

MANAGING A BIG CRISIS AT HITACHI ELECTRONIC DEVICES (M) SDN. BHD.

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Abstract

Globalisation has opened up new business opportunities to companies and corporate organizations worldwide. Along with opportunities created, this also means that companies are facing a much higher level of challenges and competitions both from local counterparts and overseas. Challenges come in the form of a crisis. Thus, managing a corporate crisis is crucial because companies need to identify ways and to embrace change management as the consequence of a crisis situation. More importantly, a crisis needs to be handled efficiently through a proper corporate communication approach, since a company's image and reputation is at stake, in order to survive in the fast changing new world economy. This paper analyzes the practice of Hitachi Electronic Devices (M) Sdn. Bhd. In dealing with a real crisis from corporate communication perspective.

INTRODUCTION

A Canadian philosopher, Mc Luhan, coined the term "global village." Global village phenomenon is a fast emerging concept affecting virtually every country in the world. The march of globalization force engined by ongoing scientific and technological advancements seems to be both unstoppable and unbeatable.

The primary consequence is the creation of borderless world. This entails most corporate organizations to better strategize its overall efforts to minimize any potential negative repercussion.

For many corporate organizations, it all leads to a greater awareness of one challenging reality – an open race for market competitions. The success of large or multinational companies depends, to a certain level, on the international market dynamics of supply and demand. Examples are Proton, Federal Power, Petronas, McDonalds, Mitsubishi, Disney, the Royal Dutch Shell Group, and Toyota. These corporations have to evaluate and analyze the market dynamics in order to be, at least, one step ahead of their respective competitors in the industries.

In a simpler understanding, it becomes crucial to manage a variety of outside pressures often for their own progress and development, or survival. Outside pressures are known as crises that can negatively influence an organization's established mode of operation.

Therefore, corporate crisis management is exercised in order to identify ways and to adapt to change management as the result of a particular crisis situation. Failure to do so may cause an organization significant financial loss, or, it may have no choice but to withdraw from the business scene.

Objective of This Paper

Effective and strategic planning of corporate communication is imperative especially during a crisis situation. The aim of this paper is thus to investigate and further relate an organization's practice of corporate communication in crisis management. Our focal case study is Hitachi Electronic Devices (Malaysia) Sdn. Bhd. (Co. No. 172542-D).

The company owns three plants in Senai, Johor and has been operating for almost 14 years. With a workforce of 1,670 people, the company specializes in the production of cathode ray tubes or CRT for personal computer monitors. It is a subsidiary of Hitachi Group – a multinational organization employing 340,000 workers globally.

Defining Corporate Communication

Before proceeding with the above discussion, let us clarify the meaning of corporate communication by taking into account experts' opinions in this field. In general, corporate communication is defined as the process and approach in which various types of communication happen, at a certain organizational level, in a corporate or business environment. The business environment includes internal communication in an organization as well as its external communication.

Alvesson and Berg (1992), co-authors of *Corporate Culture and Organizational Symbolism*, have given an insight on the orientation of corporate communication. Their emphasis is more on developing positive external relationships such as with customers, media, vendors and government.

It is essential, through the process of corporate communication, to inculcate encouraging and clear impression on the organization's image especially to the external publics. Thus, they say,

“Corporate communication can be seen as an externally oriented, corporate expressive strategy, through which the organization lets itself be known to the outside world by depicting itself (or certain aspects of itself) or by delineating opinions, values and beliefs that are considered desirable”.

Nevertheless, Paul Argenti (1998) argues that corporate communication is an organizational development of *public relations* or *public affairs*. In the 80's and 90's, the trend was that companies and organizations rely much on public relations firms for their many communication needs particularly in arranging for press conferences, seeking professional advice in image building, developing government-industry rapports, etc. Organizations, therefore, need to pay high fees to acquire the services of public relations firms or institutions.

Argenti, a professor of management and corporate communication, finds that organizations are becoming aware of the necessity to establish an internal segment of corporate communication. Many big organizations are no longer interested to privatize or delegate their communication functions to corporate consultants or *PR firms*. He explains that a corporate communication division or department should be structurally placed at par with other important departments namely marketing, finance, production, and human resources.

Moreover, the corporate communication department should be recognized and given the authority to plan and observe an organization's overall activities toward achieving its mission and vision. It assimilates the roles of public relations. Argenti emphasizes the need for communicating strategically as companies now have to cope with changing business environments.

The complexity and nature of organizational communication partly due to the process of globalization increases the need to communicate more efficiently and effectively than in previous time. He further explains that ideally there should be four separate units, which are directly connected with the corporate communication department:

1. Media relations.
2. Investor relations.
3. Employee communication.
4. Government affairs.

In summary, corporate communication can be defined as a critical organizational segment to ensure the success, credibility and reputation of an organization as a whole. Thus, to be effective, every business activity and plan should be executed through the corporate communication process, which integrates with different segments in a particular organization. Further, corporate communication deals with short term and long term organizational strategic planning.

Hitachi Ltd.

At Hitachi Ltd. in Johor, the center of function of corporate communication is not so obvious. This is because it does not exist as a main department by itself. Most of the work and function of corporate communication is conducted under the Department of Human Resource and Public Affairs. Apart from doing the job of recruiting and training staff, this particular department serves professionally as the organization's corporate communication segment.

Some of the department functions include maintaining media relations and conducting specific customers' analyses to improve product quality. The Human Resource and Public Affairs Department can, thus, be considered as the company's corporate communication wing too.

A typical Japanese company, Hitachi management encourages participatory consensus by building a close upward and downward communication. It adopts a vertical bureaucratic structure in which the head is perceived as a symbol of group effort rather than an autocratic figure.

In this regards, the Human Resource and Public Affairs Department engages actively in the company's overall production and performance. It also involves as a primary partner, and advisor, in the decision making process with the top-level management.

A Hard Decision

Consequently, for the purpose of discussion, we will refer to the Hitachi's Human Resource and Public Affairs Department as its 'Corporate Communication

Department/Division.' This is deemed rational because it maintains many functional similarities as explained earlier.

As mentioned earlier, corporate communication, an integral organizational segment, plays a leading role in managing crisis. In crisis management at Hitachi, as well as in other organizations, decision making is vital. Recently, Hitachi made a very critical or hard corporate decision.

What makes a decision hard to make? The level and nature of risk taken becomes a commonly accepted yardstick in determining a hard decision. Usually, the harder the decision, the higher the risk a decision maker is going to face. Whereas, simple decisions always carry small risks. Total failure and disintegration of an organization are the worst forms of risks. But, is this the case with Hitachi?

Hard decisions can be identified because they have a few common characteristics. Element (1995) discusses four attributes of hard decisions. The main attributes, he argues, are:

1. Complexity of the problem.
2. Inherent uncertainty in the situation.
3. A decision maker may be interested in working toward multiple objectives, but progress in one direction which may impede the progress in others.
4. A problem may be difficult if different perspectives lead to different conclusions.

Marshall and Oliver (1995) simplify the understanding of making hard decisions from the perspective of making a choice based on available alternatives within a specified period of time. The presence of certain rational choices in decision-making helps decision makers judge, determine and eventually execute a proper course of action. The writers assert that,

"In every problem, a decision maker has a number of alternate choices from which one or more must be chosen to achieve some desired objectives. Often, the set of alternative actions consists of two elements, either to do something or not to do something."

The Crisis

The detrimental impact as the consequence of current economic slowdown has caused many multinational organizations including Hitachi Group to revise its mode and size of operation. The root of this crisis, as reported in *The Asian Wall Street Journal* dated 9th July 2001, is a worldwide slowdown in demand for semiconductors and information technology products.

Other multinational corporations badly affected in this industry are Japan's Toshiba Corp. and Fujitsu Ltd. This worse than expected slump in the information sector forces major hi-tech firms worldwide to reduce semiconductor-based production and even halt some operations.

New Straits Times (3rd August, 2001) reported that Hitachi would cut 1,670 jobs. Moreover, it is going to close three plants in Johor toward the end of the year. According to a senior officer from the local unit of Hitachi Electronic Devices (M'sia) Sdn. Bhd. this move is in line with its plan to halt the production of CRT for personal computer monitors. This inevitable response was due to a fall in prices for CRT

monitors. The production of CRTs has fallen by 50 percent inducing a significant drop in profits as well.

Analyzing from the corporate communication practice perspective, such a hard decision made is not only inevitable but it is also acceptable. Officials in Hitachi corporate communication have probably forecasted that a much higher loss in profits would be incurred had they decided to resume CRT productions. The crisis that the company faces is not an ordinary one, but it is the 'mother' of all crises that leads to such a drastic, calculated decision been concluded.

In his book, *Corporate Crisis Management: Challenges for Survival* (2000), Ramu explains how a company should react in a crisis situation. Depending on the nature of the crisis, a very serious crisis requires a quick and timely decision based on facts. In such a situation, the company cannot afford to make a slow, fantasy driven judgement and suffer failure outcome.

Apparently, the worldwide economic crisis, in particular, drops in demand for semiconductors and information technology products, has brought Hitachi to its knees. Nevertheless, looking at the larger perspective, the decision to reduce workforce and close plants in Johor is, in actuality, a strategic long term planning. Therefore, after a careful consideration, Hitachi has reached the decision to completely stop the production of CRT in Johor.

Hitachi Group is a big, established multinational corporation with operative plants in different parts of the world. This long term strategic planning is strongly endorsed by Hitachi's corporate communication at the highest level at its international headquarters in Japan.

Crisis Management

The crisis that Hitachi faces and the ultimate decision its senior officials have made through the corporate communication channel have been discussed. However, a more crucial issue is the practice of Hitachi's corporate communication in implementing its decision to halt the CRT production and cut 1,670 jobs in Johor. Crisis management does not end by making a well-analyzed decision alone.

Through a proper conduct of corporate communication in crisis management, a company or a multinational company like Hitachi can avoid worsening the present situation or avoiding itself from being trapped in other potential crises. Other such potential crises include financial crisis, internal communication crisis or lower morality of employees as a whole. Thus, poor handling of crisis management may further jeopardize a company's image and reputation, which may be difficult to be repaired once it is tarnished.

The practice of corporate communication in crisis management at Hitachi is based on the hard decision the company made. Specifically, following discussions will focus on four major parts:

- a) Employee communication.
- b) Benefits and compensation.
- c) Managing media relations.
- d) Managing government affairs.

Employee Communication

In a normal situation, employee-employer communication must be looked into in order to help an organization achieve its production targets as outlined in its strategic corporate planning. Programs and activities are made to heighten the employees' spirit of ownership and loyalty toward the company by creating a conducive and harmonious workplace. This should be one of corporate communication's primary concerns.

It is, however, a completely different ball game with Hitachi in Johor. As explained earlier, it will halt production at three plants and slashing 1,670 jobs. In brief, the company has already decided to "close shop." It means that all the 1,670 people will have their services legally terminated by 30 September 2001.

In a crisis management, Argenti stresses the importance of communicating directly with affected constituents or stakeholders. In managing such a harsh outside pressure, resulting in the company's total disintegration, employee communication is vital. Figure I illustrates the various stakeholders of an enterprise.

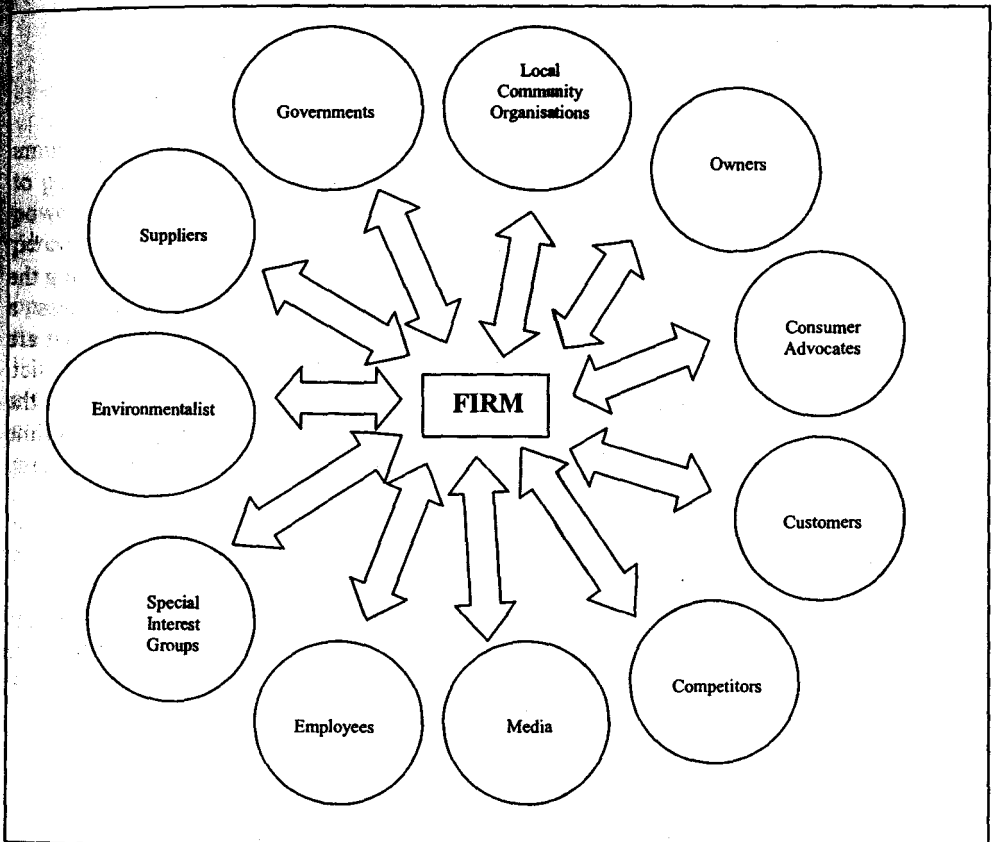


Figure 2.1: Stakeholders of an Enterprise. Source: Freeman (1984 p.25)

In a Japanese company like Hitachi, an employee is expected, among other things, to remain loyal to the company and to work as a team. Thus, there are employees who have been working for almost 14 consecutive years with the company. This makes it a highly sensitive and delicate issue for corporate communication managers to tell them that they now have to leave the company.

Moreover, in a crisis situation, employees could be the media's favorite source of information. Taking these into consideration, employee communication is handled in such a way that it should help inculcate the employees' goodwill and trust to the company. The company's corporate communication conducts a series of meeting and briefing between the management and all the employees both at the company and departmental levels.

The meeting and briefing sessions are conducted directly face to face. This increases the opportunity for employees to interact with the management openly without any prejudice. Initially in the process, Tadao Kubo, Hitachi's managing director, clearly explained the real situation affecting the company. Following is an excerpt from his speech:

"After a careful consideration, Hitachi Limited has decided to completely stop the production of CDT in our factory in Johor. The decision is made as a result of the Hitachi Group's decision to withdraw from the PC monitor CRT business. It was determined with deep regret that any radical improvement in profitability would be difficult to achieve, leading to the decision to cease production of CDT".

Certainly there are questions and comments from the employees regarding the problem. However, Hitachi's corporate communication department chooses a transparent approach by discussing and sharing all the facts and information that are available. This has very much helped reduce chances of misunderstanding or conflict. For instance, Irwan Hanafiah, an assistant engineer expressed his opinion on the matter. He said that although he feels sad that he has to look for another job at a time when the economy is not stable, he feels very satisfied with the way the company handles the crisis.

Benefits and Compensation

In his book, *Corporate Ethics* (1995), French highlights the need for working out proper compensation schemes for the victims (employees) of corporate restructuring or reengineering. What Hitachi faces cannot be mended merely through corporate restructuring. The crisis forces the company to cease its operations completely by 30 September 2001. As such, the need to come up with a suitable compensation package is even greater.

In view of the cessation of operations, the company has agreed to offer a compensation package for its entire workforce. This is in line with a proper practice of corporate communication in such a crisis management. The management, interestingly, welcomes and considers the employees' inputs in the decision making process to prepare for the company's compensation scheme.

The compensation package offered by Hitachi is acceptable according to most employees. In addition, it is even better than the minimal compensation package

stipulated by the government. The whole offer of the compensation package is outlined in the attached Appendix.

Managing Media Relations

Managing media relations is another critical function practiced under the corporate communication department. Understanding and cooperating with the needs and workings of the media is very important for any organization. In developing good media relations, however, maintaining company's interests should always be the company's main purpose.

One of the basic roles of mass media is as a "gatekeeper." In his book, *Organizational Communication: Theory and Behavior* (1996), Byers explains the meaning of gatekeeper when he discusses the formal and informal communication networks. According to him,

"Gatekeeper is a network role requiring the employee to act as a filter of the information as it passes through to another individual, preventing message overload for the latter (e.g., a secretary assigned to a department head)".

On a bigger perspective, the media is a gatekeeper because it filters the amount and type of information. It either allows information, from a reliable source, to pass to the general public or to screen it out. The media, therefore, becomes so powerful because it is very influential to mould and further form the public's perception on a particular issue in a crisis situation.

In managing the crisis, Hitachi's corporate communication, as said, adopts an open and transparent approach with the media. For instance, at the international level, the Chairman of Hitachi Group has spoken to reporters from different news agencies, like *The Wall Street Journal*, to give a vivid picture of the whole scenario, which has affected the said decision of this multinational company. The problem originated from a worldwide slowdown in demand for semiconductors and information technology products was also discussed in the *CNN Business News*.

At the local scene, Tadao Kubo, managing director of Hitachi plants in Johor, took the responsibility to brief the media (e.g., *New Straits Times*). He specifically explained to the media the reasons why Hitachi has decided to cut 1,670 jobs and close three plants in Johor by year-end.

It should go without saying that the practice of corporate communication at Hitachi with regards to managing media relations in time of crisis is an exemplary case. Hitachi makes the media as an ally, not as an enemy. Such a clean approach saves the company from unnecessary negative speculations about the company, which may destroy the company's image and reputation in the long run.

Managing Government Affairs

Managing government affairs is another aspect of corporate communication function. A company needs to know, understand and further abide by all the industry regulations in order to operate successfully in changing business climates. This is imperative in order to maintain and to manage its image, identity and reputation.

Hitachi abides by the government business regulations closely particularly when dealing with the said crisis. The business regulations, in particular the Workers Act, are under the supervision of the Ministry of Human Resources pertaining to various things like employees' safety and health standards, controls over job discrimination, wage and compensation schemes, etc.

Since Hitachi would cut a considerable number of jobs and close plants in Johor, it has worked out a benefit and compensation package. This is in line with the government regulation to safeguard the interests and welfare of the workers.

Hitachi corporate communication has also contacted relevant agencies both from the government and private sectors (e.g., Samsung and Kenwood) to look for employments for their employees whom would be unemployed once the company ceases production. Such an action can be considered as an extension of Hitachi corporate communication social responsibilities.

CONCLUSION

It should be clear at this juncture that Hitachi's practice of corporate communication in managing the said crisis is largely based on three factors; maintaining employee communication, managing media relations and managing government affairs. Certainly, the employees become the mounting concern because they are the ones to be adversely affected with the crisis – they will lose their jobs soon.

The transparent and honest approach of Hitachi corporate communication is also noteworthy in this context. While it was inevitable for Hitachi Group to halt the production of cathode ray tubes and to lose all the employees in Johor, in the future it still can count on the good reputation and image it portrays in managing this particular episode.

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