



Crisis Response Strategies: Analysing the Actions and Inactions of Wells Fargo and Samsung in 2016 from Theoretical Lens

Brandford Shadrach Adams
Department of General Studies
Federal Polytechnic Bali
Email: shadrachb.adams@yahoo.co.uk

ABSTRACT: Managing crisis when the reputation of a brand is at stake is one of the most complex public relations task organizations must tackle as response strategies deployed may either salvage or further aggravate the situation. This study analyse crisis response strategies deployed by international business giants; Wells Fargo and Samsung in the fallout of the 2016 crises that threatened their brand reputation especially in this era of information and communication technology where the new media has made information about brand's product and services at customers' fingertip .It also attempt to explain the basis of the crisis and the actions/inactions of the two brands from theoretical lens. The study concludes with lessons that can be drawn from the responses of the two international brands.

Key Words: Reputation, Crisis, Brands, Strategies, Response, Theoretical lens

INTRODUCTION

The twenty first century technology driven market place has redefined the perception and expectations of brands and their publics. The new media have emboldened customers to discover, research and share information about brands' products and services at their finger tip. Nielsen (2016) believes active social media users are more likely to spread product reviews online and share their own experiences on products and services. This align with Langley (2014) assertion that social media have turned the power structures of business upside down and brands must turn their business inside out. Consequently, it is imperative for brands to jealously guard their reputations by making communication (both internal and external) central to disseminating their values, vision and mission through paid, owned and earned media to project their corporate identity and control the narratives on their products and services. Thus, managing crisis when the reputation of a brand is at stake is one of the most complex public relations task organizations must tackle as response strategies deployed may either salvage or further aggravate the situation. Public relations as Fill (2013) puts it, plays vital role of maintenance of corporate goodwill the continuity necessary for good product support and the development and maintenance of suitable relationships. Thus, one essential aspect of work associated with public relations is crisis communications management. In this report, a critical analysis of how two world top brands; Wells Fargo and Samsung responded to crisis that engulfed their companies in 2016 will be made and conclusion will be drawn on how well both crises were handled.

Wells Fargo Fake Accounts Scandal (September, 2016)

Wells Fargo, an American international banking and financial service holding company, a top global bank, was accused of breaching trust by engaging in unethical sales practice, (CNN, 2016). The company used tactics known as cross-selling a strategy where customers can have more than one product with the bank, under this guise they cheated customers by opening fake accounts to drive up the value of their stocks, (The Wall Street,



2016). In most cases those accounts were closed before customers noticed, but in other cases consumers were hit with associated fees, (Fortune, 2016). The bank was forced to return \$2.6 million in ill-gotten fees and pay \$186 million in fines to the government. This has affected its reputation because the media (both new, traditional) and government officials spent much of the year slamming the bank for the fraud. The scandal also cost CEO John Stumpf his job, (Fortune, 2016). The bank apologised, took full responsibility for perpetuating the fraud and moved to address the crisis.

Samsung Galaxy Note 7 Battery Explosions (August, 2016)

When reports began to surface that batteries in the new Samsung Galaxy Note 7 were exploding and catching fire, both the new and traditional media scavenged on it as it snowballed quickly into a major crisis trending online, (Fortune, 2016). The narrative in the media has been about exploding batteries and doom for Samsung brand, (BBC, 2016). Galaxy Note 7 that industry analyst predicted will outshine Apple has turned out to be a disaster for Samsung, (Gruba, 2016). Consequently, government agencies in US flag it as a danger. Most airlines across the globe now ban it from their cabins entirely, in fact users of Note 7 are advised to stop using it altogether, (Fortune, 2016; Gruba, 2016; BBC, 2016). This scandal has generated a lot of shock waves and is likely to cause incalculable damage to Samsung reputation in the long-term. Till date the picture of a burnt Galaxy Note 7 is trending on internet through various platforms of the social media and is gradually becoming the face of the company. The product was recalled twice, when the problem persisted, its production was subsequently stopped.

Theoretical Basis for Crisis Management

To begin with, crisis in an organization is nothing new, but has become a recurrent decimal in the last decade with the advent of new media. Griffin (2008) averred that the international triumph of capitalism over other economic models has created more democracies and more consumers using more sophisticated technologies to organize, demand and expect more from companies. These have made brands' reputation more vulnerable than any time in the annals of history. Seymour and Moore (2000, cited in Langley, 2014) identified two types of crisis; the cobra, which strikes unexpectedly out of nowhere, Samsung 2016 crisis falls under this category, they never in their wildest imagination anticipated that the battery of their novel smartphone model will catch fire, it took them off-guard; second, the python which grips and slowly squeezes its victim to death, Wells Fargo fake account scandal which was perpetuated for years under the guise of cross-selling and got busted in 2016 belongs to this category. Many theories have emerged to justify and prescribe remedies on how these crises should be tackled.

Some writers like Seeger (2002, cited in Fill, 2013) believe organizational crises are necessary ingredients for the growth and rejuvenation of an organization. In his chaos theory, disorder is necessary for order, decay a precursor to renewal, decline as a step-in growth and collapse a prelude to rebuilding. What can be deduced from this theory is that most organizations engulfed by crisis always emerged stronger, as far-reaching remedies as well as fresh ideas that are in tune with realities are injected to reposition and bolster their



performance. This is because crisis avail them the opportunity for self- examination, they are equally being scrutinized by both the media and other stakeholders who help in pointing out their failures. Thus, for Wells Fargo and Samsung, these crises can be a blessing in disguise.

Situational Crisis Communication Theory (SCCT)

Stemming from attribution theory which states that people constantly look to find causes, or make attributions, for different events, especially if those events are negative or unexpected. The Situational Crisis Communication Theory to Coombs & Holiday (2012) implies that effective crisis response depends on the assessment of the situation and the related reputational threat. To support this assessment, Coombs distinguishes three clusters of crises: Victim: Where the organization is a victim of the crisis e.g. natural disasters, rumours; minor reputational threat; Accident: Where the organizational actions leading to the crisis were unintentional e.g. equipment or product failure (Samsung can be categorize here), accusations from external stakeholders; medium reputational threat; Intentional; where the organization knowingly took inappropriate risk – major reputational threat (Wells Fargo fall under this category), (Holdsworth et al, 2014).

The situational crisis communication theory proposes several strategies for effectively addressing and managing crisis once the levels of crisis responsibility and reputational threat have been determined. Building on Benoit (1997) image restoration model the strategies range from the defensive ones such as Denial e.g. attacking the accuser, denial of the story, scapegoating; Diminishment like offering excuses, justification of what happened, to more accommodating ones like Rebuilding for instance, compensation of victims, offering apologies and taking full responsibility. Neither Benoit nor Coombs considers silence as a strategy, with Coombs stating that ‘Silence is too passive and allows others to control the crisis’ (Coombs and Holladay, 2012). This position is further corroborated by Langley (2014) who argues silence was not a sustainable strategy even the before the development of social media. It is incredibly damaging today. The above theory has elements of other theories like corporate apologia theory and image repair theory, the non-apology-apology, the non-denial-denial and so on, because they all focus on brand and corporate reputation repair. Though, as a response strategy, the situational crisis communication theory is criticized for not including the role of culture and visual elements in crisis media coverage or other unknown variables, (Holdsworth et al, 2014). It is also silent on the role of media (especially social media) in shaping the perception of stakeholders about the crisis and spreading it through online platform like social media. But is useful because both Wells Fargo and Samsung used elements of its strategies to manage the crises that engulfed them last year.

Using the attribution theory which states that people search for causes of events especially those that are negative or from the perspective of situational crisis communication theory. The events leading to Wells Fargo fake accounts scandal in 2016 can be traced to as far back as 2011 as admitted by the CEO of the bank before the US congress public hearing. The remote cause can be attributed to the utterly ambitious sales goals called ‘cross-selling’



which was endorsed and presided over by the top management for years. This goal encourages the bank to play a smart one on their customers to drive up the value of their stock, they forged their customers' identities for years without their consent. Business transaction is not all about making profit; trust, transparency and responsibility are the hallmark of any lasting relationship. Using Aristotle's rhetoric theory, for any business entity to cut through the noise in the market (through emotional connection and well-crafted message) and keep loyal customers it must first be trusted (ethos), trust therefore is a core element of banking which Wells Fargo CEO admitted to flouting and working hard to re-earn. While that of Samsung can be superficially attributed to battery explosions, but it goes beyond that to raise questions on the company's compliance with international best practices on safety and standard procedures, which points to allegations of some elements of negligence. Were those products properly tested before being released to the markets? Either way, the answer will point to some degree of negligence on the part of Samsung which is also a breach of trust. So, both companies are engulfed in crisis because they have breached the core element of their promise to their publics, which is anchored on trust.

Crisis Response Strategies

Both brands deployed response strategies drawn from avalanche of theories.

Wells Fargo

When the scandal blew open in 2016, Wells Fargo did not deny it though they have been living in denial pretending as if all was well. Non-denial-denial cannot be used here because they admitted it happened and indicated their readiness to cooperate with the authorities and other stakeholders to salvage the situation. Compton (2016) believes denial can be argued in two ways, first, one can simply claim that the offensive act in question never occur (simple) or denying personal responsibility for the act by indicting someone (shifting the blame). No element of buck passing can be seen here, because they were caught in the act and the right thing they did was admitting to it and looking for ways to resolve the impasse.

The bank deployed judiciously the more accommodating aspect of the situational crisis communication theory. First, the CEO of the bank personally took full responsibility, the fact that the scam was perpetuated under his nose and the fact of the aggressive and unrealistic goals that triggered the scandal was formulated, implemented and supervised by the management board which he chairs. This contrasts with what was seen with the Toyota's senior leadership response to 2010 unintended accelerator crisis as reported by Maiorescu (2016) was said to revolve around defending the company by shifting blame to government agencies and justifying why the company was slow in taking corrective action. Or the Deutsche Telekom's spying scandal of 2008 where DT tried to evade responsibility, the CEO used defeasibility and stated that he had lacked information about the illegal activities that had been going on within the company, (Maiorescu, 2016). Second, the CEO tendered and unreserved apology for failing to fulfil their responsibility to their customers, team members and the American public. The apology reads thus;



I am deeply sorry that we failed to fulfil our responsibility to our customers, to our team members and to the American public. I accept full responsibility for all unethical sales practices in our retail banking business and I am fully committed to fixing this issue, strengthen our culture and taking the necessary actions to restore our customer' trust.....the board is actively engaged in this issue. (Wells Fargo CEO, 2016)

The above statement is well crafted and cannot be said to be a non-apology-apology model which is referred to by Wikipedia as a statement that has the form of an apology but does not express the expected contrition. It most commonly entails the speaker saying that he or she is sorry not for a behavior, statement or misdeed, but rather is sorry only because a person who has been aggrieved is requesting the apology, expressing a grievance, or is threatening some form of retribution or retaliation. The above apology can be classified under mortification which is one of the five strategies given by Bennoit (1995) in his typology of image repair strategies. Mortification entails expressing of regret. Studies have shown that it is one of the successful image repair strategy especially when it is combined with corrective action, (Compton,2016; Coombs & Holladay, 2008). It contains elements of regret and empathy not only for the customers and the American public but also its thousands of team members. He explicitly said he is sorry and did not evade responsibility. Past research on crisis communication stressed the importance of mortification in the aftermath of a crisis for which a company bears responsibility, (Coombs, 2014; Ulmer et al, 2007) their conclusion has always been that brands who used mortification tends to recover faster after a reputational damage especial when used with corrective measures. This contrast with the case of Deutsche Telekom's spying scandal of 2008 where the CEO was reluctant to express remorse for the company's wrongdoing while the crisis lingered, (Maioreescu, 2016). It also fits into the two-way symmetrical model by Grunig and Hunts (1984) which encourage talking, listening, acting, making changes and mutual adjustment.

Thirdly, the bank took a far-reaching corrective measure knowing well that it is under the prying eyes of the media (especially the social media) and the radar of regulatory bodies; it among other things dropped the sales goals that fuelled the crisis, revamped payment plan, introduction of incentives associated with direct customer feedback and product usage, (McCoy, 2017). Strengthening programme control and oversights, the CEO was made to resigned, the bank pledged through adverts on social media and other platforms to be more open and transparent to regain their trust. Most brands always emphasis this strategy in their crisis response for example, General Motors ignition key recall of 2014, Toyota acceleration crisis of 2010 and the Deutsche Telekom Spying scandal of 2008, (Maioreescu, 2016). The last aspect of the strategy is compensation of victims of which the CEO told the congress that all customers whose money was illegally deducted when the fraud was going on were duly paid. The situational crisis communication theory argues that companies should address the physical and the psychological needs of their affected stakeholders. This implies helping and compensating the affected victims as well as communicating transparently and honestly to ensure that the crisis does not impact on additional stakeholders. The psychological need of the stakeholders entails providing enough information about the crisis to reduce uncertainty and by sincerely apologising for the damage caused, (Coombs& Holladay, 2002; Coombs, 2004, 2007). Wells Fargo have



deployed the new and traditional media especially YouTube and television stations to reach out to their stakeholders.

Samsung Battery Explosions 2016

The Note 7 battery explosion may continue to generate ripples on the reputation of Samsung. Market experts said what is at stake for Samsung is its brand equity- intangibles such as customer loyalty, prestige and positive brand recognition. This is an asset for large corporation and clawing back a damaged corporate reputation can be a long painful and expensive enterprise. This is typified in brands like Volkswagen following its emission scandal and Whirlpool which is having to modify almost five million tumble dryers that are at risk of catching fire. Samsung lingered so long on trying to save galaxy note 7 instead of acting faster to stem the flow of damage caused to the wider company. This can be seen in the product catching fire again after another batch was issued after the recall. The situational crisis communication theory comes in when we want to assess the threat it poses to the reputation of Samsung. Coombs's (2007) Situational Crisis Communication Theory (SCCT) aims to provide crisis managers with guidelines to match crisis response strategies to different crisis types. As stated above the reputation of Samsung is on the line because the social media and other platforms have amplified the crisis with a picture of a burnt Samsung galaxy note 7 with Samsung boldly written on it trending for the last few months and gradually becoming the face of the company. Experts believe human beings are hardwired to understand data in terms of story, there is a cliché that *a picture is worth more than thousand words*. With US government agencies and airlines across the globe flagging it as a danger, Samsung has not done enough to salvage its hard-earned reputation.

Though it lingered at first, the company scarcely took advantage of mortification (a regretted apology), unlike Wells Fargo fake account scandal and the General Motors (GM) ignition switch recall (2014), where CEOs who are the face of their respective companies were at the forefront on TV and other media expressing their deep regrets and apologising multiple times, and in the case of the former, taking full responsibility and resigning. This is not new as other observers like Kim et al (2009) also averred that crisis-responsibility denial is found to be a frequently used strategy by organizations in crisis, despite that experimental research evaluated denial as the least effective strategy. Although a study by Van der Meer (2014) after comparing online public framing of a specific crisis with the crisis denial frame provided by the organization concluded that a crisis-denial strategy is not always unsuccessful as it always thought. It means therefore that it works sometimes but not in this case where some customers experienced battery explosion and their phones catching fire. Their safety and health is at risk and any defence put up by Samsung will add salt to injury. Samsung reluctantly placed an open letter to its European customers on its website and ran some ads on three major newspapers for their American customers. Commentators like McLeod told the BBC that from a public relations perspective, it is important for companies to have a recognizable face when confronted with a crisis, something he hasn't seen with Samsung, only statements. People have not seen the face of a reassuring CEO. Langley (2014) suggests that putting a very senior person up to speak for the organization gives the message that the organization is taking the crisis seriously. He



recommends that companies may decide to appoint someone below the level of CEO acting as a spokesperson, with the CEO taking charge of operational decisions and when things go wrong along the way, the CEO can step in to take charge. In fact, a scrutiny of the apology shows that Samsung was apologising for the inconvenience that the recall of the product might have caused its customers- this is a non-apology-apology.

Equally gleaned from the apology, it can be observed that Samsung tactically avoided taking responsibility for the battery software failure which is also an aspect of denial in Benoit's taxonomy of image repair strategies. Dimitrios Tsivrikos, consumer and business psychologist at the University of London told the BBC that companies need to realise that recalling their product is just the first step. It's about being quick and being confident and taking responsibility, companies should not be in denial, those that have tried to hide things in the past have paid much higher price in terms of loss of consumer trust. Corrective action was the image repair strategy that Samsung deployed the most, this is seen in the first and the second recalls of millions of its products globally, issuing software patches and giving out replacement phones. Assuring its customers that they are fully committed to identifying and addressing the source of the Note7's battery issue. Initiating investigations with independent third party experts to carefully revisit every aspect of the device, including the battery, hardware and software, and manufacturing processes; promising to transparently share their findings.

CONCLUSION

From the foregoing, it is safe to conclude that Wells Fargo handled the crisis well. A lesson that can be drawn from their response strategies is that a timely response, humble apology, taking of responsibility and quickly moving to address the remote causes of the crisis can help in restoring trust and disarming critics who will have capitalised on those lapses to further run down the reputation of the company. It also makes effective use of its blogs and social media platforms. Same cannot be said of Samsung even though the company did well in deploying corrective action as the image repair strategy. It did not take full advantage of the other strategies.

Any Lessons?

Lessons from the foregoing can be summarised as follows;

1. Brands must adopt multifaceted approach to crisis.
2. Timing of great essence; moving quickly to address the remote causes of crisis can restore trust. The cost of acting promptly instead of leaving the crisis to fester can save the company's reputation better than the damage delay in taking action can cause.
3. Apology must be genuine. It has to be a humble apology and taking of responsibility.
4. Social media platforms can be used to both aggravates or tackle reputational crisis; Samsung has not effectively deployed the social media at its disposal to counter damaging narratives trending online.



5. The top management must constantly communicate, reassure and update the public on what it is doing to resolve the crisis.
6. Brands must be open and transparent in finding the root cause of the crisis, share their findings and take steps to rectify the problem. This will reassure and possibly restore the trust and confidence of their customers'.

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