

Samsung Group

RepRisk: Key facts

August 2016: Samsung recalls 2.5 million Galaxy Note 7 models

On August 19, 2016, Samsung Electronics Co Ltd launched its new Galaxy Note 7 mobile phone, featuring a large edge-to-edge display, iris scanner, and waterproofing techniques. The model, which had a larger battery than its predecessors, had a suggested US retail price of more than USD 800.

However, less than one week after the launch, there were reports from South Korea that the phones were exploding or catching fire during or after charging. By the end of August, South Korea's national news agency stated that five phones had exploded or caught fire and Samsung halted shipments of the Galaxy Note 7 model.

Samsung initially blamed the explosions on defective batteries manufactured by its Chinese supplier, Dongguan ITM Electronics. On September 2, Samsung announced a global recall of 2.5 million Galaxy Note 7 model and promised to replace the devices. The company nevertheless released the same phone in China on September 1, after offering assurances that the batteries in these devices came from a different supplier and were therefore not faulty. Furthermore, the company decided to recall 1,858 Galaxy Note 7 "test units" sent to China ahead of the official sales launch.

September 2016: Samsung devices banned from flights and several vendors stop sale

On September 10, the aviation authorities in the United Arab Emirates banned Samsung devices on their flights. Other aviation authorities and airlines, including the US Federal Aviation Administration, also issued warnings against turning on the Galaxy Note 7 inside airplanes. Furthermore, the Canadian government ordered a recall of the Note 7 model, while authorities in Thailand banned imports of the product. Samsung said it would push a software update to reduce the risk of the phones catching fire by limiting the maximum battery charge to 60 percent.

Sprint Corp., T-Mobile US Inc., Verizon Communications Inc. and AT&T stopped selling the device, and said they would waive return or exchange fees for any customers who purchased the phone. However, some customers complained about difficulties in exchanging the device.

By September 14, more than USD 10 billion had been wiped off Samsung's market value and the company was forced to delay the launch of the new phones in India and other key markets.

By September 23, the US Consumer Products Safety Commission had received 92 reports of overheating of the Galaxy Note 7, including 26 that had left owners with burns. The Commission claimed that the batteries in the Note 7 were "pinched," causing short circuits and overheating. Chinese consumers then accused Samsung of discriminating against China, by failing to recall the

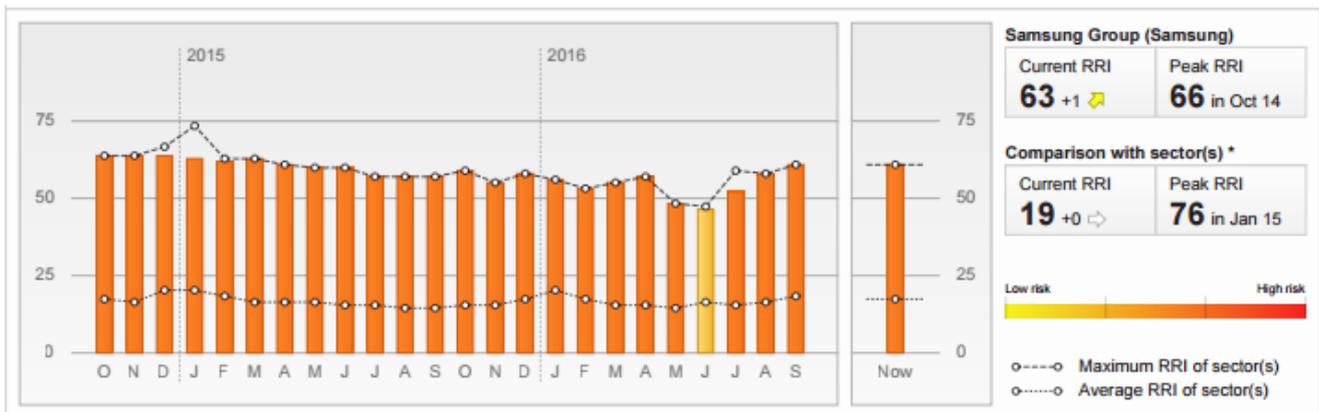
Galaxy Note 7. Samsung continued to maintain that the faulty batteries were not in phones sold in China, despite three reported explosions of the Galaxy Note 7. Chinese stores began taking Galaxy Note 7s off the shelves despite the absence of a recall. The Chinese state newspaper, the People's Daily, said it was "insincere" of Samsung to recall only 2,000 units in China but "one million in the United States."

Reports then surfaced of Samsung's previous models, the Galaxy S7 and Galaxy S7 Edge handsets, emitting smoke and catching fire in the Philippines, the US, and the UK. On September 23, the cabin crew on an IndiGo flight from Singapore to Chennai reportedly used a fire extinguisher to douse a Galaxy Note 2 handset that was smoldering and emitting sparks. Southwest Airlines then evacuated a flight in the US state of Kentucky, after smoke was seen emanating from a Samsung device, although the model was not confirmed.

October 2016: Samsung discontinues Galaxy Note 7 handset

At the beginning of October, reports began surfacing of "safe" Galaxy Note 7 handsets that had been replaced under the recall also catching fire. On October 11, Samsung announced that it was permanently discontinuing the Galaxy Note 7 handset. As a result of the scandal, Samsung's share price has fallen by 7 percent and analysts estimate that Samsung might lose USD 5 billion worth of revenues after the recalls.

RepRisk Index Trend for Samsung Group



The RepRisk Index (RRI) – a metric quantifying the reputational risk exposure related to ESG issues of a company – had been at a high risk level for Samsung long before the first recall of Samsung Galaxy Note 7 models started in August 2016.

GEC Risk: Analysis and recommendations

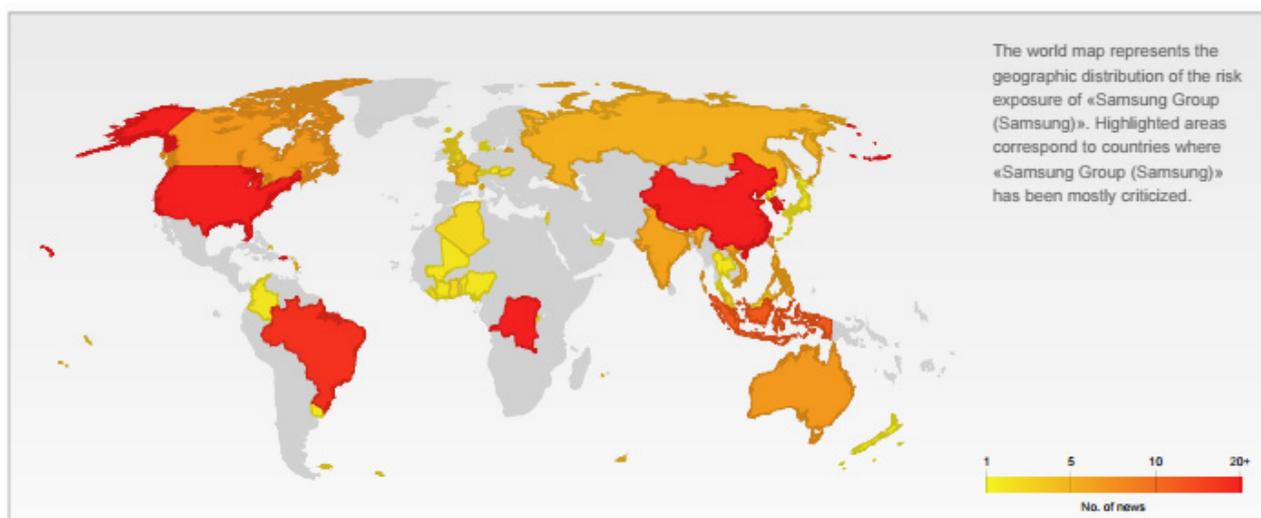
1. Where Samsung is today: Analysis

This crisis began in August 2016 only a couple of weeks after Samsung launched its brand new mobile phone handset, the Samsung Galaxy Note 7, when reports surfaced of the handsets exploding and catching fire. At first, Samsung acted quickly and with sensitivity to its premier stakeholder – the customer – promising immediate action to investigate and understand the issue. Considering that there were 35 reported cases of exploding devices within a relatively short period of time – about 2 weeks after the sales launch – their crisis management was fast, customer-centric, reasonably well communicated, and focused on rapidly engaging their key partners (the phone carriers).

However, as more instances and reports surfaced in several countries, including importantly China, Samsung began to take some missteps such as instituting a selective recall of its products in some countries only, and not communicating well the rationale for not doing so in others.

As more cases surfaced worldwide, Samsung faced two growing criticisms from a variety of stakeholders (customers, retailers, and regulators): First, that the voluntary recalls were being handled poorly and inconsistently, as diverse phone carriers such as ATT, Verizon, and Sprint were being asked to bear the brunt of the customer crisis without clear instructions or logistical support from Samsung. And, second, customers in China accused Samsung of discrimination as no recalls or other customer service seemed to be in place there. Samsung appeared to handle crisis management in China poorly (certainly in comparison to the US) which in turn has led to serious additional reputational damage from a resulting social media storm by Chinese customers, which could have long-term negative market implications for Samsung.

RepRisk World Map of ESG risk exposure for Samsung Group



2. Samsung's way forward: Recommendations

We are still at a relatively early stage of this crisis, but the key lessons learned so far include:

1. **The Need for Sustainable & Adaptable Crisis Management:** A company needs to have a sustainable, comprehensive and adaptable crisis management plan in place that is not only responsive at the beginning of a crisis, but that is sustainable through the twists and turns of a reputational issue as complex as this one. This is a case of multinational supply chain risk with additional health, safety, and quality risk issues attached to it. A company that is prepared for crisis will have not only a plan and team in place but also scenario exercises geared to their most critical risks.
2. **"Glocalizing" the Crisis Management Plan:** This crisis starkly illustrates how crisis management of a complex global issue needs to be "glocal" – global in scope but customized to each locality in which the crisis manifests itself. Samsung is currently risking its reputation in one of its largest markets – China – and would be wise to examine its modus operandi in that country going forward.

Based on these recent developments, there are a few short term and longer term steps Samsung's management should consider:

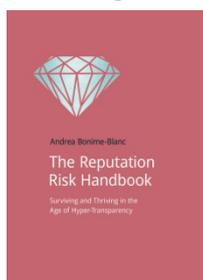
Short Term Measures:

- Review the company's crisis management plan to ensure that it is robust, comprehensive, constantly updated, and capable of being both global and local – which means having a sense of the culture, social media, and media environment of the local customer and being prepared to deal with it.
- Develop better coordination of communications, public relations management, and planning, including social media tracking and training for senior management in each relevant country.

Longer Term Measures:

- Stakeholder identification, prioritization and expectations analysis – it is clear from this series of events that the key stakeholders here are the customer, the prospective customer, the regulator, the partner third parties (i.e. the retailers) as well as the media and social media. Samsung needs to do stakeholder expectation analysis and exercises to understand reputation risk and opportunity.
- Samsung needs to engage in an enterprise risk management evaluation, gap analysis, and reform that is clearly coordinated with crisis management, the executive team, and the board, and surfaces its key strategic risks in a meaningful and actionable way.
- Samsung would do well to have crisis management and reputation risk scenario planning for each of the downside cases affecting these critically important stakeholders, with special provision made for the cultural differences that may pervade each of its major markets (US, China, EU).

This serious and material incident is already having severe financial consequences on Samsung. The crisis threatens to also cause long-term reputation risk consequences for the company. Samsung needs to undertake a serious crisis, reputation, and stakeholder evaluation, including looking at its health, safety, and quality risk management programs to reestablish or establish sustainable organisational resilience and trust.



For more resources on qualitative reputation risk management, please refer to the [Reputation Risk Handbook](#).