Case study: Analysis the public relation crisis caused by the explosion of Samsung Note 7

Introduction

According to Ledingham, public relations is defined as ‘the management function that establishes and maintains mutually beneficial relationships between an organization and publics on whom its success or failure depends (Ledingham. 2003, 181).’ Crisis management, as an important function of public relations, can be used to reduce the impact from an unexpected issue on a company. Samsung Group, which is one of the most powerful corporations in the world, gained much success in the mobile phone market with its Galaxy series until the crisis of Galaxy Note 7 emerged. This paper will focus on reviewing the Samsung Galaxy Note 7 battery explosion crisis and discuss the situation after the issue. It will then evaluate the different public relations functions used in this case and examine how Samsung's response in China differed from its response in other parts of the world. At the end, it will try to find some learnings from the crisis.

Crisis Review

Samsung Galaxy Note 7 was released on August 19th, 2016. As a flagship model for Samsung’s smartphone product line, it expected to challenge the Iphone’s position in the mobile phone market. Within a month of the product’s release, consumers started
to report that many Galaxy Note 7 units were overheating, combusting or exploding.
On the 2\textsuperscript{nd} of September, Samsung announced the first recall of 2.5 million Galaxy Note 7 phones because of battery problems. Customers could receive a refund (BBC Technology, 2016).

However, China was not included in the recall. Rather, the Galaxy Note 7 was released in China on the same day. There, too, explosion accidents occurred. Even so, on the 29\textsuperscript{th} of September, Samsung announced an official statement that the batteries in the Note 7 in the Chinese market were from a different supplier so they were safe. The explosion happening in China was defined from outside China. Later, on October 18\textsuperscript{th}, China Telecommunication Technology Labs stressed that the explosion was caused by the product. On October 11\textsuperscript{th}, Samsung halted all production and sales for Galaxy Note 7 including China. Still, Samsung offered no apologies (Horwitz 2016).

On January 23\textsuperscript{rd}, 2017, Samsung held a live-streamed press conference to expose the origins of the explosion. The president of Samsung, Koh Dong-jin, using three pieces of research from three third-party testing companies, explained that the batteries from different suppliers, Samsung SDI and ATL, as well as the design of the product, caused the explosion. He added that Samsung would adopt an eight-step procedure to assure the safety of future phones. The release date of the new phone S8 would be delayed to assure its safety (Horwitz 2017).
Issue Analysis

The cause of the issue was clearly the product failure of Galaxy Note 7. It was a disaster for the reputation and revenue of Samsung. In the face of strategic threats, Samsung missed strategic opportunities. The company needed to use public relations to rebuild its position. The strategy of public relations relies on identifying the environment (Kim, Ni & Sha 2009, 752). Therefore, politics and economics will be discussed in this part to study the environment.

In terms of the impact of politics, governments did not explicitly announce bans for the Samsung brand, but they did warn about specific products. The Federal Aviation Administration and numerous airlines strongly advised people not to turn on or charge Samsung Galaxy Note 7 onboard aircrafts, nor to stow them in any checked baggage (Federal Aviation Administration 2016). Meanwhile, the General Administration of Quality Supervision of China announced a complete recall for Galaxy Note 7 (AQSIQ 2016). The Korean government also started its own investigation regarding the Galaxy Note 7 crisis (Madrid 2016).

The Galaxy Note 7 Crisis had significant economic impact on not only Samsung itself but also the Korean economy. Since Samsung accounted for over 14% of the market value in the Korean Stock Exchange, this crisis resulted in a 1.21% fall in Korea’s
stock price and the Korean currency being wakened by 0.34% (Global Credit Research 2016).

**Stakeholder Analysis**

When the company met a public relations crisis, the first thing they needed to do was determine the impact to the relationship between the relevant stakeholders and the company (Kim, Ni & Sha 2009, p. 752). This part will use the Linkages Model, which segments the public into an enabling linkage, a functional linkage, a diffused linkage and a normative linkage (Grunig & Hunt 1984, p. 141). This model will be used to identify which group suffered relationship damages.

The enabling linkage stakeholders, which refers to the publics with the power to control the organizations (Grunig & Hunt 1984, p. 141), were affected by a major fall of 8.04% in Samsung’s stock pricing. However, this group of stakeholders would face this crisis together so the relationship would not be hurt much.

The functional linkage stakeholders, which refers to the essential function of the company and is divided between input functions and output functions (Grunig & Hunt 1984, p. 141), was the most impacted. The relationship with the output group, which includes the consumers, retailers, and distributors, suffered the worst damage since
the faulty batteries directly hurt consumers’ safety and retailers’ reputation. Based on the model of ‘prioritising stakeholders by attributes’ used by Rawlins (Mitchell, Agle & Wood 1997, p.874), they were also the urgent group of stakeholders. Thus, they required an immediate response to address and assist the issues they faced. The input group, which refers to the group offering resources like suppliers, was less affected compared to the output group, yet they still demanded some level of attention.

The diffused linkage group of stakeholders, which refers to publics that arise during a crisis (Grunig & Hunt 1984, p. 141), impacted Samsung negatively, which means the relationship had been destroyed. Media and special interest groups, such as Moody’s (Global Credit Research 2016), gave negative feedback towards the crisis. NGOs, especially the environment-concerned groups, pushed the organization for future planning and explanation of the Galaxy Note 7 disposal. These groups had the power to send worrisome messages to the output stakeholders, so they should also be prioritized on the list of stakeholders.

Furthermore, the normative linkage group of stakeholders which refers to the publics with the similar interests (Grunig & Hunt 1984, p. 141), became a bigger threat than before. Competitors, such as Apple, reported gaining an increased market share of mobile phones, and other brands like Huawei also met the opportunities to increase their users.
Evaluation of the Samsung’s Public Relation Function

Public relations has varied functions including crisis communication, media relations, public affairs, investor relations, crisis management, reputation management and corporate social responsibility (Ledingham 2003, p. 181). When a public relations crisis occurs, management will be the most critical function of public relations. Management addresses the crisis situation by collecting, processing and spreading the information (Coombs 2010, p. 20). Samsung’s public relations tried to deal with this crisis through multiple public relation functions. From an overall review, Samsung’s public relations seemed to be poor at working on issues of management and crisis communication.

According to Kim, Ni and Sha (2009, p. 752), the strategic management of public relations has three stages: stakeholder, public, and issues. The first stage is only related to stakeholder’s interest, so it is the best time to minimize the crisis threat. When the problem is not solved and the public creates it, the company will go into the public stage. The New York Times criticized Samsung’s response to the Galaxy Note 7 Crisis, indicating that Samsung was severely delayed and slow to halt its sales. Samsung was also criticized for not helping its retailers, like BestBuy and AT&T. The New York Times used the word “bureaucratic” to describe Samsung’s public relations (Maheshwari 2016).
This negative attitude made the stakeholders, especially the output linkage group, which is the most important group to crisis management, disappointed. It led the organization to go into the issue stage, in which publics started to organize themselves to pressure the organizations and in which Samsung finally acted (Kim, Ni and Sha 2009, p. 758).

To maintain relations with the output stakeholders, Samsung recalled all Note 7 phones and halted their production. This action combined reputation management and crisis communication to prevent worse issues from happening in the future. It led Samsung to lose $9.5 billion in sales but also showed their responsibility to the customer, which is good for reputation rebuild (Maheshwari 2016).

Samsung held a live-streamed press conference a half year later to respond to the public. Various public relations functions combined in this action and brought a positive impact. To respond to the stakeholders and the public, they used three different authorities to test the reason of explosion, set up a new system for the product’s safety, and delayed the release time of the new product to ensure that it was safe. This move, which involved social responsibility and reputation management, reassured the customers that Samsung was making efforts to rebuild its reputation. Samsung also announced that it would recycle Note 7 phones, which used the
function of corporate social responsibility to respond to the diffused linkage group’s concerns about the environment. Furthermore, because the product design also had some issues, they stressed they would not sue the suppliers. This action sent a signal to the suppliers to be friendly, which was good for the future of the corporation. It also showed the public that they took responsibility when the crisis arose. That was good for reputation rebuild as well.

On the other hand, Samsung public relations treated China differently, which made the stakeholders disappointed. The recall was issued in China much later than other countries. Samsung used media relations to announce that the battery was safe and continued the selling the device in China even though there had already been two explosions. Since China was the most important market for the company, Samsung perhaps made this decision decrease its losses. However, this action increased the reputation crisis, which damaged Samsung’s relationship with Chinese stakeholders. Many media outlets, including The New York Times, BGR, and the Fortune, reported that Chinese customers were angry towards Samsung’s “discrimination” in handling the Galaxy Note 7 Crisis (Cendrowski 2016). Because of this, Samsung’s market share in China dropped to less than 7 % in the second quarter of this year from nearly 19 % in 2013 (WEE 2016).

Learning from Samsung Public Relation
The Galaxy Note 7 Crisis is unfortunate, but it also teaches us many lessons about how a company can handle a crisis caused by the products’ quality. Firstly, organizations should be more attentive and active, and announce the critical cause as soon as possible. Samsung took five months to give a certain response which gave the public a chance to question the company. This no doubt led the crisis to a worse situation. Secondly, organisations should determine the most effective stakeholders and make strategy to maintain relationships with those stakeholders, trying to keep the issues down before the crisis reaches the public stage. Thirdly, if a product is sold worldwide, the treatment of the crisis should be same everywhere and consider the culture of the countries. In addition, when the crisis worsens, the reputation rebuild is the last thing that can be done. Samsung made a good model in this area. Through media relations, they announced to the world that Samsung solved the problem and made a system to preclude future safety issues. It even used three different authorities to prove the authenticity of its conclusions. These actions helped to reduce public concerns.

**Conclusion**

This crisis of Samsung is huge and complex. It involved a lot of changes to environment and influenced the relationship with stakeholders. Based on the analysis, the functional linkage group of stakeholders should be prioritized, especially the output group, for it has a direct relationship to the organization and the crisis.
Regarding the Samsung public relations, it seems to be poor at working on issues of management and crisis communication. During the process, public relations seemed very passive, until the crisis became worse, which caused a significant financial loss and reputation crisis for Samsung. However, at the issue stage, Samsung’s public relations still made some good efforts. In addition, the crisis leaves some learnings about public relations as well.
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