

15. Korudo Appliances

Korudo Appliances manufactures large home appliances, and the brand is best known for its washing machines and dryers. Korudo recently went into crisis management mode upon the news that a new Korudo dryer had caught fire in a university dormitory. There were no deaths, but several students were taken to the hospital, and the building was nearly destroyed. Initial news reports suggested that a defect in the Korudo dryer was to blame, though company engineers and maintenance specialists told CEO Mila Novak that they thought that user error was the cause. The most common dryer fires occur when users do not properly clean the lint out of the machines. Four hours after the first news reports, Mila directed Korudo's public relations team to issue a press release announcing that while it was "very unlikely to have been caused by faulty equipment," they were in contact with local university and fire department officials and would immediately launch an investigation of their dryers.

Mila declined all requests for televised interviews, instead continuing to release statements that a fully transparent investigation, led by the company but also involving government inspectors, had so far given no indication that it was unsafe to use the commercial-sized dryer involved in the incident. The company's share price nonetheless dropped 15% during the first few days of the crisis. A week later, a fire in a Korudo oven started in a family's home, resulting in two deaths. News media suggested that Korudo had faulty equipment, and again the company engineers assured Mila that there was no indication that a faulty oven would have caused it.

Upon consulting the company's public relations manager, Mila scheduled an interview with a major TV news outlet the day after the house fire and caught an immediate flight to the factory that produced the dryer model involved in the dormitory fire. Cameras followed the factory tour as Mila explained to the reporter the immediate and thorough efforts that the company had been taking to ensure that nothing was faulty with its equipment. After the interview, the Korudo share price rose five percent. Mila is considering offering to pay for the damage to the university and the home, as well as to cover the funeral costs of the victims, despite her belief that Korudo is not at fault.

- A. With reference to Korudo, explain what is meant by crisis management. [4]
- B. Explain why transparency and communication are important to Korudo in this crisis. [2]
- C. Explain two ways in which a contingency plan could help Korudo to deal with a crisis such as the one shown in this case study. [4]
- D. To what extent are Korudo's actions appropriate in handling the crisis situation? [10]

16. Ferdinand's Ice Cream & Hot Fries

Ferdinand's Ice Cream & Hot Fries is a nationwide chain of shops that sells ice cream and gourmet french fries. Ferdinand's has strict quality control procedures in place at its four factories, and it has agreements with its supplying dairy farmers that allows the company to conduct inspections. The company has several contingency plans for how to deal with potential product quality and safety issues that may arise in their supply chain; for instance, plans vary depending on whether a food safety issue originates with a supplier, at a company factory, or at a Ferdinand's ice cream shop.

Some middle managers at their plants have also been advocating for developing contingency plans for a major power outage at one of its factories, an idea that management has not implemented due to the perception of such an event being very unlikely to happen or to last very long. Ferdinand's operates in a highly economically developed country, and its factories are in areas in which large natural disasters are not common, though brief power outages have happened during heavy rain storms. The chief operating officer believes that any event significant enough to affect a factory's power for more than 12 hours would also shut down its local suppliers as well, and that there would be so many uncertain variables in such an event that a contingency plan developed in advance may prove unhelpful.

Upper management believes that in order to be guaranteed to not lose power if the local power grid temporarily goes down, they would need to invest millions of dollars into backup electricity generators and have ongoing costs of keeping the generators in good working condition. One vice president has a gasoline (petrol) powered electricity generator for home use but then found it was useless when his home lost electricity because he had not turned it on in several years and did not realize that the machine had needed periodic maintenance. Ferdinand's already has a few generators to keep some of its cold storage running, but not its production lines. Another option would be to install solar panels, which would also lower the company's energy costs in the long run; however, the initial investment in these would be very large and could have a payback period of as many as 15 years. These two options though have not gone through any official review.

The company does not list power loss as a risk factor in its annual shareholder reports. Some shareholders are beginning to question this omission though, noting that global climate change is leading to severe weather events and wildfires that are less predictable, affect more locations, and do more damage.

Questions

A. With reference to Ferdinand's, explain the differences between crisis management and contingency planning. [4]

B. Explain why the speed of action and communication would be important to Ferdinand's if there were a food safety crisis in its supply chain. [4]

C. With reference to Ferdinand's, outline one common element of a contingency plan. [2]

D. Explain a benefit and a drawback to Ferdinand's developing a contingency plan for power loss. [4]

E. Discuss the merits of Ferdinand's developing sources of backup power generation for use in a major power outage. [10]