Facebook

In March 2018, a whistleblower told two newspapers that a British firm called Cambridge Analytica had bought data about 87 million users and their friends without their consent from Facebook. The company used the data to build voter profiles that Cambridge sold to election campaigns, including Donald Trump's presidential run.

The episode sparked a scandal over user privacy at Facebook, the biggest of many. CEO Mark Zuckerberg was called to testify before Congress. The company faced investigations by regulators in the United States and Britain, as well as lawsuits from several jurisdictions.

The financial repercussions included the following:

- The U.S. Federal Trade Commission imposed a $5 billion fine against the company — the largest ever. The FTC said Facebook's behavior violated a previous consent decree with the agency. The Securities and Exchange Commision fined the company $100 million and British regulators fined 500,000 pounds.
- Engagement on Facebook dropped by 20 percent in the months after the scandal, a metric that affects the company's ad revenue.
- Facebook users' confidence in the company dropped 66 percent in the weeks after the scandal broke and Zuckerberg testified before Congress, according to a Ponemon Institute survey. Some users quit Facebook (including 3 million Europeans) in the subsequent months over privacy abuses. The hashtag #DeleteFacebook began trending on social media, and public support for tighter regulation of social media grew.
- Growth in Facebook revenue and users dropped in the quarter after the Cambridge Analytica affair. The company's stock valuation lost $130 billion in two hours after the news, weakening the social network's forecast further.
- Facebook sustained a drop in brand value of 6 percent (about $2.9 billion) for the year to $45.2 billion, according to Interbrand.

Crisis Management Lesson: Apologize When You are Wrong

U.S. investigators found that Facebook violated consumer trust by allowing a third party to collect users' personal data without their knowledge. The data collectors also violated Facebook policies that required deleting the data.

Facebook CEO Zuckerberg was silent for five days before issuing a statement acknowledging that mistakes had been made. Facebook users heavily criticized the response, prompting Zuckerberg later to say, "I'm sorry" in media interviews. IT experts said the response was slow and underwhelming.

Critics faulted Facebook for technical decisions that resulted in app developers being able to access information about users' friends, saying safeguards were inadequate. Commentators such as Tufts University cybersecurity expert Susan Landau also criticized Facebook for not taking legal action against Cambridge Analytica and for failing to inform users whose data was taken until well after the news broke.

The company placed full-page newspaper ads, made changes to data-handling practices, and implemented other reforms, but consumer trust remained damaged. Analysts said Facebook's gestures, including its lack of apology, rang hollow and came too late.

JP Morgan Chase

In 2012, a trader in JP Morgan Chase's London office, nicknamed the London Whale, ran a portfolio of esoteric derivative investments. The trader was part of a team whose mandate was to hedge the bank's operating risks. But, the whale's investment strategies turned out to be flawed, and the size of these transactions was so great that they affected world credit markets. The whale's trades ultimately lost money on a massive scale, and the company sustained the following financial impacts:

- Investment losses of $6.2 billion.
- JP Morgan Chase received fines of more than $1 billion by U.S. and British regulators.
- Senior executives were stripped of $75 million in compensation after an internal investigation.
- The company had to pay one hundred and fifty million to settle a shareholder class action lawsuit.
- A loss in stock market value of $14.4 billion in the two days after disclosing the problem.
- The company's reputation as a careful risk manager was also damaged. In 2012, research company Interbrand found that the value of JP Morgan's brand had dropped 8 percent, to $11.5 billion.

Crisis Management Lesson: The C-Suite Needs to Stay on Top of Risk

When he realized the full potential for disaster, the London Whale, whose real name is Bruno Iksil, suggested that the company immediately take a loss on the positions. This move would have resulted in much less financial damage.

But, according to a U.S. Senate report, his managers began to conceal the magnitude of losses. They produced a shadow spreadsheet and hoped the investment positions would turn around, which resulted in mounting losses.

Reviews of the episode found that risk-management practices for the division were less rigorous than for other areas of the bank. First, the bank ignored warning signs from its risk metrics and then changed the risk standards (so the warning signs went away), according to a company report.

Although people internally realized the potential extent of losses, bank management downplayed them in public. In 2012, CEO Jamie Dimon dismissed the incident as a "complete tempest in a teapot," the Senate report said, a position he would later reverse.

The bank's investigation found that there was too little scrutiny of the London activities by its top management. In the aftermath, the bank strengthened risk management and made the review team more independent to address the group-think mentality that limited questioning of the investment strategy, JP Morgan said. The episode sparked calls for tougher regulation.

BP Deepwater Horizon

In 2010, BP's Deepwater Horizon oil-drilling rig in the Gulf of Mexico exploded, killing 11 employees and causing an oil leak that lasted for three months. This is the biggest oil spill in U.S. history.

The oil spill devastated the environment and tourism. Damage to the environment has been long-lasting — one study valued the impact at $17.2 billion. The spill also caused billions of dollars in negative economic impact on tourism in the region. Meanwhile, the financial toll for the company included the following costs:

- Through early 2020, BP paid about $70 billion in clean-up costs, legal settlements, and fines.
- In the two months after the spill, the company's shareholders lost $105 billion as its stock price plummeted.
- For a time, the company's survival was in question. Its bonds crashed in value, and the company had to stop paying dividends for three quarters.
- In the United States, the BP brand faced a backlash from consumers, and BP gas stations saw sales drop 10 to 40 percent in the immediate aftermath of the spill.
- BP had to reduce its business spending for years, which analysis said put it behind competitors such as Shell, whose brand value rose 24 percent that year, according to Interbrand. BP dropped from the second-largest global oil company in 2010 to fourth, where it has remained.

Crisis Management Lesson: Create a Safety Culture

Studies have attributed the accident to a series of human mistakes and technical failures in the context of a high-risk corporate culture and weak regulatory supervision. The studies noted overconfidence on the part of BP, based on many years of not having an offshore well blowout in deep water. They also cite a lack of planning for low-probability, high-impact oil spills.

Operators and managers grew accustomed to normalizing signs of potential trouble and ignored weak signals of looming disaster. Alarm systems on the rig were suppressed, and crucial equipment was not properly maintained. The Center for Catastrophic Risk Management at the University of California Berkeley blamed the absence of a safety culture and shortsighted prioritization of the bottom line. According to the center's report, BP "forgot to be afraid."

Wells Fargo

For 14 years, until the practice was exposed in 2016, hundreds of thousands of Wells Fargo employees opened customer accounts without consent to meet sales targets and generate fees for the bank. The financial consequences included the following:

- The bank paid more than $7 billion to settle government investigations and private lawsuits.
- Wells Fargo lost business from the state governments of California and Illinois, as well as from the cities of Chicago, Philadelphia, and Seattle, among others who cited the illegal behavior as the reason.
- In response to the scandal, in 2018, the Federal Reserve imposed a limit on the bank's growth, putting Wells Fargo at a competitive disadvantage and costing it an unknown amount of potential increase in customers and loans.
- The company lost $220 billion in stock market value in the two and a half years after the enforcement action. The stock hit a 10-year low in May 2020, faring far worse than its peers.
- The bank has racked up heavy expenses related to the crisis, including legal fees, investigation costs, and spending on an ad campaign aimed at restoring consumer trust.

Crisis Management Lesson: Live Up to Your Company Values to Avoid Scandals

According to the government, Wells Fargo executives were aware of the abuses as early as 2002, but failed to act despite espousing a culture of integrity. The executives imposed such aggressive sales targets for staff that many employees said they felt they had no choice but to engage in the illegal practices. The government is pursuing some individual executives for their roles.