hall, 1984), p. 101.

A Location to Serve as Crisis Headquarters

Although consultants and experts who have written about crises suggest that companies need to invest money in a special crisis center, all companies really need to do is identify ahead of time an area that can easily be converted to such an operation. A contingency location should be determined in the event of a natural disaster or terrorist attack affecting the safety or security of the chosen location. Gathering the appropriate technology (e.g., computers, fax machines, cell phones, hookups for media transmissions) as quickly as possible when a crisis hits is also important. This headquarters location should be shared ahead of time with all key internal and external constituencies. All information ideally should be centralized through this office. Other lines of communication should then flow through the headquarters for the duration of the crisis.

A Description of the Plan

Companies should have their crisis plans documented in writing. In addition to communication strategy, a crisis plan should address logistical details, for example, how and where the families of victims should be accommodated in the case of an airline crash.

Following the development of an overall plan, all managers should receive training about what to do if and when a crisis strikes. Several public relations firms and academic consultants now offer simulations that allow managers to test their crisis management skills in experiential exercises. Companies including MasterCard, Southwest Airlines, and General Motors use simulations to help their organizations work out the kinks before a real crisis hits.[65] Managers searching for the right training should be sure that the simulation or training session includes a heavy emphasis on communication in addition to management of the crisis itself.

Beyond managers, all employees should be versed in and trained regularly on the company's emergency procedures and plans. Involve all employees in continuity of business tests; while a genuine crisis cannot be simulated, test runs will help ensure familiarity with emergency plans throughout all levels of the organization. British Airways conducts a companywide crisis simulation exercise every 12 to 18 months. Guiding those trial runs is BA's crisis manual—200 pages outlining employee roles, responsibilities, and actions in the event of an emergency; third-party contact information; press release templates; as well as maps and key information on BA's fleet and partners.[66]

Communicating During the Crisis

All the planning that an organization can muster will only partially prepare it for an actual crisis. The true measure of success is how it deals with a problem when it occurs. If the plan is comprehensive enough, managers will at least start from a

[65] "Crises: In-House, in Hand," *PR Week*, January 21, 2002, p. 13.

[66] Mary Cowlett, "Crisis Training: Prepared for Anything?" *PR Week*, May 6, 2005, p. 25.

strong position. What follow are the most important steps to take when communicating during a crisis. Every crisis is different, which means that managers must adapt these suggestions to meet their needs, but crises have enough common elements for this prescription to be a starting point for all crisis management.

Step 1: Get Control of the Situation

The first step is for the appropriate manager to get control of the situation as soon as possible. Such control involves defining the real problem with the use of reliable information and then setting measurable communication objectives for handling it. Failing to take this seemingly obvious, but crucial, first step can be devastating to crisis management efforts, as seen in the Perrier case. Perrier lacked sufficient information to *define* its benzene problem in the first place—though its spokespeople tried to convince the public otherwise—which only compromised its attempts to mitigate the crisis.

When a crisis erupts, everyone in the organization should know who needs to be contacted, but in large organizations, this knowledge is often unrealistic. Therefore, the corporate communication department can initially serve as a clearinghouse. The vice president for corporate communication at the head office should know the composition of crisis teams and can then turn the situation over to the appropriate manager.

Step 2: Gather as Much Information as Possible

Understanding the problem at hand is the right place for communicators to begin dealing with a crisis. This understanding often involves managing information coming from many sources.

As information becomes available, someone should be assigned to mine that information: If it is an industrial accident, how serious is it? Were lives lost? Have families already been notified? If the incident involves an unfriendly takeover, what are the details of the offer? Was it absurdly low? Have any plans been made for the company to defend itself?

Many corporations have been criticized for reacting too slowly during a crisis because they were trying desperately to gather information about the incident. If it is going to take longer than a couple of hours to get the right information, a company spokesperson should communicate this delay to the media and other key constituencies right away to make it clear that the company is not stonewalling. No one will criticize an organization for trying to find out what is going on, but a company can face harsh treatment if its constituencies think that management is deliberately obstructing the flow of information.

Step 3: Set Up a Centralized Crisis Management Center

At the same time managers are getting in touch with the right people and gathering information, they also should be making arrangements for creating a crisis center as described earlier in this chapter. This location will serve as the platform for all communications during the crisis. Organizations also should provide a comfortable location for media to use during the crisis, including adequate computers or Internet hookups, phones, fax machines, and so on. All communications about the crisis should come from this one, centralized location.

Step 4: Communicate Early and Often

The organization's spokesperson needs to say whatever he or she can as soon as possible. Particularly if the crisis involves threat to lives and property, communicators should try to shield constituencies from panic by allaying some of the probable fears that people will have about the situation. Employees, the media, and other important constituencies should know that the crisis center will issue updates at regular intervals until further notice. Even if they retain public relations firms to assist them in handling a crisis, companies need to put good *inside* people on the front lines of crisis communication and should encourage managers to adopt a team approach with others involved.

Above all else, avoid silence and delayed responses. In 2000, Bridgestone/Firestone's tire recall crisis proved just how detrimental tardy communication can be. Hundreds of accidents and deaths were linked to Firestone tread separations on Ford Explorers. While the majority of the 6.5 million tires were recalled,[67] Firestone's response focused more on pinning blame on Ford and dodging responsibility than communicating clearly and thoughtfully with affected consumers who were frantic for information. As a result of this highly publicized crisis, Firestone fell to the bottom of the list in *Fortune*'s 2001 survey of the most admired companies, assuming the last spot among rubber and plastics companies.[68] In contrast, consider CD Universe's swift response to a blackmailing incident in 2000. The company promptly sent e-mail notices directly to its customers alerting them to the situation, explaining how the company was responding to the security breach, and working with the credit card companies to help customers in the event that their stolen numbers were used. Larry Kamer, chairman of GCI Kamer Singer, notes that "nine and a half times out of 10 you have to communicate before the facts are in."[69] So communicate values, such as concern for public safety, and show a commitment to coming to the aid of people affected by the crisis, even if you do not have all the details yet.

Step 5: Understand the Media's Mission in a Crisis

Members of the media work in an extremely competitive environment, which explains why they all want to get the story first. They are also more accustomed to a crisis environment in their work. What they are looking for is a good story with victims, villains, and visuals.

The Pepsi syringe hoax had all of these sensational elements. As we have seen, CEO Craig Weatherup recognized the impact that visuals would have in reassuring

[67] Caroline E. Mayer and Frank Swoboda, "A Corporate Collision; Ford-Firestone Feud Accelerated after Effort to Head It Off Failed," *Washington Post*, June 20, 2001, p. E1.

[68] "Who's Up, Who's Down," *Fortune*, February 19, 2001, p. 104.

[69] John Frank, "What Can We Learn from the Ford/Firestone Tire Recall? As John Frank Explains, Unlike the Tylenol Crisis, the Problem Is That They Just Can't Seem to Put a Lid on It," *PR Week*, October 9, 2000, p. 31.

the public that the tampering claims it was facing were simply impossible. The video footage of Pepsi canning procedures and the grocery-store surveillance tape, shown on television, and the full-page newspaper ad are all examples of Pepsi's using the media to help it beat a crisis (see Figure 10.1).

Step 6: Communicate Directly with Affected Constituents

Using the media to get information out is good, but it's more important to communicate with your employees, sales staff, organized leadership, site security, operators, and receptionists, as these will be the media's best sources of information in the crisis. External constituencies need to be contacted as well. These include the other three key constituencies besides employees—customers, shareholders, and communities—as well as suppliers, emergency services, experts, and officials. All available technologies should be employed to communicate with them, including e-mail, voice mail, faxes, direct satellite broadcasts, and online services.

Before communicating, companies also should consider which constituencies are top priority. One of Firestone's major blunders during the 2000 tire recall scandal was targeting its first round of PR efforts at dealers instead of appealing directly to the consumers themselves—the constituency most directly affected by the crisis in the first place. Distributing reassuring ads to local dealers, Firestone hoped to leverage dealers' strong reputations to help build back its own. Instead, the company should have channeled its effort and resources into targeting consumers *directly* and personally to bolster their view of the company. With the recall nearly seven months old, it was not until February 2001 that Firestone began to speak to consumers directly by moving its safety efforts online. The company launched the Web site TireSafety.com.[70] By acting so late and misdirecting its initial PR efforts, Firestone gave the appearance of only paying attention to consumer safety when backed into a corner, not because it was part of the corporate philosophy.

Step 7: Remember that Business Must Continue

To the managers involved, the crisis will most certainly be uppermost in their minds for the duration, but to others, the business must go on despite the crisis. In addition to finding suitable replacements ahead of time for those who are on the crisis team, managers must try to anticipate the effects of the crisis on other parts of the business. For example, if an advertising campaign is under way, should it be stopped during the crisis? Have financial officers stopped trading on the company's stock? Will it be necessary for the organization to move to a temporary location during the crisis? These and other questions related to the ongoing business need to be thought through by managers both on and off the crisis team as soon as possible.

Step 8: Make Plans to Avoid Another Crisis Immediately

After the crisis, corporate communications executives should work with other managers to ensure the organization will be even better prepared the next time

[70] John Frank, "Ethics in PR," *PR Week*, February 11, 2001, p. 8.

it is faced with a crisis. Companies that have experienced crises are more likely to believe that such occurrences will happen again and also will recognize that preparation is key to handling crises successfully.

Johnson & Johnson's experience in 1982 helped the company to deal with another episode of Tylenol contamination four years later when a New Yorker died after taking cyanide-laced Tylenol capsules. There is no better time than the period immediately following a crisis to prepare for the next one, because motivation is high to learn from mistakes made the first time.

Conclusion

Webster's Dictionary traces the word *crisis* back to the Greek word *krisis*—meaning a decision, from the verb *krinein*, to decide.[71] Today we know crises as pivotal times of instability during which leadership and decision making can determine the ultimate outcome of the situation—for better or for worse. As we've seen, sometimes companies can emerge even more respected in the wake of a well-handled crisis.

In this chapter, we explored some real-life examples of how companies across a number of industries dealt with crises of their own and saw that planning and preparation are key to effective crisis management and communication. As British author Aldous Huxley put it, "The amelioration of the world cannot be achieved by sacrifices in moments of crisis; it depends on the efforts made and constantly repeated during the humdrum, uninspiring periods, which separate one crisis from another, and of which normal lives mainly consist."[72]

[71] *Merriam-Webster Online Dictionary*, http://www.merriam-webster.com (accessed June 9, 2005).

[72] Aldous Huxley, *Grey Eminence: A Study in Religion and Politics* (London: Chatto & Windus, 1941), chapter 10.

Case 10-1

Coca-Cola India

On August 20, 2003, Sanjiv Gupta, president and CEO of Coca-Cola India, sat in his office contemplating the events of the last two weeks and debating his next move. Sales had dropped by 30–40 percent[1] in only two weeks on the heels of a 75 percent five-year growth trajectory and 25–30 percent[2] year-to-date growth. Many leading clubs, retailers, restaurants, and college campuses across India had stopped selling Coca-Cola.[3] Only six weeks into his new role as CEO, Gupta was embroiled in a crisis that threatened the momentum gained from a highly successful two-year marketing campaign that had given Coca-Cola market leadership over Pepsi.

On August 5, the Center for Science and Environment (CSE), an activist group in India focused on environmental sustainability issues (specifically the effects of industrialization and economic growth), issued a press release stating: "12 major cold drink brands sold in and around Delhi contain a deadly cocktail of pesticide residues" (see Exhibit 10.1). According to tests conducted by the Pollution Monitoring Laboratory (PML) of the CSE from April to August, three samples of 12 PepsiCo and Coca-Cola brands from across the city were found to contain pesticide residues surpassing global standards by 30–36 times, including lindane, DDT, malathion, and chlorpyrifos (see Exhibit 10.2). These four pesticides were known to cause cancer, damage to the nervous and reproductive systems, birth defects, and severe disruption of the immune system.[4]

In reaction to this report, the Indian government banned Coke and Pepsi products in Parliament, and state governments launched independent investigations, sending soft drink samples to labs for testing. The Coca-Cola Bottling Company (Coke) stock dipped by five dollars on the New York Stock Exchange from \$55 to \$50 in the six sessions following the August 5 disclosure, as did shares of Coca-Cola Enterprises (CCA).[5]

Pepsi and Coca-Cola called the CSE allegations "baseless" and questioned the method of testing, but the CSE claimed it had followed standard procedures documented by the U.S. Environmental Protection Agency, including gas chromatography and mass spectrometry. Pepsi's own tests conducted at an independent laboratory showed no detectable pesticides and led Pepsi to file a petition with the high court questioning the credibility of the CSE's claims,[6] while Coke's Gupta commented: "The allegation is serious and it has the potential to tarnish the image of our brands in the country. If this continues, we will consider legal recourse."[7]

Despite Coke and Pepsi's early responses denying the validity of the CSE's claims and threats of legal action, a survey conducted in Delhi a few days after the CSE announcement found that a majority of consumers

Source: This case was prepared in 2005 by Jennifer Kaye, T'05, under the supervision of Professor Paul A. Argenti. The author wishes to thank Nymph Kaul for her research assistance and Rai University for its financial support in the development of this case, which was written with the cooperation of Coca-Cola India.

[1] "Toxic Effect: Coke Sales Fall by a Sharp 30-40%," *Economic Times*, August 13, 2003, p. 1.

[2] "Controversy-Ridden Year for Soft Drinks," *Business Line* (New Delhi), December 30, 2003, p. 6.

[3] "Toxic Effect."

[4] Center for Science and Environment, press release, "Hard Truths about Soft Drinks." August 5, 2003.

[5] "No Standards for World-Wide Pesticide Residues in Soft-Drinks," *Business Line* (New Delhi), October 3, 2003, p. 9.

[6] "Coke & Pepsi in India: Pesticides in Carbonated Beverages," http://www.vedpuriswar.org/articles/Indiancases (accessed December 7, 2004).

[7] "Tests Show Pesticides in Soft Drinks, Claims CSE," *Economic Times*, August 6, 2003, p. 1.

EXHIBIT 10.1 Center for Science and Environment Press Release: Hard Truths about Soft Drinks

New Delhi, August 5, 2003: After bottled water, it's aerated water that has plugged the purity test. In another exposé, Down To Earth has found that 12 major cold drink brands sold in and around Delhi contain a deadly cocktail of pesticide residues. The results are based on tests conducted by the Pollution Monitoring Laboratory (PML) of the Centre for Science and Environment (CSE). In February this year, CSE had blasted the bottled water industry's claims of being 'pure' when its laboratory had found pesticide residues in bottled water sold in Delhi and Mumbai.

This time, it analysed the contents of 12 cold drink brands sold in and around the capital. They were tested for organochlorine and organophosphorus pesticides and synthetic pyrethroids—all commonly used in India as insecticides.

The test results were as shocking as those of bottled water.

All samples contained residues of four extremely toxic pesticides and insecticides: lindane, DDT, malathion and chlorpyrifos. In all samples, levels of pesticide residues far exceeded the maximum residue limit for pesticides in water used as 'food', set down by the European Economic Commission (EEC). Each sample had enough poison to cause—in the long term—cancer, damage to the nervous and reproductive systems, birth defects and severe disruption of the immune system.

WHAT WE FOUND

- Market leaders Coca-Cola and Pepsi had almost similar concentrations of pesticide residues. Total pesticides in all PepsiCo brands on an average were 0.0180 mg/l (milligramme per litre), 36 times higher than the EEC limit for total pesticides (0.0005 mg/l). Total pesticides in all Coca-Cola brands on an average were 0.0150 mg/l, 30 times higher than the EEC limit.
- While contaminants in the 'Dil mange more' Pepsi were 37 times higher than the EEC limit, they exceeded the norms by 45-times in the 'Thanda matlab Coca-Cola' product.
- Mirinda Lemon topped the chart among all the tested brand samples, with a total pesticide concentration of 0.0352 mg/l.

The cold drinks sector in India is a much bigger money-spinner than the bottled water segment. In 2001, Indians consumed over 6,500 million bottles of cold drinks. Its growing popularity means that children and teenagers, who glug these bottles, are drinking a toxic potion.

PML also tested two soft drink brands sold in the US, to see if they contained pesticides. They didn't.

The question, therefore, is: how can apparently quality-conscious multinationals market products unfit for human consumption?

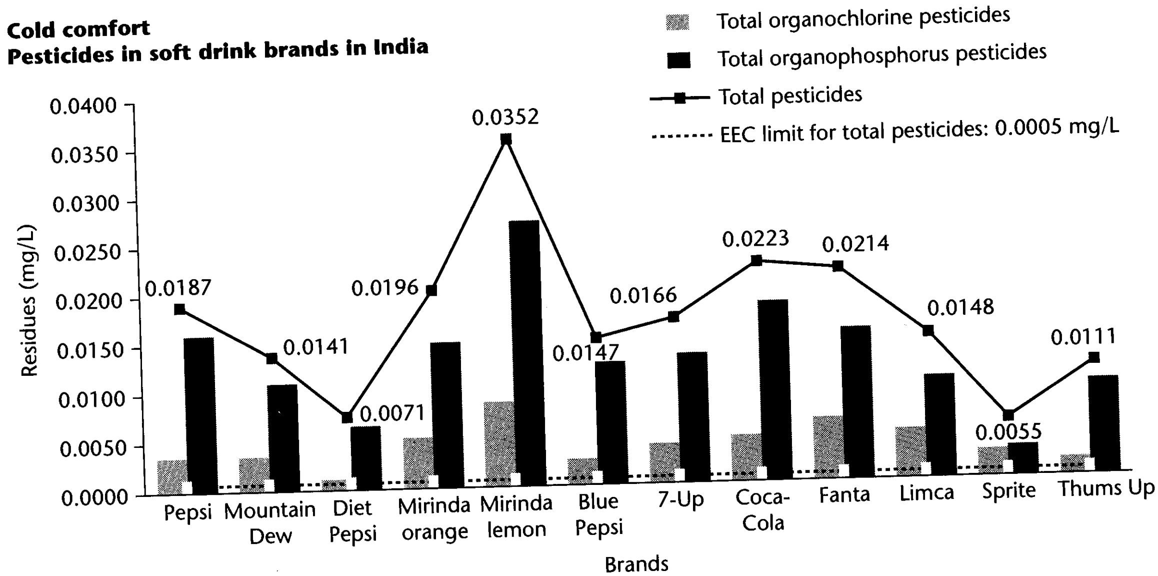
CSE found that the regulations for the powerful and massive soft drinks industry are much weaker, indeed non-existent, as compared to those for the bottled water industry. The norms that exist to regulate the quality of cold drinks are a maze of meaningless definitions. This "food" sector is virtually unregulated.

The Prevention of Food Adulteration (PFA) Act of 1954, or the Fruit Products Order (FPO) of 1955—both mandatory acts aimed at regulating the quality of contents in beverages such as cold drinks—do not even provide any scope for regulating pesticides in soft drinks. The FPO, under which the industry gets its license to operate, has standards for lead and arsenic that are 50 times higher than those allowed for the bottled water industry.

What's more, the sector is also exempted from the provisions of industrial licensing under the Industries (Development and Regulation) Act, 1951. It gets a one-time license to operate from the ministry of food processing industries; this license includes a no-objection certificate from the local government as well as the state pollution control board, and a water analysis report. There are no environmental impact assessments, or citing regulations. The industry's use of water, therefore, is not regulated.

Source: CSE press release, "Hard Truths about Soft Drinks." August 5, 2003.

EXHIBIT 10.2 Pesticide Content in 12 Leading Soft Drink Brands



Source: CSE press release, "Hard Truths about Soft Drinks." August 5, 2003.

believed the findings were correct and agreed with Parliament's move to ban the sale of soft drinks.[8] The $1 billion Indian soft drink market[9] was at stake, and Gupta had to act.

HISTORY OF COKE

THE EARLY DAYS

Coca-Cola was created in 1886 by John Pemberton, a pharmacist in Atlanta, Georgia, who sold the syrup mixed with fountain water as a potion for mental and physical disorders. The formula changed hands three more times before Asa D. Candler added carbonation, and by 2003, Coca-Cola was the world's largest manufacturer, marketer, and distributor of nonalcoholic beverage concentrates and syrups, with more than 400 widely recognized beverage brands in its portfolio.

With the bubbles making the difference, Coca-Cola was registered as a trademark in 1887 and, by 1895, was being sold in every state and territory in the United States. In 1899, it franchised its bottling operations in the United States, growing quickly to reach 370 franchisees by 1910.[10] Headquartered in Atlanta with divisions and local operations in over 200 countries worldwide, Coca-Cola generated more than 70 percent of its income outside the United States by 2003 (see Exhibit 10.3).

INTERNATIONAL EXPANSION

Coke's first international bottling plants opened in 1906 in Canada, Cuba, and Panama.[11] By the end of the 1920s, Coca-Cola was bottled in 27 countries throughout the world and available in 51 more. In spite of this reach, volume was low, quality inconsistent, and effective advertising a challenge with language, culture, and government regulation all serving as barriers. Former CEO Robert Woodruff's insistence that Coca-Cola wouldn't "suffer the stigma of being an intrusive American product," and instead

[8] "Coke & Pepsi in India."

[9] http://www.indiastat.com.

[10] Nymph Kaul, "Coca-Cola India," Rai University, 2004; Coca-Cola Company Web site, http://www2.coca-cola.com/heritage/; Mark Pendergrast, *For God, Country and Coca-Cola* (New York: Charles Scribner's Sons, 1993).

[11] http://www2.coca-cola.com/ourcompany/aroundworld.html.

EXHIBIT 10.3 The Coca-Cola Company Income Statement

(in millions $ except per share data)	2002	2001	2000
Net operating revenues	19,564	17,545	17,354
Cost of goods sold	7,105	6,044	6,204
Gross profit	12,459	11,501	11,150
Selling, general, and administrative expenses	7,001	6,149	6,016
Other operating changes	0	0	1,443
Operating income	5,458	5,352	3,691
Interest income	209	325	345
Interest expense	199	289	447
Equity income (loss)	384	152	(289)
Other income (loss)—net	(353)	39	99
Gains on issuances of stock by equity investee	0	91	0
Income before income taxes and cumulative effect of accounting change	5,499	5,670	3,399
Income taxes	1,523	1,691	1,222
Net Income before cumulative effect of accounting change	3,976	3,979	2,177
Cumulative effect of accounting change for SFAS No. 142 net of income taxes:			
Company operations	(367)	0	0
Equity investments	(559)	0	0
Cumulative effect of accounting change for SFAS No. 133 net of income taxes	0	(10)	0
Net income	3,050	3,969	2,177
Basic net income per share before accounting change	1.60	1.60	0.88
Cumulative effect of accounting change	(0.37)	0	0
	1.23	1.60	0.88
Diluted net income per share before accounting change	1.60	1.60	0.88
Cumulative effect of accounting change	(0.37)	0	0
	1.23	1.60	0.88
Average shares outstanding	2,478	2,487	2,477
Effect of dilutive securities	5	0	10
Average shares outstanding assuming dilution	2,483	2,487	2,487

would use local bottles, caps, machinery, trucks, and personnel, contributed to Coke's challenges, as did the lack of standard processes and training, which degraded quality.[12]

Coca-Cola continued working for over 80 years on Woodruff's goal: to make Coke available wherever and whenever consumers wanted it, "in arm's reach of desire."[13] The Second World War proved to be the stimulus Coca-Cola needed to build effective capabilities around the world and achieve dominant global market share. Woodruff's patriotic commitment "that every man in uniform gets a bottle of Coca-Cola for five cents, wherever he is and at whatever cost to our company"[14] was more than just great public relations. As a result of

[12] Pendergrast, *For God, Country and Coca-Cola*, p. 172.

[13] Ibid.

[14] Ibid., p. 199.

EXHIBIT 10.4 **Interbrand's Global Brand Scoreboard 2003**

Rank	Company	2003 Brand Value ($Billion)	2002 Brand Value ($Billion)	Percent Change	Country of Ownership
1	Coca-Cola	70.45	69.64	+1%	U.S.
2	Microsoft	65.17	54.09	+2%	U.S.
3	IBM	51.77	51.19	+1%	U.S.
4	GE	42.34	41.31	+2%	U.S.
5	Intel	31.11	30.86	+1%	U.S.
6	Nokia	29.44	29.97	–2%	Finland
7	Disney	28.04	29.26	–4%	U.S.
8	McDonald's	24.70	26.38	–6%	U.S.
9	Marlboro	22.18	24.15	–8%	U.S.
10	Mercedes	21.37	21.01	+2%	Germany

Coke's status as a military supplier, Coca-Cola was exempt from sugar rationing and also received government subsidies to build bottling plants around the world to serve WWII troops.[15]

TURN-OF-THE-CENTURY GROWTH IMPERATIVE

The 1990s brought a slowdown in sales growth for the carbonated soft drink (CSD) industry in the United States, achieving only 0.2 percent growth by 2000 (just under 10 billion cases) in contrast to the 5–7 percent annual growth experienced during the 1980s. While per capita consumption throughout the world was a fraction of the United States', major beverage companies clearly had to look elsewhere for the growth their shareholders demanded. The looming opportunity for the twenty-first century was in the world's developing markets with their rapidly growing middle-class populations.

THE WORLD'S MOST POWERFUL BRAND

Interbrand's Global Brand Scorecard for 2003 ranked Coca-Cola the #1 Brand in the World and estimated its brand value at $70.45 billion (see Exhibit 10.4).[16] The ranking's methodology determined a brand's valuation on the basis of how much it was likely to earn in the future, distilling the percentage of revenues that could be credited to the brand, and assessing the brand's strength to determine the risk of future earnings forecasts. Considerations included market leadership, stability, and global reach, incorporating the brand's ability to cross both geographical and cultural borders.[17]

From the beginning, Coke understood the importance of branding and the creation of a distinct personality.[18] Its catchy, well-liked slogans[19] ("It's the Real Thing" [1942, 1969], "Things go better with Coke" [1963], "Coke Is It" [1982], "Can't Beat the Feeling" [1987], and a 1992 return to "Can't Beat the Real Thing")[20] linked that personality to the core values of each generation and established Coke as the authentic, relevant, and trusted refreshment of choice across the decades and around the globe.

INDIAN HISTORY

India is home to one of the most ancient cultures in the world, dating back over 5,000 years.

[15] Ibid., pp. 200–201.

[16] "The Top 100 Brands: Interbrand's Global Brand Scorecard 2003," Interbrand Special Report, *BusinessWeek*, August 4, 2003.

[17] Ibid.

[18] Nicholas Kochan, ed., and Interbrand, *The World's Greatest Brands* (Washington, NY: New York University Press, 1997.

[19] Kevin Lane Keller, *Strategic Brand Management*. (Upper Saddle River, NJ: Prentice Hall, 1998), p. 153.

[20] http://www.portobello.com.au/portobello/reading/memorabilia_cocacola.htm.

At the beginning of the twenty-first century, 26 different languages were spoken across India, 30 percent of the population knew English, and greater than 40 percent were illiterate. At this time, the nation was in the midst of great transition, and the dichotomy between the old India and the new was stark. Remnants of the caste system existed alongside the world's top engineering schools and growing metropolises as the historically agricultural economy shifted into the services sector. In the process, India had created the world's largest middle class.

A British colony since 1769, when the East India Company gained control of all European trade in the nation, India gained its independence in 1947 under Mahatma Gandhi and his principles of nonviolence and self-reliance. In the decades that followed, self-reliance was taken to the extreme as many Indians believed that economic independence was necessary to be truly independent. As a result, the economy was increasingly regulated, and many sectors were restricted to the public sector. This movement reached its peak in 1977 when the Janta party government came to power and Coca-Cola was thrown out of the country. In 1991, the first generation of economic reforms was introduced and liberalization began.

COKE IN INDIA

Coca-Cola was the leading soft drink brand in India until 1977, when it left the country rather than reveal its formula to the government and reduce its equity stake, as required under the Foreign Exchange Regulation Act (FERA), which governed the operations of foreign companies in India. After a 16-year absence, Coca-Cola returned to India in 1993, cementing its presence with a deal that gave Coca-Cola ownership of the nation's top soft-drink brands and bottling network. Coke's acquisition of local popular Indian brands including Thums Up (the most trusted brand in India[21]), Limca, Maaza, Citra, and Gold Spot provided not only physical manufacturing, bottling, and distribution assets but also achieved strong consumer preferences. This combination of local and global brands enabled Coca-Cola to exploit the benefits of global branding and global trends in tastes while also tapping into traditional domestic markets. Leading Indian brands joined the company's international family of brands, including Coca-Cola, Diet Coke, Sprite, and Fanta, plus the Schweppes product range. In 2000, the company launched the Kinley water brand, and in 2001, Shock energy drink and the powdered concentrate Sunfill hit the market.

From 1993 to 2003, Coca-Cola invested more than US$1 billion in India, making it one of the country's top international investors.[22] By 2003, Coca-Cola India had won the prestigious Woodruf Cup from among 22 divisions of the company, based on the three broad parameters of volume, profitability, and quality. Coca-Cola India achieved 39 percent volume growth in 2002 while the industry grew 23 percent nationally and the company reached break-even profitability in the region for the first time.[23] Encouraged by its 2002 performance, Coca-Cola India announced plans to double its capacity at an investment of $125 million (Rs. 750 crore) between September 2002 and March 2003.[24]

Coca-Cola India produced its beverages with the help of 7,000 local employees at its 27 wholly owned bottling operations, supplemented by 17 franchisee-owned bottling operations and a network of 29 contract packers to manufacture a range of products for the company. The complete manufacturing process had a documented quality control and assurance program, including over 400 tests performed throughout the process (see Exhibit 10.5).

The complexity of the consumer soft drink market demanded a distribution process to support 700,000 retail outlets serviced by a fleet that included 10-ton trucks, open-bay three wheelers,

[21] "Brands of Coca-Cola in India," Rai University, November 2004.

[22] http://www.coca-colaindia.com.

[23] Sanjiv Gupta biography, Rai University.

[24] "Coca-Cola India to Double Capacity," *Kolkata,* March 8, 2003.

EXHIBIT 10.5 Routine Tests Carried out by Bottling Operations and External Laboratories

	Process Parameter	No. of Tests
1.	Water	71
2.	Water treatment and auxiliary chemicals	68
3.	CO_2	50
4.	Sugar	13
5.	Syrup	17
6.	Packaging material	25
7.	Container washing	17
8.	Finished product	18
9.	Market samples	15
10.	External lab	147
	Total	441

Source: The Coca-Cola Company, http://www.myenjoyzone.com.

and trademarked tricycles and pushcarts that were used to navigate the narrow alleyways of the cities.[25] In addition to its own employees, Coke indirectly created employment for another 125,000 Indians through its procurement, supply, and distribution networks.

Sanjiv Gupta, president and CEO of Coca-Cola India, joined Coke in 1997 as Vice President, Marketing, and was instrumental to the company's success in developing a brand relevant to the Indian consumer and tapping India's vast rural market potential. Following his marketing responsibilities, Gupta served as head of operations for company-owned bottling operations and then as deputy president. Seen as the driving force behind recent successful forays into packaged drinking water, powdered drinks, and ready-to-serve tea and coffee, Gupta and his marketing prowess were critical to the continued growth of the company.[26]

THE INDIAN BEVERAGE MARKET[27]

India's one billion people, growing middle class, and low per capita consumption of soft drinks made it a highly contested prize in the global CSD market in the early twenty-first century. Ten percent of the country's population lived in urban areas or large cities and drank 10 bottles of soda per year, while the vast remainder lived in rural areas, villages, and small towns, where annual per capita consumption was less than four bottles. Coke and Pepsi dominated the market and together had a consolidated market share above 95 percent. While soft drinks were once considered products only for the affluent, by 2003, 91 percent of sales were made to the lower, middle, and upper-middle classes. Soft drink sales in India grew 76 percent between 1998 and 2002, from 5,670 million bottles to over 10,000 million (see Exhibit 10.6), and were expected to grow at least 10 percent per year through 2012.[28] In spite of this growth, annual per capita consumption was only 6 bottles versus 17 in Pakistan, 73 in Thailand, 173 in the Philippines, and 800 in the United States.[29]

EXHIBIT 10.6 Soft Drink Sales in India

Fiscal Year	Million Bottles Sold
1998–1999	5,670
1999–2000	6,230
2000–2001	6,450
2001–2002	6,600
2002–2003	10,000

Source: "Soft Drink Sales Up 10.4%" *PTI*, September 29, 2004.

With its large population and low consumption, the rural market represented a significant opportunity for penetration and a critical battleground for market dominance. In 2001, Coca-Cola recognized that to compete with traditional refreshments, including lemon water, green coconut water, fruit juices, tea, and lassi, competitive pricing was essential. In response, Coke launched a smaller bottle priced at almost 50 percent the amount of the traditional package.

25 http://www.coca-colaindia.com.

26 Gupta biography.

27 http://www.indiastat.com.

28 Ibid.

29 Ibid.

MARKETING COLA IN INDIA

The post-liberalization period in India saw the comeback of cola, but Pepsi had already beaten Coca-Cola to the punch, creatively entering the market in the 1980s in advance of liberalization by way of a joint venture (JV). As early as 1985, Pepsi tried to gain entry into India and finally succeeded with the Pepsi Foods Limited Project in 1988, as a JV among PepsiCo, the Punjab government–owned Punjab Agro Industrial Corporation (PAIC), and Voltas India Limited. Pepsi was marketed and sold as Lehar Pepsi until 1991, when the use of foreign brands was allowed under the new economic policy, after which Pepsi bought out its partners and became a fully owned subsidiary, ending the JV relationship in 1994.[30]

While the joint venture was only marginally successful in its own right, it allowed Pepsi to gain precious early experience with the Indian market and served as an introduction of the Pepsi brand to the Indian consumer, such that it was well-poised to reap the benefits when liberalization came. Although Coke benefited from Pepsi creating demand and developing the market, Pepsi's head start gave Coke a disadvantage in the mind of the consumer. Pepsi's appeal focused on youth, and when Coke entered India in 1993 and approached the market selling an American way of life, it failed to resonate as expected.[31]

2001 MARKETING STRATEGY

Coca-Cola CEO Douglas Daft set the direction for the next generation of success for his global brand with a "Think local, act local" mantra. Recognizing that a single global strategy or single global campaign wouldn't work, locally relevant executions became an increasingly important element of supporting Coke's global brand strategy.

In 2001, after almost a decade of lagging rival Pepsi in the region, Coke India reexamined its approach in an attempt to gain leadership in the Indian market and capitalize on significant growth potential, particularly in rural markets. The foundation of the new strategy grounded brand positioning and marketing communications in consumer insights, acknowledging that urban versus rural India were two distinct markets on a variety of important dimensions. The soft drink category's role in people's lives, the degree of differentiation between consumer segments and their reasons for entering the category, and the degree to which brands in the category projected different perceptions to consumers were among the many important differences between how urban and rural consumers approached the market for refreshment.[32]

In rural markets, where both the soft drink category and individual brands were undeveloped, the task was to broaden the brand positioning, whereas in urban markets, with their higher category and brand development, the task was to narrow the brand positioning, focusing on differentiation through offering unique and compelling value. This lens, informed by consumer insights, gave Coke direction on the trade-off between focus and breadth that a brand needed in a given market and made clear that to succeed in either segment, unique marketing strategies were required in urban versus rural India.

BRAND LOCALIZATION STRATEGY: THE TWO INDIAS

INDIA A: "LIFE HO TO AISI"

"India A," the designation Coca-Cola gave to the market segment including metropolitan areas and large towns, represented 4 percent of the country's population.[33] This segment sought social bonding as a need and responded

[30] Kavaljit Singh, "Broken Commitments: The Case of Pepsi in India," *PIRG Update*, May 1997.

[31] Interview with Nymph Kaul, September 20, 2004.

[32] Coca-Cola India, "Marketing: Questioning Paradigms," internal marketing presentation.

[33] Ibid.

to aspirational messages, celebrating the benefits of their increasing social and economic freedoms. *"Life ho to aisi"* (life as it should be) was the successful and relevant tagline that marked Coca-Cola's advertising to this audience.

INDIA B: "THANDA MATLAB COCA-COLA"

Coca-Cola India believed that the first brand to offer communication targeted to the smaller towns would own the rural market and therefore went after that objective with a comprehensive strategy. "India B" included small towns and rural areas, constituting the other 96 percent of the nation's population. This segment's primary need was out-of-home thirst-quenching; the soft drink category was undifferentiated in the minds of rural consumers. Additionally, with an average Coke costing Rs. 10 and an average day's wages around Rs. 100, Coke was perceived as a luxury that few could afford.[34]

In an effort to make the price point of Coke affordable for this high-potential market, Coca-Cola launched the Accessibility Campaign, introducing a new 200 mL bottle that was smaller than the traditional 300 mL bottle found in urban markets, and concurrently cutting the price in half to Rs. 5. This pricing strategy closed the gap between Coke and basic refreshments like lemonade and tea, making soft drinks truly accessible for the first time. At the same time, Coke invested in distribution infrastructure to serve a disbursed population effectively and doubled the number of retail outlets in rural areas from 80,000 in 2001 to 160,000 in 2003, increasing market penetration from 13 to 25 percent.[35]

Coke's advertising and promotion strategy pulled the marketing plan together using local language and idiomatic expressions. "Thanda," meaning cool/cold, is also generic for cold beverages and gave "Thanda Matlab Coca-Cola" delicious multiple meanings. Literally translated to "Coke means refreshment," the phrase directly addressed both the primary need of this segment for cold refreshment while positioning Coke as a "Thanda," or a generic cold beverage just like tea, lassi, or lemonade. As a result of the Thanda campaign, Coca-Cola won *Advertiser of the Year* and *Campaign of the Year* in 2003.

RURAL SUCCESS

Comprising 74 percent of the country's population, 41 percent of its middle class, and 58 percent of its disposable income, the rural market was an attractive target, and it delivered results. Coke experienced 37 percent growth in 2003 in this segment versus the 24 percent growth seen in urban areas. Driven by the launch of the new Rs. 5 product, per capita consumption doubled between 2001 and 2003. This market accounted for 80 percent of India's new Coke drinkers, 30 percent of 2002 volume, and was expected to account for 50 percent of the company's sales in 2003.[36]

CORPORATE SOCIAL RESPONSIBILITY

As one of the largest and most global companies in the world, Coca-Cola took seriously its ability and responsibility to affect the communities in which it operated. The company's mission statement, called the Coca-Cola Promise, stated: "The Coca-Cola Company exists to benefit and refresh everyone who is touched by our business." The company has made efforts toward good citizenship in the areas of community, by improving the quality of life in the communities in which it operates, and the environment, by addressing water, climate change, and waste management initiatives. Its activities also include The Coca-Cola Africa Foundation, created to combat the spread of HIV/AIDS through partnership with governments, UNAIDS, and other nongovernmental organizations (NGOs), and

[34] Kaul, interview.

[35] Ibid.

[36] Ibid.

EXHIBIT 10.7 Coca-Cola Principles of Corporation Citizenship

Our reputation is built on trust. Through good citizenship we will nurture our relationships and continue to build that trust. That is the essence of our promise—The Coca-Cola Company exists to benefit and refresh everyone it touches.

Wherever Coca-Cola does business, we strive to be trusted partners and good citizens. We are committed to managing our business around the world with a consistent set of values that represent the highest standards of integrity and excellence. We share these values with our bottlers, making our system stronger.

These core values are essential to our long-term business success and will be reflected in all of our relationships and actions—in the marketplace, the workplace, the environment and the community.

MARKETPLACE

We will adhere to the highest ethical standards, knowing that the quality of our products, the integrity of our brands and the dedication of our people build trust and strengthen relationships. We will serve the people who enjoy our brands through innovation, superb customer service, and respect for the unique customs and cultures in the communities where we do business.

WORKPLACE

We will treat each other with dignity, fairness and respect. We will foster an inclusive environment that encourages all employees to develop and perform to their fullest potential, consistent with a commitment to human rights in our workplace. The Coca-Cola workplace will be a place where everyone's ideas and contributions are valued, and where responsibility and accountability are encouraged and rewarded.

ENVIRONMENT

We will conduct our business in ways that protect and preserve the environment. We will integrate principles of environmental stewardship and sustainable development into our business decisions and processes.

COMMUNITY

We will contribute our time, expertise and resources to help develop sustainable communities in partnership with local leaders. We will seek to improve the quality of life through locally-relevant initiatives wherever we do business.

Responsible corporate citizenship is at the heart of The Coca-Cola Promise. We believe that what is best for our employees, for the community and for the environment is also best for our business.

Source: Coca-Cola Company Web site.

The Coca-Cola Foundation, focused on higher education as a vehicle to build strong communities and enhance individual opportunity (see Exhibit 10.7).[37]

Coca-Cola's footprint in India was significant as well. The company employed 7,000 citizens and believed that for every direct job, 30–40 more were created in the supply chain.[38] Like its parent, Coke India's corporate social responsibility (CSR) initiatives were both community- and environment-focused. Priorities included education, where primary education projects had been set up to benefit children in slums and villages; water conservation, where the company supported community-based rainwater harvesting projects to restore water levels and promote conservation education; and health, where Coke India partnered with NGOs and governments to provide medical access to poor people through regular health camps. In addition to outreach efforts, the company committed itself to environmental responsibility through its own business operations in India, including[39]

[37] http://www.coca-colaindia.com.

[38] Ibid.

[39] Ibid.

- Environmental due diligence before acquiring land or starting projects.
- Environmental impact assessment before commencing operations.
- Ground water and environmental surveys before selecting sites.
- Compliance with all regulatory environmental requirements.
- Ban on purchasing CFC-containing refrigeration equipment.
- Wastewater treatment facilities with trained personnel at all company-owned bottling operations.
- Energy conservation programs.
- 50 percent water savings in the last seven years of operations.

PREVIOUS COKE CRISES

Despite Coke's reputation as a socially responsible corporate citizen, the company has faced its share of controversy worldwide, surrounding both its products and its policies in the years preceding the Indian pesticide crisis.

INGRAM ET AL. V. THE COCA-COLA COMPANY—1999[40]

In the spring of 1999, four current and former Coca-Cola employees, led by information analyst Linda Ingram, filed bias charges against Coca-Cola in Atlanta federal court. The lawsuit charged the company with racial discrimination and stated: "This discrimination represents a company-wide pattern and practice, rather than a series of isolated incidents. Although Coca-Cola has carefully crafted African-American consumers of its product by public announcements, strategic alliances and specific marketing strategies, it has failed to place the same importance on its African-American employees."[41]

In the decades leading up to the suit, both internal and external warnings surrounding Coke's diversity practices were issued. In 1981, the Reverend Jesse Jackson, director of the Rainbow/PUSH Coalition, instigated a boycott against Coca-Cola, challenging the company to improve its business relationship significantly with the African-American community.[42]

The Ware report, written by Senior Vice President Carl Ware, an African-American executive at the company, cited a lack of diversity at the decision-making level, a basic lack of workplace diversity, a "ghettoization" among blacks who worked for Cola-Cola, and an overt lack of respect for cultural differences, as well as an implicit assumption that African-American employees lacked the intelligence to meet the challenges of the highest executive levels.[43]

Cyrus Mehri, one of the most visible and successful plaintiff advocates in the United States, represented the group and was skilled at leveraging the power of the media, creating a true crisis for the Coca-Cola Company and exerting tremendous pressure for settlement. In 2000, the lawsuit was settled for $192.5 million after the company had sent mixed messages and damaging statements regarding the merit of the suit for over a year. Analysts identified the bias suit as a prime reason for the $100 billion decrease in Coca-Cola's stock price between 1998 and 2000.[44]

BELGIUM—1999[45]

On June 8, 1999, 33 Belgian school children became ill after drinking Coke bottled at a local

[40] Nicola K. Graves and Randall L. Waller, "The Corporate Web Site as an Image Restoration Tool: The Case of Coca-Cola," *Proceedings of the 2004 Association for Business Communication 69th Annual Convention*, Cambridge, MA, October 25–29, 2004.

[41] H. Unger, "Coca-Cola Accused of a 'Companywide Pattern,'" *Atlanta Journal-Constitution*, April 24, 1999, p. H1.

[42] C. L. Hays, *The Real Thing: Truth and Power at the Coca-Cola Company* (New York: Random House, 2004).

[43] Ibid.

[44] K. MacArthur and R. Linnett, "Coke Crisis: Equity Erodes as Brand Troubles Mount," *Advertising Age*, April 24, 2000, p. 3.

[45] "Coke & Pepsi in India," p. 8.

facility in Antwerp. A few days later, more Belgians complained of similar symptoms after drinking cans of Coke that had been bottled at a plant in Dunkirk, France, and 80 people in northern France were allegedly stricken by intestinal problems and nausea, bringing the total afflicted to over 250.

In the days following the first outbreak, 17 million cases of Coke from five European countries were recalled and destroyed. It was the largest product recall in Coke's history, and Belgian and French authorities banned the sale of Coca-Cola products for 10 days. Germany placed a temporary import ban on Coca-Cola produced in Belgium and the Netherlands, and Luxembourg banned all Coca-Cola products. Health ministers in Italy, Spain, and Switzerland warned people about consuming Coke products.

Coca-Cola sources explained that the contamination was due to defective carbon dioxide used at the Antwerp plant and that a wood preservative used on shipping pallets had concentrated on the outside of cans at the Dunkirk plant. The European Commission, however, believed production faults and contaminated pipes were more likely to be the cause of the problem.

Although CEO Ivester was in Paris when the news broke, he flew home to Atlanta and kept silent, waiting over a week to issue his first public statement on the crisis, citing that "Coke would do whatever necessary to ensure the safety of its products." A Netherlands-based toxicologist Coke had hired issued a report on June 29 exempting the company from blame for the CO_2 impurity in Antwerp and the fungicide at Dunkirk. Although the product ban was lifted, Coke had a tremendous amount of work to do to win back consumer confidence.

An aggressive PR campaign included vouchers and coupons for free product delivered to each of Belgium's 4.4 million homes; sponsored dances, beach parties, and summer fairs for teenagers; and significant television advertising reinforcing, "Today, more than ever, we thank you for your loyalty."

KINLEY BOTTLED WATER—2003

On February 4, 2003, the Center for Science and Environment (CSE) in India released a report based on tests conducted by the Pollution Monitoring Laboratory (PML) titled "Pure Water or Pure Peril?" Analyses of 17 packaged drinking water brands sold across the country revealed evidence of pesticide residues, including lindane, DDT, malathion, and chlorpyrifos. The CSE used European norms for maximum permissible limits for pesticides in packaged water, "because the standards set for pesticide residues by the Bureau of Indian Standards (BIS) are vague and undefined."[46] Coca-Cola's Kinley water brand had concentration levels 15 times higher than stipulated limits, top-seller Biserli had 79 times, and Aquaplus topped the list at 109 times.[47] In the wake of this statement, Coca-Cola remained largely silent, and the buzz went away.

CORPORATE COMMUNICATION AT COCA-COLA

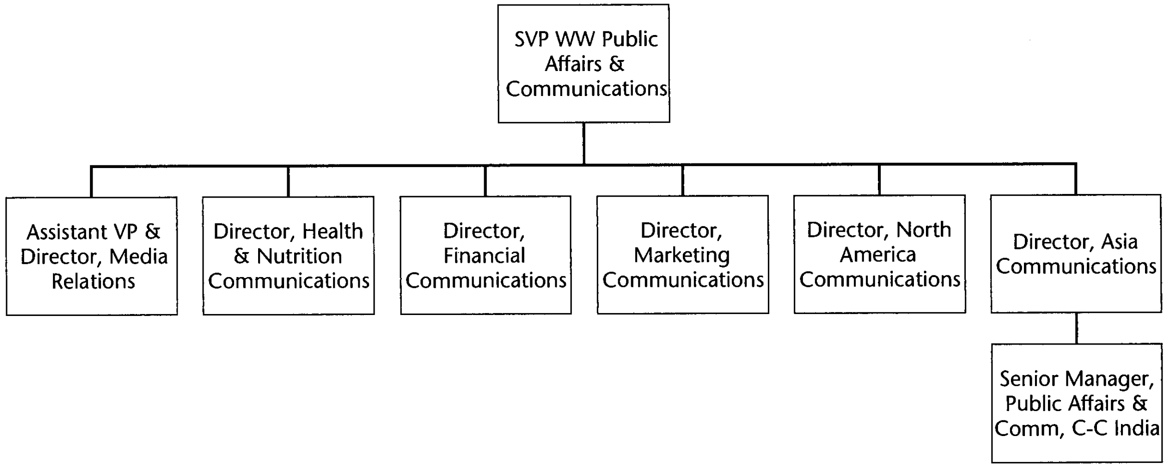
Corporate communication was a critical function at the Coca-Cola Company, given the number of constituencies both internal and external to the company. In addition, the complexity and global reach of the company's operations could not be centrally managed and instead demanded a matrixed team organization.

The senior communications position at the company, senior vice president, Worldwide Public Affairs & Communication, sat on the company's executive committee and reported to the chairman and CEO at the time of the crisis in India. Director-level corporate communication functions included media relations, nutrition communications, financial communications, and marketing communications, but the geographic diversity of the company's businesses required regionally based communication

[46] "Pure Water or Pure Peril," CSE press release, February 2003.

[47] Ibid.

EXHIBIT 10.8 **Corporate Communication at Coca-Cola**



Source: Case writer derived from Coca-Cola Company Web site.

leaders in addition to the corporate resources in place. As a result, five regional communication directors serviced North America, Latin America, Asia, Europe, and Africa with their own teams of communications professionals (see Exhibit 10.8).

NGO ACTIVISM[48]

Nongovernmental organizations initially evolved to influence governments, but by the early twenty-first century, many realized that targeting corporations and key corporate constituents such as investors and customers could be an even more powerful way to effect change. Along with their ability to focus, gain attention, and act quickly was the high level of credibility NGOs had cultivated with many constituencies. This credibility stemmed in part from their emotional, rather than fact-based, appeals and the impassioned nature of their arguments.

The most common tactic of NGOs was to develop campaigns against business through which they garnered support from consumers and the media. These campaigns, such as Greenpeace's attack on Shell Oil following the company's decision to dump the Brent Spar oil rig in the ocean in the 1990s, typically focused on a single issue; targeted companies with successful and well-known brands such as McDonald's and Nike; and were augmented by market trends such as the homogenization created by chains like Wal-Mart and Starbucks. The NGOs realized that anticorporate campaigns could be far more powerful than antigovernment campaigns. Global Exchange's attack on Nike for sweatshop labor conditions in the 1990s, for example, was one of the most highly publicized and also one of the most successful antibusiness campaigns by an NGO.

CENTER FOR SCIENCE AND ENVIRONMENT

The CSE, an NGO, was established in India in 1980 by a group of engineers, scientists, journalists, and environmentalists to "catalyze the growth of public awareness on vital issues in science, technology, environment, and development."[49] Led by Sumita Narain, a former schoolmate of Coke India CEO Gupta, the CSE's efforts included communication for awareness,

[48] Paul A. Argenti, "Collaborating with Activists: How Starbucks Works with NGOs," *California Management Review* 47, no. 1 (Fall 2004).

[49] http://www.cseindia.org.

research and advocacy, education and training, documentation, and pollution monitoring.

Spurred by the February 2003 report on bottled water and questions like, "if what we found in bottled water was correct, then what about soft drinks?" the CSE's August 2003 report claimed that soft drinks were extremely dangerous to Indian citizens, according to tests conducted at the Pollution Monitoring Laboratory (PML). All samples contained residues of lindane, DDT, malathion, and chlorpyrifos, toxic pesticides and insecticides known to cause serious long-term health issues. Total pesticides in all Coca-Cola brands averaged 0.0150 mg/l, or 30 times higher than the European Economic Commission (EEC) limit. PML also tested samples of Coke and Pepsi products sold in the United States to see if they contained pesticides; they did not.

The CSE report called on the government to put in place legally enforceable water standards and chastised the multinationals for taking advantage of the situation at the expense of consumer health and well-being.

INDIAN REGULATORY ENVIRONMENT[50]

The main law governing food safety in India was the 1954 Prevention of Food Alteration Act (PFA), which contained a rule regulating pesticides in foods but did not include beverages. The Food Processing Order (1955) required that the main ingredient used in soft drinks be "potable water," but the Bureau of Indian Standards (BIS) had no prescribed standards for pesticides in water. One BIS directive stated that pesticides must be absent and set a limit of 0.001 part per million, but the Health Secretary admitted, "There are lapses in PFA regarding carbonated drinks."[51]

Indian law enforcement was minimal with virtually no convictions under PFA. In the absence of national standards, NGOs such as the CSE turned to the United States and the European Union for "international norms." The appropriateness and feasibility of these standards for developing nations, however, remained a question for many. Under EU food laws, for example, milk, fruit, and basic staples such as rice and wheat would need to be imported into India to satisfy safety standards.

THE INITIAL RESPONSE

The day after the CSE's announcement, Coke and Pepsi came together in a rare show of solidarity at a joint press conference. The companies attacked the credibility of the CSE and their lab results, citing regular testing at independent laboratories proving the safety of their products. They promised to provide these data to the public, threatened legal action against the CSE while seeking a gag order, and contacted the U.S. Embassy in India for assistance. Coca-Cola India's CEO Sanjiv Gupta published the following statement for the Indian public:[52]

> You may have seen recently in the media some allegations about the quality standards of our products in India. We take these allegations extremely seriously. I want to reassure you that our products in India are safe and are tested regularly to ensure that they meet the same rigorous standards we maintain across the world.
>
> Maintaining quality standards is the most important element of our business and we cannot stand by while misleading and unaccredited data is used to discredit trusted and world-class brands. Recent allegations have caused unnecessary panic among consumers in India and, if unchecked, would impair our business in India and impact the livelihoods of our thousands of employees across the country.
>
> This site is about the truth behind the headlines. It provides some context and facts on these issues and we hope it helps you understand

[50] "Coke & Pepsi in India," p. 3.

[51] Supriya Bezbaruat and Malini Goyal, "The Gulp War," *India Today*, August 25, 2003, pp. 50–53.

[52] http://www.coca-colaindia.com.

EXHIBIT 10.9 Myths and Facts from Coca-Cola India Web Site

Since August 5, 2003 the quality and safety of Coca-Cola and PepsiCo products in India have been called into question by a local NGO, the Centre for Science and Environment (CSE). The basis of the allegations are [sic] tests conducted on products of Coca-Cola and PepsiCo by CSE's internal unaccredited laboratory, the Pollution Monitoring Laboratory.

In India, as in the rest of the world, our plants use a multiple barrier system to remove potential contaminants and unwanted natural substances including iron, sulfur, heavy metals as well as pesticides. Our products in India are safe and are tested regularly to ensure that they meet the same rigorous standards we maintain across the world.

The result of these allegations has been consumer confusion, significant impact on the sale of a safe and high-quality product, and the erosion of international investor confidence in the Indian business sector. This situation calls for the development of national sampling and testing protocols for soft drinks, an end to sensationalizing unsubstantiated allegations, and co-operation by all parties concerned in the interests of both Indian consumers and companies with significant investments in the Indian economy.

The facts versus the fiction False statements made in recent weeks have led to false perceptions by Indian consumers:

Myth	Coca-Cola products in India contain pesticide residues that are above EU norms.
Fact	Throughout all of our operations in India, stringent quality monitoring takes place covering both the source water we use as well as our finished product. We test for traces of pesticide in groundwater to the level of parts per billion. This is equivalent to one drop in a billion drops. For comparison's sake, this would also be equivalent to measuring one second in 32 years, or less than one person in the entire population in India. These tests require specialized equipment at accredited labs to have accurate results. Even at these stringent miniscule levels we are well within the internationally accepted safety norms.
Myth	Coca-Cola products sold in India are "toxic" and unfit for human consumption.
Fact	There is no contamination or toxicity in our beverage brands. Our high-quality beverages are—and have always been—safe and refreshing. In over 200 countries across the globe, more than a billion times every day, consumers choose our brands for refreshment because Coca-Cola is a symbol of quality.
Myth	Coca-Cola has dual standards in the production of its products, one high standard for western countries, another for India.
Fact	The soft drinks manufactured in India conform to the same high standards of quality as in the USA and Europe. Through our globally accepted and validated manufacturing processes and Quality Management systems, we ensure that our state-of-the-art manufacturing facilities are equipped to provide the consumer the highest quality beverage each time. We stringently test our soft drinks in India at independent, accredited and world-class laboratories both locally and internationally.
Myth	In India the soft drinks industry is virtually unregulated.
Fact	There are no standards for soft drinks in the US, the EU, or India. In India, water used for beverage manufacture must conform to drinking water standards. The water used by Coca-Cola conforms to both BIS and EU standards for drinking water and our production protocols ensure this through a focus on process control and testing of the water used in our manufacturing process and the final product quality.
Myth	Coca-Cola has put out results for Kinley water only and not for their soft drinks.
Fact	The results of product tests conducted by TNO Nutrition and Food Research Laboratory in the Netherlands is [sic] conclusive and is [sic] available on The Science Behind Our Quality web page.
Myth	International companies like Coca-Cola are "colonizing" India.
Fact	The Coca-Cola business in India is a local business. Our beverages in India are produced locally, we employ thousands of Indian citizens, our product range and marketing reflect Indian tastes and lifestyles, and we are deeply involved in the life of the local communities in which we operate. The Coca-Cola business system directly employs approximately 10,000 local people in India. In addition, independent studies have documented that, by providing opportunities for local enterprises, the Coca-Cola business also generates a significant employment "multiplier effect." In India, we indirectly create employment for more than 125,000 people in related industries through our vast procurement, supply and distribution system.
Myth	Farmers in India are using Coca-Cola and other soft drinks as pesticides by spraying them on their crops.
Fact	Soft drinks do not act in a similar way to pesticides when applied to the ground or crops. There is no scientific basis for this and the use of soft drinks for this purpose would be totally ineffective. In India, as in the rest of the world, our products are world class and safe and the treated water used to make our beverages there meets the highest international standards.

Source: Coca-Cola Company Web site.

exactly why you can trust our beverage brands and continue to enjoy them as millions of Indians do each day.

Sanjiv Gupta, Division President, Coca-Cola India

In the following days, the Delhi High Court asked the government to convene an expert committee to test and report on the safety of soft drinks within three weeks and to revise existing standards to include pesticide norms. Coca-Cola and Pepsi launched independent campaigns to reassure the public, taking out full-page newspaper advertisements and directing consumers to their corporate Web sites to review test results and safety protocol in greater detail (see Exhibit 10.9). In spite of these actions, the public seemed to believe the CSE's claims, and the crisis was far from over for the beverage giants. With sales continuing to experience a precipitous drop, one Delhi medical student's sentiments appeared to be widespread: "For a person drinking at least one bottle a day, the report came as a rude shock. I haven't picked up a bottle today and most definitely will not consume soft drinks in the future. The reports of pesticides and other pollutants have made soft drinks a strict no-no and we will now stick to juices and plain drinking water."[53]

GUPTA'S DILEMMA

As he contemplated the crisis at hand, Sanjiv Gupta questioned what action, if any, was necessary. Coke India was well within the country's legal guidelines, and the crisis had not been widely reported outside of India. Gupta knew that the Indian public had a short attention span and had reason to think that it wouldn't be long before the CSE's report faded, just as the Kinley water issue had earlier in the year.

On the other hand, he wondered if the situation might offer the company an opportunity to display higher standards of social responsibility at a time when it needed to differentiate itself from the competition. Multinationals had slipped in numerous situations of late and were being blamed for not adhering to the same standards in developing countries as in industrialized nations. The additive effect of this negative press meant that the potential damage to Coke's reputation was even greater. Finally, an ineffective resolution would be a devastating blow to the momentum Coke had gained after three long years of work on the marketing front.

[53] "Shocked Delhites Stay Away from Soft Drinks," *The Hindu* (New Delhi), August 7, 2003, p. 1.

CASE QUESTIONS

1. What are the key problems that Gupta should focus on in the short term and in the long term?
2. How would you evaluate the crisis?
3. How well prepared was Coke India to deal with the CSE's allegations?
4. What is your recommendation for Coke's communication strategy? Who are the key constituents?
5. Could Coke India have avoided this crisis?
6. What should Gupta do now?

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