

# The Crisis at Oxy Reckitt Benckiser

By Gary Davies

The British multinational Reckitt Benckiser purchased the Korean Oxy company in 2001. It also purchased a ticking bomb, a product launched by Oxy in 1996, a steriliser for humidifying machines. Far from protecting families from harm, as the Korean Centre for Disease Control was to discover in 2011, the product would be linked to injury and death. During 2011 Reckitt Benckiser's share price fell back slightly but since then it has more than doubled, so good crisis management or not?

There are two contrasting views as to how senior managers should manage a crisis, the first and often an approach supported by legal advice, is to deny responsibility, to push any blame away from the company and onto others, to challenge any claims and put barrier after barrier in front of anyone seeking compensation. After all, the primary (legal) duty of any CEO is to the shareholder and not to the customer.

The alternative way of thinking, and one which is frequently argued by reputation managers, is to admit liability as soon as it is clear that the company is responsible for the problem, apologise sincerely and compensate fairly. The financial cost, reputation managers often argue, will then be far lower than the long term cost of lost sales due to bad publicity, let alone any legal costs when trying to defend the indefensible. Members of the public are less concerned about compensation and more concerned to be convinced that the company recognises its fault and is doing something to prevent any similar occurrence in the future.

The evidence guiding companies as to which option they should choose is mixed but increasingly the balance of opinion is that being contrite is the better choice, even if the company is not convinced that it is at fault. The text book example here is Coca Cola in Western Europe in 1999 when over 100 people including many children were hospitalised, often blaming their condition on drinking contaminated Coke. No problems with the product could be found either by Coca Cola or by government scientists, yet the company was required to remove its products from sale across Europe. After a week or so when still no explanation for the crisis could be found, Coca Cola issued a public apology, even though they did not believe they had done anything wrong, and offered compensation. The problem disappeared as quickly as it had appeared with no long term damage to the brand.

In contrast Reckitt Benckiser has appeared reluctant to acknowledge responsibility both in South Korea and in its home country of Britain. It chose the legalistic approach and the only dialogue between the company and those its products had harmed after 2011 was through the courts. Since early May 2016 the strategy has changed. On May 2nd its press release stated, 'We have accepted full responsibility for the role that this product played in these health issues, including deaths, in Korea,' and, 'We have announced today our intention to establish a Compensation Fund for those directly impacted, to be administered by independent experts, and a Humanitarian Fund for all others who believe they have been affected by the HS issue'. In a subsequent release Rakesh Kapoor, CEO of RB plc was quoted as saying he wanted to, 'regain the confidence of Korean society.'

By now Reckitt Benckiser was in trust recovery mode; sales of all their many consumer brands were at risk not only in South Korea but increasingly globally as the international media had started covering the story. The offer of a compensation fund to be managed independently of the company is an example of what academics label as 'hostage posting' a tactic widely recommended as a part of reputation recovery. The organisation makes itself vulnerable to external scrutiny in the hope that this will make its actions appear genuine and the company appear more trustworthy.

Whether the tragic case of the humidifier disinfectant will create long term damage for Reckitt Benckiser or just become a case study to try to teach future generations about how to, and how not to, manage a crisis may only become clear in a year or so. Their offers of money and their change of tactics, appear to many Koreans, I am told, to be too little and certainly too late. Meanwhile we should also remember that journalists, retail buyers, government officials and academic researchers are human beings as well as professionals in their working lives. If a company does wrong and if its response is inappropriate, we won't trust what they say or do in the future. The attitudes of such opinion formers towards Reckitt Benckiser will be just as important in the longer term as those among shoppers in Korean supermarkets. A company's reputation is as fragile as cherry blossom, a beautiful asset when you have it but something that can disappear quickly in a storm of enraged public opinion.

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