

## **Contrasting cases of corporate crisis management systems: a research report**

JAMES OGUNLEYE  
Middlesex University, United Kingdom

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**ABSTRACT** This paper examines aspects of crisis management system in corporate organisations. The paper uses a content analysis technique to examine contrasting crisis management systems of two large corporate organisations, BP and Toyota, with particular reference to BP Gulf Oil Spill and a recent recall of vehicles by Toyota Manufacturing Corporation of Japan. The paper uses an improved crisis management framework offered by Jaques (2010) to assess the effectiveness or otherwise of the two companies' crisis management systems and identifies lessons that each company might learn from its own issues and crisis. The paper concludes with suggested crises management strategies deployable to achieve optimal effectiveness—as offered originally by Jaques (2010).

*Key words:* crisis management systems, BP, Toyota

### **Introduction**

Crisis presents a significant threat to business performance, assets, people and corporate brand and the ability of organisations to manage crisis effectively has become a critical management function (De Worlf and Mejri, 2013). Kienzle, et al, (2010, p.1) define crisis management systems as systems that enable organisations to identify, assess, and handle 'a crisis situation by orchestrating the communication between all parties involved in handling the crisis, by allocating and managing resources, and by providing access to relevant crisis-related information to authorized users'. As crisis situations become more intense and unimaginable, questions have been raised about the effectiveness or otherwise of aspects of crisis management systems in corporate organisations (see for examples Schoenberger, 2010; Villines, 2011; Smith, 2012). The case examples presented in this brief paper illustrate the unimaginable nature of crisis, par-

ticularly in the case of BP, and the capacity of corporate organisations to manage crisis effectiveness.

### **Methodology**

The methodological approach in this paper relates to the analysis of content of publicly available data on BP's Deepwater Horizon Oil Spillage in the Gulf of Mexico in April 2010 and Toyota's recall of hybrids vehicles in February 2010. Publicly-available information denotes the internet-sourced official reports, newspapers articles, advertorials, TV reports and academic journal papers. It also denotes information published on the websites of BP and Toyota such as commissioned reports and news releases. The issues arising from these secondary sources are thematically analysed and presented in the following paragraphs.

### **Case study I**

#### *British Petroleum: Deepwater Horizon Oil Rig*

British Petroleum—or BP—is a United Kingdom-based multinational oil and gas company and one of the world's largest energy companies in terms of market capitalization, revenues and production (Forbes, 2013; Oil and Gas IQ, 2013; PFC Energy 50n, 2013). BP has a diversified portfolio of products that dates back to 1970 (Hollier, 1992), operating essentially in all areas of the oil and gas industry—from exploration and production to power generation and supply and trading. The exploration aspect of the BP's operations involves, access acquisition, finding, developing and producing hydrocarbons particularly in deep water. The following case study examines BP's management of the crisis concerning its deepwater operations in the Gulf of Mexico.

On the 20 April 2010, a gas release, followed by an explosion and fire occurred on the Deepwater Horizon oil rig, a BP-licensed Transocean drilling rig in the Gulf of Mexico. The explosion caused a loss of 11 lives, all BP workers, injured many, while another 115 people escaped injuries (ESi, 2010; De Wolf and Mejri, 2013). The explosion led to the sinking of the Deepwater Horizon rig and the subsequent spewing of some 780 million gallons or 4 million barrels of crude oil into the Gulf of Mexico (Barrett, 2013; De Wolf and Mejri, 2013). According to BP (2010), the fire burned for three days leading not only to the sinking of the rig, but also the leaking of hydrocarbons into the sea 'before the well was closed and sealed'. Although BP was able to seal the leaked hydrocarbons on the third day in a matter of days, it was not until 19 September 2010 that the oil spill was effectively contained—after damage had been done to the ecology of the Gulf area (see also Crowley, 2010; Dudley, 2010; Gandel, 2010). The damage to the BP's reputation, brand, public trust and confidence were severe. Also, financially, BP's share prices across major stock exchanges dropped significantly (De Wolf and Mejri, 2013).

A number of factors led to the Deepwater Horizon oil rig accident. According to the BP (2010), there were three critical systems failures: a failure of the integrity of the well, a loss of hydrostatic control of the well and a failure 'to control the flow from the

well with the blowout preventer (BOP) equipment, which allowed the release and subsequent ignition of hydrocarbons'; and the failure of the 'BOP emergency functions failed to seal the well after the initial explosions'. To be sure, a blowout preventer would have enabled BP to seal, control and monitor the oil well. However, a report by Myers and Gardella (2010), based on interviews with 50 employees of BP, many of whom worked on the ill-fated oil rig, attributed the accident to 'compromised' safety systems caused by 'a series of mistakes and flawed decisions'. According to Myers and Gardella, the well and cement were not properly designed, the critical early warning signs system was 'not properly detected, analyzed or corrected' while the design of the blowout preventer [containment], the final line of defence was flawed and poorly maintained. Similarly, the final report by the Deepwater Horizon Study Group (DHSG, 2011) concluded that the accident was not only preventable, but found an absence of 'a functional safety culture' in the oil rig.

BP struggled to respond effectively to the Deepwater Horizon accident. The initial response of the company leadership was informed by the need to 'protect corporate stock and profits, manage changes in leadership, prepare for inevitable litigation, as well as salvage its public reputation' (Villines, 2011, p.1). In other words, the company's initial responses were damage limitation, blame-passing and scape-goating (Webb, 2010; Villines, 2011). This suggests that the BP's communications system was geared more at damage limitation and control than effective communication to critical stakeholders [in this situation], the families of people who have lost their lives and people whose environment and livelihoods had been most severely affected by the oil spillage. Communication was a major tool for handling the crisis; it was also, ironically, the bane of the company's management of the crisis (Villines, 2011; De Wolf and Mejri, 2013). According to Bean (2010), BP's communications strategy for managing the crisis, which consists of both traditional medium such as official statements, press releases, TV and newspaper interviews and social media such as Twitter, was poor and ineffective. BP's communications strategy was characterised by inaccuracy—for example, BP initially gave a figure of 1000 barrels of oil leak per day when in fact it was 5000; and scape-goating and buck-passing—for instance, BP attempted to absolve itself of main responsibility blaming instead drilling contractor, Transocean Limited, [owner of the oil rig] as responsible for the accident.

## **Case study II**

### *Toyota Motor Corporation: 2010 Recall of Prius hybrids*

Toyota Motor Corporation is a Japanese multinational company manufacturing and selling of automobiles and parts. It is one of the largest automobile manufacturers by production (Schoenberger, 2010) and one of the largest companies in the world by production (Flynn, 2012; OICA, 2012). On 8 February 2010, Toyota announced the recall of about 436,000 hybrid vehicles worldwide 200,000 of which were its flagship Prius hybrids. The recall by Toyota followed incidence of intermittent failure of brakes when driven on rough, icy roads or in slippery conditions (BBC News Online, 2010). The brakes problems experience by owners of Toyota hybrids in Japan and the United

States led to a 'flood' of complaints to the regulatory authorities in the US. Although Toyota has experienced—and continues to experience—recalls of vehicles, this particular recall, caused by faulty brakes, presented a most serious crisis for the company.

Toyota was aware of the problem with the Prius hybrids, but did not notify its customers about the safety issues posed by the braking system until the regulatory authorities in United States and Japan announced that they were investigating the vehicles. In other words, the US's announcement was the first time the public would be told about the problem with Prius hybrids. The problem presented a crisis situation for Toyota. There are two issues worth noting here: first, a week had pass from the time Toyota knew about the US and Japanese governments' investigation and the time Toyota finally acknowledged the problem. Second, Toyota struggled to come to terms openly and publicly with the problem. The combination of Toyota's strategy of holding back information to its customers and a very slow communications strategy (Schoenberger, 2010) not only caused anxiety and worries about personal safety among Prius car owners but impacted negatively on the public trust in the company.

Toyota's poor response also meant that it was not able to take command of the crisis immediately it occurred. According to Schoenberger (2010), Toyota 'should have told the public that it had identified a problem with the car's brakes instead of leaving that to safety officials.' Additionally, customers did not consider the company's communications medium authoritative and definitive source of information on the problems with Prius hybrids. Toyota's response may have aggravated the anxiety of Prius owners when the company announced that it had 'fixed the brakes of models coming off the assembly line, but that it did not yet have a fix for customers' (Schoenberger, 2010).

In summary, Toyota responded albeit very late by acknowledging the problem hybrids breaks and got its leadership, in the person of the chief executive, to announce the recall of the affected vehicles worldwide (BBC News Online, 2010). Toyota advised affected owners to return the vehicles to Toyota garages after which it fixed the problem by upgrading the anti-lock braking system at no cost to hybrids owners.

## **Analysis**

Crisis management systems enable organisations to identify, assess, and handle 'a crisis situation by orchestrating the communication between all parties involved in handling the crisis, by allocating and managing resources, and by providing access to relevant crisis-related information to authorized users' Kienzle, et al, (2010, p.1). It is an event that occurs suddenly and requires immediate reaction and that if handles wrongly has the potential of causing significant and sometime irreparable damage to the organisation (De Wolf, D. and Mejri, 2013). When crises occur, regardless of the times that organisation tests or simulates emergency procedures, it is often the case that people can sometimes respond in panic, which may lead to ill-thought-through actions that can sometime 'generate' panic responses (Bolton and Stolcis, 2008). There is no doubt that that there was a deficiency in BP's crisis communication strategy (Villines, 2011) as there was with Toyota's. And according to Pearson and Clair (1998, p.60), 'an organizational crisis is a high impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effect and means of resolution, as well as by a

belief that decisions must be made swiftly'. Certainly in the case of BP and Toyota, critical response actions were not made swiftly.

There are two approaches to crises management. The first is *event approach* and the second is *process approach*. The *event approach* is a traditional approach where a company's respond 'tactically' to crisis (Jaques, 2010). In such a situation, communications strategy is made to focus on public relations and community reassurance than an effective response to the problem. This traditional *event approach* might explain Pearson and Clair's (1988) characterisation of crisis. According to Jaques (2010), the *event approach* 'typically positions crisis management structurally alongside operational or technical functions such as security or emergency response, often with public affairs tactically in support, mainly for media or community relations.'

There is no doubt that the BP's Deepwater Horizon oil rig incidence was more serious and severe than Toyota's worldwide vehicles recall—the former led to a loss of life and injuries and the latter resulted in a small number of injuries (BBC News Online, 2010) and a potential loss of life. However, public safety is at the core of both crises. The responses of BP and Toyota to their respective crisis can be described as traditional *event approach*. While the BP's initial responses were both damage limitation and blame-passing (Webb, 2010), Toyota's initial response was to acknowledge the failure of the braking system and announced the recalled. However, this was a week after the company was first aware of the problem and after the US and Japan regulatory authorities announced publicly that they were investigating Toyota hybrids. It seems the two companies, although differed in their approaches to managing their crises, may have adopted the theoretical models highlighted by Lee (Lee, 2004) as 'effective' crisis communication strategies. Lee's six crisis communication strategies include damage limitation, incident fallout-minimisation; blame game and scape-goating. Although both companies' communications strategy was deploy using mainly traditional medium of official statements, press releases, TV and newspaper interviews and advertisements, and social media such as Twitter, it appears that their communication strategies did not achieve similar outcomes. The BP initial press release was inaccurate and attempted to down play the scale of the oil leak, apportioned blame to its contractor-operator of the rig (Bean, 2010), a situation that raise doubt in the minds of the public about BP's capacity to tell the 'truth' and take responsibility full for the accident. Toyota, on its part, albeit very slow to respond, acknowledged the problem (but unlike the BP) took full responsibility and made its chief executive officer to personally announced the recall of the affected vehicles. Toyota's response clearly presented some lessons for BP in crisis management.

The second approach to crisis management is *process approach*. According to (Jaques, 2010), *process approach* is, essentially, 'part of a process continuum, which builds on the recognition (a) that most crises are not sudden events but follow a period of precognition and red flags and (b) that leaders and managers have a wide range of proactive processes and activities which can be implemented to identify, pre-empt and prevent potential crises, or to mitigate those which do occur'. The latter concept builds on Shrivastava (1995) arguments concerning the inadequacies of the *event approach*. Thus, far from being an event, a crisis is a process that extended in time and place. This can be seen in the cases of BP and Toyota. BP's Deepwater Horizon accident resulted in

injuries, loss of lives and the oil spillage that extended five-mile-long that caused severe damage to the ecology of the Gulf area. Toyota's hybrids faulty brakes also led to some injuries and had a potential to cause injuries and loss of lives. The two crises raised a critical issue of public safety and authorities in US and Japan had to intervene in the management of the crises.

### **Conclusion**

This paper has explored aspects of crisis management systems of BP and Toyota with particular reference to BP Deepwater Horizon Gulf Oil Spill and a recall of hybrids by Toyota Manufacturing Corporation of Japan. The paper employed a content analysis of publicly available data to assess the effectiveness or otherwise of the two companies' crisis management systems. What is clear from this paper is that the two companies' crises management systems, based on communications strategies, were less effective and did not achieve desired outcomes. For example, while Toyota was slow to respond but, unlike the BP, took full responsibility for the crisis from the outset. Toyota's strategy presented some lessons for BP in crisis management. However, for any crisis management system to achieve optimal effectiveness, Jaques (2010), argues the important of 'institutionalising a genuine crisis prevention mindset instead of just focusing on crisis response'. This might be beneficial for both BP and Toyota as the two companies continue to raise improve every aspects of their crisis management systems. To this end, Jaques offers that organisations should 'proactively address underlying systemic causes of potential crises; establish effective mechanisms to recognize and respond to red flags; 'properly identify stakeholders and their perspectives; and implement systematic organisation learning and unlearning.'

### **Limitation**

This study is limited by the sole use of secondary data. Future research might complement secondary data with primary data; that should yield useful insights into companies' approaches to crisis management in comparable situations.

#### *Correspondence*

Dr James Ogunleye  
IWBL, Middlesex University  
The Burroughs  
London NW4 4BT  
United Kingdom  
Email: J.Ogunleye@mdx.ac.uk

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