

5.7 Crisis management and contingency planning (HL)

The big picture

In September 2015, car manufacturer Volkswagen (VW) found itself in a crisis when it was forced to admit it had been cheating US emissions tests for certain polluting gases.

VW had developed a technology that could determine when a car's emissions were being tested. When a test was detected, the engine would run at a slower pace, producing less pollution, so that it passed the strict US testing standards. Once the car was back on the road, the engine would return to normal. As a result, the engines emitted nitrogen oxide pollutants up to 40 times the level allowed in the US.

VW has admitted that the technology had been fitted to about 11 million cars worldwide. 'We've totally screwed up', said VW America boss, Michael Horn. The group's chief executive at the time, Martin Winterkorn, said his company had 'broken the trust of our customers and the public'. Mr Winterkorn resigned as a result of the scandal.

In March 2017, the company pleaded guilty to conspiracy and obstruction. Summing up the scandal, assistant US attorney John Neal said it was a 'calculated offence', not a 'momentary lapse of judgement'. The total cost to VW of the scandal is estimated at \$30 billion, including a pledge to repair or buy back vehicles.

To reclaim its brand name after the scandal, VW replaced the company's leadership, restructured the organisation and made a move towards electric vehicles while remarketing its diesel cars. The company was able to recover from the crisis and its sales continued to increase.



Figure 1. Volkswagen was able to recover after its crisis and sales increased in the following years.

Credit: ChrisHepburn, Getty Images

This crisis at VW could and should have been avoided with appropriate oversight from managers. Some crises, however, are completely unpredictable. These include natural disasters such as earthquakes or a flash floods, and businesses need to plan for when such crises might occur.

A crisis is an unpredicted event that can have large negative consequences by causing major disruption to normal business operations. A crisis can range from a fire to disruptions in the supply chain, which you have learned about in previous subtopics. A crisis will affect every business at some point. This subtopic considers how to deal with crises and how to plan for potential disruptions. This type of planning is called contingency planning.



Figure 2. Contingency planning happens before a crisis; crisis management happens during a crisis.

Concept

Creativity

Did you know that duct tape save the lives of the Apollo 13 astronauts?

The crew members of the 1970 Apollo 13 space mission faced the ultimate crisis: they were going to run out of oxygen before they could return to Earth. The situation called for a creative solution. The astronauts had to create a filter using only what was available on board the spacecraft. They managed to do this, using duct tape to ensure that the filter they created had air-tight seals.

- Think of ways that you – or a business with which you are familiar – have had to use creativity during a crisis.