

Carnival's Shipwreck

It is now two weeks since the cruise ship Costa Concordia hit a reef less than 100 meters from Giglio. The evacuation that followed was characterized by delays and incorrect information given to the Coast Guard and to passengers. Most notoriously Captain Schettino abandoned ship before the completion of the evacuation and did not follow a Coast Guard order to re-board it. The evacuation turned deadly, with fatalities thought to exceed 30.

As the investigation of this accident is completed, some questions are likely to be answered: The black boxes will reveal the activity on the bridge just before the ship hit the reef. Interrogation of the crew is likely to help uncover how the chain of command initially produced confusing orders, and then simply broke down. Other questions may remain unanswered. Is it true that Captain Schettino steered so close on his own accord, as has been claimed? Or is he correct in saying that the cruise line Costa Cruises encouraged this manoeuvre in order to give passengers a "good show"? Did the cruise line promote him before he was ready for the responsibilities of a sea captain? Does the absence of an evacuation drill indicate a larger problem in the safety routines of the cruise line?

In an interesting Wall Street Journal article, Mike Esterl and Joann S. Lublin raise a question that many have overlooked, however, and that deserves some attention. Costa Cruises is a subsidiary of the much better known cruise line Carnival Corp. After the shipwreck, the crisis management has been left to Costa Cruises CEO Pier Luigi Foschi, with Carnival's CEO Micky Arinson staying mostly silent and out of sight. While this is in style with how subsidiaries in Carnival generally manage their own business, their article quotes observers who criticize this decision (and the comment fields on the article are scathing in their judgment of his inaction). But what is the right decision?

The critique of Arinson probably involves two issues. First, there is the moral responsibility of the group CEO towards all those who have been affected by the accident, especially the bereaved, but also the passengers who went through the ordeal and even the crew who were let down by their officers. On this issue, the critique is on solid ground.

Second, there is the view that a CEO should take charge in order to manage such a crisis situation, and that this is the best way to protect the firm and its shareholders against damage. This logic would be correct if he had been the CEO of Costa Cruises,

or the wrecked ship had had Carnival in its name. But he is not, and it does not, and that changes the calculation. The reason is that blame for misconduct spreads in strange ways. People do not take into account innocence and guilt when deciding who to avoid after learning about misconduct. Instead, they look for connections and similarities, and they avoid any firm that can be linked with a wrongdoer (see my article with colleagues, below). This may be unfair to the innocent firm, but it is how customers behave.

Given how these cruise lines are run, it is unlikely that Carnival is responsible for this accident, though Costa may be. That does not matter for potential cruise trip buyers, for they will avoid Carnival if the connection between the Costa Cruises and Carnival becomes better known. If Mr. Arison wants to manage the crisis, he will damage Carnival by making the connection between Costa and Carnival better known. He may be able to show the world that Carnival is innocent and that it cares about its customers, but that will not stop the blame from spreading. His current low profile does not look heroic, but it is astute.

"Carnival CEO Lies Low After Wreck." Wall Street Journal, Asia Edition, January 23. By Mike Esterl and Joann S. Lublin.

Jonsson, Stefan, Henrich R. Greve, and Takako Fujiwara-Greve. 2009. "Undeserved Loss: Legitimacy loss by innocent organizations in response to reported corporate deviance." *Administrative Science Quarterly*, 54 (June): 195-228.

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