

# The Little Book of Crisis Exercises

Nicola Persico<sup>1</sup>

June 3, 2021

Preliminary and incomplete: please do not disseminate

<sup>1</sup>John L. and Helen Kellogg Professor of Managerial Economics and Decision Sciences, Kellogg School of Management, Northwestern University. Copyright reserved.

# Preface

This collection of “crisis exercises” is written for the students in the *Leadership and Strategic Crisis Management* class at the Kellogg School of Management.

This little collection owes a big debt of gratitude to my Kellogg Crisis group colleagues, who started it all long before I joined in. They include David Austen-Smith, Sandeep Baliga, Daniel Diermeier, Georgy Egorov, Tim Feddersen, and Jörg Spenkuch.

I learned about Datacamp (Chapter 3) from Jörg, and about McLibel (Chapter 14) from Tim. Daniel’s book has been foundational for the class: its Brent Spar crisis is echoed here in the Brent Field chapter (Chapter 4). Special thanks to Weifeng Zhong, in collaboration with whom the material in Chapter 7 was developed.

A disclaimer: occasionally, the nature of the subject matter causes me to portray individuals, companies, and even governments, in a light that may be perceived as unflattering. This comes with the territory. There is never any value judgment implied on classes of people, industries, countries, or nationalities.

# Contents

|    |  |    |
|----|--|----|
| 1  | Overview                               | 1  |
| 2  | The Waitress and the Pastor            | 5  |
| 3  | DataCamp                               | 9  |
| 4  | The Decommissioning of the Brent Field | 12 |
| 5  | Greenpeace v LEGO                      | 15 |
| 6  | Anti-doping Testing in Tennis          | 18 |
| 7  | Herbalife's Big Short                  | 20 |
| 8  | "Look at Situations from All Angles"   | 25 |
| 9  | Boeing MAX 8                           | 28 |
| 10 | Ponte Morandi                          | 33 |
| 11 | Pony Malta                             | 39 |

|  |           |
|--|-----------|
| <i>CONTENTS</i>                                | iii       |
| <b>12 Life360</b>                              | <b>42</b> |
| <b>13 Facial Recognition in Casinos</b>        | <b>44</b> |
| <b>14 Leveraging McLibel</b>                   | <b>46</b> |
| <b>15 Facebook’s Content Moderation</b>        | <b>49</b> |
| <b>16 Nail Salons in NYC</b>                   | <b>53</b> |
| <b>17 Killer Airbags</b>                       | <b>55</b> |
| <b>A Tools and Frameworks</b>                  | <b>59</b> |
| A.1 Types of crisis . . . . .                  | 60        |
| A.2 Strategic risk . . . . .                   | 61        |
| A.3 Crisis timeline . . . . .                  | 62        |
| A.4 Crisis communication basics . . . . .      | 63        |
| A.5 Four factors that build trust . . . . .    | 64        |
| A.6 Reputational terrain . . . . .             | 65        |
| A.7 Activist vulnerability checklist . . . . . | 66        |
| <b>Afterword</b>                               | <b>67</b> |

# Chapter 1

## Overview

Crisis management is an increasingly popular subject in many fields of practice: PR/communication, politics, law, health care, disaster recovery and, of course, business. This collection is written specifically with business practitioners in mind.

The Kellogg approach to teaching the *Leadership and Strategic Crisis Management* class focuses on the strategic aspects of crisis decision-making. It is designed to help the crisis manager (potentially you, the reader) to get oriented early in a crisis, and to quickly put together a strategy for dealing with the crisis.

**Practical definition of crisis management** From a practitioner's perspective, crisis management is a discipline that you don't think about ... until you are suddenly faced with urgent questions such as the following.

- What is the source of the problem? When will my company be able to pinpoint it?
- While this uncertainty is unresolved, how do I communicate? Mass media, social media, email, press releases, ... ?

- Should the CEO put his/her face on the crisis? If so, what should the CEO say publicly, as the crisis unfolds?
- Should the CEO recall the brand/product?
- If activists are attacking the company, should the CEO compromise or hold out?

Practical questions like these will come at you fast if you ever find yourself managing a crisis. Because of the speed with which these questions come at you, you may be tempted not to think of them as strategic issues. However, as I will argue below, they are strategic within the context of the crisis.

**The Kellogg teaching approach** The Kellogg approach to crisis decision-making is integrative because the practice of business is integrative. Entrepreneurs and general managers need to master, or at least understand from a practical perspective, different business functions (finance, marketing, legal, PR, etc.) When a crisis hits, all the different functions become involved. You will almost surely hear contrasting advice coming from the different functional perspectives. The advice will reflect different sensitivities, risk tolerances, and deontologies. Your job is to integrate these different perspectives, resolve any conflicts, and direct the crisis response – all at high speed!

The most important fact in crisis management is that you, the crisis manager, need to get it right the first time. Do-overs are rarely possible in crisis management.

**Why “Leadership and ...”?** In what sense does crisis management intersect with leadership? First, as mentioned above, managing crises requires the authority to make decisions across functional areas. Typically, that authority is vested in the CEO. This is why crises are naturally the leader’s responsibility.

A second reason is that whoever happens to be managing a crisis has the opportunity (and assumes the risk) of displaying his/her leadership abilities. A leader's quality is often assessed through the way s/he handles crises. This is true both when the crisis is handled by the CEO, in which case his/her audience is the board and other stakeholders, and also when the crisis is handled by someone more junior, which may happen temporarily when a crisis explodes. In the latter case, skillfully handling the crisis can offer an opportunity to impress the organization's senior leadership.

**What is “strategic” about crisis management?** Why use the word “strategic?” In what sense are your actions “strategic” when managing a crisis?

It's easier to answer these questions by focusing on a specific area, for example, communications during the early stages of a public crisis. Corporate communication in the first hours of the crisis is strategic because it shapes the public's view of the company in the long term. By the time your company is finally able to find a solution to the crisis, the public's attention will have moved on to something else. By then, the public's memory of the crisis may be dim or hazy, but a bad impression of your company or brand will linger if early communication was not good. Correcting bad first impressions may require a costly media blitz, for example, a “re-launch” campaign.<sup>1</sup> Because changing public opinion late in the game is costly, early-stage communication is considered strategic.

The same argument applies to many other decisions that are made in the early stage of a crisis: getting it wrong early may be very difficult/costly to correct later. In this sense, early-stage moves (or lack thereof) in a crisis are strategic.

---

<sup>1</sup>A good example is the “Mercedes and the Moose” case that you may have been taught in class.

**How to use this book** The *Leadership and Strategic Crisis Management* class at the Kellogg School of Management offers a set of tools and frameworks that are helpful in answering the questions spelled out in the above bullet points. Some of these tools and frameworks are reproduced in Appendix A, for your convenience. The goal of this collection is not to explain these frameworks: this is what the class is for. Instead, you can use the exercises in this collection to test your ability to apply the frameworks learned in class to get yourself oriented quickly and, ultimately, to systematically resolve crises.

This collection is NOT mandatory reading for the class. It is designed to complement in-class instruction, not to substitute for it.

If you are a Kellogg student and you want to discuss these cases with me, email me at [n-persico@kellogg.northwestern.edu](mailto:n-persico@kellogg.northwestern.edu).

## Chapter 2

# The Waitress and the Pastor

It was dinner time on Jan 25, 2013. Pastor Bell had brought a group of church members to a St. Louis area Applebee's for a post-service dinner. Upon receiving the check, she refused to pay the automatic 18% gratuity. Instead, the pastor wrote this on the receipt: "I give God 10%, why do you get 18%?" A waitress took a picture of the receipt and posted it on Reddit.com's "Atheism" group. The picture (Figure 2.1) spread over the Internet like wildfire, along with the story of the grumpy pastor who had uncharitably "stiffed" a hard-working waitress.<sup>1</sup>

The next day, Pastor Bell saw some of the social media content and called Applebee's. She demanded that everyone in the establishment be fired.<sup>2</sup> Applebee's terminated the waitress who had posted the picture.

---

<sup>1</sup>This narrative filled in some gaps in a way that is instructive. A careful reading of Figure 2.1 reveals that the "you" in the pastor's message may not necessarily have been the waitress: it may, just as likely, have been Applebee's corporation, which had in fact imposed the 18% automatic gratuity rule. That this ambiguity was resolved in favor of the "human victim" narrative as opposed to "corporate victim" one, seems so natural that I have not seen anyone remark on it. This is an instructive observation about how narratives emerge and evolve.

<sup>2</sup>Dolak (2013).



Figure 2.1: Photo of pastor's receipt.

A social media storm ensued blaming Applebee's, and demanding that the waitress be re-hired. Unaccountably, all the Twitter posts concerning the controversy were streamed live on the "What's the Buzz" window of Applebee's website. On January 31, the pastor apologized for a "lapse in my character and judgment."<sup>3</sup> On February 1, at 3 pm, the company posted a Facebook update regretting the situation. The post apologized to the guest for violating her privacy and mentioned that the waitress had been fired: see Figure 2.2. The post was intended to provide closure. It didn't.

By midnight, 10,000 negative comments had appeared on Facebook. Commenters noted that Applebee's had, on a different occasion, violated a "guest's privacy" by posting a picture of a complimentary note from a guest that clearly featured the guest's name. That picture, it was noted, had been

<sup>3</sup>"Internet Pastor Apologizes For Snide Remark On Meal Receipt St. Louis woman says server was fired for online leak," January 31, 2013 <http://www.thesmokinggun.com/documents/tipping-pastor-apologizes-687234>.



Figure 2.2: Applebee’s “closure” post.

taken down only very recently. Then things got worse for Applebee’s:<sup>4</sup>

**2 am** 17,000 negative comments.

**3 am** Applebee’s makes a long comment on its status update. The comment immediately gets lost among the fast-growing thicket of other comments in the thread. All the while, Applebee’s is apparently censoring comments on its FB’s page. Commenters are furious about being censored.

**3:06 am** Applebee’s starts tagging individual commenters and arguing/correcting the facts. Back-and-forth arguments ensue.

**4:20 am** 19,000 comments; Applebee’s makes a status update.

**2 pm** The previous night’s 19,000 comments have been deleted. Commenters chide the company for censorship. The latest status update has 10,000 new comments.

**5 pm** Applebee’s is still arguing one-on-one.

**8 pm** Total FB comments (including deleted ones) reach 40,000. Now Applebee’s is going one-on-one on Twitter.

<sup>4</sup>The timeline below is adapted from Stollar (2013).

**Questions**

1. Was Applebee's decision to terminate the waitress correct?
2. Who were Applebee's key stakeholders during the social media storm?
3. Was this situation a crisis for Applebee's? Why or why not?
4. Did Applebee's handle the situation well?

# Chapter 3

## DataCamp

In 2017, DataCamp was one of the leading companies in the online coding education space. With hundreds of online courses and several million users, the company was a direct competitor of well-known companies such as Coursera, Udacity, and Udemy in the educational space of big data analysis and software coding. Its business model consisted of selling online courses prepared by external creators working in a contractor capacity. These creators would post their materials on the company's website but would retain the right to publish them elsewhere. Once a course was published, the company retained the right to keep it online, even if its creator did not wish it. Course creators would get a royalty based on the course's popularity.

The course creators were highly sought-after data scientists. At the time, there were few professionals with the expertise necessary to create DataCamp courses. Many of them did not really need the money from the royalties paid by DataCamp: they were willing to create online courses for the company to increase their professional visibility. Many of these professionals were active on social media, and their community was small and tight-knit.

The employees, distinct from the creators/contractors, numbered around 50. Kara Woo was a DataCamp employee working in the important role of

curriculum development. Her role was to acquire creators who would build courses. Like many employees, she worked remotely.

In October 2017, the company organized an offsite retreat involving alcohol. The founder-CEO of the company, Jonathan Cornelissen, engaged in unwelcome and suggestive dancing around Kara Woo. Woo successfully sidestepped the CEO's dancing advances, but the experience left her unhappy and humiliated. A few months after this incident, in January 2018, Woo resigned from the company, and in describing the reasons for her resignation to her direct superior, she mentioned the unwanted advances on the dance floor.

The same day, the CEO reached out to the employee and apologized on the phone. He also said that the company would make a public statement about the incident, but the company failed to do so. Like many early startups, the company lacked a professional HR function.

In February 2018, on the last day of Kara Woo's employment with the company, the CEO told Woo that the company would hire an investigator. The company did indeed open an investigation, but the investigator turned out to be a large venture-capital investor in the company.

In March 2018, the investigator/investor sent an email to Woo describing remedial steps that he recommended the company take, including establishing an HR function. The email also said the company would not make a formal announcement regarding the incident in order, the investigator/investor said, to protect the privacy of both parties. At the time, Woo questioned the lack of formal announcement and interpreted it as lack of transparency, but did not push back.

In late 2017, the "Me Too" movement was becoming increasingly visible in the media. This broad societal movement echoed pre-existing concerns centered specifically around the lack of visibility of women in STEM fields, which had become salient around the year 2012. Only about 10 of DataCamp's 50 employees were female.

### Questions

1. Who are DataCamp's key stakeholders?
2. How would the media likely portray this issue? (Hint: use the *Reputational Terrain* tool)
3. Should DataCamp have done anything differently? If so, what?

**Note:** This chapter is based largely on Gordon (2019) and Alba (2019).

## Chapter 4

# The Decommissioning of the Brent Field

The Brent field is an oil and gas field located off the northern coast of the UK. It was first put into production in 1976, and production lasted until 2014. Oil was extracted by means of four huge oil platforms. A fifth installation, the Brent Spar, was a huge floating holding tank that temporarily stored the oil until an oil tanker could take it ashore. The Brent field is iconic for its enormous productivity, for the high quality of its product, and because its product gave its name to a quality standard – Brent crude – upon which oil futures contracts worldwide were based.

As the Brent field approached the end of its useful life, Shell started planning for the decommissioning of the Brent oil platforms in 2006. The decommissioning process was a complex regulatory undertaking. A key issue was whether Shell should be required to remove the entirety of the installations, including the pylons that supported the platforms and the miles of pipes buried in the ocean floor, or whether only the platform topsides should be removed. After lengthy studies and consultations involving a panel of eminent scientists, the UK government, and governments in the region around

the North Sea, Shell received the UK government's approval for a decommissioning plan that required only the platform topsides to be removed. The remaining structures would be left in the ocean.

Shell approached the Brent platforms decommissioning with great trepidation. Many years before, in 1994, the decommissioning of the Brent Spar floating tank sparked tremendous controversy. Shell, in compliance with UK government regulations, intended to dispose of the Brent Spar by sinking it. The activist organization Greenpeace objected to this disposal method because of the environmental consequences. To force Shell to "do the right thing," Greenpeace activists boarded the Brent Spar from helicopters, and Shell doused the helicopters with water cannons in mid-air. Videos from this incident made the Brent Spar a cause celebre in Europe. Greenpeace promoted a boycott of Shell gas stations in Germany and other European countries. Shell was forced to give in to Greenpeace's demands because of the bad publicity, of the drop in gas sales, and of the violence that was visited upon some Shell gas stations. Thus, the Brent Spar was ultimately decommissioned on land, rather than by being sunk as prescribed by UK regulations. Refer to this case study and this video for summaries of the Brent Spar saga.

The shadow of the Brent Spar loomed large over the decommissioning of the Brent platforms. However, Shell had learned from past experience. This time, it engaged in a radically transparent engagement and regulatory process that is painstakingly documented on its website. Shell also produced numerous spectacular videos about the removal of the platform topsides.

By 2020, Shell had been able to decommission several of the four platforms without major incident. Greenpeace had staged several public events located around the leftover stumps, but these events had failed to capture the media's attention. So far, things seemed to be going well for Shell.



Video 4.1: Bravo's uplifting moment. Click on the image to view the video.

### Questions

1. Why was Greenpeace so successful in 1994? Use the *Activist Vulnerability Checklist*.
2. Does the thorough engagement process Shell went through starting in 2006 seem sufficient to protect Shell from attack by Greenpeace?
3. What did Shell do correctly, starting in 2006, that it failed to do with the Brent Spar 1994 decommissioning?

# Chapter 5

## Greenpeace v LEGO

For decades, LEGO has enjoyed an outstanding brand reputation. Since the 1960s, the company has benefited from a co-branding partnership with Shell, which has allowed LEGO to create and sell Shell-branded figurines. Conversely, Shell would, for example, award LEGO Ferrari cars as promotional incentives to customers who purchased Shell's premium gasoline products. However, Shell's brand had been losing ground with public opinion since the 1960s due to evolving views on pollution and climate change.

In 2014, Greenpeace attacked LEGO's partnership with Shell. This attack was part of a long-term effort to "cancel" Shell's brand. The campaign's title was *Everything Is Not Awesome*, a play on the words of a song from the recently released LEGO movie. The campaign's first video immediately went viral (see Video 5.1). This second video is also worth watching. Table 5.1 provides a timeline of Greenpeace's actions and LEGO's responses; it is reproduced from Schulz (2016).



Video 5.1: First video of Greenpeace's campaign against LEGO. Click on the image to view the video.

| <b>Date</b> | <b>Greenpeace Action</b>                            | <b>LEGO Response</b>   |
|-------------|---|--|
| July 1      | Campaign against LEGO announced                     | LEGO releases statement about commitment to solving environmental issues |
| July 2-3    | Staged LEGO figure protest photos posted on Twitter | None   |
| July 8      | 1st video posted on YouTube                         | LEGO CEO encourages Greenpeace to go directly to Shell                   |
| July 16     | Decals of oil spill added to LEGO building          | None   |
| July 17     | Delivery of LEGO bricks with petition signatures    | None   |
| July 29     | Children protest outside LEGO HQ                    | None   |
| August 4    | 2nd video posted                                    | None   |

Table 5.1: Greenpeace v LEGO. Abridged from Schulz (2016).

### Questions

1. Was LEGO a good target for Greenpeace? Use the *Activist Vulnerability checklist*.
2. Should LEGO end its co-branding relationship with Shell because of Greenpeace's campaign?

## Chapter 6

# Anti-doping Testing in Tennis

“We know that Nadal’s famous seven-month injury was without a doubt due to a positive [drug test],” said French sports minister Bachelot to a French TV station March 7, 2016.

These were strong words for a sports minister to say about a global sports superstar. Rafael Nadal, a Spanish tennis player, was a role model to many and would later become the most accomplished male tennis player ever. The French minister’s statement was in reference to Nadal’s seven-month absence from competitive tennis in 2012, which, at the time, had been attributed to a knee injury. The minister now revealed that the absence had been a “silent ban” due to doping detection.

Already in 2012, a French television channel had shown a satirical video skit implying that Nadal and all other Spanish sportspeople were doping. Back then, the Spanish Tennis Federation had threatened to sue the French television channel. Nadal was seen by Spaniards, and by the Spanish Tennis Federation in particular, as a national treasure.

Nadal was outraged by the French minister’s statement. He promptly sued the minister in court for defamation. The press gave wide publicity to this incident. Ironically, the French minister’s statements had been made

in connection with a bombshell press conference in which another superstar player, Maria Sharapova, had outed herself as serving a doping suspension. Notably, information about her suspension had been kept under wraps by the International Tennis Federation, allegedly to protect her privacy.

The issue of silent bans was an especially sensitive one for the International Tennis Federation (ITF), the body that is responsible for anti-doping testing. On several previous occasions, anti-doping disqualification had been covered up and players allowed to claim other reasons for their temporary absence. In general, the administration of ITF's anti-doping program was seen as both lax and unreliable. In the past, for example, penalties had been greatly reduced on appeal. Superstar player Novak Djokovic declared that he felt that enforcement was arbitrary and that he had no trust in the anti-doping program's professionalism. Other players (e.g., Roger Federer) publicly affirmed their trust in the program's integrity.

The ITF is an umbrella organization that sits over more than 100 national tennis federations. Its president is elected by the national federations. The ITF is responsible for the men's Davis Cup and the women's Federation Cup. The ITF's yearly revenues, about \$50 million per year, derive from: sponsorship income, receipts from events (mainly Davis Cup), and TV and licensing deals. The ITF's mission is "to foster the growth and development of the sport of tennis on a worldwide basis."

### Questions

1. Was the publicity surrounding the French minister's statements a crisis for Nadal and Sharapova? Was Nadal's response appropriate?
2. What was the main type of risk for the ITF in this incident (reputational, legal, legislative, regulatory)? If reputational, how was the ITF's "brand promise" at risk? With which stakeholders? What should the ITF have done?

# Chapter 7

## Herbalife's Big Short

Herbalife (NYSE: HLF), founded in 1980, is a nutrition supplements and skin-care products company. Herbalife's main product categories are weight management products (e.g., meal replacement and protein shakes) and targeted nutrition products (e.g., dietary and nutritional supplements for different ages). Its best-selling brand was "Formula 1 Healthy Meal," a meal replacement product that generated 28% of Herbalife's revenue. In 2013, 64% of Herbalife's revenue was generated by weight management products. Since its formation, Herbalife has experienced remarkable growth in retail sales. In 2013, Herbalife generated over \$4.8 billion in revenue, and it distributed its products in 91 countries through a network of about 3.2 million independent distributors.

Herbalife is a multi-level marketing (MLM) company. What makes this marketing strategy stand out is the way the company's sales force, the independent distributors, are incentivized. As in other MLM companies, Herbalife's distributors are compensated not only for products they sell but also for the sales of other distributors they recruit – their "downline." In a presentation Herbalife made to its distributors, it was said that, with a downline of 155 people, a distributor could make over \$44,000/month with only \$2,500 in personal sales. Latinos make up at least 60% of the company's distribu-

tors in the United States, though it is said that many African-Americans are Herbalife distributors as well.

In the summer of 2011, the Indago Group pitched an investment idea, likely separately, to hedge fund investors David Einhorn and Bill Ackman. The Indago Group (nicknamed the Indago Girls) is a high-end investment-research boutique with a handful of hedge fund clients who pay around \$10,000 a month to be pitched innovative investment ideas. The Indago Group's pitch was this: Herbalife is a pyramid scheme, so short Herbalife. The Indago Group's 100-page report on Herbalife's business made the following claims: "[Herbalife] is a pyramid scheme whose revenue comes not from retail sales of its products, as it contends, but from capital lost by failed investors in its business opportunity [...] of recruiting more Herbalife distributors."<sup>1</sup>

According to the Federal Trade Commission (FTC), a company is a pyramid scheme if 1) the company makes money mainly from payments by individuals who are recruited as distributors and 2) the distributors make money mainly by recruiting other distributors. The FTC has the authority to issue a cease and desist order demanding that the company halt the pyramid scheme and not take it up again. If the order is ignored, the FTC can seek civil penalties in federal court and seek compensation for those harmed.

A pyramid scheme business model has several vulnerabilities. First, it is vulnerable to losing the trust of potential distributors: if potential distributors expect not to be able to recruit new distributors, then they don't sign up to be distributors in the first place, and the company's cash flow dries up. Second, a pyramid scheme is vulnerable to lawsuits by distributors who lose money and, if the company is publicly traded, by investors who overvalued the company. Finally, a pyramid scheme is vulnerable to FTC enforcement. It is common for regulators to investigate companies suspected of operating a pyramid scheme. If malfeasance is uncovered, such investigations result in

---

<sup>1</sup>Cohan (2013).

penalties and sometimes drastic loss of value for the company. The resulting drop in value can, if forecasted, represent a valuable arbitrage opportunity for short sellers.<sup>2</sup>

The Indago Group's pitch persuaded Einhorn. He urged them to keep researching and secretly built a short position in Herbalife. In 2012's first-quarter earnings call hosted by Des Walsh, president of Herbalife, Einhorn spoke up. He asked a series of tough questions about Herbalife's business operations, all hinting at the concern that Herbalife might be a pyramid scheme.

Einhorn: "How much of the sales that you'd make in terms of final sales are sold outside the network and how much are consumed within the distributor base?"

Walsh: "So, David, we have a 70% custom rule which is basically says that 70% of all products sold to consumers or actually consumed [by] distributors for their own personal use..." (part of a very long answer that was not really an answer)

Einhorn: "So, what is the percentage that actually sold to consumers that are not distributors?"

Walsh: "So, we don't have an exact percentage, David, because we don't have visibility to that level of detail."<sup>3</sup>

After Einhorn's tough questioning, Herbalife's stock dipped from \$70 to \$56 that day (see Figure 7.1). While it cannot be said with certainty who/what caused the drop in price, we know that Einhorn closed his short

---

<sup>2</sup>For example, Nu Skin, a personal care products and dietary supplements company, was investigated by the FTC several times during the 1990s, for allegedly operating a pyramid scheme. Besides the multi-million-dollar penalties paid to the FTC, Nu Skin's stock price dropped from around \$30 when it was first traded in late 1996 to a low of \$9 at the end of 1999, despite its expanding business.

<sup>3</sup>*market folly*, May 1, 2012 <https://www.marketfolly.com/2012/05/transcript-of-david-einhorns-questions.html>.

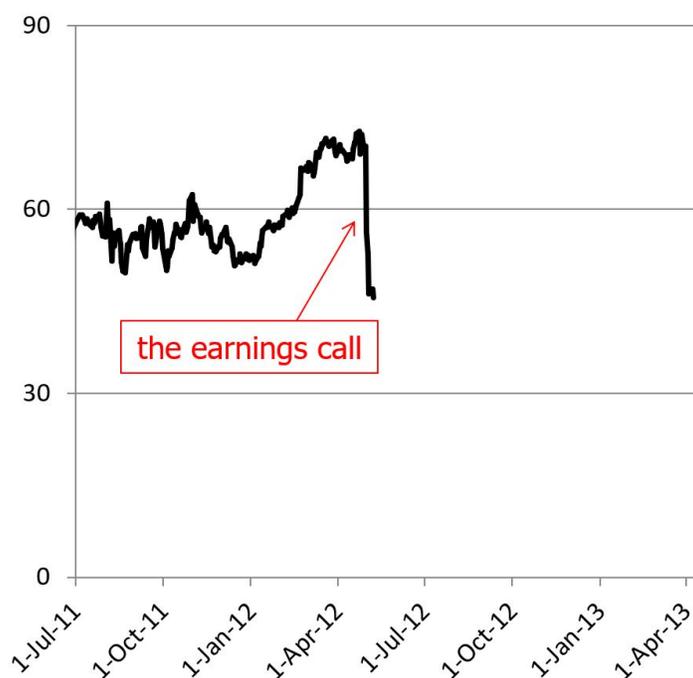


Figure 7.1: Aftermath of Herbalife's earnings call.

position sometime in 2012, and he told his investors that the short position had turned a profit (although the exact position and profits were not disclosed). Ackman's interpretation of the earnings call was that Einhorn had already shorted the stock and would soon go public with news of his short position. Ackman then started shorting Herbalife himself. His short position eventually grew to more than 20 million shares (about 18% of Herbalife's shares as of May 2012), amounting to more than \$1 billion.

Ackman now needed the stock to further drop in value. One way for large traders to move expectations is to announce their positions. Their very words are expected to move the market in their favor. The annual Sohn Conference was scheduled for May 16, 2012. Ackman and Einhorn, among others, had both used their previous appearances to announce positions.

Ackman suspected that Einhorn would announce his short position in his presentation. But Einhorn did not. At this point, Ackman had already built his short position. Without Einhorn taking the lead, Ackman took the lead himself using mass media. To an interviewer on CNN who questioned the wisdom of shorting Herbalife, Ackman said:

“We’re not sitting. We’re shouting from the rooftops. They’ve never had someone like me prepared to say the truth about the company. I’m going to the end of the earth.”<sup>4</sup>

Now Ackman needed to back up his strong statements. Over the summer and fall of 2012, Ackman and his team worked tirelessly to put together their version of the Herbalife story. After they were ready, Ackman arranged with the Sohn Conference for a special session to present his Herbalife idea.

### Questions

1. Was Herbalife a good target for Ackman? Use the Activist Vulnerability Checklist.
2. Suppose you were to write Ackman’s presentation and your goal was to highlight Herbalife’s vulnerabilities. What main points would you focus on?
3. What additional follow up actions would you take to maximize the impact of the presentation?

---

<sup>4</sup>Cohan (2013).

## Chapter 8

# “Look at Situations from All Angles”

“Foreign friends are welcome to do business in China, but there is no room for enemies of the Chinese people.”

This was the concluding sentence in an article published on [Chinadaily.com](http://Chinadaily.com).<sup>1</sup> that was intended to chastise Mercedes Benz, whose media department had circulated a controversial motivational quote (see Figure 8.1). The quote had appeared on Instagram, hashtag *#Mondaymotivation*, and read:

“Look at situations from all angles, and you will become more open.”

– Dalai Lama

The problem was that the quote was directly attributed to the Dalai Lama. The Dalai Lama is a controversial figure in China because the Chinese government, and many Chinese citizens, view him as a dangerous separatist.

---

<sup>1</sup>Stone (2018).

While Instagram is not directly accessible from China’s internet, many Chinese people access Instagram using VPNs. These citizens had reposted the Mercedes quote on Weibo, China’s equivalent of Twitter. The quote had sparked widespread outrage in China.

Apparently, someone at Mercedes had failed to look at this situation from all angles . . .

### Questions

1. *Communication Basics*: Who was Mercedes speaking to? What was it saying? What were they hearing?
2. Was this a Crisis for Mercedes? If so, what type of crisis?
3. How should Mercedes respond?

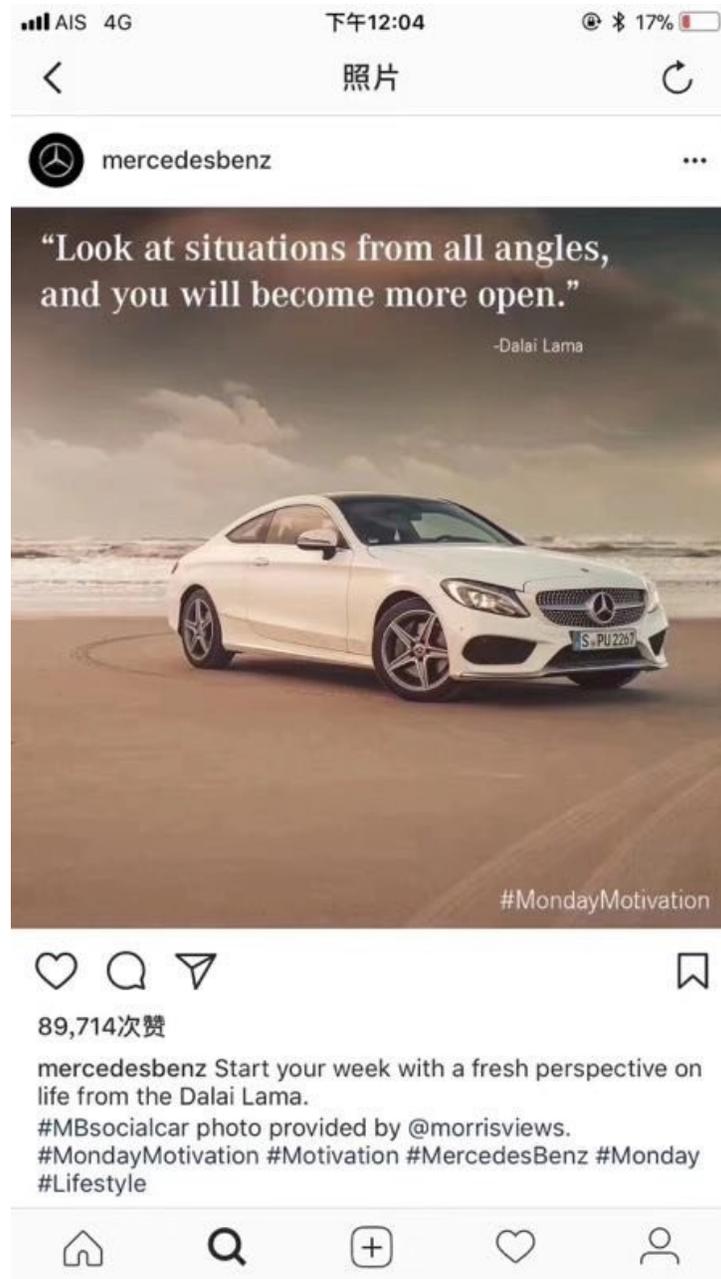


Figure 8.1: Mercedes' motivational quote.

# Chapter 9

## Boeing MAX 8

“Mr. Muilenburg! Turn and look at the people when you say you’re sorry.”<sup>1</sup>

The shy CEO of the Boeing Company turned around reflexively. There, in a poignant reminder of the company’s failure, a row of aggrieved men and women were standing, holding up photographs of their dead relatives – the victims of two back-to-back Boeing 737 crashes. Seated in front of Mr. Muilenburg, a row of angry Senators were preparing to rake his company, and him personally, over hot coals in front of the cameras. The US Senate had called this hearing to prod the company into meaningful action, exactly one year after the first crash had occurred. Boeing’s CEO was boxed in.

It wasn’t supposed to be this way. The 737 MAX started out its life as the most popular plane ever. Its success was based on its deliberately incremental design. The body was that of the trusty old 737, with “only” new engines and avionics. This choice allowed for a quicker design process (5 years instead of 10), a quicker certification process, and enough in common with previous models that 737-certified pilots could become MAX-certified by taking a brief tablet-based course, versus simulator training. Designers

---

<sup>1</sup>Eustachewich and Feis (2019).



Figure 9.1: Boeing's CEO is boxed in.

would rely on software to replicate the “feel” of the 737 and make it easier for less experienced pilots to fly the new aircraft. This would be a major plus for emerging-nation airlines. Orders for the MAX started rolling in. By 2019, more than 4,600 MAXes had been ordered,<sup>2</sup> and Boeing was all set to rely on the MAX's commercial dominance for decades to come.

All this changed when Lion Air Flight 610 took off from Jakarta, Indonesia on Monday, October 29th, 2018 and, twelve minutes after takeoff, crashed into the Java Sea, killing all 189 passengers and crew. Nearly five months later, Ethiopian Airlines Flight 302 took off from Addis Ababa, Ethiopia, and crashed near the town of Bishoftu seven minutes later, killing all 157 people aboard.

It became clear that something was terribly wrong with the 737 MAX:

---

<sup>2</sup>Russell and Seshagiri (2019)

if a single sensor malfunctioned, the plane’s software could “take over” from the pilots and fly the plane into the ground. Worse, Boeing had moved too slowly to address this concern after the first crash, failing to prevent the second crash five months later. With Boeing still dithering, international regulators grounded the entire 737 MAX fleet.

In the year since the grounding had begun, the cumulative cost to Boeing had grown to an estimated \$9 billion.<sup>3</sup> Boeing had been working hard to fix the software problems, but the US regulator still declined to certify Boeing’s software solutions.

During that time, the victims’ families had sued Boeing. US pilots had come out blaming Boeing for not being transparent with them about the extent to which the software could “take over” the controls. (Allegedly, this engineering choice was implemented to allow airlines to save on pilots’ training costs.) Some pilot unions also sued Boeing for “lost income” due to the MAX’s grounding. Inevitably, the shareholders sued Boeing directors for mismanagement.<sup>4</sup> Moreover, airlines that were already flying the MAX were forced to cut their flight schedules after the MAX was grounded, and some would later sue Boeing.<sup>5</sup>

Media coverage of the company had been consistently negative, with internal documents being leaked to the press revealing skepticism by employees about the company’s commitment to safety. Passengers across the world were outraged that Boeing could allow such a dangerous plane to fly.

Adding to the chaos, the Federal Aviation Administration (FAA), Boeing’s US regulator, was going through its own crisis. The media discovered and widely reported that 95% of the FAA’s certification of Boeing’s aircraft was in fact carried out by Boeing employees, selected by Boeing management.

---

<sup>3</sup>Frost (2019).

<sup>4</sup>Feeley and Bloomberg (2019).

<sup>5</sup>“Turkish Airlines prepares to sue Boeing.” TRT World, December 19, 2019 <https://www.trtworld.com/turkey/turkish-airlines-prepares-to-sue-boeing-32345>.



Video 9.1: FAA troubles. Click on the image to view the video.

In other words, this crisis revealed something that the American public had not known before: Boeing had effectively been regulating itself. How could the FAA have sunk so low? The problem was, the agency was cash-strapped: it lacked the budget to hire the talent and expertise necessary to carry out its job. Foreign regulators, who had historically “rubber-stamped” FAA certifications, had now lost confidence in the agency.

The 737 MAX had started its life as the greatest money-maker in Boeing’s history. Now, with the plane grounded and only about 50 new plane orders in 2019, down from about 900 in the previous year,<sup>6</sup> the MAX crisis was threatening to sink the company.

### Questions

1. Crises evolve over time. Which two different types of crisis can you identify in the above timeline?
2. Who was the key stakeholder in each of the two types of crisis? What

---

<sup>6</sup>“737 MAX crisis: Boeing sees lowest orders in decades.” BBC News, January 15, 2020, <https://www.bbc.com/news/business-51115650>

high-level strategy is appropriate for each type of crisis?

3. Based on the information provided above, were CEO Muilenburg's actions appropriate for either crisis?

# Chapter 10

## Ponte Morandi

On August 14, 2018, at 12 noon, a highway bridge in Genoa, Italy, collapsed. Tragically, 43 motorists driving on the bridge died, and 16 more were injured. Some 640 residents were evacuated and left homeless. Figures 10.1 and 10.2 give a sense of the physical damage.

Within minutes, videos of the collapse and of the immediate aftermath went viral. The chiefs of the two coalition parties that formed the government tweeted within the hour (Tweet1, Tweet 2) that they were monitoring the situation and said that they would fly into Genoa on the same day.

The collapsed section of the highway was operated as a public-private-partnership by operator *Autostrade per l'Italia*. The first message from *Autostrade* came more than one hour after the collapse. It is roughly translated as follows:

“As pertains to the partial collapse of part of the A-10 highway viaduct, Autostrade states that maintenance was being performed on the structure. The structure dates back to the 1960s, and it was being maintained to strengthen the viaduct’s roadbed. Per the engineering plans, machinery was present on site to perform the required maintenance. The roadworks, and the safety



Figure 10.1: Damage to Morandi Bridge.

of the viaduct itself, were continuously monitored by the director of the Genoa section of our highways. The causes of the collapse will be subject to in-depth analysis as soon as it is possible to safely access the area.”

The second message, several hours later, was somewhat more empathetic: it expressed condolences for the victims and thanked the first responders. No apology was proffered.

Suspicious immediately fell on inadequate maintenance. Under the 30-year concession contract with the Italian government, *Autostrade* was responsible for the maintenance.



Figure 10.2: First responders.

*Autostrade* is a private company that is indirectly controlled by the Benetton family. The Benetton clothing brands (United Colors of Benetton, Sisley) are global B2C brands. *Autostrade*'s reputation with the public was low even before the collapse, because tolls were perceived to be high and the highway's state of repair was barely adequate. Neither the Benettos nor the company's CEO appeared in public in the days following the tragedy.

*Autostrade* operates large sections of Italy's highways, see Figure 10.3. At the time, a full 90% of *Autostrade*'s revenues derived from tolls (Figure 10.4). *Autostrade*'s concession was scheduled to expire in 2042. If the Italian government terminated all concessions, it would have to pay about 20 billion euros in penalties, equal to 90% of the profits that *Autostrade* would make until the end of the contract in 2042. Contract termination would give *Autostrade* bondholders the right to demand early repayment for €3.2 billion worth of bonds.

The next day, the politicians weighed in. The chief of the anti-business government party *5 Stelle* said: "We will terminate the contract with *Autostrade*." The chief of the pro-business government party *Lega Nord* said: "The CEO should resign." These statements surprised local government relations professionals, because they were made before an investigation of the causes and responsibility had even begun. The government relations professionals felt that the statements smacked of reckless populism. The stock price



Figure 10.3: Highways operated by *Autostrade*.

of *Atlantia*, *Autostrade*'s parent company, dropped dramatically see (Figure 10.5).

The tragedy dominated the Italian media for weeks. Public opinion was outraged, and the media narrative was overwhelmingly negative. Throughout this entire period, neither *Autostrade*'s executives nor the Benetton family engaged with the media at all.

By way of context, Italian traditional media (newspapers, TV) are either owned by large business groups or controlled by political parties. Traditional media are cautious, politically sensitive, and averse to risk. However, at the time of our case social media was transforming the media landscape to resemble that of the US. However, politics and big business are more closely linked in Italy than they are in the US. There is an expectation that big

| €m   | 2017 <sup>(1)</sup>     |
|--|-------------------------|
| Total operating revenue                                    | 3,945                   |
| Toll revenue   | 3,590                   |
| Other operating income                                     | 355                     |
| Gross operating profit (EBITDA)                            | 2,453                   |
| Operating profit (EBIT)                                    | 1,913                   |
| Profit/(Loss) before tax from continuing operations        | 1,438                   |
| Profit for the year  | 1,042                   |
| Profit attributable to owners of the parent                | 972                     |
| Operating cash flow <sup>(2)</sup>                         | 1,715                   |
| Capital expenditure <sup>(2)</sup>                         | 556                     |
|  | <b>31 December 2017</b> |
| Equity <sup>(3)</sup>                                      | 2,738                   |
| Equity attributable to owners of the parent <sup>(3)</sup> | 2,390                   |
| Net debt <sup>(3)</sup>                                    | 9,351                   |

Figure 10.4: *Autostrade's* P&L.

business and top trade associations have direct communication channels with government and, conversely, that big business would help government pursue desirable social goals (typically, employment). At the time of our case, the government was formed by two parties, *Lega Nord* and *5 Stelle*, whose chiefs were social-media savvy. These parties cultivated a “populist” image and did not have strong links with “the establishment,” i.e., with big business and traditional media.

### Questions

1. Who were *Autostrade's* key stakeholder(s) in this crisis?
2. Was *Autostrade's* crisis response adequate?

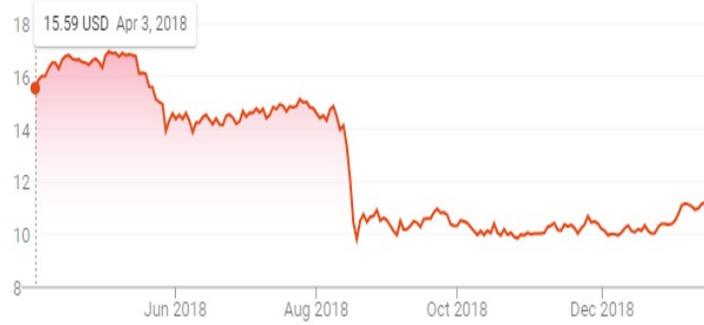


Figure 10.5: *Autostrade*'s parent company stock price.

# Chapter 11

## Pony Malta

Pony Malta is a malt-based beverage made by the Colombian beverage company Bavaria. Pony Malta has been sold in Colombia for many decades. In 2015, Pony Malta was the victim of a malicious hoax. A WhatsApp voice message was circulated, purportedly recorded by an employee alerting his family not to buy or drink Pony Malta because a dead body had been found in one of the production vats. Simultaneously, photos were circulated on Twitter and Facebook of the vats and a bloated dead body (see Figures 11.1 and 11.2).<sup>1</sup> The hoax spread like wildfire.

In fact, the photos had nothing to do with Pony Malta, or even with beverage production. Instead, the photos were of a woman who had drowned in a Los Angeles hotel's water tank two years before.

This type of hoax was not new in Colombia. Back in 1999, the same hoax (dead body in a vat) had been perpetrated against Coca-Cola. Back then, social media did not exist; the hoax spread by word of mouth. Still, newspaper reports at the time suggested that Coca Cola sales had been significantly affected.<sup>2</sup>

---

<sup>1</sup>“La verdad sobre el supuesto operario muerto en planta de Pony Malta.” *El Tiempo*, October 15, 2015, <https://www.eltiempo.com/archivo/documento/CMS-16406635>

<sup>2</sup>“Un Chisme Afectó La Venta de Coca-Cola.” *El Tiempo*, March 16, 1999



Figure 11.1: Pony Malta Hoax: the alleged vats.

Pony Malta's maker Bavaria put out a press release on Twitter denying the allegations, and also set up a telephone hotline for concerned consumers. Newspapers called out the hoax. However, these denials had little effect on consumers: sales of the popular beverage dropped dramatically.

### Questions

1. What type of crisis was this?
2. What else could Pony Malta's maker have done?



Figure 11.2: Pony Malta Hoax: the alleged body.

# Chapter 12

## Life360

Life360 is a location-tracking phone app. At the time of our case, in 2020, the app could not only track a phone's location but even the speed at which the phone was traveling (including in a car). The app could also create "driver reports" including acceleration and top speed. In 2020, the app was a popular option for parents to track their kids' whereabouts, including receiving alerts when the kids were cutting school. The app was available for a monthly fee of \$14.99.<sup>1</sup> The *Financial Times* recognized Life360 as one of America's fastest-growing companies.<sup>2</sup>

Not surprisingly, the app was unpopular with teenagers, who resented the invasion of their privacy. Sentiment against the app grew on social media. By August 2020, the TikTok hashtag #banlife360 had been viewed more than 75 million times.<sup>3</sup> Then the teens decided to push back.

One of the aggravated teens, a 10-th grader influencer from Dayton, Ohio,

---

<sup>1</sup><https://www.youtube.com/watch?v=Z-azbl4TShw>

<sup>2</sup>"Life360 Recognized by Financial Times as One of The Americas' Fastest Growing Companies in 2020." *Businesswire* April 09, 2020, <https://www.businesswire.com/news/home/20200409005844/en/Life360-Recognized-Financial-Times-Americas%E2%80%99-Fastest-Growing>

<sup>3</sup>Chernova (2020).

(handle: @wowdrew), made a TikTok video pointing to an alternative, less-intrusive app, and urging a clever boycott of Life360: teens should download the Life360 app and deliberately give it negative reviews. This form of boycott worked so well that the app was, briefly, the most-downloaded social media app in the US – but not in a good way! On Apple’s App Store, Life360’s rating was halved by the flood of negative reviews.<sup>4</sup>

### Questions

1. Was this a crisis for Life360?
2. What could Life360 have done to resolve the boycott?

---

<sup>4</sup>Chernova (2020).

# Chapter 13

## Facial Recognition in Casinos

Casinos are among the most surveilled environments anywhere. In the US, casinos have used facial recognition technology to keep out cheaters and money launderers since at least 2000.<sup>1</sup> In the early days, the technology was based on taking still pictures from a closed-circuit TV (CCTV) and comparing them with mugshot databases. As of 2021, the latest technology was based on processing CCTV feeds using facial geometry modeling (biometrics) to create electronic databases of 3-D customer faces.<sup>2</sup>

Biometrics are great at quick detection: cheaters can be identified instantly upon entering the premises, well before they have the chance to scam other customers or the casino. Moreover, if deployed beyond the gaming floor, this technology can also help keep unauthorized people out of back-office rooms and even hotel guest rooms.<sup>3</sup>

---

<sup>1</sup>“Smile! You’re On Casino Camera.” *CBS News*, February 26, 2001, <https://www.cbsnews.com/news/smile-youre-on-casino-camera/>.

<sup>2</sup>“Casino ID – Facial Recognition Technology Used in Casinos.” *Online Casino King*, <https://www.onlinecasinoking.com/insights/casino-id-facial-recognition-technology-used-in-casinos/>.

<sup>3</sup>“Casino ID – Facial Recognition Technology Used in Casinos.” *Online Casino King*, <https://www.onlinecasinoking.com/insights/casino-id-facial-recognition-technology-used-in-casinos>.

Beyond security applications, biometrics can be used to identify regular customers and offer them a personalized gaming experience. Facial recognition can also be used to limit the playtime of self-identified gambling addicts, or to prevent underage gambling. This application has been tested by some casinos.<sup>4</sup>

An obvious drawback of facial recognition is that patrons are nervous about their 3-D facial geometry being forever stored in some unregulated private database in the cloud. As of 2021, a number of casinos across the US have been sued by customers for capturing and storing their biometric data without permission. A proposed class-action lawsuit, for example, claimed that the casino failed to inform the customers about the data collection, and did not follow proper procedures in storing the biometric data.<sup>5</sup>

On the other hand, the specific demographic of casino patrons may feel less strongly about surveillance, than patrons of the average entertainment establishment. According to the Chairwoman of the Nevada Gaming Control Board:

“People walking into a casino here understand they are under surveillance.”<sup>6</sup>

## Questions

1. Is the collection of biometric information by casinos a crisis in the making?
2. Would your answer be different for amusement parks?

**Hint** Use the *Reputational Terrain* tool.

---

<sup>4</sup>Burt (2020).

<sup>5</sup>Ferak (2019).

<sup>6</sup>“Facial Recognition in Casinos.” *EliteLV.com*, <https://elitelv.com/las-vegas-style/facial-recognition-in-casinos/>.

# Chapter 14

## Leveraging McLibel

McDonald's has long been accused of cruelty toward animals. This is partly because great numbers of animals are slaughtered to produce McDonald's products, and also because the conditions in which these animals live and die can be horrific.

The issue first came to a head for McDonald's in 1990, when the corporation sued two London Greenpeace activists in the so-called "McLibel" lawsuit. McDonald's wanted the activists to stop distributing a pamphlet that criticized the company's animal welfare practices. Instead, the activists used the media spotlight afforded by the lawsuit to fight back in the court of public opinion.

The activists harnessed the nascent power of the Internet by creating a website called McSpotlight.org (it is still online today). The idea that a defendant in a trial could create a communication channel and instantly disseminate information worldwide, including to traditional media, was a new notion back then. It caught McDonald's completely by surprise.

“Over the course of the trial, the [activists] meticulously elaborated every one of the pamphlet's claims, with the assistance of nutritional and environment experts and scientific studies. With

180 witnesses called to the stand, the company faced dozens of humiliating moments as the court heard stories of food poisoning, failure to pay legal overtime, bogus recycling claims, and corporate spies sent to infiltrate the ranks of London Greenpeace. In one particularly telling incident, McDonald's executives were challenged on the company's claim that it serves nutritious food: David Green, senior vice president of marketing, expressed his opinion that "Coca-Cola is nutritious because it is providing water, and I think that is part of a balanced diet." In another embarrassing exchange, McDonald's executive Ed Oakley explained to the activists that the McDonald's garbage stuffed into landfills is "a benefit, otherwise you will end up with loss of vast empty gravel pits all over the country."

Naomi Klein, *No Logo*. Cited from Langert (2019), Ch. 2.

The McLibel case was the longest and most expensive civil trial in the history of the UK. The trial forced McDonald's to publicly acknowledge its suppliers' often disturbing treatment of animals. While McDonald's technically won in the court of law, the activists destroyed McDonald's reputation in the court of public opinion.

While the McLibel trial was taking place in London, back in the US, animal rights activists were trying to engage with McDonald's. Peter Singer, an academician and notable animal rights philosopher, and Henry Spira, the director of a small animal rights organization, were pestering the corporation. However, they were given little attention – in part because the corporation felt that the issue was not its own to resolve. As McDonald's saw it, the activists' complaints should have been directed toward its suppliers.

After exchanging many letters, the McDonald's executive who was Singer's and Spira's contact wrote back in exasperation:

"At the risk of having my intentions misconstrued, please re-

member that this issue is all-consuming to you, but it is only one of the many issues to us; I say this not to minimize the importance of the issue, but to explain that my plate is already quite full and I can't abrogate all my other responsibilities just to accommodate this issue."<sup>1</sup>

Faced with McDonald's stonewalling, Spira tried a last-ditch effort. He was friendly with Temple Grandin, a professor of animal science at Colorado State University. Grandin was passionate about animal welfare. She had published scientific articles on beef cattle behavior during handling, and she believed that animal welfare could be measured scientifically.<sup>2</sup> However, Grandin was an unlikely advocate: she was autistic. Spira racked his brain: what to do?

### Questions

1. Take Mr. Spira's position. Could Grandin's expertise be leveraged to force McDonald's hand? If so, what strategy should be employed?

**Hint:** This crisis is somewhat related to the Life360 case (Chapter 12).

**Note:** This chapter is based largely on the book *The Battle To Do Good* (Langert 2019).

---

<sup>1</sup>Langert (2019), Ch. 2.

<sup>2</sup>Langert (2019), Ch. 2.

# Chapter 15

## Facebook's Content Moderation

“Facebook’s mission is to give people the power to build community and bring the world closer together, and governments and advocacy organizations have an important role to play in this.

Facebook has made investments in teams and technologies to better secure elections. Since 2016 we’ve tripled the size of our teams working on safety and security issues to include more than 35,000 people, and we’ve created rapid response centers. We’ve also made significant improvements to reduce the spread of misinformation and provide more transparency around ads about social issues, elections or politics. Elections have changed and so has Facebook.”

Reproduced from Facebook’s webpage, May 2021.<sup>1</sup>

“Senator, we sell ads.”

Mark Zuckerberg’s explanation of how Facebook makes money, given during a 2018 Senate hearing.<sup>2</sup>

---

<sup>1</sup><https://www.facebook.com/gpa> accessed May 7, 2021.

<sup>2</sup>Blumenthal (2018).

The 2020 US presidential election was highly contentious, and political journalism itself was drawn into the controversy. Little love was lost between journalists and the president's party: the sitting president routinely referred to mainstream media as "the enemy of the people."<sup>3</sup> Conversely, the journalists' political preferences leaned against that party about 80-20.<sup>4</sup>

Social media, including Facebook, seemed to play a significant role in the democratic process leading up to the election. Even without creating content, they could (and did) control the spread of certain controversial news items.<sup>5</sup> Social media companies defended these actions as necessary to stop the spread of misinformation. These practices were welcomed by some, and infuriated others. Content moderation became hugely controversial.<sup>6</sup> By the time the 2020 election was over, Americans had come to realize that social media had become *de facto* arbiters of political speech – and many were concerned.

Suspicion of social media's moderation efforts, including by Facebook, was fueled by the secrecy surrounding these companies' proprietary "algorithms": the processes that determine the information that is presented to different users. These algorithms define a social media product because they determine what users sees on their screens: they are the social media companies' "secret sauce." Not surprisingly, these algorithms are secret and ever-changing.

Lacking visibility on the algorithms used to moderate political content, a mistrustful public latched on to the partisan leanings of these companies' officers and employees. These appeared to be skewed: Facebook employees, for example, contributed more than 11 dollars to Democratic candidates

---

<sup>3</sup><https://www.theguardian.com/us-news/2018/aug/03/trump-enemy-of-the-people-meaning-history>

<sup>4</sup>Hassell et al. (2020), Fig. 1.

<sup>5</sup><https://www.nytimes.com/2020/10/21/podcasts/the-daily/hunter-biden-new-york-post-twitter-facebook.html?searchResultPosition=2>

<sup>6</sup>[https://www.wsj.com/articles/the-new-censorship-11611097676?mod=searchresults\\_pos5&page=3](https://www.wsj.com/articles/the-new-censorship-11611097676?mod=searchresults_pos5&page=3)

for every dollar contributed to Republican candidates in the 2020 federal election cycle.<sup>7</sup> This evidence seemed concerning to those who worried about partisan slant in content moderation. Conversely, the status quo seemed acceptable to many who worried about the spread of misinformation. In truth, Facebook sought to keep some political balance among its executives and officers,<sup>8</sup> including keeping Peter Thiel, a well-known Republican, on its board. But these moves were lost on the general public, and Facebook's brand was becoming steeped in political controversy.

Social media companies didn't choose content moderation – they backed into it. Back in 2013, for the first time, Facebook removed pages based on objectionable content. That seminal action came as a response to activist pressure to remove some pages that were connected with rape.<sup>9</sup> Since then, content moderation has greatly expanded, and managing it has become a logistical nightmare: Facebook's two billion users post in more than one hundred languages, and 10 million posts per week are flagged for review.<sup>10</sup> But there seemed to be no alternative to content moderation, because otherwise social media would foster pockets of highly objectionable content.

If it could have, Facebook might have removed political content from its platform. However, it was impossible to remove politics without also removing a large portion of news content, and news was a major reason why users spent time on Facebook. According to the Pew Research Center, in 2018, Facebook was a pathway to news for around four in ten adults.<sup>11</sup> So, despite Facebook claiming that politics took up “only” 6% of the average

---

<sup>7</sup>The percentage contributed were 92.2% to Democrats and 7.78% to Republican. Source: Open Secrets, <https://www.opensecrets.org/orgs/facebook-inc/recipients?id=D000033563>, “All Federal Candidates – Party of Recipients” graph. Accessed May 8, 2021.

<sup>8</sup>Smith (2019)

<sup>9</sup>Garossino (2013).

<sup>10</sup>Koebler (2018).

<sup>11</sup>Gramlich (2019)

user's news feed,<sup>12</sup> political content was likely a major source of user engagement with Facebook. Since Facebook is fundamentally a media company (in Zuckerberg's own words: "Senator, we sell ads."), politics and profits were inextricably linked at Facebook.

Facebook found itself boxed in. One half of the body politics was suspicious of the company's opaque content moderation practices, and was not reassured by what they perceived as a strong partisan bias among its employees. The other half wanted Facebook to exercise more, not less, control over content. Across the political spectrum, the sheer size and power of Facebook seemed scary. Many, including Facebook co-founder Chris Hughes, thought that the government should break up Facebook.<sup>13</sup>

### Questions

1. Take the position of Facebook right after the 2020 US presidential election. Was this a crisis in the making?
2. What should Facebook have done?

**Hint:** This case shares some connections with the McDonald's case from Chapter 14.

---

<sup>12</sup>Lonas (2021).

<sup>13</sup>Hughes (2019).

# Chapter 16

## Nail Salons in NYC

On May 7-8, 2015, *The New York Times* published a two-part series, “The Price of Nice Nails” and “Perfect Nails, Poisoned Workers”, exposing the low pay and poor working conditions in the New York City nail salon industry. The articles shone light on an industry made up of very small businesses where workers suffered prolonged exposure to harmful chemicals, and employees were often paid under the table and were sometimes undocumented.

On May 11, the Governor of New York Andrew Cuomo announced the formation of a “multi-agency Enforcement Task Force that will move immediately to prevent unlawful practices and unsafe working conditions in the nail salon industry.” On May 18, legislation and emergency regulations were introduced to “protect nail salon workers and educate employers.” Enforcement of health, safety, and wage regulations quickly followed.

A somewhat different narrative began to emerge, one in which the nail salon industry, despite its flaws, was an engine of economic advancement for unskilled workers. According to a retired *New York Times* journalist with knowledge of the industry, the authors of the *New York Times* series were well-intentioned but wrong on the substance, and the regulation they unleashed had negative, unintended consequences for the very people the

*Times* sought to help.

Whatever its merits, the alternative narrative came too late to make any difference. Despite public protests by salon owners, the bill was signed into law on July 16.<sup>1</sup>

### Questions

1. Take the position of a NYC nail salon owner at the time the two-part *New York Times* series is published. What type of crisis was this?
2. In January 2019, a bill was introduced in the Connecticut legislature that required licensing for nail salons and manicurists. On April 3, National Public Radio ran a segment supporting the licensing bill. Take the position of the owner of a Connecticut nail salon. Was this a crisis? If so, what type?

**Hint:** This case is conceptually similar to the Airbnb case that some of you may have discussed in the Crisis Management class.

---

<sup>1</sup>Evans (2015).

# Chapter 17

## Killer Airbags

“If anything happens to the airbag, Takata will go bankrupt.  
We cannot cross a bridge as dangerous as this.”  
Juichiro Takada, quoted in Cox (2020, p. 90).

Japan-based Takata Corporation was a producer of automotive safety systems, including airbags. At one point around the year 2005, Takata was the second largest supplier of airbags in the world.

By 2013, however, Takata seemed to be in a delicate spot. Its airbags were associated with a growing number of horrific accidents caused by its airbags exploding violently with little or no cause. The shrapnel released in the explosions had injured many drivers and even killed some. The automakers had dealt with these accidents by issuing a growing number of automobile recalls. The recalls had grown to include millions of vehicles in the US. The affected manufacturers included Toyota, Honda, Nissan, Mazda, and BMW.<sup>1</sup> However, Takata had not notified American regulators of any systemic issue with its products, and the automakers had managed to keep the recalls out

---

<sup>1</sup>For more details on the recalls, see “Timeline of Takata airbag recalls.” *AutoNews.com*, May 20, 2015, <https://www.autonews.com/article/20150520/OEM10/150529992/timeline-of-takata-airbag-recalls>.

of the public eye.

In December 2013, Takata received three questions from a US-based Reuters journalist.

- Are more recalls coming, and will they involve younger cars ?
- Are airbags blowing up in cars that have never been recalled?
- Did Honda pressure Takata to produce more inflators, faster?

These three simple questions spelled the beginning of the end for Takata Corporation.

The journalist had been tipped off by plaintiff lawyers, who had gotten wind that auto companies were settling numerous airbag explosion injury cases out of court. The number of settlements was growing, but the injuries and deaths were kept out of the courts, and the public eye, through settlements and non-disclosure agreements. The plaintiff lawyers realized that a systemic problem was afoot. They shared a list of 67 questions with the journalist, which the journalist had boiled down to the above three.

The questions raised by the journalist were not new to Frank Roe, the president of Takata's American subsidiary. Roe had long battled within Takata Corporation to improve the company's safety culture. The company had a history of sweeping failed safety tests under the rug, going so far as to systematically falsify test results. The problem revolved around corrupt engineers who were willing to falsify data. These corrupt engineers were promoted rather than chastised.

However, the biggest problem by far was with product design. An airbag is, effectively, a small explosive device. The explosion requires a propellant, preferably, one whose explosive energy is highly predictable. The standard choice in the industry was guanidine nitrate, but Takata innovated by choosing an unconventional propellant: ammonium nitrate. Ammonium nitrate

was cheaper, and smaller quantities of it were required than of guanidine nitrate. However, its explosive force was inherently difficult to predict reliably. Moreover, ammonium nitrate is subject to deterioration if exposed to humidity. Exposure to humidity could, over time, either reduce the explosive charge to a dud, or make it unstable and liable to go off unexpectedly. Takata engineers had long known about the problems with ammonium nitrate, but they had been unable to resolve them. Pressure from the top had led them to cover up the problems.

Takata's customers – the automakers – bore some responsibility as well, because they turned a blind eye to increasingly apparent safety concerns. For example, GM wrote a contract with Takata that relieved Takata from the obligation to comply with American safety regulations, and shifted this obligation exclusively onto GM, presumably in exchange for other considerations. This contractual provision encouraged Takata to use as propellant the cheaper ammonium nitrate, instead of the more expensive (but safer) industry standard propellant, guanidine nitrate.

Another source of pressure on Takata was the customers' demand for a larger number of airbags at lower prices. Its contracts with customers, especially with Honda, imposed large penalties for missed production targets. This pressure stretched Takata's production capacity to the breaking point. Overworked and underpaid workers came to see quality control as a bothersome interference with their job, which they saw as pushing finished airbags out the door – no matter what.

When Frank Roe realized that the airbags quality problems were systemic, he sent a trusted American engineer to Takata headquarters in Japan. The engineer was tasked with demonstrating that the Takata airbags were dangerous. Fixing these problems would likely required major recalls, as well as a fundamental rethinking of Takata's technology. Such steps, if taken, would undoubtedly result in missed deliveries, including to Honda. The president of Takata Corporation heard him out and then replied cryptically: "Honda

wants. Honda must have.”

### Questions

1. What type of Crisis was this for Takata? When did it start?
2. What type of Crisis was this for Frank Roe?

**Note:** This chapter is based largely on the book *Killer Airbags* (Cox 2020).

# Appendix A

## Tools and Frameworks

This chapter reproduces some of the tools and frameworks used in the *Leadership and Strategic Crisis Management* class taught at the Kellogg School of Management. These tools are referenced in some of the **Questions** at the end of each chapter.

## A.1 Types of crisis

| What type of crisis am I dealing with?            |              | What high-level strategy is appropriate for this particular crisis?             |
|---|--------------|---|
| <b>Strategic</b><br>(my business is impacted)     | Reputational | Build Trust!  |
|   | Legal        | Build a Case!   |
|   | Legislative  | Build a Coalition!  |
|   | Regulatory   | Compliance, Build trust with regulators, Attend to regulators' political goals! |
| <b>Health and Safety</b><br>(people are impacted) |              | Look after people's safety!   |

Figure A.1: Use this tool to identify the type of crisis you are dealing with, and the appropriate high-level strategy for containing and resolving.

## A.2 Strategic risk

### Strategic Risk

- **Public Opinion-Reputation**
  - Greatest impact comes from direct stakeholder response: customers, employees, suppliers, shareholders, donors etc
  - Build Trust!
- **Legal**
  - Law, rules of evidence and procedure become paramount
  - Build a Case!
- **Legislative/Governmental**
  - Greatest impact comes from changes in legal and regulatory environment.
  - Activists, voters, political interests become very important
  - Build a Coalition!
- **Regulatory**
  - Similar to legislative/governmental but regulators interpreting existing law become important.
  - Compliance, Build trust with regulators, Attend to regulators' political goals!

### A.3 Crisis timeline

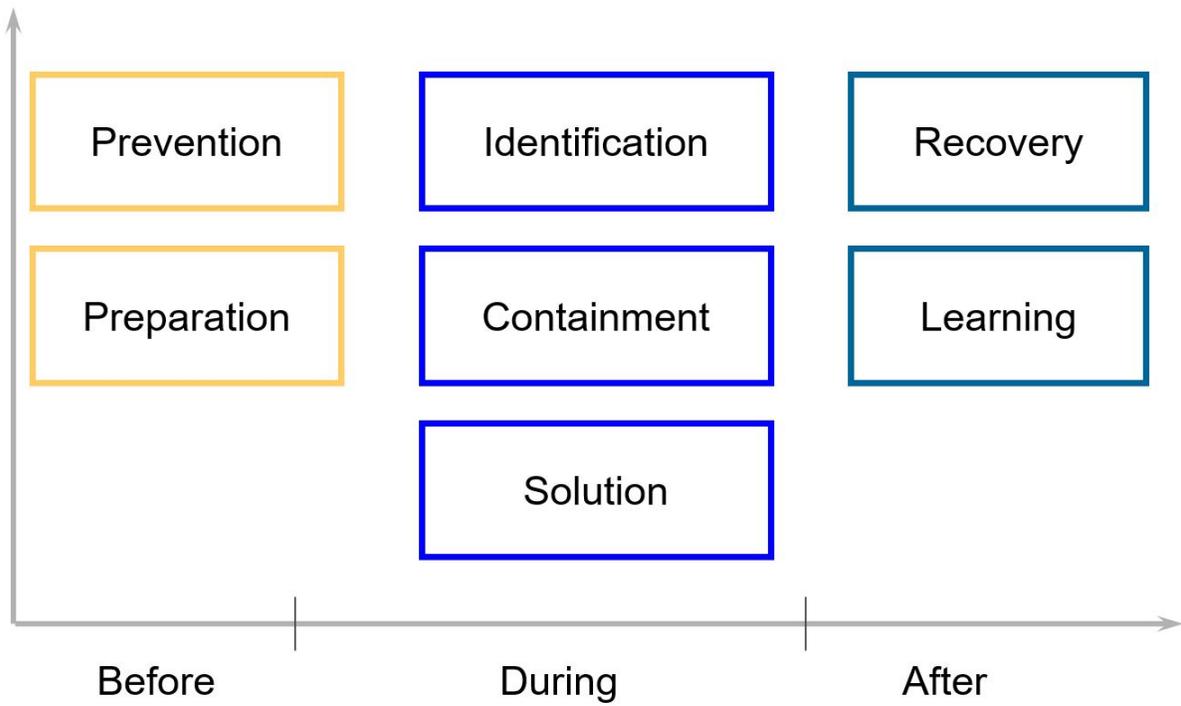


Figure A.2: Crisis timeline.

## A.4 Crisis communication basics

### Crisis communication basics

- **Who are you talking to?**
  - Be specific about labeling KEY stakeholder groups to identify THEIR values
- **What are you telling them?**
  - List the key messages YOU are trying to get across to stakeholders.
- **What are they hearing?**
  - What people hear depends upon what they care about and value.

## A.5 Four factors that build trust

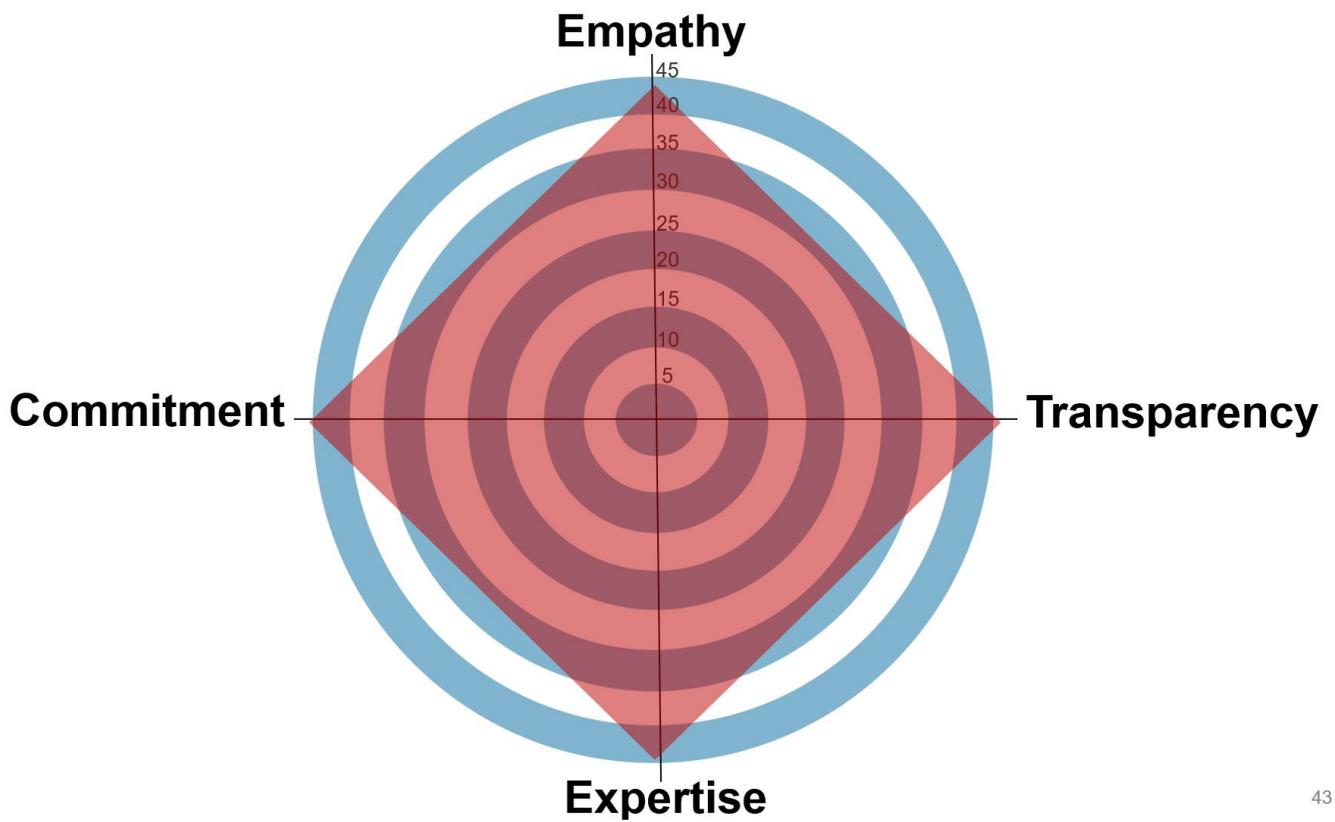


Figure A.3: The four factors that build trust. Reproduced from Diermeier (2011).

## A.6 Reputational terrain

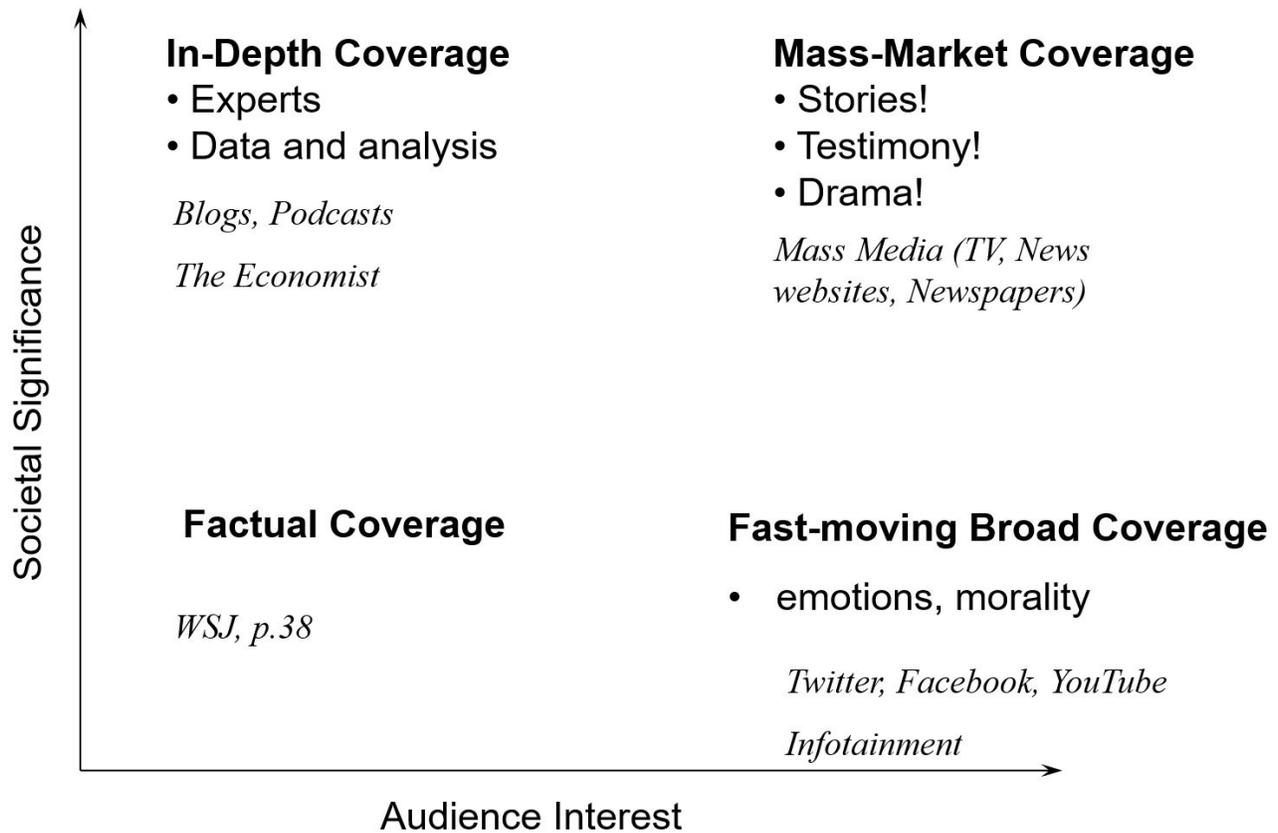


Figure A.4: Reputational Terrain. Reproduced from Diermeier (2011).

## A.7 Activist vulnerability checklist

### Activist vulnerability checklist

- brand recognition / industry leadership
- products that have a “credence good” attribute (i.e., a feature that consumers/stakeholders care about, but that cannot be experienced in the act of consumption, e.g. danger to the environment, child labor)
- consumers/stakeholders have close substitutes and low switching costs
- multinational/global operations

# Afterword

I hope these exercise were thought-provoking. If you spot any typos or inaccuracies, please email them to me at [n-persico@kellogg.northwestern.edu](mailto:n-persico@kellogg.northwestern.edu). If you are a Kellogg student and have any comments, or if you know of other cases that you think would make good crisis exercises, please email me at the same address.

Thank you for reading!

# Bibliography

- [1] Alba, Davey (2019) “A Multimillion-Dollar Startup Hid A Sexual Harassment Incident By Its CEO — Then A Community of Outsiders Dragged It Into the Light.” *BuzzFeed*, May 13, 2019, <https://www.buzzfeednews.com/article/daveyalba/datacamp-sexual-harassment-metoo-tech-startup>.
- [2] Blumenthal, Paul (2018) “Mark Zuckerberg Doesn’t Really Want Facebook To Be Regulated.” *Huffington Post*, Apr 10, 2018, [https://www.huffpost.com/entry/mark-zuckerberg-facebook-testimony\\_n\\_5acd4c5ee4b0259339de6322](https://www.huffpost.com/entry/mark-zuckerberg-facebook-testimony_n_5acd4c5ee4b0259339de6322)
- [3] Burt, Chris (2020) “New trials and rollouts of biometric facial recognition to prevent underage gambling.” *BiometricUpdate.com*, Jan 3, 2020, <https://www.biometricupdate.com/202001/new-trials-and-rollouts-of-biometric-facial-recognition-to-prevent-underage->
- [4] Chernova, Yuliya “How One CEO Dealt With the TikTok Taunts of Gen Z: He Hired Them.” *Wall Street Journal*, Aug. 23, 2020. <https://www.wsj.com/articles/how-one-ceo-dealt-with-the-tiktok-taunts-of-gen-z-he-hired-them-11598205883>.
- [5] Cohan, William D. (2013) “The Big Short War.” *Vanity Fair*, March 7, 2013 <https://www.vanityfair.com/news/2013/04/bill-ackman-dan-loeb-herbalife>.

- [6] Cox, Jerry (2020). *Killer Airbags: The Deadly Secret Automakers Don't Want You to Know*. Lulu Press, Inc, 2020.
- [7] Diermeier, D. (2011). *Reputation rules: Strategies for building your company's most valuable asset*. McGraw Hill Professional.
- [8] Dolak, Kevin (2013) "Applebee's Fires Waitress Who Posted Nontipping Pastor's Check Online." *ABCNews.com*, February 1, 2013, <https://abcnews.go.com/blogs/business/2013/02/applebees-fires-waitress-who-posted-nontipping-pastors-check-online>.
- [9] Eustachewich, Lia, and Aaron Feis (2019) "Families confront Boeing CEO Dennis Muilenburg on Capitol Hill with photos of 737 MAX crash victims." *New York Post*, October 29, 2019, <https://nypost.com/2019/10/29/families-confront-boeing-ceo-dennis-muilenburg-on-capitol-hill-with-photos-o>
- [10] Evans, Dave (2015) "Gov. Cuomo signs bill to reform New York nail salon industry" *ABC7NY.com*, Thursday, July 16, 2015, <https://abc7ny.com/nail-salons-salon-industry-andrew-cuomo-new-york/855963/>.
- [11] Feeley, Jef and Bloomberg (2019) "Boeing Directors Sued for Rushing 737 Max 8 to Market." *Fortune*, November 18, 2019, <https://fortune.com/2019/11/18/boeing-737-max-8-shareholder-lawsuit/>.
- [12] Ferak, John (2019) "Joliet Harrah's Casino Sued In Facial Recognition Lawsuit." *Patch.com*, Oct 20, 2019, <https://patch.com/illinois/joliet/joliet-harrahs-casino-faces-class-action-lawsuit>.
- [13] Frost, Natasha (2019) "The 737 Max has cost Boeing \$9.2 billion and counting." *Quartz*, October 23, 2019, <https://qz.com/1734220/the-737-max-has-cost-boeing-9-2-billion-and-counting>.

- [14] Garossino, Sandy (2019) “How Facebook Learned Rape is Bad for Business.” *Huffington Post Canada*, July 30, 2013, [https://www.huffingtonpost.ca/sandy-garossino/wam-facebooks-pr-disaster\\_b\\_3357187.html](https://www.huffingtonpost.ca/sandy-garossino/wam-facebooks-pr-disaster_b_3357187.html).
- [15] Gordon, Arielle (2019). “DataCamp Teachers Boycott Their Own Classes Following Sexual Misconduct by Executive.” *Motherbord Tech by Vice*, April 22, 2019, <https://www.vice.com/en/article/597p7z/datacamp-teachers-boycott-their-own-classes-following-sexual-misconduct-by-e>
- [16] Gramlich, John (2019) “10 facts about Americans and Facebook.” *PewResearch.org*, <https://www.pewresearch.org/fact-tank/2019/05/16/facts-about-americans-and-facebook/>.
- [17] Hassell, Hans JG, John B. Holbein, and Matthew R. Miles (2020). “There is no liberal media bias in which news stories political journalists choose to cover.” *Science advances* 6.14 (2020).
- [18] Hughes Chris (2019) “It’s time to break up Facebook.” *New York Times*, May 9, 2019, <https://www.nytimes.com/2019/05/09/opinion/sunday/chris-hughes-facebook-zuckerberg.html>.
- [19] Koebler, Jason (2018) “The Impossible Job: Inside Facebook’s Struggle to Moderate Two Billion People.” *Motherbord Tech by Vice*, August 23, 2018, <https://www.vice.com/en/article/xwk9zd/how-facebook-content-moderation-works>.
- [20] Langert, B. (2019). *The Battle To Do Good: Inside McDonald’s Sustainability Journey*. Emerald Group Publishing.
- [21] Lonas, Lexi (2021) “Facebook to dial back political content on platform.” *MSN.com*, Jan 28, 2021, <https://www.msn.com/en-us/news/technology/>

facebook-to-dial-back-political-content-on-platform/  
ar-BB1d9FYo.

- [22] Russell, Karl, and Ashwin Seshagiri (2019) “Why the 737 That Crashed Is Boeing’s Best-Selling Plane Ever.” *New York Times*, March 15, 2019, <https://www.nytimes.com/interactive/2019/03/15/business/boeing-737-max-popularity.html>.
- [23] Schulz, M. (2016). ”An Analysis of LEGO’s Response to an Attack on its Partnership with Royal Dutch Shell.” *Elon Journal of Undergraduate Research in Communications*, 7(1). Retrieved from <http://www.inquiriesjournal.com/a?id=1473>.
- [24] Smith, David (2019) “How key Republicans inside Facebook are shifting its politics to the right.” *The Guardian*, 3 Nov 2019, <https://www.theguardian.com/technology/2019/nov/03/facebook-politics-republicans-right>.
- [25] Stollar, R. L. (2013) “Applebee’s Overnight Social Media Meltdown.” February 2, 2013. <https://rlstollar.wordpress.com/2013/02/02/applebees-overnight-social-media-meltdown-a-photo-essay>.
- [26] Stone, Curtis (2018) “To do business in China, don’t be an enemy of the Chinese people.” *People’s Daily Online*, February 12, 2018 <https://global.chinadaily.com.cn/a/201802/12/WS5a80f8b2a3106e7dcc13c33d.html>.

# List of Figures

|      |  |    |
|------|--|----|
| 2.1  | Photo of pastor’s receipt. . . . .                       | 6  |
| 2.2  | Applebee’s “closure” post. . . . .                       | 7  |
| 7.1  | Aftermath of Herbalife’s earnings call. . . . .          | 23 |
| 8.1  | Mercedes’ motivational quote. . . . .                    | 27 |
| 9.1  | Boeing’s CEO is boxed in. . . . .                        | 29 |
| 10.1 | Damage to Morandi Bridge. . . . .                        | 34 |
| 10.2 | First responders. . . . .                                | 35 |
| 10.3 | Highways operated by <i>Autostrade</i> . . . . .         | 36 |
| 10.4 | <i>Autostrade</i> ’s P&L. . . . .                        | 37 |
| 10.5 | <i>Autostrade</i> ’s parent company stock price. . . . . | 38 |
| 11.1 | Pony Malta Hoax: the alleged vats. . . . .               | 40 |
| 11.2 | Pony Malta Hoax: the alleged body. . . . .               | 41 |

|     |  |    |
|-----|--|----|
| A.1 | Use this tool to identify the type of crisis you are dealing with, and the appropriate high-level strategy for containing and resolving. . . . . | 60 |
| A.2 | Crisis timeline. . . . .   | 62 |
| A.3 | The four factors that build trust. Reproduced from Diermeier (2011). . . . .   | 64 |
| A.4 | Reputational Terrain. Reproduced from Diermeier (2011). . .  | 65 |

# List of videos

|     |  |    |
|-----|--|----|
| 4.1 | Bravo's uplifting moment. Click on the image to view the video.                                  | 14 |
| 5.1 | First video of Greenpeace's campaign against LEGO. Click on the image to view the video. . . . . | 16 |
| 9.1 | FAA troubles. Click on the image to view the video. . . . .                                      | 31 |