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A Financial Times Service

Listed: Worst Reputational Crises Of 2017

By Tony Chapelle February 5, 2018

The bombshell news two weeks ago that **Steve Wynn**, chairman and CEO of **Wynn Resorts**, allegedly raped one employee and sexually harassed numerous others reminded board directors just how much reputational damage can cost.

At *Agenda* 's press time, Wynn shares had lost 15% of their value since Jan. 26, when *The Wall Street Journal* reported the story. The *Journal* claims to have interviewed 150 current or former employees and uncovered the fact that Wynn paid a $7.5 million settlement to the married woman who accused him of rape.

It's still early, but Wynn Resorts is already a candidate for one of the worst corporate reputation crises of 2018. Meanwhile, *Agenda* is back for the second year to name the companies — sometimes abetted by their boards — that wrecked their standing and enterprise value the most in 2017.

21st Century Fox, **United Continental Holdings**, **Wells Fargo**, **Delta Air Lines**, **Merck**, **Barclays Bank** and **Equifax** make up the group (please see table). Wells Fargo was the only company to also feature among *Agenda*'s 2016 cases.

Corporate Reputation Basket Cases of 2017

Here's how the capital markets punished seven companies after big ethical or operational failures were announced

	Corporate Reputation Rank (CRR) change**^	Market cap change*	Operating margin change*^	Relative stock price change***^	Max stock price drop	ROE v. peers after 13 weeks	CEO change
Merck	–22.9%	–11.3%	–89.0%	–18.2%	–12.4%	–9.0%	No
Delta Air Lines	–13.4%	–7.1%	–11.2%	–10.6%	–17.5%	–12.9%	No
21st Century Fox	–8.7%	–13.1%	–4.1%	–16.8%	–21.2%	–9.4%	No
Barclays Bank	–8.3%	4.6%	140.6%	–4.7%	–6.9%	–4.1%	No
United Continental Holdings	–0.6%	12.6%	–70.4%	–14.7%	–20.0%	–18.2%	CEO will not be chair
Equifax	–0.7%	–17.4%	–30.0%	–25.7%	–34.9%	–18.5%	Ousted in Sept.
Wells Fargo	6.3%	1.0%	–6.1%	–7.0%	–7.8%	–13.4%	Ousted in 2016
Median for these companies	–8.3%	–7.1%	–11.2%	–14.7%	–17.5%	–12.9%	
S&P 500	0.1%***		1.9%***	7.8%***		5.7%^^	

Source: Steel City Re; FactSet

* *Change from one week before date of peak interest to 13 weeks afterwards*

** *Stock price change over 20 weeks*

^ *Rebased to changes in the median value for members of the S&P 500 index over the same time interval*

*** *Average of the median value of change for index constituents over the various intervals*

^^ *Average of 13-week return of the S&P 500 index*

Agenda commissioned **Nir Kossovsky**, CEO of **Steel City Re**, to produce the data and report. His reinsurance company provides reputation-assurance policies that pay out in the event of damaging events, a way for boards to signal their strong systems to manage reputational risk.

“This was an odd year in which the magnitude of reputational crises was masked by the frothy equity markets,” Kossovsky writes in an e-mail. “So, the companies that emerged from the screening did not necessarily have horrible losses.”

For example, the largest stock price drop for a quarter or longer in the 2017 group was the 14.6% fall-off at Fox. Compare that to the median 26% stock price loss among the seven companies with the worst reputation in 2016.

Stakeholders were distracted by the ebullient stock market that rode in with **Donald Trump**’s election and the likely passage of a new tax law. This year, however, could be different, as investors grow accustomed to the new normal, Kossovsky warns.

To identify 2017’s crisis cases, Kossovsky examined the website Google Trends to find three-day periods when users searched at abnormally high levels for the keyword “reputation.”

He cross-checked those dates for company news events reported upon by the *Financial Times* and *The New York Times*. With this short list of candidates, he analyzed which companies had suffered the most significant changes in market cap, return on equity and a battery of other metrics. Ultimately, Kossovsky identified the seven biggest reputation losers using a calculation he calls the Corporate Reputation Ranking, or CRR.

Donna Boehme, a principal at **Compliance Strategists LLC**, a New York–based compliance consultancy, says boards of directors generally do not seat experts on compliance, culture or reputation. Thus, she says, directors generally aren’t educated about their responsibilities as stated in the 2010 amendments to the federal sentencing guidelines. Those guidelines require that a governing authority be “knowledgeable” about “content and operation” of its firm’s compliance program and exercise “reasonable oversight” on implementation and effectiveness.

21st Century Fox

Fox's stock price has rebounded following the 2016 sex harassment revelations at Fox News and reports of illegal hush money payments. Despite the comeback, last month the British government rejected executive chairman **Rupert Murdoch** and Fox's move to buy the remainder of **Sky PLC** without major divestments. Meanwhile, upon news that **Walt Disney Co.** would take over a big chunk of Fox assets, Fox's stock leapt by 12% compared to peers; it had been 9% below them. "You have to ask whether Fox's reputational crises — sexual harassment incidents, [predecessor company **News Corp**'s] eavesdropping scandal from years back — [were] at least partly to blame for destruction of 21% of its total value," Kossovsky says.

United Continental Holdings

Stock in the parent of United Airlines briefly plunged by 20% last April after newscasts aired video of policemen dragging a bloodied, screaming passenger off an overbooked United plane. CEO **Oscar Munoz** took a publicity beating after he blamed the man for being "disruptive and belligerent." The board responded by revoking the clause in Munoz's contract that would have made him chairman this year. Operating margins plummeted 68% at the worst point. Investors quickly forgave, however. By the end of that second quarter, UAL posted an $818 million profit for a 39% year-over-year hop.

Delta Air Lines

In July, Delta generated a massive amount of stakeholder queries and media interest after conservative media personality **Ann Coulter** pecked out a tweet storm because flight attendants had made her change seats on a flight. Delta's reputation ranking briefly dropped nearly twice as much as the median ranking for the group. Yet, Kossovsky says that when a corporate reputation is strong, such incidents don't get traction. The airline's stock price ultimately moved less than 3%.

Merck

CEO **Kenneth Frazier** was applauded for showing reputational leadership last August when he became the first to resign from President Trump's business advisory group after a speech that absolved some of the white supremacist marchers in Charlottesville. Later, Merck suffered harrowing falls in operating margin and the biggest drop in reputation ranking among the group after a cancer drug received poor clinical trial results and a cyber attack shut down certain operations.

Barclays Bank

The British firm's hard-nosed approach to customer service and consumer complaints garnered the company the second-worst ranking among the U.K.'s big banks, according to*The Guardian*. CEO **Jes Staley** horrified governance advocates when he launched an investigation to identify a whistle-blower. One clear signal, however, that the company's oversight has improved since its Libor-fixing scandal is U.S. hedge fund **Tiger Global** 's more than $1 billion November investment in Barclays. "Nothing says confidence in a company's governance, risk and compliance like a third party's financial risk, in the form of major investments, insurances, or performance bonds," Kossovsky says. The company's operating margin has rocketed.

Equifax

The company's May data breach was a major reputation story because of its potential impact on the entire credit reporting industry. **Experian**, the U.K.-based credit monitoring service, complained that regulatory pressure and information security risks increased after Equifax's cyber failure. In September, the public poured outrage on the company over revelations that 143 million U.S. consumers' personal identification had been compromised. Equifax CEO **Richard Smith** soon resigned without his annual bonus. The company also brought in new director **Scott A. McGregor**, former CEO of **Broadcom**, to join the technology committee.

Wells Fargo

Chairman **Stephen Sanger** and two directors walked the plank last year in the ever-worsening Wells Fargo fake-accounts scandal. Two months ago, California regulators found another tranche — 1,500 insurance policies — that customers hadn't authorized. Kossovsky calls Wells an example of a company that's been saved by the rising stock market. "There's a limit to how much anger stakeholders will show when stock prices are rising," he says. But even though the stock price never fell more than 7.8%, Wells's shares still have underperformed versus peers'."It will be free of its legacy toxicity only after it overhauls its processes and reviews them through a filter sensitive to reputation risk," says Kossovsky.