

# ICM ANNUAL CRISIS REPORT

## GLOBAL NEWS COVERAGE OF BUSINESS CRISES IN 2017

Issued April 2018

No surprise, it was another record year for crises in the news in 2017. Overall, the **Institute for Crisis Management** tracked 801,620 crisis news stories during the year, an increase of 25% over 2016. We want to note that because we report categories as a share of all crisis stories, in some cases, the actual number of stories may increase year-over-year while the percentage of the whole may decline. Additional news sources have been added in the past year, as well, adding to the overall increase in the number of stories and making a direct year-over-year comparison of raw numbers alone difficult.

Consistent with previous years, smoldering issues accounted for the vast majority of the total. Many of the world's most venerable brands came under fire, including Uber, Samsung, Wells Fargo, Volkswagen, Papa John's, Equifax, Verizon, Google, NBC News, Fox News and United Airlines, which found their reputations in trouble over a variety of issues.

### BUSINESS CRISIS DEFINED

*Any issue, problem or disruption which triggers negative stakeholder reactions that can impact the organization's reputation, business and financial strength*

### TYPES OF BUSINESS CRISES

Sudden Perceptual Smoldering Bizarre

Discrimination stories continued a disturbing trend that first emerged in 2016, accounting for 18% of all crises in 2017, trailing only mismanagement, which came in at 26.73%.

There was heavy media coverage of two high-profile mass shooting incidents, including the October incident in Las Vegas that claimed 59 lives and a November incident at a Texas church where 26 were killed. According to *USA Today*, 2017 was the deadliest year in a decade for mass killings in the U.S. Terror attacks also hit some of Europe's most popular tourist spots, killing nearly 50 people in incidents in London, Barcelona and Stockholm.

Casualty accident and catastrophe stories increased exponentially. Stories about man-made environmental damage increased nearly



170 percent to 4.52% of stories we tracked. Executive dismissals also showed an uptick of about 15 percent to 4.18% of crisis stories tracked. The worst hurricane season in more than a decade decimated parts of the United States and caused billions of dollars in damage in Texas, Florida, Puerto Rico and the Caribbean.

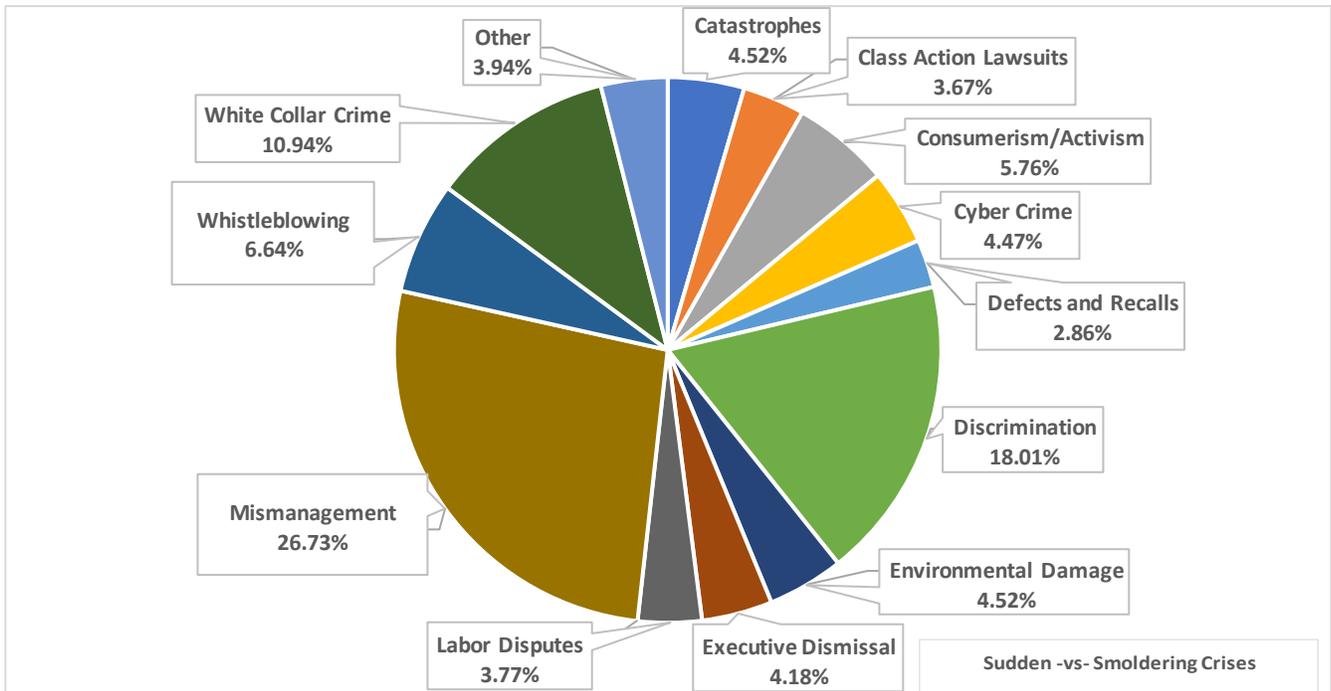
Mismanagement continued to lead the way with more than 214,000 stories overall, representing 26.73% of all crisis stories tracked. Cybercrime and hacking stories decreased slightly to 4.47% although the number of reported incidents continues to grow. A big surprise reared its head with labor disputes, which increased almost thirty-fold to 3.77% from 0.15% in 2016. Just one category had fewer than 1,000 stories: financial damage.

We were surprised that sexual harassment stories showed only a modest increase, from 0.51% in 2016 to 0.70% in 2017. More than 30 powerful men in entertainment, business, politics and the news media have been publicly condemned for their alleged conduct, with most losing their jobs. However, the biggest stories broke in the fourth quarter of the year, so we expect to see additional increases in the category for 2018.

### CATASTROPHES

According to CNN, 2017 was the costliest year ever for weather and climate disasters in the U.S., totaling \$306 billion and eclipsing the next costliest year, 2005. More than nine million acres burned in wild-

## 2017 CRISIS CATEGORIES



Other: Casualty Accidents 1.61%; Hostile Takeovers 1.28%; Sexual Harassment 0.70%; Workplace Violence 0.24%; Financial Damage 0.11%

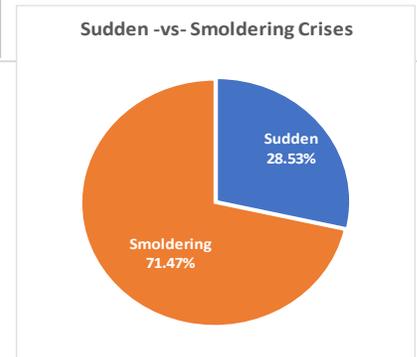
fires across the western U.S., causing more than \$18 billion in damages and destroying 15,000 structures in California alone. In April, heavy rains and flooding in Columbia caused more than 200 deaths. In its worst disaster in decades, a June wildfire in Portugal killed at least 62 people. In the aftermath of Hurricane Harvey, Paris-based Arkema SA's Crosby, Texas plant failed, causing fires that released tons of toxic chemicals into the air. In Florida, a manager of a Pizza Hut restaurant in the path of Hurricane Irma drew ire when he threatened to discipline workers who evacuated for the storm outside of a designated time frame.

Major flooding in China in June affected more than 14 million people. More than 1,000 were killed in landslides in Sierra Leone, and 24 million people were affected by heavy flooding in south Asia. Mexico suffered two major earthquakes in September, killing nearly 500 and collapsing dozens of structures. An earthquake in Iran killed more than 500 in November.

### CASUALTY ACCIDENTS

Casualty accidents represent a small piece of the crisis pie at just 1.61%, though up from 0.02% in 2016. In April the small town of Firestone, Colo., reeled following the deaths of two brothers-in-law in a house explosion caused by natural gas leaking into the basement from a nearby Anadarko Petroleum well. A few weeks later and just a few miles away, a contract worker was killed when an Anadarko holding tank exploded. Both incidents prompted federal and state investigations and calls for tougher regulation of the oil and gas industry in the state.

The Federal Railroad Administration reported that in 2017, there were



CATEGORY	2017 %	2016 %
Catastrophes	4.12%	0.17%
Casualty Accidents	1.61%	0.02%
Class Actions	3.67%	3.93%
Activism	5.76%	6.83%
Cyber	4.47%	5.24%
Defects/Recalls	2.86%	3.17%
Discrimination	18.01%	21.84%
Envrnmntl Damage	4.52%	2.66%
Exec Dismissals	4.18%	3.66%
Financial Damage	0.11%	0.14%
Hostile Takeovers	1.28%	0.14%
Labor Disputes	3.77%	0.15%
Mismangement	26.73%	30.93%
Sexual Harassment	0.70%	0.51%
Whistleblowers	6.64%	6.60%
White Collar Crime	10.94%	11.07%
Workplace Violence	0.24%	0.32%

2,105 incidents at U.S. railway crossings, causing 274 deaths and 807 injuries. Hundreds more lives were lost in derailments and crashes in India, South Africa, Great Britain, Cameroon, Egypt, Congo, France and Belgium, among others. There were growing calls for increased regulations in light of the crash death of the driver of a Tesla self-driving car. On the bright side, 2017 was the safest year on record for commercial aviation, with zero deaths recorded.

### 2017 Most Crisis-Prone Industries

- Banking and Financial Services
- Technology
- Automotive
- Transportation
- Pharmaceuticals
- Food
- Health Care
- Manufacturing
- Government agencies

### CLASS ACTIONS

Class Actions were flat year-over-year at 3.67%. The number of shareholder actions has increased exponentially in recent years, however, including 131 securities suits filed in the first half of 2017, a historical high. Industry pundits say the increase is being driven by enterprising plaintiffs' firms bringing more but weaker cases in the hopes that companies will settle early. The city of Everett, Washington filed a lawsuit against OxyContin maker Purdue Pharma alleging the drug maker did nothing to stop the flood of black market pain pills into the city. In another baby powder case against Johnson & Johnson, a jury awarded a woman with ovarian cancer \$417 million.

### CONSUMER ACTIVISM

Activism stories were down slightly over 2016 at 5.76%. Social media continue to fan the flames of consumer outrage, though, with the smallest of slights often erupting into huge crises for companies large and small. In Denver, Colorado, an Ink! Coffee Shop endured days of social media attacks and protests over an advertising sign placed outside their shop, proclaiming the shop was "happily gentrifying the neighborhood since 2014." Critics denounced the sign as racist, although it was arguably the error of an igno-

rant advertising manager. The café closed for days while protests continued on the sidewalk outside.

### CYBER

The Identity Theft Resource Center reported a record high 1,579 breaches impacting 179 million records in the U.S., a 44.7% increase over the prior year. The business category topped their list for the third straight year at 55% of the overall total. While most of the reported breaches impacted just a few hundred to a few thousand records, hundreds of reports said the impact was unknown, likely driving the total number of records breached up by millions.

Among the largest breaches were Equifax (143 million records) and Verizon (14 million records). FedEx reported in September that a cyber-attack cost the company \$300 million. According to the 12<sup>th</sup> annual IBM Ponemon Institute study, the average cost of a breach is now \$3.6 million. The cost per record dipped slightly from 2016 to \$141.00. As cybercrime evolves, businesses are better understanding and more effectively managing the threats.

### PRODUCT DEFECTS AND RECALLS

This category dipped slightly from 2016, coming in at 2.86%. The U.S. Food and Drug Administration issued 438 food recalls during the year, most for undeclared allergens and mislabeled products. Automotive



recalls dropped significantly to just 28 million units, down from an industry high of 53 million in 2016. Among the largest auto recalls were Fiat Chrysler's four million, Honda's 3.3 million and Ford's 1.1 million. BMW recalled every 2014-2018 model i3 electric car after it was found that it failed to comply with U.S. motor vehicle safety standards.

Embattled drug maker Mylan NV suffered another hit to its reputation when the U.S. Food and Drug Administration announced reports of seven deaths related to the failure of its signature product, the Epi-Pen.

Among its many crises during the year, Uber was lambasted for leasing 1,000 vehicles to drivers in Singapore that they knew had been recalled by Honda but not repaired. Samsung worked to recover from its 2016 Galaxy Note 8 debacle with the launch of a new version.

Other recalls included 663,000 dishwashers that could overheat and catch fire, two million Calphalon knives with defective handles, 40 million Kidde fire extinguishers and 100,000 Stihl gas chain saws with potentially leaky fuel lines.

## DISCRIMINATION

Although down slightly at 18%, discrimination stories continued to make headlines and create significant financial exposure for companies. Gender bias in the tech industry came under increasing scrutiny. In one of the most notable crises, Google found itself subject to scrutiny from the alt-right after firing a male engineer who circulated a memo claiming there are biological reasons that women are not equally represented in tech leadership. Several former Google employees filed a class action alleging a pattern of discrimination against women workers.

The top ten employment discrimination settlements totaled \$2.72 billion in 2017, nearly a billion dollars more than 2016, according to law firm Seyfarth Shaw. Fast food chain Panda Express settled a claim that it discriminated against workers who were not American citizens. The University of Missouri continues to suffer from 2015 racism allegations, where enrollments are down by 2,000 and seven dormitories have been closed. Significant cases are underway relevant to issues involving lesbian, gay, bisexual and transgender (LGBT) individuals, including cases at Indiana's Ivy Tech Community College, Hartford Insurance and outdoor retailer Cabela's.

## EXECUTIVE DISMISSALS

According to the Wall Street Journal, 919 CEOs resigned, re-tired or were fired at North American publicly traded companies in 2017, helping drive an increase in this category to 4.18%, up from 3.66% in 2016. Some of the most notable CEO departures included Uber's

Travis Kalanick, Ford Motor Company's Mark Fields, Richard Smith of Equifax, Chipotle co-founder Steve Ells, Kellogg's CEO John Bryant, Anthem CEO Joseph Swedish and Papa John's founder John Schnatter. Equifax's Smith resigned following the company's massive data breach. Uber founder Kalanick was forced out after numerous allegations of abuse and sexual harassment. Schnatter stepped down for the second time after he blamed poor sales on the NFL and its issue with players taking a knee during the National Anthem.

Companies have become much more likely to dismiss chief executives over scandal or improper conduct.

According to consulting firm PwC, there are five reasons for the rise of ethics-based dismissals, including an increasingly suspicious public, more proactive governance and regulation, risks in emerging markets, the rise of digital communications and the 24/7 news cycle and proliferation of the media.

It was not just CEOs on the proverbial chopping block. CBS executive Hayley Geftman-Gold was fired after her Facebook posting saying that she had no sympathy for the Las Vegas shooting victims because "country music fans are often Republican gun toters." Netflix exec Andy Yeatman was fired after revealing that the company did not believe rape allegations against Danny Masterson, an actor in the Netflix series *The Ranch*. Several Wells Fargo executives were sacked in the big bank's ongoing sales practice scandals, including the head of consumer lending after he complained about regulators, and four others who were fired for cause after authorities fined the company \$185 million over its fake accounts scandal.

## LABOR DISPUTES

Stories about labor disputes rose sharply in 2017 to 3.77% from just 0.15% in 2016. Despite the increase, the U.S. saw its lowest level of major work actions since 1947, with just seven major stoppages that idled 25,000

workers. The largest of these was between Charter Communications and the International Brotherhood of Electrical Workers, idling 1,800 workers for months.



In April, a general strike in Brazil included more than 150 cities and 40 million people according to organizers. Several trade unions called for protests against new labor and social security laws proposals. In Spain, separatists held a general strike following Catalan's unsuccessful independence referendum.

Public services workers in Ghana declared a series of actions in March to demand reversal of the firing of 32 coworkers. In Nigeria, the National Union of Air Transport Employees issued an ultimatum to civil aviation authorities after a recent promotion exercise excluded several qualified staffers.

The transportation industry seems to be a perennial target for strikes. In July, airport workers at New York's LaGuardia airport went on strike, citing unfair labor practices of employer PrimeFlight Inc. In Philadelphia, public transit workers walked out. Ireland's bus drivers walked out in February leaving more than 100,000 commuters stranded. U.K.'s Merseyrail staff announced a strike after management introduced driver-only trains, eliminating guards called safety-critical by the union. Elsewhere in the U.K., Heathrow-based British Airways cabin crew announced a 16-day strike in a long-running pay dispute.

In India, coal miners launched a hunger strike, demanding "regularization of their services" and in February, banking operations across India were hit with a day-long nationwide strike.

In January, 2,000+ Google employees worldwide staged a walkout in protest of President Trump's order banning certain immigrants from entering the U.S. Both the CEO and the president of Google parent Alphabet Inc., both immigrants themselves, joined the protest. In February, several organizations planned nationwide strike and boycott activities to oppose Trump Administration policies.

## MISMANAGEMENT

The perennial winner in terms of the sheer number of crisis news stories, mismanagement again led the way in 2017 at 26.73%. ICM defines mismanagement to include professional malpractice, misappropriation of resources, misconduct, negligence, collusion and unethical or questionable practices that lead to adverse impact on organizations.

Wells Fargo saw its 2016 crisis widen as more skeletons emerged from its corporate closet. In March,

the company announced additional steps to restructure its retail banking business in the wake of the sales scandal where it said that two million accounts were created without customers' knowledge. Later in March they announced an overhaul of the credit card processing business after an internal probe found some employees falsely reported customers' sales and pushed small firms into contracts they didn't understand. In July, it was revealed that the company



had lost more than 500 employees in its brokerage arm due to the scandal. In August, the company began facing more regulatory scrutiny over its auto insurance practices after the bank announced it was refunding about \$80 million to as many as 570,000 auto loan customers for insurance policies they were billed for but didn't authorize. In September, the company raised its estimate of what it called "potentially unauthorized" accounts to 3.5 million, a 67% increase over what was disclosed in 2016. And in November, a federal regulator advised the company that it was considering a formal enforcement action over the bank's repeated failure to correct problems in a broad range of areas, including its auto insurance and mortgage lending units. But the behemoth bank was not the only big company in the spotlight last year.

Six high-level employees were indicted, and Volkswagen AG pleaded guilty to criminal charges for rigging diesel-powered vehicles to cheat on U.S. emissions tests. The scandal has cost the company more than \$25 billion in the U.S. alone in fines, penalties and compensation aggrieved customers. Japan's Kobe Steel admitted to falsifying data on products sold to transportation juggernauts like Boeing and numerous car manufacturers. The company's stock took a 40% nosedive after the fraud became public.

## SEXUAL HARASSMENT



We were admittedly surprised that this category didn't generate more news stories in 2017, but we expect that we will see a continued increase in 2018 as more victims come forward across numerous industries. One of the most egregious abuses of power went public last year when former USA Gymnastics doctor Larry Nasser was accused of sexual assault by more than 250 female gymnasts, with abuse allegations spanning several years. Nasser pleaded guilty to molesting several girls, and more than 100 testified at his sentencing hearing in early 2018. The fallout has cost the jobs of board members and executives at USA Gymnastics and Michigan State University, where Nasser was a team doctor.

Accusations of sexual harassment and assault were leveled against numerous high-powered men last year, including filmmaker Harvey Weinstein, Fox News chief Roger Ailes and popular commentator Bill O'Reilly, NBC News anchor Matt Lauer, NPR radio star Garrison Keillor and countless others. An investigation by the Associated Press found that thousands of K-12 students across the U.S. have been sexually assaulted and that such attacks are routinely underreported. Data uncovered by the AP found that student-on-student assaults were more common than adult-on-child assaults that receive far more attention.

A wide-ranging investigation at Uber Technologies into its aggressive male-dominated culture cost 20 employees their jobs amid allegations of sexual harassment. The CEO of online lender Social Finance, Mike Cagney, resigned following a lawsuit alleging sexual harassment and accusations of other misconduct. Seattle, Washington mayor Ed Murray resigned in September after five people accused him of sexual abuse. Fidelity Investments finally moved to address long-simmering problems related to allegations of sexual misconduct and bullying that led to the ouster of some high-profile employees, including star portfolio manager C. Robert Chow. Advertising firm Martin Agency's

employees cried foul when the company lacked transparency about the resignation of its chief creative officer following allegations of a pattern of harassment.

Unfortunately, sexual harassment and abuse are not unique to the United States. In January a string of high profile sexual abuse cases in Israel included former president Moshe Katsav, who was freed from prison after serving five years on a rape conviction. Other top-ranking Israeli officials, including senior government officials, judges, members of parliament and military leaders have been charged recently with sex offenses. In Germany, the military was under investigation for what was described as the 'common practice' of forcing recruits to carry out demeaning sex acts which were filmed by other soldiers. The German army released a statement in January revealing that a significant number of incidents had occurred.

## WHISTLE BLOWERS



This category was flat year-over-year at 6.64%. Kmart Corp. agreed to pay \$32.3 million to settle a whistleblower lawsuit alleging its pharmacies overcharged federal healthcare programs and some private insurers for generic prescription medicines. The lawsuit was originally filed in 2008 under the U.S. False Claims Act. The CEO of Barclays Bank was investigated by regulators for his attempts to unmask the identity of a whistleblower who had written anonymous letters raising concerns about a senior employee. During its fiscal year 2017 ended September 30, the U.S. Securities and Exchange Commission (SEC) ordered whistleblower awards totaling nearly \$50 million to 12 individuals. U.S. law allows a portion of monies recovered in these cases to be awarded to the whistleblower. The SEC reported that it received more than 4,400 tips during its most recent fiscal year.

Baxter Healthcare Corp. paid more than \$18 million to settle several lawsuits and paid about \$430,000 to a whistleblower who reported moldy air filters in its North Carolina manufacturing facility. The company

admitted to introducing adulterated drugs into the national market because it did not follow good manufacturing processes. MedStar Ambulance of Massachusetts agreed to pay a \$12.7 million settlement in a far-reaching Medicare fraud case. The whistleblower received \$3.5 million.

## WHITE COLLAR CRIME

This category remained flat year over year, coming in at 10.94%. Wal-Mart Stores Inc. tried and failed to settle a bribery investigation that has lasted more than five years and cost the company more than \$800 million. The company has been under investigation for allegations that it violated the Foreign Corrupt Practices Act by paying bribes to government officials in Mexico and other countries. Hundreds of mayors in Brazil have been implicated in a series of probes that uncovered staggering degrees of corruption across the country.

A New York state pension fund ended its relationship with Amherst Pierpont Securities amid bribery allegations against portfolio manager Navnoor Kang. In Massachusetts, the former head of a compounding pharmacy was acquitted of murder charges but convicted of racketeering and other crimes in a meningitis outbreak that was traced to fungus-filled drugs linked to the deaths of 64 people. A former Volkswagen executive pleaded guilty to conspiracy to commit fraud in the U.S. for his role in the emissions-cheating scandal.

Barclays PLC's former CEO John Varley was charged with fraud in the U.K. along with three other executives and the bank itself over how they orchestrated a cash infusion that rescued the organization during the peak of the financial crisis. Electronics juggernaut Samsung continued to struggle as its reputation repair efforts were hampered by the corruption conviction of vice chairman Lee Jae-yong. Lee's father, Samsung Chairman Lee Kun-hee is under investigation for tax evasion.

## WORKPLACE VIOLENCE

ICM counted just 1,915 stories tied to workplace violence in 2017, accounting for just 0.24% of the total. In one of the worst cases of workplace violence, 26 people were shot and killed in a church in Sutherland Springs, Texas.

United Airlines came under fire in April following the forcible removal of a passenger from a plane traveling from Chicago's O'Hare Airport to Louisville, Ky.

The passenger, Dr. David Dao, was injured while security officers dragged him from the plane. The entire incident was caught on video, forcing United to issue multiple apologies and confront a workplace culture that "let policies and procedures get in the way of doing the right thing." Initially, CEO Oscar Munoz apologized for having to "reacomodate passengers," which met with outrage on social media for its admitted "failure of epic proportions."



## LESSONS LEARNED

Smoldering issues that erupt into full-blown crises continue to dominate the headlines. Still, just over half of all organizations have a crisis plan, increasing their exposure to risk for financial and reputational damage that can be tough to overcome. Companies that plan ahead, prepare for and train to address crises will better weather the inevitable attack on their brand when it hits. Among the most important crisis lessons of 2017:

- ◆ Examine your organization's vulnerabilities and develop strategies to address them.
- ◆ Learn from the mistakes of your competitors and peers.
- ◆ Build a "goodwill bank" with stakeholders ahead of a crisis by being candid and transparent.
- ◆ Be prepared for video to emerge on social media that can cause irreparable damage.
- ◆ If you have not already, invest in a crisis communication plan.
- ◆ If you have a plan, update it this year and conduct training exercises for the crisis management team.

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### Deborah Hileman, SCMP ICM President and CEO



A certified strategic communication management professional (SCMP), business leader, coach and consultant with more than 30 years' experience in public and private companies and non-profit organizations, Ms. Hileman has led high-performing communications teams in health care, manufacturing, insurance and financial services, nonprofits and higher education.

Known as a voice of calm in the midst of chaos and crisis, Ms. Hileman has earned a reputation as a trusted communication strategist and advisor to board members and C-suite executives, operations leaders and other organizational stakeholders. She has delivered media relations training and counsel to hundreds of executives and managers, coaching them to "think on their feet" and manage tough media interviews calmly and effectively.

Based in Denver, Colo., Ms. Hileman volunteers with several organizations, including the Public Relations Society of America, and the International Association of Business Communicators, where she is a 2018-19 member of the International Executive Board and 2017-18 chair of the Global Communications Certification Council. She is a Board member of the Invisible Disabilities Association, a Colorado-based 501(c)3 non-profit.

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