

Forbes

FEB 22, 2018 @ 10:00 AM

From Weinstein To Equifax, Ruined Reputations Illustrate The High Costs Of Controversy



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MCC 2017 ranking	Company name	Peak RRI in 2017	Sector	Country of headquarters
#1	The Weinstein Company	92	Media	United States of America
#2	Kobe Steel Ltd (KobeIco)	87	Industrial Metals	Japan
#3	J&F Investimentos SA	83	Food and Beverage, Personal and Household Goods	Brazil
#4	Appleby Global Group Services Ltd (Paradise Papers)	82	Support Services (Industrial Goods and Services)	Bermuda Islands (UK)
#5	Stalreiniging Barneveld (Chickfriend)	82	Support Services (Industrial Goods and Services)	Netherlands
#6	Equifax Inc	79	Financial Services, Support Services (Industrial Goods and Services)	United States of America
#7	Rolls-Royce Holdings PLC	75	Aerospace and Defense, Industrial Engineering	United Kingdom of Great Britain and Northern Ireland
#8	Odebrecht SA	74	Construction and Materials	Brazil
#9	Petroleos de Venezuela SA	73	Oil and Gas	Venezuela
#10	Transnet SOC Ltd	73	Industrial Transportation	South Africa

RepRisk

The 10 most controversial companies of 2017

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently”, said the legendary investor Warren Buffett.

A new report illustrates just how true this is, how quickly a reputation can be tarnished and how momentous the consequences can be. The Most Controversial Companies report from RepRisk, which specializes in environmental, social and governance risks, including business conduct risks, suggests that 2017 may come to be seen as the year when the tide started to turn against corporate corruption – on a global scale.

Eight of the 10 companies included in the report were involved in governance scandals, including bribery and corruption that reached right up to the highest levels of government in some cases and falsifying data. Other abuses included allegations of sexual assault and wrong-doing exposed by cyber-attack. The companies in the list are involved in sectors from film-making to financial services and based in countries ranging from the US to South Africa to Japan.

The company that suffered the biggest hit to its reputation was the Weinstein Company, the film company whose reputation is inseparable from its co-founder Harvey Weinstein. He faces multiple sexual abuse allegations and the company faced the possibility of bankruptcy the week after the allegations surfaced. “The escalation of the scandal in such a short time highlights how easily a company can succumb to negative publicity,” the report pointed out. The consequences continue to reverberate throughout the film industry, as protests have continued throughout the current awards season.

In contrast to the instant damage done to the Weinstein company, the second corporation in the list has suffered a regular drip of revelations about poor practice related to data tampering for steel, aluminum, copper and materials for liquid crystal displays. “The admission of data tampering by Kobe Steel shows how a company's actions can have a ripple effect on the overall reputation of the entire industry, as shown by the subsequent admission by other Japanese manufacturers to similar lapses in their operations,” says RepRisk.

Kobe's problems started in June 2017, when the company revealed that a subsidiary had been falsifying data about its products for the last nine years, but the crisis intensified in October when it admitted that it had also falsified inspection data on over 20,000 tons of metals to automotive and aviation customers.

RepRisk says that it “identified data falsification by Kobe Steel as early as July 2016, when a Chinese newspaper revealed that its subsidiary, Shinko Wire Stainless had been misrepresenting the strength of its steel wires for nine years”.

Alleged bribery payments by food and beverage group J&F Investimentos and construction giant Odebrecht, including to the incumbent Brazilian President, have created turmoil both in the political and business spheres in South America's biggest economy. Add in the travails of aircraft engine maker Rolls Royce, which had to make a record-breaking £671m payment to US and UK authorities to settle a corruption case, and it is clear that “global anti-corruption enforcement and co-operation are gaining momentum”, the report states.

“The US Foreign Corrupt Practices Act, the UK Bribery Act, and other similar legislations are encouraging multinational corporations to adopt strong anti-corruption compliance programs in order to mitigate risks,” RepRisk continues.

Two separate examples show the growing risks of cyber-attacks to companies, although in completely different ways. The leaking of the Paradise Papers exposed the continuing use of tax avoidance schemes by companies and wealthy individuals, “even though such schemes often deprive poor countries of much-needed revenue” while the huge theft of data at credit agency Equifax highlighted the growing feeling that companies should be held accountable if personal data that they hold is hacked.

Dutch poultry farm cleaning company Stalreiniging Barneveld, also known as Chickfriend, ranks fifth in the MCC 2017 Report due to accusations that it manufactured lice sprays that contained

fipronil, an insecticide banned by the European Union for use on animals destined for human consumption.

Two state-owned companies illustrated the fact that government control is no guarantee of avoiding scandals. State oil company Petroleos de Venezuela (PDVSA) made the list after suspicions that hundreds of millions of dollars had been embezzled from it between 2010 and 2016, while South African transport group Transnet found itself at the center of a corruption scandal involving the Gupta family, which has just led to the resignation of the country's president Jacob Zuma.

As well as illustrating the severe reputational, legal and financial damage that can arise from ESG and business conduct incidents, the report also highlights advances in cross-border co-operation in an increasingly complex and globalized regulatory environment.

“By providing an analysis of the risk incidents that were faced by these companies in 2017, we hope to encourage companies to implement robust due diligence practices that take into account a company’s on-the-ground business conduct, not just its sustainability policies,” says RepRisk’s CEO Philipp Aeby. “Responsible business conduct has become a business imperative and is a recognized long-term value driver.”