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RISK & COMPLIANCE JOURNAL. | COMMENTARY

## Crisis of the Week: Samsung and the Exploding Phone Batteries

By **BEN DIPIETRO**

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An employee demonstrates Samsung Electronics Co.'s Samsung Pay application on a Galaxy Note 7 smartphone on Aug. 11, 2016. PHOTO: BLOOMBERG NEWS

**This is a weekly commentary by external experts.**

*Samsung Electronics Co. finds itself in the crisis arena after halting sales and announcing a world-wide recall of millions of its Galaxy Note 7 phones following reports from customers their batteries were exploding while they recharged their devices. The company's stock took a hit after regulators in the U.S. and EU told passengers not to use the devices during flights. The company and the the U.S. Consumer Product Safety Commission then said customers should just turn the phones off and stop using them.*

*The company issued a statement on Sept. 2 saying it took the actions it did after 35 reports of battery fires were reported around the world. The company said it launched the recall*

*and stopped sales “because safety is an absolute priority at Samsung.” It put out a separate release with details on how the recall would work in the U.S., offering a \$25 gift card or bill credit “as a gesture of appreciation.” The company that made the batteries used in the recalled Samsung devices, Samsung SDI Co., a Samsung affiliate, has yet to comment.*

*The crisis experts look at how well Samsung is responding.*

**Peter LaMotte, senior vice president, Chernoff Newman:** “Samsung’s global recall is undoubtedly a bold move by the electronics manufacturer. The decision to initiate the recall on the heels of only 35 documented incidents shows a sharp sensitivity to what might come if the company were to wait. While this is a miniscule percentage of the more than 2.5 million phones that have already shipped, instituting such a broad, immediate recall demonstrates the company’s concern about future risk to reputation and financials.

“The manner in which Samsung delivered its official statements shows a shrewd understanding of how to handle a crisis. Its official statements rely heavily on messaging focused on the concern for the safety of its customers and the inconvenience the recall will create. Rather than attempting to explain or defend its product or brand, Samsung delivers the announcement succinctly with simple facts of steps that are being taken.

“Far too often companies in crisis fail to see the power of brevity. Samsung understands that the more you say, the more you leave up to interpretation and misunderstanding.”

**Andrea Bonime-Blanc, chief executive and founder, GEC Risk Advisory:** “Samsung seems to have handled the Samsung Galaxy Note 7 recall overall in a professional, stakeholder-sensitive manner. Based on the reported 35 cases of exploding or damaged devices occurring within a relatively short period of time—about two weeks from initial sales—its crisis management was fast, customer-centric, reasonably well-communicated and focused on engaging key partners (the phone carriers) rapidly. In particular, the statement by the president of Samsung Electronics America was reassuring.

“If we pan out to the bigger picture of what is happening, there are two other important points that need to be made. First, once Samsung Electronics discovered that its division, Samsung SDI Co., seemed to be responsible for the manufacture of the culprit batteries, this division—which is also publically traded—did not do a good job of managing the incident, preferring to say nothing. From the standpoint of its own value preservation and brand protection, Samsung SDI didn’t do itself any favors as its stock price fall attested.

“Second, some reporting points out the faster-charging batteries the industry is competing to produce (for competitive advantage) may be at the heart of these battery issues. Samsung should investigate this thoroughly and, if this is the case, establish tighter quality controls and issue reassurances to key stakeholders—regulators, customers and potential customers. While the cost of this recall and repair incident will be enormous, as a Nomura analyst stated: ‘[This] won’t ultimately hurt Samsung. The company may sell a few million less phones, but it didn’t lose its brand image from the global recall, and that’s what matters in the long run.’”

**Adam W. Goldberg and Lanny J. Davis, co-founders, Davis Goldberg & Galper law firm and public relations firm Trident DMG:** “This is a tale of two halves—one that gets it mostly right and one that gets it flat-out wrong. Samsung Electronics’s statements tell you what happened, why it happened, what it means for you and what it’s doing to help you. Samsung SDI buries its head, tells us nothing and just hopes we move on.

“In its Sept. 2 statements, Samsung Electronics acknowledges the safety issue with its new product, explains what that safety issue is and tells us how it’s going to fix it. Many companies in a recall don’t give you the information about the extent of the problem, but Samsung tells us exactly how many incidents have been reported. The statement also makes clear that it will begin immediate replacements of the potentially defective phones. And it lets us know what and who is at fault. The only negative mark against Samsung Electronics’s statements is that Samsung refuses to disclose the financial impact on the company. It’s not that Samsung says it’s too early to know; Samsung just [hasn’t] said.

“In sharp contrast to its affiliate, Samsung SDI—the manufacturer of the defective phone batteries—[has yet] to comment. Samsung Electronics put the fault squarely in SDI’s lap and SDI does not deny it. So, why the silence? We cannot know, and thus can only speculate. And that is never good for a company. We are left to assume the worst.”

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