Muddied Waters: Lapindo Brantas’ Response to the Indonesian Mudflow Crisis

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Abstract

Indonesia’s largest environmental disaster, which is still on-going, started in 2006 with the eruption of a mud volcano following drilling by Lapindo Brantas, an Indonesian oil and gas exploration company. This crisis resulted in at least 15 deaths, mass displacement of the local population the inundation of huge tracts of farmland and multiple villages and factories. Using case study analysis and the framework of Coombs and Holladay’s (2002) Situational Crisis Communication Theory, the effectiveness of Lapindo Brantas’ crisis management strategies is examined. It is contended that the company, while claiming that the crisis was a natural disaster, used inappropriate and conflicting response strategies. These appear to have directly contributed to the continuing negative emotion and behaviour from the main impacted stakeholder group, the displaced families. The evidence indicates that Lapindo Brantas poorly handled the Sidoarjo crisis and may have exacerbated reputation damage. The limitations of the application of SCCT to this crisis are also discussed.

Keywords:

Company crisis, Lapindo Brantas, SCCT

Company crises are major catastrophes that may occur either naturally or as a result of human error, intervention or even malicious intent (Argenti, 2007). They can include tangible
devastation, such as the destruction of lives or assets, or intangible devastation, such as the loss of the organisation’s credibility or other reputational damage, with the latter outcomes sometimes a consequence of management response (Argenti, 2007).

Indonesia’s largest environmental disaster (“Indonesian mud-flow victims”, 2008) started with the eruption of a mud volcano on May 29, 2006, following drilling near the town of Sidoarjo by Lapindo Brantas, an Indonesian oil and gas exploration company. Although the company claimed that the mud flow was a natural disaster, most likely triggered by an earthquake, many stakeholders have claimed that, instead, it resulted from the company’s failure to implement safety procedures. The Sidoarjo mud flow, which continues today has resulted in deaths and the destruction of farmland, villages, factories and roads. It has developed into a major humanitarian disaster with devastating impacts on both Indonesia’s economy and Lapindo Brantas, which is predominantly responsible for providing compensation to victims and for cleanup operations. The question that remains is how effective was Lapindo Brantas’ management of this crisis?

Researchers have developed various theories on the best strategies for crisis management. One of these is Coombs and Holladay’s (2002) Situational Crisis Communication Theory (SCCT) based on Weiner’s (1986) attributional theory. SCCT’s focus is on protecting the organisation’s reputation when a crisis erupts. Reputation is a valuable organisational resource which can affect recruitment, stock prices, and even sales (Heath & Coombs, 2006).

After discussing the crisis history and Lapindo Brantas’ ownership issues which affected the crisis response, the SCCT framework will be discussed. The adjusted SCCT (Coombs, 2007) framework is used to evaluate the effectiveness of Lapindo Brantas’ crisis response and management, and to examine victim reactions. For SCCT, each crisis needs to be dealt with by recognizing its type, looking at the organisation’s crisis history, its history of relationships with stakeholders, then delivering the appropriate response strategy according to the level of judged crisis responsibility (Coombs, 2007). The focus in this evaluation will be on crisis type, responsibility and crisis response which previous researchers (e.g., Coombs, 1997; Jorgensen, 1996; Lee, 2004) have indicated to be major determinants of stakeholder reactions of emotion and behaviour.

This paper argues that Lapindo Brantas failed to take responsibility for the crisis, despite evidence that the company’s procedures were at fault and in spite of being held responsible for compensation via Presidential decree. In addition, Lapindo Brantas failed in its crisis response strategy, ignoring its relationship with the main crisis stakeholder group, the 50,000
displaced villagers. Further, although Lapindo Brantas agreed to pay compensation, despite consistently claiming it was not at fault, its tardy response to the dispossessed resulted in a major humanitarian crisis for Indonesia. Finally, the effectiveness of using the SCCT framework for crisis management will be discussed.

Case study analysis is used in this evaluation. This analysis type is used when “how” or “why” questions are being posed, when the investigator has little control over events, and when the focus is on contemporary phenomenon within some real-life context (Yin, 2003), all of which apply to the Sidoarjo crisis. The assessment of crisis management strategies was made by reviewing more than 60 newspaper stories, sourced via the Factiva database from Indonesian and international newspapers and news organisations, spanning the period from the crisis start in May 29, 2006 until January, 2009. Reports by the United Nations and the World Health Organisation were also examined. As the approach relies on a content analysis of selected news stories and material, this evaluation is limited by several factors. First, as only English-version news articles and materials were analysed, vital facts may have been overlooked; second, a limited number of news stories was reviewed; third, for relevancy, the articles were required to contain concepts covered in SCCT. All of these factors influenced the interpretation and results. Other methods for data collection and interpretation may have yielded quite different results.

Background to the Crisis

In May 2006, the Lapindo Brantas exploration company began new gas exploration in Porong, a small town in the district of Sidoarjo in East Java, Indonesia. The disaster started on May 29 when an eight metre high hot mud geyser erupted in a paddy field near the company’s Banjarpanjii-1 well (Arvian, Dharmasaputra, Taufiq & Mawardi, 2006) causing widespread respiratory problems in the local area due to the release of hydrogen sulphide gas (Environmental Assessment Report, 2006). This also caused two deaths (Harsaputra & Nugroho, 2006). At first the mudflow only affected the exploration site. However, by July 2006, the mud flow was 40,000 cubic metres a day and had inundated four adjacent villages, displacing nearly 7,000 people (Environmental Assessment report, 2006). By November 2006, 450 hectares were covered in mud (“Hot Mud Flood”, Sidoarjo, 2006). Although Lapindo Brantas built levees in an attempt to contain the mud, on November 22, 2006 a levee broke (Stein, 2007). Later that day, a gas pipe buried under the mud exploded, resulting in 13 deaths (“Death toll”, 2006), mostly police and soldiers who were securing the site (“Hot Mud Flood Sidoarjo”, 2006).
By December 2007, the mud had inundated at least 600 hectares of land (Forster, 2007). Another levee breach on January 3, 2008 following heavy rains caused 35 more residents to flee their homes (“Residents living near”, 2008). In May, 2008 there were reports of increased mud discharge and emission of toxic and flammable gases, including methane (“Massive mudflow turns into public apathy”, 2008). By this time, the mudflow covered 1,250 hectares, burying 16 villages and 24 factories (Lopez, 2008), displacing more than 50,000 people (“Santos exits Indonesia”, 2008). By August 2008, the mud had inundated 14,000 homes, 33 schools, 65 mosques, a major toll road and an orphanage (Murray, 2008). More homes were flooded in November, 2008 when one of the levees burst due both to heavy rains and Lapindo’s decision to cut the supply of levee maintenance material (Soedarjo, 2008). The mudflow is expected to continue for many years, costing multimillions in compensation claims and infrastructure costs. Key facts are shown in the crisis timeline in Table 1.

### Table 1. Crisis timeline

<table>
<thead>
<tr>
<th>Date</th>
<th>Key crisis facts</th>
<th>News source</th>
</tr>
</thead>
<tbody>
<tr>
<td>29.05.06</td>
<td>Hot mud geyser erupts near gas well. Lapindo’s management claimed it resulted from Yogyakarta earthquake.</td>
<td>Dharmasaputra, Arvian, Aryanto (2006)</td>
</tr>
<tr>
<td>11.06.06</td>
<td>Mudflow of 5,000 cubic meters per day.</td>
<td>The East Java (2007)</td>
</tr>
<tr>
<td>14.06.06</td>
<td>Indonesian President orders Lapindo to compensate residents.</td>
<td>Massive mudflow (2008)</td>
</tr>
<tr>
<td>21.06.06</td>
<td>Two reported dead from inhaling hydrogen sulphide gas. Parent company CEO Bakrie apologizes, agrees to pay compensation.</td>
<td>Hasaputra &amp; Nugroho (2006)</td>
</tr>
<tr>
<td>06.06-.07</td>
<td>12,000 receive medical treatment for respiratory problems. Mud flow of 40,000 cubic metres per day, four villages inundated, 7,000 people displaced.</td>
<td>Environmental Assessment Report (2006)</td>
</tr>
<tr>
<td>08.07.06</td>
<td>Energy Minister states Lapindo is responsible to all compensation.</td>
<td>Massive mudflow (2008)</td>
</tr>
<tr>
<td>11.08.06</td>
<td>Indonesian President holds Lapindo Brantas responsible.</td>
<td>PT Lapindo (2006)</td>
</tr>
<tr>
<td>18.8.06</td>
<td>Mud flow of 50,000 cubic metres per day, levee breaks, 11,000 now displaced.</td>
<td>Harsaputra (2006)</td>
</tr>
<tr>
<td>22.11.06</td>
<td>Mud-containing levee broke, gas pipe explodes killing 13.</td>
<td>Stein (2007)</td>
</tr>
<tr>
<td>08.04.07</td>
<td>Indonesian President issues decree ordering Lapindo to compensate four villages, amended in July to seven</td>
<td>Maulia (2008)</td>
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villages, plus containment and cleanup costs.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.03.08</td>
<td>Government agrees to compensate some victims.</td>
<td>Fitzpatrick (2008)</td>
</tr>
<tr>
<td>01.05.08</td>
<td>Lapindo stops providing food to families in relief centre. Subsequently, two starve to death. 1,250 hectares inundated, 16 villages and 24 factories buried</td>
<td>Lopez (2008)</td>
</tr>
<tr>
<td>03.06.08</td>
<td>Government to share multi-billion cleanup costs with Lapindo. Mud flow of 100,00 cubic metres per day.</td>
<td>Aglionby (2007)</td>
</tr>
<tr>
<td>10.12.08</td>
<td>1,800 hectares inundated.</td>
<td>Santos in talks (2008)</td>
</tr>
<tr>
<td>11.12.08</td>
<td>50,000 people displaced.</td>
<td>Santos exits (2008)</td>
</tr>
</tbody>
</table>

Ownership Issues
At the time of the mud eruption in May 2006, the Banjarpanji-1 gas well was operated and 50% owned by Energi Mega Persada’s majority-owned subsidiary, Lapindo Brantas, 32% owned by PT Medco Energi Internasional, and 18% owned by the Australian exploration and production company, Santos (Forster, 2007). Lapindo asked its other partners, Medco and Santos, to share the crisis costs in line with their stakes (Suparno, 2007). Medco Energi refused to pay claims saying it wasn’t liable and instead, pursued legal proceedings against Lapindo Brantas (Stein, 2007). The Bakrie Group bought the 32% stake in Lapindo owned by Medco Energi, Indonesia’s largest private energy company, in exchange for Medco withdrawing arbitration proceedings against Lapindo (Aglionby, 2008). This resulted in Lapindo coming under new management (Nugraha, 2007). Lapindo Brantas is now majority owned by the Bakrie family, including Aburizal Bakrie (Stein, 2007), who is head of the Bakrie family (Fitzpatrick, 2008). Aburizal Bakrie is considered to be the richest man in Indonesia, with a family fortune estimated at US$5.4 billion dollars (Soedarjo, 2008). Bakrie is Indonesia's Senior Minister for Welfare and a major contributor to the campaign of President Susilo Bambang Yudhoyono (Stein, 2007).

Situational Crisis Communication Theory
According to SCCT, crisis management starts with an examination of the crisis situation to assess the level of reputational threat (Coombs, 2007), that is, the amount of damage a crisis could inflict if no action is taken (Heath & Coombs, 2006). The reputational threat is assessed firstly by identifying the crisis type, which affects how much responsibility stakeholders
attribute to the company, then by identifying whether the organisation has experienced a similar crisis, while also evaluating its prior relationship history (Heath & Coombs, 2006). The company’s reputation suffers if the organisation has a prior crisis history and a negative relationship with its stakeholders prior to the crisis (Coombs & Holladay, 2002). Although SCCT also indicated that crisis history and relationship history impacts both responsibility attributions and reputation, neither were examined. Crisis history was not considered relevant as a review of articles between 1980 and the start of the crisis revealed the company had no prior crisis history. However, concerns were raised in the media in 2004 and 2005 about Lapindo Brantas’ parent company, Energi Mega Persada, regarding financial results reporting and dividend pay-outs. Relationship history was not evaluated as no news stories were identified that provided evidence as to the organisation’s prior relationship with the most affected stakeholder group, the mud volcano victims, although this is not evidence that such a relationship did not exist.

Categorizing the crisis type is crucial as crises trigger attributions (Coombs, 2004a). If stakeholders believe that an organisation could control a crisis, they will hold the organisation responsible for it (Coombs, 2004a). Crisis attributions matter because they shape feelings and behaviours toward the organisation involved in the crisis, with greater responsibility attributions leading to stronger anger and more negative views of the organisation (Coombs, 2004a). SCCT helps organisations select crisis response strategies based on these reputational threats (Heath & Coombs, 2006). The crisis response strategy is one determinant of the level of responsibility attributed to the organisation and also affects stakeholders’ emotional response and reputation assessment, with both feelings and reputation affecting behaviour (Coombs, 2004a). The more responsible the organisation is for a crisis, the more negative are stakeholder emotions, and the more likely that stakeholders may channel their emotions through such behaviour as protests and boycotts.

**Crisis type: natural disaster or company-caused error?**

For SCCT, identifying the crisis type enables an initial assessment of the amount of crisis responsibility that stakeholders are likely to attribute to a crisis, making it easier to assign an appropriate response strategy (Coombs, 2002).

While numerous crisis typologies have been developed, SCCT identified three crisis clusters, each of which determine different responsibility levels: victim cluster, accidental cluster, and intentional cluster (Coombs & Holladay, 2002). According to the researchers, the victim
cluster results in very weak attributions of crisis responsibility as the organisation is viewed as a victim of the event. The four victim crisis types are natural disasters, false rumours, workplace violence, and product tampering or malevolence. In the accidental cluster, the organisation receives minimal attributions of crisis responsibility as the event is considered unintentional or uncontrollable by the organisation. The three accidental crisis types are technology error accident, where technology or equipment failures cause an industrial accident, technical error recalls, and moral or ethical challenges by stakeholders. In the intentional crisis cluster, the organisation receives very strong attributions of crisis responsibility as the event is considered purposeful. The three intentional crisis types are those where human error causes an industrial accident, those where human error causes a product recall, and organisational misdeed, where laws or regulations are violated.

**Application to the crisis**

From the crisis start, Lapindo Brantas asserted that the disaster was triggered by an earthquake in Yogyakarta two days before the mudflow started (Forster, 2007), see Table 2. That is, it was a natural disaster. According to SCCT, in such a crisis, the organisation is not judged as responsible. To back up this victim claim, in April, 2007, the chairman of Lapindo's parent company, Energi Mega Persada, contended that studies by geologists and engineers indicated that the mudflow was a natural disaster rather than resulting from mechanical or technical problems with the drilling (Stein, 2007). This claim was supported by the Agency for the Assessment and Application of Technology (BPPT) which concluded that the mud volcano was caused by natural tectonic activity (Suparno, 2007). Indonesia’s South Jakarta District Court also rejected claims brought by local environmentalist groups against Lapindo Brantas, (Forster, 2007). Further, the House of Representatives on February 26, 2008, declared the mudflow to be a natural disaster, shifting economic losses from the company to the state and public (Simamora, 2008).

<table>
<thead>
<tr>
<th>Date</th>
<th>Crisis type</th>
<th>Information source</th>
<th>News source</th>
</tr>
</thead>
<tbody>
<tr>
<td>29.05.06</td>
<td>Natural disaster</td>
<td>Lapindo’s management.</td>
<td>Dharmasaputra,</td>
</tr>
<tr>
<td>19.06.06</td>
<td>Human error</td>
<td>Minister for Energy &amp; Mineral Resources</td>
<td>Arvian, &amp; Aryanto</td>
</tr>
<tr>
<td>22.06.06</td>
<td>Human error</td>
<td>Indonesian Police</td>
<td>(2006)</td>
</tr>
<tr>
<td>01.03.07</td>
<td>Human error</td>
<td>Medco Energi, Lapindo’s 32% stakeholder</td>
<td>Suparno (2007)</td>
</tr>
<tr>
<td>25.04.07</td>
<td>Natural disaster</td>
<td>Chairman of Lapindo’s parent company</td>
<td>Stein (2007)</td>
</tr>
<tr>
<td>04.07</td>
<td>Natural disaster</td>
<td>Geological workshop (BPPT)</td>
<td>Stein (2007)</td>
</tr>
</tbody>
</table>
However, the head of the nearby Surabaya Institute of Technology’s Disaster Studies Centre calculated that the distance from the earthquake’s epicentre in Yogyakarta was too far away (600 km) to have caused a mud volcano eruption, registering only 0.2 on the Richter scale at the well site (Stein, 2007). Early newspaper reports, including those reporting on police investigations (e.g., “Cleaning up the Mudflow Mess”, 2006) indicated that the eruption was caused by the company’s incorrect drilling procedures. This crisis type – human error-industrial accident under SCCT – falls under the intentional crisis cluster, and results in very strong attributions of organisational responsibility. The case for the disaster belonging to this crisis type was reinforced in March, 2007 when Lapindo's partner in the Brantas block, PT Medco Energi Internasional, accused Lapindo of "gross negligence" for incorrect drilling procedures at the Banjarpanji -1 well (Suparno, 2007). This followed revelations that Medco’s discussions with Lapindo during a technical meeting on May 18, 2006 had highlighted the need for a casing in the well to prevent any mudflow (Arvian et al., 2006). Police investigations also indicated that there was sufficient evidence to mount a case of criminal negligence (Stein, 2007) because Lapindo had failed to install safety casings at lower depths of the drilling shaft to prevent mud leakage (“Indonesia mud-flow victims”, 2008). An audit released on June 16, 2007 by BP Migas, an independent team of government-appointed experts, also found that Lapindo Brantas had failed to adequately perform their monitoring duties and had not employed experienced enough personnel or used standardized equipment (“Lapindo Audit Submitted”, 2007). The company was also blamed for neglecting safety precautions in handling gas well problems (“Lapindo Audit Submitted”, 2007). These claims of human error received further support in June 2008, when an independent team of geologists from Durham University and the University of California also maintained that the Sidoarjo mudflow was caused by incorrect drilling procedures (Aglionby, 2008). Specifically, the team concluded that the disaster began with the drilling’s crew failure to detect a massive influx of water and gas into the 2,384 metre-deep drilling hole the day before the eruption, which increased the pressure in the hole beyond the maximum allowable, so that the sides fractured, causing the eruption (Aglionby, 2008). In addition, findings released on June 9, 2008 by an international team of experts headed by a volcano specialist from Durham University concluded that drilling the gas exploration well set off the volcano (Rodonuwu, 2008). At an international conference of petroleum geologists in Cape Town, South Africa,
after reviewing evidence, including that supplied by Lapindo Brantas, almost all geologists agreed on October 30, 2008 that the well drilling caused the disaster (Brahic, 2008).

Therefore, despite the general consensus by geologists and scientists, government ministers, and police investigations that the crisis was caused by the company’s incorrect drilling procedures, the mudflow was found by the court and parliament to be a natural disaster. In applying the SCCT framework to crisis management, this becomes problematic, as perceptions of such widely differing crisis types result in different attributions of crisis responsibility, and therefore require different crisis response strategies.

Crisis responsibility

Crisis responsibility is highly related to whether the crisis was under organisational control (Coombs & Holladay, 2002). A negative event that is due to controllable causes leads to greater anger and blame and to less sympathy than an event caused by uncontrollable causes (Jorgensen, 1994). Therefore, a natural disaster, being uncontrollable by the company, should incur no responsibility, whereas in a human error crisis, the company incurs full responsibility. A limitation of SCCT is that compensation is considered to be part of a proactive crisis response strategy, rather than a consequence arising from a determination of responsibility. However, in this crisis, the issue of responsibility is tied in with liability for compensation.

Application to the crisis

Although the courts and the Parliament later declared that the mudflow was a natural disaster, on June 14, 2006 Indonesian President Susilo Bambang Yudhoyono ordered Lapindo to appropriately compensate residents affected by the mudflow (“Massive mudflow turns into public apathy”, 2008). Again, two months later, the President stated that, “PT Lapindo Brantas must be responsible for this disaster” (“PT Lapindo must be responsible”, 2006). In addition, on several occasions in 2006, Vice President Jusuf Kalla announced that the Bakrie family, the ultimate owner of Lapindo through PT Energi Mega Persada, would be held responsible and be required to shoulder the financial burden associated with the crisis (Suparno, 2007). This was reinforced on July 8, 2006, when Energy Minister Purnomo said that all compensation would be covered by Lapindo Brantas (“Massive mudflow turns into public apathy”, 2008). Earlier on June 22, 2006, Nirwan Bakrie, in his capacity as a representative of Lapindo shareholders, agreed to pay compensation (Hasaputra & Nugroho, 2006). To hasten compensation proceedings, on April 8, 2007, the Indonesian President
issued a decree (Presidential Decree no 14/2007) to the Sidoarjo Mudflow Handling Agency ordering Lapindo to compensate victims of four villages included in a March 22, 2007 map of affected areas (Maulia, 2008). Under this scheme, the government would be responsible for covering costs related to the disaster’s social impact on people living just outside the designated areas, but Lapindo would pay the costs of containing and stopping the mud flow, as well as compensating the people left homeless (“Indonesian mud-flow victims”, 2008). The President revised the decree in July 2008 to allow compensation for three additional villages, while the House of Representatives in December 2008 recommended the inclusion of three more affected villages (Maulia, 2008), thereby increasing Lapindo’s responsibility for compensation.

Thus, Lapindo Brantas was required to accept financial responsibility for the crisis by a Presidential decree. However, factors point to a tangled relationship between the government, led by President Yudhoyono, and the Bakrie family, headed by Abrizal Bakrie, who as Welfare Minister, is part of the government and a major backer of the President. Claims were made that the government decision to declare the crisis a natural disaster resulted in a substantial windfall for the Bakrie family – and Minister Bakrie, Indonesia’s richest man and head of the Bakrie family – as millions of compensation dollars were now to be supplied by the government (Fitzpatrick, 2008). Further, the government agreed to share the multi-billion dollar clean-up costs with Lapindo (Aglionby, 2008). There have also been allegations that the firm has silenced relevant authorities with money (“Massive mudflow turns into public apathy”, 2008). Also, despite the scale of the continuing environmental disaster at Sidoarjo, the government awarded Lapindo a blue rating (the third highest) for complying with environmental standards (Simamora, 2008).

Apart from the Presidential decree, one reason for the company’s responsibility acceptance may be provided by SCCT. According to SCCT, crisis responsibility incurs reputational damage. Therefore, Lapindo Brantas may have considered that consistently refusing responsibility may less negatively impact the company’s reputation. However, Weiner, Graham, Orli and Zmuidinas (1991) suggested that accepting personal responsibility may alter inferences about those who violated expectations and social norms and restore perceptions of their moral character. In this situation where the overwhelming consensus was that the company was responsible for the crisis, a fact consistently reflected in the multitude of newspaper reports, the company failed to respond to these perceptions.
Crisis response

SCCT suggests that crisis managers utilize progressively more accommodative strategies as crisis responsibility increases, as crisis responsibility is directly correlated with reputational damage (Coombs & Holladay, 2002). Heath and Coombs (2006) summarized guidelines for selecting the most suitable crisis response strategy to protect reputation, depending on the level of attributed crisis responsibility and crisis history. For victim crises, such as a natural disaster, if the company has no crisis history, then informational and adjustment strategies suffice. The informational strategy involves providing warnings and directions to stakeholders about how to physically protect themselves from crisis effects (Coombs, 2004b). Adjusting information helps stakeholders cope psychologically and involves expressing concern for the victims, explaining what happened, and may include future crisis prevention measures or promising to find the crisis cause (Coombs, 2004b).

In contrast, for a preventable crisis, such as that caused by human error, the company faces strong attributions of crisis responsibility, and therefore requires a rebuild response strategy, regardless of crisis history (Coombs & Holladay, 2002). This strategy requires highly accommodative strategies of compensation and apology, with research indicating that compensation, apology, and sympathy are viewed similarly in terms of accepting responsibility and showing concern for victims (Coombs, 2006).

According to SCCT guidelines (Coombs & Holladay, 2002), the two crisis types mooted in the media and by the company fall into different clusters, each with widely differing responsibility levels, requiring widely divergent crisis response strategies. Compensation is not required in a victim crisis as the company is not held responsible, however in a preventable crisis, both an apology and compensation are required (Coombs & Holladay, 2002). The question arises of whether Lapindo Brantas provided the correct response strategy for either crisis cause.

Application to the crisis

Newspaper reports examined over the 20 month period indicated that Lapindo Brantas managers avoided a proactive response, avoiding media conferences and making very few statements. These were usually limited to commenting that this crisis was a natural disaster. No media conference attended by company representatives was identified except a joint one held by the President with Nirwan Bakrie in June 2007 (Retnowati, 2007). No company statement was identified where concern for victims’ plight or environmental damage was expressed, or which covered future preventative action. No located stories covered any
company announcements on how displaced residents, farmers, employees and businesses were to handle the situation, although this may have been provided on the ground in the affected villages by company officials. In a 2007 Australian conference presentation, Lapindo Vice President, Yuni Teryana, reported that the company handled the evacuations of employees and villagers, and had organised and paid for basic necessities such as food, medical help and amenities for displaced people (Teryana, 2007). However, on May 1, 2008, Lapindo Brantas stopped providing food for the 600 families still living in a relief centre, with Ms Teryana stating that the company wanted the villagers to accept the compensation offer (Lopez, 2008). Subsequently, at least two elderly people were reported to have died from starvation (Lopez, 2008). In June 2008, the company placed newspaper advertisements proclaiming its “social commitment” to the area and reiterating that the volcano was a natural phenomenon (Buncombe, 2008).

Despite the company stance that the crisis was a natural disaster, it was reported on June 21, 2006 that Nirwan Bakrie, representing Lapindo shareholders, apologized for the disaster and said the company would provide compensation (Harsaputra & Nugroho, 2006), one week after President Yudhoyono first ordered it. Teryana (2007) reported that this compensation had included transportation assistance for school children, wage compensation to factory workers where factories had ceased operations, compensation to farmers who had their plantations or rice fields submerged in mud or whose rice fields were used for mud ponds and water treatment, two-year house lease assistance for displaced families plus removal costs, and monthly living assistance. The inconsistency between Lapindo’s responsibility refusal while providing compensation may have resulted from presidential orders to compensate victims. The presidential decree stipulated the exact land area covered by compensation, the amount to be paid and a time frame for payments. After paying 20% compensation in 2007 (“Hundreds mud-volcano victims”, 2008), Lapindo was due to pay the remaining 80% to displaced families by April 2008 but failed to do so, although no action was taken against Lapindo (“Massive mudflow turns into public apathy”, 2008). Instead, in December the company offered monthly payments until all outstanding compensation was settled (“Santos in talks”, 2008). In a bizarre twist, the company also backed a new TV soap opera series on the crisis in which a displaced youth activist encouraged other mud victims to re-establish themselves (Sukarsono, 2006).

Thus, despite Lapindo’s claim that the crisis was a natural disaster, its response was consistent with SCCT’s suggestion for using a rebuild strategy in a preventable crisis. However, in view of the extent of the disaster in terms of death, social disruption and environmental damage, the company failed to follow even basic crisis communication strategies, such as
expressing concern for those affected by the crisis, for the extent of environmental damage, or promising that action would be taken to ensure that this crisis never again occurred. As noted earlier, the crisis response affects responsibility judgments, reputational assessment and stakeholder emotions. Studies by Weiner et al. (1991) indicated that, ironically, denial of responsibility for a negative act increases observers’ inferences that the speaker was, in fact, responsible for the act. In this case, the compensation payments may also have increased responsibility inferences for the crisis and resulted in reputational damage and stronger negative stakeholder emotions.

**Emotions and behaviour**

According to SCCT, anger is strongly linked to a responsibility judgment. The more the company is judged as responsible for the crisis, the stronger are stakeholders’ negative emotions towards the organisation, influencing behaviour. Stakeholders become very angry with an organisation when they believe the organisation could and should have prevented the crisis (Coombs, 2004b). This attribution of responsibility and resulting negative emotions serves to motivate action, with concomitant negative behavioural responses (Weiner, 2006).

As noted earlier, two conflicting crisis causes were proposed, one minimising company responsibility, which should result in no company-directed anger, and one maximizing crisis responsibility, which should cause the greatest stakeholder anger and congruent behaviour.

**Application to the crisis**

Via the Factiva database, 180 Lapindo stories were identified that used the words protest and mud, while 100 Lapindo stories mentioned anger. In line with the second crisis cause, news stories painted a clear picture of angry and disaffected stakeholder groups, especially the crisis victims, with related behaviour. The reported anger was predominantly due to the loss of homes, farms and businesses, Lapindo’s failure to stem the mud flow, complaints of slow and insufficient compensation, and complaints regarding a lack of compassion by the company. Although the majority of stories related to the victims’ protests, they also included protests by factory workers, Greenpeace, Sidoarjo council members, and Sidoarjo legislative council members. There was also outrage over the Bakrie family’s proposed sell-off of Lapindo to rid itself of liability (Stein, 2007).

Behavioural responses include multiple violent protests, mass rallies, damage to company property, road blocks, and anti-company signage. For example, thousands of mud-flow
victims from Siring village staged a demonstration outside Sidoardjo district administration hall on August 22, 2006 (“Hot mud-affected people”, 2006). A violent protest by Sidoarjo residents on September 1, 2006 damaged Lapindo Brantas’ property (Hasaputra, 2006). Protesters dumped a truckload of mud on September 27, 2006 outside Minister Bakrie’s welfare ministry (“Indonesian Mud-Flow Protesters”, 2006). On April 26, 2007 thousands of mudflow victims occupied Surabaya airport to raise international awareness of their plight (“Thousands of Indonesian mudflow victims”, 2007). On June 26, 2007, protesters blockaded a road, one of the few remaining access points to the mud volcano, stopping trucks loaded with sand and rocks for the construction of dams (Retnowati, 2007). In addition, the victims created platforms to voice their concerns in the forms of websites (e.g., see Lapindo Victims Portal), blogs, and stories on Facebook and Youtube (e.g., http://www.youtube.com/watch?v=UpaNcBygVas).

Protesters also targeted government offices and the presidential palace. For example, on January 30, 2008, more than 4,000 homeless residents marched to the government office in Sidoarjo, urging Lapindo Brantas to pay the remaining 80% compensation (“Indonesian mud-flow victims”, 2008). In December 2008, 600 victims staged a rally outside the Presidential palace over the same issue (“Hundreds mud-volcano victims rally”, 2008).

Congruent with SCCT, negative emotions led to punitive behaviour against the company which was held responsible for the victims’ continued plight. Clearly, Lapindo Brantas’ response strategy did not meet the main stakeholders’ (in this case the victims’) expectations. In this situation, the victims’ on-going protests kept the crisis in the media spotlight, particularly the delayed compensation issue. The company claimed delays for paying the remaining 80% of compensation was due to financial hardship resulting from the global economic crisis (“Massive mudflow turns into public apathy”, 2008).

Conclusion
This case study has examined Lapindo Brantas’ response to the Sidoarjo mud crisis according to the SCCT framework, building the argument for the company’s poor handling of the crisis. Firstly, Lapindo Brantas consistently maintained that the crisis was a natural disaster which meant that it should not be held responsible for the crisis and its outcomes. However, this claim not only ran counter to the multitude of media stories discussing the crisis cause, and to the majority of scientific opinion, it appeared pointless as, just two weeks following the commencement of the mud flow, the Indonesian President held the company responsible for compensation, to which the company agreed. While companies often take positions designed
to minimize their responsibility and hence compensation liability, this was not applicable here. However, Parliament’s declaration that the crisis was a natural disaster in February, 2008 meant that the full brunt of costs for compensation and repair to infrastructure was not met solely by the company and its minority Australian partner, Santos, but that the government was also responsible. Thus the company’s close ties with the government may have limited the company’s compensation liability.

In regards to Lapindo Brantas’ selected crisis response, this was not congruent with the response suggested by SCCT for a natural disaster. Instead, the response was suited to a crisis where the company is held fully responsible: a preventable crisis caused by human error, which requires an apology and compensation. Shortly after the Presidential announcement regarding compensation, Nirwan Bakrie, on behalf of the company in late June, 2006, apologized for the disaster and said the company would pay compensation. Yet, even while appearing to take an accommodative response, the company did not act with immediacy or to the government timeframe in regards to compensation, so that, more than two years later, the full compensation amount required still had not been paid to those affected. Further, the company’s strategy of limiting the amount of company communication and consistently ignoring the plight of the crisis victims and the extent of environmental damage is not consistent with standard crisis communication strategies.

There was also evidence of poor decision making by company managers. This includes Lapindo’s decision to cut the supply of levee maintenance material, which contributed to a levee burst and more widespread flooding. Lapindo also cut food supply to 600 families in what appears to have been an attempt to force villagers to accept the company’s compensation offer, which may have resulted in at least two deaths from starvation.

The company’s inappropriate and conflicting response strategies appear to have directly contributed to the continuing negative emotion and behaviour displayed by the main impacted stakeholder group, the displaced families. Using the SCCT framework, all evidence indicates that Lapindo Brantas poorly handled the Sidoarjo crisis, which may have exacerbated reputation damage.

**Limitations**

This study had several limitations. Firstly, media story selection may have skewed the conclusions drawn in this study. In addition, the SCCT model used in this analysis reflects a static process, whereas a crisis is dynamic process. It is also suggested that companies could
use evidence provided by stakeholders’ behaviour as feedback to assess the effectiveness of their crisis response strategy and the subsequent reputation impact. In addition, this crisis involved an Indonesian context, and more is needed to help with understanding of the Indonesian way of crisis handling, particularly the importance of understanding the political context in which Indonesian businesses operate.

Limitations of SCCT applied to the crisis

SCCT itself has received some criticism. SCCT regards stakeholders as one group and does not acknowledge the fact that different groups of stakeholders might view a crisis situation differently (Kyhn, 2008). Despite Mitchell, Agle and Wood’s (1997) contention that that managers should attend to those stakeholders with an urgent claim on the firm, in this case, the victims, it can be seen that tardy and minor attention was paid to this stakeholder group. Further, it is suggested that, as impacted stakeholder perceptions of crisis type and responsibility change, this may require concomitant changes to the company’s crisis response, an iterative process not allowed for in the SCCT model. As noted earlier, although SCCT considers compensation to be part of a proactive accommodative response strategy, in this case, it was a consequence of government determination of company responsibility and was reactive. Thus it is contended that compensation was not a crisis response in this crisis. SCCT argues that the most effective way to protect reputational resources is to select a crisis response strategy that best fits the reputational threat presented by the crisis (Heath & Coombs, 2006). However, in a situation with an ambiguous cause, the SCCT framework has limited application.

References


