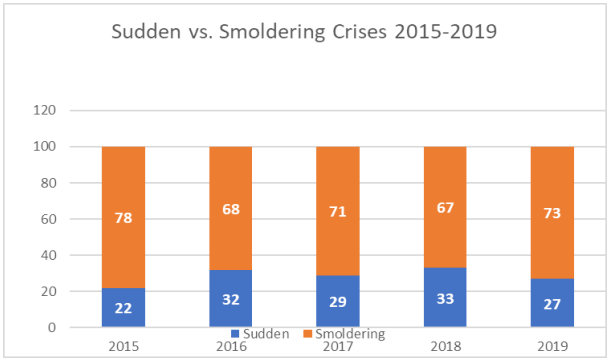
ICM ANNUAL CRISIS REPORT

GLOBAL NEWS COVERAGE OF BUSINESS CRISES IN 2019

Issued May 2020

It was another year of bad headlines for enterprises large and small across the globe and some surprising shifts in the categories generating the most negative headlines during the year. **The Institute for Crisis Management** tracked a total of 760,099 negative news stories in 2019, a decrease of four percent from 2018. Organizations at the heart of some of the year's biggest crises continue to struggle to recover from a variety of problems, both unintended and self-inflicted.



Smoldering crises accounted for 73% and sudden crises 27%, respectively, of stories tracked in 2019. For some of the world's best-known brands, 2019 harbored an unwelcome continuation of crises that began in previous years.

It is important to note that because we report categories as a share of all crisis stories tracked, in some cases the actual number of stories may increase year-over-year while the category's percentage may decline. The reverse may also be true.

CATASTROPHES

Natural disaster headlines accounted for just 2.26% of crises stories tracked by ICM, a decrease of 74 percent over the previous year. Various data sources provided different accounts of the number and cost of catastrophes in 2019. According to insurance broker Aon, there were 409 events during the year totaling $232 billion in damages and costing more than 11,000 lives. The Insurance Information Institute reported 820 events in 2019 totaling $150 billion and 9,000 fatalities. By either measure, 2019 was a devastating year for natural disasters across the globe, with 40 disasters costing $1 billion or more.

Among the most devastating were Cyclone Idai, which struck Mozambique, Zimbabwe and Malawi and claimed more than 1,300 lives; Typhoon Hagibis, which struck Japan in October and caused $15 billion in damage and claimed 99 lives; wildfires across Australia driven by extreme heat waves destroyed millions of acres; an earthquake in Albania in November claimed more than 50 lives; and flooding in China caused more than $15 billion in damages and cost 300 lives. Flooding accounted for a majority of disasters, including events in India, the U.S., Iran, Italy, Austria, Spain, Argentina, Uruguay, Australia, France and Indonesia.

CASUALTY ACCIDENTS

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

The Mass Casualty category increased by 12 percent. While major commercial airliner deaths fell by 50% in 2019, crashes of two Boeing 737 MAX jetliners dominated news headlines throughout the year, driving the beleaguered manufacturer deep into a crisis of its own making. Of the 257 total commercial airliner fatalities in 2019, 157 died in March when an Ethiopian Airlines 737 MAX crashed. In December, 12 people lost their lives

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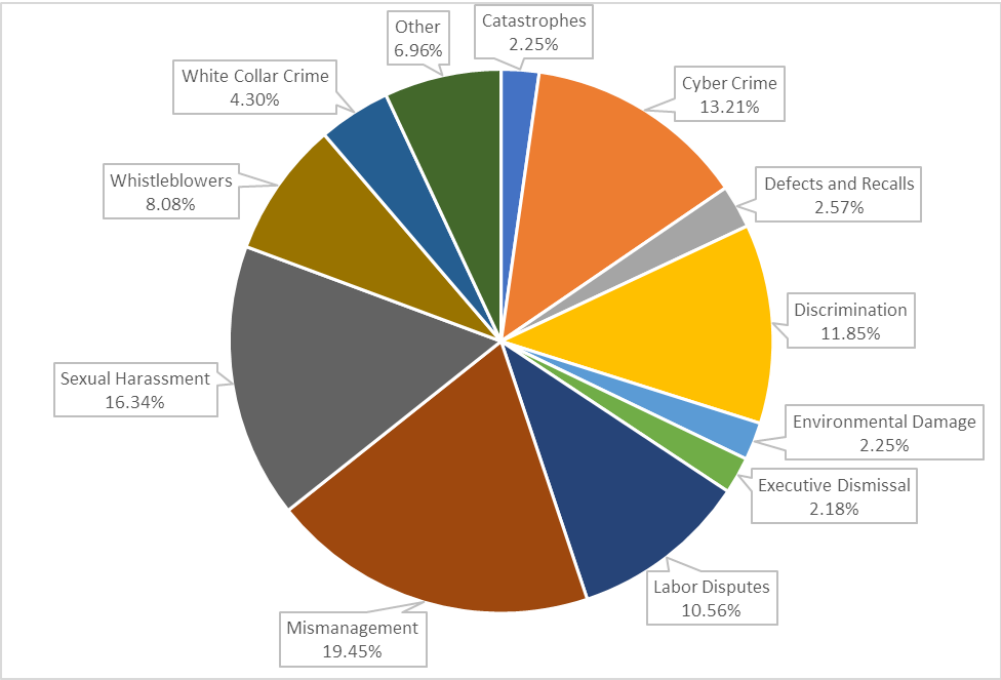
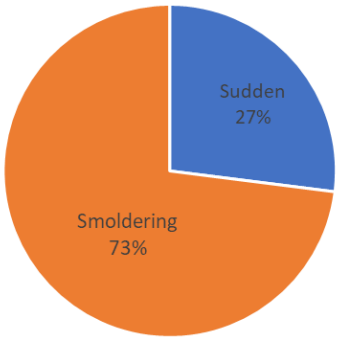
2019 CRISIS CATEGORIES





Other: *Casualty Accidents 0.68%, Class Actions 1.19%, Activism 1.82%, Hostile Takeovers 1.17%, Workplace Violence 1.59%*

when a Fokker 100 operated by the Kazakh carrier Bek Air crashed shortly after takeoff.

Train crashes continue to claim lives. In the U.S., 937 people died in train accidents, an increase of 15% over 2018. In January in Denmark, an express passenger train was struck on a bridge, killing eight and injuring 16. Two passenger trains collided in South Africa in January, injuring more than 600 and killing at least four. In Congo in March, a freight train with passengers in the freight cars derailed, killing 32 and injuring 70. Fatal accidents also occurred in Bangladesh, India, Pakistan and Canada.

The international shipping industry was reeling during the year after a spate of fires aboard vessels that crippled large cargo carriers, killing crew members and causing hundreds of millions in damages. In April, 150 people were reported missing and presumed dead after a boat sank on Lake Kivu in the Democratic Republic of Congo.

CATEGORY	2019	2018	2017
Catastrophes	2.3%	8.2%	4.1%
Casualty Accidents	0.7%	0.6%	1.6%
Class Actions	1.2%	0.7%	3.7%
Activism	1.8%	2.3%	5.8%
Cyber	13.3%	12.8%	4.5%
Defects/Recalls	2.6%	2.8%	2.9%
Discrimination	11.9%	14.3%	18.0%
Envrnmtl Damage	2.3%	3.0	4.5%
Exec Dismissals	2.2%	1.0%	4.2%
Hostile Takeovers	1.2%	1.2%	1.3%
Labor Disputes	10.6%	9.4%	3.8%
Mismanagement	19.6%	22.1%	26.8%
Sexual Harassment	16.4%	9.4%	0.7%
Whistleblowers	8.1%	5.5%	6.6%
White Collar Crime	4.3%	5.4%	11.0%
Workplace Violence	1.6%	1.4%	0.2%

CLASS ACTIONS

The Class Action category increased by 58 percent in 2019 to 1.19%. Consulting firm Cornerstone Research reported more than 400 new class action securities litigation suits were filed, the most on record in a year.

The year brought a number of significant settlement payouts as well. Tracker topclassactions.com reported that settlement payouts meant checks of up to $1,200 to victims of Target's 2013 data breach. Health insurer Anthem reportedly made payouts

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of up to $5,000 each to settle its 2015 data breach case. Fast-food giant McDonald's agreed to pay $26 million to settle a years-long battle over accusations of wage theft.

The pharmaceuticals industry was slammed on all fronts in 2019. OxyContin maker Purdue Pharma filed for bankruptcy in September. Johnson & Johnson was ordered to pay $572 million in a landmark opioid trial in Oklahoma. Bayer executives probably regret the acquisition of chemical company Monsanto following an $80 million jury verdict against its popular Roundup® herbicide. The German manufacturer ran a full-page ad in the Wall Street *Journal* defending Roundup's safety just two days before the verdict was announced.

CONSUMER ACTIVISM

Activism headlines decreased by 25 percent to 1.82% in 2019. The face of activism has shifted from one focused solely on the boycott of offending companies to one that also focused on "buycotts"—social media driven activities designed to support brands considered good corporate citizens.

Social media activism presents a growing threat to brands as boycotts continue to generate headlines. Among the brands that took a reputation hit in 2019 were Dolce and Gabbana, Nike, Danone, Equinox and SoulCycle. In the United States, politics has played a growing role in anti-brand activism, too, as the anti-Trump #GrabYourWallet campaign has launched dozens of boycotts against brands with links to the administration or the Trump family.

CYBER

Cyber ticked up slightly over 2018 at 13.28%. In perhaps the largest cyber story of the year, the U.S. government issued an historic $5 billion fine against Facebook for repeated privacy violations, ending a 16-month investigation into the company's involvement with Cambridge Analytica.

According to the IBM Ponemon Institute's annual study, the global average cost of a data breach was $3.92 million in 2019 or $150 per record compromised.

2019 Most Crisis-Prone Industries

- **Aviation**
- **Banking and Financial Services**
- **Technology**
- **Education**
- **Transportation**
- **Pharmaceuticals**
- **Food**
- **Retail**

Hackers attacked Ring in-home security cameras, startling children and putting parents on edge. A software engineer in Seattle hacked a Capital One server, compromising more than 100 million customer records. Credit reporting firm Equifax paid more than $650 million in the largest-ever data breach settlement over its 2017 incident. British Airways was hit with a $230 million fine and Marriott a potential $124 million fine over hacks to their systems.

DEFECTS AND RECALLS

The Defects and Recalls category decreased by 11 percent in 2019, to 2.59%. According to an article in the Washington *Post*, product recalls fell to their lowest level in 16 years in 2019, dropping for the third year in a row. The Consumer Product Safety Commission announced 241 recalls for products ranging from unstable furniture and flammable clothing to dangerous lawn mowers. One of the most noteworthy recalls involved the Fisher-Price Rock 'n Play, an infant sleeper connected to more than 30 deaths.

The U.S. Food and Drug Administration issued nearly 400 recalls in 2019, the majority of which were for food and beverage products. The U.S. Department of Agriculture's Food Safety and Inspection Service issued recalls for 12 million pounds of Tyson Foods chicken strips and 191 thousand pounds of Tyson chicken fritters for possible foreign matter contamination. Romaine lettuce again came under fire with E coli outbreaks that sickened more than 100 people in 23 states.

In another big year for auto defects, the top ten

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recalls accounted for 11,663,200 vehicles from 15 nameplates, including American, Asian and European makes and models.

Skechers shoes pounced on Nike's bad press following Duke University basketball phenom Zion Williamson's shoe blowout on the court, running advertisements with the slogan "We won't split on you." Johnson & Johnson took another reputational hit in October when it recalled a single lot of baby powder when the FDA found traces of asbestos. J&J has been fighting litigation alleging its talc products contain cancer-causing asbestos for several years.

DISCRIMINATION

The Discrimination category trended downward again after increasing in 2016-2017. The category accounted for 11.92% of stories tracked, down 20 percent. Nonetheless, several venerable brands were hit with discrimination suits. In April, a suit was filed against Disney alleging that the entertainment behemoth pays female workers less than their male counterparts. Frontier Airlines flight attendants alleged in a lawsuit that the budget airline discriminates against pregnant and nursing employees.

Uber settled a federal investigation that alleged the company permitted a culture of sexual harassment and retaliation, establishing a $4.4 million fund to pay current and former employees who were harassed at work. West Virginia Governor Jim Justice approved recommendations to terminate 31 graduating correctional officer cadets who participated in an apparent Nazi salute during a class photo. Oberlin College in Ohio was ordered to pay $33 million in damages after college officials were accused of libel for stoking racist claims by students against a local bakery.

ENVIRONMENTAL DAMAGE

Headlines about human-caused environmental issues decreased significantly in 2019, down 27 percent to just 2.26%. In May, now bankrupt California utility company Pacific Gas & Electric was found culpable for wildfires in 2018 that killed 85 people and caused billions in losses. Prosecutors in Germany opened a criminal probe into the role of a safety inspector over the collapse of a mine-waste dam in Brazil that killed 270.

In April, a blast at Jiangsu Tianjiayi Chemical Company in eastern China killed 78 and raised fears of toxic fumes spreading in the air and water. In June, explosions at a Philadelphia Energy Solutions refinery released a toxic cloud of more than 143 thousand pounds of hydrogen fluoride and destroyed the refinery's alkylation unit, where crude oil is converted into high octane gasoline. In November, thousands were evacuated in south Texas after an explosion at a chemical plant in Port Neches.

EXECUTIVE DISMISSALS

Executive dismissal news increased 210 percent to 2.19% in 2019. Search firm Challenger, Gray & Christmas reported that CEO turnover hit its highest level in more than a decade, with 1,640 CEOs departing their roles. According to Challenger, while most departures were unremarkable, boards are increasingly holding CEOs accountable for lapses in professional and personal conduct.

McDonald's fired CEO Steve Easterbrook over an inappropriate relationship with an employee. Google parent Alphabet came under scrutiny after it was revealed that two former top Google execs received a combined $135 million in exit packages after allegations of sexual misconduct.

HOSTILE TAKEOVERS

Hostile takeover stories were down slightly from 2018 at 1.17%. One of the biggest headline-generating stories was Xerox's attempted takeover

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of Hewlett Packard. Rebuffed by HP, Xerox took its offer directly to shareholders in December in an attempt to seal the deal. In another large deal announced in November, Charles Schwab announced its acquisition of rival TD Ameritrade.

The fledgling Canadian corporate cannabis industry heated up in February when Green Growth Brands launched a takeover bid of Aphria LP. The Aphria board said that the hostile bid significantly undervalued the Aphria enterprise and the tie-up would cause it to be delisted from the Toronto and New York stock exchanges.

In another headline-grabbing takeover story, hedge-fund controlled Media News Group failed in its bid to acquire rival media giant Gannett. Gannett shareholders voted to reject the MNG offer and retained control of its board in May.

LABOR DISPUTES

The Labor Disputes category increased by nine percent to 10.62%. Teachers and auto workers contributed to one of the largest years for worker protests in recent memory. Teachers led the way, striking in some of America's largest school districts, including Los Angeles, Denver and Chicago.

There were 25 major work stoppages in the U.S. last year involving 1,000 or more workers (U.S. Bureau of Labor Statistics). Of the 425,000 workers involved in major work stoppages, 270,000 were in the education sector.

The largest work stoppage was the dispute between the United Auto Workers and General Motors, idling 46,000 workers for 29 working days.

In France, a national strike erupted in December protesting President Macron's pension reform plans. In September, British Airways was forced to cancel hundreds of flights when the pilots' union launched a 48-hour walkout.

Walmart faced a backlash in March when the retailer announced it was eliminating 'greeters,' front-line positions that bolstered the company's image as community friendly. Southwest Airlines in March sued its mechanics union for what the airline claimed was an illegal work slowdown that grounded planes.

MISMANAGEMENT

Mismanagement accounted for 19.56% of stories tracked last year. In part due to increases in other categories the proportion of mismanagement stories decreased by 15 percent from 2018.

Boeing led the category with thousands of news stories related to its 737 MAX scandal. In a painful self-inflicted crisis the company stumbled through ineffective communications strategies that lacked transparency, coupled with whistleblower revelations that ultimately cost CEO Dennis Muilenberg his job.

Scandal-ridden Wells Fargo was not far behind, announcing new multi-million-dollar settlements in its trilogy of management-driven crises. In March, the company announced a $386 million settlement to a class-action by customers who said the bank forced them to buy unnecessary auto insurance. Timothy Sloan, the embattled CEO who took over when the initial scandals broke in 2016 resigned abruptly in March, clearing the way for the third new CEO in as many years.

In February, Deloitte Japan agreed to pay $2 million to settle charges by the U.S. Securities and Exchange Commission that it failed to report that dozens of its employees had financial relationships with an audit client.

The European Union fined Google $1.69 billion over alleged years-long anti-trust activities. Food giant KraftHeinz said that accounting errors dating back several years broadened the scope of shareholder litigation and a federal securities probe. Duke University was ordered to pay the federal government $112.5 million to settle claims of research misconduct. German-based Fresenius Medical agreed to pay $231 million to settle Foreign

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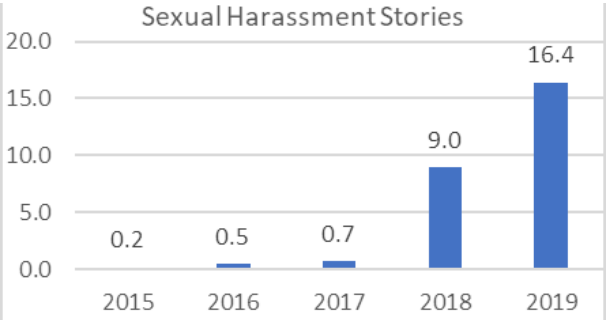
Corrupt Practices Act investigations by the U.S. Justice Department.

AT&T agreed to pay $60 million to settle past claims by the U.S. Federal Trade Commission for allegedly "throttling" customers with unlimited data plans. In a stunning case that hit the headlines in November, four United Parcel Service (UPS) employees were charged with helping to import and traffic massive amounts of drugs and counterfeit vaping oils from Mexico.

SEXUAL HARASSMENT

As we anticipated, Sexual Harassment headlines increased by a whopping 67 percent to 16.43%. To put this number in perspective, in 2017, this category accounted for less than one percent of all stories ICM tracked.



Budget airliner JetBlue was sued by two flight attendants who alleged that two pilots drugged and raped them during a layover in 2018. The founder and CEO of British fashion chain Ted Baker resigned following numerous accusations of inappropriate behavior. Dartmouth College agreed to a $14 million settlement of a class action brought by female students who accused the school of ignoring sexual misconduct by professors.

Michigan State University lost its direct liability insurance coverage for sexual misconduct claims after the Larry Nasser scandal. The Chili's restaurant chain was sued by the U.S. Equal Employment Opportunity Commission over allegations that a restaurant manager continually harassed female employees.

In December, Uber announced that it had received nearly 6,000 sexual assault complaints in 2017 and 2018. Although startling the number represents just a small fraction of the 2.3 billion rides provided during that time, according to the company.

WHISTLEBLOWERS

Whistleblower headlines were a surprising increase, up 43 percent to 8.13% in 2019. The U.S. Securities and Exchange Commission's report for fiscal year 2019 noted that the agency received more than 5,200 whistleblower calls, its second largest number of tips since the inception of the program, and awarded $60 million in whistleblower awards to eight individuals whose information and cooperation supported successful cases. The agency reported a variety of enforcement actions including wrongdoing by retail investors and misconduct occurring outside the U.S. Tips came from all 50 U.S. states and from 70 countries.

Boeing suffered a huge hit to its 737 MAX scandal with claims from an insider whistleblower related to the manufacturer's cozy relationships with regulators. Drug manufacturers came under increasing scrutiny as the opioid crisis continued unabated, with finger pointing in all directions and individual plaintiffs, cities, counties and states suing drug makers and demanding accountability for the crisis.

WHITE COLLAR CRIME

In another surprising turn white collar crime stories decreased by 23 percent to just 4.32% last year. In a stunning development, former Nissan CEO Carlos Ghosn managed to evade prosecution in Japan in a daring illegal escape to Lebanon worthy of a spy movie.

Volkswagen's diesel emissions scandal continued when former CEO Martin Winterkorn was charged with defrauding investors by U.S. regulators. German prosecutors charged the company's two highest-ranking executives with market manipulation. The company has already paid out more than $20 billion in fines and settlements related to the crisis.

In a headline grabbing development, The U.S. Justice Department filed criminal charges in January against Chinese tech giant Huawei, two of its subsidiaries and a top executive, accusing them of misleading banks and violating U.S. sanctions.

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In the only case where a financial institution was criminally charged in connection with the federal bank bailout program following the 2008 meltdown, four top executives from Wilmington Trust were convicted in the downfall of the bank founded by the du Pont family more than a century ago.

Goldman Sachs was in talks with the U.S. government to pay a $2 billion fine to settle charges in a criminal investigation into its role in a Malaysian corruption scandal. General Motors sued Fiat Chrysler, alleging that it bribed UAW officials in contract negotiations. The union president resigned hours after the lawsuit was filed. In another union scandal, former UAW vice president and ex-GM board member Joe Ashton was charged with fraud and money laundering.

WORKPLACE VIOLENCE

The workplace violence category increased by 11 percent to 1.59% in 2019. Workplace violence can be defined as any act or threat of physical violence, harassment, intimidation or threatening disruptive behavior that occurs in the workplace.

In one of the most shocking stories we encountered in this year's research, three women were

charged in October with creating a makeshift "fight club" at a North Carolina nursing home, pitting dementia patients against one another at an assisted living facility. The assaults were recorded on cell phone video.

There were 417 mass shootings in the U.S. last year (a mass shooting is defined as having four or more victims, according to the Gun Violence Archive). Thirty-one of those were mass murders. A manufacturing company worker in Aurora, Ill. opened fire after being dismissed in February, killing five coworkers and wounding five police officers before being killed by police. Three people were killed and three injured in a shootout at a kosher grocery in Jersey City, N.J., in December. A drive-by shooting in Texas in August left seven dead and 24 wounded. At a municipal building in Virginia Beach, Va., a former city employee killed 12 and wounded four. The United States House of Representatives in November passed H.R. 1309, the Workplace Violence Prevention for Health Care and Social Service Workers Act. The bipartisan legislation stalled in the Senate.

LESSONS LEARNED

Although it is early in 2020 as we write this, it is clear that the report we issue *next* year will be a significant anomaly with the worldwide COVID-19 pandemic expected to skew numbers in ways we cannot yet predict. The pandemic is surely enough evidence to convince executives that they cannot afford *not* to have a crisis management and crisis communication plan and strategy developed, deployed and rigorously tested. The investment in such preparedness is minimal compared to the overwhelming costs of a failure to plan. As we like to say, "prepare and prevent, or repair and repent!"

We urge organizational leaders to:

- Make the investment. NOW. Hire outside help if needed but get moving to get crisis plans going before year's end.
- Three plans are needed: operational response, recovery and continuity, and crisis communications.
- Evaluate your company's vulnerabilities to a variety of issues and potential crises and develop strategies to address them.
- Start by learning from the work done to respond to the pandemic and make sure you have a plan for a widespread crisis.
- If you already have a crisis plan, dust it off and update it. Schedule training exercises to help the crisis team prepare to act when the time comes.
- Call ICM today to help you get started!

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Deborah Hileman, SCMP

ICM President and CEO

A globally certified strategic communication management professional (SCMP), business leader, trainer, 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 a 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 South Bend, Ind., Ms. Hileman works with several organizations, including the International Association of Business Communicators, where she is a member of the International Executive Board and was 2017-18 chair of the Global Communication Certification Council®.

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- Media relations services for the duration of the event
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- Reputation management and damage mitigation

Why Partner with ICM?

Founded in 1990, ICM was one of the first firms in the U.S. to specialize in crisis management and communication. We've supported leaders from small to medium sized companies to multi-billion-dollar international corporations across numerous industries, nonprofit organizations, religious institutions, colleges and universities, government agencies and more.

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