

Towards an Effective Management of Reputational Crisis due to Food Recalls Within the Agri-Food Industry

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Abstract

A product-harm crisis is a discrete event in which products are found to be defective and therefore dangerous to at least a part of the customer base. Whether they are exploding batteries, unlabeled allergens in food, product sabotages, E.Coli outbreaks, beetles in infant formulas, product harm crisis presents similarities with many other emergency situations: all of them consist in unpredictable events, often due to unknown or undervalued causes, which can significantly alter normal business and compromise the safety of the company, of its employees and customers.

A food recall is a compulsory procedure of recovering hazardous foods may have reached the consumer from the market. Previous literature has enlightened that recalls can have serious consequences on public health, cause consumers' panic, lead to very costly procedures and cause sell out, market-share and financial losses, together with trade bans and price fluctuations. Moreover, recalls can ruin brand equity, spoil a company's reputation, severely affect consumer's loyalty, damage a firm image as well as the image of the food industry in general. After a recall, some firm continues to be questioned on its integrity even years after the incident. At the opposite, some studies indicate that a recall may either improve the company's image or lead to significant advantage for the multiple relevant stakeholders if the firm adopts a socially responsible attitude and is consistent and coherent in its communication and transparent in its relationships with media and consumers.

Given the potential damage resulting from a product harm crises, food recalls have garnered academic attention by several disciplines including food tech, marketing, management, finance, economics, operations, law, public relations, and communications. Nevertheless, giving the ambiguity of the effects of recall-related managing strategies, it is surprising that in the food industry still pays too little attention to what firm actions drive the effectiveness of recalls and often lacks a rigorous approach regarding a successful communication management in the middle of the crisis.

The purpose of this article is to provide a better understanding based on the experience of crisis management, in order to avoid the most classic

errors that can undermine speed of reaction, corrective measures effectiveness and brand reputation, in the one most delicate moment for a company life.

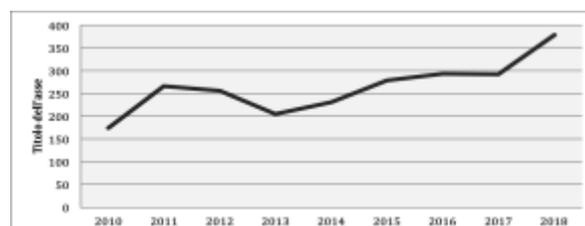
Keywords — food recall, crisis management, crisis communication, product reputation, brand reputation.

I. INTRODUCTION

A recall is a compulsory procedure of recovering hazardous foods or, generally, dangerous products from consumers. Whether they are glass shards, Listeria monocytogenes outbreaks, metal fragments in cakes or unlabelled allergens, product sabotages, beetles in infant formulas, when a dangerous food may have reached the consumer, the operator shall effectively recall it.

Although recalls are "extraordinary" events in the life of a food company, these events are on the rise and are likely to increase their frequency in the future for many reasons such as the globalization of production, the increasing complexity of product formulas, and the closer monitoring by both firms and institutions [1], [2]. The overall graphic (Figure 1) represents the increase of food recall notification transmitted through RAFFS over the last nine years, resulting in an increase of more than 117% of the alerts implying serious health risk of food products circulated on European market, that rose from 174 in 2010 to 379 in 2018.

TABLE 1: RAFFS number of food recalls notification in EU



Previous literature has enlightened that product harm crises such as product recalls can have serious consequences on public health, cause consumers' panic, lead to very costly procedures and cause sell out, market-share and financial losses, together with trade bans and price fluctuations [1], [2], [3], [4], [5],

[6]. Moreover, recalls can ruin brand equity, spoil a company's reputation, severely affect consumer's loyalty, damage a firm image as well as the image of the food industry in general.

Some companies had experienced really severe consequences and in some cases the survival of the firm itself was at risk. Above all, let's mention the infamous case of Topps, a historic US maker of frozen hamburgers that declared bankrupt just few days after recalling 21.7 million pounds of frozen patties contaminated with *E. coli* on September 2007.

In 1993, another case of contamination nearly forced out of the business the US brand Jack in the Box, when 732 people were affected by one of the most food poisoning outbreak in American history, that caused four dead, all of them children.

Long-lasting effects on consumer confidence can also be seen in the absence of victims: in 1990, the benzene contamination of Perrier mineral water resulting in recall of 160.000.000 bottles, led to an irrecoverable loss of customer loyalty and quality perceptions. It was January 19, 1990, when a biologist at the Mecklenburg County Environmental Protection Department in Charlotte, N.C., noticed unusual traces of benzene in his sample. The Lab used some bottles of Perrier water to dilute the substances for which it was running some tests: in fact, because of its purity, Perrier water was considered perfectly suited to the purpose and more convenient than producing distilled water inside the laboratory. Although there was no health risk, and no victim have been wounded, the brand never re-established to pre-recall sales level so that a residual damage in retail and ho.re.ca. sales still persist nowadays, even after the re-branding attempts, with a label bearing the expression "Nouvelle Production" [7].

Product harm crises can extend their negative impact to the whole product category as the inadequacy of the production process can be perceived to be an industry-wide problem: some case history show emblematically that product harm crises effect are not limited to the company involved, but can dramatically damage the whole sector, including the competitors that try to take advantage of the ongoing rival's crises.

In this context it is now worth mentioning the case of *E. Coli* outbreak occurred in Europe in 2011. The event occurred due to the contamination of organic sprouted seeds as one of the most severe foodborne outbreaks in Europe that resulted in the loss of 53 lives and 857 cases of hemolytic uremic syndrome [8].

During the first two weeks of outbreak, losses for farmers in the fruit & vegetable sector were estimated at least 812 Million (Mio) € (source: Copa-Cogeca). In addition, a temporary export ban of vegetables to Russia occurred, constituting an annual value of 600 Mio €. The outbreak changed the eating habits of the majority of the population (DG SANCO, 2011), and

it had enormous economic consequences, particularly for farmers producing fresh salad ingredients, because European consumers had massively refrain from buying vegetables because of uncertainty on the source and lack of clear recommendations on how to consume veggies safely (DG SANCO, 2011).

In the same way, in June 1996, when Kraft Foods recalled its two peanut-butter products, due to more than 100 cases of salmonella poisoning, its main competitor Sanitarium tried to take advantage of the crisis by investing in massive advertising campaigns that stated that it had been roasting its own peanuts to avoid foodborne outbreaks. Even if Sanitarium's market share increased from 15 to 70 percent during the crisis period, the overall demand for peanut-butter went down by almost 30% due to a general distrust in the whole segment.

Some literature gives the evidence that the way a firm manages the recall affects its impact: companies able to respond quickly and efficiently (responding immediately to the first alarm, issuing speedy procedures, communicating extensively with media) might suffer less damages.

Proactive strategies can attenuate the effects of the crises or even turn it into the opportunity of enhancing the company ethic and positively influencing consumer's judgment and trust.

Some studies indicate that a recall may either improve the company's image, if it adopts a socially responsible attitude and is consistent and coherent in its communication and transparent in its relationships with media and consumers. Nevertheless, the implications of recall-related managing strategies are ambiguous: studies based on event analysis show that super-effort strategies may have negative repercussions on a firm value if the company involved is publicly traded in the stock market. This is probably because the stock market tends to interpret proactive strategies as a signal of more severe hazard and great potential financial losses.

Given the potential damage resulting from a dangerous product crisis, it is surprising that alongside mere procedures (often reducible to botched manuals compiled solely because their presence reassure auditors and authorities), many food industries still pay too little attention to product harm crises management.

II. PLANNING A STRATEGY

Many companies use crisis management plans to prepare management paths for them: these plans are often focused on procedures aimed at imposing the acquisition of operating routines. Among managers, the illusion of invulnerability given by the presence of prevention and crisis management procedures can be at least as harmful as a risk appetite that is too high. Not only that, the habit of being guided by rigorously defined procedures can lead operators to paralysis in the face of unexpected processes from the scheme.

If the procedures are an effective tool for managing certain aspects (for example notifications to alert systems and competent authorities), in drafting the crisis management plan it is preferable not to limit oneself to them, but to suggest a working method and defining a strategy is a logical, organizational and mental structure to manage and resolve the emergency, is more useful than counting on a manual. By definition, the unpredictable cannot always be foreseen: it is therefore extremely important that the crisis management plan provides a methodological approach since only the acquisition of a method, makes it possible to face completely unknown situations, operating in conditions of stress and of urgency. Acquiring a method takes time, training and metabolization, but it is worth investing efforts in this direction.

Product harm crises take on very different connotations and may require heterogeneous strategies, tones and communication tools.

Classically company's response to crises are divided into four different grades:

- Denial: the company simply denies any responsibility for a defective product;
- Involuntary recall: the company recalls the product only under authority order;
- Voluntary recall: the company chooses to recall the product prior to authority intervention in application of the precautionary principle;
- Super effort: the company responds by being socially responsible, transparent and proactive.

In order to define the right strategy, decisions makers need the most complete picture of the incident: a full knowledge of the product defect and its potential consequences [8], the number involved products and potential customers involved, the level of safety risk posed by the defect, insurance coverage ceilings are significant information to decision makers. It is good to remember that the attitude of "witch-hunting" which, often, occurs in companies alongside a harm product crisis is deleterious. In the midst of an emergency, looking for the subject to blame, is never a good strategy, at the opposite, it could persuade who knows to hide information necessary for decision-making, in an attempt to escape the pillory.

Whatever strategy a firm's embraces, corporate communication during crises can be divided into two phases: the phase of the initial response, and the phase of reputation recovery [9]. Especially in the first phase, communication can actively and concretely contribute to public health protection, playing a decisive role in limiting material damage to consumers and, consequently, to the company: moreover, the better the first phase will be managed, the easier it will be to regain consumer's trust and the market shares.

Evidence indicate that a recall may either improve the company's image, if it adopts a socially responsible attitude and is consistent and coherent in its communication and transparent in its relationships

with media and consumers [10] [11] [12] [13]. That's why communication- from the first moments – shall be fast, accurate, direct, informative and transparent.

III. TIMELINESS AND ACCURACY

Speed and timeliness are crucial elements in dealing with crisis scenarios that, by definition, are changeable: the collection and updating of data, the transmission of the flow of information, the decisions and the corrective actions that follow must be fast [14], [15]. In conditions of absolute emergency there is no time to plan, to plan: in times of crisis we act. However, in view of the necessary readiness to take corrective action it is necessary to avoid the risk of making hasty decisions, based on incomplete or inaccurate information, on which, on the contrary, long-term effects may depend. Small companies are generally faster, more flexible and more capable of reacting in a shorter time. This depends, in part, on the greater flexibility of smaller corporate structures, but also on a greater sensitivity to pre-alarms, which are often ignored in large companies. In February 2018 Lactalis, one of the major dairy French companies (just behind Danone and Nestlé), was forced to one of the biggest recalls of its kind, pulling more than 7,000 tons of Salmonella tainted baby formula and other powdered milk products across more than 80 countries, spread in Europe, Africa and Asia. Lactalis recall and his impact on infant health and could have been mitigated if the firm was able to read the warning signs and take appropriate corrective actions. On the contrary, despite previous salmonella episodes involving the same plant, the firm took the decision not to inform the authorities that internal tests had discovered salmonella on a broom and on the tiles of a dehydration tower at the company's Craon factory in August and November 2017. This is a decision hard to defend, especially when it was discovered that the salmonella contamination was the same strain of salmonella found in Lactalis 2005 outbreak, and salmonella could have poisoned infant since potentially 2005.

The massive recall the missteps along the way have exposed corporate lapses and regulatory gaps that allowed tainted products to make their way into supermarkets and pharmacies, for years before proper actions were taken and even weeks after the problems were discovered.

The first hours of any crisis, called the "Golden Hours", are the most delicate moments, when most organizations fail, mostly because they underestimate the media attention crisis communication plan to follow. The need for an immediate response is even more important nowadays where social media impose a time that didn't exist a few years ago: the "real time".

Giving out information in the golden hours is very important especially when a crisis deals with public

safety: consumers need to know how to avoid risks and what actions are needed [16].

Considered that crises scenarios are by definition changeable, speed and timeliness are crucial elements in addressing crisis communication: as we previously said, quick shall be the collection and updating of data, the information flow, the decisions and the corrective actions that follow. Even if readiness is required, it is necessary to avoid the risk of making hasty statements or taking improvident decisions basing on inaccurate information, from which long-term effects may depend. In the middle of a harmful event, it may be necessary to communicate to the public even before having precise information [17], [18]. Ignoring who demands answers will worsen the situation: journalists, consumers and social networks would end up by filling the silence autonomously. In order to avoid such cases, companies might implement a "Buy-Time Communication", to reassure that the attention is high, reduce any tension, and avoid a flowering of illations, to demonstrate their commitment. Johnson & Johnson's crisis management procedures during the 1982 Tylenol recall are still today, after thirty years, a reference model. Massive communication was prepared, directed at physicians, hospitals, retailers and distributors aimed at explaining risks and withdrawal procedures. Not only that, but the CEO J. Burke became in the days of the crisis, the face of the same: he was collaborating with the press, showing himself and the company as responsible and available interlocutor, open and proactive, establishing the company communication as a source of accurate and reliable information, at the point that the media recognized the company and its delegates the role of supporting and integrating the declarations of the federal authorities.

IV. RESPONSIBILITY

In order to protect a firm's reputation apology and voluntary product recalls are often employed as a responsible crisis response to show a company's concern to public safety. An apology is a form of acceptance of crisis responsibility, which makes an organization more honorable and enables it to reduce the likelihood of negative responses [18]. Admitting mistakes publicly can be difficult and even painful, but it is not perceived as a sign of weakness. Also the decision to provide for a voluntary recall can be difficult as, in many cases, recall can lead to very costly activities and sell out loss and decision makers suffer the pressure of profit and performance. Nevertheless, in many circumstances apologies and admitting mistakes can help rebuilt the relationship with authorities, customers and consumers. For leaders to apologize publicly is therefore a high-stakes move: when a company apologizes, it accepts full or partial blame for causing harm. Refusal to apologize can be smart, or it can be suicidal. In fact, public denial can be interpreted as arrogant and

unreliable, two qualities that no company would like to be associated with its image. Apologize can be seen as a sign of strong character or as a sign of weakness [18].

Some studies indicate that a recall may either improve the company's image, if it adopts a socially responsible attitude and is consistent and coherent in its communication and transparent in its relationships with media and consumers.

When crafted properly, apology can be a real asset: it can attenuate the effects of the crises or even turn it into the opportunity of enhancing the company ethic and positively influencing consumer's judgment and trust. And here's the tricky part: a leader's apology is a performance in which every expression matters and every word becomes part of the public record [18], [19]. It can be difficult for business leaders accustomed to displaying power and self-confidence to strike the right repentant tone [18], [19], [20].

Anyone who has experienced in crisis management consulting or mentoring knows that one of the most delicate aspects in apology is often to convince firm's leaders to make public excuses without feeling deprived of their power and leadership [21]. For some of them, public apology, especially if given out in front of cameras, might need careful planning and rehearsal.

Nevertheless history of recent food recalls presents some remarkable cases of crisis management through a structured strategy that includes apology.

Consider the Coca-Cola crisis in 1999, when it had to recall about 30 million cans and bottles, facing the largest recall in its history. I that days, thirty-three children aged between 11 and 13 in Belgium complained of headaches, discomfort, dizziness and nausea after drinking Coca Cola at the school cellar. The company immediate reaction was denial, and the firm position over a potential health risk of bad carbon dioxide contamination was considering this eventuality unnecessary alarm. Despite the way Coca-Cola began to handle the crisis was labelled The Wall Street Journal on Friday called the whole thing a 'public relations fiasco,' while France's La Tribune headlined 'Coca Cola's silence nourishes suspicion', after deciding take a lower profile on the recall, hoping that the crisis would "blow over", CEO M. Douglas Ivester, changed his mind and at the end of the first week after the crisis started, apologized.

A perfect crafted apology, that turns a negative experience into a positive one, an upset customer into a loyal one, and a bad reputation into a great one and re-establishes a link of trust with the consumer and the stakeholders is not just about saying "We are sorry" [22].

While assuming responsibility for what happened, and showing regret for the victims, an effective apology shall show the willingness to proceed in a different direction and demonstrate the willingness to change the company's behavior.

If this happens, an apology can turn a good manager into an iconic leader. Consider the Monge labelling crises in 2019, in Italy, when the company was reported to the Antitrust Authority for a suspect misleading of feed labelling. Domenico Monge, CEO of the biggest Italian pet food family company, committed to change the involved packaging into new one, working immediately to remedy the situation and even more, to align product labels to the UE legal requirement entering in force in 2020. Even the same attorney that had raised the charges against the pet food company defined the whole communication “the active repentance of a real leader” [23].

V. CONCLUSIONS

A company behavior during crisis shall be trustworthy and credible, transparent and reassuring, and should not only contain facts and information, including what is being done and what is going to be done, but it might show caring, compassion, and empathy to create public goodwill and maintain a positive reputation for the organization. While the company is exposed to the media and social networks, to the judgment of members and all stakeholders and to its legal responsibilities, communicating requires the maximum commitment both in rational area, both in the emotional one. Communication efforts, therefore, but shall be shaped consistently with the interlocutors, trying to sound personal and sincere. Attention to the public is extremely important as there are victims or injured people. Moreover, communication has to be extremely attentive when the crisis affects delicate categories of consumers. Crisis communication has been defined as “dialogue between the organization and its public prior to, during, and after the negative occurrence” [16]. Establishing relationships with stakeholders and engaging in a mutual dialogue will build trust that can protect the organization when the crisis hits [17] [18].

This article outlined some of the most important skills required in the first phase of response of a product harm crises, providing a general roadmap to relevant communication strategies based on the analysis of specific case histories, that it might be important kept in mind during actual events. The robustness of this analysis is subject to even further scrutiny across time, and more refined data about measuring the impact of proper or improper communication strategies remain the topic of further investigation, as far as new case histories can be considered.

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