

Original Internet Source:

<http://www.e-businessethics.com/firestone.htm>

Firestone Case

Danger on the Highway: Bridgestone/Firestone's Tire Recall*

Bridgestone/Firestone, Inc., based in Nashville, Tennessee, has been in the business of making tires since 1900, when Harvey Firestone founded the Firestone Tire & Rubber Company in Akron, Ohio. Firestone was acquired by Bridgestone USA, Inc., a subsidiary of Tokyo-based Bridgestone Corporation, in 1990 for \$2.6 billion. Today, the company markets 8,000 different types and sizes of tires and a host of other products. The company has also enjoyed a long and prosperous relationship with Ford Motor Company which began in 1906 when Henry Ford purchased 2,000 sets of tires from Harvey Firestone. Despite emerging as a leader in the tire industry, Bridgestone/Firestone has faced several crises related to its tire's safety. In 1978, Firestone recalled 14.5 million tires—the largest tire recall at the time—after excess application of the adhesives binding the rubber and steel resulted in 500 tread separations and blowouts. The company also paid a \$500,000 fine for concealing safety problems. However, this incident paled in comparison to problems the company faced in the late 1990s, which quickly grew to affect its relationship with Ford as well.

In July 1998, a State Farm Insurance researcher advised the National Highway Traffic Safety Administration (NHTSA) that he had found twenty cases of tread failure associated with Firestone tires dating back to 1992. He was politely thanked, but no action resulted. In January 2000, Houston television station KHOU aired a nine-minute story on tread-separation accidents in Texas. After the story aired, many people called the station to relate their own stories of Firestone tire failures, most on them on Ford Explorer sport-utility vehicles. These were relayed to Joan Claybrook, former chief of the NHTSA. Finally, Sean Kane, a former employee of the Center for Auto Safety and the founder of Strategic Safety, a research organization, also tried to alert the NHTSA about problems with tread separations on Firestone tires. After learning about similar problems in Venezuela, Strategic

Safety, together with Public Citizen, another consumer watchdog group, issued a press release on August 1 asking Ford for a vehicle recall.

Despite the evidence compiled by these sources, the NHTSA was slow to respond. In March 2000, investigators Steve Beretzky and Rob Wahl found twenty-two tread-separation complaints that they marked for “initial evaluation.” The number of complaints skyrocketed between March and May, and by May 2, the NHTSA had elevated their status to “preliminary investigation.” Days later, the NHTSA requested that Bridgestone/Firestone supply production data and complaint files, which it produced on July 27.

Upon obtaining a copy of the report, Ford immediately began analyzing the data. Of the 2,498 complaints logged by that time, 81 percent involved P235/75R15 Firestone tires. Of the 1,699 complaints involving tread separation, 84 percent involved Ford’s Explorer and Bronco SUVs and Ranger and F-150 trucks. On August 5, agents of Ford and Bridgestone/Firestone met in Dearborne, Michigan, to discuss the issue. By this time, the NHTSA was investigating twenty-one possible deaths related to tread separation of Firestone tires. Within days, the investigation had grown to include 46 possible deaths, and Ford and Bridgestone/Firestone met with NHTSA officials to discuss a plan of action. The next day, August 9, the companies issued a recall of 6.5 million tires.

The recall included 3.8 million P235/75R15 radial ATX and ATXII tires as well as 2.7 million Wilderness AT tires, all made in Firestone’s Decatur, Illinois, plant. Bridgestone/Firestone organized the official recall by state, giving priority to Arizona, California, Florida, and Texas, where the greatest percentage of casualties had occurred. Based on NHTSA data, Florida and Texas each accounted for 22 percent of complaints, followed by California with 20 percent, Arizona with 5 percent, and Georgia with 4 percent. Bridgestone/Firestone issued letters to customers detailing the recall procedure: Customers could take their tires to Firestone retailers, Ford dealerships, or to other tire retail outlets and receive a similar Bridgestone/Firestone tire or equivalent competitor’s model.

After continued investigations, the NHTSA encouraged Bridgestone/Firestone to expand the recall to include other sizes and models of tires, but the company refused. On

September 1, the NHTSA issued a consumer advisory warning of potential problems with other sizes of Firestone tires.

During Senate hearings about the growing number of complaints and accidents, evidence surfaced that Bridgestone/Firestone had known about potential tread separation problems dating back to 1994. The company also admitted increasing production to dilute the failure rate. Executives stated that they had not investigated further because failure rates as determined by warranty claims had not demonstrated significant patterns. Bridgestone/Firestone officials accepted full responsibility and admitted the company had made “bad tires.” Masatoshi Ono stepped down as CEO, and John Lampe, former executive vice president, took over Bridgestone USA.

Although many have been quick to point a blaming finger at Bridgestone/Firestone, evidence to suggest that Ford was not entirely blameless also emerged. The design of the Ford Explorer, along with Ford’s recommendations for tire pressure for the Explorer, have been scrutinized to determine whether they contributed to the rate of tire separations and rollover accidents. In July 2001, Bridgestone/Firestone formally asked the Secretary of Transportation to investigate whether the design of the Ford Explorer may have contributed to the growing number of complaints. The company charged that the design of the Explorer may subject the vehicle to roll over easily.

Since the recall announcement, both companies’ stock prices have declined, and Bridgestone/Firestone suffered a \$750 million loss in 2000. Opinion polls suggested that the public had lost faith in the companies and that consumers were quite worried about the safety of Ford Explorers with Firestone tires. Moreover, both companies face an estimated 300 lawsuits stemming from deaths and injuries resulting from tire-separation incidents. The first of these, which went to trial in Texas in August 2001, was settled out of court for \$7.85 million. Ford, which also was named in the suit, settled for \$6 million before the trial began. By the time of the settlement, federal regulators had recorded more than 203 deaths and 700 injuries in vehicles— primarily Ford Explorers—equipped with Firestone tires.

Following the mandatory recalls of fall 2001, Ford announced in May 2002, an additional voluntary recall of some 13 million Firestone Wilderness AT tires potentially still on the road on its sport utility vehicles and pickup trucks in an effort to mitigate potential future damage.

Ford said that recent tests, research, and comparisons of the Firestone tires with those of other manufacturers indicate that the tires will experience elevated failure rates at some time in the future. Ford noted, however, that the failure rate predicted on this latest recall is estimated at only 15 per million verses 60 to 300 per million on the last batch of recalls, characterizing the latest recall as a precautionary, preventative measure. Firestone, a unit of Bridgestone of Japan, is not participating in the 2002 tire-replacement program.

The ultimate question is not where this crisis will leave Ford and Bridgestone/Firestone, but how it will affect the ethical and legal responsibilities of the government, regulatory agencies, and businesses. Consumers can now research all aspects of vehicle quality except for tires, so one suggestion has been to create consumer reports on tire durability, traction, strength, and other important traits. It is up to consumers to determine whether Ford, Bridgestone/Firestone, and the NHTSA acted ethically and responsibly based on the information available. Did they try to hide information? Did they act quickly enough? Will the public forgive and forget? Only time will tell. ^{**} -

^{*} - This case was prepared by Dana Schubert and OC Ferrell for classroom discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

^{**}. Sources: Timothy Aepfel, "Firestone Milestone Brings on Dilemma," *The Wall Street Journal*, Aug. 18, 2000, p. B8; Bridgestone/Firstone, www.firestone.com, (accessed) Aug. 30, 2001; Lauren Comander, "Firestone Tires Shipped from Japan to Boost Supply," *The Chicago Tribune*, Aug. 23, 2000, pp. 1, 2; "Consumer Advisory: Potentially Dangerous Tires," *Fox Market News*, Sep. 1, 2000, http://foxmarketwire.com/090100/tiredeaths_list.sml; Claudia H. Deutsch, "Where Rubber Meets the Road; Recall of Firestone Tires Is Aimed at

Damage Control," *The New York Times*, <http://archives.nytimes.com>, (accessed) Aug. 21, 2000; Melita Marie Garza, Lauren Comander, and Patrick Cole, "Problems at Tire Plant Alleged," *The Chicago Tribune*, Aug. 20, 2000, pp. 1, 10; Milo Geyelin and Timothy Aepfel, "For Firestone, Tire Trial Is Mixed Victory," *The Wall Street Journal*, Aug. 27, 2001, pp. A3, A4; Lori Grant, "More Retailers Pull 3 Firestone Tires from Stock," *USA Today*, Aug. 7, 2000, p. 1B; James R. Healey, "What You Don't Know About Your Tires," *USA Today*, Aug. 11, 2000, p. B1; David Kiley, "Bridgestone Exec Will Speak to Congress," *The [Fort Collins] Coloradoan*, Aug. 30, 2000, p. D7; Kathryn Kranhold and Erin White, "The Perils and Potential Rewards of Crisis Management for Firestone," *The Wall Street Journal*, Sep. 8, 2000, pp. B1, B4; Robert Guy Matthews, "How the Rubber Meets the Road," *The Wall Street Journal*, Sep. 8, 2000, pp. B1, B4; Jayne O'Donnell, "Transportation Travels Bumpy Road," *USA Today*, Jul. 18, 2001, p. 3B; Stephen Power, "Update Needed for Tire Rules, Activists Argue," *The Wall Street Journal*, Sep. 8, 2000, pp. B1, B4; Stephen Power and Clare Ansberry, "Bridgestone/Firestone Says It Made 'Bad Tires'," *The Wall Street Journal*, Sep. 13, 2000, pp. A3, A6; Robert L. Simison, "For Ford CEO Nasser, Damage Control Is the New 'Job One'," *The Wall Street Journal*, Sep. 11, 2000, pp. A1, A8; Calvin Sims, "A Takeover with Problems for Japanese Tire Maker," *The New York Times*, <http://archives.nytimes.com>, (accessed) Aug. 21, 2000; Devon Spurgeon, "State Farm Researcher's Sleuthing Helped Prompt Firestone Recall," *The Wall Street Journal*, Sep. 1, 2000, pp. B1, B6; Jason Szip, "Firestone's Japanese Parent Hit Again," *Fox Market Wire*, Sep. 1, 2000, http://foxmarketwire.com/090100/tirestrike_side2.sml; Bill Vlasic, "Anatomy of a Crisis," *The Coloradoan*, Sep. 4, 2000, pp. C1, C2.